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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Form 10-K

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2014

Or

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

Commission File Number: 000-50768

ACADIA PHARMACEUTICALS INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware	**06-1376651**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification Number)**
11085 Torreyana Road, Suite 100 San Diego, California	**92121**
(Address of Principal Executive Offices)	**(Zip Code)**

Registrant's telephone number, including area code:
(858) 558-2871

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

Title of each class	Name of each exchange on which registered
Common Stock, par value $0.0001 per share	**The NASDAQ Global Select Market**

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes ☐ No ☒

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Securities Exchange Act of 1934:

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes ☐ No ☒

As of June 30, 2014, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was approximately $1.4 billion, based on the closing price of the registrant's common stock on the NASDAQ Global Select Market on June 30, 2014 of $22.59 per share.

As of January 30, 2015, 100,171,719 shares of the registrant's common stock, $0.0001 par value, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement to be filed with the Securities and Exchange Commission by April 30, 2015 are incorporated by reference into Part III of this report.

ACADIA PHARMACEUTICALS INC.

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FORM 10-K
For the Year Ended December 31, 2014

PART I

FORWARD-LOOKING STATEMENTS

This report and the information incorporated herein by reference contain forward-looking statements that involve a number of risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause our results to differ materially from those expressed or implied by such forward-looking statements. Although our forward-looking statements reflect the good faith judgment of our management, these statements can only be based on facts and factors currently known by us. Consequently, forward-looking statements are inherently subject to risks and uncertainties, and actual results and outcomes may differ materially from results and outcomes discussed in the forward-looking statements.

Forward-looking statements can be identified by the use of forward-looking words such as “believes,” “expects,” “hopes,” “may,” “will,” “plans,” “intends,” “estimates,” “could,” “should,” “would,” “continue,” “seeks,” “aims,” “projects,” “predicts,” “pro forma,” “anticipates,” “potential” or other similar words (including their use in the negative), or by discussions of future matters such as the development of product candidates or products, technology enhancements, possible changes in legislation, and other statements that are not historical. These statements include but are not limited to statements under the captions “Business,” “Risk Factors,” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” as well as other sections in this report. You should be aware that the occurrence of any of the events discussed under the caption “Risk Factors” and elsewhere in this report could substantially harm our business, results of operations and financial condition and cause our results to differ materially from those expressed or implied by our forward-looking statements. If any of these events occurs, the trading price of our common stock could decline and you could lose all or a part of the value of your shares of our common stock.

The cautionary statements made in this report are intended to be applicable to all related forward-looking statements wherever they may appear in this report. We urge you not to place undue reliance on these forward-looking statements, which speak only as of the date of this report.

Item 1. *Business.*

Company Overview

We are a biopharmaceutical company focused on the development and commercialization of innovative medicines that address unmet medical needs in neurological and related central nervous system disorders. Led by our novel drug candidate NUPLAZID™ (pimavanserin) for the treatment of Parkinson’s disease psychosis, we have a portfolio of product opportunities including the following:

- ***Parkinson’s disease psychosis (PDP).*** We have reported positive Phase III pivotal trial results in PDP and believe NUPLAZID has the potential to be the first drug approved in the United States for this disorder. We are currently completing a New Drug Application, or NDA, for NUPLAZID for the treatment of PDP and related preparations to support a review of the NDA by the U.S. Food and Drug Administration, or FDA. We plan to submit the NDA to the FDA in the first quarter of 2015. In 2014, we announced that the FDA has granted Breakthrough Therapy designation for NUPLAZID for the treatment of PDP.
- ***Alzheimer’s disease psychosis (ADP).*** We are currently conducting a Phase II study exploring the utility of pimavanserin for the treatment of Alzheimer’s disease psychosis, or ADP. No drug is currently approved by the FDA for the treatment of this disorder.
- ***Schizophrenia.*** We have successfully completed a Phase II study of pimavanserin in the treatment of schizophrenia where we observed significant anti-psychotic effects when pimavanserin was co-administered with a low dose of risperidone, a generic drug currently approved for the treatment of schizophrenia. We next plan to evaluate the use of pimavanserin as a stand-alone maintenance therapy between acute psychotic episodes in a Phase II schizophrenia study.

- ***Sleep disturbances.*** Pimavanserin has shown significant benefits in nighttime sleep and daytime wakefulness in studies conducted in elderly patients with PDP. In 2015, we plan to follow up these findings with a Phase II study to further explore the potential sleep benefits of pimavanserin in Parkinson's disease patients.

We hold worldwide commercialization rights to pimavanserin. Our pipeline also includes clinical-stage programs for chronic pain and glaucoma in collaboration with Allergan, Inc.

We were originally incorporated in Vermont in 1993 as Receptor Technologies, Inc. We reincorporated in Delaware in 1997 and our headquarters are in San Diego, California. We maintain a website at *www.acadia-pharm.com*, to which we regularly post copies of our press releases as well as additional information about us. Our filings with the Securities and Exchange Commission, or SEC, are available free of charge through our website as soon as reasonably practicable after being electronically filed with or furnished to the SEC. Interested persons can subscribe on our website to email alerts that are sent automatically when we issue press releases, file our reports with the SEC or post certain other information to our website. Information contained in our website does not constitute a part of this report or our other filings with the SEC.

We own or have rights to various trademarks, copyrights and tradenames used in our business, including ACADIA® and NUPLAZID™. Our logos and trademarks are the property of ACADIA Pharmaceuticals Inc. All other brand names or trademarks appearing in this report are the property of their respective holders. Use or display by us of other parties' trademarks, trade dress, or products in this report is not intended to, and does not, imply a relationship with, or endorsement or sponsorship of us, by the trademark or trade dress owners.

Our Strategy

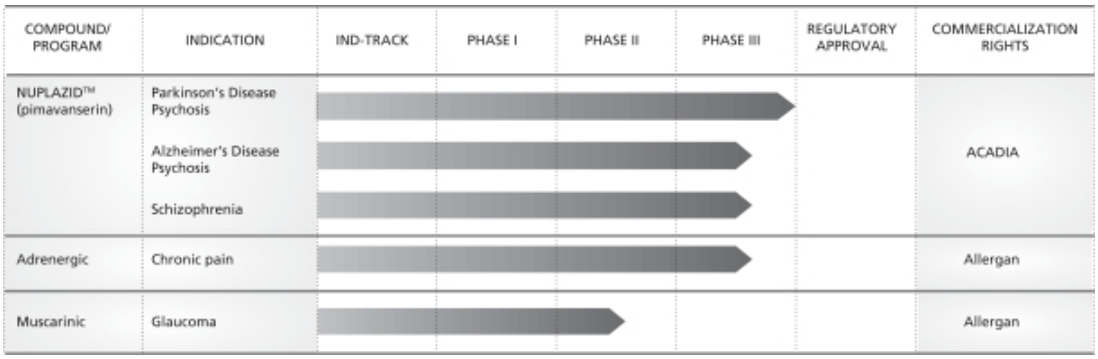
Our strategy is to discover, develop, and commercialize innovative small molecule drugs that address unmet medical needs in neurological and related central nervous system disorders. We have assembled a management team with significant industry experience to lead the discovery, development, and commercialization of our product opportunities. We complement our management team with scientific and clinical advisors, including recognized experts in the fields of Parkinson's disease psychosis, Alzheimer's disease psychosis, schizophrenia, and other central nervous system disorders. Key elements of our strategy are to:

- ***Develop and commercialize our lead product candidate, NUPLAZID, for Parkinson's disease psychosis.*** We are pursuing Parkinson's disease psychosis as our lead indication for NUPLAZID, for which we plan to submit an NDA to the FDA in the first quarter of 2015. If approved, NUPLAZID would be the first drug approved by the FDA for the treatment of Parkinson's disease psychosis. If approved, we intend to commercialize NUPLAZID for this indication in the United States by establishing a specialty sales force focused primarily on neurologists and a small group of psychiatrists and long-term care physicians who are high prescribers of antipsychotics for Parkinson's disease psychosis patients. Outside of the United States, we may choose to commercialize NUPLAZID in selected markets by establishing one or more strategic alliances.
- ***Leverage the commercial potential of pimavanserin by expanding to additional neurological and psychiatric disorders.*** We intend to pursue the development and commercialization of pimavanserin in additional neurological and psychiatric indications that are underserved by currently available antipsychotics and represent large unmet medical needs. Currently, we are in Phase II development with pimavanserin as a treatment for Alzheimer's disease psychosis. In addition, we have completed a Phase II study in schizophrenia and we are planning additional studies for this indication. We have also observed significant sleep benefits of pimavanserin in studies conducted in elderly patients with Parkinson's disease psychosis and plan to further explore these benefits in a Phase II study in Parkinson's disease patients. We plan to retain commercialization rights in therapeutic areas where we feel pimavanserin can be sold by a specialty sales force that calls on a focused group of physicians. In therapeutic areas that require large specialty or primary care sales forces, we may elect to conduct commercialization through, or in collaboration with, partners.

- ***Seek to in-license or acquire complementary products or product candidates.*** Although all of the product candidates currently in our pipeline emanate from internal discoveries, in the future we may in-license or acquire assets, which could include clinical-stage product candidates or commercial-stage products, to leverage the sales force that we intend to establish.
- ***Continue to develop our other product candidates for the treatment of central nervous system and related disorders.*** We plan to continue developing our other product candidates, including our collaborative programs with Allergan. While our resources are currently focused on the development and commercialization of pimavanserin, we may pursue additional product candidates in the future. These may be directed at neurological and related central nervous system disorders and may be developed independently or in partnerships. We believe that a diversified portfolio will mitigate risks inherent in drug development and increase the likelihood of our success.

Our Product Opportunities

Our pipeline of product opportunities addresses diseases that are not well served by currently available therapies and that represent large potential commercial market opportunities. We believe our product opportunities offer innovative therapeutic approaches and may provide significant advantages relative to current therapies. Our pipeline consists of the following programs:



NUPLAZID (Pimavanserin)

Pimavanserin is a new chemical entity that we discovered and that has successfully completed Phase III development, potentially positioning it to be the first drug approved in the United States for the treatment of Parkinson's disease psychosis. During 2014, the FDA provisionally accepted NUPLAZID as the trade name for pimavanserin. NUPLAZID (pimavanserin) selectively blocks the activity of the 5-HT_{2A} receptor, a key serotonin receptor that plays an important role in psychosis. We hold worldwide commercialization rights to NUPLAZID (pimavanserin) for all indications and have established a broad patent portfolio, which includes numerous issued patents in the United States, Europe, and several additional countries.

We are pursuing Parkinson's disease psychosis as our lead indication for NUPLAZID. We have completed a successful pivotal Phase III trial with NUPLAZID in patients with Parkinson's disease psychosis, the -020 Study. Following this study, we met with the FDA in 2013, and announced that the agency agreed that the data from the -020 Study, together with supportive data from our other studies with NUPLAZID, are sufficient to support the filing of an NDA for the treatment of Parkinson's disease psychosis. In 2014, the FDA granted Breakthrough Therapy designation for NUPLAZID for the treatment of Parkinson's disease psychosis. The Breakthrough Therapy designation was created by the FDA to expedite the development and review of drugs that are intended to treat serious or life-threatening conditions. If approved, we intend to commercialize NUPLAZID for Parkinson's disease psychosis in the United States by establishing a specialty sales force focused primarily on neurologists and a small group of psychiatrists and long-term care physicians who are high prescribers of antipsychotics for Parkinson's disease psychosis patients. Starting in the second half of 2013, we began to hire

the senior leadership of our commercial organization. Our preparations are underway for the planned future launch of NUPLAZID and we plan to hire a commercial sales force to coincide approximately with a NUPLAZID approval, if any. In addition to building our commercial capabilities, we are expanding our existing infrastructure to support the planned launch and commercialization of NUPLAZID, including adding to our commercial level manufacturing, medical affairs, quality control and compliance capabilities. As was the case with the -020 Study and our other clinical trials, if approved, NUPLAZID will be administered in two 17 mg tablets taken together once a day.

We believe that pimavanserin also has the potential to address other neurological and psychiatric disorders, including Alzheimer's disease psychosis and schizophrenia. We are currently conducting a Phase II study to examine the efficacy and safety of pimavanserin as a treatment for Alzheimer's disease psychosis. We have completed a successful Phase II trial with pimavanserin as a co-therapy for schizophrenia and we are currently planning additional studies of pimavanserin as a stand-alone maintenance therapy to treat schizophrenia between acute psychotic episodes.

NUPLAZID as a Treatment for Parkinson's Disease Psychosis

Parkinson's disease is the second most common neurodegenerative disorder after Alzheimer's disease. According to the National Parkinson Foundation, about one million people in the United States and from four to six million people worldwide suffer from this disease. Parkinson's disease is more common in people over 60 years of age and the prevalence of this disease is expected to increase significantly as the population ages.

Parkinson's disease psychosis is a debilitating disorder commonly characterized by visual hallucinations and delusions that occurs in an estimated 40 percent of Parkinson's disease patients. The development of psychosis in patients with Parkinson's disease substantially contributes to the burden of Parkinson's disease and deeply affects their quality of life. Parkinson's disease psychosis is associated with increased caregiver stress and burden, nursing home placement, and increased morbidity and mortality.

The FDA has not approved any drug to treat Parkinson's disease psychosis. Therefore, despite substantial limitations, physicians frequently resort to off-label use of currently marketed antipsychotic drugs, including Seroquel and clozapine, to treat patients with Parkinson's disease psychosis. These drugs are associated with a number of side effects, which can be especially problematic for elderly patients with Parkinson's disease. In addition, all current antipsychotic drugs have a black box warning for use in elderly patients with dementia-related psychosis due to increased mortality and morbidity.

The only currently marketed antipsychotic drug that has demonstrated efficacy in reducing psychosis in patients with Parkinson's disease without further impairing motor function is clozapine when given at low doses. Studies suggest that this unique clinical utility of low-dose clozapine arises from its potent blocking of a key serotonin receptor, a protein that responds to the neurotransmitter serotonin, known as the 5-HT_{2A} receptor. The use of low-dose clozapine has been approved in Europe, but not in the United States, for the treatment of psychotic disorders in Parkinson's disease. However, routine use of clozapine is limited by safety concerns, including its potential to cause a rare, and potentially fatal, blood disorder that necessitates stringent blood monitoring. Currently, there is a large unmet medical need for new therapies that will effectively treat psychosis in patients with Parkinson's disease without compromising motor control or causing other serious side effects in this elderly and fragile patient population.

NUPLAZID provides an innovative, non-dopaminergic approach and, we believe, has the potential to be the first safe and effective drug that will treat Parkinson's disease psychosis without compromising motor control, thereby significantly improving the quality of life for patients with Parkinson's disease.

In November 2012, we announced successful top-line results from our pivotal Phase III -020 Study, evaluating the efficacy, tolerability, and safety of NUPLAZID in patients with Parkinson's disease psychosis.

Results from the -020 Study were presented at the American Academy of Neurology Meeting in March 2013, and published in The Lancet, a peer-reviewed medical journal, in November 2013. The -020 Study was a multi-center, double-blind, placebo-controlled clinical trial. A total of 199 patients were enrolled in the study and randomized on a one-to-one basis to receive either 34 mg of NUPLAZID (the equivalent of 40mg of pimavanserin tartrate) or placebo once-daily for six weeks, following a two-week screening period that included brief psycho-social therapy. Patients also received stable doses of their existing anti-Parkinson's therapy throughout the study.

NUPLAZID met the primary endpoint in the -020 Study by demonstrating a highly significant reduction in psychosis ($p=0.001$) as measured using the SAPS-PD, a scale consisting of nine items from the hallucinations and delusions domains of the Scale for the Assessment of Positive Symptoms. NUPLAZID also met the key secondary endpoint for motoric tolerability as measured using Parts II and III of the Unified Parkinson's Disease Rating Scale, or UPDRS. These results were further supported by highly significant improvements in all secondary efficacy measures, including the Clinical Global Impression Severity, or CGI-S, scale ($p<0.001$), the Clinical Global Impression Improvement, or CGI-I, scale ($p=0.001$), and a CGI-I responder analyses ($p=0.002$). In addition, statistically significant benefits were observed in exploratory efficacy measures of nighttime sleep, daytime wakefulness and caregiver burden. Consistent with previous studies, NUPLAZID was safe and well tolerated in this Phase III trial.

Following our successful -020 Study, in April 2013 we met with the FDA and announced that the agency agreed that the data from our -020 Study, together with supportive data from our other studies with NUPLAZID, are sufficient to support the filing of an NDA for the treatment of Parkinson's disease psychosis. In September 2014, we announced that the FDA has granted Breakthrough Therapy designation for NUPLAZID for the treatment of Parkinson's disease psychosis. The Breakthrough Therapy designation was created by the FDA to expedite the development and review of drugs that are intended to treat serious or life-threatening conditions.

We also are continuing to conduct our open-label safety extension study, referred to as the -015 Study, involving patients with Parkinson's disease psychosis who have completed the -020 Study and our earlier Phase III studies. The -015 Study, together with a similar extension study from our earlier Phase II Parkinson's disease psychosis trial, has generated a considerable amount of long-term safety data on NUPLAZID. A total of over 250 patients have been treated with NUPLAZID for at least one year, and of those at least 100 patients have been treated for at least two years. Our longest single-patient exposure is greater than nine years. We believe that our experience to date suggests that long-term administration of NUPLAZID is generally safe and well tolerated in this elderly and fragile patient population.

During 2014, we conducted foundational access and reimbursement research with key decision makers for payers covering 168 million lives, of which approximately one-third are covered by commercial healthcare payers, one-third covered by Medicare Part D Standard, and one-third covered by Medicare Part D Low Income Subsidy.

While the FDA has agreed to review an NDA for NUPLAZID on the basis of our positive pivotal -020 Study data, along with supportive efficacy and safety data from other NUPLAZID studies, the NDA will be subject to FDA review to determine whether the filing package is adequate to support approval for Parkinson's disease psychosis.

Pimavanserin as a Treatment for Alzheimer's Disease Psychosis

According to the Alzheimer's Association, an estimated 5.2 million people in the United States have Alzheimer's disease and it is currently the fifth leading cause of death for people age 65 and older. Studies have suggested that approximately 25 to 50 percent of Alzheimer's disease patients may develop psychosis, commonly consisting of hallucinations and delusions. The diagnosis of Alzheimer's disease psychosis is associated with more rapid cognitive and functional decline and increased institutionalization.

The FDA has not approved any drug to treat Alzheimer's disease psychosis. As symptoms progress and become more severe, physicians often resort to off-label use of antipsychotic medications in these patients. Current antipsychotic drugs may exacerbate the cognitive disturbances associated with Alzheimer's disease. Current antipsychotic drugs also have a black box warning for use in elderly patients with dementia-related psychosis due to increased mortality and morbidity. There is a large unmet medical need for a safe and effective therapy to treat the psychosis in patients with Alzheimer's disease.

We are in Phase II development with pimavanserin as a potential new treatment for Alzheimer's disease psychosis. Patients with Alzheimer's disease psychosis and Parkinson's disease psychosis share many characteristics and often exhibit similar psychiatric symptoms associated with their respective underlying neurodegenerative disease. We have shown that pimavanserin attenuates psychosis-related behaviors in preclinical models of Alzheimer's disease psychosis. In preclinical models, pimavanserin also has been shown to positively interact with cholinesterase inhibitors to enhance their pro-cognitive effect. Because of its selective mechanism of action and its efficacy and safety profile observed to date in studies conducted in elderly patients with Parkinson's disease psychosis, we believe that pimavanserin also may be ideally suited to address the need for a new treatment for Alzheimer's disease psychosis that is safe, effective, and well tolerated.

In November 2013, we initiated a Phase II trial, referred to as the -019 Study, to examine the efficacy and safety of pimavanserin as a treatment for Alzheimer's disease psychosis. The -019 Study is a randomized, double-blind, placebo-controlled study designed to enroll 200 patients with Alzheimer's disease psychosis. Following a screening period that includes brief psycho-social therapy, patients are randomized on a one-to-one basis to receive either 34 mg of pimavanserin (the equivalent of 40mg of pimavanserin tartrate) or placebo once-daily for twelve weeks. The -019 study will assess several key efficacy endpoints, including use of the Neuropsychiatric Inventory—Nursing Home scale to measure psychosis and other behavioral disorders. Key efficacy endpoints will be based on the change at week 6 from baseline. The study will also assess additional exploratory endpoints, including the cognitive status of patients and the durability of response to pimavanserin, through twelve weeks of therapy. We plan to complete enrollment in the -019 Study by the end of 2015.

Pimavanserin as a Treatment for Schizophrenia

Schizophrenia is a severe chronic mental illness that involves disturbances in cognition, perception, emotion, and other aspects of behavior. The positive symptoms of schizophrenia include hallucinations and delusions, while the negative symptoms may manifest as loss of interest and emotional withdrawal. Schizophrenia is associated with persistent impairment of a patient's social functioning and productivity. Cognitive disturbances often prevent patients with schizophrenia from readjusting to society. As a result, patients with schizophrenia are normally required to be under medical care for their entire lives.

According to the National Institute of Mental Health, approximately one percent of the U.S. population suffers from schizophrenia. Antipsychotic drugs increasingly have been used by physicians to address a range of disorders in addition to schizophrenia, including bipolar disorder and a variety of psychoses and related conditions in elderly patients. Despite their commercial success, current antipsychotic drugs have substantial limitations, including inadequate efficacy and severe side effects.

Most schizophrenia patients in the United States today are treated with second-generation, or atypical, antipsychotics, which induce fewer motor disturbances than typical, or first-generation, antipsychotics, but still fail to address most of the negative symptoms of schizophrenia. In addition, currently prescribed treatments do not effectively address or may exacerbate cognitive disturbances associated with schizophrenia. It is believed that the efficacy of atypical antipsychotics is due to their interactions with dopamine and 5-HT_{2A} receptors. The side effects induced by the atypical agents may include weight gain, non-insulin dependent (type II) diabetes, cardiovascular side effects, sleep disturbances, and motor disturbances. We believe that these side effects generally arise either from non-essential receptor interactions or from excessive dopamine blockade.

The limitations of currently available antipsychotics result in poor patient compliance. A study conducted by the National Institute of Mental Health, which was published in *The New England Journal of Medicine* in September 2005, found that 74 percent of patients taking typical or atypical antipsychotics discontinued treatment within 18 months because of side effects or lack of efficacy. We believe there is a large unmet medical need for new therapies that have improved side effect and efficacy profiles.

Pimavanserin's selective blockade of the 5-HT_{2A} receptor may enable it to be used in two different treatment approaches to improve the therapy for patients with schizophrenia. First, we are planning to evaluate the use of pimavanserin between acute psychotic episodes in a Phase II schizophrenia study. In this maintenance phase of schizophrenia therapy, we believe that pimavanserin may be desirable to use as a treatment that selectively blocks the 5-HT_{2A} receptor and avoids interaction with dopamine receptors, which may be associated with many of the side effects caused by existing antipsychotic drugs. We believe that pimavanserin has the potential to be used as a stand-alone treatment to provide a well-tolerated maintenance therapy for schizophrenia patients that results in better compliance compared to existing antipsychotic drugs.

Second, we believe that pimavanserin may be effective as a co-therapy, together with low doses of existing atypical antipsychotic drugs such as risperidone, to obtain a more optimal balance between 5-HT_{2A} receptor blockade and partial dopamine receptor blockade. This co-therapy approach has the potential to result in enhanced efficacy and fewer side effects relative to existing treatments. We published results in 2012 from an earlier multi-center, double-blind, placebo-controlled Phase II trial designed to evaluate pimavanserin as a co-therapy in patients with schizophrenia. The trial results showed several advantages of co-therapy with pimavanserin and a 2 mg, or low, dose of risperidone in patients with schizophrenia. These advantages included efficacy comparable to that of a 6 mg, or standard, dose of risperidone, combined with a faster onset of antipsychotic action and an improved side effect profile, including significantly less weight gain, compared to the standard dose of risperidone.

Sleep Benefits of Pimavanserin

Although Parkinson's disease is typically characterized by motor dysfunction, non-motor problems are also common and can significantly impair function and quality of life. In studies of Parkinson's disease patients, the prevalence of sleep disturbances, including daytime wakefulness, has been reported to be almost 100 percent. Sleep disorders are a major cause of disability in Parkinson's disease and are associated with other symptoms including falls, psychosis, dementia, and depression, which have a substantial impact on quality of life.

Sleep-related problems in Parkinson's disease can be divided into disturbances of nocturnal sleep and disturbances of daytime wakefulness. Studies suggest that nighttime sleep disturbances occur in almost 70 percent of Parkinson's disease patients. These disturbances include insomnia, restless legs syndrome, periodic leg movements of sleep, rapid eye movement sleep behavior disorder, and sleep apnea. Impaired nighttime sleep has been associated with increased daytime sleepiness, depression, fatigue, and cognitive impairment.

Clinical benefits of pimavanserin were observed in an exploratory efficacy measure of sleep during our -020 Study. Sleep was assessed using the SCOPA-sleep scale, which was designed to enable the investigator to evaluate nighttime sleep and daytime wakefulness in Parkinson's disease patients. Pimavanserin demonstrated significant improvements on both nighttime sleep (p=0.045) and daytime wakefulness (p=0.012) on SCOPA. We plan to follow up these findings with a Phase II study to further explore the potential sleep benefits of pimavanserin in Parkinson's disease patients.

Adrenergic and Muscarinic Programs

In collaboration with Allergan, we have discovered small molecule product candidates for the treatment of chronic pain. Chronic pain is a common form of persistent pain that may be related to a number of medical

conditions and is often resistant to treatment. Our novel alpha adrenergic agonists provide pain relief in a range of preclinical models, without the side effects of current pain therapies, including sedation and cardiovascular and respiratory effects. Allergan has conducted several Phase II trials in this program and has reported preliminary results, including positive proof-of-concept in a visceral pain trial in patients that had hypersensitivity of the esophagus, and efficacy signals in two chronic pain trials in the areas of fibromyalgia and irritable bowel syndrome. Allergan has announced that it is seeking a partner for the further development of this program and for commercialization in areas predominantly served by general practitioners.

We have discovered and, in collaboration with Allergan, are developing small molecule product candidates for the treatment of glaucoma. Glaucoma is a chronic eye disease and is the second leading cause of blindness in the world. We identified a subtype of the muscarinic receptors that controls intraocular pressure and discovered lead compounds that selectively activate this target. In preclinical models, our product candidates have demonstrated a promising preclinical profile, including robust efficacy and a long duration of action. This program has reached Phase I development.

In November 2014, Allergan announced it entered into an agreement with Actavis plc under which Actavis will acquire Allergan. If this acquisition is completed, we do not know what impact, if any, it will have on our programs with Allergan or Allergan's performance thereunder.

Competition

We face, and will continue to face, intense competition from pharmaceutical and biotechnology companies, as well as numerous academic and research institutions and governmental agencies, both in the United States and abroad. We compete, or will compete, with existing and new products being developed by our competitors. Some of these competitors are pursuing the development of pharmaceuticals that target the same diseases and conditions that our research and development programs target.

Even if we are successful in developing pimavanserin and gaining FDA approval of NUPLAZID, it would compete with a variety of established drugs in the areas of Parkinson's disease psychosis, Alzheimer's disease psychosis, and schizophrenia. For example, NUPLAZID for the treatment of Parkinson's disease psychosis would compete with off-label use of antipsychotic drugs, including Seroquel, marketed by Astra-Zeneca PLC, and clozapine, a generic drug.

Pimavanserin for Alzheimer's disease psychosis would compete with off-label use of antipsychotic drugs. Pimavanserin for the treatment of schizophrenia would compete with Latuda, marketed by Sunovion Pharmaceuticals Inc., Zyprexa, marketed by Eli Lilly and Company, Risperdal, marketed by Johnson & Johnson, Abilify, marketed jointly by Bristol-Myers Squibb Company and Otsuka Pharmaceutical Co., Ltd., Seroquel, and clozapine. Zyprexa (olanzapine), Risperdal (risperidone), Seroquel (quetiapine) and clozapine (clozaril) are all now generic in the United States.

Our potential products for the treatment of chronic pain would compete with Lyrica, marketed by Pfizer Inc., and Cymbalta, marketed by Eli Lilly, as well as with a variety of generic or proprietary opioids, and other drugs. Currently, the leading drugs approved for chronic pain indications include Lyrica, the successor to Neurontin (gabapentin, now a generic drug), and Cymbalta, now generic in the United States.

Our potential products for the treatment of glaucoma would compete with Xalatan, marketed by Pfizer, and Lumigan and Alphagan, marketed by Allergan. Xalatan (latanoprost) is now generic.

In addition, the companies described above and other competitors may have a variety of drugs in development or awaiting FDA approval that could reach the market and become established before we have a

product to sell. Our competitors may also develop alternative therapies that could further limit the market for any drugs that we may develop. Many of our competitors are using technologies or methods different or similar to ours to identify and validate drug targets and to discover novel small molecule drugs. Many of our competitors and their collaborators have significantly greater experience than we do in the following:

- identifying and validating targets;
- screening compounds against targets;
- preclinical and clinical trials of potential pharmaceutical products; and
- obtaining FDA and other regulatory clearances.

In addition, many of our competitors and their collaborators have substantially greater advantages in the following areas:

- capital resources;
- research and development resources;
- manufacturing capabilities; and
- sales and marketing.

Smaller companies also may prove to be significant competitors, particularly through proprietary research discoveries and collaborative arrangements with large pharmaceutical and established biotechnology companies. Many of our competitors have products that have been approved or are in advanced development. We face competition from other companies, academic institutions, governmental agencies and other public and private research organizations for collaborative arrangements with pharmaceutical and biotechnology companies, in recruiting and retaining highly qualified scientific, sales and marketing, and management personnel and for licenses to additional technologies. Our competitors, either alone or with their collaborators, may succeed in developing technologies or drugs that are more effective, safer, and more affordable or more easily administered than ours and may achieve patent protection or commercialize drugs sooner than us. Developments by others may render our product candidates or our technologies obsolete. Our failure to compete effectively could have a material adverse effect on our business.

Intellectual Property

We currently hold 49 issued U.S. patents and 244 issued foreign patents. All of these patents originated from discoveries made by us. In addition, we have 15 provisional and utility U.S. patent applications and 52 foreign patent applications.

Patents or other proprietary rights are an essential element of our business. Our strategy is to file patent applications in the United States and any other country that represents an important potential commercial market to us. In addition, we seek to protect our technology, inventions and improvements to inventions that are important to the development of our business. Our patent applications claim proprietary technology, including methods of screening and chemical synthetic methods, novel drug targets and novel compounds identified using our technology.

We also rely upon trade secret rights to protect other technologies that may be used to discover and validate targets and that may be used to identify and develop novel drugs. We protect our trade secrets in part through confidentiality and proprietary information agreements. We have entered into a license agreement, dated as of November 30, 2006, for certain intellectual property rights from the Ipsen Group in order to expand and strengthen the intellectual property portfolio for our serotonin platform, including pimavanserin. In connection with a successful filing of the NDA for NUPLAZID, we would pay a $2.5 million milestone payment to Ipsen and, if approved, would pay an additional $8.0 million milestone payment to Ipsen, each pursuant to the terms of

the 2006 license agreement. In addition, if we are able to successfully market and sell NUPLAZID, we would pay to Ipsen royalties of up to two percent of net product sales pursuant to the agreement. We are a party to various other license agreements that give us rights to use certain technologies in our research and development.

Pimavanserin

Twenty U.S. patents have been issued to us that provide protection for pimavanserin, including two that cover the compound generically and 12 that specifically cover pimavanserin, polymorphs thereof, the use thereof for treating Parkinson's disease psychosis, Alzheimer's disease psychosis, schizophrenia, bipolar disorder, Lewy body disease, sleep disorders, and other methods of treatment. These patents also provide protection for certain methods of producing pimavanserin. The pimavanserin-specific patent and the Parkinson's disease psychosis treatment patent provide protection until June 2027 and 2026, respectively. The patent that covers polymorphs of pimavanserin provides protection until June 2028. The patents that cover pimavanserin generically expire in 2021. Our estimation of the above patent terms includes patent term adjustments made by the U.S. Patent and Trademark Office. These patent terms may be subject to change based on new interpretations of the law. We have 56 issued foreign patents that specifically cover pimavanserin, including patents in 38 European countries, Australia, Canada, China, Hong Kong, India, Japan, Mexico, New Zealand, Russia, Singapore and South Africa, which provide patent protection until 2024. We also have 48 issued foreign patents that cover polymorphs of pimavanserin and provide patent protection until 2025. We continue to prosecute patent applications directed to pimavanserin and to methods of treating various diseases using pimavanserin, either alone or in combination with other agents, worldwide.

Alpha Adrenergic Program

We have not been issued, and are not pursuing, patents covering the compounds being pursued by Allergan under this collaboration as the compounds are covered by Allergan patents.

Muscarinic Program

We have two U.S. patents that have been issued to us providing coverage for the compounds covered by our collaboration with Allergan for the treatment of glaucoma. These U.S. patents will expire in 2023. We have 48 issued foreign patents and 14 pending foreign applications that cover these compounds. The issued foreign patents for this program will expire in 2022 and 2025.

Collaboration Agreements

Historically, we have been a party to various collaboration agreements with Allergan and other parties to leverage our drug discovery platform and related assets, and to advance development of and commercialize selected product candidates. These collaborations have typically included upfront payments at initiation of the collaboration, research support during the research term, if applicable, milestone payments upon successful completion of specified development objectives, and royalties based upon future sales, if any, of drugs developed under the collaboration. Our current agreements are as follows:

In July 1999, we entered into a collaboration agreement with Allergan to discover, develop and commercialize selective muscarinic drugs for the treatment of glaucoma. Under this agreement, we provided our chemistry and discovery expertise to enable Allergan to select two compounds for development. We granted Allergan exclusive worldwide rights to commercialize products based on these two compounds for the treatment of ocular disease. As of December 31, 2014, we had received an aggregate of $9.9 million in payments under the agreement, consisting of upfront fees, research funding and milestone payments. We are eligible to receive up to an aggregate of $15.0 million in additional payments per product upon the achievement of development and regulatory milestones as well as royalties on future net product sales worldwide, if any. Allergan may terminate this agreement upon 90 days' notice. However, if terminated, Allergan's rights to the selected compounds would revert to us.

In September 1997, we entered into a collaboration agreement with Allergan focused primarily on the discovery and development of new therapeutics for pain and ophthalmic indications. This agreement, as amended, provides for the continued development of product candidates for one target area. We are restricted from conducting competing research in that target area. Pursuant to the agreement, we granted Allergan exclusive worldwide rights to commercialize products resulting from the collaboration. We had received an aggregate of $10.5 million in payments, consisting of research funding and milestone payments, through December 31, 2014 under this agreement. We are eligible to receive additional milestone payments of up to $10.0 million in the aggregate upon the achievement of development and regulatory milestones as well as royalties on future net product sales worldwide, if any. In connection with the execution of the collaboration agreement in 1997, Allergan made a $6.0 million equity investment in us.

The general terms of our collaboration agreements with Allergan continue until the later of the expiration of the last to expire patent covering a product licensed under the collaboration and at least 10 years from the date of first commercial sale of a product. In addition, each of our Allergan collaboration agreements includes a research term that is shorter but may be renewed if agreed to by the parties.

In November 2014, Allergan announced it entered into an agreement with Actavis under which Actavis will acquire Allergan. If this acquisition is completed, we do not know what impact, if any, it will have on our agreements with Allergan or Allergan’s performance thereunder.

Government Regulation

Our business activities, including the manufacturing and marketing of our potential products and our ongoing research and development activities are subject to extensive regulation by numerous governmental authorities in the United States and other countries. Before marketing in the United States, any new drug developed by us must undergo rigorous preclinical testing, clinical trials and an extensive regulatory clearance process implemented by the FDA under the federal Food, Drug, and Cosmetic Act, as amended. The FDA regulates, among other things, the development, testing, manufacture, safety, efficacy, record keeping, labeling, storage, approval, advertising, promotion, import, export, sale and distribution of biopharmaceutical products. None of our product candidates has been approved for sale in the United States or any foreign market. The regulatory review and approval process, which includes preclinical testing and clinical trials of each product candidate, is lengthy, expensive and uncertain. Moreover, if our product candidates are approved by the FDA, government coverage and reimbursement policies will both directly and indirectly impact our ability to successfully commercialize our products, and such coverage and reimbursement policies will be impacted by recently enacted and any applicable future healthcare reform measures. In addition, we are subject to state and federal laws, including, among others, anti-kickback laws, false claims laws, data privacy and security laws, and transparency laws that restrict certain business practices in the pharmaceutical industry.

In the United States, drug product candidates intended for human use undergo laboratory and animal testing until adequate proof of safety is established. Clinical trials for new product candidates are then typically conducted in humans in three sequential phases that may overlap. Phase I trials involve the initial introduction of the product candidate into healthy human volunteers. The emphasis of Phase I trials is on testing for safety or adverse effects, dosage, tolerance, metabolism, distribution, excretion and clinical pharmacology. Phase II involves studies in a limited patient population to determine the initial efficacy of the compound for specific targeted indications, to determine dosage tolerance and optimal dosage, and to identify possible adverse side effects and safety risks. Once a compound shows evidence of effectiveness and is found to have an acceptable safety profile in Phase II evaluations, Phase III trials are undertaken to more fully evaluate clinical outcomes. Before commencing clinical investigations in humans, we or our collaborators must submit an Investigational New Drug Application, or IND, to the FDA.

Regulatory authorities may require additional data before allowing the clinical studies to commence or proceed from one phase to another, and could demand that the studies be discontinued or suspended at any time if there are significant safety issues. We have in the past and may in the future rely on some of our collaborators to file INDs and generally direct the regulatory approval process for our potential products. Clinical testing must also meet requirements for clinical trial registration, institutional review board oversight, informed consent, health information privacy, and good clinical practices, or GCPs. Additionally, the manufacture of our drug product, must be done in accordance with current good manufacturing practices, or GMPs.

To establish a new product candidate's safety and efficacy, the FDA requires companies seeking approval to market a drug product to submit extensive preclinical and clinical data, along with other information, for each indication for which the product will be labeled. The data and information are submitted to the FDA in the form of a New Drug Application, or NDA. Generating the required data and information for an NDA takes many years and requires the expenditure of substantial resources. Information generated in this process is susceptible to varying interpretations that could delay, limit or prevent regulatory approval at any stage of the process. The failure to demonstrate adequately the quality, safety and efficacy of a product candidate under development would delay or prevent regulatory approval of the product candidate. We cannot assure you that, even if clinical trials are completed, either our collaborators or we will submit applications for required authorizations to manufacture and/or market potential products or that any such application will be reviewed and approved by the appropriate regulatory authorities in a timely manner, if at all. Under applicable laws and FDA regulations, each NDA submitted for FDA approval is given an internal administrative review within 60 days following submission of the NDA. If deemed sufficiently complete to permit a substantive review, the FDA will "file" the NDA. The FDA can refuse to file any NDA that it deems incomplete or not properly reviewable. The FDA has established internal goals of eight months from submission for priority review of NDAs that cover product candidates that offer major advances in treatment or provide a treatment where no adequate therapy exists, and 12 months from submission for the standard review of NDAs. However, the FDA is not legally required to complete its review within these periods, these performance goals may change over time and the review is often extended by FDA requests for additional information or clarification. Moreover, the outcome of the review, even if generally favorable, may not be an actual approval but a "complete response letter" that describes additional work that must be done before the NDA can be approved. Before approving an NDA, the FDA can choose to inspect the facilities at which the product is manufactured and will not approve the product unless the manufacturing facility complies with GMPs. The FDA may also audit sites at which clinical trials have been conducted to determine compliance with GCPs and data integrity. The FDA's review of an NDA may also involve review and recommendations by an independent FDA advisory committee, particularly for novel indications, such as Parkinson's disease psychosis. The FDA is not bound by the recommendation of an advisory committee.

In addition, delays or rejections may be encountered based upon changes in regulatory policy, regulations or statutes governing product approval during the period of product development and regulatory agency review.

Before receiving FDA approval to market a potential product, we or our collaborators must demonstrate through adequate and well-controlled clinical studies that the potential product is safe and effective in the patient population that will be treated. If regulatory approval of a potential product is granted, this approval will be limited to those disease states and conditions for which the product is approved. Marketing or promoting a drug for an unapproved indication is generally prohibited. Furthermore, FDA approval may entail ongoing requirements for risk management, including post-marketing studies. Even if approval is obtained, a marketed product, its manufacturer and its manufacturing facilities are subject to payment of significant annual fees and continuing review and periodic inspections by the FDA. Discovery of previously unknown problems with a product, manufacturer or facility may result in restrictions on the product or manufacturer, including labeling changes, warning letters, costly recalls or withdrawal of the product from the market.

Any drug is likely to produce some toxicities or undesirable side effects in animals and in humans when administered at sufficiently high doses and/or for sufficiently long periods of time. Unacceptable toxicities or

side effects may occur at any dose level at any time in the course of studies in animals designed to identify unacceptable effects of a product candidate, known as toxicological studies, or during clinical trials of our potential products. The appearance of any unacceptable toxicity or side effect could cause us or regulatory authorities to interrupt, limit, delay or abort the development of any of our product candidates. Further, such unacceptable toxicity or side effects could ultimately prevent a potential product's approval by the FDA or foreign regulatory authorities for any or all targeted indications or limit any labeling claims, even if the product is approved.

In addition, as a condition of approval, the FDA may require an applicant to develop a risk evaluation and mitigation strategy, or REMS. REMS use risk minimization strategies beyond the professional labeling to ensure that the benefits of the product outweigh the potential risks. To determine whether a REMS is needed, the FDA will consider the size of the population likely to use the product, seriousness of the disease, expected benefit of the product, expected duration of treatment, seriousness of known or potential adverse events, and whether the product is a new molecular entity. REMS can include medication guides, physician communication plans for healthcare professionals, and elements to assure safe use, or ETASU. ETASU may include, but are not limited to, special training or certification for prescribing or dispensing, dispensing only under certain circumstances, special monitoring, and the use of patient registries. The FDA may require a REMS before approval or post-approval if it becomes aware of a serious risk associated with use of the product. The requirement for a REMS can materially affect the potential market and profitability of a product.

Any trade name that we intend to use for a potential product must be approved by the FDA irrespective of whether we have secured a formal trademark registration from the U.S. Patent and Trademark Office. The FDA conducts a rigorous review of proposed product names, and may reject a product name if it believes that the name inappropriately implies medical claims or if it poses the potential for confusion with other product names. The FDA will not approve a trade name until the NDA for a product is approved. If the FDA determines that the trade names of other products that are approved prior to the approval of our potential products may present a risk of confusion with our proposed trade name, the FDA may elect to not approve our proposed trade name. If our trade name is rejected, we will lose the benefit of any brand equity that may already have been developed for this trade name, as well as the benefit of our existing trademark applications for this trade name. If the FDA does not approve our proposed trade name, we may be required to launch a potential product candidate without a brand name, and our efforts to build a successful brand identity for, and commercialize, this product candidate may be adversely impacted.

We and our collaborators and contract manufacturers also are required to comply with the applicable FDA current good manufacturing practice regulations. Good manufacturing practice regulations include requirements relating to quality control and quality assurance as well as the corresponding maintenance of records and documentation. Manufacturing facilities are subject to inspection by the FDA. These facilities must be approved before we can use them in commercial manufacturing of our potential products. The FDA may conclude that we or our collaborators or contract manufacturers are not in compliance with applicable good manufacturing practice requirements and other FDA regulatory requirements, which may result in delay or failure to approve applications, warning letters, product recalls and/or imposition of fines or penalties.

If the product is approved, we must also comply with post-marketing requirements, including, but not limited to, compliance with advertising and promotion laws enforced by various government agencies, including the FDA's Office of Prescription Drug Promotion, through such laws as the Prescription Drug Marketing Act, federal and state anti-fraud and abuse laws, including anti-kickback and false claims laws, healthcare information privacy and security laws, post-marketing safety surveillance, and disclosure of payments or other transfers of value to healthcare professionals and entities. In addition, we are subject to other federal and state regulation including, for example, the implementation of corporate compliance programs.

Outside of the United States, our ability to market a product is contingent upon receiving a marketing authorization from the appropriate regulatory authorities. The requirements governing the conduct of clinical

trials, marketing authorization, pricing and reimbursement vary widely from country to country. At present, foreign marketing authorizations are applied for at a national level, although within the European Community, or EC, registration procedures are available to companies wishing to market a product in more than one EC member state. If the regulatory authority is satisfied that adequate evidence of safety, quality and efficacy has been presented, marketing authorization will be granted. This foreign regulatory approval process involves all of the risks associated with FDA marketing approval discussed above. In addition, foreign regulations may include applicable post-marketing requirements, including safety surveillance, anti-fraud and abuse laws, and implementation of corporate compliance programs and reporting of payments or other transfers of value to healthcare professionals and entities.

Drugs for Serious or Life-Threatening Illnesses

In 2012, Congress enacted the Food and Drug Administration Safety and Innovation Act, or FDASIA. This law established a new regulatory scheme allowing for expedited review of products designated as “breakthrough therapies”. A product may be designated as a breakthrough therapy if it is intended, either alone or in combination with one or more other drugs, to treat a serious or life-threatening disease or condition and preliminary clinical evidence indicates that the product may demonstrate substantial improvement over existing therapies on one or more clinically significant endpoints, such as substantial treatment effects observed early in clinical development. The FDA may take certain actions with respect to breakthrough therapies, including holding meetings with the sponsor throughout the development process, providing timely advice to the product sponsor regarding development and approval, involving more senior staff in the review process, assigning a cross-disciplinary project lead for the review team, and taking other steps to design the clinical trials in an efficient manner. FDA regulations also provide certain mechanisms to expedite approval of potential products intended to treat serious or life-threatening illnesses which have been studied for safety and effectiveness and which demonstrate the potential to address unmet medical needs. Under accelerated approval regulations, NDAs may be approved on the basis of valid surrogate markers of product effectiveness, thus accelerating the normal approval process. Certain of our product candidates might qualify for accelerated approval. Even if the FDA agrees that these potential products qualify for accelerated approval procedures or breakthrough therapy designation, the FDA may deny approval of our drugs or may require that additional studies be required before approval. The FDA may also require us to perform post-approval, or Phase IV, studies as a condition of approval. In addition, the FDA may impose restrictions on distribution and/or promotion in connection with any accelerated approval, and may withdraw approval if post-approval studies do not confirm the intended clinical benefit or safety of the potential product.

Coverage and Reimbursement

Market acceptance and sales of any product candidates for which we may receive regulatory approval will depend, in part, upon the availability of coverage and adequate reimbursement from third-party payors. Third-party payors such as government health programs (including Medicare and Medicaid in the United States), managed care organizations, private health insurers, and other organizations generally decide which drugs they will pay for and establish reimbursement levels for health care. Coverage decisions may depend upon various clinical and economic factors that potentially disfavor new drug products when more established or lower cost therapeutic alternatives are available. Even if coverage is made available by a third-party payor, the reimbursement rates paid for covered products might not be adequate. The marketability of any products for which we may receive regulatory approval for commercial sale may suffer if the government and other third-party payors fail to provide coverage and adequate reimbursement to allow us to sell such products on a competitive and profitable basis. For example, under these circumstances, physicians may limit how much or under what circumstances they will prescribe or administer such products, and patients may decline to purchase them. This, in turn, could affect our ability to successfully commercialize our products and impact our profitability, results of operations, financial condition, and future success.

In the United States and other potentially significant markets for our product candidates, government authorities and other third party payors are increasingly attempting to limit or regulate the price of medical

products and services, particularly for new and innovative products and therapies. Such pressure, along with the increased emphasis on managed healthcare in the United States and on country and regional pricing and reimbursement controls in other countries, will likely put additional downward pressure on product pricing, reimbursement and usage, which may adversely affect any future product sales and our results of operations. The market for any product candidates for which we may receive regulatory approval will depend significantly on the degree to which these products are listed on third-party payors' drug formularies, or lists of medications for which third-party payors provide coverage and reimbursement, to the extent products for which we may receive regulatory approval are covered under a pharmacy benefit or are otherwise subject to a formulary. The industry competition to be included on such formularies often leads to downward pricing pressures on pharmaceutical companies. Also, third-party payors may refuse to include a particular branded drug on their formularies or otherwise restrict patient access to a branded drug when a less costly generic equivalent or other therapeutic alternative is available. In addition, because each third-party payor individually approves coverage and reimbursement levels, obtaining coverage and adequate reimbursement is a time-consuming and costly process. We may be required to provide scientific and clinical support for the use of any product to each third-party payor separately with no assurance that approval would be obtained, and we may need to conduct expensive pharmacoeconomic studies in order to demonstrate the cost-effectiveness of our products. We cannot be certain that our product candidates will be considered cost-effective. This process could delay the market acceptance of any product candidates for which we may receive approval and could have a negative effect on our future revenues and operating results.

In the United States, the Medicare Part D program provides a voluntary outpatient drug benefit to Medicare beneficiaries for certain products. We expect NUPLAZID, if approved, will be available for coverage under Medicare Part D, but the extent to which the individual Part D plans may offer coverage may be subject to various factors such as those described above. In addition, while Medicare Part D has historically required Medicare Part D plans to include "all or substantially all" drugs in the following designated classes of "clinical concern" on their formularies: anticonvulsants, antidepressants, antineoplastics, antipsychotics, antiretrovirals, and immunosuppressants, the Centers for Medicare and Medicaid Services, or CMS, recently proposed, but did not adopt, changes to this policy for coverage year 2015. If this policy is changed in the future and if CMS no longer considers the antipsychotic class to be of "critical concern", Medicare Part D plans would have significantly more discretion to reduce the number of products covered in that class. Furthermore, private payors often follow Medicare coverage policies and payment limitations in setting their own coverage policies.

Coverage policies, third-party reimbursement rates, and product pricing regulation may change at any time. Even if favorable coverage and reimbursement status is attained for one or more products that receive regulatory approval, less favorable coverage policies and reimbursement rates may be implemented in the future.

"Fraud and Abuse", Data Privacy, and Security Laws and Regulations

In addition to FDA restrictions on marketing of pharmaceutical products, federal and state fraud and abuse laws restrict business practices in the pharmaceutical industry. These laws include, among others, anti-kickback and false claims laws, data privacy and security laws, and transparency laws. The federal Anti-Kickback Statute prohibits, among other things, knowingly and willfully offering, paying, soliciting, or receiving remuneration to induce or in return for purchasing, leasing, ordering or arranging for or recommending the purchase, lease or order of any good, facility, item or service reimbursable under Medicare, Medicaid or other federal healthcare programs. The term "remuneration" has been broadly interpreted to include anything of value, and thus the Anti-Kickback Statute could potentially restrict certain arrangements between pharmaceutical manufacturers and customers that are common or even potentially beneficial in other industries. Although there are a number of statutory exceptions and regulatory safe harbors protecting some common activities from prosecution, the exceptions and safe harbors are limited in scope. The Patient Protection and Affordable Care Act of 2010, as amended by the Health Care and Education Reconciliation Act of 2010, or collectively the ACA, among other things, amended the intent requirement of the federal Anti-Kickback Statute to state that a person or entity need not have actual knowledge of the statute or specific intent to violate it in order to have committed a violation.

Where “one purpose” of an arrangement involving remuneration is to induce referrals of a federal healthcare covered business, the Anti-Kickback Statute may have been violated, and enforcement will depend on the relevant facts and circumstances.

The federal False Claims Act prohibits any person or entity from knowingly presenting, or causing to be presented, a false claim for payment to the federal government or knowingly making, using or causing to be made or used a false record or statement material to a false or fraudulent claim to the federal government. A claim includes “any request or demand” for money or property presented to the U.S. government. In addition, the ACA specified that a claim including items or services resulting from a violation of the federal Anti-Kickback Statute constitutes a false or fraudulent claim for purposes of the civil False Claims Act. The federal False Claims Act has been the basis for numerous enforcement actions and settlements by pharmaceutical and other healthcare companies in connection with various alleged financial relationships with customers. In addition, a number of pharmaceutical companies have reached substantial financial settlements in connection with, for example, allegedly causing false claims to be submitted because of their marketing of products for unapproved, and thus non-reimbursable, uses.

Additionally, other federal and state false claims and false statements laws exist that restrict business activities in the pharmaceutical industry. For example, a federal criminal law enacted as part of the Health Insurance Portability and Accountability Act of 1996, or HIPAA, prohibits knowingly and willfully executing a scheme to defraud any healthcare benefit program, including private third party payors, and knowingly and willfully falsifying, concealing or covering up a material fact or making any materially false, fictitious or fraudulent statement in connection with the delivery of or payment for healthcare benefits, items or services. In addition, the federal civil monetary penalties statute imposes penalties against any person or entity that, among other things, is determined to have presented or caused to be presented a claim to a federal health program that the person knows or should know is for an item or service that was not provided as claimed or is false or fraudulent. Also, many states have similar fraud and abuse statutes or regulations, including, without limitation, laws analogous to the federal Anti-Kickback Statute and the federal False Claims Act, that apply to items and services reimbursed under Medicaid and other state programs, or, in several states, apply regardless of the payor.

We may be subject to data privacy and security regulation by both the federal government and the states in which we conduct our business. HIPAA, as amended by the Health Information Technology and Clinical Health Act, or HITECH, and their respective implementing regulations, impose specified requirements relating to the privacy, security, and transmission of certain individually identifiable health information. Among other things, HIPAA’s privacy and security standards are now directly applicable to “business associates”, which is defined as independent contractors or agents of covered entities that create, receive, maintain, or transmit protected health information in connection with providing a service for or on behalf of a covered entity. In addition to possible civil and criminal penalties for violations, state attorneys general are authorized to file civil actions for damages or injunctions in federal courts to enforce HIPAA and seek attorney’s fees and costs associated with pursuing federal civil actions. In addition, state laws govern the privacy and security of health information in certain circumstances, many of which differ from each other in significant ways and may not have the same effect, which further complicates compliance efforts.

In addition, a federal requirement created under the ACA mandates that pharmaceutical companies track and annually report to the federal government certain payments and other transfers of value made to physicians and other healthcare professionals and teaching hospitals and ownership or investment interests held by physicians and their immediate family members. CMS disclosed certain reported information for the first reporting period on a publicly available website in September 2014. There are also an increasing number of state “sunshine” laws that require pharmaceutical companies to make reports to states on pricing and marketing information. Several states have enacted legislation requiring pharmaceutical companies to, among other things, establish marketing compliance programs, file periodic reports with the state, and make periodic public disclosures on sales and marketing activities, and prohibiting certain other sales and marketing practices. These laws may adversely affect our sales, marketing, and other activities with respect to any product candidate for which we receive approval to

market in the United States by imposing administrative and compliance burdens on us. If we fail to track and report as required by these laws or otherwise fail to comply with these laws, we could be subject to the penalty provisions of the pertinent state and federal authorities.

Because of the breadth of these laws and the narrowness of available statutory and regulatory exceptions, it is possible that some of our business activities, particularly any sales and marketing activities after a product candidate has been approved for marketing in the United States, could be subject to legal challenge and enforcement actions. If our operations are found to be in violation of any of the federal and state laws described above or any other governmental regulations that apply to us, we may be subject to significant civil, criminal, and administrative penalties, including, without limitation, damages, fines, imprisonment, exclusion from participation in government healthcare programs, and the curtailment or restructuring of our operations, any of which could adversely affect our ability to operate our business and our results of operations. To the extent that any of our product candidates receive approval and are sold in a foreign country, we may be subject to similar foreign laws and regulations, which may include, for instance, applicable post-marketing requirements, including safety surveillance, anti-fraud and abuse laws, and implementation of corporate compliance programs, as well as laws and regulations requiring transparency of pricing and marketing information and governing the privacy and security of health information, such as the European Union's Directive 95/46/EC on the protection of individuals with regard to the processing of personal data.

Impact of Healthcare Reform on Coverage, Reimbursement, and Pricing

In the United States, the European Union and other potentially significant markets for our product candidates, government authorities and other third-party payors are increasingly attempting to limit or regulate the price of medical products and services, particularly for new and innovative products and therapies, which has resulted in lower average selling prices. Further, the increased emphasis on managed healthcare in the United States and on country-specific and regional pricing and reimbursement controls in the European Union will put additional pressure on product pricing, reimbursement and usage, which may adversely affect our future product sales and results of operations. These pressures can arise from rules and practices of managed care groups, judicial decisions, and governmental laws and regulations related to Medicare, Medicaid and healthcare reform, pharmaceutical reimbursement policies, and pricing in general.

The United States and some foreign jurisdictions are considering or have enacted a number of additional legislative and regulatory proposals to change the healthcare system in ways that could affect our ability to sell any future products profitably. Among policy makers and payors in the United States and elsewhere, there is significant interest in promoting changes in healthcare systems with the stated goals of containing healthcare costs, improving quality and/or expanding access. In the United States, the pharmaceutical industry has been a particular focus of these efforts and has been significantly affected by major legislative initiatives, including, most recently, the ACA. The ACA, among other things, imposes a significant annual fee on companies that manufacture or import certain branded prescription drug products. It also contains substantial new provisions intended to broaden access to health insurance, reduce or constrain the growth of healthcare spending, and impose additional health policy reforms, any or all of which may affect our business. A significant number of provisions are not yet, or have only recently become, effective, but the ACA is likely to continue the downward pressure on pharmaceutical pricing, especially under the Medicare program, and may also increase our regulatory burdens and operating costs. Other legislative changes have also been proposed and adopted since the ACA was enacted. For example, the Budget Control Act of 2011 resulted in aggregate reductions in Medicare payments to providers of up to 2% per fiscal year, which went into effect in April 2013 and will remain in effect through 2024 unless additional Congressional action is taken, and the American Taxpayer Relief Act of 2012, among other things, reduced Medicare payments to several types of providers and increased the statute of limitations period for the government to recover overpayments to providers from three to five years. Such laws may result in additional reductions in Medicare and other healthcare funding. In the future, there may continue to be additional proposals relating to the reform of the U.S. healthcare system, some of which could further limit coverage and reimbursement of drug products, including our product candidates. Any reduction in reimbursement from

Medicare or other government programs may result in a similar reduction in payments from private payors. The implementation of cost containment measures or other healthcare reforms may prevent us from being able to generate revenue, attain profitability or commercialize our products.

Research and Development Expenses

Our research and development expenses were $60.6 million, $26.7 million, and $18.8 million in 2014, 2013, and 2012, respectively.

Manufacturing and Distribution

We currently outsource, and plan to continue to outsource, manufacturing responsibilities for our existing and future product candidates, including NUPLAZID, for development and commercial purposes. Until recently, NUPLAZID has been manufactured in small quantities for preclinical studies and clinical trials. If NUPLAZID is approved for commercial sale, we will need to manufacture the product in larger quantities. Significant scale-up of manufacturing requires additional process development and validation studies, which will be subject to FDA review as part of our NDA submission. Our active pharmaceutical ingredient, or API, has been manufactured in Switzerland for over ten years and we anticipate continuing to use this manufacturer as we transition to a commercial organization.

We plan to retain third-party service providers to perform a variety of functions related to the distribution of NUPLAZID, including warehousing, customer service, order-taking, invoicing, collections, and shipment and returns processing.

Sales and Marketing

During the second half of 2013, we began hiring the senior leadership of our commercial organization that is preparing our organization for the planned future launch of NUPLAZID. This commercial team is comprised of experienced professionals in marketing, reimbursement and managed markets, marketing research, commercial operations, and sales force planning and management.

We are preparing to build a specialty sales force in the U.S. of approximately 135 experienced sales professionals. If NUPLAZID is approved, this specialty sales force will focus on promoting NUPLAZID primarily to neurologists and a small group of psychiatrists and long-term care physicians who are high prescribers of antipsychotics for Parkinson’s disease psychosis patients. In selected markets outside of the United States, we may choose to commercialize NUPLAZID independently or by establishing one or more strategic alliances.

Long-Lived Assets

Our long-lived assets totaled $553,000 and $579,000 as of December 31, 2014 and 2013, respectively. All of our long-lived assets are located in the United States.

Employees

At December 31, 2014, we had 97 employees. Of our total workforce, 52 are engaged in research and development activities, 31 are engaged in administrative activities such as finance, legal, and information technology, and 14 are engaged in commercial operations and marketing. None of our employees is represented by a collective bargaining agreement, nor have we experienced work stoppages. We believe that our relations with our employees are good.

Item 1A. ***Risk Factors.***

You should consider carefully the following information about the risks described below, together with the other information contained in this Annual Report and in our other public filings, in evaluating our business. If any of the following risks actually occurs, our business, financial condition, results of operations and future growth prospects would likely be materially and adversely affected. In these circumstances, the market price of our common stock would likely decline.

Risks Related to Our Business

Our prospects are highly dependent on the success of pimavanserin, our most advanced product candidate. To the extent regulatory approval of NUPLAZID (pimavanserin) is delayed or not granted or NUPLAZID is not commercially successful, our business, financial condition and results of operations may be materially adversely affected and the price of our common stock may decline.

We currently have no product candidates approved for sale, and we may never be able to develop marketable products. The research, testing, manufacturing, labeling, approval, sale, import, export, marketing, and distribution of pharmaceutical product candidates are subject to extensive regulation by the U.S. Food and Drug Administration, or FDA, and other regulatory authorities in the United States and other countries, whose regulations differ from country to country. We are focusing a significant portion of our activities and resources on pimavanserin, and we believe our prospects are highly dependent on, and a significant portion of the value of our company relates to, our ability to obtain regulatory approval for and successfully commercialize NUPLAZID (pimavanserin) in the United States and potentially in additional territories. The regulatory approval and successful commercialization of NUPLAZID is subject to many risks, including the risks discussed in other risk factors, and NUPLAZID may not receive marketing approval from any regulatory agency. If the results or timing of regulatory filings, the regulatory process, regulatory developments, commercialization, clinical trials or preclinical studies, or other activities, actions or decisions related to pimavanserin do not meet our or others' expectations, the market price of our common stock could decline significantly.

In April 2013, we announced that the FDA had agreed that the data from our -020 Study, together with supportive data from our other studies with NUPLAZID, are sufficient to support the filing of a New Drug Application, or NDA, for the treatment of Parkinson's disease psychosis, or PDP. We are currently completing the NDA and related preparations to support a review of the NDA, and plan to submit the NDA to the FDA in the first quarter of 2015. While the FDA has agreed to review an NDA for NUPLAZID on the basis of our positive pivotal -020 Study data, along with supportive efficacy and safety data from other NUPLAZID studies, the NDA will be subject to FDA review to determine whether the entire filing package is adequate to support approval of NUPLAZID for PDP. Notwithstanding the guidance that we received in April 2013, the FDA retains complete discretion in deciding whether to file an NDA for NUPLAZID and there are many components to an NDA submission beyond the efficacy and safety data reviewed by the FDA in 2013. For example, in addition to reviewing the safety and efficacy data for NUPLAZID, the FDA will review our internal systems and processes, as well as those of our vendors, related to our development of NUPLAZID, including those pertaining to our clinical trials and manufacturing processes. Even if our NDA submission for NUPLAZID is accepted for filing, the FDA retains complete discretion in deciding whether or not to approve an NDA and there is no guarantee that NUPLAZID will be approved for the treatment of PDP or any other indication. Additionally, the FDA may convene an advisory committee of independent experts, including clinicians and other scientific experts, to review, evaluate and provide recommendations as to whether the NDA for NUPLAZID should be approved and under what conditions. The FDA is not bound by the recommendations of an advisory committee, but it considers such recommendations carefully when making decisions. The FDA may choose not to approve our NDA for NUPLAZID for any of a variety of reasons, including a decision related to the safety or efficacy data for NUPLAZID or for any other issues that they may identify related to our development of NUPLAZID for the treatment of PDP.

Thus, significant uncertainty remains regarding the regulatory approval process for NUPLAZID.

Even if the FDA grants an approval for NUPLAZID for the treatment of PDP, the terms of the approval may limit its commercial potential. Additionally, even after receipt of FDA approval, NUPLAZID would be subject to substantial, ongoing regulatory requirements.

The FDA has complete discretion over the approval of NUPLAZID for the treatment of PDP. If it grants approval, the scope of the approval may limit our ability to commercialize NUPLAZID, and in turn, limit our ability to generate substantial sales revenues. For example, the FDA may not approve the labeling claims for NUPLAZID that we believe are necessary or desirable for successful commercialization as a treatment for PDP, or may grant approval contingent on the performance of costly post-approval clinical trials or subject to warnings or contraindications. Additionally, even after granting approval, the manufacturing processes, labeling, packaging, distribution, adverse event reporting, storage, advertising, promotion and recordkeeping for NUPLAZID will be subject to extensive and ongoing regulatory requirements. These requirements include submissions of safety and other post-marketing information and reports, registration, as well as continued compliance with current good manufacturing practices, or cGMPs, good clinical practices, international conference on harmonization regulations and good laboratory practices, which are regulations and guidelines enforced by the FDA for all of our clinical development and for any clinical trials that we conduct post-approval. The FDA may decide to withdraw approval, add warnings or narrow the approved indications in the product label, or establish risk management programs that could restrict distribution. These actions could result from, among other things, safety concerns, including unexpected side effects or drug-drug interaction problems, or concerns over misuse or abuse of the product. If any of these actions were to occur following approval, we may have to discontinue the commercialization of NUPLAZID, limit our sales and marketing efforts, and/or conduct post-approval studies, which in turn could result in significant expense and delay or limit our ability to generate sales revenues.

Even if NUPLAZID is approved by the FDA for PDP, we may not be successful in its commercial launch.

We currently have a small commercialization group but have never, as an organization, launched or commercialized a product. Following any potential approval by the FDA of NUPLAZID for the treatment of PDP, in addition to building a sales force, we will need to successfully coordinate the commercialization of NUPLAZID. Prior to commercialization, NUPLAZID could also be subject to review and potential scheduling by the Drug Enforcement Administration of the U.S. Department of Justice, or DEA, which could delay and adversely impact its marketing and commercialization. There are numerous examples of unsuccessful product launches and, since we have never launched a product, there is no guarantee that we will be able to do so if granted marketing approval for NUPLAZID for the treatment of PDP. If any product launch of NUPLAZID is unsuccessful or perceived as disappointing, our stock price could decline significantly and the long-term success of the product could be harmed.

We currently have no sales force and have no experience as a company in marketing or distributing pharmaceutical products. If we are unable to expand our marketing capabilities and establish our sales force or enter into agreements with third parties to distribute NUPLAZID, we may not be able to generate product revenues.

Our strategy is to build a fully-integrated biopharmaceutical company to successfully execute the commercial launch of NUPLAZID in the United States following regulatory approval. While we have established our core commercial team, we do not currently have a complete organization for the sales, marketing and distribution of NUPLAZID, and, as an organization, we do not have any experience commercializing pharmaceutical products. In order to market any products that may be approved by the FDA, including NUPLAZID, we must build our sales, marketing, managerial, and related capabilities or make arrangements with third parties to perform these services. If we are unable to establish adequate sales, marketing, and distribution capabilities, whether independently or with third parties, we may not be able to generate product revenues and may not become profitable.

Included in our strategy in the United States is a plan to establish a specialty sales force to commercialize NUPLAZID for the treatment of PDP. The establishment and development of our own sales force to market NUPLAZID will be expensive and time consuming and could delay any product launch, and we cannot be certain that we will be able to successfully develop this capability. We will also have to compete with other pharmaceutical and biotechnology companies to recruit, hire, train and retain marketing and sales personnel. To the extent we rely on third parties to commercialize NUPLAZID, we may receive less revenues than if we commercialized these products ourselves. In addition, we may have little or no control over the sales efforts of any third parties involved in commercializing our products. In the event we are unable to develop our own sales force or collaborate with a third-party marketing and sales organization, we would not be able to effectively commercialize NUPLAZID which would negatively impact our ability to generate product revenues.

If we are unable to effectively train and equip our sales force, our ability to successfully commercialize NUPLAZID will be harmed.

If approved, NUPLAZID will be a newly-marketed drug and, therefore, none of the members of our sales force will have ever promoted NUPLAZID prior to its launch. As a result, we will be required to expend significant time and resources to train our sales force to be credible and persuasive in marketing NUPLAZID for the treatment of PDP to neurologists, pharmacists and long-term care facilities. In addition, we must train our sales force to ensure that a consistent and appropriate message about NUPLAZID is being delivered to our potential customers. If we are unable to effectively train our sales force and equip them with effective materials, including medical and sales literature to help them inform and educate potential customers about the benefits of NUPLAZID and its proper administration, our efforts to successfully commercialize NUPLAZID could be put in jeopardy, which would negatively impact our ability to generate product revenues.

NUPLAZID may not gain acceptance among physicians, patients, and the medical community, thereby limiting our potential to generate revenues.

Even if a product is approved for commercial sale by the FDA or other regulatory authorities, the degree of market acceptance of any approved product candidate by physicians, healthcare professionals and third-party payors, and our profitability and growth will depend on a number of factors, including:

- the ability to provide acceptable evidence of safety and efficacy;
- relative convenience and ease of administration;
- the prevalence and severity of any adverse side effects;
- availability of alternative treatments;
- pricing and cost effectiveness, which may be subject to regulatory control;
- effectiveness of our or our collaborators' sales and marketing strategy; and
- our ability to obtain sufficient third-party insurance coverage or adequate reimbursement levels.

If a product does not provide a treatment regimen that is as beneficial as the current standard of care or otherwise does not provide patient benefit, that product will not achieve market acceptance and we will not generate sufficient revenues to achieve or maintain profitability.

With respect to NUPLAZID specifically, even if approved by the FDA for the treatment of PDP, successful commercialization will depend on whether and to what extent physicians, long-term care facilities and pharmacies, over whom we have no control, determine to utilize NUPLAZID. NUPLAZID, if approved by the FDA, would be made available to treat PDP, an indication for which the FDA has not approved a pharmaceutical treatment. Because of this, it is particularly difficult to estimate NUPLAZID's market potential. Industry sources and analysts have a divergence of estimates for the near- and long-term market potential of NUPLAZID, and a variety of assumptions directly impact the estimates for NUPLAZID's market potential, including assumptions regarding the prevalence of PDP, the rate of diagnosis of PDP, the rate of physician adoption of NUPLAZID, and

patient adherence and compliance rates. Small differences in these assumptions can lead to widely divergent estimates of the market potential of NUPLAZID. For example, certain research suggests that patients with Parkinson's disease may be hesitant to report symptoms of PDP to their treating physicians for a variety of reasons, including apprehension about societal stigmas relating to mental illness. Research also suggests that physicians who typically treat patients with Parkinson's disease may not ask about or identify symptoms of PDP. For these reasons, even if PDP occurs in high rates among patients with Parkinson's disease, it may be underdiagnosed. Even if PDP is diagnosed, physicians may not prescribe treatment for it, and if they do prescribe treatment, they may prescribe other drugs to treat it, even though they are not approved for PDP, instead of NUPLAZID. In addition, even if NUPLAZID is prescribed for the treatment of PDP, issues may arise with respect to patient adherence and compliance rates. It is anticipated that the recommended dosing of NUPLAZID, if approved, will be two 17 mg tablets taken together once a day. Patients may elect, whether at the direction of their physician or otherwise, to take only one tablet a day instead of two, to take tablets at different times during the day, or to otherwise not adhere to the recommended dosing, any of which could result in far lower efficacy. If patients do not adhere to the recommended dosing of NUPLAZID, patients and physicians may believe that NUPLAZID is less effective, and as a result they may stop taking it and prescribing it. The commercial success of NUPLAZID depends on acceptance by patients and physicians, and there are a number of factors that could skew our or others' estimates about whether and to what extent NUPLAZID will be prescribed for the treatment of PDP.

Our ability to generate product revenues will be diminished if NUPLAZID does not receive coverage from payors or sells for inadequate prices, or if patients are unable to obtain adequate levels of reimbursement.

Patients who are prescribed medicine for the treatment of their conditions generally rely on third-party payors to reimburse all or part of the costs associated with their prescription drugs. Coverage and adequate reimbursement from governmental healthcare programs, such as Medicare and Medicaid, and commercial payors is critical to new product acceptance. Coverage decisions may depend upon clinical and economic standards that disfavor new drug products when more established or lower cost therapeutic alternatives are already available or subsequently become available. Even if we obtain coverage for NUPLAZID, or other products we may market, the resulting reimbursement payment rates might not be adequate or may require co-payments that patients find unacceptably high. Patients may not use NUPLAZID if coverage is not provided or reimbursement is inadequate to cover a significant portion of the cost of those products.

In addition, the market for NUPLAZID will depend significantly on access to third-party payors' drug formularies, or lists of medications for which third-party payors provide coverage and reimbursement. The industry competition to be included in such formularies often leads to downward pricing pressures on pharmaceutical companies. Also, third-party payors may refuse to include a particular branded drug in their formularies or otherwise restrict patient access to a branded drug when a less costly generic equivalent or other alternative is available.

Third-party payors, whether foreign or domestic, or governmental or commercial, are developing increasingly sophisticated methods of controlling healthcare costs. In addition, in the United States, no uniform policy of coverage and reimbursement for drug products exists among third-party payors. Therefore, coverage and reimbursement for drug products can differ significantly from payor to payor. As a result, the coverage determination process is often a time-consuming and costly process that will require us to provide scientific and clinical support for the use of any approved products to each payor separately, with no assurance that coverage will be obtained. If we are unable to obtain coverage of, and adequate payment levels for, NUPLAZID or any other products we may market from third-party payors, physicians may limit how much or under what circumstances they will prescribe or administer them and patients may decline to purchase them. This in turn could affect our ability to successfully commercialize NUPLAZID, or any other products we may market, and thereby adversely impact our profitability, results of operations, financial condition, and future success.

We are subject to federal, state and foreign healthcare laws and regulations and implementation or changes to such healthcare laws and regulations could adversely affect our business and results of operations.

In both the United States and certain foreign jurisdictions, there have been a number of legislative and regulatory proposals in recent years to change the healthcare system in ways that could impact our ability to sell our potential products, including NUPLAZID, as described in greater detail in the Government Regulation section of this report. If we are found to be in violation of any of these laws or any other federal or state regulations, we may be subject to administrative, civil and/or criminal penalties, damages, fines, individual imprisonment, exclusion from federal health care programs and the restructuring of our operations. Any of these could have a material adverse effect on our business and financial results. Since many of these laws have not been fully interpreted by the courts, there is an increased risk that we may be found in violation of one or more of their provisions. Any action against us for violation of these laws, even if we ultimately are successful in our defense, will cause us to incur significant legal expenses and divert our management's attention away from the operation of our business.

In addition, in many foreign countries, particularly the countries of the European Union, the pricing of prescription drugs is subject to government control. In some non-U.S. jurisdictions, the proposed pricing for a drug must be approved before it may be lawfully marketed. The requirements governing drug pricing vary widely from country to country. For example, the European Union provides options for its member states to restrict the range of medicinal products for which their national health insurance systems provide reimbursement and to control the prices of medicinal products for human use. A member state may approve a specific price for the medicinal product or it may instead adopt a system of direct or indirect controls on the profitability of the company placing the medicinal product on the market. We may face competition from lower-priced products in foreign countries that have placed price controls on pharmaceutical products. In addition, there may be importation of foreign products that compete with any products we may market, including NUPLAZID, which could negatively impact our profitability.

We expect that the Patient Protection and Affordable Care Act of 2010, as amended by the Health Care and Education Reconciliation Act of 2010, or collectively the ACA, as well as other healthcare reform measures that may be adopted in the future, may result in more rigorous coverage criteria and in additional downward pressure on the price that we may receive for any approved product, including NUPLAZID. An expansion in the government's role in the U.S. healthcare industry may cause general downward pressure on the prices of prescription drug products, lower reimbursements for providers using our products, reduce product utilization and adversely affect our business and results of operations. It is unclear whether and to what extent, if at all, other anticipated developments resulting from the federal healthcare reform legislation, such as an increase in the number of people with health insurance and an increased focus on preventive medicine, may provide us additional revenue to offset the annual excise tax on certain drug product sales enacted under the ACA, subject to limited exceptions. It is possible that the tax burden, if we are not excepted, would adversely affect our financial performance, which in turn could cause the price of our stock to decline. Any reduction in reimbursement from Medicare or other government programs may result in a similar reduction in payments from private payors. The implementation of cost containment measures or other healthcare reforms may prevent us from being able to generate revenue, attain profitability, or commercialize any products for which we receive regulatory approval, including NUPLAZID.

If our operations are found to be in violation of any of the laws or regulations described above, comparable laws and regulations of non-U.S. jurisdictions or any other governmental regulations that apply to us, we may be subject to penalties, including civil and criminal penalties, damages, fines and the curtailment or restructuring of our operations. Any penalties, damages, fines, curtailment or restructuring of our operations could adversely affect our ability to operate our business and our financial results. Any action against us for violation of these laws, even if we successfully defend against it, could cause us to incur significant legal expenses and divert our management's attention from the operation of our business. Moreover, achieving and sustaining compliance with applicable federal and state privacy, security and fraud laws may prove costly.

If we receive marketing approval from the FDA for NUPLAZID for the treatment of PDP, we could face liability if a regulatory authority determines that we are promoting "off-label" use.

A company may not promote "off-label" uses for its drug products. An off-label use is the use of a product for an indication that is not described in the product's FDA-approved label or for uses that differ from those approved by other applicable regulatory agencies. Physicians, on the other hand, may prescribe products for off-label uses. Although the FDA and other regulatory agencies do not regulate a physician's choice of drug treatment made in the physician's independent medical judgment, they do restrict promotional communications from pharmaceutical companies or their sales force with respect to off-label uses of products for which marketing clearance has not been issued. A company that is found to have promoted off-label use of its product may be subject to significant liability, including civil and criminal sanctions. If we begin marketing NUPLAZID, or any other product, we intend to comply with the FDA and other regulatory agencies with respect to our promotion of our products, but we cannot be sure that the FDA or other regulatory agencies will agree that we have not violated their restrictions. As a result, we may be subject to criminal and civil liability. In addition, our management's attention could be diverted to handle any such alleged violations. A significant number of pharmaceutical companies have been the target of inquiries and investigations by various U.S. federal and state regulatory, investigative, prosecutorial and administrative entities in connection with the promotion of products for unapproved uses and other sales practices, including the Department of Justice and various U.S. Attorneys' Offices, the Office of Inspector General of the Department of Health and Human Services, the FDA, the Federal Trade Commission and various state Attorneys General offices. These investigations have alleged violations of various U.S. federal and state laws and regulations, including claims asserting antitrust violations, violations of the Food, Drug and Cosmetic Act, the federal False Claims Act, the Prescription Drug Marketing Act, anti-kickback laws, and other alleged violations in connection with the promotion of products for unapproved uses, pricing and Medicare and/or Medicaid reimbursement. If the FDA or any other governmental agency initiates an enforcement action against us or if we are the subject of a *qui tam* suit and it is determined that we violated prohibitions relating to the promotion of products for unapproved uses, we could be subject to substantial civil or criminal fines or damage awards and other sanctions such as consent decrees and corporate integrity agreements pursuant to which our activities would be subject to ongoing scrutiny and monitoring to ensure compliance with applicable laws and regulations. Any such fines, awards or other sanctions would have an adverse effect on our revenue, business, financial prospects and reputation.

We expect our net losses to continue for at least the next few years and are unable to predict the extent of future losses or when we will become profitable, if ever.

We have experienced significant net losses since our inception. As of December 31, 2014, we had an accumulated deficit of approximately $498.1 million. We expect to incur net losses over the next few years as we advance our programs and incur significant development and commercialization costs.

We have not received any revenues from the commercialization of our product candidates. We plan to submit our NDA for NUPLAZID for the treatment of PDP in the first quarter of 2015. The regulatory approval process is time consuming and uncertain and there is no guarantee that our planned NDA submission for NUPLAZID will be accepted for filing or, if accepted, approved for marketing. Even if our NDA for NUPLAZID is approved, we would still expect to incur significant expenses and net losses for at least the next few years as we begin our first ever commercialization efforts and pursue the development and commercialization of NUPLAZID and other product candidates. Substantially all of our revenues for the twelve months ended December 31, 2014 were from our agreements with various parties, including our research and development grants. The research term of our 2003 collaboration with Allergan concluded in March 2013 and we no longer recognize revenues from this collaboration. Thus, any significant payments from Allergan pursuant to our continuing collaborations are dependent upon the advancement of an applicable product candidate. Until such time as we may gain regulatory approval for, and generate revenues from, product sales, we anticipate that collaborations, which provide us with research funding and potential milestone payments and royalties, and grant funding will continue to be our primary sources of revenues.

We cannot be certain that the milestones required to trigger payments under our existing collaborations will be reached or that we will secure additional collaboration agreements. To obtain revenues from our product candidates, we must succeed, either alone or with others, in developing, obtaining regulatory approval for, manufacturing and marketing drugs with significant market potential. We may never succeed in these activities and may never generate revenues that are significant enough to achieve profitability.

If we fail to obtain the capital necessary to fund our operations, we will be unable to successfully develop and commercialize NUPLAZID or any of our other product candidates.

We have consumed substantial amounts of capital since our inception. Our cash, cash equivalents and investment securities totaled $322.5 million at December 31, 2014. While we believe that our existing cash resources will be sufficient to fund our cash requirements at least into the second half of 2016, we may require significant additional financing in the future to continue to fund our operations. Our future capital requirements will depend on, and could increase significantly as a result of, many factors including:

- the progress in, and the costs of, our ongoing and planned development activities for pimavanserin, planned commercialization activities for NUPLAZID, and other research and development programs;
- the costs of preparing applications for regulatory approvals for NUPLAZID and other product candidates;
- the costs of establishing, or contracting for, sales and marketing capabilities for NUPLAZID or other product candidates;
- our ability to obtain regulatory approval for, and generate product sales from, NUPLAZID or other product candidates;
- the costs of acquiring additional product candidates or research and development programs;
- the scope, prioritization and number of our research and development programs;
- the ability of our collaborators and us to reach the milestones and other events or developments triggering payments under our collaboration or license agreements, or our collaborators' ability to make payments under these agreements;
- our ability to enter into new, and to maintain existing, collaboration and license agreements;
- the extent to which we are obligated to reimburse collaborators or collaborators are obligated to reimburse us for costs under collaboration agreements;
- the costs involved in filing, prosecuting, enforcing and defending patent claims and other intellectual property rights;
- the costs of securing manufacturing arrangements for clinical or commercial production of NUPLAZID or other product candidates; and
- the costs associated with litigation.

Unless and until we can generate significant cash from our operations, we expect to satisfy our future cash needs through our existing cash, cash equivalents and investment securities, strategic collaborations, public or private sales of our securities, debt financings, grant funding, or by licensing all or a portion of our product candidates or technology. In the past, periods of turmoil and volatility in the financial markets have adversely affected the market capitalizations of many biotechnology companies, and generally made equity and debt financing more difficult to obtain. These events, coupled with other factors, may limit our access to additional financing in the future. This could have a material adverse effect on our ability to access sufficient funding. We cannot be certain that additional funding will be available to us on acceptable terms, if at all. If funds are not available, we will be required to delay, reduce the scope of, or eliminate one or more of our research or development programs or our commercialization efforts. We also may be required to relinquish greater or all rights to product candidates at an earlier stage of development or on less favorable terms than we would

otherwise choose. Additional funding, if obtained, may significantly dilute existing stockholders and could negatively impact the price of our stock.

If we do not obtain regulatory approval from foreign jurisdictions, we will not be able to market our products in those jurisdictions which will limit our commercial revenues.

In order to market our products in foreign jurisdictions, we must obtain foreign regulatory approval in each of those jurisdictions. Approval by the FDA does not ensure that foreign jurisdictions will also approve our products for commercial distribution. The regulations in foreign jurisdictions vary. We will be required to comply with different regulations and policies of the jurisdictions where we seek approval for our product candidates, and we have not yet identified all of the requirements that we will need to satisfy to submit NUPLAZID for approval in foreign jurisdictions. This will require additional time, expertise and expense, including the potential need to conduct additional studies or development work beyond that required to obtain regulatory approval in the United States. Furthermore, we may not be able to obtain approval for foreign sales. This will restrict our ability to market our products and would limit their commercial potential and value, including that of NUPLAZID.

The pivotal Phase III study with NUPLAZID for PDP, the results of which were announced in November 2012, was our first successful pivotal Phase III trial and there is no guarantee that future studies with pimavanserin will be successful.

The historical rate of failures for product candidates in clinical development is extremely high. In November 2012, we announced results from our successful pivotal -020 Phase III trial with NUPLAZID for the treatment of PDP. Following our April 2013 meeting with the FDA, we conducted customary supportive studies, such as drug-drug interaction studies and CMC development that are needed prior to filing an NDA. Even though we successfully completed the -020 Study, those results are not predictive of results of the supportive studies and CMC development needed for FDA review of an NDA submission or of any post-approval studies that we may undertake. We believe that pimavanserin also may have utility in indications other than PDP, such as Alzheimer’s disease psychosis, or ADP, and schizophrenia. However, prior to the first efficacy study that we commenced in late 2013, we had never tested pimavanserin in clinical studies for ADP and we have only conducted a Phase II trial for pimavanserin as a co-therapy treatment in schizophrenia. There is no guarantee that we will have the same level of success with pimavanserin in other indications that we had with the -020 Study or that we will be successful at all in future studies for additional indications or that future results of studies of NUPLAZID for the treatment of PDP will be consistent with those from the -020 Study.

If we do not successfully complete development of NUPLAZID, we will be unable to market and sell NUPLAZID or products derived from it, or to generate related product revenues.

We do not have a partner for the development of our lead product candidate, pimavanserin, and are solely responsible for the advancement of this program and, if approved for marketing, commercialization of the product.

We have full responsibility for the pimavanserin program throughout the world. We expect our research and development costs for continued development of pimavanserin to be substantial. While we currently are undertaking the ongoing development work for pimavanserin, including preparations for FDA review of NUPLAZID for the treatment of PDP and clinical trials of pimavanserin for other indications, in the future we would need to add resources and raise additional funds in order to take this product candidate to market and to conduct the necessary sales and marketing activities, and to conduct further development activities, if we do not secure a partner. Following any potential approval by the FDA, our current strategy is to commercialize NUPLAZID for PDP in the United States by establishing a specialty sales force focused primarily on neurologists and a small group of psychiatrists and long-term care physicians who are high prescribers of antipsychotics for PDP patients. In addition, if we commercialize NUPLAZID in select markets outside of the United States, we will more than likely need to establish one or more strategic alliances in the future for that

purpose. Without future collaboration partners in the United States and abroad, we might not be able to realize the full value of NUPLAZID.

Our most advanced product candidates are in development, which is a long, expensive and unpredictable process, and there is a high risk of failure.

Preclinical testing and clinical trials are long, expensive and unpredictable processes that can be subject to delays. It may take several years to complete the preclinical testing and clinical development necessary to commercialize a drug, and delays or failure can occur at any stage. Interim results of clinical trials do not necessarily predict final results, and success in preclinical testing and early clinical trials does not ensure that later clinical trials will be successful. A number of companies in the pharmaceutical and biotechnology industries have suffered significant setbacks in advanced clinical trials even after promising results in earlier trials.

Our drug development programs are at various stages of development and the historical rate of failures for product candidates is extremely high. In fact, we ended Phase I testing of AM-831 in 2012 and had previously had an unsuccessful Phase III trial with our most advanced product candidate, NUPLAZID. Following the reporting of successful results from the Phase III -020 Study with NUPLAZID in November 2012 and our meeting with the FDA in April 2013, we are completing preparations needed to support FDA review of NUPLAZID prior to our planned submission of an NDA for NUPLAZID for PDP in the first quarter of 2015. An unfavorable outcome in any of the foregoing development efforts for NUPLAZID would be a major set-back for the program and for us, generally. In particular, an unfavorable outcome in our NUPLAZID program may require us to delay, reduce the scope of, or eliminate this program and could have a material adverse effect on us and the value of our common stock. In addition to our PDP program, we commenced a Phase II study with pimavanserin for patients with ADP in November 2013 and we are planning additional studies in other indications, including schizophrenia. We also have clinical programs in collaboration with Allergan for the treatment of chronic pain and glaucoma, which have reached Phase II and Phase I development, respectively.

In connection with clinical trials, we face risks that:

- a product candidate may not prove to be efficacious;
- patients may die or suffer other adverse effects for reasons that may or may not be related to the product candidate being tested;
- the results may not be consistent with positive results of earlier trials; and
- the results may not meet the level of statistical significance required by the FDA or other regulatory agencies.

If we do not successfully complete preclinical and clinical development, we will be unable to market and sell products derived from our product candidates and to generate product revenues. Even if we do successfully complete clinical trials, those results are not necessarily predictive of results of additional trials that may be needed before an NDA may be submitted to the FDA. Of the large number of drugs in development, only a small percentage result in the submission of an NDA to the FDA and even fewer are approved for commercialization.

Delays, suspensions and terminations in our clinical trials could result in increased costs to us and delay our ability to generate product revenues.

The commencement of clinical trials can be delayed for a variety of reasons, including delays in:

- demonstrating sufficient safety and efficacy to obtain regulatory approval to commence a clinical trial;
- reaching agreement on acceptable terms with prospective contract research organizations and clinical trial sites;
- manufacturing sufficient quantities of a product candidate;

- obtaining clearance from the FDA to commence clinical trials pursuant to an Investigational New Drug application;
- obtaining institutional review board approval to conduct a clinical trial at a prospective clinical trial site; and
- patient enrollment, which is a function of many factors, including the size of the patient population, the nature of the protocol, the proximity of patients to clinical trial sites, the availability of effective treatments for the relevant disease and the eligibility criteria for the clinical trial.

Once a clinical trial has begun, it may be delayed, suspended or terminated due to a number of factors, including:

- ongoing discussions with regulatory authorities regarding the scope or design of our clinical trials or requests by them for supplemental information with respect to our clinical trial results;
- imposition of clinical holds by regulatory authorities or institutional review boards;
- failure to conduct clinical trials in accordance with regulatory requirements;
- lower than anticipated screening or retention rates of patients in clinical trials;
- serious adverse events or side effects experienced by participants; and
- insufficient supply or deficient quality of product candidates or other materials necessary for the conduct of our clinical trials.

Many of these factors may also ultimately lead to denial of regulatory approval of a current or potential product candidate. If we experience delays, suspensions or terminations in a clinical trial, the commercial prospects for the related product candidate will be harmed, and our ability to generate product revenues will be delayed.

We depend on collaborations with third parties to develop and commercialize selected product candidates other than pimavanserin, and we have limited control over how those third parties conduct development and commercialization activities for such product candidates.

One aspect of our strategy is to selectively enter into collaboration agreements with third parties. We currently rely, and will continue to rely, on our collaborators for financial resources and for development, regulatory, and commercialization expertise for selected product candidates, other than pimavanserin, and we have limited control over the amount and timing of resources that our collaborators may devote to our product candidates. We may choose to rely on collaborations in the future for certain portions of our pimavanserin program or for the commercialization of NUPLAZID in certain territories outside of the United States. Our 2003 research agreement with Allergan ended in March 2013, and additional payments from our two ongoing agreements with Allergan, other than payments for a portion of patent costs for these collaborations, are dependent upon further advancement of our applicable product candidates. Unless these milestones are met, we will not receive significant future revenues from our current collaborations with Allergan.

Our collaborators may fail to develop or effectively commercialize products using our product candidates or technologies because they:

- do not have sufficient resources or decide not to devote the necessary resources due to internal constraints such as limited cash or human resources or a change in strategic focus;
- decide to pursue a competitive product developed outside of the collaboration; or
- cannot obtain the necessary regulatory approvals.

In July 2014, Allergan announced that it would be reducing its worldwide headcount by approximately 13% and that it would be restructuring its operations. In November 2014, Allergan announced that it entered into

an agreement with Actavis plc under which Actavis will acquire Allergan. Allergan has also previously announced that it is seeking a partner for further development and commercialization of drug candidates in our chronic pain program. In connection with Actavis' acquisition of Allergan, or Allergan's planned restructuring, substantially less resources could be devoted to the programs covered by our collaborations with Allergan or such programs could be discontinued entirely. If Allergan is unable to successfully partner our chronic pain program, it may elect to not pursue further development. In addition, any partner that Allergan does identify may devote substantially less resources than Allergan has devoted to our programs to date. In addition, Allergan can terminate our existing collaborations upon prior notice to us. Allergan may be more likely to terminate, or decline to continue, some or all of our existing collaborations in connection with Actavis' acquisition of Allergan or Allergan's planned restructuring.

If Allergan elects to devote substantially less resources to the programs covered by our collaborations, absent circumstances giving rise to our right to terminate, our remedies against Allergan are limited, and we may not be able to regain rights to such programs. If Allergan elects to discontinue one or more of our programs and terminate our collaboration agreements, the discontinued programs may revert to us, in which case we would need to evaluate whether to continue advancing such programs alone or with a new collaborator. Either advancing such programs alone or seeking a new collaborator would divert our management's attention and involve expending additional resources that are currently devoted to our other programs, including our pimavanserin program.

We also face competition in our search for new collaborators, if we seek a new partner for our pimavanserin program or other programs, including any programs that may revert to us from Allergan. Given the current economic environment, it is possible that competition for new collaborators may increase. If we are unable to find new collaborations, we may not be able to continue advancing our programs alone.

If conflicts arise with our collaborators, they may act in their self-interests, which may be adverse to our interests.

Conflicts may arise in our collaborations due to one or more of the following:

- disputes or breaches with respect to payments that we believe are due under the applicable agreements, particularly in the current economic environment when companies, including large established ones, may be seeking to reduce external payments;
- disputes on strategy as to what development or commercialization activities should be pursued under the applicable agreements;
- disputes as to the responsibility for conducting development and commercialization activities pursuant to the applicable collaboration, including the payment of costs related thereto;
- disagreements with respect to ownership of intellectual property rights;
- unwillingness on the part of a collaborator to keep us informed regarding the progress of its development and commercialization activities, or to permit public disclosure of these activities;
- delay or reduction of a collaborator's development or commercialization efforts with respect to our product candidates; or
- termination or non-renewal of the collaboration.

Conflicts arising with our collaborators could impair the progress of our product candidates, harm our reputation, result in a loss of revenues, reduce our cash position, and cause a decline in our stock price.

In addition, in our collaborations, we generally have agreed not to conduct independently, or with any third party, any research that is directly competitive with the research conducted under the applicable program. Our collaborations may have the effect of limiting the areas of research that we may pursue, either alone or with others. Our collaborators, however, may develop, either alone or with others, products in related fields that are

competitive with the products or potential products that are the subject of these collaborations. Competing products, either developed by our collaborators or to which our collaborators have rights, may result in the allocation of resources by our collaborators to competing products and their withdrawal of support for our product candidates or may otherwise result in lower demand for our potential products.

We have collaborations with Allergan for the development of product candidates related to chronic pain and ophthalmic diseases, including glaucoma. Allergan currently markets therapeutic products to treat glaucoma and is engaged in other research programs related to glaucoma and other ophthalmic products that are independent from our development program in this therapeutic area. Allergan may also pursue other research programs related to pain management that are independent from our collaboration in this therapeutic area. In November 2014, Allergan announced that it entered into an agreement with Actavis under which Actavis will acquire Allergan. Actavis may have, or acquire rights to, additional programs related to chronic pain or ophthalmic diseases, including glaucoma, which could impact Allergan's strategy with respect to the development of product candidates covered by our collaborations.

We rely on third parties to conduct our clinical trials and perform data collection and analysis, which may result in costs and delays that prevent us from successfully commercializing product candidates.

Although we design and manage our current preclinical studies and clinical trials, we currently do not have the ability to conduct clinical trials for our product candidates on our own. In addition to our collaborators, we rely on contract research organizations, medical institutions, clinical investigators, and contract laboratories to perform data collection and analysis and other aspects of our clinical trials. In addition, we also rely on third parties to assist with our preclinical studies, including studies regarding biological activity, safety, absorption, metabolism, and excretion of product candidates.

Our preclinical activities or clinical trials may be delayed, suspended, or terminated if:

- these third parties do not successfully carry out their contractual duties or fail to meet regulatory obligations or expected deadlines;
- these third parties need to be replaced; or
- the quality or accuracy of the data obtained by these third parties is compromised due to their failure to adhere to our clinical protocols or regulatory requirements or for other reasons.

Failure to perform by these third parties may increase our development costs, delay our ability to obtain regulatory approval, and delay or prevent the commercialization of our product candidates. We currently use several contract research organizations to perform services for our preclinical studies and clinical trials. While we believe that there are numerous alternative sources to provide these services, in the event that we seek such alternative sources, we may not be able to enter into replacement arrangements without delays or additional expenditures.

Even if we or our collaborators successfully complete the clinical trials of product candidates, the product candidates may fail for other reasons.

Of the large number of product candidates in development, only a small percentage result in the submission of an NDA to the FDA or comparable regulatory filing to regulatory authorities in other jurisdictions, and even fewer are approved for marketing. Even if we or our collaborators successfully complete the clinical trials of product candidates, the product candidates, such as pimavanserin, may fail for other reasons, including the possibility that the product candidates will:

- fail to receive the regulatory clearances required to market them as drugs;
- be subject to proprietary rights held by others requiring the negotiation of a license agreement prior to marketing;
- be difficult or expensive to manufacture on a commercial scale;

- have adverse side effects that make their use less desirable; or
- fail to compete with product candidates or other treatments commercialized by competitors.

We currently depend, and will in the future continue to depend, on third parties to manufacture NUPLAZID and our other product candidates. If these manufacturers fail to provide us and our collaborators with adequate supplies of clinical trial materials and commercial product or fail to comply with the requirements of regulatory authorities, we may be unable to develop or commercialize NUPLAZID or our other product candidates.

We have no manufacturing facilities and only limited experience as an organization in the manufacturing of drugs or in designing drug-manufacturing processes. We have contracted with third-party manufacturers to produce, in collaboration with us, our product candidates, including NUPLAZID, for clinical trials. If any of our product candidates, including NUPLAZID, are approved by the FDA or other regulatory agencies for commercial sale, we will need to contract with a third party to manufacture them in larger quantities.

We have not yet entered into long-term agreements with our current third-party manufacturers or with any alternate suppliers. Although we intend to do so prior to any commercial launch of NUPLAZID, if approved by the FDA, in order to ensure that we maintain adequate supplies of commercial drug product, we may be unable to enter into such agreements or do so on commercially reasonable terms, which could delay a product launch or subject our commercialization efforts to significant supply risk. Even if we are able to enter into long-term agreements with manufacturers for commercial supply on reasonable terms, we may be unable to do so with sufficient time prior to launch of NUPLAZID, which would expose us to substantial supply risk and potentially jeopardize our launch.

The manufacturers of our product candidates are obliged to operate in accordance with FDA-mandated current good manufacturing practices, or cGMPs, and we have no control over the ability of third-party manufacturers to maintain adequate quality control, quality assurance and qualified personnel to ensure compliance with cGMPs. In addition, the facilities used by our third-party manufacturers to manufacture our product candidates must be approved by the FDA pursuant to inspections that will be conducted after we request regulatory approval from the FDA. If any of our third-party manufacturers are unable to successfully manufacture material that conforms to our specifications and the FDA's strict regulatory requirements, or pass regulatory inspection, they will not be able to secure or maintain approval for the manufacturing facilities. Additionally, a failure by any of our third-party manufacturers to establish and follow cGMPs or to document their adherence to such practices may lead to significant delays in clinical trials or in obtaining regulatory approval of product candidates, including NUPLAZID, or the ultimate launch of NUPLAZID or any other products based on our product candidates. Failure by our third-party manufacturers or us to comply with applicable regulations could result in sanctions being imposed on us, including fines, injunctions, civil penalties, failure of the government to grant pre-market approval of drugs, delays, suspension or withdrawal of approvals, seizures or recalls of products, operating restrictions, and criminal prosecutions.

Even if we successfully enter into long-term agreements with manufacturers, the FDA may not approve the facilities of such manufacturers, the manufacturers may not perform as agreed, or the manufacturers may terminate their agreements with us. Presently, we only have one supplier for our active pharmaceutical ingredient and one supplier of tablets for our NUPLAZID (pimavanserin) program. If any of the foregoing circumstances occur, we may need to find alternative manufacturing facilities, which would significantly impact our ability to develop, obtain regulatory approval for or market NUPLAZID or any of our other product candidates. While we believe that there will be alternative sources available to manufacture our product candidates, including NUPLAZID, in the event that we seek such alternative sources, we may not be able to enter into replacement arrangements without delays or additional expenditures. We cannot estimate these delays or costs with certainty but, if they were to occur, they could cause a delay in our development and commercialization efforts.

The manufacture of pharmaceutical products requires significant expertise and capital investment, including the development of advanced manufacturing techniques and process controls. Manufacturers of pharmaceutical

products often encounter difficulties in production, particularly in scaling up and validating initial production. These problems include difficulties with production costs and yields, quality control, including stability of the product, quality assurance testing, shortages of qualified personnel, as well as compliance with strictly-enforced federal, state and foreign regulations. We cannot assure you that any issues relating to the manufacture of any of our product candidates, including NUPLAZID, will not occur in the future. Additionally, our manufacturers may experience manufacturing difficulties due to resource constraints or as a result of labor disputes or unstable political environments. If our manufacturers were to encounter any of these difficulties, or otherwise fail to comply with their contractual obligations, our ability to commercialize NUPLAZID in the United States, or provide any product candidates to patients in clinical trials, would be jeopardized. Any delay or interruption in our ability to meet commercial demand for our products will result in the loss of potential revenues and could adversely affect our ability to gain market acceptance for these products. In addition, any delay or interruption in the supply of clinical trial supplies could delay the completion of clinical trials, increase the costs associated with maintaining clinical trial programs and, depending upon the period of delay, require us to commence new clinical trials at additional expense or terminate clinical trials completely.

Failures or difficulties faced at any level of our supply chain could materially adversely affect our business and delay or impede the development and commercialization of any of our products or product candidates and could have a material adverse effect on our business, results of operations, financial condition and prospects.

If we are unable to attract, retain, and motivate key management, research and development, and sales and marketing personnel, our drug development programs, our research and discovery efforts, and our commercialization plans may be delayed and we may be unable to successfully develop or commercialize our product candidates, including NUPLAZID.

Our success depends on our ability to attract, retain, and motivate highly qualified management, scientific, and commercial personnel. In particular, our development programs depend on our ability to attract and retain highly skilled development personnel, especially in the fields of central nervous system disorders, including neuropsychiatric and related disorders. In the future, we expect to need to hire additional personnel as we expand our research and development efforts and commercial activities for pimavanserin from our current levels. We face competition for experienced scientists, clinical operations personnel, commercial and other personnel from numerous companies and academic and other research institutions. Competition for qualified personnel is particularly intense in the San Diego, California area. Many of the other biotechnology and pharmaceutical companies with whom we compete for qualified personnel have greater financial and other resources, different risk profiles and longer histories in the industry than we do. They also may provide more diverse opportunities and better chances for career advancement. Some of these characteristics may be more appealing to high quality candidates than that which we have to offer. If we are unable to continue to attract and retain high quality personnel, the rate and success at which we can develop and commercialize products and product candidates will be limited. If we are unable to attract and retain the necessary personnel, it will significantly impede the achievement of our research and development objectives, our commercialization efforts for NUPLAZID, and our ability to meet the demands of our collaborators in a timely fashion.

All of our employees are “at will” employees, which means that any employee may quit at any time and we may terminate any employee at any time. We do not carry “key person” insurance covering members of senior management.

We have recently increased the size of our organization, and will need to continue to increase the size of our organization. We may encounter difficulties with managing our growth, which could adversely affect our results of operations.

As of December 31, 2014, we employed 97 full-time employees. As we advance our program towards submitting an NDA for NUPLAZID for the treatment of PDP, we already have added several capabilities. However, we will need to add qualified personnel and resources if the NDA for NUPLAZID is approved for marketing and we establish a commercial sales force. Our current infrastructure will be inadequate to support

these future efforts and expected growth. In particular, we will have to develop internal sales, marketing, and distribution capabilities if we decide to market any drug that we may successfully develop, including NUPLAZID. Future growth will impose significant added responsibilities on members of management, including the need to identify, recruit, maintain and integrate additional employees, and may take time away from running other aspects of our business, including development and commercialization of our product candidates.

Our future financial performance and our ability to commercialize our product candidates and to compete effectively will depend, in part, on our ability to manage any future growth effectively. In particular, as our commercialization plans and strategies develop, we will need to recruit and train a substantial number of sales and marketing personnel and expect to need to expand the size of our employee base for managerial, operational, financial and other resources. To that end, we must be able to:

- manage our development efforts effectively;
- integrate additional management, administrative and manufacturing personnel;
- build a marketing and sales organization; and
- maintain sufficient administrative, accounting and management information systems and controls.

We may not be able to accomplish these tasks or successfully manage our operations and, accordingly, may not achieve our research, development, and commercialization goals. Our failure to accomplish any of these goals could harm our financial results and prospects.

If we fail to develop, acquire or in-license other product candidates or products, our business and prospects would be limited. Even if we obtain rights to other product candidates or products, we will incur a variety of costs and may never realize the anticipated benefits.

A key element of our strategy is to develop, acquire or in-license businesses, technologies, product candidates or products that we believe are a strategic fit with our business. The success of this strategy depends in large part on the combination of our regulatory, development and commercial capabilities and expertise and our ability to identify, select and acquire or in-license clinically-enabled product candidates for the treatment of neurological disorders, or for therapeutic indications that complement or augment our current product candidates, or that otherwise fit into our development or strategic plans on terms that are acceptable to us. Identifying, selecting and acquiring or in-licensing promising product candidates requires substantial technical, financial and human resources expertise, and we have limited experience in identifying acquisition targets, successfully completing proposed acquisitions and integrating any acquired businesses, technologies, services or products into our current infrastructure. Efforts to do so may not result in the actual acquisition or in-license of a particular product candidate, potentially resulting in a diversion of our management's time and the expenditure of our resources with no resulting benefit. If we are unable to identify, select and acquire or license suitable product candidates from third parties on terms acceptable to us, our business and prospects will be limited. In particular, if NUPLAZID is approved for marketing and we are unable to add additional commercial products to our portfolio, we may not be able to successfully leverage our commercial organization.

The process of integrating any acquired business, technology, service, or product may result in unforeseen operating difficulties and expenditures and may divert significant management attention from our ongoing business operations. As a result, we will incur a variety of costs in connection with an acquisition and may never realize its anticipated benefits. Moreover, any product candidate we identify, select and acquire or license may require additional, time-consuming development or regulatory efforts prior to commercial sale, including preclinical studies, if applicable, and extensive clinical testing and approval by the FDA and applicable foreign regulatory authorities. All product candidates are prone to the risk of failure that is inherent in pharmaceutical product development, including the possibility that the product candidate will not be shown to be sufficiently safe and/or effective for approval by regulatory authorities. In addition, we cannot assure you that any such products that are approved will be manufactured or produced economically, successfully commercialized or

widely accepted in the marketplace or be more effective or desired than other commercially available alternatives.

In addition, if we fail to successfully commercialize and further develop NUPLAZID or our other product candidates, there is a greater likelihood that we will fail to successfully develop a pipeline of other product candidates, and our business and prospects would therefore be harmed.

We do not know whether our drug discovery platform will lead to the discovery or development of commercially viable product candidates.

Our drug discovery platform uses unproven methods to identify and develop product candidates, including NUPLAZID. We have never successfully completed clinical development of any of our product candidates, and there are no drugs on the market that have been discovered using our drug discovery platform.

Our research and development focuses on small molecule drugs for the treatment of central nervous system disorders. Due to our limited resources, we may have to forego potential opportunities with respect to discovering product candidates to treat diseases or conditions in other therapeutic areas. If we are not able to use our technologies to discover and develop product candidates that can be commercialized, we may not achieve profitability. In the future, as noted above, we will likely find it necessary to license the technology of others or acquire additional product candidates to augment the results of our internal discovery activities. If we are unable to identify new product candidates using our drug discovery platform, we may be unable to establish or maintain a clinical development pipeline or generate product revenues.

We may not be able to continue or fully exploit our collaborations with outside scientific and clinical advisors, which could impair the progress of our clinical trials and our research and development efforts.

We work with scientific and clinical advisors at academic and other institutions who are experts in the field of central nervous system disorders. They assist us in our research and development efforts and advise us with respect to our clinical trials. These advisors are not our employees and may have other commitments that would limit their future availability to us. Although our scientific and clinical advisors generally agree not to engage in competing work, if a conflict of interest arises between their work for us and their work for another entity, we may lose their services, which may impair our reputation in the industry and delay the development or commercialization of our product candidates.

We expect that our results of operations will fluctuate, which may make it difficult to predict our future performance from period to period.

Our operating results have fluctuated in the past and are likely to do so in future periods. Some of the factors that could cause our operating results to fluctuate from period to period include:

- whether and when we obtain FDA approval of NUPLAZID for the treatment of PDP;
- the success of our launch and commercialization of NUPLAZID, if approved, in the United States for the treatment of PDP;
- the status of development and commercialization of pimavanserin for indications other than PDP and in jurisdictions other than the United States;
- the status of development and commercialization of our other product candidates, including compounds being developed under our collaborations;
- whether we acquire or in-license additional product candidates or products, and the status of development and commercialization of such product candidates or products;
- whether we generate revenues or reimbursements by achieving specified research, development or commercialization milestones under any agreements or otherwise receive potential payments under these agreements;

- whether we are required to make payments due to achieving specified milestones under any licensing or similar agreements or otherwise make payments under these agreements;
- the incurrence of preclinical or clinical expenses that could fluctuate significantly from period to period, including reimbursement obligations pursuant to our collaboration agreements;
- the initiation, termination, or reduction in the scope of our collaborations or any disputes regarding these collaborations;
- the timing of our satisfaction of applicable regulatory requirements;
- the rate of expansion of our clinical development, other internal research and development efforts, and pre-commercial and commercial efforts;
- the effect of competing technologies and products and market developments;
- the costs associated with litigation; and
- general and industry-specific economic conditions.

We believe that comparisons from period to period of our financial results are not necessarily meaningful and should not be relied upon as indications of our future performance.

Our management has broad discretion over the use of our cash and we may not use our cash effectively, which could adversely affect our results of operations.

Our management has significant flexibility in applying our cash resources and could use these resources for corporate purposes that do not increase our market value, or in ways with which our stockholders may not agree. We may use our cash resources for corporate purposes that do not yield a significant return or any return at all for our stockholders, which may cause our stock price to decline.

We have incurred, and expect to continue to incur, significant costs as a result of laws and regulations relating to corporate governance and other matters.

Laws and regulations affecting public companies, including provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act that was enacted in July 2010, the provisions of the Sarbanes-Oxley Act of 2002, or SOX, and rules adopted or proposed by the SEC and by The NASDAQ Stock Market, have resulted in, and will continue to result in, significant costs to us as we evaluate the implications of these rules and respond to their requirements. We issued an evaluation of our internal control over financial reporting under Section 404 of SOX with our Annual Report. In the future, if we are not able to issue an evaluation of our internal control over financial reporting as required or we or our independent registered public accounting firm determine that our internal control over financial reporting is not effective, this shortcoming could have an adverse effect on our business and financial results and the price of our common stock could be negatively affected. New rules could make it more difficult or more costly for us to obtain certain types of insurance, including director and officer liability insurance, and we may be forced to accept reduced policy limits and coverage or incur substantially higher costs to obtain the coverage that is the same or similar to our current coverage. The impact of these events could also make it more difficult for us to attract and retain qualified persons to serve on our board of directors and board committees, and as our executive officers. We cannot predict or estimate the total amount of the costs we may incur or the timing of such costs to comply with these rules and regulations.

We will need to obtain final FDA approval of our proposed product name for pimavanserin, NUPLAZID, and the failure or any delay in receiving this approval may adversely impact the timing and success of our sales and marketing efforts.

The FDA will need to provide final approval of the NUPLAZID product name regardless of our trademark registration from the United States Patent and Trademark Office. Typically, the FDA conducts an extensive review of proposed product names, including an evaluation for possible confusion with other existing product

names. If the FDA does not approve the name NUPLAZID, we will need to adopt an alternative name. As a result, we would lose the benefit of any existing trademark applications and may need to spend significant resources in an effort to select another product name that will meet FDA approval, qualify under existing trademark laws and not infringe on the existing rights of third parties. In addition, we will need to develop brand loyalty for any product name in order to commercialize pimavanserin effectively. If we fail to do this, it could negatively impact our future revenues from sales of pimavanserin.

Earthquake or fire damage to our facilities could delay our research and development efforts and adversely affect our business.

Our headquarters and research and development facilities in San Diego are located in a seismic zone, and there is the possibility of an earthquake, which could be disruptive to our operations and result in delays in our research and development efforts. In addition, while our facilities have not been adversely impacted by local wildfires, there is the possibility of future fires in the area. In the event of an earthquake or fire, if our facilities or the equipment in our facilities is significantly damaged or destroyed for any reason, we may not be able to rebuild or relocate our facilities or replace any damaged equipment in a timely manner and our business, financial condition, and results of operations could be materially and adversely affected. We do not have insurance for damages resulting from earthquakes. While we do have fire insurance for our property and equipment located in San Diego, any damage sustained in a fire could cause a delay in our research and development efforts and our results of operations could be materially and adversely affected.

Risks Related to Our Intellectual Property

Our ability to compete may decline if we do not adequately protect our proprietary rights.

Our commercial success depends on obtaining and maintaining intellectual property rights to our product candidates, including NUPLAZID, and technologies, as well as successfully defending these rights against third-party challenges. Any misappropriation of our intellectual property could enable competitors to quickly duplicate or surpass our technological achievements, thus eroding our competitive position in our market. To protect our intellectual property, we rely on a combination of patents, trade secret protection and confidentiality agreements.

With regard to patents, although we have filed numerous patent applications worldwide with respect to pimavanserin, not all of our patent applications resulted in an issued patent, or they resulted in an issued patent that is susceptible to challenge by a third party. Our ability to obtain, maintain, and/or defend our patents covering our product candidates and technologies is uncertain due to a number of factors, including:

- we may not have been the first to make the inventions covered by our pending patent applications or issued patents;
- we may not have been the first to file patent applications for our product candidates or the technologies we rely upon;
- others may develop similar or alternative technologies or design around our patent claims to produce competitive products that fall outside of the scope of our patents;
- our disclosures in patent applications may not be sufficient to meet the statutory requirements for patentability;
- we may not seek or obtain patent protection in all countries that will eventually provide a significant business opportunity;
- any patents issued to us or our collaborators may not provide a basis for commercially viable products, may not provide us with any competitive advantages, or are easily susceptible to challenges by third parties;
- our proprietary technologies may not be patentable;

- changes to patent laws that limit the exclusivity rights of patent holders or make it easier to render a patent invalid;
- recent decisions by the United States Supreme Court limiting patent-eligible subject matter;
- the passage of the America Invents Act (2012) introduced new procedures for challenging pending patent applications and issued patents; and
- technology that we may in-license may become important to some aspects of our business, however, we generally would not control the patent prosecution, maintenance or enforcement of any such in-licensed technology.

Even if we have or obtain patents covering our product candidates or technologies, we may still be barred from making, using and selling our product candidates or technologies because of the patent rights of others. Others have or may have filed, and in the future are likely to file, patent applications covering compounds, assays, genes, gene products or therapeutic products that are similar or identical to ours. There are many issued U.S. and foreign patents relating to genes, nucleic acids, polypeptides, chemical compounds or therapeutic products, and some of these may encompass reagents utilized in the identification of candidate drug compounds or compounds that we desire to commercialize. Numerous U.S. and foreign issued patents and pending patent applications owned by others exist in the area of central nervous system disorders and the other fields in which we are developing products. These could materially affect our freedom to operate. Moreover, because patent applications can take many years to issue, there may be currently pending applications, unknown to us, that may later result in issued patents that our product candidates or technologies may infringe. These patent applications may have priority over patent applications filed by us.

We regularly conduct searches to identify patents or patent applications that may prevent us from obtaining patent protection for our proprietary compounds or that could limit the rights we have claimed in our patents and patent applications. Disputes may arise regarding the ownership or inventorship of our inventions. For applications in which all claims are entitled to a priority date before March 16, 2013, an interference proceeding can be provoked by a third-party or instituted by the United States Patent and Trademark Office, or United States PTO, to determine who was the first to invent the invention at issue. It is difficult to determine how such disputes would be resolved. Applications containing a claim not entitled to priority before March 16, 2013, are not subject to interference proceedings due the change brought by the America Invents Act (2012) to a “first to file” system. However, a derivation proceeding can be brought by a third-party alleging that the inventor derived the invention from another.

Periodic maintenance fees on any issued patent are due to be paid to the United States PTO and foreign patent agencies in several stages over the lifetime of the patent. The United States PTO and various foreign governmental patent agencies require compliance with a number of procedural, documentary, fee payment and other similar provisions during the patent application process. While an inadvertent lapse can in many cases be cured by payment of a late fee or by other means in accordance with the applicable rules, there are situations in which noncompliance can result in abandonment or lapse of the patent or patent application, resulting in partial or complete loss of patent rights in the relevant jurisdiction. Non-compliance events that could result in abandonment or lapse of a patent or patent application include, but are not limited to, failure to respond to official actions within prescribed time limits, non-payment of fees and failure to properly legalize and submit formal documents. In such an event, our competitors might be able to enter the market, which would have a material adverse effect on our business.

Some of our academic institutional licensors, research collaborators and scientific advisors have rights to publish data and information to which we have rights. We generally seek to prevent our collaborators from disclosing scientific discoveries until we have the opportunity to file patent applications on such discoveries, but in some cases, we are limited to relatively short periods to review a proposed publication and file a patent application. If we cannot maintain the confidentiality of our technology and other confidential information in

connection with our collaborations, then our ability to receive patent protection or protect our proprietary information will be impaired.

Confidentiality agreements with employees and others may not adequately prevent disclosure of our trade secrets and other proprietary information and may not adequately protect our intellectual property, which could limit our ability to compete.

Because we operate in the highly technical field of drug discovery and development of small molecule drugs, we rely in part on trade secret protection in order to protect our proprietary technology and processes. However, trade secrets are difficult to protect. We enter into confidentiality and intellectual property assignment agreements with our corporate partners, employees, consultants, outside scientific collaborators, sponsored researchers, and other advisors. These agreements generally require that the other party keep confidential and not disclose to third parties all confidential information developed by the party or made known to the party by us during the course of the party's relationship with us. These agreements also generally provide that inventions conceived by the party in the course of rendering services to us will be our exclusive property. However, these agreements may not be honored and may not effectively assign intellectual property rights to us. Enforcing a claim that a party illegally obtained and is using our trade secrets is difficult, expensive and time consuming and the outcome is unpredictable. In addition, courts outside the United States may be less willing to protect trade secrets. We also have not entered into any noncompete agreements with any of our employees. Although each of our employees is required to sign a confidentiality agreement with us at the time of hire, we cannot guarantee that the confidential nature of our proprietary information will be maintained in the course of future employment with any of our competitors. If we are unable to prevent unauthorized material disclosure of our intellectual property to third parties, we will not be able to establish or maintain a competitive advantage in our market, which could materially adversely affect our business, operating results and financial condition.

A dispute concerning the infringement or misappropriation of our proprietary rights or the proprietary rights of others could be time-consuming and costly, and an unfavorable outcome could harm our business.

There is a substantial amount of litigation involving patents and other intellectual property rights in the biotechnology and pharmaceutical industries, as well as administrative proceedings for challenging patents, including post-issuance review proceedings before the United States PTO or oppositions and other comparable proceedings in foreign jurisdictions. Post-issuance proceedings in the United States PTO, including without limitation inter partes review and post-grant review, allow third parties to challenge the validity of an issued patent in front of the United States PTO Patent Trial and Appeal Board as opposed to a federal district court. With few limitations, any third party can petition the United States PTO for inter partes review at any time for any issued patent based on prior art patents or printed publications. If it is within nine months of the issuance of the challenged patent, a third party can petition the United States PTO for post-grant review, which can be based on any invalidity grounds and is not limited to prior art patents or printed publications.

In post-issuance proceedings, United States PTO rules and regulations generally tend to favor patent challengers over patent owners. For example, unlike in district court litigation, claims challenged in post-issuance proceedings are given their broadest reasonable meaning, which increases the chance a claim might be invalidated by prior art or lack support in the patent specification. And, unlike in district court litigation, there is no presumption of validity for an issued patent. As a result of these rules and others, statistics released by the United States PTO show a high percentage of claims being invalidated in post-issuance proceedings. Moreover, with few exceptions, there is no standing requirement to petition the United States PTO for inter partes review or post-grant review. In other words, companies that have not been charged with infringement or that lack commercial interest in the patented subject matter can still petition the United States PTO for review of an issued patent. Thus, even where we have issued patents, our rights under those patents may be challenged and ultimately not provide us with sufficient protection against competitive products or processes.

While we are not currently subject to any pending intellectual property litigation or patent challenges, and are not aware of any such threatened litigation or patent challenges, we may be exposed to future litigation by

third parties based on claims that our product candidates, technologies or activities infringe the intellectual property rights of others. In particular, there are many patents relating to specific genes, nucleic acids, polypeptides or the uses thereof to identify product candidates. Some of these may encompass genes or polypeptides that we utilize in our drug development activities. If our drug development activities are found to infringe any such patents, and such patents are held to be valid and enforceable, we may have to pay significant damages or seek licenses to such patents. A patentee could prevent us from using the patented genes or polypeptides for the identification or development of drug compounds. There are also many patents relating to chemical compounds and the uses thereof. If our compounds are found to infringe any such patents, and such patents are held to be valid and enforceable, we may have to pay significant damages or seek licenses to such patents. A patentee could prevent us from making, using or selling the patented compounds.

We may need to resort to litigation to enforce a patent issued to us, protect our trade secrets or determine the scope and validity of third-party proprietary rights. From time to time, we may hire scientific personnel formerly employed by other companies involved in one or more areas similar to the activities conducted by us. Either we or these individuals may be subject to allegations of trade secret misappropriation or other similar claims as a result of their prior affiliations. If we become involved in litigation, it could consume a substantial portion of our managerial and financial resources, regardless of whether we win or lose. We may not be able to afford the costs of litigation. Any legal action against us or our collaborators could lead to:

- payment of damages, which could potentially be trebled if we are found to have willfully infringed a party's patent rights;
- injunctive or other equitable relief that may effectively block our ability to further develop, commercialize, and sell products; or
- we or our collaborators having to enter into license arrangements that may not be available on commercially acceptable terms, if at all.

As a result, we could be prevented from commercializing current or future products.

Furthermore, because of the substantial amount of pre-trial document and witness discovery required in connection with intellectual property litigation, there is a risk that some of our confidential information could be compromised by disclosure during this type of litigation. In addition, during the course of this kind of litigation, there could be public announcements of the results of hearings, motions or other interim proceedings or developments. If securities analysts or investors perceive these results to be negative, it could have a substantial adverse effect on the trading price of our common stock.

The patent applications of pharmaceutical and biotechnology companies involve highly complex legal and factual questions, which, if determined adversely to us, could negatively impact our patent position.

The strength of patents in the pharmaceutical and biotechnology field can be highly uncertain and involve complex legal and factual questions. For example, some of our patent applications may cover the uses of gene sequences. The patentability of gene sequences and the use of gene sequences has been seriously undermined by recent decisions of the United States Supreme Court. The United States PTO's interpretation of the Supreme Court's decisions and the standards for patentability it sets forth are uncertain and could change in the future. Consequently, the issuance and scope of patents cannot be predicted with certainty. Patents, if issued, may be challenged, invalidated or circumvented. U.S. patents and patent applications may also be subject to interference proceedings as mentioned above, and U.S. patents may be subject to reexamination and post-issuance proceedings in the United States PTO (and foreign patents may be subject to opposition or comparable proceedings in the corresponding foreign patent office), which proceedings could result in either loss of the patent or denial of the patent application or loss or reduction in the scope of one or more of the claims of the patent or patent application. Similarly, opposition or invalidity proceedings could result in loss of rights or reduction in the scope of one or more claims of a patent in foreign jurisdictions. In addition, such interference,

reexamination, post-issuance and opposition proceedings may be costly. Accordingly, rights under any issued patents may not provide us with sufficient protection against competitive products or processes.

In addition, changes in or different interpretations of patent laws in the United States and foreign countries may permit others to use our discoveries or to develop and commercialize our technology and products without providing any compensation to us or may limit the number of patents or claims we can obtain. In particular, there have been proposals to shorten the exclusivity periods available under U.S. patent law that, if adopted, could substantially harm our business. The product candidates that we are developing are protected by intellectual property rights, including patents and patent applications. If any of our product candidates becomes a marketable product, we will rely on our exclusivity under patents to sell the compound and recoup our investments in the research and development of the compound. If the exclusivity period for patents is shortened, then our ability to generate revenues without competition will be reduced and our business could be materially adversely impacted. The laws of some countries do not protect intellectual property rights to the same extent as U.S. laws and those countries may lack adequate rules and procedures for defending our intellectual property rights. For example, some countries, including many in Europe, do not grant patent claims directed to methods of treating humans and, in these countries, patent protection may not be available at all to protect our product candidates. In addition, U.S. patent laws may change which could prevent or limit us from filing patent applications or patent claims to protect our products and/or technologies or limit the exclusivity periods that are available to patent holders. For example, the America Invents Act (2012) included a number of significant changes to U.S. patent law. These included changes to transition from a “first-to-invent” system to a “first-to-file” system and to the way issued patents are challenged. These changes may favor larger and more established companies that have more resources to devote to patent application filing and prosecution. It is still not clear what, if any, impact the America Invents Act will ultimately have on the cost of prosecuting our patent applications, our ability to obtain patents based on our discoveries and our ability to enforce or defend our issued patents.

If we fail to obtain and maintain patent protection and trade secret protection of our product candidates, proprietary technologies and their uses, we could lose our competitive advantage and competition we face would increase, reducing our potential revenues and adversely affecting our ability to attain or maintain profitability.

Risks Related to Our Industry

We will be subject to stringent regulation in connection with the marketing of any products derived from our product candidates, including NUPLAZID, which could delay the development and commercialization of our products.

The pharmaceutical industry is subject to stringent regulation by the FDA and other regulatory agencies in the United States and by comparable authorities in other countries. Neither we nor our collaborators can market a pharmaceutical product, including NUPLAZID, in the United States until it has completed rigorous preclinical testing and clinical trials and an extensive regulatory clearance process implemented by the FDA. Satisfaction of regulatory requirements typically takes many years, depends upon the type, complexity and novelty of the product, and requires substantial resources. Even if regulatory approval is obtained, it may impose significant restrictions on the indicated uses, conditions for use, labeling, advertising, promotion, and/or marketing of such products, and requirements for post-approval studies, including additional research and development and clinical trials. These limitations may limit the size of the market for the product or result in the incurrence of additional costs. Any delay or failure in obtaining required approvals could have a material adverse effect on our ability to generate revenues from the particular product candidate.

Outside the United States, the ability to market a product is contingent upon receiving approval from the appropriate regulatory authorities. The requirements governing the conduct of clinical trials, marketing authorization, pricing, and reimbursement vary widely from country to country. Only after the appropriate regulatory authority is satisfied that adequate evidence of safety, quality, and efficacy has been presented will it grant a marketing authorization. Approval by the FDA does not automatically lead to the approval by regulatory

authorities outside the United States and, similarly, approval by regulatory authorities outside the United States will not automatically lead to FDA approval.

In addition, U.S. and foreign government regulations control access to and use of some human or other tissue samples in our research and development efforts. U.S. and foreign government agencies may also impose restrictions on the use of data derived from human or other tissue samples. Accordingly, if we fail to comply with these regulations and restrictions, the commercialization of our product candidates may be delayed or suspended, which may delay or impede our ability to generate product revenues.

If our competitors develop and market products that are more effective than our product candidates, including NUPLAZID, they may reduce or eliminate our commercial opportunity.

Competition in the pharmaceutical and biotechnology industries is intense and expected to increase. We face competition from pharmaceutical and biotechnology companies, as well as numerous academic and research institutions and governmental agencies, both in the United States and abroad. Some of these competitors have products or are pursuing the development of drugs that target the same diseases and conditions that are the focus of our drug development programs.

For example, the use of NUPLAZID for the treatment of PDP would compete with off-label use of antipsychotic drugs, including Seroquel, marketed by Astra-Zeneca PLC, and with the generic drug clozapine. Our potential products for the treatment of schizophrenia would compete with Latuda, marketed by Sunovion Pharmaceuticals Inc., Zyprexa, marketed by Eli Lilly and Company, Risperdal, marketed by Johnson & Johnson, Abilify, marketed jointly by Bristol-Myers Squibb Company and Otsuka Pharmaceutical Co., Ltd., Seroquel, and clozapine. Our potential product for the treatment of ADP would compete with Risperdal and with off-label use of antipsychotic drugs and drugs indicated for the treatment of Alzheimer's disease and dementia in patients with Alzheimer's disease, including Aricept, marketed by Eisai Inc. and Pfizer Inc., and Namenda, marketed by Forest Laboratories, LLC, a wholly-owned subsidiary of Actavis. In the area of chronic pain, potential products would compete with Lyrica, marketed by Pfizer, and Cymbalta, marketed by Eli Lilly, as well as a variety of generic or proprietary opioids. Our potential products for the treatment of glaucoma would compete with Xalatan, marketed by Pfizer, and Lumigan and Alphagan, marketed by Allergan.

Many of our competitors and their collaborators have significantly greater experience than we do in the following:

- identifying and validating targets;
- screening compounds against targets;
- preclinical studies and clinical trials of potential pharmaceutical products; and
- obtaining FDA and other regulatory approvals.

In addition, many of our competitors and their collaborators have substantially greater capital and research and development resources, manufacturing, sales and marketing capabilities, and production facilities. Smaller companies also may prove to be significant competitors, particularly through proprietary research discoveries and collaboration arrangements with large pharmaceutical and established biotechnology companies. Many of our competitors have products that have been approved or are in advanced development and may develop superior technologies or methods to identify and validate drug targets and to discover novel small molecule drugs. Our competitors, either alone or with their collaborators, may succeed in developing drugs that are more effective, safer, more affordable, or more easily administered than ours and may achieve patent protection or commercialize drugs sooner than us. Our competitors may also develop alternative therapies that could further limit the market for any drugs that we may develop. Our failure to compete effectively could have a material adverse effect on our business.

Any claims relating to improper handling, storage, or disposal of biological, hazardous, and radioactive materials used in our business could be costly and delay our research and development efforts.

Our research and development activities involve the controlled use of potentially harmful hazardous materials, including volatile solvents, biological materials such as blood from patients that has the potential to transmit disease, chemicals that cause cancer, and various radioactive compounds. Our operations also produce hazardous waste products. We face the risk of contamination or injury from the use, storage, handling or disposal of these materials. We are subject to federal, state and local laws and regulations governing the use, storage, handling, and disposal of these materials and specified waste products. The cost of compliance with these laws and regulations could be significant, and current or future environmental regulations may impair our research, development, or production efforts. If one of our employees were accidentally injured from the use, storage, handling, or disposal of these materials, the medical costs related to his or her treatment would be covered by our workers' compensation insurance policy. However, we do not carry specific biological or hazardous waste insurance coverage and our general liability insurance policy specifically excludes coverage for damages and fines arising from biological or hazardous waste exposure or contamination. Accordingly, in the event of contamination or injury, we could be subject to criminal sanctions or fines or be held liable for damages, our operating licenses could be revoked, or we could be required to suspend or modify our operations and our research and development efforts.

Consumers may sue us for product liability, which could result in substantial liabilities that exceed our available resources and damage our reputation.

Researching, developing, and commercializing drug products entails significant product liability risks. Liability claims may arise from our and our collaborators' use of products in clinical trials and the commercial sale of those products. Consumers may make these claims directly and our collaborators or others selling these products may seek contribution from us if they receive claims from consumers. Although we currently have product liability insurance that covers our clinical trials, we will need to increase and expand this coverage if we commence larger scale trials and if our product candidates are approved for commercial sale. This insurance may be prohibitively expensive or may not fully cover our potential liabilities. Inability to obtain sufficient insurance coverage at an acceptable cost or otherwise to protect against potential product liability claims could prevent or inhibit the commercialization of products that we or our collaborators develop. Product liability claims could have a material adverse effect on our business and results of operations. Our liability could exceed our total assets if we do not prevail in a lawsuit from any injury caused by our drug products.

Risks Related to Our Common Stock

Our stock price historically has been, and is likely to remain, highly volatile.

The market prices for securities of biotechnology companies in general, and drug discovery and development companies in particular, have been highly volatile and may continue to be highly volatile in the future. The following factors, in addition to other risk factors described in this section, may have a significant impact on the market price of our common stock:

- the development status of our product candidates, including results of development and commercialization efforts in our pimavanserin development program or our chronic pain or glaucoma collaborations;
- the timing, or developments regarding the timing, of submission and review of filings for our product candidates, including NUPLAZID, for approval by regulatory authorities in the United States and abroad and the results of any applications for marketing approval of product candidates;
- any other communications or guidance from the FDA or other regulatory authorities that pertain to our product candidates, including NUPLAZID;
- the initiation, termination, or reduction in the scope of our collaborations or any disputes or developments regarding our collaborations;

- market conditions or trends related to biotechnology and pharmaceutical industries, or the market in general;
- announcements of technological innovations, new products, or other material events by our competitors or us, including any new products that we may acquire or in-license;
- disputes or other developments concerning our proprietary and intellectual property rights;
- changes in, or failure to meet, securities analysts' or investors' expectations of our financial performance;
- our failure to meet applicable NASDAQ listing standards and the possible delisting of our common stock from the NASDAQ Stock Market;
- additions or departures of key personnel;
- discussions of our business, products, financial performance, prospects, or stock price by the financial and scientific press and online investor communities such as blogs and chat rooms;
- public concern as to, and legislative action with respect to, genetic testing or other research areas of biopharmaceutical companies, the pricing and availability of prescription drugs, or the safety of drugs and drug delivery techniques;
- regulatory developments in the United States and in foreign countries;
- the announcement of, or developments in, any litigation matters; and
- economic and political factors, including but not limited to economic and financial crises, wars, terrorism, and political unrest.

In the past, following periods of volatility in the market price of a particular company's securities, securities class action litigation has often been brought against that company. We may become subject to this type of litigation, which is often extremely expensive and diverts management's attention.

If we or our stockholders sell substantial amounts of our common stock, the market price of our common stock may decline.

A significant number of shares of our common stock are held by a small number of stockholders. Sales of a significant number of shares of our common stock, or the expectation that such sales may occur, could significantly reduce the market price of our common stock. We filed registration statements in connection with private financings that we concluded in January 2011 and December 2012, which registrations cover approximately 17.0 million shares and 19.5 million shares of our common stock, respectively. In addition, in connection with our March 2014 public offering of common stock, we agreed to provide resale registration rights for the shares of our common stock held by entities affiliated with one of our principal stockholders and one of our directors, Dr. Stephen R. Biggar. We also have an effective registration statement to sell shares of our common stock on our own behalf, and may elect to sell shares pursuant to such registration statement, or an indeterminate number of shares pursuant to a new registration statement or in a private placement, from time to time. Our stock price may decline as a result of the sale of the shares of our common stock included in any of these registration statements or future financings.

If our officers, directors, and largest stockholders choose to act together, they may be able to significantly influence our management and operations, acting in their best interests and not necessarily those of our other stockholders.

Our directors, executive officers and holders of five percent or more of our outstanding common stock and their affiliates beneficially own a substantial portion of our outstanding common stock. As a result, these stockholders, acting together, have the ability to significantly influence all matters requiring approval by our stockholders, including the election of all of our board members, amendments to our certificate of incorporation, going-private transactions, and the approval of mergers or other business combination transactions. The interests

of this group of stockholders may not always coincide with the company's interests or the interests of other stockholders and they may act in a manner that advances their best interests and not necessarily those of our other stockholders.

Anti-takeover provisions in our charter documents and under Delaware law may make an acquisition of us more complicated and may make the removal and replacement of our directors and management more difficult.

Our amended and restated certificate of incorporation and amended and restated bylaws contain provisions that may delay or prevent a change in control, discourage bids at a premium over the market price of our common stock and adversely affect the market price of our common stock and the voting and other rights of the holders of our common stock. These provisions may also make it difficult for stockholders to remove and replace our board of directors and management. These provisions:

- establish that members of the board of directors may be removed only for cause upon the affirmative vote of stockholders owning at least a majority of our capital stock;
- authorize the issuance of "blank check" preferred stock that could be issued by our board of directors to increase the number of outstanding shares and prevent or delay a takeover attempt;
- limit who may call a special meeting of stockholders;
- establish advance notice requirements for nominations for election to the board of directors or for proposing matters that can be acted upon at stockholder meetings;
- prohibit our stockholders from making certain changes to our amended and restated certificate of incorporation or amended and restated bylaws except with 66 2/3 percent stockholder approval; and
- provide for a board of directors with staggered terms.

We are also subject to provisions of the Delaware corporation law that, in general, prohibit any business combination with a beneficial owner of 15 percent or more of our common stock for three years unless the holder's acquisition of our stock was approved in advance by our board of directors. Although we believe these provisions collectively provide for an opportunity to receive higher bids by requiring potential acquirors to negotiate with our board of directors, they would apply even if the offer may be considered beneficial by some stockholders.

Adverse securities and credit market conditions may significantly affect our ability to raise capital.

Historically, turmoil and volatility in the financial markets have adversely affected the market capitalizations of many biotechnology companies, and generally made equity and debt financing more difficult to obtain. These events, coupled with other factors, may limit our access to financing in the future. This could have a material adverse effect on our ability to access funding on acceptable terms, or at all, and our stock price may suffer further as a result.

We do not intend to pay dividends on our common stock in the foreseeable future; as such, you must rely on stock appreciation for any return on your investment.

To date, we have not paid any cash dividends on our common stock, and we do not intend to pay any dividends in the foreseeable future. Instead, we intend to retain any future earnings to fund the development and growth of our business. For this reason, the success of an investment in our common stock, if any, will depend on the appreciation of our common stock, which may not occur. There is no guarantee that our common stock will appreciate, and therefore, a holder of our common stock may not realize a return on his or her investment.

Item 1B. ***Unresolved Staff Comments.***

This item is not applicable.

Item 2. ***Properties.***

As of December 31, 2014, our primary facility consists of approximately 19,000 square feet of leased office space located in San Diego, California, which is leased through the end of 2016 with an option to extend. We also lease two other facilities in San Diego related to our research and development activities that cover an aggregate of approximately 11,000 square feet of laboratory and office space.

Effective November 13, 2014, we entered into a sublease agreement for approximately 51,000 square feet of office space located in San Diego, California. The term of the lease is expected to run from January 2015 through February 2019. Including this new lease, we believe that our existing facilities are adequate for our current needs.

Item 3. ***Legal Proceedings.***

This item is not applicable.

Item 4. ***Mine Safety Disclosures.***

This item is not applicable.

PART II

Item 5. ***Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.***

(a) Our common stock is traded on the NASDAQ Global Select Market under the symbol "ACAD". The following table sets forth the high and low sale prices for our common stock as reported on the NASDAQ Global Select Market for the periods indicated.

2014	High	Low
First Quarter	$32.00	$21.20
Second Quarter	$25.50	$15.64
Third Quarter	$29.31	$19.21
Fourth Quarter	$33.49	$22.04

2013	High	Low
First Quarter	$ 8.81	$ 4.60
Second Quarter	$20.09	$ 7.40
Third Quarter	$28.38	$17.02
Fourth Quarter	$29.73	$19.65

As of February 9, 2015, there were approximately 40 stockholders of record of our common stock. We have not paid any cash dividends to date and do not anticipate any being paid in the foreseeable future.

Item 6. ***Selected Financial Data.***

The following data has been derived from our audited financial statements, including the consolidated balance sheets at December 31, 2014 and 2013 and the related consolidated statements of operations for each of the three years ended December 31, 2014 and related notes appearing elsewhere in this report. The statement of operations data for the years ended December 31, 2011 and 2010 and the balance sheet data as of December 31, 2012, 2011 and 2010 are derived from our audited consolidated financial statements that are not included in this report. You should read the selected financial data set forth below in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our financial statements and related notes included elsewhere in this report.

	Years Ended December 31,				
	2014	2013	2012	2011	2010 (1)
	(in thousands, except per share data)				
Consolidated Statement of Operations Data:					
Revenues:					
Collaborative revenues	$ 120	$ 1,145	$ 4,907	$ 2,067	$42,135
Operating expenses:					
Research and development	60,602	26,722	18,794	17,309	20,579
General and administrative	32,748	12,720	6,999	7,610	6,462
Total operating expenses	93,350	39,442	25,793	24,919	27,041
Income (loss) from operations	(93,230)	(38,297)	(20,886)	(22,852)	15,094
Interest income, net	755	349	37	87	45
Net income (loss)	$(92,475)	$(37,948)	$(20,849)	$(22,765)	$15,139
Net income (loss) per common share, basic	$ (0.95)	$ (0.44)	$ (0.38)	$ (0.44)	$ 0.39
Net income (loss) per common share, diluted	$ (0.95)	$ (0.44)	$ (0.38)	$ (0.44)	$ 0.39
Weighted average shares used in computing net income (loss) per common share, basic	97,248	85,715	55,116	52,183	38,593
Weighted average shares used in computing net income (loss) per common share, diluted	97,248	85,715	55,116	52,183	38,720

(1) In October 2010, we ended our collaboration and license agreement with Biovail Laboratories International SRL and recognized all remaining revenues related to this collaboration, resulting in net income for us in the year ended December 31, 2010.

	At December 31,				
	2014	2013	2012	2011	2010
	(in thousands)				
Consolidated Balance Sheet Data:					
Cash, cash equivalents and investment securities	$322,486	$185,790	$107,967	$31,048	$37,087
Working capital	308,784	181,381	102,600	25,784	31,890
Total assets	325,458	189,118	108,590	32,114	38,394
Long-term debt, less current portion	—	—	—	—	32
Total stockholders' equity	309,489	182,131	84,984	23,362	29,688

Item 7. ***Management's Discussion and Analysis of Financial Condition and Results of Operations.***

The following discussion and analysis of our consolidated financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes included elsewhere in this report. Past operating results are not necessarily indicative of results that may occur in future periods. This discussion contains forward-looking statements, which involve a number of risks and uncertainties. Such forward-looking statements include statements about our strategies, objectives, expectations, discoveries, collaborations, clinical trials, proprietary and external programs, products or product candidates, and other statements that are not historical facts, including statements which may be preceded by the words "believes," "expects," "hopes," "may," "will," "plans," "intends," "estimates," "could," "should," "would," "continue," "seeks," "aims," "projects," "predicts," "pro forma," "anticipates," "potential" or similar words. For forward-looking statements, we claim the protection of the Private Securities Litigation Reform Act of 1995. Readers of this report are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date on which they are made. We undertake no obligation to update or revise publicly any forward-looking statements. Forward-looking statements are not guarantees of performance. Actual results or events may differ materially from those anticipated in our forward-looking statements as a result of various factors, including those set forth under the section captioned "Risk Factors" elsewhere in this report. Information in the following discussion for a yearly period means for the year ended December 31 of the indicated year.

Overview

Background

We are a biopharmaceutical company focused on the development and commercialization of innovative medicines that address unmet medical needs in neurological and related central nervous system disorders. We have a portfolio of product opportunities led by our novel drug candidate, NUPLAZID (pimavanserin), for which we have reported positive Phase III pivotal trial results in Parkinson's disease psychosis, or PDP, and which has the potential to be the first drug approved in the United States for this disorder. We are currently completing a New Drug Application, or NDA, and related preparations to support a review of the NDA by the U.S. Food and Drug Administration, or FDA. We plan to submit the NDA to the FDA in the first quarter of 2015. Pimavanserin is also in Phase II development for Alzheimer's disease psychosis and has successfully completed a Phase II trial as a co-therapy for schizophrenia. We hold worldwide commercialization rights to pimavanserin. Our pipeline also includes clinical-stage programs for chronic pain and glaucoma in collaboration with Allergan, Inc.

We are pursuing Parkinson's disease psychosis as our lead indication for NUPLAZID. We have completed a successful pivotal Phase III trial with NUPLAZID in patients with Parkinson's disease psychosis, the -020 Study. Following this study, we met with the FDA, and announced that the agency agreed that the data from the -020 Study, together with supportive data from our other studies with NUPLAZID, are sufficient to support the filing of an NDA for the treatment of PDP. In September 2014, we announced that the FDA has granted Breakthrough Therapy designation for NUPLAZID for the treatment of Parkinson's disease psychosis. The Breakthrough Therapy designation was created by the FDA to expedite the development and review of drugs that are intended to treat serious or life-threatening conditions. If approved, we intend to commercialize NUPLAZID for Parkinson's disease psychosis in the United States by establishing a specialty sales force focused primarily on neurologists and a small group of psychiatrists and long-term care physicians who are high prescribers of antipsychotics for PDP patients. Starting in the second half of 2013, we began to hire the senior leadership of our commercial organization. We are currently preparing for the planned future launch of NUPLAZID and plan to hire a commercial sales force to coincide approximately with a NUPLAZID approval, if any. In addition to building our commercial capabilities, we are expanding our existing infrastructure to support the planned launch and commercialization of NUPLAZID, including adding to our commercial level manufacturing, medical affairs, quality control, and compliance capabilities.

We believe that pimavanserin also has the potential to address other neurological and psychiatric disorders, including Alzheimer's disease psychosis and schizophrenia. We are currently conducting a Phase II trial to

examine the efficacy and safety of pimavanserin as a treatment for patients with Alzheimer's disease psychosis. We have completed a successful Phase II trial with pimavanserin as a co-therapy for schizophrenia and we next plan to evaluate the use of pimavanserin as a stand-alone maintenance therapy between acute psychotic episodes in a Phase II schizophrenia study.

We have incurred substantial operating losses since our inception due in large part to expenditures for our research and development activities. As of December 31, 2014, we had an accumulated deficit of $498.1 million. We expect to continue to incur operating losses for at least the next several years as we pursue the development and commercialization of our product opportunities.

Revenues

We have not generated any revenues from product sales to date. Our revenues to date have been generated substantially from payments under our current and past collaboration agreements. As of December 31, 2014, we had received an aggregate of $115.8 million in payments under these agreements, including upfront payments, research funding, milestone payments, and reimbursed development expenses. Until such time as we may complete development of, receive regulatory approval for, and generate product sales from pimavanserin or other products, we expect our revenues to be derived primarily from payments under our current agreements with Allergan and potential additional collaborations, as well as grant funding.

We have been a party to three collaboration agreements with Allergan, one of which concluded in March 2013. Our two ongoing collaboration agreements with Allergan involve the development of product candidates in the areas of chronic pain and glaucoma. We are eligible to receive payments upon achievement of development and regulatory milestones, as well as royalties on future net product sales, if any, under each of our ongoing collaboration agreements with Allergan. However, we no longer receive research funding from these agreements and additional payments are dependent upon the advancement of our applicable product candidates. Each of our current agreements with Allergan is subject to termination upon notice by Allergan.

In March 2009, we entered into a collaboration agreement with Meiji Seika Pharma. In July 2012, we and Meiji Seika Pharma jointly decided to discontinue the development program that was being pursued under the collaboration, and the collaboration agreement was terminated pursuant to its terms. Upon the termination of this agreement and the end of our related performance obligations, we recorded as revenue all of the remaining deferred revenue from this collaboration during the third quarter of 2012.

Research and Development Expenses

Our research and development expenses have consisted primarily of fees paid to external service providers, salaries, and related personnel expenses, facilities and equipment expenses, and other costs. We charge all research and development expenses to operations as incurred. Our research and development activities are primarily focused on our most advanced product candidate, pimavanserin. We currently are responsible for all costs incurred in the development of pimavanserin.

We use external service providers to manufacture our product candidates and for the majority of the services performed in connection with the preclinical and clinical development of pimavanserin. Historically, we have used our internal research and development resources, including our employees and discovery infrastructure, across several projects and many of our costs have not been attributable to a specific project. Accordingly, we have not reported our internal research and development costs on a project basis. To the extent that external expenses are not attributable to a specific project, they are included in other programs. The following table

summarizes our research and development expenses by project for the years ended December 31, 2014, 2013, and 2012 (in thousands):

	Years Ended December 31,		
	2014	2013	2012
Costs of external service providers:			
NUPLAZID (pimavanserin)	$43,161	$16,625	$12,401
Other programs	723	709	932
Subtotal	43,884	17,334	13,333
Internal costs	11,527	7,180	4,781
Stock-based compensation	5,191	2,208	680
Total research and development	$60,602	$26,722	$18,794

While we intend to submit an NDA to the FDA for NUPLAZID in the first quarter of 2015, at this time, due to the risks inherent in the regulatory and approval processes, we are unable to estimate with any certainty the costs we will incur for the continued development of NUPLAZID for Parkinson's disease psychosis. Due to the risks inherent in clinical development, we also are unable to estimate with certainty the costs we will incur for the development of pimavanserin for other indications, including Alzheimer's disease psychosis and schizophrenia. Due to these same factors, we are unable to determine with any certainty the anticipated completion dates for our current research and development programs. Clinical development and regulatory approval timelines, probability of success, and development costs vary widely. While our current focus is primarily on preparing to support a review of the NDA by the FDA, and advancing the development of pimavanserin for other indications, we anticipate that we will make determinations as to which programs to pursue and how much funding to direct to each program on an ongoing basis in response to the scientific and clinical success of each product candidate, as well as an ongoing assessment of each product candidate's commercial potential and our financial position. We cannot forecast with any degree of certainty which product opportunities will be subject to future collaborative or licensing arrangements, when such arrangements will be secured, if at all, and to what degree any such arrangements would affect our development plans and capital requirements.

We expect our research and development expenses to increase and continue to be substantial as we pursue the development of pimavanserin, including remaining preparations that are needed to support the FDA review of NUPLAZID for Parkinson's disease psychosis for which we plan to submit an NDA in the first quarter of 2015, our ongoing open-label safety extension study, our ongoing Phase II trial for Alzheimer's disease psychosis, and potential studies in other indications, including schizophrenia. The lengthy process of completing clinical trials and supporting development activities and seeking regulatory approval for our product opportunities requires the expenditure of substantial resources. Any failure by us or delay in completing clinical trials, or in obtaining regulatory approvals, could cause our research and development expenses to increase and, in turn, have a material adverse effect on our results of operations.

General and Administrative Expenses

Our general and administrative expenses have consisted primarily of salaries and other costs for employees serving in executive, finance, business development, and business operations functions, as well as professional fees associated with legal and accounting services, and costs associated with patents and patent applications for our intellectual property. In addition, starting in the second half of 2013, we began to hire the senior leadership of our commercial organization that is helping us prepare for the planned future launch of NUPLAZID and we are currently preparing to build a specialty sales force in the U.S. that will focus on promoting NUPLAZID, if approved by the FDA. We expect our general and administrative expenses to increase in future periods to support activities associated with our preparation for, and planned launch of, NUPLAZID and our further development of pimavanserin in indications other than Parkinson's disease psychosis.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations is based on our consolidated financial statements. We have identified the accounting policies that we believe require application of management's most subjective judgments, often requiring the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. Our actual results may differ substantially from these estimates under different assumptions or conditions.

Revenue Recognition

We recognize revenues in accordance with authoritative guidance established by U.S. Generally Accepted Accounting Principles, or GAAP. Our revenues are primarily related to our collaboration agreements, which may provide for various types of payments to us, including upfront payments, funding of research and development, milestone payments, and licensing fees. Our collaboration agreements also include potential payments for product royalties; however, we have not received any product royalties to date.

We consider a variety of factors in determining the appropriate method of accounting under our collaboration agreements, including whether the various elements can be separated and accounted for individually as separate units of accounting. Where there are multiple deliverables identified within a collaboration agreement that are combined into a single unit of accounting, revenues are deferred and recognized over the expected period of performance. The specific methodology for the recognition of the revenue is determined on a case-by-case basis according to the facts and circumstances of the applicable agreement.

Upfront, non-refundable payments that do not have stand-alone value are recorded as deferred revenue once received and recognized as revenues over the expected period of performance. Revenues from non-refundable license fees are recognized upon receipt of the payment if the license has stand-alone value, we do not have ongoing involvement or obligations, and we can determine the best estimate of the selling price for any undelivered items. When non-refundable license fees do not meet all of these criteria, the license revenues are recognized over the expected period of performance. Non-refundable payments for research funding are generally recognized as revenues over the period the related research activities are performed. Payments for reimbursement of external development costs are generally recognized as revenues using a contingency-adjusted performance model over the expected period of performance. Payments received from grants are recognized as revenues as the related research and development is performed and when collectability is reasonably assured.

We evaluate milestone payments on an individual basis and recognize revenues from non-refundable milestone payments when the earnings process is complete and collectability is reasonably assured. Non-refundable milestone payments related to arrangements under which we have continuing performance obligations are recognized as revenues upon achievement of the associated milestone, provided that (i) the milestone event is substantive and its achievability was not reasonably assured at the inception of the agreement and (ii) the amount of the milestone payment is reasonable in relation to the effort expended or the risk associated with the milestone event. Where separate milestone payments do not meet these criteria, we recognize revenue using a contingency-adjusted performance model over the expected period of performance.

Accrued Expenses

We are required to estimate accrued expenses as part of our process of preparing financial statements. Examples of areas in which subjective judgments may be required include, among other things, costs associated with services provided by contract organizations for preclinical development, manufacturing of our product candidates, and clinical trials. We accrue for costs incurred as the services are being provided by monitoring the status of the trial or services provided, and the invoices received from our external service providers. In the case of clinical trials, a portion of the estimated cost normally relates to the projected cost to treat a patient in the trials, and this cost is recognized based on the number of patients enrolled in the trial. Other indirect costs are generally recognized on a straight-line basis over the estimated period of the study. As actual costs become

known to us, we adjust our accruals. To date, our estimates have not differed materially from the actual costs incurred. However, subsequent changes in estimates may result in a material change in our accruals, which could also materially affect our balance sheet and results of operations.

Stock-Based Compensation

The fair value of each employee stock option and each employee stock purchase plan right granted is estimated on the grant date under the fair value method using the Black-Scholes valuation model, which requires us to make a number of assumptions including the estimated expected life of the award and related volatility. The estimated fair values of stock options or purchase plan rights, including the effect of estimated forfeitures, are then expensed over the vesting period.

Results of Operations

Fluctuations in Operating Results

Our results of operations have fluctuated significantly from period to period in the past and are likely to continue to do so in the future. We anticipate that our quarterly and annual results of operations will be impacted for the foreseeable future by several factors, including the timing and amount of payments received pursuant to our current and potential future collaborations, the progress and timing of expenditures related to our development and commercialization efforts, and the extent to which we generate revenues from product sales, if at all. Due to these fluctuations, we believe that the period-to-period comparisons of our operating results are not a good indication of our future performance.

Comparison of the Years Ended December 31, 2014 and 2013

Revenues

Revenues decreased to $120,000 in 2014 from $1.1 million in 2013. This decrease was partially due to the conclusion of our 2003 research collaboration with Allergan in March 2013. Revenues from our collaborations with Allergan decreased to $40,000 in 2014 from $571,000 in 2013. Future revenues from our two ongoing collaboration agreements with Allergan are dependent upon the advancement of our applicable product candidates and we do not expect to receive significant revenues from these agreements unless and until a product is successfully developed and commercialized. Additionally, revenues from our agreements with other parties, including our research grants, decreased to $80,000 in 2014 compared to $574,000 in 2013 due to decreased activities under research grants.

Research and Development Expenses

Research and development expenses increased to $60.6 million in 2014, including $5.2 million in stock-based compensation, from $26.7 million in 2013, including $2.2 million in stock-based compensation. This increase was primarily due to an increase of $26.6 million in external service costs as well as an increase in costs associated with our expanded research and development organization, including $4.2 million in increased personnel costs, and $3.0 million in increased stock-based compensation. External service costs totaled $43.9 million, or 72 percent of our research and development expenses, in 2014, compared to $17.3 million, or 65 percent of our research and development expenses, in 2013. The increase in external service costs was largely attributable to increased third-party costs related to our development of, and planned NDA submission for, NUPLAZID. We expect our research and development expenses to increase in future periods as we continue to pursue the development of pimavanserin, including remaining preparations that are needed to support the FDA review of our planned NDA for NUPLAZID, our ongoing open-label safety extension study, our ongoing Phase II trial for Alzheimer’s disease psychosis, and potential studies in other indications, including schizophrenia, as well as the development of our other product candidates.

General and Administrative Expenses

General and administrative expenses increased to $32.7 million in 2014, including $10.8 million in stock-based compensation, from $12.7 million in 2013, including $3.5 million in stock-based compensation. The increase in general and administrative expenses was primarily due to an increase in costs associated with additional administrative and commercial personnel, including $7.3 million in increased stock-based compensation, and $4.7 million in increased personnel expenses, as well as an increase of $6.7 million in external service costs. The increase in external service costs was largely attributable to increased consulting and professional fees related to our pre-commercial activities. We anticipate that our general and administrative expenses will increase in future periods to support our planned development and commercial activities for NUPLAZID.

Comparison of the Years Ended December 31, 2013 and 2012

Revenues

Revenues decreased to $1.1 million in 2013 from $4.9 million in 2012, primarily due to the termination of our collaboration with Meiji Seika Pharma in July 2012. We recognized a total of $3.2 million in revenues from this collaboration in 2012. Revenues from our collaborations with Allergan decreased to $571,000 in 2013 from $1.1 million in 2012, primarily due to the conclusion of our 2003 research collaboration with Allergan in March 2013. Future revenues from our two ongoing collaboration agreements with Allergan are dependent upon the advancement of our applicable product candidates and we do not expect to receive significant revenues from these agreements unless and until a product is successfully developed and commercialized. Revenues from our agreements with other parties, including our research grants, totaled $574,000 in 2013 compared to $566,000 in 2012.

Research and Development Expenses

Research and development expenses increased to $26.7 million in 2013, including $2.2 million in stock-based compensation, from $18.8 million in 2012, including $680,000 in stock-based compensation. This increase was primarily due to an increase of $4.0 million in external service costs as well as an increase in costs associated with our expanded research and development organization, including $1.8 million in increased personnel costs, and $1.5 million in increased stock-based compensation. External service costs totaled $17.3 million, or 65 percent of our research and development expenses, in 2013, compared to $13.3 million, or 71 percent of our research and development expenses, in 2012. The increase in external service costs was largely attributable to increased development costs incurred in our Phase III program for pimavanserin.

General and Administrative Expenses

General and administrative expenses increased to $12.7 million in 2013, including $3.5 million in stock-based compensation, from $7.0 million in 2012, including $1.3 million in stock-based compensation. The increase in general and administrative expenses was primarily due to an increase in costs associated with our expanded administrative organization, including $2.3 million in increased stock-based compensation and $1.2 million in increased personnel expenses, as well as an increase of $1.6 million in external service costs. The increase in external service costs was largely attributable to increased professional fees, including initial costs related to our pre-commercial activities.

Liquidity and Capital Resources

Since inception, we have funded our operations primarily through sales of our equity securities, payments received under our collaboration agreements, debt financings, and interest income. As of December 31, 2014, we had received $755.3 million in net proceeds from sales of our equity securities, including $6.9 million in debt that we had retired through the issuance of our common stock, $115.8 million in payments from collaboration agreements, $23.3 million in interest income, and $22.4 million in debt financing.

At December 31, 2014, we had $322.5 million in cash, cash equivalents, and investment securities compared to $185.8 million at December 31, 2013. We anticipate that the level of cash used in our operations will increase in future periods in order to fund our planned NDA-enabling work and commercial activities for NUPLAZID and our ongoing and planned development activities for pimavanserin for other indications. We expect that our cash, cash equivalents, and investment securities will be sufficient to fund our planned operations at least into the second half of 2016.

We may require significant additional financing in the future to fund our operations. Our future capital requirements will depend on, and could increase significantly as a result of, many factors, including:

- the progress in, and the costs of, our ongoing and planned development activities for pimavanserin, planned commercialization activities for NUPLAZID, and other research and development programs;
- the costs of preparing applications for regulatory approvals for NUPLAZID and other product opportunities;
- our ability to obtain regulatory approval for, and generate product sales from NUPLAZID or other products;
- the costs of establishing, or contracting for, sales and marketing capabilities for NUPLAZID or other product opportunities;
- the scope, prioritization and number of research and development programs;
- the ability of our collaborators and us to reach the milestones or other events or developments triggering payments under our collaboration and licensing agreements, or our collaborators' ability to make payments under these agreements;
- our ability to enter into new, and to maintain existing, collaboration and license agreements;
- the costs involved in filing, prosecuting, enforcing and defending patent claims and other intellectual property rights; and
- the costs of securing manufacturing arrangements for clinical or commercial production of NUPLAZID or other product opportunities.

Unless and until we can generate significant cash from our operations, we expect to satisfy our future cash needs through our existing cash resources, public or private sales of our equity securities, debt financings, grant funding, strategic collaborations, or by otherwise licensing all or a portion of our product candidates or technology. We cannot be certain that adequate future funding will be available to us on acceptable terms, or at all. In the past, periods of turmoil and volatility in the financial markets have adversely affected the market capitalizations of many biotechnology companies and generally made equity and debt financing more difficult to obtain. These events, coupled with other factors, may limit our access to financing in the future. In particular, any unfavorable development in our NUPLAZID (pimavanserin) program could have a material adverse effect on our ability to raise additional capital.

If we need but cannot raise adequate additional capital in the future, we will be required to delay, reduce the scope of, or eliminate one or more of our research or development programs or our commercialization efforts. We also may be required to relinquish greater or all rights to product candidates at an earlier stage of development or on less favorable terms than we would otherwise choose.

We have invested a substantial portion of our available cash in a money market fund, U.S. Treasury notes, and high quality, marketable debt instruments of corporations, financial institutions and government sponsored enterprises. We have adopted an investment policy and established guidelines relating to credit quality, diversification, and maturities of our investments to preserve principal and maintain liquidity. All investment securities have a credit rating of at least A3/A- or better, or P-1/A-1 or better, as determined by Moody's Investors Service or Standard & Poor's. Our investment portfolio has not been adversely impacted by the

disruptions in the credit markets that have occurred in the past. However, if there are future disruptions in the credit markets, there can be no assurance that our investment portfolio will not be adversely affected.

Net cash used in operating activities increased to $66.4 million in 2014 compared to $31.8 million in 2013 and $21.6 million in 2012. The increase in net cash used in operating activities in 2014 relative to 2013 was primarily due to the increase in our net loss, offset by an increase of $10.3 million in non-cash stock-based compensation expense, together with changes in our operating assets and liabilities, including accounts payable and accrued expenses. Accounts payable and accrued expenses increased by $8.9 million in 2014 compared to an increase of $1.4 million during 2013. The increase in accounts payable and accrued expenses was primarily due to an increase in external service costs associated with our expanded research and development activities.

The increase in net cash used in operating activities in 2013 relative to 2012 was primarily due to the increase in our net loss, offset by increases of $3.8 million and $1.7 million in non-cash stock-based compensation and amortization of premiums on investment securities, respectively, as well as by changes in our operating assets and liabilities, including prepaid expenses, receivables and other current assets, and deferred revenue. Prepaid expenses, receivables and other current assets increased by $2.0 million in 2013 compared to a decrease of $320,000 in 2012, primarily due to prepaid development costs and an increase in interest receivable on our investment securities. Deferred revenue decreased by $379,000 during 2013 compared to a decrease of $2.8 million in 2012. The decrease in deferred revenue from 2012 was primarily due to the termination of our collaboration with Meiji Seika Pharma in July 2012, at which time we recognized the remaining deferred revenue from this collaboration.

Net cash used in investing activities totaled $87.3 million in 2014 compared to $126.1 million in 2013 and $25.5 million in 2012. Net cash used in investing activities has fluctuated significantly from period to period primarily due to the timing of purchases and maturities of investment securities. The decrease in net cash used in investing activities in 2014 relative to 2013 was primarily due to increased maturities of investment securities relative to purchases of investment securities. The increase in net cash used in investing activities in 2013 relative to 2012 was primarily due to increased purchases of investment securities relative to maturities of investment securities.

Net cash provided by financing activities increased to $203.9 million in 2014 compared to $111.7 million in 2013 and $98.2 million in 2012. The increase in net cash provided by financing activities in 2014 relative to 2013 was primarily attributable to $196.8 million in net proceeds received from our public offering of common stock in March 2014. The increase in net cash provided by financing activities in 2013 relative to 2012 was primarily due to increased proceeds from sales of our common stock and stock option exercises, which included $107.9 million in net proceeds received from our public offering of common stock in May 2013.

Contractual Obligations

The following table summarizes our contractual obligations at December 31, 2014 (in thousands):

	Total	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years
Operating leases	$7,361	$ 2,119	$ 4,982	$ 260	$ —

We have also entered into agreements with contract research organizations and other external service providers for services, primarily in connection with the development and planned commercialization of our product candidates. We were contractually obligated for up to approximately $16.3 million of future services under these agreements as of December 31, 2014. The nature of the work being conducted under our agreements with external service providers is such that, in most cases, the services may be stopped on short notice. In such event, we would not be liable for the full amount of the contract. Our actual contractual obligations will vary depending upon several factors, including the progress and results of the underlying services.

In addition, we have entered into an agreement with the Ipsen Group pursuant to which we licensed certain intellectual property rights that complement our patent portfolio for our serotonin platform, including NUPLAZID (pimavanserin). If certain conditions are met, we would be required to make future payments, including milestones, sublicensing fees, and royalties. The potential future milestone payments include $2.5 million payable upon the successful filing of the first regulatory application with the FDA and $8.0 million payable upon obtaining the first regulatory approval from the FDA. Royalty payments of up to two percent would be payable on future net product sales, if any. Because these milestone payments would only be payable upon the achievement of the specified regulatory events and it is uncertain when, or if, such events will occur, we cannot forecast with any degree of certainty when, or if, we will be required to make payments under this agreement. Similarly, royalty payments would be contingent upon any net product sales. Accordingly, none of these amounts are included in the above table.

Off-Balance Sheet Arrangements

To date, we have not had any relationships with unconsolidated entities or financial partnerships, such as entities referred to as structured finance or special purpose entities, which are established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As such, we are not materially exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in these relationships.

Recent Accounting Pronouncements

See Item 15 of Part IV, “Notes to Consolidated Financial Statements—Note 2—Summary of Significant Accounting Policies”.

Item 7A. ***Quantitative and Qualitative Disclosures About Market Risk***

Interest Rate Risk

We invest our excess cash in investment-grade, interest-bearing securities. The primary objective of our investment activities is to preserve principal and liquidity. To achieve this objective, we invest in a money market fund, U.S. Treasury notes, and high quality marketable debt instruments of corporations, financial institutions and government sponsored enterprises with contractual maturity dates of generally less than two years. All investment securities have a credit rating of at least A3/A- or better, or P-1/A-1 or better, as determined by Moody’s Investors Service or Standard & Poor’s. We do not have any direct investments in auction-rate securities or securities that are collateralized by assets that include mortgages or subprime debt. If a 10 percent change in interest rates were to have occurred on December 31, 2014, this change would not have had a material effect on the fair value of our investment portfolio as of that date.

Item 8. ***Financial Statements and Supplementary Data.***

The consolidated financial statements required pursuant to this item are included in Item 15 of this report and are presented beginning on page F-1.

Item 9. ***Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.***

None.

Item 9A. ***Controls and Procedures.***

Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our periodic and current reports that we file with the SEC is recorded, processed, summarized and

reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable and not absolute assurance of achieving the desired control objectives. In reaching a reasonable level of assurance, management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. In addition, the design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

As of December 31, 2014, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of December 31, 2014.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

As of December 31, 2014, our management assessed the effectiveness of our internal control over financial reporting using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework (2013). In adopting the 2013 Framework, management assessed the applicability of the principles within each component of internal control and determined whether or not they have been adequately addressed within the current system of internal control and adequately documented. Based on this assessment, management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, concluded that, as of December 31, 2014, our internal control over financial reporting was effective based on those criteria.

The effectiveness of our internal control over financial reporting as of December 31, 2014 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in its report, which appears under Item 15 in this report.

Changes in Internal Control Over Financial Reporting

An evaluation was also performed under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of any changes in our internal control over financial reporting that occurred during our last fiscal quarter and that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. That evaluation did not identify any change in our internal control over financial reporting that occurred during our latest fiscal quarter and that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART III

Item 10. ***Directors, Executive Officers and Corporate Governance.***

The information required by this Item and not set forth below will be set forth in the section headed "Proposal 1—Election of Directors" in our definitive Proxy Statement for our 2015 Annual Meeting of Stockholders to be filed with the SEC by April 30, 2015 (the "Proxy Statement") and is incorporated in this report by reference.

We have adopted a code of ethics for directors, officers (including our principal executive officer, principal financial officer and principal accounting officer) and employees, known as the Code of Business Conduct and Ethics. The Code of Business Conduct and Ethics is available on our website at *http://www.acadia-pharm.com* under the Corporate Governance section of our Investors page. We will promptly disclose on our website (i) the nature of any amendment to the policy that applies to our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions and (ii) the nature of any waiver, including an implicit waiver, from a provision of the policy that is granted to one of these specified individuals, the name of such person who is granted the waiver and the date of the waiver. Stockholders may request a free copy of the Code of Business Conduct and Ethics from our corporate compliance officer, Glenn F. Baity c/o ACADIA Pharmaceuticals Inc., 11085 Torreyana Road, Suite 100, San Diego, CA 92121.

Item 11. ***Executive Compensation.***

The information required by this Item will be set forth in the section headed "Executive Compensation" in our Proxy Statement and is incorporated in this report by reference.

Item 12. ***Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.***

The information required by this Item will be set forth in the section headed "Security Ownership of Certain Beneficial Owners and Management" in our Proxy Statement and is incorporated in this report by reference.

Information regarding our equity compensation plans will be set forth in the section headed "Executive Compensation" in our Proxy Statement and is incorporated in this report by reference.

Item 13. ***Certain Relationships and Related Transactions, and Director Independence.***

The information required by this Item will be set forth in the section headed "Transactions With Related Persons" in our Proxy Statement and is incorporated in this report by reference.

Item 14. ***Principal Accountant Fees and Services.***

The information required by this Item will be set forth in the section headed "Proposal 3—Ratification of Selection of Independent Registered Public Accounting Firm" in our Proxy Statement and is incorporated in this report by reference.

PART IV

Item 15. ***Exhibits and Financial Statement Schedules.***

(a) Documents filed as part of this report.

1. The following financial statements of ACADIA Pharmaceuticals Inc. and Report of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm, are included in this report:

2. List of financial statement schedules. All schedules are omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

3. List of Exhibits required by Item 601 of Regulation S-K. See part (b) below.

(b) Exhibits. See the Exhibit Index and Exhibits filed as part of this report.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ACADIA PHARMACEUTICALS INC.

/s/ ULI HACKSELL

Uli Hacksell, Ph.D.
Chief Executive Officer

Date: February 26, 2015

KNOW ALL PERSONS BY THESE PRESENTS, that each individual whose signature appears below constitutes and appoints Uli Hacksell and Stephen R. Davis, and each of them, his true and lawful attorneys-in-fact and agents with full power of substitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto and all documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them, or his or their substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities and Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ ULI HACKSELL **Uli Hacksell**	Chief Executive Officer and Director (Principal Executive Officer)	February 26, 2015
/s/ STEPHEN R. DAVIS **Stephen R. Davis**	Executive Vice President, Chief Financial Officer and Chief Business Officer (Principal Financial Officer and Principal Accounting Officer)	February 26, 2015
/s/ LESLIE IVERSEN **Leslie Iversen**	Chairman of the Board	February 26, 2015
/s/ STEPHEN BIGGAR **Stephen Biggar**	Director	February 26, 2015
/s/ MICHAEL BORER **Michael Borer**	Director	February 26, 2015
/s/ LAURA BREGE **Laura Brege**	Director	February 26, 2015
/s/ MARY ANN GRAY **Mary Ann Gray**	Director	February 26, 2015
/s/ LESTER KAPLAN **Lester Kaplan**	Director	February 26, 2015
/s/ TORSTEN RASMUSSEN **Torsten Rasmussen**	Director	February 26, 2015
/s/ WILLIAM M. WELLS **William M. Wells**	Director	February 26, 2015

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
ACADIA Pharmaceuticals Inc.

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)(1) present fairly, in all material respects, the financial position of ACADIA Pharmaceuticals Inc. and its subsidiaries at December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

San Diego, California
February 26, 2015

ACADIA PHARMACEUTICALS INC.

CONSOLIDATED BALANCE SHEETS
(in thousands, except for par value and share data)

	December 31, 2014	December 31, 2013
Assets		
Cash and cash equivalents	$ 61,854	$ 11,707
Investment securities, available-for-sale	260,632	174,083
Interest and other receivables	964	750
Prepaid expenses and other current assets	1,168	1,820
Total current assets	324,618	188,360
Property and equipment, net	553	579
Other assets	287	179
Total assets	$ 325,458	$ 189,118
Liabilities and stockholders' equity		
Accounts payable	$ 2,016	$ 372
Accrued expenses	13,818	6,552
Deferred revenue	—	55
Total current liabilities	15,834	6,979
Long-term liabilities	135	8
Total liabilities	15,969	6,987
Commitments and contingencies (Note 10)		
Stockholders' equity		
Preferred stock, $0.0001 par value; 5,000,000 shares authorized at December 31, 2014 and 2013; no shares issued and outstanding at December 31, 2014 and 2013	—	—
Common stock, $0.0001 par value; 150,000,000 shares authorized at December 31, 2014 and 2013; 100,047,331 shares and 91,102,618 shares issued and outstanding at December 31, 2014 and 2013, respectively	10	9
Additional paid-in capital	807,631	587,742
Accumulated deficit	(498,143)	(405,668)
Accumulated other comprehensive (loss) income	(9)	48
Total stockholders' equity	309,489	182,131
Total liabilities and stockholders' equity	$ 325,458	$ 189,118

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

ACADIA PHARMACEUTICALS INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)

	Years Ended December 31,		
	2014	2013	2012
Revenues			
Collaborative revenues	$ 120	$ 1,145	$ 4,907
Operating expenses			
Research and development (includes stock-based compensation expense of $5,191, $2,208, and $680, respectively)	60,602	26,722	18,794
General and administrative (includes stock-based compensation expense of $10,848, $3,503, and $1,250, respectively)	32,748	12,720	6,999
Total operating expenses	93,350	39,442	25,793
Loss from operations	(93,230)	(38,297)	(20,886)
Interest income, net	755	349	37
Net loss	$(92,475)	$(37,948)	$(20,849)
Net loss per common share, basic and diluted	$ (0.95)	$ (0.44)	$ (0.38)
Weighted average common shares outstanding, basic and diluted	97,248	85,715	55,116

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

ACADIA PHARMACEUTICALS INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(in thousands)

	Years Ended December 31,		
	2014	2013	2012
Net loss	$(92,475)	$(37,948)	$(20,849)
Other comprehensive loss:			
Unrealized gain (loss) on investment securities	(60)	45	(4)
Foreign currency translation adjustments	3	(1)	(1)
Comprehensive loss	$(92,532)	$(37,904)	$(20,854)

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

ACADIA PHARMACEUTICALS INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Years Ended December 31,		
	2014	2013	2012
Cash flows from operating activities			
Net loss	$ (92,475)	$ (37,948)	$ (20,849)
Adjustments to reconcile net loss to net cash used in operating activities:			
Stock-based compensation	16,039	5,711	1,930
Amortization of premiums and accretion of discounts on investment securities, available for sale	484	1,528	(133)
Depreciation and amortization	206	79	109
Gain on disposal of assets	—	(10)	(252)
Changes in operating assets and liabilities:			
Interest and other receivables	(214)	(505)	279
Prepaid expenses and other current assets	652	(1,484)	41
Other assets	(108)	(179)	14
Accounts payable	1,644	(1,003)	(585)
Accrued expenses	7,266	2,413	635
Deferred revenue	(55)	(379)	(2,822)
Long-term liabilities	127	8	—
Net cash used in operating activities	(66,434)	(31,769)	(21,633)
Cash flows from investing activities			
Purchases of investment securities	(335,361)	(211,585)	(56,728)
Maturities of investment securities	248,268	86,087	30,948
Purchases of property and equipment	(180)	(618)	—
Proceeds from sales of property and equipment	—	12	252
Net cash used in investing activities	(87,273)	(126,104)	(25,528)
Cash flows from financing activities			
Proceeds from issuances of equity securities, net of issuance costs	203,851	111,682	98,204
Repayments of long-term debt	—	—	(32)
Net cash provided by financing activities	203,851	111,682	98,172
Effect of exchange rate changes on cash	3	(1)	(1)
Net increase (decrease) in cash and cash equivalents	50,147	(46,192)	51,010
Cash and cash equivalents			
Beginning of year	11,707	57,899	6,889
End of year	$ 61,854	$ 11,707	$ 57,899

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

ACADIA PHARMACEUTICALS INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands, except share data)

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount				
Balances at December 31, 2011	52,898,659	$ 5	$370,219	$ (346,871)	$ 9	$ 23,362
Issuance of common stock and warrants, net of issuance costs	19,000,000	2	80,536	—	—	80,538
Issuance of common stock from exercise of stock options	293,595	—	453	—	—	453
Issuance of common stock pursuant to employee stock purchase plan	205,862	—	123	—	—	123
Issuance of common stock from exercise of warrants on a net issuance basis	936,100	—	—	—	—	—
Issuance of common stock under ATM Agreement, net of issuance costs	5,347,137	1	17,089	—	—	17,090
Reclassification to redeemable common stock	(5,347,137)	(1)	(17,657)	—	—	(17,658)
Net loss	—	—	—	(20,849)	—	(20,849)
Stock-based compensation	—	—	1,930	—	—	1,930
Other comprehensive loss	—	—	—	—	(5)	(5)
Balances at December 31, 2012	73,334,216	$ 7	$452,693	$ (367,720)	$ 4	$ 84,984
Issuance of common stock in public offering, net of issuance costs	9,200,000	1	107,882	—	—	107,883
Issuance of common stock from exercise of stock options	1,455,406	—	3,441	—	—	3,441
Issuance of common stock pursuant to employee stock purchase plan	122,853	—	358	—	—	358
Issuance of common stock from exercise of warrants on a net issuance basis	1,643,006	—	—	—	—	—
Reclassification from redeemable common stock	5,347,137	1	17,657	—	—	17,658
Net loss	—	—	—	(37,948)	—	(37,948)
Stock-based compensation	—	—	5,711	—	—	5,711
Other comprehensive income	—	—	—	—	44	44
Balances at December 31, 2013	91,102,618	$ 9	$587,742	$ (405,668)	$ 48	$ 182,131
Issuance of common stock in public offering, net of issuance costs	7,360,000	1	196,778	—	—	196,779
Issuance of common stock from exercise of stock options	1,486,802	—	6,408	—	—	6,408
Issuance of common stock pursuant to employee stock purchase plan	97,911	—	664	—	—	664
Net loss	—	—	—	(92,475)	—	(92,475)
Stock-based compensation	—	—	16,039	—	—	16,039
Other comprehensive income	—	—	—	—	(57)	(57)
Balances at December 31, 2014	100,047,331	$ 10	$807,631	$ (498,143)	$ (9)	$ 309,489

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

ACADIA PHARMACEUTICALS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Nature of Operations

ACADIA Pharmaceuticals Inc. (the "Company") was originally incorporated in Vermont in 1993 as Receptor Technologies, Inc. The Company reincorporated in Delaware in 1997 and its operations are based in San Diego, California. The Company is focused on the development and commercialization of innovative small molecule drugs that address unmet medical needs in neurological and related central nervous system disorders.

The Company has incurred substantial operating losses since its inception due in large part to expenditures for its research and development activities. As of December 31, 2014, the Company had an accumulated deficit of $498.1 million. The Company expects to continue to incur operating losses for at least the next several years as it pursues the development and commercialization of its product candidates.

The Company may require significant additional financing in the future to fund its operations. Future capital requirements will depend on many factors, including the progress in, the outcome of and the costs of the Company's development and regulatory activities, including the ability of the Company to obtain regulatory approval for its products, costs associated with establishing necessary sales and marketing capabilities, the amount of product sales, if any, the scope, prioritization and number of its research and development programs, the ability of its collaborators and the Company to reach milestones and other events or developments under its collaboration and license agreements, and the ability of the Company to enter into new, and to maintain existing, collaboration and license agreements. Unless and until the Company can generate significant cash from operations, it expects to fund its operations through its existing cash, cash equivalents and investment securities, payments from existing and potential future collaborations, proceeds from public or private sales of its equity securities, debt financing, grant funding, or by licensing all or a portion of its product candidates or technology. The Company cannot be certain that adequate additional funding will be available on acceptable terms, or at all. Conditions in the financial markets and other factors could have a material adverse effect on the Company's ability to access sufficient funding on acceptable terms, or at all. If the Company needs but cannot raise adequate additional capital, it will be required to delay, reduce the scope of, or eliminate one or more of its research or development programs or its commercialization efforts. In such circumstances, the Company may also be required to relinquish greater, or even all, rights to product candidates at earlier stages of development or commercialization or on less favorable terms than it would otherwise choose.

2. Summary of Significant Accounting Policies

Significant accounting policies followed in the preparation of these financial statements are as follows:

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries located in Europe. All intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

ACADIA PHARMACEUTICALS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Cash and Cash Equivalents

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

Investment Securities

The Company has classified all of its investment securities as available-for-sale and, accordingly, carries these investments at fair value. Unrealized gains and losses, if any, are reported as a separate component of stockholders' equity. The cost of investment securities classified as available-for-sale is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization and accretion are included in interest income. Realized gains and losses, if any, are also included in interest income. The cost of securities sold is based on the specific identification method.

Fair Value of Financial Instruments

The carrying values of the Company's financial instruments, consisting of cash and cash equivalents, interest and other receivables, and accounts payable and accrued expenses, approximate fair value due to the relative short-term nature of these instruments.

As disclosed in Note 4, the Company classifies its cash equivalents and available-for-sale investment securities within the fair value hierarchy as defined by authoritative guidance:

Level 1 Inputs	—	Quoted prices for identical instruments in active markets.
Level 2 Inputs	—	Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable.
Level 3 Inputs	—	Valuation derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

Property and Equipment

Property and equipment are recorded at cost and depreciated over their estimated useful lives using the straight line method. Leasehold improvements are amortized over the shorter of their estimated useful lives or the term of the lease by use of the straight line method. Construction-in-process reflects amounts incurred for property, equipment or improvements that have not been placed in service. Maintenance and repair costs are expensed as incurred. When assets are retired or sold, the assets and accumulated depreciation are removed from the respective accounts and any gain or loss is recognized.

Estimated useful lives by major asset category are as follows:

	Useful Lives
Machinery and equipment	5 to 7 years
Computers and software	3 years
Furniture and fixtures	10 years

ACADIA PHARMACEUTICALS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Impairment of Long-Lived Assets

The Company reviews its long lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. No such impairment losses have been recorded by the Company.

Revenues

The Company recognizes revenues in accordance with authoritative guidance established by GAAP. The Company's revenues are primarily related to its collaboration agreements, which may provide for various types of payments, including upfront payments, funding of research and development, milestone payments, and licensing fees. The Company's collaboration agreements also include potential payments for product royalties; however, the Company has not received any product royalties to date.

The Company considers a variety of factors in determining the appropriate method of accounting under its collaboration agreements, including whether the various elements can be separated and accounted for individually as separate units of accounting. Where there are multiple deliverables identified within a collaboration agreement that are combined into a single unit of accounting, revenues are deferred and recognized over the expected period of performance. The specific methodology for the recognition of the revenue is determined on a case-by-case basis according to the facts and circumstances of the applicable agreement.

Upfront, non-refundable payments that do not have stand-alone value are recorded as deferred revenue once received and recognized as revenues over the expected period of performance. Revenues from non-refundable license fees are recognized upon receipt of the payment if the license has stand-alone value, the Company does not have ongoing involvement or obligations, and the Company can determine the best estimate of the selling price for any undelivered items. When non-refundable license fees do not meet all of these criteria, the license revenues are recognized over the expected period of performance. Non-refundable payments for research funding are generally recognized as revenues over the period the related research activities are performed. Payments for reimbursement of external development costs are generally recognized as revenues using a contingency-adjusted performance model over the expected period of performance. Payments received from grants are recognized as revenues as the related research and development is performed and when collectability has been reasonably assured.

The Company evaluates milestone payments on an individual basis and recognizes revenues from non-refundable milestone payments when the earnings process is complete and collectability is reasonably assured. Non-refundable milestone payments related to arrangements under which the Company has continuing performance obligations are recognized as revenues upon achievement of the associated milestone, provided that (i) the milestone event is substantive and its achievability was not reasonably assured at the inception of the agreement and (ii) the amount of the milestone payment is reasonable in relation to the effort expended or the risk associated with the milestone event. Where separate milestone payments do not meet these criteria, the Company recognizes revenue using a contingency-adjusted performance model over the expected period of performance.

Research and Development Expenses

Research and development expenses are charged to operations as incurred. Research and development expenses include, among other things, costs associated with services provided by contract organizations for

preclinical development, manufacturing of product candidates, and clinical trials. The Company accrues for costs incurred as the services are being provided by monitoring the status of the trial or services provided and the invoices received from its external service providers. In the case of clinical trials, a portion of the estimated cost normally relates to the projected cost to treat a patient in the trials, and this cost is recognized based on the number of patients enrolled in the trial. Other indirect costs are generally recognized on a straight-line basis over the estimated period of the study. As actual costs become known, the Company adjusts its accruals. Certain research and development programs are funded under agreements with collaboration partners, and the Company's costs related to these activities are included in research and development expenses.

Concentrations of Risk

Financial instruments, which potentially subject the Company to concentrations of credit risk, principally consist of cash, cash equivalents, and investment securities. The Company currently invests its excess cash primarily in a money market fund, U.S. Treasury notes, and high quality, marketable debt instruments of corporations, financial institutions and government sponsored enterprises in accordance with the Company's investment policy. The Company's investment policy defines allowable investments and establishes guidelines relating to credit quality, diversification, and maturities of its investments to preserve principal and maintain liquidity. All investment securities have a credit rating of at least A3/A- or better, or P-1/A-1 or better, as determined by Moody's Investors Service or Standard & Poor's.

During the years ended December 31, 2014, 2013 and 2012, revenues from the Company's agreements with certain collaborative partners exceeded 10 percent of its total revenues. During the year ended December 31, 2014, revenues from Fast Forward, LLC and Allergan, Inc. comprised 59 percent and 33 percent of total revenues, respectively. During the year ended December 31, 2013, revenues from Allergan, the National Institutes of Health, and The Michael J. Fox Foundation comprised 50 percent, 19 percent, and 15 percent of total revenues, respectively. During the year ended December 31, 2012, revenues from Allergan and Meiji Seika Pharma Co., Ltd. comprised 23 percent and 66 percent of total revenues, respectively.

The Company does not currently have any of its own manufacturing facilities, and therefore relies on third-party manufacturers to produce its product candidates for clinical trials. Although there are potential sources of supply other than the Company's existing suppliers, any new supplier would be required to qualify under applicable regulatory requirements.

Stock-Based Compensation

The fair value of each employee stock option and each employee stock purchase right granted is estimated on the grant date under the fair value method using the Black-Scholes valuation model. The estimated fair value of each stock option and purchase right, including the effect of estimated forfeitures, is then expensed over the requisite service period, which is generally the vesting period. The following assumptions were used during these periods:

	Years Ended December 31,		
	2014	2013	2012
Stock Options:			
Expected volatility	93%	94%	98-99%
Risk-free interest rate	1-2%	1-2%	1%
Expected dividend yield	0%	0%	0%
Expected life of options in years	5.7	6.0	5.8-6.0

ACADIA PHARMACEUTICALS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

	Years Ended December 31,		
	2014	2013	2012
Employee Stock Purchase Plan:			
Expected volatility	44-95%	69-118%	69-137%
Risk-free interest rate	0.1-0.5%	0.1-0.3%	0.1-0.3%
Expected dividend yield	0%	0%	0%
Expected life of options in years	0.5-2.0	0.5-2.0	0.5-2.0

Expected Volatility. The Company considers its historical volatility and implied volatility when determining the expected volatility.

Risk-Free Interest Rate. The Company determines its risk-free interest rate assumption based on the U.S. Treasury yield for obligations with contractual terms similar to the expected term of the stock option or purchase right being valued.

Expected Dividend Yield. The Company has never paid any dividends and currently has no plans to do so.

Expected Life of Options. The Company considers, among other factors, its historical exercise experience to date as well as the mean time remaining to full vesting of all outstanding options and the mean time remaining to the end of the contractual term of all outstanding options.

Income Taxes

Current income tax expense or benefit represents the amount of income taxes expected to be payable or refundable for the current year. A deferred income tax asset or liability is computed for the expected future impact of differences between the financial reporting and income tax bases of assets and liabilities and for the expected future tax benefit to be derived from tax credits and loss carryforwards. Deferred income tax expense or benefit represents the net change during the year in the deferred income tax asset or liability. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Net Loss Per Share

Net loss per share is presented as basic and diluted net loss per share. Basic net loss per share is calculated by dividing the net loss by the weighted average number of common shares outstanding for the period, without consideration for common stock equivalents. Diluted net loss per share is computed by dividing the net loss by the weighted average number of common shares and common stock equivalents outstanding for the period determined using the treasury stock method. For purposes of this calculation, stock options and warrants are considered to be common stock equivalents but are not included in the calculations of diluted net loss per share for the periods presented as their effect would be antidilutive.

Shares used in calculating basic and diluted net loss per common share exclude the following potential common shares as their effect is antidilutive (in thousands):

	Years Ended December 31,		
	2014	2013	2012
Antidilutive options to purchase common stock	7,773	7,245	6,868
Antidilutive warrants to purchase common stock	1,966	3,116	4,388
	9,739	10,361	11,256

ACADIA PHARMACEUTICALS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Segment Reporting

Management has determined that the Company operates in one business segment. All revenues for the years ended December 31, 2014, 2013 and 2012 were generated in the United States.

Recently Issued Accounting Standards

In May 2014, the Financial Accounting Standards Board issued authoritative accounting guidance related to revenue from contracts with customers. This guidance is a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. This guidance is effective for annual reporting periods beginning after December 15, 2016 and early adoption is not permitted. The Company will adopt this guidance on January 1, 2017. Companies may use either a full retrospective or a modified retrospective approach to adopt this guidance. The Company is evaluating which transition approach to use and its impact, if any, on its consolidated financial statements.

In August 2014, the FASB issued authoritative accounting guidance related to an entity's ability to continue as a going concern. This guidance will explicitly require management to assess an entity's ability to continue as a going concern, and to provide related footnote disclosures in certain circumstances. The new standard is effective for annual reporting periods ending after December 15, 2016 and early adoption is permitted. The Company intends to adopt this guidance at the beginning of its first quarter of fiscal year 2016 and does not expect it to have a material impact on its consolidated financial statements and related disclosures.

3. Investment Securities

Investment securities, all classified as available-for-sale, consisted of the following (in thousands):

	December 31, 2014			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
U.S. Treasury notes	$ 2,748	$ 2	$ —	$ 2,750
Government sponsored enterprise securities	97,237	8	(10)	97,235
Corporate debt securities	137,682	3	(37)	137,648
Commercial paper	22,980	19	—	22,999
	$260,647	$ 32	$ (47)	$260,632

	December 31, 2013			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
U.S. Treasury notes	$ 2,743	$ 4	$ —	$ 2,747
Government sponsored enterprise securities	78,537	28	(5)	78,560
Corporate debt securities	65,290	1	(9)	65,282
Commercial paper	27,468	26	—	27,494
	$174,038	$ 59	$ (14)	$174,083

The Company has classified all of its available-for-sale investment securities, including those with maturities beyond one year, as current assets on its consolidated balance sheets based on the highly liquid nature

of the investment securities and because these investment securities are considered available for use in current operations. As of December 31, 2014, all of the Company's available-for-sale investment securities had contractual maturity dates less than one year. As of December 31, 2013, the Company held $33.5 million of available-for-sale investment securities with contractual maturity dates more than one year and less than two years.

At each reporting date, the Company performs an evaluation of impairment to determine if the unrealized losses are other-than-temporary. Factors considered in determining whether a loss is other-than-temporary include the length of time and extent to which fair value has been less than the cost basis, the financial condition of the issuer, and the Company's intent and ability to hold the investment until recovery of its amortized cost basis. The Company intends, and has the ability, to hold its investments in unrealized loss positions until their amortized cost basis has been recovered. Based on its evaluation, the Company determined that its unrealized losses were not other-than-temporary at December 31, 2014 and 2013.

4. Fair Value Measurements

As of December 31, 2014, the Company held $322.1 million of cash equivalents and available-for-sale investment securities consisting of a money market fund, U.S. Treasury notes, and high quality, marketable debt instruments of corporations, financial institutions and government sponsored enterprises in accordance with the Company's investment policy. The Company's investment policy defines allowable investments and establishes guidelines relating to credit quality, diversification, and maturities of its investments to preserve principal and maintain liquidity. All investment securities have a credit rating of at least A3/A- or better, or P-1/A-1 or better, as determined by Moody's Investors Service or Standard & Poor's.

The Company's cash equivalents and available-for-sale investment securities are classified within the fair value hierarchy as defined by authoritative guidance. The Company obtains the fair value of its Level 2 financial instruments from third party pricing services. The pricing services utilize industry standard valuation models whereby all significant observable inputs, including benchmark yields, reported trades, broker/dealer quotes, issuer spreads, bids, offers, or other market-related data, are observable. The Company validates the prices provided by the third-party pricing services by reviewing their pricing methods and matrices, and obtaining market values from other pricing sources. After completing the validation procedures, the Company did not adjust or override any fair value measurements provided by these pricing services as of December 31, 2014 and 2013, respectively.

The Company does not hold any securities classified as Level 3, which are securities valued using unobservable inputs. The Company has not transferred any investment securities between the classifications.

ACADIA PHARMACEUTICALS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The fair value measurements of the Company's cash equivalents and available-for-sale investment securities are identified in the following tables (in thousands):

	December 31, 2014	Fair Value Measurements at Reporting Date Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents:				
Money market fund	$ 48,423	$ 48,423	$ —	$ —
Government sponsored enterprise securities	13,000	—	13,000	—
U.S. Treasury notes	2,750	2,750	—	—
Government sponsored enterprise securities	97,235	—	97,235	—
Corporate debt securities	137,648	—	137,648	—
Commercial paper	22,999	—	22,999	—
	$ 322,055	$ 51,173	$ 270,882	$ —

	December 31, 2013	Fair Value Measurements at Reporting Date Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents:				
Money market fund	$ 11,748	$ 11,748	$ —	$ —
U.S. Treasury notes	2,747	2,747	—	—
Government sponsored enterprise securities	78,560	—	78,560	—
Corporate debt securities	65,282	—	65,282	—
Commercial paper	27,494	—	27,494	—
	$ 185,831	$ 14,495	$ 171,336	$ —

5. Balance Sheet Components

Property and equipment, net, consisted of the following (in thousands):

	December 31, 2014	December 31, 2013
Machinery and equipment	$ 896	$ 875
Computers and software	862	863
Leasehold improvements	627	570
Furniture and fixtures	244	245
Construction-in-Process	64	—
	2,693	2,553
Accumulated depreciation and amortization	(2,140)	(1,974)
	$ 553	$ 579

ACADIA PHARMACEUTICALS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Depreciation and amortization of property and equipment was $206,000, $79,000, and $109,000 for the years ended December 31, 2014, 2013, and 2012, respectively. During 2014 and 2013, the Company retired $40,000 and $2.8 million, respectively, of fully depreciated property and equipment. During 2012, the Company sold $1.5 million of fully depreciated machinery and equipment for a gain of $252,000.

Accrued expenses consisted of the following (in thousands):

	December 31,	
	2014	2013
Accrued research and development services	$ 7,814	$4,207
Accrued compensation and benefits	4,167	1,865
Accrued consulting and professional fees	1,497	308
Other	340	172
	$13,818	$6,552

6. Collaborative Research and Licensing Agreements

The Company has been a party to three collaboration agreements with Allergan. The March 2003 collaboration originally provided for a three-year research term, which was extended by the parties through March 2013. Pursuant to this agreement, the Company received an aggregate of $19.5 million in payments, consisting of an upfront payment, research funding and related fees, through the conclusion of the collaboration in March 2013. The Company's two ongoing collaboration agreements with Allergan involve the development of product candidates in the areas of glaucoma and chronic pain. Under the glaucoma collaboration, the Company had received an aggregate of $9.9 million in payments as of December 31, 2014, and is eligible to receive up to an aggregate of $15.0 million in additional payments per product upon the achievement of development and regulatory milestones. Under the chronic pain collaboration, the Company had received an aggregate of $10.5 million in payments as of December 31, 2014, and is eligible to receive up to an aggregate of $10.0 million in additional payments upon the achievement of development and regulatory milestones. The Company also is eligible to receive royalties on future net product sales worldwide, if any, under each of the two ongoing collaboration agreements with Allergan. The Company recognized revenues, consisting of research funding, milestone and related fees, from its collaboration agreements with Allergan of $40,000, $571,000, and $1.1 million during each of the years ended December 31, 2014, 2013, and 2012.

In March 2009, the Company entered into a collaboration agreement with Meiji Seika Pharma. In July 2012, the Company and Meiji Seika Pharma jointly decided to discontinue the development program that was being pursued under the collaboration, and the collaboration agreement was terminated pursuant to its terms. Under the collaboration agreement, the Company had received $3.0 million in non-refundable license fees as well as payments for the reimbursement of development costs that it had incurred during the collaboration. Payments received from Meiji Seika Pharma were deferred and recognized as revenues using a contingency-adjusted performance model over the estimated period of the Company's performance. Upon the termination of this collaboration agreement and the end of the Company's related performance obligations, the Company recognized as revenue the remaining deferred revenue from this collaboration during the third quarter of 2012. The Company recognized revenues relating to this collaboration of $3.2 million during the year ended December 31, 2012.

ACADIA PHARMACEUTICALS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

7. Stockholders' Equity

Public Offerings

In March 2014, the Company raised net proceeds of $196.8 million from the sale of 7,360,000 shares of its common stock in a public offering, including 960,000 shares sold pursuant to the exercise in full of the underwriters' over-allotment option.

In May 2013, the Company raised net proceeds of $107.9 million from the sale of 9,200,000 shares of its common stock in a public offering, including 1,200,000 shares sold pursuant to the exercise in full of the underwriters' over-allotment option.

Private Equity Financings

In December 2012, the Company raised net proceeds of $80.5 million through the sale of 19,000,000 shares of its common stock at a price of $4.43 per share and the sale of warrants to purchase 500,000 shares of its common stock at a price of $4.42 per warrant share in a private equity financing. The warrants have an exercise price of $0.01 per share and will expire on December 17, 2019. In accordance with authoritative accounting guidance, the warrants' value of $2.2 million was determined on the date of grant using the Black-Scholes model with the following assumptions: risk free interest rate of 1.1 percent, volatility of 105.8 percent, a 7.0 year term and no dividend yield. These warrants were recorded as a component of stockholders' equity within additional paid-in capital. Per their terms, the outstanding warrants to purchase 500,000 shares of common stock may not be exercised if the holder's ownership of the Company's common stock would exceed 19.99 percent following such exercise. Pursuant to the terms of the private financing, the Company has an effective resale registration statement on file with the SEC covering shares of common stock sold and shares of common stock issuable upon the exercise of the warrants.

In January 2011, the Company raised net proceeds of $13.9 million through the sale of 12,565,446 units at a price of $1.19375 per unit in a private equity financing. Each unit consisted of one share of the Company's common stock and a warrant to purchase 0.35 shares of common stock. The warrants have an exercise price of $1.38 per share and will expire on January 11, 2018. In accordance with authoritative accounting guidance, the warrants' value of $3.3 million was determined on the date of grant using the Black-Scholes model with the following assumptions: risk free interest rate of 2.8 percent, volatility of 99.0 percent, a 7.0 year term and no dividend yield. These warrants were recorded as a component of stockholders' equity with an equal offsetting amount to stockholders' equity because the value of the warrants was considered a financing cost. During the year ended December 31, 2013, warrants to purchase 1,759,162 shares of common stock were exercised on a net issuance basis, resulting in the issuance of 1,643,006 shares of common stock. During the year ended December 31, 2012, warrants to purchase 1,172,774 shares of common stock were exercised on a net issuance basis, resulting in the issuance of 874,719 shares of common stock. At December 31, 2014, warrants to purchase 1,465,968 shares of common stock remained outstanding. Pursuant to the terms of the private financing, the Company has an effective resale registration statement on file with the SEC covering shares of common stock sold and shares of common stock issuable upon the exercise of the warrants.

Other Financing Transactions

In March 2012, the Company entered into an At-The-Market Issuance Sales Agreement ("ATM Agreement") with MLV & Co. LLC. During the year ended December 31, 2012, the Company raised gross proceeds of $17.7 million from the sale of 5,347,137 shares of common stock under the ATM Agreement, resulting in net proceeds of $17.1 million after issuance costs.

ACADIA PHARMACEUTICALS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Stock Option Plans

The Company's 2010 Equity Incentive Plan (the "2010 Plan") permits the grant of options to directors, officers, other employees, and consultants. In addition, the 2010 Plan permits the grant of stock bonuses, rights to purchase restricted stock, and other stock awards. The exercise price of options granted under the 2010 Plan cannot be less than 100 percent of the fair market value of the common stock on the date of grant and the maximum term of any option is ten years. Options granted under the 2010 Plan generally vest over a four-year period. All shares that remained eligible for grant under the Company's 2004 Equity Incentive Plan (the "2004 Plan") at the time of approval of the 2010 Plan were transferred to the 2010 Plan. The 2010 Plan share reserve also has been, and may be, increased by the number of shares that otherwise would have reverted to the 2004 Plan reserve after June 2010. At December 31, 2014, there were 12,561,435 shares of common stock authorized for issuance, of which 4,630,905 shares were available for new grants under the 2010 Plan.

The 2004 Plan provided for the grant of options to directors, officers, other employees, and consultants. The exercise price of options granted under the 2004 Plan was at 100 percent of the fair market value of the common stock on the date of grant and the maximum term of any option was ten years. Options granted under the 2004 Plan generally vested over a four-year period. The Company's 1997 stock option plan (the "1997 Plan") provided for the grant of options to directors, officers, other employees, and consultants prior to the Company's initial public offering. The exercise price of each option grant was set at the fair market value for the Company's common stock as determined by the Company's Board of Directors and each option's maximum term was ten years. Options granted under the 1997 Plan generally vested over a four-year period.

Stock option transactions during the year ended December 31, 2014 are presented below:

	Number of Shares	Weighted-Average Exercise Prices	Weighted Average Remaining Contractual Term
Outstanding at December 31, 2013	7,338,138	$ 6.81	
Granted	2,519,500	$ 25.32	
Exercised	(1,486,802)	$ 4.31	
Canceled/forfeited	(440,306)	$ 16.11	
Outstanding at December 31, 2014	7,930,530	$ 12.65	7.26
Vested and expected to vest at December 31, 2014	7,577,438	$ 12.19	7.17
Exercisable at December 31, 2014	4,246,262	$ 5.51	5.78

The aggregate intrinsic value of options outstanding and exercisable as of December 31, 2014, is calculated as the difference between the exercise price of the underlying options and the closing market price of the Company's common stock on that date, which was $31.75. The aggregate intrinsic value of options outstanding and exercisable as of December 31, 2014, was $111.4 million. The aggregate intrinsic value of options exercised during the years ended December 31, 2014, 2013, and 2012 was approximately $30.6 million, $20.7 million, and $650,000, respectively, determined as of the date of exercise. The Company received $6.4 million in cash from options exercised during the year ended December 31, 2014.

The weighted average fair value of options granted during the years ended December 31, 2014, 2013, and 2012 was approximately $18.90, $12.66, and $1.51, respectively. As of December 31, 2014, total unrecognized compensation cost related to stock options and purchase rights was approximately $45.7 million, and the weighted average period over which this cost is expected to be recognized is 2.9 years.

ACADIA PHARMACEUTICALS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Stock-based awards issued to non-employees other than directors are accounted for using a fair value method and are re-measured to fair value at each period end until the earlier of the date that performance by the non-employee is complete or a performance commitment has been obtained. The fair value of each award is estimated using the Black-Scholes option pricing model with the following assumptions for the year ended December 31, 2013: dividend yield of 0 percent; volatility of 93 to 95 percent; risk free interest rate of 2 to 3 percent and remaining contractual life of 7 to 10 years. The stock compensation expense related to the grant of stock options to non-employees was $584,000 for the year ended December 31, 2013, and was not significant for the years ended December 31, 2014 and 2012.

Employee Stock Purchase Plan

The Company's 2004 Employee Stock Purchase Plan (the "Purchase Plan") became effective upon the closing of the Company's initial public offering in June 2004. The Purchase Plan included an "evergreen" provision providing that a limited number of additional shares may be added to the shares authorized for issuance on the date of each annual meeting of stockholders for a period of ten years, which ended with the meeting in 2014. Through December 31, 2014, a total of 1,525,000 shares of common stock had been reserved for issuance under the Purchase Plan. At December 31, 2014, 385,489 shares of common stock remained available for issuance pursuant to the Purchase Plan. Eligible employees who elect to participate in an offering under the Purchase Plan may have up to 15 percent of their earnings withheld, subject to certain limitations, to purchase shares of common stock pursuant to the Purchase Plan. The price of common stock purchased under the Purchase Plan is equal to 85 percent of the lower of the fair market value of the common stock at the commencement date of each offering period or the relevant purchase date. During the years ended December 31, 2014, 2013, and 2012, a total of 97,911, 122,853, and 205,862 shares of common stock were issued under the Purchase Plan at average prices of $6.78, $2.92, and $0.60, respectively. The weighted average fair value of purchase rights granted during the years ended December 31, 2014, 2013, and 2012 was $11.09, $10.96, and $2.43, respectively. During the years ended December 31, 2014, 2013, and 2012, the Company recorded cash received from the exercise of purchase rights of $664,000, $358,000, and $123,000, respectively.

Common Stock Reserved for Future Issuance

At December 31, 2014, a total of 7,930,530 and 1,965,968 shares of common stock were reserved for issuance pursuant to outstanding stock options and warrants, respectively.

8. 401(k) Plan

Effective January 1997, the Company established a deferred compensation plan (the "401(k) Plan") pursuant to Section 401(k) of the Internal Revenue Code of 1986, as amended (the "Code"), whereby substantially all employees are eligible to contribute up to 60 percent of their pretax earnings, not to exceed amounts allowed under the Code. The Company makes discretionary contributions to the 401(k) Plan equal to 100 percent of each employee's pretax contributions up to 5 percent of his or her eligible compensation, subject to limitations under the Code. The Company's total contributions to the 401(k) Plan were $489,000, $240,000, and $180,000 for the years ended December 31, 2014, 2013, and 2012, respectively.

9. Income Taxes

At December 31, 2014, the Company had both federal and state net operating loss ("NOL") carryforwards of approximately $462.8 million and $431.7 million, respectively. Utilization of the NOL and research and development ("R&D") credit carryforwards may be subject to a substantial annual limitation due to ownership

change limitations that have occurred or that could occur in the future, as required by Section 382 of the Code, as well as similar state and foreign provisions. These ownership changes may limit the amount of NOL and R&D credit carryforwards that can be utilized annually to offset future taxable income and tax, respectively. In general, an "ownership change" as defined by Section 382 of the Code results from a transaction or series of transactions over a three-year period resulting in an ownership change of more than 50 percentage points of the outstanding stock of a company by certain stockholders or public groups.

The Company previously completed a study to assess whether an ownership change, as defined by Section 382 of the Code, had occurred from the Company's formation through December 31, 2013. Based upon this study, the Company determined that several ownership changes had occurred. Accordingly, the Company reduced its deferred tax assets related to the federal NOL carryforwards and the federal R&D credit carryforwards that are anticipated to expire unused as a result of these ownership changes. These tax attributes were excluded from deferred tax assets with a corresponding reduction of the valuation allowance with no net effect on income tax expense or the effective tax rate. The Company completed a study through December 31, 2014 during the current year and concluded no additional ownership changes occurred. Future ownership changes may further limit the Company's ability to utilize its remaining tax attributes.

Federal and state NOL carryforwards of $3.6 million and $17.9 million will expire in 2018 and 2015, respectively, unless utilized. The remaining federal and state NOL carryforwards will begin to expire in 2019 and 2016, respectively. At December 31, 2014, the Company had $9.7 million of federal R&D credit carryforwards of which $119,000 will expire in 2018 unless utilized, and the remaining federal R&D credit carryforwards will begin to expire in 2019. At December 31, 2014, the Company had $6.1 million of state R&D credit carryforwards that have no expiration date. At December 31, 2014, the Company also had foreign NOL carryforwards of approximately $3.7 million that have no expiration date. The Company continues to record the deferred tax assets related to these attributes, subject to valuation allowance, until expiration occurs.

Approximately $36.8 million of the NOL carryforwards relate to excess tax deductions for stock compensation, the income tax benefit of which will be recorded as additional paid-in capital if and when realized.

The components of the deferred tax assets are as follows (in thousands):

	2014	2013
NOL carryforwards	$ 168,778	$ 136,583
R&D credit carryforwards	13,668	11,227
Capitalized R&D	6,548	8,003
Stock-based compensation	6,630	3,221
Other	1,615	1,207
	197,239	160,241
Valuation allowance	(197,239)	(160,241)
	$ —	$ —

Realization of deferred tax assets is dependent upon future earnings, if any, the timing and amount of which are uncertain. Accordingly, the deferred tax assets have been fully offset by a valuation allowance. The valuation allowance increased by $37.0 million in 2014 primarily due to an increase in deferred tax assets generated from net operating losses and R&D credits, partially offset by the expiration of NOL carryforwards in 2014.

ACADIA PHARMACEUTICALS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

A reconciliation of income taxes to the amount computed by applying the statutory federal income tax rate to the net loss is summarized as follows (in thousands):

	2014	2013	2012
Amounts computed at statutory federal rate	$(31,441)	$(12,902)	$(7,088)
Stock-based compensation and other permanent differences	1,417	244	209
Reduction of deferred tax assets under Section 382 of the Code	—	2,781	—
R&D credits	(2,420)	(1,269)	(937)
Change in valuation allowance	37,106	13,509	8,375
State taxes	(5,092)	(2,140)	(1,171)
Foreign taxes	4	—	(4)
Other	426	(223)	616
	$ 0	$ 0	$ 0

The tax years 1998-2013 remain open to examination by the major taxing jurisdictions to which the Company is subject. During 2012, the Internal Revenue Service concluded an exam for tax years 2008 and 2009 that resulted in favorable adjustments to the Company's R&D credits. As of December 31, 2014 and 2013, the Company did not have any liabilities recorded for uncertain tax positions.

10. Commitments and Contingencies

Leases

The Company leases facilities and certain equipment under noncancelable operating leases that expire at various dates through February 2019. Under the terms of the facilities leases, the Company is required to pay its proportionate share of property taxes, insurance and normal maintenance costs.

Future noncancelable minimum payment obligations under operating lease arrangements, including facilities and equipment, were as follows at December 31, 2014 (in thousands):

2015	$2,119
2016	2,021
2017	1,455
2018	1,506
2019	260
Thereafter	—
	$7,361

Rent expense for operating leases is recorded on a straight-line basis over the life of the lease term. Facility operating leases contain fixed and determinable escalation clauses. The difference between the rent expense and the rent paid is recorded as deferred rent. Rent expense under the Company's facility and equipment leases was $1.2 million, $594,000, and $663,000, for the years ended December 31, 2014, 2013, and 2012, respectively.

ACADIA PHARMACEUTICALS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

External Services

The Company has entered into agreements with contract research organizations and other external service providers primarily for services in connection with the development and planned commercialization of its product candidates. The Company was contractually obligated for up to approximately $16.3 million of future services under these agreements as of December 31, 2014. The nature of the work being conducted under the Company's agreements with external service providers is such that, in most cases, the services may be stopped with short notice. In such event, the Company would not be liable for the full amount of the contract. The Company's actual contractual obligations may vary depending upon several factors, including the progress and results of the underlying studies.

Contingent Regulatory Milestone Payments

In connection with the Company's 2006 license agreement with the Ipsen Group, the Company may be obligated in future periods to make certain regulatory milestone payments. These milestone payments may never occur as they are contingent on the achievement of future regulatory events which may never be attained. These one-time payments include $2.5 million payable upon the successful filing of the first regulatory application with the U.S. Food and Drug Administration ("FDA") and $8.0 million payable upon obtaining the first regulatory approval from the FDA. The Company would also be required to make royalty payments of up to two percent on net product sales, if any.

11. Selected Quarterly Financial Data (Unaudited)

The following financial information reflects all normal recurring adjustments, which are, in the opinion of management, necessary for a fair statement of the results of the interim periods. Summarized quarterly data for the years ended December 31, 2014 and 2013 are as follows (in thousands, except per share data):

	Fiscal Year 2014 Quarters				
	1st	2nd	3rd	4th	Total
Revenues	$ 30	$ 28	$ 15	$ 47	$ 120
Net loss	$(17,828)	$(21,495)	$(24,786)	$(28,366)	$(92,475)
Basic and diluted net loss per share(1)	$ (0.19)	$ (0.22)	$ (0.25)	$ (0.28)	$ (0.95)

	Fiscal Year 2013 Quarters				
	1st	2nd	3rd	4th	Total
Revenues	$ 417	$ 451	$ 240	$ 37	$ 1,145
Net loss	$ (6,123)	$ (9,081)	$(10,695)	$(12,049)	$(37,948)
Basic and diluted net loss per share(1)	$ (0.08)	$ (0.11)	$ (0.12)	$ (0.13)	$ (0.44)

(1) Net loss per common share, basic and diluted, are computed independently for each quarter and the full year based upon respective average shares outstanding. Therefore, the sum of the quarterly net loss per common share amounts may not equal the annual amounts reported.

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INDEX TO EXHIBITS

Exhibit Number	Description
3.1	Amended and Restated Certificate of Incorporation, as Amended (incorporated by reference to Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q, filed August 10, 2011).
3.2	Amended and Restated Bylaws (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K, filed September 12, 2013).
4.1	Form of common stock certificate of the Registrant (incorporated by reference to Exhibit 4.1 to Registration Statement No. 333-52492).
4.2	Form of Warrant to Purchase Common Stock issued to purchasers in a private placement on January 12, 2011 (incorporated by reference to Exhibit 4.5 to Registration Statement No. 333-171722).
4.3	Form of Warrant to Purchase Common Stock issued to certain purchasers in a private placement on December 17, 2012 (incorporated by reference to Exhibit 4.4 to Registration Statement No. 333-185639).
10.1[a]	Form of Indemnity Agreement for directors and officers (incorporated by reference to Exhibit 10.1 to Registration Statement No. 333-113137).
10.2[a]	2004 Equity Incentive Plan and forms of agreement thereunder (incorporated by reference to Exhibit 10.3 to Registration Statement No. 333-113137).
10.3[a]	2010 Equity Incentive Plan, as amended (incorporated by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K, filed June 12, 2013).
10.4[a]	Forms of agreement under the 2010 Equity Incentive Plan (incorporated by reference to Exhibit 10.6 to the Registrant's Annual Report on Form 10-K, filed March 10, 2011).
10.5[a]	2004 Employee Stock Purchase Plan and initial offering thereunder (incorporated by reference to Exhibit 10.4 to Registration Statement No. 333-113137).
10.6[a]	Employment Letter Agreement, dated December 21, 1998, between the Registrant and Uli Hacksell, Ph.D. (incorporated by reference to Exhibit 10.7 to Registration Statement No. 333-52492).
10.7[a]	Employment Offer Letter, dated May 26, 2006, between the Registrant and Roger Mills (incorporated by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K, filed April 2, 2007).
10.8[a]	Employment Agreement, dated March 16, 2010, between the Registrant and Glenn F. Baity (incorporated by reference to Exhibit 10.13 to the Registrant's Annual Report on Form 10-K, filed March 10, 2011).
10.9[a]	Employment Agreement, dated August 19, 2013, between the Registrant and Terrence Moore (incorporated by reference to Exhibit 10.13 to the Registrant's Annual Report on Form 10-K, filed February 27, 2014).
10.10[a]	Employment Agreement, dated July 15, 2014, between the Registrant and Stephen Davis (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q, filed August 5, 2014).
10.11[a]	Description of Executive Officer Annual Incentive Cash Compensation Program (incorporated by reference to Exhibit 10.33 to the Registrant's Annual Report on Form 10-K, filed March 12, 2013).
10.12[a]	Change in Control Severance Benefit Plan (incorporated by reference to Exhibit 10.15 to the Registrant's Annual Report on Form 10-K, filed February 27, 2014).
10.13[a]	Description of Outside Director Compensation Program (incorporated by reference to Exhibit 10.13 to the Registrant's Annual Report on Form 10-K, filed March 12, 2013).

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Exhibit Number	Description
10.14[b]	Collaborative Research, Development and License Agreement, dated September 24, 1997, by and among the Registrant, Allergan, Inc. and Vision Pharmaceuticals L.P. (now Allergan Sales, Inc.) (incorporated by reference to Exhibit 10.12 to Registration Statement No. 333-113137).
10.15[b]	Amendment to Collaborative Research, Development and License Agreement, dated March 27, 2003, by and among the Registrant, Allergan Sales LLC (as successor in interest of Vision Pharmaceuticals L.P.) and Allergan, Inc. (incorporated by reference to Exhibit 10.13 to Registration Statement No. 333-113137).
10.16[b]	Collaborative Research, Development and License Agreement, dated July 26, 1999, by and among the Registrant and Allergan, Inc., Allergan Pharmaceuticals (Ireland) Limited, Inc. and Allergan Sales, Inc. (incorporated by reference to Exhibit 10.14 to Registration Statement No. 333-113137).
10.17[b]	Second Amendment to Collaborative Research, Development and License Agreement, dated February 28, 2006, by and among the Registrant, Allergan Sales LLC (as successor in interest of Vision Pharmaceuticals L.P.) and Allergan, Inc. (incorporated by reference to Exhibit 10.25 to the Registrant's Annual Report on Form 10-K, filed March 15, 2006).
10.18[b]	Third Amendment to Collaborative Research, Development and License Agreement, dated March 3, 2008, by and among the Registrant, Allergan Sales LLC (as successor in interest of Vision Pharmaceuticals L.P.) and Allergan, Inc. (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q, filed May 5, 2008).
10.19[b]	Fourth Amendment to Collaborative Research, Development and License Agreement, dated April 22, 2009, by and among the Registrant, Allergan Sales LLC (as successor in interest of Vision Pharmaceuticals L.P.) and Allergan, Inc. (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q, filed August 5, 2009).
10.20[b]	Fifth Amendment to Collaborative Research, Development and License Agreement, dated March 23, 2010, by and among the Registrant, Allergan Sales LLC (as successor in interest of Vision Pharmaceuticals L.P.) and Allergan, Inc. (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q, filed May 10, 2010).
10.21[b]	Sixth Amendment to Collaborative Research, Development and License Agreement, dated March 28, 2011, by and among the Registrant, Allergan Sales LLC (as successor in interest of Vision Pharmaceuticals L.P.) and Allergan, Inc. (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q, filed May 9, 2011).
10.22[b]	Seventh Amendment to Collaborative Research, Development and License Agreement, dated February 29, 2012, by and among the Registrant, Allergan Sales LLC (as successor in interest of Vision Pharmaceuticals L.P.) and Allergan, Inc. (incorporated by reference to Exhibit 10.23 to the Registrant's Annual Report on Form 10-K, filed March 6, 2012).
10.23[b]	Amendment to 1999 Collaborative Research, Development and License Agreement, dated May 31, 2013, by and among the Registrant, Allergan Sales LLC and Allergan, Inc. (incorporated by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K, filed June 5, 2013).
10.24	Securities Purchase Agreement, dated December 12, 2012, by and between the Registrant and the purchasers listed on Exhibit A thereto (incorporated by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K, filed December 18, 2012).
10.25	Securities Purchase Agreement, dated January 9, 2011, by and between the Registrant and the purchasers listed on Exhibit A thereto (incorporated by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K, filed January 12, 2011).

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Exhibit Number	Description
10.26	Lease Agreement for 11085 Torreyana Road, dated June 5, 2013, between the Registrant and HCP Torreyana, LLC (incorporated by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K, filed June 7, 2013).
10.27	First Amendment to Lease Agreement for 11085 Torreyana Road, dated August 28, 2013, between the Registrant and HCP Torreyana, LLC (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q, filed November 6, 2013).
10.28[b]	Sublease Agreement, effective November 13, 2014, between the Registrant and Trion Worlds, Inc.
10.29	Assignment of Brann Intellectual Property Rights, dated January 29, 1997, by Mark R. Brann in favor of the Registrant (incorporated by reference to Exhibit 10.17 to Registration Statement No. 333-52492).
10.30[b]	License Agreement, dated November 30, 2006, by and between the Registrant and Société de Conseils, de Recherches et d'Applications Scientifiques SAS, a French corporation member of the Ipsen Group (incorporated by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K, filed December 4, 2006).
21.1	List of subsidiaries of the Registrant.
23.1	Consent of Independent Registered Public Accounting Firm.
24.1	Power of Attorney (see signature page hereto).
31.1	Certification of Uli Hacksell, Ph.D., Chief Executive Officer, pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Stephen Davis, Chief Financial Officer, pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Uli Hacksell, Ph.D., Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Stephen Davis, Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following financial statements from this Annual Report, formatted in XBRL (Extensible Business Reporting Language), are filed herewith: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Comprehensive Loss, (iv) Consolidated Statements of Cash Flows, (v) Consolidated Statements of Stockholders' Equity, and (vi) Notes to Consolidated Financial Statements.

[a] Indicates management contract or compensatory plan or arrangement.

[b] We have requested or received confidential treatment of certain portions of this agreement, which have been omitted and filed separately with the SEC pursuant to Rule 406 under the Securities Act of 1933, as amended, or Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

Exhibit 10.28

*****Text Omitted and Filed Separately with the Securities and Exchange Commission**
Confidential Treatment Requested Under 17 C.F.R. Sections 200.80(b)(4) and 240.24b-2

3611 Valley Centre Drive
San Diego, CA

ACADIA Pharmaceuticals Inc.

SUBLEASE AGREEMENT

This Sublease Agreement ("**Sublease**") is made effective as of the 20th day of October, 2014, (the "**Effective Date**") by and between TRION WORLDS, INC., a Delaware corporation ("**Sublandlord**"), and ACADIA PHARMACEUTICALS INC., a Delaware corporation ("**Subtenant**") with reference to the following facts:

A. KILROY REALTY, L.P., a Delaware limited partnership ("**Master Landlord**") and Sublandlord entered into that certain Office Lease dated August 8, 2012 ("**Master Lease**"), whereby Master Landlord leased to Sublandlord and Sublandlord leased from Master Landlord those certain premises consisting of (i) approximately 26,521 rentable square feet located on the third floor and approximately 12,459 rentable square feet located on the second floor (collectively "**Phase I Premises**") and (ii) approximately 12,459 rentable square feet located on the second floor ("**Phase II Premises**"), for a total size of 51,439 rentable square feet (as re-measured from the originally stated 52,000 rentable square feet) located at 3611 Valley Centre Drive, Suites 200 and 300, San Diego, California as further set forth in **Exhibit A** attached hereto and incorporated by reference (the "**Premises**").

B. Sublandlord agrees to sublease to Subtenant, and Subtenant agrees to sublease from Sublandlord, the entire Premises upon the terms and conditions set forth in this Sublease.

C. Subtenant has read this Sublease in its entirety and is familiar with all of the terms, conditions and obligations contained herein and agrees that no prior agreement, understanding, representation or warranty, oral or written, express or implied, pertaining to the Premises or any such other matter shall be effective for any purpose.

AGREEMENT

1. **Sublease of Premises**. Subject to the terms and conditions of this Sublease, Sublandlord hereby subleases to Subtenant and Subtenant hereby subleases from Sublandlord the Premises.

2. **Master Lease and Other Agreements**.

2.1 Subordinate to Master Lease. Except as specifically set forth herein, this Sublease is subject and subordinate to all of the terms and conditions of the Master Lease. Subtenant hereby assumes and agrees to perform the obligations of "Tenant" under the Master Lease to the extent set forth hereafter. Unless otherwise defined, all capitalized terms used herein shall have the same meanings as given them in the Master Lease. A copy of the Master Lease is attached hereto as **Exhibit B** and incorporated herein by this reference. Subtenant shall not commit or permit to be committed any act or omission which would violate any term or condition of the Master Lease. Subtenant shall neither do nor permit anything to be done which would cause the Master Lease to be terminated or forfeited by reason of any right of termination or forfeiture reserved or vested in Master Landlord under the Master Lease, and Subtenant shall indemnify and hold Sublandlord harmless from and against all claims, liabilities, judgments, costs, demands, penalties, expenses, and damages of any kind whatsoever, including, without limitation, attorneys' fees, consultants' fees and costs and court costs, ("**Claims**") by reason of any failure on the part of Subtenant to perform any of the obligations of "Tenant" under the Master Lease which Subtenant has become obligated hereunder to perform, and such indemnity and hold harmless shall survive the expiration or sooner termination of this Sublease. In the event of the termination of the Master Lease for any reason, voluntary or otherwise, then this Sublease shall terminate automatically upon such termination without any liability owed to Subtenant by Master Landlord, or by Sublandlord unless the termination is due to Sublandlord's breach of the Master Lease or this Sublease and not due to Subtenant's breach of the Sublease. Subtenant represents and warrants to Sublandlord that it has read and is familiar with the Master Lease. Notwithstanding anything to the contrary, Sublandlord shall be responsible to cure any default of the Master Lease which occurred prior to the date the Premises are delivered to Subtenant.

2.2 Applicable Provisions. All of the terms and conditions contained in the Master Lease as they may apply to the Premises are incorporated herein and shall be terms and conditions of this Sublease, except those directly contradicted by the terms and conditions contained in this Sublease. Each reference therein to "Landlord", "Tenant" and "Lease" to be deemed to refer to Sublandlord, Subtenant and Sublease, respectively, as appropriate.

2.3 Modifications. For the purposes of incorporation herein, the terms of the Master Lease are subject to the following additional modifications:

(a) In all provisions of the Master Lease (under the terms thereof and without regard to modifications thereof for purposes of incorporation into this Sublease) requiring the approval or consent of Master Landlord, Subtenant shall be required to obtain the approval or consent of both Sublandlord and Master Landlord, under the same standards of consent as set forth in the Master Lease except that Sublandlord's consent shall not be unreasonably withheld and the approval of Sublandlord may be withheld if Master Landlord's consent is not obtained.

(b) In all provisions of the Master Lease requiring "Tenant" to submit, exhibit to, supply or provide Master Landlord with evidence, certificates, or any other matter or thing, Subtenant shall be required to submit, exhibit to, supply or provide, as the case may be, the same to both Master Landlord and Sublandlord.

(c) Sublandlord shall have no obligation to restore or rebuild any portion of the Premises after any destruction or taking by eminent domain or to maintain, repair, restore or control any portion of the Building or Project.

(d) Sublandlord shall not be obligated to perform those obligations of Master Landlord which Sublandlord cannot immediately and unilaterally perform as "Landlord", nor shall Sublandlord be deemed to have adopted as its own any representations made by Master Landlord in the Master Lease.

(e) Sublandlord shall not be obligated to maintain any building systems (unless such maintenance is the obligation of "Tenant" under the Master Lease and not the obligation of Subtenant herein), any common area or any other repair or maintenance obligations which are Master Landlord's obligations under the Master Lease.

(f) Sublandlord shall have no obligation to construct or pay for any improvements.

(g) In all provisions of the Master Lease requiring "Tenant" to designate Master Landlord as an additional or named insured on its insurance policy, Subtenant shall be required to so designate Master Landlord, Sublandlord and any individual, party or entity as required by Master Landlord or Sublandlord on its insurance policy.

(h) If and to the extent that Sublandlord's rental obligation is abated or reduced pursuant to the Master Lease due to a casualty, condemnation or other interference with the use of the Premises, the Rent hereunder shall be abated or reduced in the same proportion and period as the abatement or reduction under the Master Lease. Subtenant shall not be entitled to any further abatement or reduction in Rent.

(i) Whenever in the Master Lease a time is specified for the giving of any notice or the making of any demand by the "Tenant" thereunder, such time is hereby changed, for the purpose of this Sublease only, by adding two (2) business days thereto and whenever in the Master Lease a time is specified for the giving of any notice or the making of any demand by the "Landlord", such time is hereby changed, for the purpose of this Sublease only, by subtracting two (2) business days therefrom (but in no event shall such notice period be reduced to less than two (2) business days or the period set forth in the Master Lease, whichever is shorter). It is the purpose and intent of the foregoing provisions to provide Sublandlord with time within which to transmit to Master Landlord any notices or demands received from Subtenant and to transmit to Subtenant any notices or demands received from Master Landlord.

(j) In the following provisions that are incorporated herein, the reference to Landlord shall mean Master Landlord only: Sections 1.1.3, 5.2, and 6.1; Section 6.2; Section 6.4; the 3rd sentence of Article 7; the 4th sentence of Section 8.2; the last 2 sentences of Section 8.5, the first sentence of Section 29.13; Section 29.29; and the 2nd, 3rd and 5th sentences and the 2nd instance of the 4th sentence of Section 29.30.

(k) In the following provisions that are incorporated herein, the reference to Landlord shall mean both Master Landlord and Sublandlord: Sections 6.2 (other than "Landlord" on the 5th line and last sentence) and 6.3; Article 7 (except the 3rd sentence), 8.1, 8.2 (except 4th sentence), 8.3 and 8.4; the last 2 sentences of Section 8.5; Article 9; Sections 10.2, 10.3, 10.4, 10.6, 10.6, 15.1 and 15.2; Article 17, 23, 24, 27 and 28; and Sections 29.30, 29.32 and 29.33 (except as excluded below).

2.4 Exclusions. Notwithstanding the terms of Section 2.2 above, Subtenant shall have no rights under any of the following provisions of the Master Lease: (i) any rights or options to expand, extend, renew or terminate the Master Lease, this Sublease or the Premises, and (ii) any rights of first offer, rights of first negotiation, or similar rights, or any rights to any tenant improvement allowance (except for the tenant improvement allowance as expressly provided herein). In addition, the following provisions of the Master Lease are NOT incorporated herein: Sections 1, 3, 4, 6, 8, 9, 11, 13 and 14 of the Summary of Basic Lease Information; Sections 1.2, 1.3, 2.2, 2.3, 3.2, 3.3, 4.6 (except as provided in Section 4.6 below) and 8.6; the 2nd sentence of Section 10.1; Sections 11.1 and 11.2; Article 13 (other than the waiver of Section 2365.130 of the California Code of Civil Procedure); the 2nd, 3rd, 4th and 5th sentences of Section 18, 21; Section 29.18; the 1st sentence of Section 29.33.2; the 1st sentence of Section 29.33.4; Article 30; Exhibit B, Exhibit H and Exhibit I. All of the incorporated terms of the Master Lease as referenced and qualified above along with all of the following terms and conditions set forth in this document shall constitute the complete terms and conditions of this Sublease.

2.5 Obligations of Sublandlord. Notwithstanding anything herein contained, the only services or rights to which Subtenant is entitled hereunder are those to which Sublandlord is entitled under the Master Lease, and for all such services and rights Subtenant shall look solely to the Master Landlord under the Master Lease, and the obligations of Sublandlord hereunder shall be limited to using its reasonable good faith efforts to obtain the performance by Master Landlord of its obligations, provided Subtenant shall reimburse Sublandlord for all reasonable costs incurred by Sublandlord in such efforts. Sublandlord shall have no liability to Subtenant or any other person for damage of any nature whatsoever as a result of the failure of Master Landlord to perform said obligations except for Master Landlord's termination of the Sublandlord's interest as "Tenant" under the Master Lease in the event of Sublandlord's breach of the Master Lease (without cause of Subtenant), and Subtenant shall indemnify and hold Sublandlord harmless from any and all Claims whatsoever incurred in defending against same. Sublandlord shall not modify, amend or terminate the Master Lease or exercise its right to terminate the Master Lease pursuant to Section 2.3 of the Master Lease, if such modification, amendment or termination shall materially affect Subtenant's rights or obligations set forth herein without the prior written consent of Subtenant, which consent shall not be unreasonably withheld; provided however, nothing herein shall prohibit Sublandlord from exercising its right to terminate the Master Lease as expressly set forth in the Master Lease (other than as set forth above) nor shall Sublandlord be liable to Subtenant for any termination of the Master Lease by Master Landlord, whether or not permitted therein, unless such termination is the result of a breach of the Master Lease by Sublandlord.

3. **Term**.

3.1 Initial Term. The term of this Sublease ("**Term**") shall commence as follows: (i) for the Phase I Premises, the earlier of (a) the date Subtenant first commences to conduct business in the Phase I Premises, or (b) January 1, 2015 ("**Phase I Commencement Date**"), and (ii) for the Phase II Premises, the earlier of (x) the date Subtenant first commences to conduct business in the Phase II Premises, or (y) July 1, 2015 ("**Phase II Commencement Date**"), but in either case, in no event before the date of Master Landlord's consent of this Sublease ("**Commencement Date**") and shall end upon the expiration of the Master Lease which is anticipated to be February 28, 2019 ("**Expiration Date**"), unless sooner terminated pursuant to any provision of the Master Lease applicable to the Premises or the terms of this Sublease. For the purposes of this Sublease, from the Phase I Commencement Date until the Phase II Commencement Date, "**Commencement Date**" shall mean the Phase I Commencement Date and Premises shall mean the Phase I Premises (other than any terms which apply to the Phase II Premises prior to the Commencement Date (i.e. early access, insurance, indemnity, etc.) and upon the Phase II Premises Commencement Date, Premises shall mean the entire Premises. Sublandlord shall have no obligation to Subtenant to exercise any of its options to extend under the Master Lease.

3.2 Option to Extend. Subtenant shall have no option to extend this Sublease.

3.3 Sublandlord's Inability to Deliver the Premises. In the event Sublandlord is unable to deliver possession of the Phase I Premises on or before the Phase I Commencement Date or the Phase II Premises on or before the Phase II Commencement Date, Sublandlord shall not be liable for any damage caused thereby, nor shall this Sublease be void or voidable, and the term hereof shall not be extended by such delay. Notwithstanding anything to the contrary, Sublandlord shall have no obligation to deliver possession of the Premises unless and until Subtenant has delivered to Sublandlord the Security Deposit (as defined below) and the Base Rent (as defined below) for the first full month, and Subtenant's failure to deliver the Security Deposit and first month's Base Rent shall not affect the Commencement Date. Notwithstanding the foregoing, if Sublandlord has failed to deliver

possession of the Phase I Premises to Subtenant on or before January 1, 2015, then at any time before delivery of possession, Subtenant may give written notice to Sublandlord of Subtenant's intention to terminate this Sublease, and if Sublandlord has failed to deliver possession of the Premises within ten (10) days following receipt of Subtenant's termination notice, this Sublease shall be terminated with neither party having any obligations to the other there party thereafter.

3.4 Early Access. Upon Master Landlord's consent to this Sublease, Subtenant shall have reasonable access to the entire Premises for the purposes of construction of approved improvements and installation of furniture, fixtures, equipment and cables (which activity shall not be deemed to be "conducting business"). Subtenant's access shall be subject to all the terms and conditions of this Sublease, including without limitation, all insurance and maintenance obligations, and all monetary obligations except the payment of Base Rent.

4. **Rent**.

4.1 Base Rent. Subtenant shall pay to Sublandlord during the Term of this Sublease, rent, in advance, on Subtenant's execution hereof for the first full month in the amount of $85,756.00 and on or before the 1st of each month thereafter ("**Base Rent**") per month pursuant to the following schedule:

Period During Term	Monthly Base Rent Per Rentable Square foot	Monthly Installment of Base Rent
Phase I Commencement Date through day immediately prior to Phase II Commencement Date	$ 2.20	$ 85,756.00
Phase II Commencement Date through December 31, 2015	$ 2.20	$ 113,165.80
January 1, 2016 – December 31, 2016	$ 2.28	$ 117,126.60
January 1, 2017 – December 31, 2017	$ 2.36	$ 121,226.03
January 1, 2018 – December 31, 2018	$ 2.44	$ 125,468.95
January 1, 2019 – Expiration Date	$ 2.52	$ 129,860.36

Rent for partial months at the commencement or termination of this Sublease shall be prorated. Rent shall be paid to the Sublandlord at its notice address noted herein, or at any other place Sublandlord may from time to time designate by written notice mailed or delivered to Subtenant.

4.2 Expenses and Taxes. Subtenant shall pay to Sublandlord all Direct Expenses (as defined in the Master Lease) which Sublandlord is responsible to pay under the Master Lease in the same manner as set forth in Section 4 of the Master Lease except that the Base Year for such Expenses and Taxes shall be calendar year 2015.

4.3 Intentionally Omitted.

4.4 Metered Utilities. Subtenant shall pay all utilities provided to the Premises directly to the utility provider in the same manner as set forth in Section 6.1.2 of the Master Lease. In the event the Premises are submetered by Master Landlord, Subtenant shall pay for such utilities either directly to Master Landlord or Sublandlord as Sublandlord shall direct.

4.5 Additional Services. If Subtenant shall procure any additional services from Master Landlord, including, but not limited to, key cards beyond those provided by Sublandlord, lost or stolen key cards or after-hours HVAC (outside of the Building Hours set forth in Section 6.1.1 of the Master Lease), or if additional rent or other sums are incurred under the Master Lease by Subtenant, Subtenant shall make such payment to Sublandlord or Master Landlord, as Sublandlord shall direct.

4.6 Landlord's Books and Records. For any Expense Year for which Subtenant is responsible to pay Direct Expenses, Subtenant shall have the right to review Landlord's records regarding Direct Expenses to the extent granted to Sublandlord under Section 4.6 of the Master Lease provided Subtenant first notifies Subtenant at least thirty (30) days prior to the expiration of the Review Period (as set defined in the Master Lease). Following receipt of Subtenant's notice, Sublandlord may elect to either perform the review of Landlord's records, in which case Subtenant shall be responsible for all costs and expenses incurred by Sublandlord as a result

of such review including any increase in Direct Expenses which may result, or permit Subtenant to perform such review of Sublandlord's behalf in which case Subtenant shall be responsible for the costs of such review (subject to reimbursement by Landlord pursuant to Section 4.6 of the Master Lease) and any increase in Direct Expenses which may result. If such review results in a reduction in Direct Expenses for such Expense Year, provided Subtenant is not in default of this Sublease, Subtenant shall be entitled to a credit or reimburse of the Direct Expenses paid by Subtenant during such Expense Year (prorated for any partial months) in the same manner as set forth in Section 4.6 of the Master Lease.

4.7 Rent. All amounts set forth in this Section 4 and any other rent or other sums payable by Subtenant under this Sublease shall constitute and be due as additional rent. Base Rent, and additional rent shall herein be referred to as "**Rent**".

5. **Security Deposit**. Upon execution hereof, Subtenant shall deposit with Sublandlord the sum of $129,860.36 ("**Security Deposit**") as and for a security deposit to secure Subtenant's full and timely performance of all of its obligations hereunder. If Subtenant fails to pay Rent or any other sums as and when due hereunder, or otherwise defaults and/or fails to perform with respect to any provision of this Sublease, and such failure is not cured within the applicable cure period, Sublandlord may (but shall not be obligated to) use, apply, or retain all or any portion of the Security Deposit for payment of any sum for which Subtenant is obligated or which will compensate Sublandlord for any foreseeable or unforeseeable loss or damage which Sublandlord may suffer thereby including, without limitation, any damage that will result in the future through the Term, to repair damage to the Premises, to clean the Premises at the end of the Term or for any loss or damage caused by the act or omission of Subtenant or Subtenant's officers, agents, employees, independent contractors or invitees. Subtenant waives the provisions of California Civil Code Section 1950.7 and all other provisions of law now in force or that become in force after the date of execution of this Sublease that provide that Sublandlord may claim from a security deposit only those sums reasonably necessary to remedy defaults in the payment of Rent, to repair damage caused by Subtenant or to clean the Premises. Any such use, application, or retention shall not constitute a waiver by Sublandlord of its right to enforce its other remedies hereunder, at law, or in equity. If any portion of the Security Deposit is so used, applied, or retained, Subtenant shall, within ten (10) days after delivery of written demand from Sublandlord, restore the Security Deposit to its original amount. Subtenant's failure to do so shall constitute a material breach of this Sublease, and in such event Sublandlord may elect, among or in addition to other remedies, to terminate this Sublease. Sublandlord shall not be a trustee of such Security Deposit, and shall not be required to keep this Security Deposit separate from its accounts. Sublandlord alone shall be entitled to any interest or earnings thereon and Sublandlord shall have the free use of same. If Subtenant fully and faithfully performs all of its obligations hereunder, then so much of the Security Deposit as it remains shall be returned to Subtenant (without payment of interest or earnings thereon) within 30 days after the later of (i) expiration or sooner termination of the Term, or (ii) Subtenant's surrender of possession of the Premises to Sublandlord.

6. **Premises**.

6.1 Condition of the Premises. Subtenant acknowledges that as of the Commencement Date, Subtenant shall have inspected the Premises, and every part thereof, and by taking possession shall have acknowledged that the Premises is in good condition and without need of repair, and Subtenant accepts the Premises "as is", Subtenant having made all investigations and tests it has deemed necessary or desirable in order to establish to its own complete satisfaction the condition of the Premises. Subtenant accepts the Premises in their condition existing as of the Commencement Date, subject to all applicable zoning, municipal, county and state laws, ordinances, and regulations governing and regulating the use of the Premises and any covenants or restrictions of record. Subtenant acknowledges that neither Sublandlord nor Master Landlord have made any representations or warranties as to the condition of the Premises or its present or future suitability for Subtenant's purposes.

6.2 Maintenance and Surrender. Commencing upon Sublandlord's delivery of the Phase I Premises and the Phase II Premises to Subtenant or Subtenant's early access, Subtenant shall keep the Premises in good order and repair and perform all maintenance, repair and replacement obligations of "Tenant" required under the Master Lease. Subtenant shall surrender the Premises in the same condition as required under the Master Lease, including, without limitation, removing all cabling and Furniture (as defined below) which is required to be removed under the Master Lease whether installed by Sublandlord or Subtenant. Sublandlord represents that it has not been notified by Master Landlord that any Alterations (as defined in the Master Lease) existing within the Premises as of the Effective Date must be removed at the expiration or earlier termination of the Master Lease.

6.3 Furniture. Subtenant may use certain furniture, fixtures and equipment and security system located in the Premises as set forth on **Exhibit C** ("**Furniture**"). Subtenant accepts the Furniture in its "as is" condition and Sublandlord makes no warranty as to the condition of the Furniture or its present or future suitability for Subtenant's purposes. Provided this Sublease has not terminated prior to the expiration of the Master Lease, upon the Expiration Date, Sublandlord shall convey title to the Furniture to Subtenant for $1.00 and, unless Landlord otherwise consents in writing, Subtenant shall be solely responsible for removal of the Furniture from the Premises at the expiration of this Sublease, and for repair of any damage caused by such removal. Otherwise, if the Sublease terminates prior to the expiration of the Master Lease, at Sublandlord's option, upon termination of this Sublease, Subtenant shall return the Furniture to Sublandlord in the same condition as received, ordinary wear and tear excepted conditioned on the obligation of Subtenant to use the Furniture in a careful and proper manner and to clean and repair the Furniture in the manner necessary to maintain the Furniture in the condition it was initially provided to Subtenant, normal wear and tear excepted. Upon Subtenant written request, Sublandlord shall execute a bill of sale evidencing the transfer of the Furniture to Subtenant. Subtenant shall be liable for any damage to the Furniture and solely responsible for all costs associated with the maintenance, cleaning and repair of the Furniture.

7. **Insurance**.

7.1 Subtenant's Insurance. With respect to the "Tenant's" insurance under the Master Lease, the same is to be provided by Subtenant as described in the Master Lease, and such policies of insurance shall include as additional insureds Master Landlord, Sublandlord, any individual, party or entity as required by Master Landlord and any individual, party or entity as required by Master Landlord or Sublandlord.

7.2 Waiver of Subrogation. With respect to the waiver of subrogation contained in the Master Lease, such waiver shall be deemed to be modified to constitute an agreement by and among Master Landlord, Sublandlord and Subtenant (and Master Landlord's consent to this Sublease shall be deemed to constitute its approval of this modification).

8. **Use and Alterations**.

8.1 Use of Premises. Subtenant shall use the Premises only for those purposes permitted in the Master Lease.

8.2 Alterations. Subtenant shall not make any Alteration to the Premises without the express prior written consent of Sublandlord and of Master Landlord (to the extent Master Landlord's consent is required under the Master Lease), which consent by Sublandlord shall not be unreasonably withheld. Subtenant hereby consents to the space plan attached hereto as **Exhibit D** for the Alterations intended to be made by Subtenant ("**Initial Alterations**"), provided however, Sublandlord shall have the right to review and consent to any modifications of the Initial Alterations or the final plans. Subtenant shall reimburse Master Landlord and Sublandlord for all reasonable costs which Master Landlord and Sublandlord may incur in connection with reviewing Subtenant plans for such Alteration, including, without limitation, Master Landlord's and Sublandlord's reasonable attorneys' fees and costs. Subtenant shall provide Master Landlord and Sublandlord with a set of "as-built" drawings for any such work, together with copies of all permits obtained by Subtenant in connection with performing any such work, within fifteen (15) days after completing such work. Sublandlord may impose as a condition of its consent to such alterations, improvements, or modifications, such requirements as Sublandlord may deem reasonable and desirable, including, but not limited to the requirement that Subtenant utilize for such purposes only contractor(s), materials, mechanics and materialmen approved by Sublandlord and that, in connection with any Alterations the projected cost of which is in exceed $100,000.00 or if required by Master Landlord, Subtenant, and/or Sublandlord's contractor(s) post a payment and/or completion bond to guarantee the performance of its construction obligations hereunder. On termination of this Sublease, if required by Master Landlord, Subtenant shall remove any or all of such Alterations and restore the Premises (or any part thereof) to the condition required under the Master Lease; provided however, if this Sublease terminates, for any reason, prior to the expiration of the Master Lease, then Sublandlord shall have the right to require Subtenant to remove such Alterations. Should Subtenant fail to remove such Alterations and restore the Premises on termination of this Sublease unless as otherwise set forth above, Sublandlord shall have the right to do so, and charge Subtenant therefor, plus a service charge of ten percent (10%) of the costs incurred by Sublandlord in addition to any costs or expenses charged by Master Landlord under the Master Lease. Notwithstanding anything to the contrary, Subtenant shall have no obligation to remove any Alterations existing within the Premises as of the Effective Date.

8.3 Parking. So long as Subtenant is not in Default and subject to Section 28 of the Master Lease, Subtenant shall have the right to all parking spaces available to Sublandlord under the Master Lease. Subtenant's right to such parking is conditioned upon Master Landlord's consent to the transfer of such rights to Subtenant. Subtenant shall be responsible for all costs incurred by Sublandlord for Subtenant's parking.

9. **Assignment, Subletting and Encumbrance**.

9.1 Consent Required. Subtenant shall not assign this Sublease or any interest therein nor shall Subtenant sublet, license, encumber or permit the Premises or any part thereof to be used or occupied by others, without Sublandlord's and Master Landlord's prior written consent. Sublandlord's consent shall not be unreasonably withheld; provided, however, Sublandlord's withholding of consent shall in all events be deemed reasonable if for any reason Master Landlord's consent is not obtained. The consent by Sublandlord and Master Landlord to any assignment or subletting shall not waive the need for Subtenant (and Subtenant's assignee or subtenant) to obtain the consent of Sublandlord and Master Landlord to any different or further assignment or subletting. All conditions and standards set forth in the Master Lease regarding assignments and subletting shall apply.

9.2 Transfer Premium. To the extent there is any Transfer Premium as set forth in Section 14.3 of the Master Lease, such Transfer Premium shall be split with Sublandlord in the same manner as set forth in Section 14.3 of the Master Lease; provided however, if Master Landlord is also entitled to any portion of the Transfer Premium, such amount shall first be deducted from the Transfer Premium.

9.3 Form of Document. Every assignment, agreement, or sublease shall (i) recite that it is and shall be subject and subordinate to the provisions of this Sublease, if an assignment, that the assignee assumes Subtenant's obligation hereunder, that the termination of this Sublease shall, at Sublandlord's sole election, constitute a termination of every such sublease, and (ii) contain such other terms and conditions as shall be reasonably requested or provided by Sublandlord's attorneys.

9.4 No Release of Subtenant. Regardless of Sublandlord's consent, no subletting or assignment shall release Subtenant of Subtenant's obligation or alter the primary liability of Subtenant to pay the Rent and to perform all other obligations to be performed by Subtenant hereunder. The acceptance of Rent by Sublandlord from any other person shall not be deemed to be a waiver by Sublandlord of any provision hereof. In the event of default by any assignee, subtenant or any other successor of Subtenant, in the performance of any of the terms hereof, Sublandlord may proceed directly against Subtenant without the necessity of exhausting remedies against such assignee, subtenant or successor.

9.5 Default. An involuntary assignment shall constitute a default and Sublandlord shall have the right to elect to terminate this Sublease, in which case this Sublease shall not be treated as an asset of Subtenant.

10. **Default**.

10.1 Default Described. The occurrence of any of the following shall constitute a "**Default**" by Subtenant: (i) failure to pay Rent or any other amount within three (3) days after written notice that such payment is past due; (ii) all those items of default set forth in the Master Lease where the obligation is incorporated in this Sublease which remain uncured after the one-half (½) of the cure period provided in the Master Lease (but never less than two (2) business days unless a shorter period of time is set forth in the Master Lease in which case such period as set forth in the Master Lease); or (iii) Subtenant's failure to perform timely and remain uncured after fifteen (15) days written notice of the default, any other provision of this Sublease or in the event Subtenant shall reasonably require in excess of fifteen (15) days to cure said default, shall fail to commence said cure with said fifteen (15) day period, and thereafter diligently prosecute the same to completion but in no event more than sixty (60) days following written notice of default.

10.2 Sublandlord's Remedies. In the event of a Default, Sublandlord shall have the remedies set forth in the Master Lease as if Sublandlord is Master Landlord. These remedies are not exclusive; they are cumulative and in addition to any remedies now or later allowed by law.

10.3 Subtenant's Right to Possession Not Terminated. Sublandlord has the remedy described in California Civil Code Section 1951.4 (landlord may continue lease in effect after lessee's breach and abandonment and recover rent as it becomes due, if lessee has right to sublet or assign, subject only to reasonable

limitations). Sublandlord may continue this Sublease in full force and effect, and Sublandlord shall have the right to collect rent and other sums when due. During the period Subtenant is in default, Sublandlord may enter the Premises and relet them, or any part of them, to third parties for Subtenant's account and alter or install locks and other security devices at the Premises. Subtenant shall be liable immediately to Sublandlord for all costs Sublandlord incurs in reletting the Premises, including, without limitation, attorneys' fees, brokers' commissions, expenses of remodeling the Premises required by the reletting, and like costs. Reletting may be for a period equal to, shorter or longer than the remaining term of this Sublease and rent received by Sublandlord shall be applied to (i) first, any indebtedness from Subtenant to Sublandlord other than rent due from Subtenant; (ii) second, all costs incurred by Sublandlord in reletting, including, without limitation, brokers' fees or commissions and attorneys' fees, the cost of removing and storing the property of Subtenant or any other occupant, and the costs of repairing, altering, maintaining, remodeling or otherwise putting the Premises into condition acceptable to a new Subtenant or Subtenants; (iii) third, rent due and unpaid under this Sublease. After deducting the payments referred to in this Section 10.3, any sum remaining from the rent Sublandlord receives from reletting shall be held by Sublandlord and applied in payment of future rent and other amounts as rent and such amounts become due under this Sublease. In no event shall Subtenant be entitled to any excess rent received by Sublandlord.

10.4 All Sums Due and Payable as Rent. Subtenant shall also pay without notice, or where notice is required under this Sublease, immediately upon demand without any abatement, deduction, or setoff, as additional rent all sums, impositions, costs, expenses, and other payments which Subtenant in any of the provisions of this Sublease assumes or agrees to pay, and, in case of any nonpayment thereof, Sublandlord shall have, in addition to all other rights and remedies, all the rights and remedies provided for in this Sublease or by law in the case of nonpayment of rent.

10.5 No Waiver. Sublandlord may accept Subtenant's payments without waiving any rights under the Sublease, including rights under a previously served notice of default. No payment by Subtenant or receipt by Sublandlord of a lesser amount than any installment of rent due or other sums shall be deemed as other than a payment on account of the amount due, nor shall any endorsement or statement on any check or accompanying any check or payment be deemed an accord and satisfaction; and Sublandlord may accept such check or payment without prejudice of Sublandlord's right to recover the balance of such rent or other sum or pursue any other remedy provided in this Sublease, at law or in equity. If Sublandlord accepts payments after serving a notice of default, Sublandlord may nevertheless commence and pursue an action to enforce rights and remedies under the previously served notice of default without giving Subtenant any further notice or demand. Furthermore, Sublandlord's acceptance of rent from Subtenant when the Subtenant is holding over without express written consent does not convert Subtenant's tenancy from a tenancy at sufferance to a month-to-month tenancy. No waiver of any provision of this Sublease shall be implied by any failure of Sublandlord to enforce any remedy for the violation of that provision, even if that violation continues or is repeated. Any waiver by Sublandlord of any provision of this Sublease must be in writing. Such waiver shall affect only the provisions specified and only for the time and in the manner stated in the writing. No delay or omission in the exercise of any right or remedy by Sublandlord shall impair such right or remedy or be construed as a waiver thereof by Sublandlord. No act or conduct of Sublandlord, including, without limitation the acceptance of keys to the Premises shall constitute acceptance or the surrender of the Premises by Subtenant before the Expiration Date. Only written notice from Sublandlord to Subtenant of acceptance shall constitute such acceptance or surrender of the Premises. Sublandlord's consent to or approval of any act by Subtenant which requires Sublandlord's consent or approval shall not be deemed to waive or render unnecessary Sublandlord's consent to or approval of any subsequent act by Subtenant.

10.6 Sublandlord Default. For purposes of this Sublease, Sublandlord shall not be deemed in default hereunder unless and until Subtenant shall first deliver to Sublandlord thirty (30) days' prior written notice, and Sublandlord shall fail to cure said default within said thirty (30) day period, or in the event Sublandlord shall reasonably require in excess of thirty (30) days to cure said default, shall fail to commence said cure with said thirty (30) day period, and thereafter diligently prosecute the same to completion.

10.7 Notice of Event of Default under Master Lease. Sublandlord shall notify Subtenant of any Default under the Master Lease (and hereby authorizes Master Landlord to give a copy to Subtenant of any such notice of Default upon request of Subtenant), or of any other event of which Sublandlord has actual knowledge which will impair Subtenant's ability to conduct its normal business at the Premises, as soon as reasonably practicable following Sublandlord's receipt of notice from Master Landlord of a Default or Sublandlord's actual knowledge of such impairment.

11. **Consent of Master Landlord**. Subtenant acknowledges that the Master Lease requires that Sublandlord obtain the consent of Master Landlord to any subletting by Sublandlord. This Sublease shall not be effective unless and until Master Landlord (i) signs a consent to this subletting satisfactory to Sublandlord and (ii) approved the Initial Alterations. Subtenant will sign such consent if required by Master Landlord as reasonably presented by Master Landlord.

12. **Miscellaneous**.

12.1 Notices and Payments. Any notice, demand, request, consent, approval, submittal or communication that either party desires or is required to give to the other party or any other person shall be in writing and either served personally or sent by prepaid, first-class certified mail or commercial overnight delivery service. Such Notice shall be effective on the date of actual receipt (in the case of personal service or commercial overnight delivery service) or two days after deposit in the United States mail, to the following addresses (or other address provided by a party in a written notice):

To the Sublandlord:	Trion Worlds, Inc. 1200 Bridge Boulevard, Suite 102 Redwood City, California 94065 Attention: CFO
With a copy sent to:	Trion Worlds, Inc. 1200 Bridge Parkway, Suite 201 Redwood City, California 94065 Attention: Legal Department
To the Subtenant:	At the Premises, whether or not Subtenant has abandoned or vacated the Premises

When this Sublease requires service of a notice, that notice shall replace rather than supplement any equivalent or similar statutory notice, including any notices required by Code of Civil Procedure Section 1161 or any similar or successor statute. When a statute requires service of a notice in a particular manner, service of that notice (or a similar notice required by this Sublease) shall replace and satisfy the statutory service-of-notice procedures, including those required by Code of Civil Procedure Section 1162 or any similar or successor statute.

12.2 Conflict with Master Lease; Interpretation. In the event of any conflict between the provisions of the Master Lease and this Sublease, the Master Lease shall govern and control except to the extent directly contradicted by the terms of this Sublease. No presumption shall apply in the interpretation or construction of this Sublease as a result of Sublandlord having drafted the whole or any part hereof.

12.3 Remedies Cumulative. The rights, privileges, elections, and remedies of Sublandlord in this Sublease, at law, and in equity are cumulative and not alternative.

12.4 Waiver of Redemption. Subtenant hereby expressly waives any and all rights of redemption to which it may be entitled by or under any present or future laws in the event Sublandlord shall obtain a judgment for possession of the Premises.

12.5 Damage and Destruction; Condemnation. In the event of any damage, destruction, casualty, condemnation or threat of condemnation affecting the Premises, Rent payable hereunder shall be abated but only to the extent that Rent is abated under the Master Lease with respect to the Premises. Subtenant shall have no right to terminate this Sublease in connection with any damage, destruction, casualty, condemnation or threat of condemnation except to the extent the Master Lease is also terminated as to the Premises or any portion thereof.

12.6 Holding Over. Subtenant shall have no right to Holdover. If Subtenant does not surrender and vacate the Premises at the Expiration Date of this Sublease, Subtenant shall be a tenant at sufferance, or at the sole election of Sublandlord, a month to month tenancy, and the parties agree in either case that the reasonable rental value, if at sufferance, or the Base Rent if a month to month tenancy shall be at the monthly rate of one hundred fifty percent (150%) of the monthly Base Rent set forth in Section 4.1; provided however, if such holdover causes Sublandlord to be in holdover under the Master Lease, then Base Rent shall be equal to any and all

Rent due to Master Landlord from Sublandlord under the holdover provisions of the Master Lease, including, but not limited to, operating expenses and property taxes due and payable during such holdover period of time. In connection with the foregoing, Sublandlord and Subtenant agree that the reasonable rental value of the Premises following the Expiration Date of the Sublease shall be the amounts set forth above per month. Sublandlord and Subtenant acknowledge and agree that, under the circumstances existing as of the Effective Date, it is impracticable and/or extremely difficult to ascertain the reasonable rental value of the Premises on the Expiration Date and that the reasonable rental value established herein is a reasonable estimate of the damage that Sublandlord would suffer as the result of the failure of Subtenant to timely surrender possession of the Premises. The parties acknowledge that the liquidated damages established herein is not intended as a forfeiture or penalty within the meaning of California Civil Code sections 3275 or 3369, but is intended to constitute liquidated damages to Sublandlord pursuant to California Civil Code sections 1671, 1676, and 1677. Notwithstanding the foregoing, and in addition to all other rights and remedies on the part of Sublandlord if Subtenant fails to surrender the Premises upon the termination or expiration of this Sublease, in addition to any other liabilities to Sublandlord accruing therefrom, Subtenant shall indemnify, defend and hold Sublandlord harmless from all Claims resulting from such failure, including, without limitation, any Claims by any third parties based on such failure to surrender and any lost profits to Sublandlord resulting therefrom.

12.7 Effect of Conveyance**.** As used in this Sublease, the term "Sublandlord" means the holder of the "Tenant's" interest under the Master Lease. In the event of any assignment or transfer of the "Tenant's" interest under the Master Lease, which assignment or transfer may occur at any time during the Term hereof in Sublandlord's sole discretion, Sublandlord shall be and hereby is entirely relieved of the future performance of all covenants and obligations of Sublandlord hereunder if such future performance is assumed by the transferee in a writing and a copy thereof is delivered to Subtenant. Sublandlord may transfer and deliver any security of Subtenant to the transferee of the Tenant's interest under the Master Lease, and thereupon Sublandlord shall be discharged from any further liability with respect thereto if such transferee assumes in writing Sublandlord's obligations with regard to such security in a writing delivered to Subtenant.

12.8 Broker's Commission. Sublandlord and Subtenant represent and warrant to each other that each has dealt with the following brokers Hughes Marino ("**Sublandlord's Broker**") and RE:Align, Inc. ("**Subtenant's Broker**", collectively the "**Brokers**") and with no other agent, finder, or other such person with respect to this Sublease and each agrees to indemnify and hold the other harmless from any Claims asserted against the other by any broker, agent, finder, or other such person not identified above as Sublandlord's Broker or Subtenant's Broker. The Commission to the Brokers is payable by Sublandlord pursuant to separate agreement.

12.9 Signage. Subtenant shall not place any signs on or about the Premises without Sublandlord's and Master Landlord's prior written consent. All signs shall be at Subtenant's sole cost and shall comply with the terms of the Master Lease and with all local, federal and state rules, regulations, statutes, and ordinances at all times during the Term. Subtenant acknowledges and agrees that its request for consent to signage shall be limited to signage at the Premises. Subtenant, at Subtenant's cost, shall remove all such signs and graphics prior to the termination of this Sublease and repair any damage caused by such removal.

12.10 Offer. Preparation of this Sublease by either Sublandlord or Subtenant or either party's agent and submission of same to Sublandlord or Subtenant shall not be deemed an offer to Sublease. This Sublease is not intended to be binding until executed and delivered by all Parties hereto.

12.11 Due Authority**.** If Subtenant signs as a corporation, Subtenant represents and warrants that each of the persons executing this Sublease on behalf of Subtenant has the authority to bind Subtenant, Subtenant has been and is qualified to do business in the State of California, that the corporation has full right and authority to enter into this Sublease, and that all persons signing on behalf of the corporation were authorized to do so by appropriate corporate actions. If Subtenant signs as a partnership, trust or other legal entity, each of the persons executing this Sublease on behalf of Subtenant represent and warrant that they have the authority to bind Subtenant, Subtenant has complied with all applicable laws, rules and governmental regulations relative to its right to do business in the State of California and that such entity on behalf of the Subtenant was authorized to do so by any and all appropriate partnership, trust or other actions. Subtenant agrees to furnish promptly upon request a corporate resolution, proof of due authorization by partners, or other appropriate documentation evidencing the authorization of Subtenant to enter into this Sublease. If Sublandlord signs as a corporation, Sublandlord represents and warrants that each of the persons executing this Sublease on its behalf has the authority to bind Sublandlord,

Sublandlord has been and is qualified to do business in the State of California, that the corporation has full right and authority to enter into this Sublease, and that all persons signing on behalf of the corporation were authorized to do so by appropriate corporate actions. Sublandlord agrees to furnish promptly upon request a corporate resolution, proof of due authorization by partners, or other appropriate documentation evidencing the authorization of Sublandlord to enter into this Sublease.

12.12 Multiple Counterparts. This Sublease may be executed in two counterparts, each of which shall be deemed an original and both of which together shall constitute one and the same agreement. This Sublease may be executed by a party's signature transmitted by facsimile ("**fax**") or by electronic mail in pdf format ("**pdf**"), and copies of this Sublease executed and delivered by means of faxed or pdf signatures shall have the same force and effect as copies hereof executed and delivered with original signatures. All parties hereto may rely upon faxed or pdf signatures as if such signatures were originals. Any party executing and delivering this Sublease by fax or pdf shall promptly thereafter deliver a counterpart of this Sublease containing said party's original signature. All parties hereto agree that a faxed or pdf signature page may be introduced into evidence in any proceeding arising out of or related to this Sublease as if it were an original signature page.

12.13 Attorney Fees. If Sublandlord becomes a party to any litigation brought by someone other than Subtenant and concerning this Sublease, the Premises, or Subtenant's use and occupancy of the Premises to the extent, based upon any real or alleged act or omission of Subtenant or its authorized representatives, Subtenant shall be liable to Sublandlord for reasonable attorneys' fees and court costs incurred by Sublandlord in the litigation. In the event any action or proceeding at law or in equity or any arbitration proceeding be instituted by either party, for an alleged breach of any obligation of a party under this Sublease, to recover rent, to terminate the tenancy of Subtenant at the Premises, or to enforce, protect, or establish any right or remedy of a party to this Sublease Agreement, the prevailing party (by judgment or settlement) in such action or proceeding shall be entitled to recover as part of such action or proceeding such reasonable attorneys' fees, expert witness fees, and court costs as may be fixed by the court or jury, but this provision shall not apply to any cross-complaint filed by anyone other than Sublandlord in such action or proceeding.

12.14 Sublandlord's Costs. In any case where Subtenant requests permission from Sublandlord and/or Master Landlord to assign, sublet, make alterations, or receive any other consent or obtain any waiver from or modification to the terms of this Sublease, Subtenant shall pay to Sublandlord any reasonable out-of-pocket costs incurred to review Subtenant's request including, without limitation, reasonable attorney's fees and such amount due Master Landlord as set forth in the Master Lease.

12.15 Waiver of Damages. In no event shall Sublandlord be liable for, and Subtenant hereby waives any claim for, any indirect, consequential or punitive damages, including loss of profits or business opportunity, arising under or in connection with this Sublease.

12.16 Certified Access Specialist Disclosure. Pursuant to Section 1938 of the California Civil Code, Sublandlord hereby discloses to Subtenant that, to its knowledge, the Premises have not undergone an inspection by a Certified Access Specialist (CASp).

12.17 Exhibits and Attachments. All exhibits and attachments to this Sublease are a part hereof.

[Signatures appear of following page.]

IN WITNESS WHEREOF, Sublandlord and Subtenant have executed and delivered this Sublease on the date first set forth above.

SUBLANDLORD

TRION WORLDS, INC.,
a Delaware corporation

/s/ Scott Hartsman

By: Scott Hartsman
Its: Chief Executive Officer

SUBTENANT

ACADIA PHARMACEUTICALS INC.,
a Delaware corporation

/s/ Uli Hacksell

By: Uli Hacksell, Ph.D.
Its: Chief Executive Officer

/s/ Stephen R. Davis

By: Stephen R. Davis
Its: Chief Financial Officer

EXHIBIT A

DESCRIPTION OF PREMISES

Third Floor (Phase I Premises)

Second Floor (Phase I Premises and Phase II Premises)

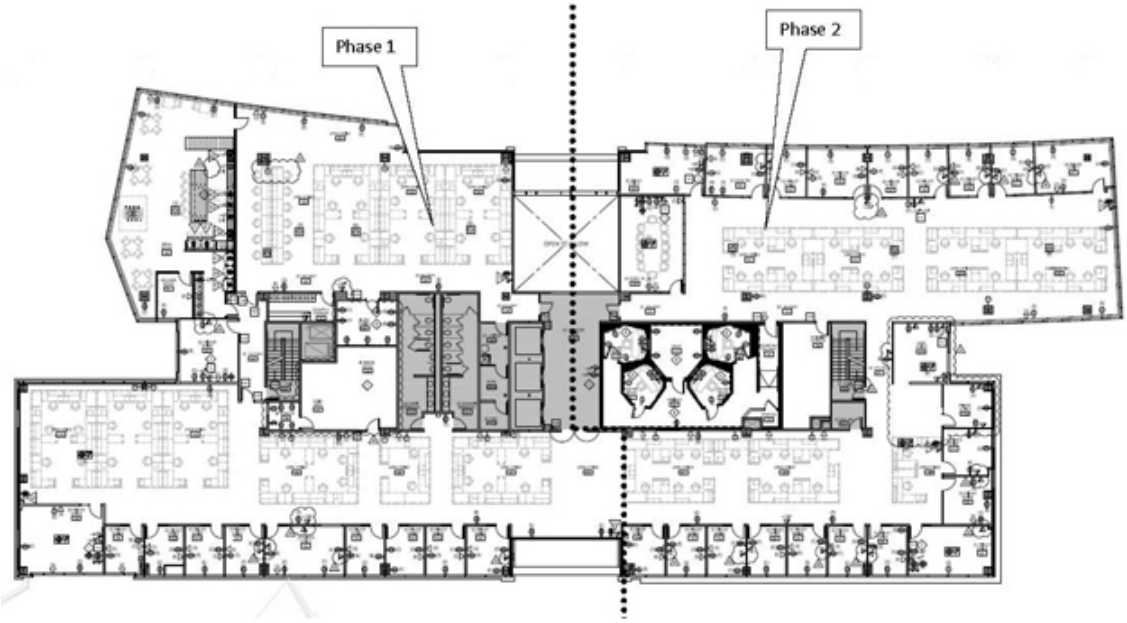

EXHIBIT B

MASTER LEASE

[Master Lease on following page]

OFFICE LEASE

KILROY REALTY

KILROY CENTRE DEL MAR

KILROY REALTY, L.P.,

a Delaware corporation,

as Landlord,

and

TRION WORLDS, INC.,

a Delaware corporation,

as Tenant.

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KILROY CENTRE DEL MAR

OFFICE LEASE

This Office Lease (the "**Lease**"), dated as of the date set forth in Section 1 of the Summary of Basic Lease Information (the "**Summary**"), below, is made by and between KILROY REALTY, L.P., a Delaware limited partnership ("**Landlord**"), and TRION WORLDS, INC., a Delaware corporation ("**Tenant**").

SUMMARY OF BASIC LEASE INFORMATION

TERMS OF LEASE		DESCRIPTION
1.	Date:	August 8, 2012.
2.	Premises:	
2.1	Building:	That certain five (5)-story building (the "**Building**") located at 3611 Valley Centre Drive, San Diego, California 92130, which Building contains approximately 130,178 rentable square feet of space, and which Building is commonly referred to as "***Building 2***" within the "Project" (defined below.
2.2	Premises:	Approximately 52,000 rentable (48,513 usable) square feet of space comprising the entirety of the second (2nd) and third (3rd) floors of the Building commonly known as Suites 200 and 300, as further identified in **Exhibit A** to this Lease.
2.3	Project:	The Building is part of an office project known as "*Kilroy Centre Del Mar*," as further set forth in Section 1.1.2 of this Lease.
3.	Lease Term (Article 2):	
3.1	Length of Term:	Approximately six (6) years and two (2) months.
3.2	Lease Commencement Date:	The earlier to occur of (i) the date upon which Tenant first commences to conduct business in the Premises, and (ii) the date upon which the Premises are "Ready for Occupancy" (as that term is set forth in Section 5.1 of the Work Letter Agreement attached as **Exhibit B** to this Lease), and in either event upon termination of the "Carmel Valley Corporate Center Lease" (as that term is defined in Article 21 of this Lease), which Lease Commencement Date is anticipated to be October 1, 2012.

3.3 Lease Expiration Date: The last day of the seventy-fourth (74th) full calendar month of the Lease Term. As the Lease Commencement Date is anticipated to occur on October 1, 2012, the anticipated Lease Expiration Date is November 30, 2018.

3.4 Option Term: One (1), five (5)-year option to renew, as more particularly set forth in Section 2.2 of this Lease.

4. Base Rent (Article 3):

Lease Months	Annual Base Rent	Monthly Installment of Base Rent	Monthly Rental Rate per Rentable Square Foot
1 – 18*	$[…***…]¿	$[…***…]¿	$[…***…]
19 – 30	$[…***…]¿	$[…***…]¿	$[…***…]
31 – 42	$[…***…]	$[…***…]	$[…***…]
43 – 54	$[…***…]	$[…***…]	$[…***…]
55 – 66	$[…***…]	$[…***…]	$[…***…]
67 – Lease Expiration Date	$[…***…]	$[…***…]	$[…***…]

* Subject to abatement pursuant to Section 3.2, below.

¿ Subject to the Base Rent "phase-in" provisions contained in Section 3.3, below.

5. Base Year (Article 4): Calendar year 2013; provided, however, electricity is separately metered and directly paid by Tenant to the applicable utility provider or, at Landlord's option, to Landlord.

6. Tenant's Share (Article 4): Approximately […***…]%.

7. Permitted Use (Article 5): Tenant shall use the Premises solely for general office use of a software developer and uses incidental thereto (the "**Permitted Use**"); provided, however, that notwithstanding anything to the contrary set forth hereinabove, and as more particularly set forth in the Lease, Tenant shall be responsible for operating and maintaining the Premises pursuant to, and in no event may Tenant's Permitted Use violate, (A) Landlord's "Rules and Regulations," as that term is set forth in Section 5.2 of this Lease, (B) all "Applicable Laws" (as that term is set forth in Article 24 of this Lease), (C) all applicable zoning, building codes and the "CC&Rs" (as that term is set forth in Section 5.3 of this Lease), and (D) the character of the Project as a first-class office building Project.

*** Confidential Treatment Requested

8.	Security Deposit (Article 21):	$[…***…]; provided, however, Landlord shall credit any then unapplied portion of the "Existing Security Deposit" (as that term is defined in Article 21 of this Lease) previously deposited with Landlord under the Carmel Valley Corporate Center Lease against the Security Deposit required under this Lease.
9.	Letter of Credit (Article 30):	$[…***…]
10.	Parking Pass Ratio (Article 28):	Four point five (4.5) unreserved parking passes for every 1,000 rentable square feet of the Premises (*i.e.*, two hundred eighteen (218) unreserved parking passes), of which up to six (6) of such unreserved parking passes may, subject to the terms of Article 28 of this Lease, be converted to reserved parking passes. All of such aforementioned parking passes shall be used in the parking structures and surface parking lots located on the east side of the Building only.
11.	Address of Tenant (Section 29.18):	Trion Worlds, Inc. 1200 Bridge Parkway, Redwood City, California 94065 Attention: Operations Manager (Prior to and after Lease Commencement Date) *with a copy to*: Trion Worlds, Inc. 3611 Valley Centre Drive, Suite 200 San Diego, California 92130 Attention: Operations Manager (After Lease Commencement Date)
12.	Address of Landlord (Section 29.18):	See Section 29.18 of this Lease.
13.	Broker (Section 29.24):	
	Representing Tenant:	*Representing Landlord*:
	Mr. Travis Carter Hughes Marino 655 West Broadway, Suite 1650 San Diego, California 92101	None

*** Confidential Treatment Requested

14.	Landlord Contribution Amount (Work Letter Agreement):	[…***…] Dollars ($[…***…]).

*** Confidential Treatment Requested

ARTICLE 1

PREMISES, BUILDING, PROJECT, AND COMMON AREAS

1.1 **Premises, Building, Project and Common Areas**.

1.1.1 **The Premises**. Landlord hereby leases to Tenant and Tenant hereby leases from Landlord the premises set forth in Section 2.2 of the Summary (the **"Premises"**). The outline of the Premises is set forth in **Exhibit A** attached hereto and the Premises has approximately the number of rentable square feet as set forth in Section 2.2 of the Summary. The parties hereto agree that the lease of the Premises is upon and subject to the terms, covenants and conditions (the **"TCCs"**) herein set forth, and Tenant covenants as a material part of the consideration for this Lease to keep and perform each and all of such TCCs by it to be kept and performed and that this Lease is made upon the condition of such performance. The parties hereto hereby acknowledge that the purpose of **Exhibit A** is to show the approximate location of the Premises in the **"Building"** (as that term is defined in Section 1.1.2, below), only, and such **Exhibit A** is not meant to constitute an agreement, representation or warranty as to the construction of the Premises, the precise area thereof or the specific location of the "Common Areas" (as that term is defined in Section 1.1.3, below), or the elements thereof or of the accessways to the Premises or the "Project" (as that term is defined in Section 1.1.2, below). Except as specifically set forth in this Lease and in the Work Letter Agreement attached hereto as **Exhibit B** (the **"Work Letter Agreement"**), Landlord shall not be obligated to provide or pay for any improvement work or services related to the improvement of the Premises. Tenant also acknowledges that neither Landlord nor any agent of Landlord has made any representation or warranty regarding the condition of the Premises, the Building or the Project or with respect to the suitability of any of the foregoing for the conduct of Tenant's business, except as specifically set forth in this Lease and the Work Letter Agreement. The taking of possession of the Premises by Tenant shall conclusively establish that the Premises and the Building were at such time in good and sanitary order, condition and repair.

1.1.2 **The Building and The Project**. The Premises are a part of the building set forth in Section 2.1 of the Summary (the **"Building"**). The Building is part of an office project known as "*Kilroy Centre Del Mar*." The term **"Project,"** as used in this Lease, shall mean (i) the Building and the Common Areas, (ii) the land (which is improved with landscaping, parking facilities and other improvements) upon which the Building and the Common Areas are located, (iii) the other buildings and improvements within the Project and their respective Common Areas, and (iv) the land (which is improved with landscaping, parking facilities and other improvements) upon which the other buildings and their respective Common Areas are located. The outline of the Building and Project are shown on the Project Site Plan attached hereto as **Exhibit A-1**.

1.1.3 **Common Areas**. Tenant shall have the non-exclusive right to use in common with other tenants in the Project, and subject to the rules and regulations referred to in Article 5 of this Lease, those portions of the Project which are provided, from time to time, for use in common by Landlord, Tenant and any other tenants of the Project (such areas, together with such other portions of the Project designated by Landlord, in its discretion, including certain areas designated for the exclusive use of certain tenants, or to be shared by Landlord and certain

tenants, are collectively referred to herein as the **"Common Areas"**). The Common Areas shall consist of the "Project Common Areas" and the "Building Common Areas." The term **"Project Common Areas,"** as used in this Lease, shall mean the portion of the Project designated as such by Landlord. The term **"Building Common Areas,"** as used in this Lease, shall mean the portions of the Common Areas located within the Building designated as such by Landlord. The manner in which the Common Areas are maintained and operated shall be at the sole discretion of Landlord and the use thereof shall be subject to such rules, regulations and restrictions as Landlord may make from time to time, provided that such rules, regulations and restrictions do not unreasonably interfere with the rights granted to Tenant under this Lease and the permitted use granted under Section 5.1, below. Landlord reserves the right to close temporarily, make alterations or additions to, or change the location of elements of the Project and the Common Areas; provided that no such changes shall be permitted which materially reduce Tenant's rights or access hereunder. Except when and where Tenant's right of access is specifically excluded in this Lease, Tenant shall have the right of access to the Premises, the Building, and the Project parking facilities located on the east side of the Building twenty-four (24) hours per day, seven (7) days per week during the "Lease Term," as that term is defined in Section 2.1, below.

1.2 **Verification of Rentable Square Feet of Premises and Building.** For purposes of this Lease, "rentable square feet" and "usable square feet" shall be calculated pursuant to Office Buildings: Standard Methods of Measurement and Calculating Rentable Area – 2010 (Method B), and its accompanying guidelines (**"BOMA"**). Within thirty (30) days after the Lease Commencement Date, Landlord's space planner/architect shall measure the rentable and usable square feet of the Premises in accordance with the provisions of this Section 1.2 and the results thereof shall be presented to Tenant in writing. Tenant's space planner/architect may review Landlord's space planner/architect's determination of the number of rentable square feet and usable square feet of the Premises and Tenant may, within fifteen (15) business days after Tenant's receipt of Landlord's space planner/architect's written determination, object to such determination by written notice to Landlord. Tenant's failure to deliver written notice of such objection within said fifteen (15) business day period shall be deemed to constitute Tenant's acceptance of Landlord's space planner/architect's determination. If Tenant objects to such determination, Landlord's space planner/architect and Tenant's space planner/architect shall promptly meet and attempt to agree upon the rentable and usable square footage of the Premises. If Landlord's space planner/architect and Tenant's space planner/architect cannot agree on the rentable and useable square footage of the Premises within thirty (30) days after Tenant's objection thereto, Landlord and Tenant shall mutually select an independent third party space measurement professional to field measure the Premises under the BOMA Standard. Such third party independent measurement professional's determination shall be conclusive and binding on Landlord and Tenant. Landlord and Tenant shall each pay one-half (½) of the fees and expenses of the independent third party space measurement professional. If the Lease Term commences prior to such final determination, Landlord's determination shall be utilized until a final determination is made, whereupon an appropriate adjustment, if necessary, shall be made retroactively, and Landlord shall make appropriate payment (if applicable) to Tenant. In the event that pursuant to the procedure described in this Section 1.2 above, it is determined that the square footage amounts shall be different from those set forth in this Lease, all amounts, percentages and figures appearing or referred to in this Lease based upon such incorrect amount (including, without limitation, the amount of the "Rent," as that term is defined in Section 4.1 of

this Lease) shall be modified in accordance with such determination. If such determination is made, it will be confirmed in writing by Landlord to Tenant.

1.3 **Right of First Refusal**. Landlord hereby grants to the originally named Tenant herein (the **"Original Tenant"**), or its "Permitted Transferee" (as that term is defined in Section 14.8, below) an ongoing right of first refusal during the initial Lease Term only, with respect to any then-existing office space located on the first (1St) floor of the Building (the **"First Refusal Space"**).

1.3.1 **Procedure for Lease**.

1.3.1.1 **Procedure for Landlord's Offer of the First Refusal Space to Tenant.** Landlord shall notify Tenant (the **"First Refusal Notice"**) from time-to-time when and if Landlord receives a "bona-fide third-party offer" for the First Refusal Space. Pursuant to such First Refusal Notice, Landlord shall offer to lease to Tenant the applicable First Refusal Space. The First Refusal Notice shall describe the First Refusal Space, and the lease term, rent and other fundamental economic terms and conditions upon which Landlord proposes to lease such First Refusal Space pursuant to the bona-fide third-party offer. For purposes of this Section 1.3, a **"bona-fide third-party offer"** shall mean a counter-offer received by Landlord to lease First Refusal Space from an unaffiliated and qualified third party which Landlord would otherwise be willing to accept (but for Tenant's superior rights hereunder). For purposes of example only, the following would each constitute a bona-fide third-party offer:

(a) Landlord receives a request for proposal from an unaffiliated and qualified third party. Landlord responds to the request for proposal with a lease proposal and subsequently receives a written bona-fide counter proposal from the unaffiliated and qualified third party.

(b) Landlord receives a written offer to lease from an unaffiliated and qualified third party. Landlord responds to the offer with 'a written counter offer and subsequently receives a bona-fide counter to Landlord's counter offer from the unaffiliated and qualified third party.

1.3.1.2 **Procedure for Acceptance.** If Tenant wishes to exercise Tenant's right of first refusal with respect to the First Refusal Space described in the First Refusal Notice, then within seven (7) business days of delivery of the First Refusal Notice to Tenant (the **"Election Period"**), Tenant shall deliver to Landlord written notice (an **"Election Notice"**) of Tenant's exercise of its right of first refusal with respect to all of the First Refusal Space described in the First Refusal Notice at the rent, for the term and upon the other fundamental economic terms and conditions contained in such First Refusal Notice, including, but not limited to rental concessions and improvement allowances. If Tenant does not so notify Landlord within such Election Period of Tenant's exercise of its first refusal right, or Tenant affirmatively elects not to exercise such first refusal right (either of the foregoing being referred to herein as a **"First Refusal Rejection"**), then Landlord shall be free to negotiate and enter into a lease for the First Refusal Space to anyone whom it desires on any terms it desires; provided, however, in no event

shall the net-effective economic terms pertaining to such a lease of the First Refusal Space be more than ten percent (10%) more beneficial to such third-party than those set forth in the First Refusal Notice. In the event Landlord wishes to proceed with a lease to a third-party where the net-effective economic terms are more than ten (10%) more beneficial to such third party than those set forth in the most recently delivered First Refusal Notice, Tenant's rights to such First Refusal Space under this Section 1.3 shall renew, in which case the provisions of this Section 1.3 shall again be effective and Landlord shall again offer such First Refusal Space to the Tenant pursuant to the terms hereof (and Tenant shall again have seven (7) business days within which to respond). Notwithstanding the foregoing, Tenant's ongoing right of first refusal shall commence only following the expiration or earlier termination of any existing lease of the First Refusal Space (or portion thereof), including any renewal, extension or expansion rights set forth in such leases, regardless of whether such renewal, extension or expansion rights are executed strictly in accordance with their terms, or pursuant to a lease amendment or a new lease, and such right of first refusal shall further be subordinate to (A) all rights of the then-existing tenants in the First Refusal Space (i.e., at the time any applicable First Refusal Notice is delivered), and (B) all rights of first offer, first refusal, expansion or other similar rights with respect to such First Refusal Space contained in an "Intervening Lease," as that term is defined below (each, a **ROFR Superior Right Holder"**). For purposes hereof, an **"Intervening Lease"** shall mean any lease to a third-party of First Refusal Space identified in a particular First Refusal Notice following Tenant's election (or deemed election) not to exercise its right to lease such space pursuant to the terms of Section 1.3 of this Lease.

1.3.2 **Amendment to Lease.** If Tenant timely exercises Tenant's right of first refusal to lease First Refusal Space as set forth herein, Landlord and Tenant shall within thirty (30) days thereafter execute an amendment to this Lease (the **"First Refusal Space Amendment"**) for such First Refusal Space upon the terms set forth in the First Refusal Notice, including, but not limited to rent (the **"First Refusal Space Rent"**), but otherwise upon the TCCs set forth in this Lease and this Section 1.3. Notwithstanding the foregoing, Landlord may, at its sole option, require that a separate lease be executed by Landlord and Tenant in connection with Tenant's lease of the First Refusal Space, in which event such lease (the **"First Refusal Space Lease"**) shall be on the same TCCs as this Lease, except as provided in this Section 1.3 and specifically in this Lease to the contrary. The First Refusal Space Lease, if applicable, shall be executed by Landlord and Tenant within thirty (30) days following Tenant's exercise of its right to lease the First Refusal Space. Notwithstanding the foregoing documentation obligations, Landlord and Tenant hereby acknowledge and agree that Tenant's timely delivery of the Election Notice shall, in and of itself, conclusively establish Tenant's obligation to lease the subject First Refusal Space on the express TCCs set forth in the corresponding First Refusal Notice.

1.3.3 **No Defaults; Required Financial Condition of Tenant.** The rights contained in this Section 1.3 shall be personal to the Original Tenant and its Permitted Transferees and may only be exercised by the Original Tenant or a Permitted Transferee (and not any other assignee, sublessee or other transferee of the Original Tenant's interest in this Lease) if the Original Tenant and/or a Permitted Transferee occupies not less than the entire then-existing Premises. The right to lease the First Refusal Space as provided in this Section 1.3 may not be exercised if, as of the date Tenant attempts to exercise its right of first refusal with respect to the First Refusal Space described in the First Refusal Notice, or as of the scheduled date of delivery of such First Refusal Space to Tenant, (A) Tenant is in default pursuant to the terms of this Lease

(beyond the applicable notice and cure periods), and (B) Tenant has previously been in default under this Lease (beyond the applicable notice and cure periods) more than once.

1.3.4 **First Refusal Space Commencement Date; Construction in First Refusal Space.** The commencement date for the First Refusal Space shall be the applicable date specified in the applicable First Refusal Notice (the **"First Refusal Space Commencement Date"**) and the term of Tenant's lease of such First Refusal Space shall expire on the applicable date set forth in the First Refusal Notice (the **"First Refusal Space Expiration Date"**). The term of Tenant's occupancy of the First Refusal Space shall be referred to herein as a **"First Refusal Space Lease Term."** Except as otherwise expressly identified in the First Refusal Notice, Tenant shall take the First Refusal Space in its "as is" condition, and the construction of improvements in the First Refusal Space shall comply with the terms of Article 8 of this Lease.

1.3.5 **Termination of First Refusal Right.** Tenant's right of first refusal set forth in this Section 1.3 shall automatically terminate and be of no further force or effect as of the last day of the initial Lease Term (regardless of whether such Lease Term is extended pursuant to the terms of Section 2.2 of this Lease or otherwise).

ARTICLE 2

LEASE TERM; OPTION TERMS; TERMINATION OPTION

2.1 **Initial Lease Term.** The TCCs and provisions of this Lease shall be effective as of the date of this Lease. The term of this Lease (the **"Lease Term"**) shall be as set forth in Section 3.1 of the Summary, shall commence on the date set forth in Section 3.2 of the Summary (the **"Lease Commencement Date"**), and shall terminate on the date set forth in Section 3.3 of the Summary (the **"Lease Expiration Date"**) unless this Lease is sooner terminated as hereinafter provided. For purposes of this Lease, the term **"Lease Year"** shall mean each consecutive twelve (12) month period during the Lease Term; provided, however, that, if the Lease Commencement Date is any day other than the first (1st) day of a calendar month, then the first Lease Year shall commence on the Lease Commencement Date and end on the last day of the month in which the first anniversary of the Lease Commencement Date occurs and the second and each succeeding Lease Year shall commence on the first day of the next calendar month; and further provided that the last Lease Year shall end on the Lease Expiration Date. For purposes of this Lease, the term **"Lease Month"** shall mean each succeeding calendar month during the Lease Term; provided that the first Lease Month shall commence on the Lease Commencement Date and shall end on the last day of the calendar month in which the Lease Commencement Date occurs and that the last Lease Month shall expire on the Lease Expiration Date. At any time during the Lease Term, Landlord may deliver to Tenant a notice in the form as set forth in **Exhibit C**, attached hereto, as a confirmation only of the information set forth therein, which Tenant shall execute and return to Landlord within five (5) days of receipt thereof.

2.2 **Option Term.**

2.2.1 **Option Right.** Landlord hereby grants the Original Tenant and its **"Permitted Transferees"** (as that term is set forth in Section 14.8 of this Lease), one (1) option to extend the Lease Term for the entire Premises, by a period of five (5) years (the **"Option Term"**). The option shall be exercisable only by Notice delivered by Tenant to Landlord as provided below, provided that, as of the date of delivery of such Notice, (i) Tenant is not then in default under this Lease (beyond any applicable notice and cure periods), (ii) Tenant has not been in default under this Lease (beyond any applicable notice and cure periods) more than once during the prior twelve (12) month period, (iii) Tenant has not been in default under this Lease (beyond any applicable notice and cure periods) more than three (3) times during any five (5) year period, and (iv) during the prior twenty-four (24)-month period there has been no material adverse change in Tenant's financial condition that, in Landlord's reasonable discretion, has a negative affect on Tenant's ability to satisfy its economic obligations under this Lease. Upon the proper exercise of such option to extend, and provided that, as of the end of the then applicable Lease Term, (A) Tenant is not in default under this Lease (beyond any applicable notice and cure periods), (B) Tenant has not been in default under this Lease (beyond any applicable notice and cure periods) more than once during the prior twelve (12) month period, (C) Tenant has not been in default under this Lease (beyond any applicable notice and cure periods) more than three (3) times during the Lease Term, and (D) there has been no material adverse change in Tenant's financial condition during the prior twenty-four (24)-month period, then the Lease Term, as it applies to the entire Premises, shall be extended for a period of five (5) years. The rights contained in this Section 2.2 shall only be exercised by the Original Tenant or its Permitted Transferee (and not any other assignee, sublessee or other transferee of the Original Tenant's interest in this Lease) if Original Tenant and/or its Permitted Transferee is in occupancy of the entire then-existing Premises.

2.2.2 **Option Rent.** The Rent payable by Tenant during the Option Term (the **"Option Rent"**) shall be equal to the "Market Rent" (as that term is defined in **Exhibit I**, attached hereto and made a part hereof); provided, however, that the Market Rent for each Lease Year during the Option Term shall be equal to the amount set forth on a "Market Rent Schedule" (as that term is defined hereinbelow). The **"Market Rent Schedule"** shall be derived from the Market Rent for the Option Term as determined pursuant to **Exhibit I**, attached hereto, as follows: (i) the Rent for the first Lease Year of the applicable Option Term shall be equal to the sum of (a) the Market Rent, as determined pursuant to **Exhibit I,** (b) the amount of Direct Expenses applicable to the Premises, as reasonably determined by Landlord, for the calendar year in which the Option Term commences, and (c) an amount equal to the monthly amortization reimbursement payment for the "Renewal Allowance" (as that term is defined in Section 3 of **Exhibit I** to this Lease), with such Renewal Allowance being amortized at a reasonable rate of return to Landlord based on the rates of return then being received by the landlords of the "Comparable Buildings" (as that term is defined in Section 4 of **Exhibit I**), in connection with improvement allowances then being granted by such landlords, and (ii) for each subsequent Lease Year, the Market Rent component of Rent shall be equal to […***…] percent ([…***…]%) of the prior Lease Year's Market Rent. The calculation of the Market Rent shall be derived from a review of, and comparison to, the "Net Equivalent Lease Rates" of the "Comparable Transactions" (as those terms are defined in **Exhibit I**). Notwithstanding anything

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set forth in this Lease to the contrary, the Base Year for the Option Term with respect to the Premises shall be the next calendar year after the year in which the Option Term commences.

2.2.3 **Exercise of Option.** The option contained in this Section 2.2 shall be exercised by Tenant, if at all, only in the manner set forth in this Section 2.2.3. Tenant shall deliver notice (the **"Exercise Notice"**) to Landlord not less than nine (9) months prior to the expiration of the initial Lease Term, stating that Tenant is exercising its option. Concurrently with such Exercise Notice, Tenant shall deliver to Landlord Tenant's calculation of the Market Rent (the **"Tenant's Option Rent Calculation"**). Landlord shall deliver notice (the **"Landlord Response Notice"**) to Tenant on or before the date which is thirty (30) days after Landlord's receipt of the Exercise Notice and Tenant's Option Rent Calculation (the **"Landlord Response Date"**), stating that (A) Landlord is accepting Tenant's Option Rent Calculation as the Market Rent, or (B) rejecting Tenant's Option Rent Calculation and setting forth Landlords calculation of the Market Rent (the **"Landlord's Option Rent Calculation"**). Within ten (10) business days of its receipt of the Landlord Response Notice, Tenant may, at its option, accept the Market Rent contained in the Landlord's Option Rent Calculation. If Tenant does not affirmatively accept or Tenant rejects the Market Rent specified in the Landlord's Option Rent Calculation, the parties shall follow the procedure, and the Market Rent shall be determined as set forth in Section 2.2.4.

2.2.4 **Determination of Market Rent.** In the event Tenant objects or is deemed to have objected to the Market Rent, Landlord and Tenant shall attempt to agree upon the Market Rent using reasonable good-faith efforts. If Landlord and Tenant fail to reach agreement within sixty (60) days following Tenant's objection or deemed objection to the Landlord's Option Rent Calculation (the **"Outside Agreement Date"**), then, within two (2) business days following such Outside Agreement Date, (*x*) Landlord may reestablish the Landlord's Option Rent Calculation by delivering written notice thereof to Tenant, and (*y*) Tenant may reestablish the Tenant's Option Rent Calculation by delivering written notice thereof to Tenant. If Landlord and Tenant thereafter fail to reach agreement within seven (7) business days of the Outside Agreement Date, then in connection with the Option Rent, Landlord's Option Rent Calculation and Tenant's Option Rent Calculation, each as most recently delivered to the other party pursuant to the TCCs of this Section 2.2, shall be submitted to the "Neutral Arbitrator" (as that term is defined in Section 2.2.4.1, below), pursuant to the TCCs of this Section 2.2.4. The submittals shall be made concurrently with the selection of the Neutral Arbitrator pursuant to this Section 2.2.4 and shall be submitted to arbitration in accordance with Sections 2.2.4.1 through 2.2.4.5, below, but subject to the conditions, when appropriate, of Section 2.2.3.

2.2.4.1 Landlord and Tenant shall mutually and reasonably appoint one (1) arbitrator who shall by profession be an MAI appraiser who shall have been active over the ten (10) year period ending on the date of such appointment in the appraisal of first-class corporate headquarters properties in the Comparable Area (the **"Neutral Arbitrator"**). The determination of the Neutral Arbitrator shall be limited solely to the issue of whether Landlord's Option Rent Calculation or Tenant's Option Rent Calculation, each as submitted to the Neutral Arbitrator pursuant to Section 2.2.4 above, is the closest to the actual Market Rent as determined by such Neutral Arbitrator, taking into account the requirements of Section 2.2.2 above. Such Neutral Arbitrator shall be appointed within fifteen (15) days after the applicable Outside Agreement Date. Neither the Landlord nor Tenant may, directly or indirectly, consult with the Neutral

Arbitrator prior to subsequent to his or her appearance. The Neutral Arbitrator shall be retained via an engagement letter jointly prepared by Landlord's counsel and Tenant's counsel.

2.2.4.2 The Neutral Arbitrator shall, within thirty (30) days of his/her appointment, reach a decision as to Market Rent and determine whether the Landlord's Option Rent Calculation or Tenant's Option Rent Calculation, each as submitted to the Neutral Arbitrator pursuant to Section 2.2.4 above), is closest to Market Rent as determined by such Neutral Arbitrator and simultaneously publish 'a ruling ("**Award**") indicating whether Landlord's Option Rent Calculation or Tenant's Option Rent Calculation is closest to the Market Rent as determined such Neutral Arbitrator. Following notification of the Award, the Landlord's Option Rent Calculation or Tenant's Option Rent Calculation, whichever is selected by the Neutral Arbitrator as being closest to Market Rent, shall become the then applicable Option Rent.

2.2.4.3 The Award issued by such Neutral Arbitrator shall be binding upon Landlord and Tenant.

2.2.4.4 If Landlord and Tenant fail to appoint the Neutral Arbitrator within fifteen (15) days after the applicable Outside Agreement Date, either party may petition the presiding judge of the Superior Court of San Diego County to appoint such Neutral Arbitrator subject to the criteria in Section 2.2.4.1 of this Lease, or if he or she refuses to act, either party may petition any judge having jurisdiction over the parties to appoint such Neutral Arbitrator.

2.2.4.5 The cost of arbitration shall be paid by Landlord and Tenant equally.

2.3 **Termination Option.** Provided Tenant fully and completely satisfies each of the conditions set forth in this Section 2.3, Tenant shall have the ongoing option (the **"Termination Option"**) to terminate this Lease effective as of any day (the **"Termination Date"**) after the commencement of the forty-eighth (48th) full calendar month of the initial Lease Term. In order to exercise the Termination Option, Tenant must fully and completely satisfy each and every one of the following conditions: (a) Tenant must give Landlord written notice (**"Termination Notice"**) of its exercise of the Termination Option, which Termination Notice must be delivered to Landlord no less than six (6) months prior to the Termination Date, (b) at the time Tenant delivers the Termination Notice to Landlord, Tenant shall not be in default under this Lease (after expiration of any applicable notice and cure periods), and (c) concurrently with Tenant's delivery of the Termination Notice to Landlord, Tenant shall pay to Landlord the **"Termination Fee"** equal to the sum of the then-remaining unamortized balance, as of the Termination Date, of the (i) Landlord Contribution Amount granted by Landlord to Tenant pursuant to the terms of the Work Letter, (ii) brokerage commissions paid by Landlord in connection with this Lease, (iii) Base Rent abated pursuant to Section 3.2, below, and (iv) Base Rent abated pursuant to the phase-in provisions of Section 3.3, below. Amortization pursuant to subsection(c), above, shall be calculated on a seventy-one (71) month amortization schedule during the months of the Lease Term when Base Rent is scheduled to be paid based upon equal monthly payments of principal and interest, with interest imputed on the outstanding principal balance at the rate of seven percent (7%) per annum. Subject to Landlord's timely receipt of the Termination Notice and Termination Fee, upon the Termination Date, this Lease shall automatically terminate and be of no further force or effect, and Landlord and Tenant shall be relieved of their respective

obligations under this Lease as of the Termination Date, except with respect to those obligations set forth in this Lease which specifically survive the expiration or earlier termination of this Lease including, without limitation, the payment by Tenant of all amounts owed by Tenant under this Lease. The termination right granted to Tenant under this Section 2.3 is personal to the Original Tenant and may not otherwise be assigned or transferred to any other person or entity.

ARTICLE 3

BASE RENT

3.1 **Base Rent.** Tenant shall pay, without prior notice or demand, to Landlord or Landlord's agent at the management office of the Project, or, at Landlord's option, at such other place as Landlord may from time to time designate in writing, by a check for currency which, at the time of payment, is legal tender for private or public debts in the United States of America, base rent (**"Base Rent"**) as set forth in Section 4 of the Summary, payable in equal monthly installments as set forth in Section 4 of the Summary in advance on or before the first day of each and every calendar month during the Lease Term, without any setoff or deduction whatsoever. The Base Rent for the first full month of the Lease Term which occurs after the expiration of any free rent period shall be paid at the time of Tenant's execution of this Lease. If any Rent payment date (including the Lease Commencement Date) falls on a day of the month other than the first day of such month or if any payment of Rent is for a period which is shorter than one month, the Rent for any such fractional month shall accrue on a daily basis during such fractional month and shall total an amount equal to the product of (i) a fraction, the numerator of which is the number of days in such fractional month and the denominator of which is the actual number of days occurring in such calendar month, and (ii) the then-applicable monthly installment of Base Rent. All other payments or adjustments required to be made under the TCCs of this Lease that require proration on a time basis shall be prorated on the same basis.

3.2 **Abatement of Base Rent.** Notwithstanding anything to the contrary contained herein and provided that Tenant faithfully performs all of the terms and conditions of this Lease, Landlord hereby agrees to abate Tenant's obligation to pay monthly Base Rent for the months of January 2013, February 2013 as well as for the twenty-fifth (25th) full calendar month of the initial Lease Term (the (**"Abatement Period"**). During such Abatement Period, Tenant shall still be responsible for the payment of all of its other monetary obligations under the Lease, including, without limitation, its obligation to pay for the Premises' separately metered electricity. In the event of a default by Tenant under the terms of this Lease that results in early termination pursuant to the provisions of Article 19 of this Lease, then in determining the amount of damages recoverable by Landlord pursuant to Section 19.2 of this Lease, the parties hereby acknowledge and agree that the monthly Base Rent that was abated under the provisions of this Section 3.2 may specifically be considered.

3.3 **Base Rent Phase-In.**

3.3.1 **17,000 RSF Base Rent Phase-In.** Notwithstanding anything to the contrary contained herein and provided that Tenant faithfully performs all of the terms and conditions of this Lease, Landlord hereby agrees to abate Tenant's obligations to pay monthly Base Rent attributable to a portion of the Premises comprising 17,000 rentable square feet of

space (the "17,000 RSF") for the twelve (12) month period commencing on the first (1st) day of the first (1st) full calendar month of the initial Lease Term and ending on the last day of the twelfth (12th) full calendar month of the initial Lease Term (the **"17,000 RSF Base Rent Phase-In Period"**); provided, however, in no event shall the 17,000 RSF Base Rent Phase-In Period include the months of January 2013, February 2013 and the twenty-fifth (25th) full calendar month of the Lease Term (as the abatement pertaining to such aforementioned months is addressed in Section 3.2 above). During such 17,000 RSF Base Rent Phase-In Period, Tenant shall still be responsible for the payment of all of its other monetary obligations under this Lease, including, without limitation, its obligation to pay for the entire Premises' separately metered electricity. In the event of a default by Tenant under the terms of this Lease that results in early termination pursuant to the provisions of Article 19 of this Lease, then in determining the amount of damages recoverable by Landlord pursuant to Section 19.2 of this Lease, the parties hereby acknowledge and agree that the Base Rent that was abated under the provisions of this Section 3.3.1 may specifically be considered.

3.3.2 **8,000 Base Rent Phase-In.** Notwithstanding anything to the contrary contained herein and provided that Tenant faithfully performs all of the terms and conditions of this Lease, Landlord hereby agrees to abate Tenant's obligations to pay monthly Base Rent attributable to a portion of the Premises comprising 8,000 rentable square feet of space (the **"8,000 RSF"**) for the twelve (12) month period commencing on the first (1st) day of the thirteenth (13th) full calendar month of the initial Lease Term and ending on the last day of the twenty-fourth (24th) full calendar month of the initial Lease Term (the **"8,000 RSF Base Rent Phase-In Period"**) provided, however, in no event shall the 8,000 RSF Base Rent Phase-In Period include the months of January 2013, February 2013 and the twenty-fifth (25th) full calendar month of the Lease Term (as the abatement pertaining to such aforementioned months is addressed in Section 3.2 above). During such 8,000 RSF Base Rent Phase-In Period, Tenant shall still be responsible for the payment of all of its other monetary obligations under this Lease, including, without limitation, its obligation to pay for the entire Premises' separately metered electricity. In the event of a default by Tenant under the terms of this Lease that results in early termination pursuant to the provisions of Article 19 of this Lease, then in determining the amount of damages recoverable by Landlord pursuant to Section 19.2 of this Lease, the parties hereby acknowledge and agree that the Base Rent that was abated under the provisions of this Section 3.3.2 may specifically be considered.

ARTICLE 4

ADDITIONAL RENT

4.1 **General Terms.** In addition to paying the Base Rent specified in Article 3 of this Lease, Tenant shall pay **"Tenant's Share"** of the annual **"Direct Expenses,"** as those terms are defined in Sections 4.2.6 and 4.2.2, respectively, of this Lease, which are in excess of the amount of Direct Expenses applicable to the "**Base Year**," as that term is defined in Section 4.2.1, below; provided, however, that in no event shall any decrease in Direct Expenses for any Expense Year below Direct Expenses for the Base Year entitle Tenant to any decrease in Base Rent or any credit against sums due under this Lease. Such payments by Tenant, together with any and all other amounts payable by Tenant to Landlord pursuant to the TCCs of this Lease, are hereinafter collectively referred to as the "**Additional Rent**," and the Base Rent and the Additional Rent are

herein collectively referred to as "**Rent**." All amounts due under this Article 4 as Additional Rent shall be payable for the same periods and in the same manner as the Base Rent; provided, however, the parties hereby acknowledge that the first monthly installment of Tenant's Share of any **"Estimated Excess"** (as that term is set forth in, and pursuant to the terms and conditions of, Section 4.4.2, below), shall first be due and payable for the calendar month occurring immediately following the expiration of the first (1st) Lease Year Without limitation on other obligations of Tenant which survive the expiration of the Lease Term, the obligations of Tenant to pay the Additional Rent provided for in this Article 4 shall survive the expiration of the Lease Term.

4.2 **Definitions of Key Terms Relating to Additional Rent.** As used in this Article 4, the following terms shall have the meanings hereinafter set forth:

4.2.1 "**Base Year**" shall mean the period set forth in Section 5 of the Summary.

4.2.2 "**Direct Expenses**" shall mean "Operating Expenses," "Tax Expenses," and "Utilities Costs."

4.2.3 "**Expense Year**" shall mean each calendar year in which any portion of the Lease Term falls, through and including the calendar year in which the Lease Term expires, provided that Landlord, upon notice to Tenant, may change the Expense Year from time to time to any other twelve (12) consecutive month period, and, in the event of any such change, Tenant's Share of Direct Expenses shall be equitably adjusted for any Expense Year involved in any such change.

4.2.4 "**Operating Expenses**" shall mean all expenses, costs and amounts of every kind and nature which Landlord pays or accrues during any Expense Year because of or in connection with the ownership, management, maintenance, security, repair, replacement, restoration or operation of the Project, or any portion thereof, in accordance with sound real estate management and accounting principles, consistently applied. Without limiting the generality of the foregoing, Operating Expenses shall specifically include any and all of the following: (i) the cost of operating, repairing, maintaining, and renovating the utility, telephone, mechanical, sanitary, storm drainage, and elevator systems, and the cost of maintenance and service contracts in connection therewith; (ii) the cost of licenses, certificates, permits and inspections and the cost of contesting any governmental enactments which may affect Operating Expenses, and the costs incurred in connection with a governmentally mandated transportation system management program or similar program; (iii) the cost of all premiums and commercially reasonable deductible amounts applicable under the policies of insurance carried by Landlord in connection with the Project; (iv) the cost of landscaping, relamping, and all supplies, tools, equipment and materials used in the operation, repair and maintenance of the Project, or any portion thereof; (v) costs incurred in connection with the parking areas servicing the Project; (vi) fees and other costs, including management fees (which management fees shall be materially consistent with those being charged by the majority of landlords of Comparable Buildings (as defined in **Exhibit I**), provided, however, in, no event shall such management fee exceed four percent (4%) of the Project's gross revenues), consulting fees, legal fees and accounting fees, of all contractors and consultants in connection with the management, operation, maintenance and repair of the Project; (vii) payments under any equipment rental agreements and the fair rental

value of any management office space; (viii) wages, salaries and other compensation and benefits, including taxes levied thereon, of all persons (other than persons generally considered to be higher in rank than the position of "Property Manager") engaged in the operation, maintenance and security of the Project; (ix) costs under any instrument pertaining to the sharing of costs by the Project; (x) operation, repair, maintenance and replacement of all systems and equipment and components thereof of the Building; (xi) the cost of janitorial, alarm, security and other services, replacement of wall and floor coverings, ceiling tiles and fixtures in common areas, maintenance and replacement of curbs and walkways, repair to roofs and re-roofing; (xii) amortization of the cost of acquiring or the rental expense of personal property used in the maintenance, operation and repair of the Project, or any portion thereof (which amortization calculation shall include interest at the "Interest Rate," as that term is set forth in Article 25 of this Lease); (xiii) the cost of capital improvements (including any capital repairs or replacements set forth above) or other capital costs incurred in connection with the Project, (A) which are intended to effect economies in the operation or maintenance of the Project, or any portion thereof, or (B) that are required under any governmental law or regulation by a federal, state or local governmental agency, except for capital repairs, replacements or other improvements to remedy a condition existing prior to the Lease Commencement Date which an applicable governmental authority, if it had knowledge of such condition prior to the Lease Commencement Date, would have then required to be remedied pursuant to then-current governmental laws or regulations in their form existing as of the Lease Commencement Date and pursuant to the then-current interpretation of such governmental laws or regulations by the applicable governmental authority as of the Lease Commencement Date; provided, however, that any capital expenditure shall be amortized with interest at a rate equal to the annual "Bank Prime Loan" (as that term is set forth in Article 25, below) plus one percent (1%) over the shorter of (*X*) seven (7) years, or (*Y*) its useful life as Landlord shall reasonably determine in accordance with sound real estate management and accounting principles; (xiv) costs, fees, charges or assessments imposed by, or resulting from any mandate imposed on Landlord by any federal, state or local government for fire and police protection, trash removal, community services, or other services which do not constitute "Tax Expenses" as that term is defined in Section 4.2.5, below; and (xv) payments under any easement, license, operating agreement, declaration, restrictive covenant, or instrument pertaining to the sharing of costs by the Building. Notwithstanding the foregoing, for purposes of this Lease, Operating Expenses shall not, however, include:

(a) costs, including marketing costs, legal fees, space planners' fees, advertising and promotional expenses, and brokerage fees incurred in connection with the original construction or development, or original or future leasing of the Project, and costs, including permit, license and inspection costs, incurred with respect to the installation of improvements made for new tenants initially occupying space in the Project after the Lease Commencement Date or incurred in renovating or otherwise improving, decorating, painting or redecorating vacant space for tenants or other occupants of the Project (excluding, however, such costs relating to any common areas of the Project or parking facilities);

(b) except as set forth in items (xii), (xiii), and (xiv) above, depreciation, interest and principal payments on mortgages and other debt costs, if any, penalties and interest;

(c) costs for which the Landlord is entitled to reimbursement by any tenant or occupant of the Project or by insurance by its carrier or any tenant's carrier or by anyone else, and electric power costs for which any tenant directly contracts with the local public service company;

(d) any bad debt loss, rent loss, or reserves for bad debts or rent loss;

(e) costs associated with the operation of the business of the partnership or entity which constitutes the Landlord, as the same are distinguished from the costs of operation of the Project (which shall specifically include, but not be limited to, accounting costs associated with the operation of the Project). Costs associated with the operation of the business of the partnership or entity which constitutes the Landlord include costs of partnership accounting and legal matters, costs of defending any lawsuits with any mortgagee (except as the actions of the Tenant may be in issue), costs of selling, syndicating, financing, mortgaging or hypothecating any of the Landlord's interest in the Project, and costs incurred in connection with any disputes between Landlord and its employees, between Landlord and Project management, or between Landlord and other tenants or occupants, and Landlord's general corporate overhead and general and administrative expenses;

(f) the wages and benefits of any employee who does not devote substantially all of his or her employed time to the Project unless such wages and benefits are prorated to reflect time spent on operating and managing the Project vis-a-vis time spent on matters unrelated to operating and managing the Project; provided, that in no event shall Operating Expenses for purposes of this Lease include wages and/or benefits attributable to personnel above the level of Project manager;

(g) amount paid as ground rental for the Project by the Landlord;

(h) overhead and profit increment paid to the Landlord or to subsidiaries or affiliates of the Landlord for services in the Project to the extent the same exceeds the costs of such services rendered by qualified, first-class unaffiliated third parties on a competitive basis;

(i) any compensation paid to clerks, attendants or other persons in commercial concessions operated by the Landlord, provided that any compensation paid to any concierge at the Project shall be includable as an Operating Expense;

(j) rentals and other related expenses incurred in leasing air conditioning systems, elevators or other equipment which if purchased the cost of which would be excluded from Operating Expenses as a capital cost, except equipment not affixed to the Project which is used in providing janitorial or similar services and, further excepting from this exclusion such equipment rented or leased to remedy or ameliorate an emergency condition in the Project ;

(k) all items and services for which Tenant or any other tenant in the Project reimburses Landlord or which Landlord provides selectively to one or more tenants (other than Tenant) without reimbursement;

(l) costs, other than those incurred in ordinary maintenance and repair, for sculpture, paintings, fountains or other objects of art;

(m) any costs expressly excluded from Operating Expenses elsewhere in this Lease;

(n) rent for any office space occupied by Project management personnel to the extent the size or rental rate of such office space exceeds the size or fair market rental value of office space occupied by management personnel of the Comparable Buildings in the vicinity of the Building, with adjustment where appropriate for the size of the applicable project;

(o) costs to the extent arising from the gross negligence or willful misconduct of Landlord or its agents, employees, vendors, contractors, or providers of materials or services;

(p) costs incurred to comply with laws relating to the removal of hazardous material (as defined under applicable law) which was in existence in the Building or on the Project prior to the Lease Commencement Date, and was of such a nature that a federal, State or municipal governmental authority, if it had then had knowledge of the presence of such hazardous material, in the state, and under the conditions that it then existed in the Building or on the Project, would have then required the removal of such hazardous material or other remedial or containment action with respect thereto; and costs incurred to remove, remedy, contain, or treat hazardous material, which hazardous material is brought into the Building or onto the Project after the date hereof by Landlord or any other tenant of the Project and is of such a nature, at that time, that a federal, State or municipal governmental authority, if it had then had knowledge of the presence of such hazardous material, in the state, and under the conditions, that it then exists in the Building or on the Project, would have then required the removal of such hazardous material or other remedial or containment action with respect thereto;

(q) capital repairs not specifically included in subsection (xiii), above, including but not limited to the build-out of the Building occurring concurrently with the execution of this Lease (which build-out includes the lobbies, restrooms, and common area improvements associated therewith) and any improvements provided to any other tenant of the Building; and

(r) deductible amounts applicable under the policies of earthquake insurance carried by Landlord in connection with the Project.

If Landlord is not furnishing any particular work or service (the cost of which, if performed by Landlord, would be included in Operating Expenses) to a tenant who has undertaken to perform such work or service in lieu of the performance thereof by Landlord, then in order to effectuate an equitable gross up of such expense items, Operating Expenses shall be deemed to be increased by an amount equal to the additional Operating Expenses which would reasonably have been incurred during such period by Landlord if it had at its own expense furnished such work or service to such tenant. If the Building and/or Project is not at least ninety-five percent (95%) occupied during all or a portion of the Base Year or any Expense

Year, Landlord shall make an appropriate adjustment to the components of Operating Expenses for such year to determine the amount of Operating Expenses that would have been incurred had the Building and/or Project been ninety-five percent (95%) occupied; and the amount so determined shall be deemed to have been the amount of Operating Expenses for such year Operating Expenses for the Base Year shall not include market-wide cost increases (including utility rate increases) due to extraordinary circumstances, including, but not limited to, Force Majeure, boycotts, strikes, conservation surcharges, embargoes or shortages, or amortized costs relating to capital improvements; provided however is no event shall any particular capital improvements incurred in or prior to the Base Year have amortized costs relating thereto included in any subsequent expense year. Landlord shall not (i) make a profit by charging items to Operating Expenses that are otherwise also charged separately to others and (ii) subject to Landlord's right to adjust the components of Operating Expenses described above in this paragraph, collect Operating Expenses from Tenant and all other tenants in the Building in an amount in excess of what Landlord incurs for the items included in Operating Expenses.

4.2.5 **Taxes**.

4.2.5.1 "**Tax Expenses**" shall mean all federal, state, county, or local governmental or municipal taxes, fees, charges or other impositions of every kind and nature, whether general, special, ordinary or extraordinary, (including, without limitation, real estate taxes, general and special assessments, transit taxes, leasehold taxes or taxes based upon the receipt of rent, including gross receipts or sales taxes applicable to the receipt of rent, unless required to be paid by Tenant, personal property taxes imposed upon the fixtures, machinery, equipment, apparatus, systems and equipment, appurtenances, furniture and other personal property used in connection with the Project, or any portion thereof), which shall be paid or accrued during any Expense Year (without regard to any different fiscal year used by such governmental or municipal authority) because of or in connection with the ownership, leasing and operation of the Project, or any portion thereof.

4.2.5.2 Tax Expenses shall include, without limitation: (i) any tax on the rent, right to rent or other income from the Project, or any portion thereof, or as against the business of leasing the Project, or any portion thereof; (ii) any assessment, tax, fee, levy or charge in addition to, or in substitution, partially or totally, of any assessment, tax, fee, levy or charge previously included within the definition of real property tax, it being acknowledged by Tenant and Landlord that certain assessments, taxes, fees, levies and charges may be imposed by governmental agencies for such services as fire, protection, street, sidewalk and road maintenance, refuse removal and for other governmental services formerly provided without charge to property owners or occupants; (iii) any assessment, tax, fee, levy, or charge allocable to or measured by the area of the Premises or the Rent payable hereunder, including, without limitation, any business or gross income tax or excise tax with respect to the receipt of such rent, or upon or with respect to the possession, leasing, operating, management, maintenance, alteration, repair, use or occupancy by Tenant of the Premises, or any portion thereof; and (iv) any assessment, tax, fee, levy or charge, upon this transaction or any document to which Tenant is a party, creating or transferring an interest or an estate in the Premises.

4.2.5.3 Any costs and expenses (including, without limitation, reasonable attorneys' fees) incurred in attempting to protest, reduce or minimize Tax Expenses shall be

included in Tax Expenses in the Expense Year such expenses are paid, provided that such costs and expenses shall not exceed the savings reasonably anticipated to result. Except as set forth in Section 4.2.5.4, below, refunds of Tax Expenses shall be credited against Tax Expenses and refunded to Tenant regardless of when received, based on the Expense Year to which the refund is applicable, provided that in no event shall the amount to be refunded to Tenant for any such Expense Year exceed the total amount paid by Tenant as Additional Rent under this Article 4 for such Expense Year. If Tax Expenses for any period during the Lease Term or any extension thereof are increased after payment thereof for any reason, including, without limitation, error or reassessment by applicable governmental or municipal authorities, Tenant shall pay Landlord upon demand Tenant's Share of any such increased Tax Expenses included by Landlord as Building Tax Expenses pursuant to the TCCs of this Lease. Notwithstanding anything to the contrary contained in this Section 4.2.5 (except as set forth in Section 4.2.5.1, above), there shall be excluded from Tax Expenses (i) all excess profits taxes, franchise taxes, gift taxes, capital stock taxes, inheritance and succession taxes, estate taxes, federal and state income taxes, and other taxes to the extent applicable to Landlord's general or net income (as opposed to rents, receipts or income attributable to operations at the Project), (ii) any items included as Operating Expenses, and (iii) any items paid by Tenant under Section 4.5 of this Lease.

4.2.6 "**Tenant's Share**" shall mean the percentage set forth in Section 6 of the Summary.

4.2.7 "**Utilities Costs**" shall mean all actual charges for the Building and the Project which Landlord shall pay during any Expense Year, including but not limited to, the costs of water, sewer and electricity, and the costs of HVAC (including, unless paid by Tenant pursuant to Section 6.2.3, below, the cost of electricity to operate the HVAC air handlers) and other utilities (but excluding (i) the cost of electricity consumed in the Premises and the premises of other tenant of the Building and any other buildings in the Project (since Tenant is separately paying for the cost of electricity pursuant to Section 6.1.2, below) and (ii) those charges for which tenants directly reimburse Landlord or otherwise pay directly to the utility company) as well as related fees, assessments and surcharges. Utilities Costs shall be calculated assuming the Buildings (and during the period of time when any other office buildings are fully constructed and ready for occupancy and are included by Landlord within the Project), are at least ninety-five percent (95%) occupied. If, during all or any part of any Expense Year, Landlord shall not provide any utilities other than gas and electricity (the cost of which, if provided by Landlord, would be included in the Utilities Costs) to a tenant (including Tenant) who has undertaken to provide the same instead of Landlord, then in order to effectuate an equitable gross up of such expense items, Utilities Costs shall be deemed to be increased by an amount equal to the additional Utilities Costs which would reasonably have been incurred during such period by Landlord if Landlord had at its own expense provided such utilities to such tenant. Utilities Costs shall include any costs of utilities which are allocated to the real property under any declaration, restrictive covenant, or other instrument pertaining to the sharing of costs by the real property or any portion thereof, including any covenants, conditions or restrictions now or hereafter recorded against or affecting the real property. For purposes of determining Utilities Costs incurred for the Base Year, the Utilities Costs for the Base Year shall not include any one-time special charges, costs or fees or extraordinary charges or costs incurred in the Base Year only, including those attributable to boycotts, embargoes, strikes or other shortages of services or fuel. In addition, if in any Expense Year subsequent to the Base Year, the amount of Utilities

Costs decreases due to a reduction in the cost of providing utilities to the real property for any reason, including, without limitation, because of deregulation of the utility industry and/or reduction in rates achieved in contracts with utilities providers, then for purposes of the Expense year in which such decrease in Utilities Costs occurred and all subsequent Expense Years, the Utilities Costs for the Base Year shall be decreased by an amount equal to such decrease.

4.3 **Method of Allocation**.

4.3.1 **In General**. The parties acknowledge that the Building is a part of a multi-building project and that the costs and expenses incurred in connection with the Project (i.e. the Direct Expenses) should be shared between the tenants of the Building and the tenants of the other buildings in the Project. Accordingly, as set forth in Section 4.2 above, Direct Expenses (which consists of Operating Expenses, Tax Expenses, and Utilities Costs) are determined annually for the Project as a whole, and a portion of the Direct Expenses, which portion shall be determined by Landlord on an equitable basis, shall be allocated to the tenants of the Building (as opposed to the tenants of any other buildings in the Project) and such portion shall be the Direct Expenses for purposes of this Lease. Such portion of Direct Expenses allocated to the tenants of the Building shall include all Direct Expenses attributable solely to the Building and an equitable portion of the Direct Expenses attributable to the Project as a whole.

4.3.2 **Cost Pools**. Landlord shall have the right, from time to time, to equitably allocate some or all of the Direct Expenses for the Project among different portions or occupants of the Project (the "**Cost Pools**"), in Landlord's discretion. Such Cost Pools may include, but shall not be limited to, the office space tenants of a building of the Project or of the Project, and the retail space tenants of a building of the Project or of the Project. The Direct Expenses within each such Cost Pool shall be allocated and charged to the tenants within such Cost Pool in an equitable manner.

4.4 **Calculation and Payment of Additional Rent**. If for any Expense Year ending or commencing within the Lease Term, Tenant's Share of Direct Expenses for such Expense Year exceeds Tenant's Share of Direct Expenses applicable to the Base Year, then Tenant shall pay to Landlord, in the manner set forth in Section 4.4.1, below, and as Additional Rent, an amount equal to the excess (the "**Excess**").

4.4.1 **Statement of Actual Building Direct Expenses and Payment by, Tenant**. Landlord shall give to Tenant following the end of each Expense Year, a statement (the "**Statement**") which shall state in general major categories the Building Direct Expenses incurred or accrued for the Base Year or such preceding Expense Year, as applicable, and which shall indicate the amount of the Excess, if any Landlord shall use commercially reasonable efforts to deliver such Statement to Tenant on or before May 1 following the end of the Expense Year to which such Statement relates. Upon receipt of the Statement for each Expense Year commencing or ending during the Lease Term, if an Excess is present, Tenant shall pay, within thirty (30) days after receipt of the Statement, the full amount of the Excess for such Expense Year, less the amounts, if any, paid during such Expense Year as "Estimated Excess" (as that is defined in Section 4.4.2, below), and if Tenant paid more as Estimated Excess than the actual Excess, Tenant shall receive a credit in the amount of Tenant's overpayment against Rent next due under this Lease. The failure of Landlord to timely furnish the Statement for any

Expense Year shall not prejudice Landlord or Tenant from enforcing its rights under this Article 4. Even though the Lease Term has expired and Tenant has vacated the Premises, when the final determination is made of Tenant's Share of Building Direct Expenses for the Expense Year in which this Lease terminates, if an Excess is present, Tenant shall, within thirty (30) days after receipt of the Statement, pay to Landlord such amount, and if Tenant paid more as Estimated Excess than the actual Excess, Landlord shall, within thirty (30) days, deliver a check payable to Tenant in the amount of the overpayment. The provisions of this Section 4.4.1 shall survive the expiration or earlier termination of the Lease Term. Notwithstanding the immediately preceding sentence, Tenant shall not be responsible for Tenant's Share of any Building Direct Expenses attributable to any Expense Year which are first billed to Tenant more than two (2) calendar years after the end of the Expense Year in which the expenses are incurred, provided that in any event Tenant shall be responsible for Tenant's Share of Direct Expenses levied by any governmental authority or by any public utility companies at any time following the Lease Expiration Date which are attributable to any Expense Year.

4.4.2 **Statement of Estimated Building Direct Expenses**. In addition, Landlord shall give Tenant a yearly expense estimate statement (the "**Estimate Statement**") which shall set forth in general major categories Landlord's reasonable estimate (the "**Estimate**") of what the total amount of Building Direct Expenses for the then-current Expense Year shall be and the estimated excess (the "**Estimated Excess**") as calculated by comparing the Building Direct Expenses for such Expense Year, which shall be based upon the Estimate, to the amount of Building Direct Expenses for the Base Year. Landlord shall use commercially reasonable efforts to deliver such Estimate Statement to Tenant on or before May 1 following the end of the Expense Year to which such Estimate Statement relates. The failure of Landlord to timely furnish the Estimate Statement for any Expense Year shall not preclude Landlord from enforcing its rights to collect any Additional Rent under this Article 4, nor shall Landlord be prohibited from revising any Estimate Statement or Estimated Excess theretofore delivered to the extent necessary. Thereafter, Tenant shall pay, within thirty (30) days after receipt of the Estimate Statement, a fraction of the Estimated Excess for the then-current Expense Year (reduced by any amounts paid pursuant to the second to last sentence of this Section 4.4.2). Such fraction shall have as its numerator the number of months which have elapsed in such current Expense Year, including the month of such payment, and twelve (12) as its denominator. Until a new Estimate Statement is furnished (which Landlord shall have the right to deliver to Tenant at any time), Tenant shall pay monthly, with the monthly Base Rent installments, an amount equal to one-twelfth (1/12) of the total Estimated Excess set forth in the previous Estimate Statement delivered by Landlord to Tenant. Throughout the Lease Term Landlord shall maintain books and records with respect to Building Direct Expenses in accordance with generally accepted real estate accounting and management practices, consistently applied.

4.5 **Taxes and Other Charges for Which Tenant Is Directly Responsible**.

4.5.1 Tenant shall be liable for and shall pay ten (10) days before delinquency, taxes levied against Tenant's equipment, furniture, fixtures and any other personal property located in or about the Premises. If any such taxes on Tenant's equipment, furniture, fixtures and any other personal property are levied against Landlord or Landlord's property or if the assessed value of Landlord's property is increased by the inclusion therein of a value placed upon such equipment, furniture, fixtures or any other personal property and if Landlord pays the taxes based

upon such increased assessment, which Landlord shall have the right to do regardless of the validity thereof but only under proper protest if requested by Tenant, Tenant shall upon demand repay to Landlord the taxes so levied against Landlord or the proportion of such taxes resulting from such increase in the assessment, as the case may be.

4.5.2 If the improvements in the Premises, whether installed and/or paid for by Landlord or Tenant and whether or not affixed to the real property so as to become a part thereof, are assessed for real property tax purposes at a valuation higher than the valuation at which improvements conforming to Landlord's "building standard" in other space in the Building are assessed, then the Tax Expenses levied against Landlord or the property by reason of such excess assessed valuation shall be deemed to be taxes levied against personal property of Tenant and shall be governed by the provisions of Section 4.5.1, above.

4.5.3 Notwithstanding any contrary provision herein, Tenant shall pay prior to delinquency any (i) rent tax or sales tax, service tax, transfer tax or value added tax, or any other applicable tax on the rent or services herein or otherwise respecting this Lease, (ii) taxes assessed upon or with respect to the possession, leasing, operation, management, maintenance, alteration, repair, use or occupancy by Tenant of the Premises or any portion of the Project, including the Project parking facility; or (iii) taxes assessed upon this transaction or any document to which Tenant is a party creating or transferring an interest or an estate in the Premises.

4.6 **Landlord's Books and Records**. Upon Tenant's written request given not more than ninety (90) days after Tenant's receipt of a Statement for a particular Expense Year, and provided that Tenant is not then in default under this Lease beyond the applicable cure period provided in this Lease, Landlord shall furnish Tenant with such reasonable supporting documentation in connection with said Building Direct Expenses as Tenant may reasonably request. Landlord shall provide said information to Tenant within thirty (30) days after Tenant's written request therefor. Within one hundred eighty (180) days after receipt of a Statement by Tenant (the "**Review Period**"), if Tenant disputes the amount of Additional Rent set forth in the Statement, an independent certified public accountant (which accountant (A) is a member of a nationally or regionally recognized accounting firm, and (B) is not working on a contingency fee basis), designated and paid for by Tenant, may, after reasonable notice to Landlord and at reasonable times, inspect Landlord's records with respect to the Statement at Landlord's offices, provided that Tenant is not then in default under this Lease (beyond any applicable notice and cure periods) and Tenant has paid all amounts required to be paid under the applicable Estimate Statement and Statement, as the case may be; provided, however, that Tenant's payment shall not be construed as an acknowledgement of the validity of the charge(s). In connection with such, inspection, Tenant and Tenant's agents must agree in advance to follow Landlord's reasonable rules and procedures regarding inspections of Landlord's records, and shall execute a commercially reasonable confidentiality agreement regarding such inspection. Tenant's failure to dispute the amount of Additional Rent set forth in any Statement within the Review Period shall be deemed to be Tenant's constructive approval of such Statement and Tenant, thereafter, waives the right or ability to dispute the amounts set forth in such Statement. If after such inspection, Tenant still disputes such Additional Rent, a determination as to the proper amount shall be made, at Tenant's expense, by an independent certified public accountant (the "**Accountant**") selected by Landlord and subject to Tenant's reasonable approval; provided that if such determination by the Accountant proves that Direct Expenses were overstated by more

than five percent (5%), then the cost of the Accountant and the cost of such determination shall be paid for by Landlord. Tenant hereby acknowledges that Tenant's sole right to inspect Landlord's books and records and to contest the amount of Direct Expenses payable by Tenant shall be as set forth in this Section 4.6, and Tenant hereby waives any and all other rights pursuant to applicable law to inspect such books and records and/or to contest the amount of Direct Expenses payable by Tenant.

ARTICLE 5

USE OF PREMISES

5.1 **Permitted Use**. Tenant shall use the Premises solely for the Permitted Use set forth in Section 7 of the Summary and Tenant shall not use or permit the Premises, the Building, or the Project to be used for any other purpose or purposes whatsoever without the prior written consent of Landlord, which may be withheld in Landlord's sole discretion.

5.2 **Prohibited Uses**. The uses prohibited under this Lease shall include, without limitation, use of the Premises or a portion thereof for (i) offices of any agency or bureau of the United States or any state or political subdivision thereof; (ii) offices or agencies of any foreign governmental or political subdivision thereof; (iii) offices of any health care professionals or service organization; (iv) schools or other training facilities which are not ancillary to corporate, executive or professional office use; (v) retail or restaurant uses; or (vi) communications firms such as radio and/or television stations. Tenant shall not allow occupancy density of use of the Premises which is greater than five (5) persons per one thousand (1,000) rentable square feet of the Premises; provided, however, under no circumstances shall Tenant use, or be entitled to, more parking than the ratio set forth in Section 10 of the Summary. Tenant further covenants and agrees that Tenant shall not use, or suffer or permit any person or persons to use, the Premises or any part thereof for any use or purpose contrary to the provisions of the Rules and Regulations set forth in **Exhibit D**, attached hereto, or in violation of the laws of the United States of America, the State of California, or the ordinances, regulations or requirements of the local municipal or county governing body or other lawful authorities having jurisdiction over the Project) including, without limitation, any such laws, ordinances, regulations or requirements relating to hazardous materials or substances, as those terms are defined by applicable laws now or hereafter in effect; provided, however, Landlord shall not enforce, change or modify the Rules and Regulations in a discriminatory manner and Landlord agrees that the Rules and Regulations shall not be unreasonably modified or enforced in a manner which will unreasonably interfere with the normal and customary conduct of Tenant's business. Tenant shall not do or permit anything to be done in or about the Premises which will in any way damage the reputation of the Project or obstruct or interfere with the rights of other tenants or occupants of the Building, or injure or annoy them or use or allow the Premises to be used for any improper, unlawful or objectionable purpose, nor shall Tenant cause, maintain or permit any nuisance in, on or about the Premises. Tenant shall comply with all recorded covenants, conditions, and restrictions now or hereafter affecting the Project.

ARTICLE 6

SERVICES AND UTILITIES

6.1 **Standard Tenant Services**. Landlord shall provide the following services on all days (unless otherwise stated below) during the Lease Term.

6.1.1 Subject to reasonable change implemented by Landlord and any limitations imposed by all governmental rules, regulations and guidelines applicable thereto, Landlord shall provide heating and air conditioning ("**HVAC**") when necessary for normal comfort for normal office use in the Premises from 7:00 A.M. to 6:00 P.M. Monday through Friday, and on Saturdays from 9:00 A.M. to 1:00 P.M. (collectively, the "**Building Hours**"), except for the date of observation of New Year's Day, Memorial Day, Independence Day, Labor Day, Thanksgiving Day, Christmas Day and, at Landlord's discretion, other locally or nationally recognized holidays (collectively, the "**Holidays**"). Except when and where Tenant's right of access is specifically excluded in this Lease, Tenant shall have the right of access to the Premises, the Building, and the Project parking facility twenty-four (24) hours per day, seven (7) days per week during the "Lease Term," as that term is defined in Section 2.1, below.

6.1.2 Landlord shall provide adequate electrical wiring and facilities and power for normal general office use as reasonably determined by Landlord. Commencing on the Lease Commencement Date, Tenant shall pay directly to the utility company pursuant to the utility company's separate meters (or to Landlord in the event Landlord provides submeters instead of the utility company's meters), the cost of all electricity provided to and/or consumed in the Premises (including normal and excess consumption and including the cost of electricity to operate (i) the HVAC equipment servicing the server room and sound room, on a twenty-four (24) hour a day, seven (7) day a week basis, and (ii) the HVAC air handlers serving the remainder of the Premises, if not charged to and paid by Tenant as part of Utilities Costs), which electricity shall be separately metered (as described above or otherwise equitably allocated and directly charged by Landlord to Tenant and other tenants of the Building). Tenant shall pay such cost (including the cost of such meters or submeters) within thirty (30) days after demand and as Additional Rent under this Lease (and not as part of the Operating Expenses). Landlord shall designate the electricity utility provider from time to time.

6.1.3 As part of Operating Expenses, Landlord shall replace lamps, starters and ballasts for Building standard lighting fixtures within the Premises. Notwithstanding the foregoing, Tenant shall nevertheless bear the cost of replacement of lamps, starters and ballasts for non-Building standard lighting fixtures within the Premises.

6.1.4 Landlord shall provide city water from the regular Building outlets for drinking, lavatory and toilet purposes in the Building Common Areas.

6.1.5 Landlord shall provide janitorial services to the Premises, except the date of observation of the Holidays, in and about the Premises and window washing services in a manner consistent with other comparable buildings in the vicinity of the Building.

6.1.6 Landlord shall provide nonexclusive, non-attended automatic passenger elevator service during the Building Hours, shall have one elevator available at all other times, except on the Holidays.

6.1.7 Landlord shall cause one (1) passenger elevator to be "padded" and otherwise prepared and ready for freight service and shall make the same reasonably available to Tenant on a nonexclusive basis, subject to scheduling by Landlord.

Tenant shall cooperate fully with Landlord at all times and abide by all regulations and requirements that Landlord may reasonably prescribe for the proper functioning and protection of the HVAC, electrical, mechanical and plumbing systems.

6.2 **Overstandard Tenant Use**. Tenant shall not, without Landlord's prior written consent, use heat-generating machines, machines other than normal fractional horsepower office machines, or equipment or lighting other than Building standard lights in the Premises, which may affect the temperature otherwise maintained by the air conditioning system or increase the water normally furnished for the Premises by Landlord pursuant to the terms of Section 6.1 of this Lease. If such consent is given, Landlord shall have the right to install supplementary air conditioning units or other facilities in the Premises, including supplementary or additional metering devices, and the cost thereof, including the cost of installation, operation and maintenance, increased wear and tear on existing equipment and other similar charges, shall be paid by Tenant to Landlord upon billing by Landlord. If Tenant uses water, electricity, heat or air conditioning in excess of that supplied by Landlord pursuant to Section 6.1 of this Lease, Tenant shall pay to Landlord, upon billing, the cost of such excess consumption, the cost of the installation, operation, and maintenance of equipment which is installed in order to supply such excess consumption, and the cost of the increased wear and tear on existing equipment caused by such excess consumption; and Landlord may install devices to separately meter any increased use and in such event Tenant shall pay the increased cost directly to Landlord, on demand, at the rates charged by the public utility company furnishing the same, including the cost of such additional metering devices. Tenant's use of electricity shall never exceed the capacity of the feeders to the Project or the risers or wiring installation, and subject to the terms of Section 29.32, below, Tenant shall not install or use or permit the installation or use of any computer or electronic data processing equipment in the Premises (other than in the server room), without the prior written consent of Landlord; provided, however, the foregoing restriction on "computers" shall not apply to desktop micro-computers. Except with regard to the HVAC equipment servicing the server room and sound room, if Tenant desires to use heat, ventilation or air conditioning during hours other than those for which Landlord is obligated to supply such utilities pursuant to the terms of Section 6.1 of this Lease, Tenant shall give Landlord such prior notice, if any, as Landlord shall from time to time establish as appropriate, of Tenant's desired use in order to supply such after hours usage, and Landlord shall supply such after hours usage to Tenant at such hourly cost to Tenant (which shall be treated as Additional Rent) as Landlord shall from time to time establish, which is, as of the date hereof, anticipated to be Thirty Five and No/100 Dollars ($35.00) per hour per zone.

6.3 **Interruption of Use**. Except as otherwise provided in Section 6.4 or elsewhere in this Lease, Tenant agrees that Landlord shall not be liable for damages, by abatement of Rent or otherwise, for failure to furnish or delay in furnishing any service (including telephone and

telecommunication services), or for any diminution in the quality or quantity thereof, when such failure or delay or diminution is occasioned, in whole or in part, by breakage, repairs, replacements, or improvements, by any strike, lockout or other labor trouble, by inability to secure electricity, gas, water, or other fuel at the Building or Project after reasonable effort to do so, by any riot or other dangerous condition, emergency, accident or casualty whatsoever, by act or default of Tenant or other parties, or by any other cause beyond Landlord's reasonable control; and such failures or delays or diminution shall never be deemed to constitute an eviction or disturbance of Tenant's use and possession of the Premises or relieve Tenant from paying Rent or performing any of its obligations under this Lease, except as otherwise provided in Section 6.4 or elsewhere in the Lease. Furthermore, Landlord shall not be liable under any circumstances for a loss of, or injury to, property or for injury to, or interference with, Tenant's business, including, without limitation, loss of profits, however occurring, through or in connection with or incidental to a failure to furnish any of the services or utilities as set forth in this Article 6.

6.4 **Abatement Event**. If (i) Landlord fails to perform the obligations required of Landlord under the TCCs of this Lease, (ii) such failure causes all or a portion of the Premises to be untenantable and unusable by Tenant, and (iii) such failure relates to (A) the nonfunctioning of the heat, ventilation, and air conditioning system in the Premises, the electricity in the Premises, the nonfunctioning of the elevator service to the Premises, or (B) a failure to provide access to the Premises, Tenant shall give Landlord notice (the "**Initial Notice**"), specifying such failure to perform by Landlord (the "**Abatement Event**"). If Landlord has not cured such Abatement Event within five (5) business days after the receipt of the Initial Notice (the "**Eligibility Period**"), Tenant may deliver an additional notice to Landlord (the "**Additional Notice**"), specifying such Abatement Event and Tenant's intention to abate the payment of Rent under this Lease. If Landlord does not cure such Abatement Event within five (5) business days of receipt of the Additional Notice, Tenant may, upon written notice to Landlord, immediately abate Rent payable under this Lease for that portion of the Premises rendered untenantable and not used by Tenant, for the period beginning on the date five (5) business days after the Initial Notice to the earlier of the date Landlord cures such Abatement Event or the date Tenant recommences the use of such portion of the Premises. Such right to abate Rent shall be Tenant's sole and exclusive remedy at law or in equity for an Abatement Event. Except as provided in this Section 6.4, nothing contained herein shall be interpreted to mean that Tenant is excused from paying Rent due hereunder.

ARTICLE 7

REPAIRS

Tenant shall, at Tenant's own expense, keep the Premises (including all improvements, fixtures and furnishings therein, and, to the extent within the demising wall envelope of the Premises, the floor or floors of the Building on which the Premises are located), in good order, repair and condition at all times during the Lease Term, except for damage caused by ordinary wear and tear or, subject to the TCCs of Article 11, fire or other casualty beyond the reasonable control of Tenant. In addition, Tenant shall, at Tenant's own expense, but under the supervision and subject to the prior approval of Landlord, and within any reasonable period of time specified by Landlord, promptly and adequately repair all damage to the Premises and replace or repair all damaged, broken, or worn fixtures and appurtenances, except for damage caused by ordinary

wear and tear or, subject to the TCCs of Article 11, fire or other casualty beyond the reasonable control of Tenant; provided however, that, at Landlord's option, or if Tenant fails to make such repairs, Landlord may, after written notice to Tenant and Tenant's failure to repair within five (5) days thereafter, but need not, make such repairs and replacements, and Tenant shall pay Landlord the cost thereof, including a percentage of the cost thereof (to be uniformly established for the Building and/or the Project) sufficient to reimburse Landlord for all overhead, general conditions, fees and other costs or expenses arising from Landlord's involvement with such repairs and replacements forthwith upon being billed for same. Notwithstanding the foregoing, Landlord shall be responsible for repairs to the exterior walls, foundation and roof of the Building, the structural portions of the floors of the Building, and the systems and equipment of the Building; provided, however, that if such repairs are due to the negligence or willful misconduct of Tenant, Landlord shall make such repairs at Tenant's expense, or, if covered by Landlord's insurance, Tenant shall only be obligated to pay any deductible in connection therewith. Landlord may, but shall not be required to, enter the Premises at all reasonable times to make such repairs, alterations, improvements or additions to the Premises or to the Project or to any equipment located in the Project as Landlord shall desire or deem necessary or as Landlord may be required to do by governmental or quasi-governmental authority or court order or decree; provided, however, except for (i) emergencies, (ii) repairs, alterations, improvements or additions required by governmental or quasi-governmental authorities or court order or decree, or (iii) repairs which are the obligation of Tenant hereunder, any such entry into the Premises by Landlord shall be performed in a manner so as not to materially interfere with Tenant's use of, or access to, the Premises; provided that, with respect to items (ii) and (iii) above, Landlord shall use commercially reasonable efforts to not materially interfere with Tenant's use of, or access to, the Premises. Tenant hereby waives any and all rights under and benefits of subsection 1 of Section 1932 and Sections 1941 and 1942 of the California Civil Code or under any similar law, statute, or ordinance now or hereafter in effect.

ARTICLE 8

ADDITIONS AND ALTERATIONS

8.1 **Landlord's Consent to Alterations**. Tenant may not make any improvements, alterations, additions or changes to the Premises or any mechanical, plumbing or HVAC facilities or systems pertaining to the Premises (collectively, the "**Alterations**") without first procuring the prior written consent of Landlord to such Alterations, which consent shall be requested by Tenant not less than fifteen (15) business days prior to the commencement thereof, and which consent shall not be unreasonably withheld by Landlord, provided it shall be deemed reasonable for Landlord to withhold its consent to any Alteration which adversely affects the structural portions or the systems or equipment of the Building or is visible from the exterior of the Building. Notwithstanding the foregoing, Tenant shall be permitted to make Alterations following ten (10) business days notice to Landlord, but without Landlord's prior consent, to the extent that such Alterations do not (i) adversely affect the systems and equipment of the Building, exterior appearance of the Building, or structural aspects of the Building, or (ii) adversely affect the value of the Premises or Building (the "**Cosmetic Alterations**"). The construction of the initial improvements to the Premises shall be governed by the terms of the Work Letter Agreement and not the terms of this Article 8.

8.2 **Manner of Construction**. Landlord may impose, as a condition of its consent to any and all Alterations or repairs of the Premises or about the Premises, such requirements as Landlord in its reasonable discretion may deem desirable, including, but not limited to, the requirement that Tenant utilize for such purposes only contractors reasonably approved by Landlord, and the requirement that upon Landlord's timely request (as more particularly set forth in Section 8.5, below), Tenant shall, at Tenant's expense, remove such Alterations upon the expiration or any early termination of the Lease Term and return the affected portion of the Premises to a building standard tenant improved condition as determined by Landlord. Tenant shall construct such Alterations and perform such repairs in a good and workmanlike manner, in conformance with any and all applicable federal, state, county or municipal laws, rules and regulations and pursuant to a valid building permit, issued by the City of San Diego, all in conformance with Landlord's construction rules and regulations; provided, however, that prior to commencing to construct any Alteration, Tenant shall meet with Landlord to discuss Landlord's design parameters and code compliance issues. In the event Tenant performs any Alterations in the Premises which require or give rise to governmentally required changes to the "**Base Building**," as that term is defined below, then Landlord shall, at Tenant's expense, make such changes to the Base Building. The "Base Building" shall include the structural portions of the Building, and the public restrooms, elevators, exit stairwells and the systems and equipment located in the internal core of the Building on the floor or floors on which the Premises are located. In performing the work of any such Alterations, Tenant shall have the work performed in such manner so as not to obstruct access to the Project or any portion thereof, by any other tenant of the Project, and so as not to obstruct the business of Landlord or other tenants in the Project. Tenant shall not use (and upon notice from Landlord shall cease using) contractors, services, workmen, labor, materials or equipment that, in Landlord's reasonable judgment, would disturb labor harmony with the workforce or trades engaged in performing other work, labor or services in or about the Building or the Common Areas. In addition to Tenant's obligations under Article 9 of this Lease, upon completion of any Alterations, Tenant agrees to cause a Notice of Completion to be recorded in the office of the Recorder of the County of San Diego in accordance with Section 3093 of the Civil Code of the State of California or any successor statute, and Tenant shall deliver to the Project construction manager a reproducible copy of the "as built" drawings of the Alterations, to the extent applicable, as well as all permits, approvals and other documents issued by any governmental agency in connection with the Alterations.

8.3 **Payment for Improvements**. If payment is made directly to contractors, Tenant shall (i) comply with Landlord's requirements for final lien releases and waivers in connection with Tenant's payment for work to contractors, and (ii) sign Landlord's standard contractor's rules and regulations. If Tenant orders any work directly from Landlord, Tenant shall pay to Landlord an amount equal to […***…] percent ([…***…]%) of the cost of such work to compensate Landlord for all overhead, general conditions, fees and other costs and expenses arising from Landlord's involvement with such work. If Tenant does not order any work directly from Landlord, Tenant shall reimburse Landlord for Landlord's reasonable, actual, out-of-pocket costs and expenses actually incurred in connection with Landlord's review of such work.

8.4 **Construction Insurance**. In addition to the requirements of Article 10 of this Lease, in the event that Tenant makes any Alterations, prior to the commencement of such Alterations, Tenant shall provide Landlord with evidence that Tenant carries "Builder's All Risk" insurance in an amount reasonably approved by Landlord covering the construction of such

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Alterations, and such other insurance as Landlord may reasonably require, it being understood and agreed that all of such Alterations shall be insured by Tenant pursuant to Article 10 of this Lease immediately upon completion thereof. In addition, Landlord may, in its reasonable discretion, require Tenant to obtain a lien and completion bond or some alternate form of security satisfactory to Landlord in an amount sufficient to ensure the lien-free completion of such Alterations and naming Landlord as a co-obligee.

8.5 **Landlord's Property**. Landlord and Tenant hereby acknowledge and agree that (i) all Alterations, improvements, fixtures, equipment and/or appurtenances which may be installed or placed in or about the Premises, from time to time, shall be at the sole cost of Tenant and shall be and become part of the Premises and the property of Landlord, and (ii) the Improvements to be constructed in the Premises pursuant to the TCCs of the Work Letter Agreement shall, upon completion of the same, be and become a part of the Premises and the property of Landlord. Furthermore, Landlord may, by written notice to Tenant prior to the end of the Lease Term, or given following any earlier termination of this Lease, require Tenant, at Tenant's expense, to (A) remove any Alterations or improvements in the Premises, and/or (B) remove any "Non-Conforming Improvements," as that term is defined in Article 2 of the Work Letter Agreement, located within the Premises and replace the same with then existing Building standard improvements, and to repair any damage to the Premises and Building caused by such removal and return the affected portion of the Premises to a building standard tenant improved condition as determined by Landlord; provided, however, if, in connection with its notice to Landlord with respect to any such Alterations or Cosmetic Alterations, (x) Tenant requests Landlord's decision with regard to the removal of such Alterations or Cosmetic Alterations, and (y) Landlord thereafter agrees in writing to waive the removal requirement with regard to such Alterations or Cosmetic Alterations, then Tenant shall not be required to so remove such Alterations or Cosmetic Alterations; provided further, however, that if Tenant requests such a determination from Landlord and Landlord, within ten (10) business days following Landlord's receipt of such request from Tenant with respect to Alterations or Cosmetic Alterations, fails to address the removal requirement with regard to such Alterations or Cosmetic Alterations, Landlord shall be deemed to have agreed to waive the removal requirement with regard to such Alterations or Cosmetic Alterations. If Tenant fails to complete such removal and/or to repair any damage caused by the removal of any Alterations or improvements in the Premises, and returns the affected portion of the Premises to a building standard tenant improved condition as reasonably determined by Landlord, then Landlord shall do so, in which event Tenant shall be responsible for the number of days of holdover under Article 16 corresponding to the time reasonably needed for Landlord to effectuate such repair (assuming Landlord commences and thereafter diligently prosecutes the same to completion) and Tenant shall promptly reimburse Landlord's actual, reasonable costs therfore. Tenant hereby protects, defends, indemnifies and holds Landlord harmless from any liability, cost, obligation, expense or claim of lien in any manner relating to the installation, placement, removal or financing of any such Alterations, improvements, fixtures and/or equipment in, on or about the Premises, which obligations of Tenant shall survive the expiration or earlier termination of this Lease.

8.6 **Tenant's Installation of Security System**. Notwithstanding anything to the contrary contained herein, Landlord and Tenant hereby acknowledge that Tenant shall be authorized, during the initial Lease Term, to install in the Premises a security system (the "**Security System**"). In connection therewith, Landlord and Tenant hereby agree that any such

installation by Tenant shall be at Tenant's sole cost and expense, shall be in accordance with the terms and conditions of this Article 8, and that Tenant shall, within five (5) days of installation of any such Security System in the Premises, furnish to Landlord specifications regarding such system. At Landlord's option, upon the expiration or earlier termination of this Lease, Tenant shall remove such Security System and repair any damage to the Premises resulting from such removal. Landlord shall in no event be obligated to monitor or respond to such Security System. Landlord and Tenant agree and acknowledge that nothing contained in this Article 8 shall be construed to limit the rights of Landlord under Article 27 or any other provision of this Lease. In connection therewith, Tenant shall provide to Landlord, within five (5) days of installation of such Security System in the Premises, the telephone number(s) of an authorized representative of Tenant to whom Landlord shall give reasonable prior notice (as determined by Landlord, given the circumstances, emergency or otherwise) in the event Landlord must enter the Premises pursuant to Article 27 hereof, but in no event shall Landlord, following Landlord's provision of such reasonable notice to Tenant's authorized representative, be obligated to delay Landlord's entry into the Premises or to monitor or otherwise operate the Security System while inside the Premises.

ARTICLE 9

COVENANT AGAINST LIENS

Tenant shall keep the Project and Premises free from any liens or encumbrances arising out of the work performed, materials furnished or obligations incurred by or on behalf of Tenant, and shall protect, defend, indemnify and hold Landlord harmless from and against any claims, liabilities, judgments or costs (including, without limitation, reasonable attorneys' fees and costs) arising out of same or in connection therewith. Tenant shall give Landlord notice at least ten (10) days prior to the commencement of any such work on the Premises (or such additional time as may be necessary under applicable laws) to afford Landlord the opportunity of posting and recording appropriate notices of non-responsibility. Tenant shall remove any such lien or encumbrance by bond or otherwise within ten (10) days after notice by Landlord, and if Tenant shall fail to do so, Landlord may pay the amount necessary to remove such lien or encumbrance, without being responsible for investigating the validity thereof. The amount so paid shall be deemed Additional Rent under this Lease payable upon demand, without limitation as to other remedies available to Landlord under this Lease. Nothing contained in this Lease shall authorize Tenant to do any act which shall subject Landlord's title to the Building or Premises to ally liens or encumbrances whether claimed by operation of law or express or implied contract. Any claim to a lien or encumbrance upon the Building or Premises arising in connection with any such work or respecting the Premises not performed by or at the request of Landlord shall be null and void, or at Landlord's option shall attach only against Tenant's interest in the Premises and shall in all respects be subordinate to Landlord's title to the Project, Building and Premises.

ARTICLE 10

INSURANCE

10.1 **Indemnification and Waiver**. Except to the extent (i) otherwise expressly set forth in this Lease to the contrary (inclusive of any prohibition under Applicable Law), or

(ii) caused by the negligence or willful misconduct of the "Landlord Parties," as that term is defined in this Section 10.1, Tenant hereby assumes all risk of damage to property or injury to persons in, upon or about the Premises from any cause whatsoever and agrees that Landlord, its partners, subpartners and their respective officers, agents, servants, employees, and independent contractors (collectively, "**Landlord Parties**") shall not be liable for, and are hereby released from any responsibility for, any damage either to person or property or resulting from the loss of use thereof, which damage is sustained by Tenant or by other persons claiming through Tenant. Tenant shall indemnify, defend, protect, and hold harmless the Landlord Parties from any and all loss, cost, damage, expense and liability (including without limitation court costs and reasonable attorneys' fees) incurred in connection with or arising from: (a) any causes in, on or about the Premises; (b) the use or occupancy of the Premises by Tenant or any person claiming under Tenant; (c) any activity, work, or thing done, or permitted or suffered by Tenant in or about the Premises; (d) any acts, omission, or negligence of Tenant or any person claiming under Tenant, or the contractors, agents, employees, invitees, or visitors of Tenant or any such person; (e) any breach, violation, or non-performance by Tenant or any person claiming under Tenant or the employees, agents, contractors, invitees, or visitors of Tenant or any such person of any term, covenant, or provision of this Lease or any law, ordinance, or governmental requirement of any kind; (f) any injury or damage to the person, property, or business of Tenant, its employees, agents, contractors, invitees, visitors, or any other person entering upon the Premises under the express or implied invitation of Tenant; or (g) the placement of any personal property or other items within the Premises, provided that the terms of the foregoing indemnity shall not apply to the extent (w) otherwise expressly set forth in this Lease to the contrary, or (x) caused by the negligence or willful misconduct (including tortious activities) of the Landlord Parties. Furthermore, because Landlord is required to maintain insurance on the Building and the Project and Tenant compensates Landlord for such insurance as part of Tenant's Share of Direct Expenses and because of the existence of waivers of subrogation set forth in Section 10.5 of this Lease, Landlord hereby indemnifies and holds Tenant harmless from any Claim to any property to the extent such Claim is covered by such insurance (or would have been covered if Landlord had carried the insurance required hereunder), even if resulting from the negligent acts, omissions, or willful misconduct of the Tenant Parties. Should Landlord be named as a defendant in any suit brought against Tenant in connection with or arising out of Tenant's occupancy of the Premises, Tenant shall pay to Landlord its costs and expenses incurred in such suit, including without limitation, its actual professional fees such as appraisers', accountants' and attorneys' fees. Further, Tenant's agreement to indemnify Landlord pursuant to this Section 10.1 is not intended and shall not relieve any insurance carrier of its obligations under policies required to be carried by Tenant pursuant to the provisions of this Lease, to the extent such policies cover the matters subject to Tenant's indemnification obligations; nor shall they supersede any inconsistent agreement of the parties set forth in any other provision of this Lease. The provisions of this Section 10.1 shall survive the expiration or sooner termination of this Lease with respect to any claims or liability arising in connection with any event occurring prior to such expiration or termination.

10.2 **Tenant's Compliance With Landlord's Fire and Casualty Insurance**. Tenant shall, at Tenant's expense, comply with Landlord's insurance company requirements pertaining to the use of the Premises. If Tenant's conduct or use of the Premises causes any increase in the premium for such insurance policies then Tenant shall reimburse Landlord for any such increase. Tenant, at Tenant's expense, shall comply with all rules, orders, regulations or requirements of

the American Insurance Association (formerly the National Board of Fire Underwriters) and with any similar body.

10.3 **Tenant's Insurance**. Tenant shall maintain the following coverages in the following amounts. The required evidence of coverage must be delivered to Landlord on or before the date required under Sections 10.4(I)(x) and 10.4(I)(y), or Section 10.4(II) below (as applicable). Such policies shall be for a term of at least one (1) year, or the length of the remaining term of this Lease, whichever is less.

10.3.1 Commercial General Liability Insurance, including Broad Form contractual liability covering the insured against claims of bodily injury, personal injury and property damage (including loss of use thereof) based upon or arising out of Tenant's operations, occupancy or maintenance of the Premises and all areas appurtenant thereto. Such insurance shall be written on an "occurrence" basis. Landlord and any other party the Landlord so specifies that has a material financial interest in the Project, including Landlord's managing agent, ground lessor and/or lender, if any, shall be named as additional insureds as their interests may appear using Insurance Service Organization's form CG2011 or a comparable form approved by Landlord. Tenant shall provide an endorsement or policy excerpt showing that Tenant's coverage is primary and any insurance carried by Landlord shall be excess and non-contributing. The coverage shall also be extended to include damage caused by heat, smoke or fumes from a hostile fire. The policy shall not contain any intra-insured exclusions as between insured persons or organizations. This policy shall include coverage for all liabilities assumed under this Lease as an insured contract for the performance of all of Tenant's indemnity obligations under this Lease. The limits of said insurance shall not, however, limit the liability of Tenant nor relieve Tenant of any obligation hereunder. Limits of liability insurance shall not be less than the following; provided, however, such limits may be achieved through the use of an Umbrella/Excess Policy:

Bodily Injury and Property Damage Liability	Five Million Dollars ($5,000,000) each occurrence
Personal Injury and Advertising Liability	One Million Dollars ($1,000,000) each occurrence
Tenant Legal Liability/Damage to Rented Premises Liability	One Million Dollars ($1,000,000.00)

10.3.2 Property Insurance covering (i) all office furniture, personal property, business and trade fixtures, office equipment, free-standing cabinet work, movable partitions, merchandise and all other items of Tenant's business personal property on the Premises installed by, for, or at the expense of Tenant, (ii) the "Improvements," as that term is defined in Section 2.1 of the Work Letter Agreement, and any other improvements which exist in the Premises as of the Lease Commencement Date (excluding the Base Building) (the "**Original**

Improvements"), and (iii) all Alterations performed in the Premises. Such insurance shall be written on a Special Form basis, for the full replacement cost value (subject to reasonable deductible amounts), without deduction for depreciation of the covered items and in amounts that meet any co-insurance clauses of the policies of insurance and shall include coverage for (a) all perils included in the CP 10 30 04 02 Coverage Special Form, and (b) water damage from any cause whatsoever, including, but not limited to, backup or overflow from sprinkler leakage, bursting, leaking or stoppage of any pipes, explosion, and backup of sewers and drainage.

10.3.2.1 **Adjacent Premises**. Tenant shall pay for any increase in the premiums for the property insurance of the Project if said increase is caused by Tenant's acts, omissions, use or occupancy of the Premises.

10.3.2.2 **Property Damage**. Tenant shall use the proceeds from any such insurance for the replacement of personal property, trade fixtures Improvements, Original Improvements and Alterations.

10.3.2.3 **No representation of Adequate Coverage**. Landlord makes no representation that the limits or forms of coverage of insurance specified herein are adequate to cover Tenant's property, business operations or obligations under this Lease.

10.3.3 **Property Insurance Subrogation**. Landlord and Tenant intend that their respective property loss risks shall be borne by insurance carriers to the extent above provided (and, in the case of Tenant, by an insurance carrier satisfying the requirements of Section 10.4(i) below), and Landlord and Tenant hereby agree to look solely to, and seek recovery only from, their respective insurance carriers in the event of a property loss to the extent that such coverage is agreed to be provided hereunder. The parties each hereby waive all rights and claims against each other for such losses, and waive all rights of subrogation of their respective insurers. Landlord and Tenant hereby represent and warrant that their respective "all risk" property insurance policies include a waiver of (i) subrogation by the insurers, and (ii) all rights based upon an assignment from its insured, against Landlord and/or any of the Landlord Parties or Tenant and/or any of the Tenant Parties (as the case may be) in connection with any property loss risk thereby insured against. Tenant will cause all other occupants of the Premises claiming by, under, or through Tenant to execute and deliver to Landlord a waiver of claims similar to the waiver in this Section 10.3.3 and to obtain such waiver of subrogation rights endorsements. If either party hereto fails to maintain the waivers set forth in items (i) and (ii) above, the party not maintaining the requisite waivers shall indemnify, defend, protect, and hold harmless the other party for, from and against any and all claims, losses, costs, damages, expenses and liabilities (including, without limitation, court costs and reasonable attorneys' fees) arising out of, resulting from, or relating to, such failure.

10.3.4 Business Income Interruption in commercially reasonable amounts.

10.3.5 Worker's Compensation or other similar insurance pursuant to all applicable state and local statutes and regulations, and Employer's Liability with minimum limits of not less than One Million Dollars ($1,000,000) each accident/employee/disease.

10.3.6 Commercial Automobile Liability Insurance covering all Owned (if any), Hired, or Non-owned vehicles with limits not less than One Million Dollars ($1,000,000) combined single limit for bodily injury and property damage.

10.4 **Form of Policies**. The minimum limits of policies of insurance required of Tenant under this Lease shall in no event limit the liability of Tenant under this Lease. Such insurance shall (i) be issued by an insurance company having an AM Best rating of not less than A-X, or which is otherwise acceptable to Landlord and licensed to do business in the State of California, (ii) be in form and content reasonably acceptable to Landlord and complying with the requirements of Section 10.3 (including, Sections 10.3.1 through 10.3.6), (iii) Tenant shall not do or permit to be done anything which invalidates the required insurance policies, and (iv) provide that said insurance shall not be canceled or coverage changed unless thirty (30) days prior written notice shall have been given to Landlord and any mortgagee of Landlord, the identity of whom has been provided to Tenant in writing. Tenant shall deliver said policy or policies or certificates thereof and applicable endorsements which meet the requirements of this Article 10 to Landlord on or before (I) the earlier to occur of: (*x*) the Lease Commencement Date, and (*y*) the date Tenant and/or its employees, contractors and/or' agents first enter the Premises for occupancy, construction of improvements, alterations, or any other move-in activities, and (II) five (5) business days after the renewal of such policies. In the event Tenant shall fail to procure such insurance, or to deliver such policies or certificates and applicable endorsements, Landlord may, at its option, after written notice to Tenant and Tenant's failure to obtain such insurance within five (5) days thereafter, procure such policies for the account of Tenant and the sole benefit of Landlord, and the cost thereof shall be paid to Landlord after delivery to Tenant of bills therefor.

10.5 **Additional Insurance Obligations**. Tenant shall carry and maintain during the entire Lease Term, at Tenant's sole cost and expense, increased amounts of the insurance required to be carried by Tenant pursuant to this Article 10 and such other reasonable types of insurance coverage and in such reasonable amounts covering the Premises and Tenant's operations therein, as may be reasonably requested by Landlord. Notwithstanding the foregoing, Landlord's request shall only be considered reasonable if such increased coverage amounts and/or such new types of insurance are consistent with the requirements of a majority of Comparable Buildings, and Landlord shall not so increase the coverage amounts or require additional types of insurance during the first five (5) years of the Lease Term and thereafter no more often than one time in any five (5) year period.

10.6 **Third-Party Contractors**. Tenant shall obtain and deliver to Landlord, Third Party Contractor's certificates of insurance and applicable endorsements at least seven (7) business days prior to the commencement of work in or about the Premises by any vendor or any other third-party contractor (collectively, a "**Third Party Contractor**"). All such insurance shall (a) name Landlord as an additional insured under such party's liability policies as required by Section 10.3.1 above and this Section 10.6, (b) provide a waiver of subrogation in favor of Landlord under such Third Party Contractor's commercial general liability insurance, (c) be primary and any insurance carried by Landlord shall be excess and non-contributing, and (d) comply with Landlord's minimum insurance requirements.

ARTICLE 11

DAMAGE AND DESTRUCTION

11.1 **Repair of Damage to Premises by Landlord**. Tenant shall promptly notify Landlord of any damage to the Premises resulting from fire or any other casualty. If the Premises or any Common Areas serving or providing access to the Premises shall be damaged by fire or other casualty, Landlord shall promptly and diligently, subject to reasonable delays for insurance adjustment or other matters beyond Landlord's reasonable control, and subject to all other terms of this Article 11, restore the Base Building and such Common Areas. Such restoration shall be to substantially the same condition of the Base Building and the Common Areas prior to the casualty, except for modifications required by zoning and building codes and other laws or by the holder of a mortgage on the Building or Project or any other modifications to the Common Areas deemed desirable by Landlord, which are consistent with the character of the Project, provided that access to the Premises and any common restrooms serving the Premises shall not be materially impaired. Upon the occurrence of any damage to the Premises, upon notice (the "**Landlord Repair Notice**") to Tenant from Landlord, Tenant shall assign to Landlord (or to any party designated by Landlord) all insurance proceeds payable to Tenant under Tenant's insurance required under Section 10.3 of this Lease, and Landlord shall repair any injury or damage to the Improvements and the Original Improvements installed in the Premises and shall return such Improvements and Original Improvements to their original condition; provided that if the cost of such repair by Landlord exceeds the amount of insurance proceeds received by Landlord from Tenant's insurance carrier, as assigned by Tenant, the cost of such repairs shall be paid by Tenant to Landlord prior to Landlord's commencement of repair of the damage. In the event that Landlord does not deliver the Landlord Repair Notice within sixty (60) days following the date the casualty becomes known to Landlord, Tenant shall, at its sole cost and expense, repair any injury or damage to the Improvements and the Original Improvements installed in the Premises and shall return such Improvements and Original Improvements to their original condition. Whether or not Landlord delivers a Landlord Repair Notice, prior to the commencement of construction, Tenant shall submit to Landlord, for Landlord's review and approval, all plans, specifications and working drawings relating thereto, and Landlord shall select the contractors to perform such improvement work. Landlord shall not be liable for any inconvenience or annoyance to Tenant or its visitors, or injury to Tenant's business resulting in any way from such damage or the repair thereof; provided however, that if such fire or other casualty shall have damaged the Premises or Common Areas necessary to Tenant's occupancy, and the Premises are not occupied by Tenant as a result thereof, then during the time and to the extent the Premises are unfit for occupancy, the Rent shall be abated in proportion to the greater of (x) the ratio that the amount of rentable square feet of the Premises which is unfit for occupancy for the purposes permitted under this Lease bears to the total rentable square feet of the Premises, or (y) the ratio that the amount of rentable square feet of the Premises in which Tenant cannot reasonably conduct business (and does not conduct business) as a direct result of the subject damage, bears to the total rentable square feet of the Premises. In the event that Landlord shall not deliver the Landlord Repair Notice, Tenant's right to rent abatement pursuant to the preceding sentence shall terminate as of the date which is reasonably determined by Landlord to be the date Tenant should have completed repairs to the Premises assuming Tenant used reasonable due diligence in connection therewith.

11.2 **Landlord's Option to, Repair**. Notwithstanding the terms of Section 11.1 of this Lease, Landlord may elect not to rebuild and/or restore the Premises, Building and/or Project, and instead terminate this Lease, by notifying Tenant in writing of such termination within sixty (60) days after the date of discovery of the damage, such notice to include a termination date giving Tenant sixty (60) days to vacate the Premises, but Landlord may so elect only if the Building or Project shall be damaged by fire or other casualty or cause, whether or not the Premises are affected, and one or more of the following conditions is present: (i) in Landlord's reasonable judgment, repairs cannot reasonably be completed within one hundred eighty (180) days after the date of discovery of the damage (when such repairs are made without the payment of overtime or other premiums); (ii) the holder of any mortgage on the Building or Project or ground lessor with respect to the Building or Project shall require that the insurance proceeds or any portion thereof be used to retire the mortgage debt, or shall terminate the ground lease, as the case may be; (iii) the damage is not fully covered by Landlord's insurance policies; (iv) Landlord decides to rebuild the Building or Common Areas so that they will be substantially different structurally or architecturally (v) the damage occurs during the last twelve (12) months of the Lease Term; or (vi) any owner of any other portion of the Project, other than Landlord, does not intend to repair the damage to such portion of the Project; provided, however, that if Landlord does not elect to terminate this Lease pursuant to Landlord's termination right as provided above, and the repairs cannot, in the reasonable opinion of Landlord, be completed within one hundred eighty (180) days after being commenced, or the damage occurs during the last twelve (12) months of the Lease Term, Tenant may elect, no earlier than sixty (60) days after the date of the damage and not later than ninety (90) days after the date of such damage, to terminate this Lease by written notice to Landlord effective as of the date specified in the notice, which date shall not be less than thirty (30) days nor more than sixty (60) days after the date such notice is given by Tenant. Furthermore, if neither Landlord nor Tenant has terminated this Lease, and the repairs are not actually completed within such 180-day period, Tenant shall have the right to terminate this Lease during the first five (5) business days of each calendar month following the end of such period until such time as the repairs are complete, by notice to Landlord (the "**Damage Termination Notice**"), effective as of a date set forth in the Damage Termination Notice (the "**Damage, Termination Date**"), which Damage Termination Date shall not be less than ten (10) business days following the end of each such month. Notwithstanding the foregoing, if Tenant delivers a Damage Termination Notice to Landlord, then Landlord shall have the right to suspend the occurrence of the Damage Termination Date for a period ending thirty (30) days after the Damage Termination Date set forth in the Damage Termination Notice by delivering to Tenant, within five (5) business days of Landlord's receipt of the Damage Termination Notice, a certificate of Landlord's contractor responsible for the repair of the damage certifying that it is such contractor's good faith judgment that the repairs shall be substantially completed within thirty (30) days after the Damage Termination Date. If repairs shall be substantially completed prior to the expiration of such thirty-day period, then the Damage Termination Notice shall be of no force or effect, but if the repairs shall not be substantially completed within such thirty-day period, then this Lease shall terminate upon the expiration of such thirty-day period. At any time, from time to time, after the date occurring sixty (60) days after the date of the damage, Tenant may request that Landlord inform Tenant of Landlord's reasonable opinion of the date of completion of the repairs and Landlord shall respond to such request within five (5) business days. Notwithstanding the provisions of this Section 11.2, Tenant shall have the right to terminate this Lease under this Section 11.2 only if each of the following conditions is satisfied:

(a) the damage to the Project by fire or other casualty was not caused by the gross negligence or intentional act of Tenant or its partners or subpartners and their respective officers, agents, servants, employees, and independent contractors; (b) Tenant is not then in default under this Lease; (c) as a result of the damage, Tenant cannot reasonably conduct business from the Premises; and, (d) as a result of the damage to the Project, Tenant does not occupy or use more than twenty percent (20%) of the then-existing Premises. In the event this Lease is terminated in accordance with the terms of this Section 11.2, Tenant shall assign to Landlord (or to any party designated by Landlord) all insurance proceeds payable to Tenant under Tenant's insurance required under items (ii) and (iii) of Section 10.3.2 of this Lease.

11.3 **Waiver of Statutory Provisions**. The provisions of this Lease, including this Article 11, constitute an express agreement between Landlord and Tenant with respect to any and all damage to, or destruction of, all or any part of the Premises, the Building or the Project, and any statute or regulation of the State of California, including, without limitation, Sections 1932(2) and 1933(4) of the California Civil Code, with respect to any rights or obligations concerning damage or destruction in the absence of an express agreement between the parties, and any other statute or regulation, now or hereafter in effect, shall have no application to this Lease or any damage or destruction to all or any part of the Premises, the Building or the Project.

ARTICLE 12

NONWAIVER

No provision of this Lease shall be deemed waived by either party hereto unless expressly waived in a writing signed thereby. The waiver by either party hereto of any breach of any term, covenant or condition herein contained shall not be deemed to be a waiver of any subsequent breach of same or any other term, covenant or condition herein contained. The subsequent acceptance of Rent hereunder by Landlord shall not be deemed to be a waiver of any preceding breach by Tenant of any term, covenant or condition of this Lease, other than the failure of Tenant to pay the particular Rent so accepted, regardless of Landlord's knowledge of such preceding breach at the time of acceptance of such Rent. No acceptance of a lesser amount than the Rent herein stipulated shall be deemed a waiver of Landlord's right to receive the full amount due, nor shall any endorsement or statement on any check or payment or any letter accompanying such check or payment be deemed an accord and satisfaction, and Landlord may accept such check or payment without prejudice to Landlord's right to recover the full amount due. No receipt of monies by Landlord from Tenant after the termination of this Lease shall in any way alter the length of the Lease Term or of Tenant's right of possession hereunder, or after the giving of any notice shall reinstate, continue or extend the Lease Term or affect any notice given Tenant prior to the receipt of such monies, it being agreed that after the service of notice or the commencement of a suit, or after final judgment for possession of the Premises, Landlord may receive and collect any Rent due, and the payment of said Rent shall not waive or affect said notice, suit or judgment.

ARTICLE 13

CONDEMNATION

If the whole or any part of the Premises, Building or Project shall be taken by power of eminent domain or condemned by any competent authority for any public or quasi-public use or purpose, or if any adjacent property or street shall be so taken or condemned, or reconfigured or vacated by such authority in such manner as to require the use, reconstruction or remodeling of any part of the Premises, Building or Project, or if Landlord shall grant a deed or other instrument in lieu of such taking by eminent domain or condemnation, Landlord shall have the option to terminate this Lease effective as of the date possession is required to be surrendered to the authority. If more than twenty-five percent (25%) of the rentable square feet of the Premises is taken, or if access to the Premises is substantially impaired, in each case for a period in excess of one hundred eighty (180) days, Tenant shall have the option to terminate this Lease effective as of the date possession is required to be surrendered to the authority. Tenant shall not because of such taking assert any claim against Landlord or the authority for any compensation because of such taking and Landlord shall be entitled to the entire award or payment in connection therewith, except that Tenant shall have the right to file any separate claim available to Tenant for any taking of Tenant's personal property and fixtures belonging to Tenant and removable by Tenant upon expiration of the Lease Term pursuant to the terms of this Lease, and for moving expenses, so long as such claims do not diminish the award available to Landlord, its ground lessor with respect to the Building or Project or its mortgagee, and such claim is payable separately to Tenant. All Rent shall be apportioned as of the date of such termination. If any part of the Premises shall be taken, and this Lease shall not be so terminated, the Rent shall be proportionately abated. Tenant hereby waives any and all rights it might otherwise have pursuant to Section 1265.130 of The California Code of Civil Procedure. Notwithstanding anything to the contrary contained in this Article 13, in the event of a temporary taking of all or any portion of the Premises for a period of one hundred and eighty (180) days or less, then this Lease shall not terminate but the Base Rent and the Additional Rent shall be abated for the period of such taking in proportion to the ratio that the amount of rentable square feet of the Premises taken bears to the total rentable square feet of the Premises. Landlord shall be entitled to receive the entire award made in connection with any such temporary taking.

ARTICLE 14

ASSIGNMENT AND SUBLETTING

14.1 **Transfers**. Tenant shall not, without the prior written consent of Landlord, assign, mortgage, pledge, hypothecate, encumber, or permit any lien to attach to, or otherwise transfer, this Lease or any interest hereunder, permit any assignment, or other transfer of this Lease or any interest hereunder by operation of law, sublet the Premises or any part thereof, or enter into any license or concession agreements or otherwise permit the occupancy or use of the Premises or any part thereof by any persons other than Tenant and its employees and contractors (all of the foregoing are hereinafter sometimes referred to collectively as "**Transfers**" and any person to whom any Transfer is made or sought to be made is hereinafter sometimes referred to as a "**Transferee**"). If Tenant desires Landlord's consent to any Transfer, Tenant shall notify Landlord in writing, which notice (the "**Transfer Notice**") shall include (i) the proposed

effective date of the Transfer, which shall not be less than ten (10) business days nor more than one hundred eighty (180) days after the date of delivery of the Transfer Notice, (ii) a description of the portion of the Premises to be transferred (the "**Subject Space**"), (iii) all of the terms of the proposed Transfer and the consideration therefor, including calculation of the "**Transfer Premium**" (as that term is defined in Section 14.3 below), in connection with such Transfer, the name and address of the proposed Transferee, and a copy of all existing executed and/or proposed documentation pertaining to the proposed Transfer, including all existing operative documents to be executed to evidence such Transfer or the agreements incidental or related to such Transfer, (iv) current financial statements of the proposed Transferee certified by an officer, partner or owner thereof, and any other information reasonably required by Landlord which will enable Landlord to determine the financial responsibility, character, and reputation of the proposed Transferee, nature of such Transferee's business and proposed use of the Subject Space and (v) an executed estoppel certificate from Tenant in the form attached hereto as **Exhibit E**. Any Transfer made without Landlord's prior written consent shall, at Landlord's option, be null, void and of no effect, and shall, at Landlord's option, constitute a default by Tenant under this Lease. Whether or not Landlord consents to any proposed Transfer, Tenant shall pay Landlord's review and processing fees, as well as any reasonable professional fees (including, without limitation, attorneys', accountants', architects', engineers' and consultants' fees) incurred by Landlord, within thirty (30) days after written request by Landlord; provided that such costs and expenses shall not exceed Two Thousand Five Hundred and No/100 Dollars ($2,500.00) for a Transfer in the ordinary course of business. Landlord and Tenant hereby agree that a proposed Transfer shall not be considered "in the ordinary course of business" if such particular proposed Transfer involves the review of documentation by Landlord on more than two (2) occasions.

14.2 **Landlord's Consent**. Landlord shall not unreasonably withhold its consent to any proposed Transfer of the Subject Space to the Transferee on the terms specified in the Transfer Notice. Without limitation as to other reasonable grounds for withholding consent, the parties hereby agree that it shall be reasonable under this Lease and under any applicable law for Landlord to withhold consent to any proposed Transfer where one or more of the following apply:

14.2.1 The Transferee is of a character or reputation or engaged in a business which is not consistent with the quality of the Building or the Project, or would be a significantly less prestigious occupant of the Building than Tenant;

14.2.2 The Transferee intends to use the Subject Space for purposes which are not permitted under this Lease;

14.2.3 The Transferee is either a governmental agency or instrumentality thereof;

14.2.4 The Transferee is not a party of reasonable financial worth and/or financial stability in light of the responsibilities to be undertaken in connection with the Transfer on the date consent is requested;

14.2.5 The proposed Transfer would cause a violation of another lease for space in the Project, or would give an occupant of the Project a right to cancel its lease;

14.2.6 The terms of the proposed Transfer will allow the Transferee to exercise a right of renewal, right of expansion, right of first offer, or other similar right held by Tenant (or will allow the Transferee to occupy space leased by Tenant pursuant to any such right); or

14.2.7 Either the proposed Transferee, or any person or entity which directly or indirectly, controls, is controlled by, or is under common control with, the proposed Transferee, (i) occupies space in the Project at the time of the request for consent, or (ii) is negotiating with Landlord to lease space in the Project at such time, or (iii) has negotiated with Landlord during the six (6)-month period immediately preceding the Transfer Notice; provided, however, it shall only be deemed reasonable for Landlord to withhold its consent to a Transfer pursuant to this Section 14.2.7 to the extent Landlord has then-available space in the Project for such proposed Transferee.

If Landlord consents to any Transfer pursuant to the terms of this Section 14.2, Tenant may within six (6) months after Landlord's consent, but not later than the expiration of said six (6)-month period, enter into such Transfer of the Premises or portion thereof, upon substantially the same terms and conditions as are set forth in the Transfer Notice furnished by Tenant to Landlord pursuant to Section 14.1 of this Lease, provided that if there are any changes in the terms and conditions from those specified in the Transfer Notice (i) such that Landlord would initially have been entitled to refuse its consent to such Transfer under this Section 14.2, or (ii) which would cause the proposed Transfer to be more favorable to the Transferee than the terms set forth in Tenant's original Transfer Notice, Tenant shall again submit the Transfer to Landlord for its approval and other action under this Article 14 (including Landlord's right of recapture, if any, under Section 14.4 of this Lease). Notwithstanding anything to the contrary in this Lease, if Tenant or any proposed Transferee claims that Landlord has unreasonably withheld or delayed its consent under Section 14.2 or otherwise has breached or acted unreasonably under this Article 14, their sole remedies shall be a declaratory judgment and an injunction for the relief sought together with monetary damages (including attorneys' fees and costs), and Tenant hereby waives all other remedies, including, without limitation, any right at law or equity to terminate this Lease.

14.3 **Transfer Premium**. If Landlord consents to a Transfer, as a condition thereto which the parties hereby agree is reasonable, Tenant shall pay to Landlord fifty percent (50%) of any "Transfer Premium," as that term is defined in this Section 14.3, received by Tenant from such Transferee. "**Transfer Premium**" shall mean all rent, additional rent or other consideration payable by such Transferee in connection with the Transfer in excess of the Rent and Additional Rent payable by Tenant under this Lease during the term of the Transfer on a per rentable square foot basis if less than all of the Premises is transferred, after deducting the reasonable expenses incurred by Tenant for (i) any changes, alterations and improvements to the Premises in connection with the Transfer, (ii) any free base rent or other economic concessions reasonably provided to the Transferee, (iii) any brokerage commissions in connection with the Transfer, (iv) actual, reasonable legal expenses incurred by Tenant in connection with the Transfer, and (v) any review and processing fee paid to Landlord pursuant to the last sentence of Section 14.1, above. "Transfer Premium" shall also include, but not be limited to, key money, bonus money or other cash consideration paid by Transferee to Tenant in connection with such Transfer, and any payment in excess of fair market value for (x) services rendered by Tenant to Transferee or (y) assets, fixtures, inventory, equipment, or furniture transferred by Tenant to Transferee in

connection with such Transfer. In the calculations of the Rent (as it relates to the Transfer Premium calculated under this Section 14.3) and the Transferee's Rent, the Rent paid during each annual period for the Subject Space and the Transferee's Rent shall be computed after adjusting such rent to the actual effective rent to be paid, taking into consideration any and all leasehold concessions granted in connection therewith, including, but not limited to, any rent credit and improvement allowance. For purposes of calculating any such effective rent all such concessions shall be amortized on a straight-line basis over the relevant term.

14.4 **Intentionally Omitted**.

14.5 **Effect of Transfer**. If Landlord consents to a Transfer, (i) the TCCs of this Lease shall in no way be deemed to have been waived or modified, (ii) such consent shall not be deemed consent to any further Transfer by either Tenant or a Transferee, (iii) Tenant shall deliver to Landlord, promptly after execution, an original executed copy of all documentation pertaining to the Transfer in form reasonably acceptable to Landlord, (iv) Tenant shall furnish upon Landlord's request a complete statement, certified by an independent certified public accountant, or Tenant's chief financial officer, setting forth in detail the computation of any Transfer Premium Tenant has derived and shall derive from such Transfer, and (v) no Transfer relating to this Lease or agreement entered into with respect thereto, whether with or without Landlord's consent, shall relieve Tenant or any guarantor of the Lease from any liability under this Lease, including, without limitation, in connection with the Subject Space. Landlord or its authorized representatives shall have the right at all reasonable times to audit the books, records and papers of Tenant relating to any Transfer, and shall have the right to make copies thereof. If the Transfer Premium respecting any Transfer shall be found understated, Tenant shall, within thirty (30) days after demand, pay the deficiency, and if understated by more than two percent (2%), Tenant shall pay Landlord's costs of such audit.

14.6 **Additional Transfers**. For purposes of this Lease, the term "**Transfer**" shall also include (i) if Tenant is a partnership, the withdrawal or change, voluntary, involuntary or by operation of law, of more than fifty percent (50%) or more of the partners, or transfer of more than fifty percent (50%) or more of partnership interests, within a twelve (12)-month period, or the dissolution of the partnership without immediate reconstitution thereof, and (ii) if Tenant is a closely held corporation (i.e., whose stock is not publicly held and not traded through an exchange or over the counter), (A) the dissolution, merger, consolidation or other reorganization of Tenant or (B) the sale or other transfer of an aggregate of more than fifty percent (50%) or more of the voting shares of Tenant (other than to immediate family members by reason of gift or death), within a twelve (12)-month period, or (C) the sale, mortgage, hypothecation or pledge of an aggregate of more than fifty percent (50%) or more of the value of the unencumbered assets of Tenant within a twelve (12)-month period.

14.7 **Occurrence of Default**. Any Transfer hereunder shall be subordinate and subject to the provisions of this Lease, and if this Lease shall be terminated during the term of any Transfer, Landlord shall have the right to: (i) treat such Transfer as cancelled and repossess the Subject Space by any lawful means, or (ii) require that such Transferee attorn to and recognize Landlord as its landlord under any such Transfer. If Tenant shall be in default under this Lease, Landlord is hereby irrevocably authorized, as Tenant's agent and attorney-in-fact, to direct any Transferee to make all payments under or in connection with the Transfer directly to Landlord

(which Landlord shall apply towards Tenant's obligations under this Lease) until such default is cured. Such Transferee shall rely on any representation by Landlord that Tenant is in default hereunder, without any need for confirmation thereof by Tenant. Upon any assignment, the assignee shall assume in writing all obligations and covenants of Tenant thereafter to be performed or observed under this Lease. No collection or acceptance of rent by Landlord from any Transferee shall be deemed a waiver of any provision of this Article 14 or the approval of any Transferee or a release of Tenant from any obligation under this Lease, whether theretofore or thereafter accruing. In no event shall Landlord's enforcement of any provision of this Lease against any Transferee be deemed a waiver of Landlord's right to enforce any term of this Lease against Tenant or any other person. If Tenant's obligations hereunder have been guaranteed, Landlord's consent to any Transfer shall not be effective unless the guarantor also consents to such Transfer.

14.8 **Permitted Transfers**. Notwithstanding anything to the contrary contained in this Article 14, including, but not limited to, any deemed Transfer under Section 14.6, above, (i) an assignment or subletting of all or a portion of the Premises to an affiliate of Tenant (an entity which is controlled by, controls, or is under common control with, Tenant), (ii) an assignment of the Premises to an entity which acquires all or substantially all of the assets or interests (partnership, stock or other) of Tenant, (iii) an assignment of the Premises to an entity which is the resulting entity of a merger or consolidation of Tenant, (iv) a sale of corporate shares of capital stock in Tenant in connection with an initial public offering of Tenant's stock on a nationally-recognized stock exchange, and the subsequent sale of Tenant's capital stock as long as Tenant is a publicly traded company on a nationally-recognized stock exchange, or (v) the sale or other transfer of an aggregate of more than fifty percent (50%) of the voting shares of Tenant to the extent the same occurs for the sole purpose of raising financing, where such financing raised represents a fair market value for the subject voting shares (as reasonably determined), shall be deemed permitted hereunder (a "**Permitted Transfer**"), provided that Tenant notifies Landlord of any such assignment or sublease, promptly supplies Landlord with any documents or information requested by Landlord regarding such assignment or sublease or such affiliate, further provided that such assignment or sublease is not 'a subterfuge by Tenant to avoid its obligations under this Lease or otherwise effectuate any "release" by Tenant of such obligations and such Permitted Transferee shall thereafter become liable, on a joint and several basis, with such Tenant. The transferee under a transfer specified in items (i), (ii), (iii), or (iv) above shall be referred to as a "**Permitted Transferee**." "**Control**," as used in this Section 14.8, shall mean the ownership, directly or indirectly, of at least fifty-one percent (51%) of the voting securities of, or possession of the right to vote, in the ordinary direction of its affairs, of at least fifty-one percent (51%) of the voting interest in, any person or entity.

14.9 **Occupancy by Others**. Notwithstanding any contrary provision of this Article 14, Tenant shall have the right, without the payment of a Transfer Premium, without the receipt of Landlord's consent, and without prior Notice to Landlord, to permit the occupancy of portions of the Premises to any individual(s) or entities with a bona fide business relationship with Tenant (which business relationship is not created solely in order to allow occupancy of the Premises under this Section 14.9) ("**Tenant's Occupants**") on and subject to the following conditions: (i) all such individuals or entities shall be of a character and reputation consistent with the types of people generally rendering similar types of services; (ii) such occupancy shall not be subterfuge by Tenant to avoid its obligations under this Lease or the restrictions on

Transfers pursuant to this Article 14; (iii) the space occupied by such Tenant's Occupants is not separately demised from the Premises and does not have a separate entrance from the Premises; and (iv) in the aggregate, such Tenant's Occupants do not occupy more than 2,000 rentable square feet of the Premises. Tenant shall promptly supply Landlord with any documents or information reasonably requested by Landlord regarding any such individuals or entities. Any occupancy permitted under this Section 14.9 shall not be deemed a Transfer under this Article 14. Notwithstanding the foregoing, no such occupancy shall relive Tenant from any liability under this Lease.

ARTICLE 15

SURRENDER OF PREMISES; OWNERSHIP AND REMOVAL OF TRADE FIXTURES

15.1 **Surrender of Premises**. No act or thing done by Landlord or any agent or employee of Landlord during the Lease Term (including acceptance of keys to the Premises, whether by Landlord, its agents, or employees) shall be deemed to constitute an acceptance by Landlord of a surrender of the Premises unless such intent is specifically acknowledged in writing by Landlord or made in connection with an unlawful detainer action pursued by Landlord against Tenant. The voluntary or other surrender of this Lease by Tenant, whether accepted by Landlord or not, or a mutual termination hereof, shall not work a merger, and at the option of Landlord shall operate as an assignment to Landlord of all subleases or subtenancies affecting the Premises or terminate any or all such sublessees or subtenancies.

15.2 **Removal of Tenant Property by Tenant**. Upon the expiration of the Lease Term, or upon any earlier termination of this Lease, Tenant shall, subject to the provisions of this Article 15, quit and surrender possession of the Premises to Landlord in as good order and condition as when Tenant took possession and as thereafter improved by Landlord and/or Tenant, reasonable wear and tear and repairs which are specifically made the responsibility of Landlord hereunder excepted. Upon such expiration or termination, Tenant shall, without expense to Landlord, remove or cause to be removed from the Premises all debris and rubbish, and such items of furniture, equipment, business and trade fixtures, free-standing cabinet work, movable partitions and other articles of personal property owned by Tenant or installed or placed by Tenant at its expense in the Premises, and such similar articles of any other persons claiming under Tenant, as Landlord may, in its sole discretion, require to be removed, and Tenant shall repair at its own expense all damage to the Premises and Building resulting from such removal.

ARTICLE 16

HOLDING OVER

If Tenant holds over after the expiration of the Lease Term or earlier termination thereof, with or without the express or implied consent of Landlord, such tenancy shall be from day-to-day only, and shall not constitute a renewal hereof or an extension for any further term, and in such case Base Rent shall be payable at the rate equal to the product of (i) the Base Rent applicable during the last rental period of the Lease Term under this Lease, and (ii) a percentage equal to one hundred twenty-five percent (125%) during the first two (2) months immediately

following the expiration or earlier termination of the Lease Term, and one hundred fifty percent (150%) thereafter and Additional Rent shall continue to be due in accordance with the terms of this Lease. Such month-to-month tenancy shall be subject to every other applicable term, covenant and agreement contained herein. Nothing contained in this Article 16 shall be, construed as consent by Landlord to any holding over by Tenant, and Landlord expressly reserves the right to, require Tenant to surrender possession of the Premises to Landlord as provided in this Lease upon the expiration or other termination of this Lease. The provisions of this Article 16 shall not be deemed to limit or constitute a waiver of any other rights or remedies of Landlord provided herein or at law. If Tenant fails to surrender the Premises upon the termination or expiration of this Lease, in addition to any other liabilities to Landlord accruing therefrom, Tenant shall protect, defend, indemnify and hold Landlord harmless from all loss, costs (including reasonable attorneys' fees) and liability resulting from such failure, including, without limiting the generality of the foregoing, any claims made by any succeeding tenant founded upon such failure to surrender and any lost profits to Landlord resulting therefrom.

ARTICLE 17

ESTOPPEL CERTIFICATES

Within ten (10) business days following a request in writing by Landlord, Tenant shall execute, acknowledge and deliver to Landlord an estoppel certificate, which, as submitted by Landlord, shall be substantially in the form of **Exhibit E**, attached hereto (or such other form as may be required by any prospective mortgagee or purchaser of the Project, or any portion thereof), indicating therein any exceptions thereto that may exist at that time, and shall also contain any other information reasonably requested by Landlord or Landlord's mortgagee or prospective mortgagee. Any such certificate may be relied upon by any prospective mortgagee or purchaser of all or any portion of the Project. Tenant shall execute and deliver whatever other instruments may be reasonably required for such purposes. At any time during the Lease Term, Landlord may require Tenant to provide Landlord with a current financial statement and financial statements of the two (2) years prior to the current financial statement year. Such statements shall be prepared in accordance with generally accepted accounting principles and, if such is the normal practice of Tenant, shall be audited by an independent certified public accountant. Failure of Tenant to timely execute, acknowledge and deliver such estoppel certificate or other instruments shall constitute an acceptance of the Premises and an acknowledgment by Tenant that statements included in the estoppel certificate are true and correct, without exception.

ARTICLE 18

SUBORDINATION

This Lease shall be subject and subordinate to all present and future ground or underlying leases of the Building or Project and to the lien of any mortgage, trust deed or other encumbrances now or hereafter in force against the Building or Project or any part thereof, if any, and to all renewals, extensions, modifications, consolidations and replacements thereof, and to all advances made or hereafter to be made upon the security of such mortgages or trust deeds, unless the holders of such mortgages, trust deeds or other encumbrances, or the lessors under

such ground lease or underlying leases, require in writing that this Lease be superior thereto. For the three (3) month period following the date of this Lease, Landlord shall use commercially reasonable efforts to provide Tenant, at Tenant's sole cost, with a non-disturbance agreement in a commercially reasonable form (an "**NDA**") from Landlord's presently existing lender holding a first deed of trust on the Project. In the event that, notwithstanding Landlord's use of commercially reasonable efforts to obtain an NDA, Landlord is unable to attain such an NDA in the foregoing three (3) month period, the Tenant shall have the right to contact Landlord's existing lender directly to try to obtain such an NDA. In the event Landlord's lender provides such an NDA, then the cost of such NDA shall be shared equally by Landlord and Tenant. Moreover, Landlord's delivery to Tenant of a commercially reasonable NDA in favor of Tenant from any ground lessor, mortgage holders or lien holders of Landlord who later come into existence at any time prior to the expiration of the Lease Term shall be in consideration of, and a condition precedent to, Tenant's agreement to be bound by the terms of this Article 18. Tenant covenants and agrees in the event any proceedings are brought for the foreclosure of any such mortgage or deed in lieu thereof (or if any ground lease is terminated), to attorn, without any deductions or set-offs whatsoever, to the lienholder or purchaser or any successors thereto upon any such foreclosure sale or deed in lieu thereof (or to the ground lessor), if so requested to do so by such purchaser or lienholder or ground lessor, and to recognize such purchaser or lienholder or ground lessor as the lessor under this Lease, provided such lienholder or purchaser or ground lessor shall agree to accept this Lease and not disturb Tenant's occupancy, so long as Tenant timely pays the rent and observes and performs the TCCs of this Lease to be observed and performed by Tenant. Landlord's interest herein may be assigned as security at any time to any lienholder. Tenant shall, within ten (10) days of request by Landlord, execute such further instruments or assurances as Landlord may reasonably deem necessary to evidence or confirm the subordination or superiority of this Lease to any such mortgages, trust deeds, ground leases or underlying leases. Tenant waives the provisions of any current or future statute, rule or law which may give or purport to give Tenant any right or election to terminate or otherwise adversely affect this Lease and the obligations of the Tenant hereunder in the event of any foreclosure proceeding or sale.

ARTICLE 19

DEFAULTS; REMEDIES

19.1 **Events of Default**. The occurrence of any of the following shall constitute a default of this Lease by Tenant:

19.1.1 Any failure by Tenant to pay any Rent or any other charge required to be paid under this Lease, or any part thereof, when due unless such failure is cured within three (3) days after notice; or

19.1.2 Except where a specific time period is otherwise set forth for Tenant's performance in this Lease, in which event the failure to perform by Tenant within such time period shall be a default by Tenant under this Section 19.1.2, any failure by Tenant to observe or perform any other provision, covenant or condition of this Lease to be observed or performed by Tenant where such failure continues for thirty (30) days after written notice thereof from Landlord to Tenant; provided that if the nature of such default is such that the same cannot

reasonably be cured within a thirty (30) day period, Tenant shall not be deemed to be in default if it diligently commences such cure within such period and thereafter diligently proceeds to rectify and cure such default, but in no event exceeding a period of time in excess of thirty (30) days after written notice thereof from Landlord to Tenant; or

19.1.3 To the extent permitted by law, (i) Tenant or any guarantor of this Lease being placed into receivership or conservatorship, or becoming subject to similar proceedings under Federal or State law, or (ii) a general assignment by Tenant or any guarantor of this Lease for the benefit of creditors, or (iii) the taking of any corporate action in furtherance of bankruptcy or dissolution whether or not there exists any proceeding under an insolvency or bankruptcy law, or (iv) the filing by or against Tenant or any guarantor of any proceeding under an insolvency or bankruptcy law, unless in the case of such a proceeding filed against Tenant or any guarantor the same is dismissed within sixty (60) days, or (v) the appointment of a trustee or receiver to take possession of all or substantially all of the assets of Tenant or any guarantor, unless possession is restored to Tenant or such guarantor within thirty (30) days, or (vi) any execution or other judicially authorized seizure of all or substantially all of Tenant's assets located upon the Premises or of Tenant's interest in this Lease, unless such seizure is discharged within thirty (30) days; or

19.1.4 Abandonment of all of the Premises by Tenant pursuant to California Civil Code Section 1951.3; or

19.1.5 The failure by Tenant to observe or perform according to the provisions of Articles 5, 14, 17 or 18 of this Lease where such failure continues for more than two (2) business days after notice from Landlord; or

19.1.6 Tenant's failure to occupy the Premises within ninety (90) days after the Lease Commencement Date.

The notice periods provided herein are in lieu of, and not in addition to, any notice periods provided by law.

19.2 Remedies Upon Default. Upon the occurrence of any event of default by Tenant, Landlord shall have, in addition to any other remedies available to Landlord at law or in equity (all of which remedies shall be distinct, separate and cumulative), the option to pursue, any one or more of the following remedies, each and all of which shall be cumulative and nonexclusive, without any notice or demand whatsoever.

19.2.1 Terminate this Lease, in which event Tenant shall immediately surrender the Premises to Landlord, and if Tenant fails to do so, Landlord may, without prejudice to any other remedy which it may have for possession or arrearages in rent, enter upon and take possession of the Premises and expel or remove Tenant and any other person who may be occupying the Premises or any part thereof, without being liable for prosecution or any claim or damages therefor; and Landlord may recover from Tenant the following:

(a) The worth at the time of award of any unpaid rent which has been earned at the time of such termination; plus

(b) The worth at the time of award of the amount by which the unpaid rent which would have been earned after termination until the time of award exceeds the amount of such rental loss that Tenant proves could have been reasonably avoided; plus

(c) The worth at the time of award of the amount by which the unpaid rent for the balance of the Lease Term after the time of award exceeds the amount of such rental loss that Tenant proves could have been reasonably avoided; plus

(d) Any other amount necessary to compensate Landlord for all the detriment proximately caused by Tenant's failure to perform its obligations under this Lease or which in the ordinary course of things would be likely to result therefrom, specifically including but not limited to, brokerage commissions and advertising expenses incurred, expenses of remodeling the Premises or any portion thereof for a new tenant, whether for the same or a different use, and any special concessions made to obtain a new tenant; and

(e) At Landlord's election, such other amounts in addition to or in lieu of the foregoing as may be permitted from time to time by applicable law.

The term "**rent**" as used in this Section 19.2 shall be deemed to be and to mean all sums of every nature required to be paid by Tenant pursuant to the terms of this Lease, whether to Landlord or to others. As used in Sections 19.2.1(a) and (b), above, the "worth at the time of award" shall be computed by allowing interest at the Interest Rate. As used in Section 19.2.1(c), above, the "worth at the time of award" shall be computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of award plus one percent (1%).

19.2.2 Landlord shall have the remedy described in California Civil Code Section 1951.4 (lessor may continue lease in effect after lessee's breach and abandonment and recover rent as it becomes due, if lessee has the right to sublet or assign, subject only to reasonable limitations). Accordingly, if Landlord does not elect to terminate this Lease on account of any default by Tenant, Landlord may, from time to time, without terminating this Lease, enforce all of its rights and remedies under this Lease, including the right to recover all rent as it becomes due.

19.2.3 Landlord shall at all times have the rights and remedies (which shall be cumulative with each other and cumulative and in addition to those rights and remedies available under Sections 19.2.1 and 19.2.2, above, or any law or other provision of this Lease), without prior demand or notice except as required by applicable law, to seek any declaratory, injunctive or other equitable relief, and specifically enforce this Lease, or restrain or enjoin a violation or breach of any provision hereof.

19.3 **Subleases of Tenant**. Whether or not Landlord elects to terminate this Lease on account of any default by Tenant, as set forth in this Article 19, Landlord shall have the right to terminate any and all subleases, licenses, concessions or other consensual arrangements for possession entered into by Tenant and affecting the Premises or may, in Landlord's sole discretion, succeed to Tenant's interest in such subleases, licenses, concessions or arrangements. In the event of Landlord's election to succeed to Tenant's interest in any such subleases, licenses,

concessions or arrangements, Tenant shall, as of the date of notice by Landlord of such election, have no further right to or interest in the rent or other consideration receivable thereunder.

19.4 **Form of Payment After Default**. Following the occurrence of an event of default by Tenant, Landlord shall have the right to require that any or all subsequent amounts paid by Tenant to Landlord hereunder, whether to cure the default in question or otherwise, be paid in the form of cash, money order, cashier's or certified check drawn on an institution acceptable to Landlord, or by other means approved by Landlord, notwithstanding any prior practice of accepting payments in any different form.

19.5 **Efforts to Relet**. No re-entry or repossession, repairs, maintenance, changes, alterations and additions, reletting, appointment of a receiver to protect Landlord's interests hereunder, or any other action or omission by Landlord shall be construed as an election by Landlord to terminate this Lease or Tenant's right to possession, or to accept a surrender of the Premises, nor shall same operate to release Tenant in whole or in part from any of Tenant's obligations hereunder, unless express written notice of such intention is sent by Landlord to Tenant. Tenant hereby irrevocably waives any right otherwise available under any law to redeem or reinstate this Lease.

19.6 **Landlord Default**. Notwithstanding anything to the contrary set forth in this Lease, Landlord shall be in default in the performance of any obligation required to be performed by Landlord pursuant to this Lease if Landlord fails to perform such obligation within thirty (30) days after the receipt of notice from Tenant specifying in detail Landlord's failure to perform; provided, however, if the nature of Landlord's obligation is such that more than thirty (30) days are required for its performance, then Landlord shall not be in default under this Lease if it shall commence such performance within such thirty (30) day period and thereafter diligently pursues the same to completion. Upon any such default by Landlord under this Lease, Tenant may, except as otherwise specifically provided in this Lease to the contrary, exercise any of its rights provided at law or in equity. Any award from a court or arbitrator in favor of Tenant, requiring payment by Landlord which is not paid by Landlord within the time period directed by such award, may be offset by Tenant from Rent next due and payable under this Lease; provided, however, Tenant may not deduct the amount of the award against more than fifty percent (50%) of Base Rent next due and owing (until such time as the entire amount of such judgment is deducted) to the extent following a foreclosure or a deed-in-lieu of foreclosure.

ARTICLE 20

COVENANT OF QUIET ENJOYMENT

Landlord covenants that Tenant, on paying the Rent, charges for services and other payments herein reserved and on keeping, observing and performing all the other TCCs, provisions and agreements herein contained on the part of Tenant to be kept, observed and performed, shall, during the Lease Term, peaceably and quietly have, hold and enjoy the Premises subject to the TCCs, provisions and agreements hereof without interference by any persons lawfully claiming by or through Landlord. The foregoing covenant is in lieu of any other covenant express or implied.

ARTICLE 21

SECURITY DEPOSIT

Landlord and Tenant hereby acknowledge and agree that Tenant has been occupying that certain space located on the first (1st) floors of those certain buildings located at 12225 and 12235 El Camino Real, San Diego, commonly known as Suite 150 in the 12225 Building and Suites 110 and 105 in the 12235 Building containing approximately 25,114 rentable square feet of space (the "**CVCC Premises**") pursuant to that certain Office Lease dated April 14, 2009 (as amended, the "**Carmel Valley Corporate Center Lease**"), by and between Landlord and Tenant. Landlord further acknowledges that Tenant has previously delivered the sum of […***…] Dollars ($[…***…]) (the "**Existing Security Deposit**") to Landlord as security for the faithful performance by Tenant of the terms, covenants and conditions of the Carmel Valley Corporate Center Lease. Landlord and Tenant hereby acknowledge and agree that any unapplied portion of the Existing Security Deposit following the expiration of the Carmel Valley Corporate Center Lease shall continue to be held by Landlord as security for this Lease, and therefore Tenant hereby expressly agrees that it will not have the right to have such unapplied portion of the Existing Security Deposit returned to it pursuant to the terms of the Carmel Valley Corporate Center Lease (recognizing that, effective as of date which is sixty (60) days following the expiration of the term of the Carmel Valley Corporate Center Lease, the terms of this Article 21 shall govern Landlord's use of the Existing Security Deposit as opposed to any provision of the Carmel Valley Corporate Center Lease). To the extent the Security Deposit is ever less than […***…] Dollars ($[…***…]), Tenant shall pay any such difference within thirty (30) days following its receipt of a demand therefor from Landlord. Accordingly, notwithstanding any provision to the contrary contained in this Lease, the total Security Deposit to be held by Landlord pursuant to this Lease shall at all times equal to […***…] Dollars ($[…***…]) (the "**Security Deposit**"). If Tenant defaults with respect to any provisions of this Lease, including, but not limited to, the provisions relating to the payment of Rent, the removal of property and the repair of resultant damage, Landlord may, without notice to Tenant, but shall not be required to apply all or any part of the Security Deposit for the payment of any Rent or any other sum in default and Tenant shall, upon demand therefor, restore the Security Deposit to its original amount. Any unapplied portion of the Security Deposit shall be returned to Tenant, or, at Landlord's option, to the last assignee of Tenant's interest hereunder, within sixty (60) days following the expiration of the Lease Term. Tenant shall not be entitled to any interest on the Security Deposit. Tenant hereby irrevocably waives and relinquishes any and all rights, benefits, or protections, if any, Tenant now has, or in the future may have, under Section 1950.7, except for subsection (b) thereof, of the California Civil Code, any successor statute, and all other provisions of law, now or hereafter in effect, including, but not limited to, any provision of law which (i) establishes the time frame by which a landlord must refund a security deposit under a lease, or (ii) provides that a landlord may claim from a security deposit only those sums reasonably necessary to remedy defaults in the payment of rent, to repair damage caused by a tenant, or to clean the subject premises. Tenant acknowledges and agrees that (A) any statutory time frames for the return of a security deposit are superseded by the express period identified in this Article 21, above, and (B) rather than be so limited, Landlord may claim from the Security Deposit (i) any and all sums expressly identified in this Article 21, above, and (ii) any additional sums reasonably necessary to compensate Landlord for any and all losses or damages caused by

*** Confidential Treatment Requested

Tenant's default of this Lease, including, but not limited to, all damages or rent due upon termination of this Lease pursuant to Section 1951.2 of the California Civil Code.

ARTICLE 22

INTENTIONALLY OMITTED

ARTICLE 23

SIGNS

23.1 **Full Floors**. Subject to Landlord's prior written approval, in its sole discretion, and provided all signs are in keeping with the quality, design and style of the Building and Project, Tenant, if the Premises comprise an entire floor of the Building, at its sole cost and expense, may install identification signage anywhere in the Premises including in the elevator lobby of the Premises, provided that such signs must not be visible from the exterior of the Building.

23.2 **Multi-Tenant Floors**. If other tenants occupy space on the floor on which the Premises is located, Tenant's identifying signage shall be provided by Landlord, at Tenant's cost, and such signage shall be comparable to that used by Landlord for other similar floors in the Building and shall comply with Landlord's Building standard signage program. In addition, Landlord shall provide, at Tenant's cost, Building standard directory signage.

23.3 **Prohibited Signage and Other Items**. Any signs, notices, logos, pictures, names or advertisements which are installed and that have not been separately approved by Landlord may be removed without notice by Landlord at the sole expense of Tenant. Tenant may not install any signs on the exterior or roof of the Project or the Common Areas. Any signs, window coverings, or blinds (even if the same are located behind the Landlord-approved window coverings for the Building), or other items visible from the exterior of the Premises or Building, shall be subject to the prior approval of Landlord, in its sole discretion.

ARTICLE 24

COMPLIANCE WITH LAW

Tenant shall not do anything or suffer anything to be done in or about the Premises or the Project which will in any way conflict with any law, statute, ordinance or other governmental rule, regulation or requirement now in force or which may hereafter be enacted or promulgated (collectively, "**Applicable Laws**"). At its sole cost and expense, Tenant shall promptly comply with all such Applicable Laws which relate to (i) Tenant's use of the Premises for non-general office use, (ii) Alterations Tenant installs or otherwise places in the Premises, or (iii) the Base Building, but, as to the Base Building, only to the extent such obligations are triggered by Tenant's Alterations, or use of the Premises for non-general office use. Should any standard or regulation be imposed on Landlord or Tenant after the Lease Commencement Date by a state, federal or local governmental body charged with the establishment, regulation and enforcement of occupational, health or safety standards for employers and/or employees, as to the use of the

Premises, then Tenant agrees, at its sole cost and expense, to comply promptly with such standards or regulations. The judgment of any court of competent jurisdiction or the admission of Tenant in any judicial action, regardless of whether Landlord is a party thereto, that Tenant has violated any of said governmental measures, shall be conclusive of that fact as between Landlord and Tenant. Except as set forth hereinabove, Landlord shall comply with all Applicable Laws relating to the Base Building, provided that compliance with such Applicable Laws is not the responsibility of Tenant under this Lease, and provided further that Landlord's failure to comply therewith would prohibit Tenant from obtaining or maintaining a certificate of occupancy for the Premises, or would unreasonably and materially affect the safety of Tenant's employees or create a significant health hazard for Tenant's employees. Landlord shall be permitted to include in Operating Expenses any costs or expenses incurred by Landlord under this Article 24 to the extent consistent with the terms of Section 4.2.4, above.

ARTICLE 25

LATE CHARGES

If any installment of Rent or any other sum due from Tenant shall not be received by Landlord or Landlord's designee when due, then Tenant shall pay to Landlord a late charge equal to five percent (5%) of the overdue amount plus any attorneys' fees incurred by Landlord by reason of Tenant's failure to pay Rent and/or other charges when due hereunder; provided, however, with regard to the first such failure in any twelve (12) month period, Landlord will waive such late charge to the extent Tenant cures such failure within three (3) days following Tenant's receipt of written notice from Landlord that the same was not received when due. The late charge shall be deemed Additional Rent and the right to require it shall be in addition to all of Landlord's other rights and remedies hereunder or at law and shall not be construed as liquidated damages or as limiting Landlord's remedies in any manner. In addition to the late charge described above, any Rent or other amounts owing hereunder which are not paid within ten (10) days after the date they are due shall bear interest from the date when due until paid at the "Interest Rate." For purposes of this Lease, the "**Interest Rate**" shall be an annual rate equal to the lesser of (i) the annual "**Bank Prime Loan**" rate cited in the Federal Reserve Statistical Release Publication H.15(519), published weekly (or such other comparable index as Landlord and Tenant shall reasonably agree upon if such rate ceases to be published), plus three (3) percentage points, and (ii) the highest rate permitted by applicable law.

ARTICLE 26

LANDLORD'S RIGHT TO CURE DEFAULT; PAYMENTS BY TENANT

26.1 **Landlord's Cure**. All covenants and agreements to be kept or performed by Tenant under this Lease shall be performed by Tenant at Tenant's sole cost and expense and without any reduction of Rent, except to the extent, if any, otherwise expressly provided herein. If Tenant shall fail to perform any obligation under this Lease, and such failure shall continue in excess of the time allowed under Section 19.1.2, above, unless a specific time period is otherwise stated in this Lease, Landlord may, but shall not be obligated to, make any such payment or perform any such act on Tenant's part without waiving its rights based upon any default of Tenant and without releasing Tenant from any obligations hereunder.

26.2 **Tenant's Reimbursement**. Except as may be specifically provided to the contrary in this Lease, Tenant shall pay to Landlord, upon delivery by Landlord to Tenant of statements therefor: (i) sums equal to expenditures reasonably made and obligations incurred by, Landlord in connection with the remedying by Landlord of Tenant's defaults pursuant to the provisions of Section 26.1; (ii) sums equal to all losses, costs, liabilities, damages and expenses referred to in Article 10 of this Lease; and (iii) sums equal to all expenditures made and obligations incurred by Landlord in collecting or attempting to collect the Rent or in enforcing or attempting to enforce any rights of Landlord under this Lease or pursuant to law, including, without limitation, all legal fees and other amounts so expended. Tenant's obligations under this Section 26.2 shall survive the expiration or sooner termination of the Lease Term.

ARTICLE 27

ENTRY BY LANDLORD

Landlord reserves the right at all reasonable times (during Building Hours with respect to items (i) and (ii) below) and upon at least twenty-four (24) hours prior notice to Tenant (except in the case of an emergency) to enter the Premises to (i) inspect them; (ii) show the Premises to prospective purchasers, or to current or prospective mortgagees, ground or underlying lessors or insurers, or during the last nine (9) months of the Lease Term, to prospective tenants; (iii) post notices of nonresponsibility; or (iv) alter, improve or repair the Premises or the Building, or for structural alterations, repairs or improvements to the Building or the Building's systems and equipment. Notwithstanding anything to the contrary contained in this Article 27, Landlord may enter the Premises at any time to (A) perform services required of Landlord, including janitorial service; (B) take possession due to any breach of this Lease in the manner provided herein; and (C) perform any covenants of Tenant which Tenant fails to perform. Landlord may make any such entries without the abatement of Rent, except as otherwise provided in this Lease, and may take such reasonable steps as required to accomplish the stated purposes; provided, however, except for (*x*) emergencies, (*y*) repairs, alterations, improvements or additions required by governmental or quasi-governmental authorities or court order or decree, or (*z*) repairs which are the obligation of Tenant hereunder, any such entry shall be performed in a manner so as not to unreasonably interfere with Tenant's use of the Premises and shall be performed after normal business hours if reasonably practical. With respect to items (*y*) and (*z*) above, Landlord shall use commercially reasonable efforts to not materially interfere with Tenant's use of, or access to, the Premises. Except as otherwise set forth in Section 6.4, Tenant hereby waives any claims for damages or for any injuries or inconvenience to or interference with Tenant's business, lost profits, any loss of occupancy or quiet enjoyment of the Premises, and any other loss occasioned thereby. For each of the above purposes, Landlord shall at all times have a key with which to unlock all the doors in the Premises, excluding Tenant's vaults, safes and special security areas designated in advance by Tenant. In an emergency, Landlord shall have the right to use any means that Landlord may deem proper to open the doors in and to the Premises. Any entry into the Premises by Landlord in the manner hereinbefore described shall not be deemed to be a forcible or unlawful entry into, or a detainer of, the Premises, or an actual or constructive eviction of Tenant from any portion of the ‘‘Premises. No provision of this Lease shall be construed as obligating Landlord to perform any repairs, alterations or decorations except as otherwise expressly agreed to be performed by Landlord herein.

ARTICLE 28

TENANT PARKING

Tenant shall rent from Landlord, commencing on the Lease Commencement Date, the amount of parking passes set forth in Section 10 of the Summary, on a monthly basis throughout the Lease Term, which parking passes shall pertain to the Project parking facilities located on the east side of the Building only Tenant's use of the foregoing unreserved parking passes shall be free of charge during the Lease Term (inclusive of any Option Term). In lieu of an equal number of unreserved parking passes, Tenant shall have the right to rent passes for up to six (6) reserved parking spaces in the Project parking facility on 'a monthly basis (the "**Reserved Parking Right**"), provided that the Reserved Parking Right must be exercised by Tenant, if at all, pursuant to a written notice to Landlord expressing Tenants' desire to exercise said Reserved Parking Right. The location of the reserved parking spaces shall be determined by Landlord in Landlord's sole and absolute discretion, subject to availability. Tenant shall pay to Landlord for the reserved parking spaces on a monthly basis at the prevailing rate charged by Landlord from time to time at the location of such reserved parking spaces. Notwithstanding the foregoing or any provision to the contrary set forth in this Article 28, Tenant shall be responsible for the full amount of any taxes imposed by any governmental authority in connection with the renting of all of the aforementioned parking passes (and if applicable, reserved parking spaces) by Tenant or the use of the aforementioned parking facilities by Tenant. Tenant's continued right to use the parking passes is conditioned upon Tenant abiding by all rules and regulations which are prescribed from time to time for the orderly operation and use of the parking facilities where the parking passes are located, including any sticker or other identification system established by Landlord, Tenant's cooperation in seeing that Tenant's employees and visitors also comply with such rules and regulations and Tenant not being in default under this Lease. Landlord specifically reserves the right to change the size, configuration, design, layout and all other aspects of the Project parking facilities at any time and Tenant acknowledges and agrees that Landlord may, without incurring any liability to Tenant and without any abatement of Rent under this Lease, from time to time, close-off or restrict access to the Project parking facilities for purposes of permitting or facilitating any such construction, alteration or improvements. Landlord may delegate its responsibilities hereunder to a parking operator in which case such parking operator shall have all the rights of control attributed hereby to the Landlord. The parking passes rented by Tenant pursuant to this Article 28 are provided to Tenant solely for use by Tenant's own personnel and such passes may not be transferred, assigned, subleased or otherwise alienated by Tenant without Landlord's prior approval. Visitor parking will be free of charge for the entire initial Lease Term.

ARTICLE 29

MISCELLANEOUS PROVISIONS

29.1 **Terms Captions**. The words "Landlord" and "Tenant" as used herein shall include the plural as well as the singular. The necessary grammatical changes required to make the provisions hereof apply either to corporations or partnerships or individuals, men or women, as the case may require, shall in all cases be assumed as though in each case fully expressed.

The captions of Articles and Sections are for convenience only and shall not be deemed to limit, construe, affect or alter the meaning of such Articles and Sections.

29.2 **Binding Effect**. Subject to all other provisions of this Lease, each of the covenants, conditions and provisions of this Lease shall extend to and shall, as the case may require, bind or inure to the benefit not only of Landlord and of Tenant, but also of their respective heirs, personal representatives, successors or assigns, provided this clause shall not permit any assignment by Tenant contrary to the provisions of Article 14 of this Lease.

29.3 **No Air Rights**. No rights to any view or to light or air over any property, whether belonging to Landlord or any other person, are granted to Tenant by this Lease. If at any time any windows of the Premises are temporarily darkened or the light or view therefrom is obstructed by reason of any repairs, improvements, maintenance or cleaning in or about the Project, the same shall be without liability to Landlord and without any reduction or diminution of Tenant's obligations under this Lease.

29.4 **Modification of Lease**. Should any current or prospective mortgagee or ground lessor for the Building or Project require a modification of this Lease, which modification will not cause an increased cost or expense to Tenant or in any other way materially and adversely change the rights and obligations of Tenant hereunder, then and in such event, Tenant agrees that this Lease may be so modified and agrees to execute whatever documents are reasonably required therefor and to deliver the same to Landlord within ten (10) business days following a request therefor. At the request of Landlord or any mortgagee or ground lessor, Tenant agrees to execute a short form of Lease and deliver the same to Landlord within ten (10) business days following the request therefor.

29.5 **Transfer of Landlord's Interest**. Tenant acknowledges that Landlord has the right to transfer all or any portion of its interest in the Project or Building and in this Lease, and Tenant agrees that in the event of any such transfer, Landlord shall automatically be released from all liability under this Lease and Tenant agrees to look solely to such transferee for the performance of Landlord's obligations hereunder after the date of transfer and such transferee shall be deemed to have fully assumed and be liable for all obligations of this Lease to be performed by Landlord, including the return of any Security Deposit, and Tenant shall attorn to such transferee. Tenant further acknowledges that Landlord may assign its interest in this Lease to a mortgage lender as additional security and agrees that such an assignment shall not release Landlord from its obligations hereunder and that Tenant shall continue to look to Landlord for the performance of its obligations hereunder.

29.6 **Prohibition Against Recording**. Except as provided in Section 29.4 of this Lease, neither this Lease, nor any memorandum, affidavit or other writing with respect thereto, shall be recorded by Tenant or by anyone acting through, under or on behalf of Tenant.

29.7 **Landlord's Title**. Landlord's title is and always shall be paramount to the title of Tenant. Nothing herein contained shall empower Tenant to do any act which can, shall or may encumber the title of Landlord.

29.8 **Relationship of Parties**. Nothing contained in this Lease shall be deemed or construed by the parties hereto or by any third party to create the relationship of principal and agent, partnership, joint venturer or any association between Landlord and Tenant.

29.9 **Application of Payments**. Landlord shall have the right to apply payments received from Tenant pursuant to this Lease, regardless of Tenant's designation of such payments, to satisfy any obligations of Tenant hereunder, in such order and amounts as Landlord, in its sole discretion, may elect.

29.10 **Time of Essence**. Time is of the essence with respect to the performance of every provision of this Lease in which time of performance is a factor.

29.11 **Partial Invalidity**. If any term, provision or condition contained in this Lease shall, to any extent, be invalid or unenforceable, the remainder of this Lease, or the application of such term, provision or condition to persons or circumstances other than those with respect to which it is invalid or unenforceable, shall not be affected thereby, and each and every other term, provision and condition of this Lease shall be valid and enforceable to the fullest extent possible permitted by law.

29.12 **No Warranty**. In executing and delivering this Lease, Tenant has not relied on any representations, including, but not limited to, any representation as to the amount of any item comprising Additional Rent or the amount of the Additional Rent in the aggregate or that Landlord is furnishing the same services to other tenants, at all, on the same level or on the same basis, or any warranty or any statement of Landlord which is not set forth herein or in one or more of the exhibits attached hereto.

29.13 **Landlord Exculpation**. The liability of Landlord or the Landlord Parties to Tenant for any default by Landlord under this Lease or arising in connection herewith or with Landlord's operation, management, leasing, repair, renovation, alteration or any other matter relating to the Project or the Premises shall be limited solely and exclusively to an amount which is equal to the lesser of (a) the interest of Landlord in the Building or (b) the equity interest Landlord would have in the Building if the Building were encumbered by third-party debt in an amount equal to eighty percent (80%) of the value of the Building (as such value is determined by Landlord), provided that in no event shall such liability extend to any sales or insurance proceeds received by Landlord or the Landlord Parties in connection with the Project, Building or Premises. Neither Landlord, nor any of the Landlord Parties shall have any personal liability therefor, and Tenant hereby expressly waives and releases such personal liability on behalf of itself and all persons claiming by, through or under Tenant. The limitations of liability contained in this Section 29.13 shall inure to the benefit of Landlord's and the Landlord Parties' present and future partners, beneficiaries, officers, directors, trustees, shareholders, agents and employees, and their respective partners, heirs, successors and assigns. Under no circumstances shall any present or future partner of Landlord (if Landlord is a partnership), or trustee or beneficiary (if Landlord or any partner of Landlord is a trust), have any liability for the performance of Landlord's obligations under this Lease. Notwithstanding any contrary provision herein, neither Landlord nor the Landlord Parties shall be liable under any circumstances for injury or damage to, or interference with, Tenant's business, including but not limited to, loss of profits, loss of

rents or other revenues, loss of business opportunity, loss of goodwill or loss of use, in each case, however occurring.

29.14 **Entire Agreement**. It is understood and acknowledged that there are no oral agreements between the parties hereto affecting this Lease and this Lease constitutes the parties' entire agreement with respect to the leasing of the Premises and supersedes and cancels any and all previous negotiations, arrangements, brochures, agreements and understandings, if any, between the parties hereto or displayed by Landlord to Tenant with respect to the subject matter thereof, and none thereof shall be used to interpret or construe this Lease. None of the terms, covenants, conditions or provisions of this Lease can be modified, deleted or added to except in, writing signed by the parties hereto.

29.15 **Right to Lease**. Landlord reserves the absolute right to effect such other tenancies in the Project as Landlord in the exercise of its sole business judgment shall determine to best promote the interests of the Building or Project. Tenant does not rely on the fact, nor does Landlord represent, that any specific tenant or type or number of tenants shall, during the Lease Term, occupy any space in the Building or Project.

29.16 **Force Majeure**. Any prevention, delay or stoppage due to strikes, lockouts, labor disputes, acts of God, inability to obtain services, labor, or materials or reasonable substitutes therefor, governmental actions, civil commotions, fire or other casualty, and other causes beyond the reasonable control of the party obligated to perform, except with respect to the obligations imposed with regard to Rent and other charges to be paid by Tenant pursuant to this Lease and except as to Tenant's obligations under Articles 5 and 24 of this Lease (collectively, a "**Force Majeure**"), notwithstanding anything to the contrary contained in this Lease, shall excuse the performance of such party for a period equal to any such prevention, delay or stoppage and, therefore, if this Lease specifies a time period for performance of an obligation of either party, that time period shall be extended by the period of any delay in such party's performance caused by a Force Majeure.

29.17 **Waiver of Redemption by Tenant**. Tenant hereby waives, for Tenant and for all those claiming under Tenant, any and all rights now or hereafter existing to redeem by order or judgment of any court or by any legal process or writ, Tenant's right of occupancy of the Premises after any termination of this Lease.

29.18 **Notices**. All notices, demands, statements, designations, approvals or other communications (collectively, "**Notices**") given or required to be given by either party to the other hereunder or by law shall be in writing, shall be (A) sent by United States certified or registered mail, postage prepaid, return receipt requested ("**Mail**"), (B) transmitted by telecopy, if such telecopy is promptly followed by a Notice sent by Mail, (C) delivered by a nationally recognized overnight courier, or (D) delivered personally. Any Notice shall be sent, transmitted, or delivered, as the case may be, to Tenant at the appropriate address set forth in Section 11 of the Summary, or to such other place as Tenant may from time to time designate in a Notice to Landlord, or to Landlord at the addresses set forth below, or to such other places as Landlord may from time to time designate in a Notice to Tenant. Any Notice will be deemed given (i) three (3) days after the date it is posted if sent by Mail, (ii) the date the telecopy is transmitted, (iii) the date the overnight courier delivery is made, or (iv) the date personal delivery is made or

attempted to be made. If Tenant is notified of the identity and address of Landlord's mortgagee or ground or underlying lessor, Tenant shall give to such mortgagee or ground or underlying lessor written notice of any default by Landlord under the terms of this Lease by registered or. certified mail, and such mortgagee or ground or underlying lessor shall be given a reasonable opportunity to cure such default prior to Tenant's exercising any remedy available to Tenant. As of the date of this Lease, any Notices to Landlord must be sent, transmitted, or delivered, as the case may be, to the following addresses:

Kilroy Realty Corporation
12200 West Olympic Boulevard
Suite 200
Los Angeles, California 90064
Attention: Legal Department

with copies to:

Kilroy Realty Corporation
3611 Valley Centre Drive, Suite 550
San Diego, California 92130
Attention: Mr. Brian Galligan

and

Allen Matkins Leck Gamble Mallory & Natsis LLP
1901 Avenue of the Stars, Suite 1800
Los Angeles, California 90067
Attention: Anton N. Natsis, Esq.

29.19 **Joint and Several**. If there is more than one Tenant, the obligations imposed upon Tenant under this Lease shall be joint and several.

29.20 **Authority**. If Tenant is a corporation, trust or partnership, each individual executing this Lease on behalf of Tenant hereby represents and warrants that Tenant is a duly formed and existing entity qualified to do business in California and that Tenant has full right and authority to execute and deliver this Lease and that each person signing on behalf of Tenant is authorized to do so. In such event, Tenant shall, within ten (10) days after execution of this Lease, deliver to Landlord satisfactory evidence of such authority and, if a corporation, upon demand by Landlord, also deliver to Landlord satisfactory evidence of (i) good standing in Tenant's state of incorporation and (ii) qualification to do business in California.

29.21 **Attorneys' Fees**. In the event that either Landlord or Tenant should bring suit for the possession of the Premises, for the recovery of any sum due under this Lease, or because of the breach of any provision of this Lease or for any other relief against the other, then all costs and expenses, including reasonable attorneys' fees, incurred by the prevailing party therein shall be paid by the other party, which obligation on the part of the other party shall be deemed to have accrued on the date of the commencement of such action and shall be enforceable whether or not the action is prosecuted to judgment.

29.22 **Governing Law; WAIVER OF TRIAL BY JURY**. This Lease shall be construed and enforced in accordance with the laws of the State of California. IN ANY ACTION OR PROCEEDING ARISING HEREFROM, LANDLORD AND TENANT HEREBY CONSENT TO (I) THE JURISDICTION OF ANY COMPETENT COURT WITHIN THE STATE OF CALIFORNIA, AND (II) SERVICE OF PROCESS BY ANY MEANS AUTHORIZED BY CALIFORNIA LAW.

29.23 **Submission of Lease**. Submission of this instrument for examination or signature by Tenant does not constitute a reservation of, option for or option to lease, and it is not effective as a lease or otherwise until execution and delivery by both Landlord and Tenant.

29.24 **Broker**. Landlord and Tenant hereby warrant to each other that they have had no dealings with any real estate broker or agent in connection with the negotiation of this Lease, excepting only the real estate broker specified in Section 13 of the Summary (the "**Broker**"), and that they know of no other real estate broker or agent who is entitled to a commission in connection with this Lease. Landlord shall pay the Broker pursuant to the terms of separate commission agreements. Each party agrees to indemnify and defend the other party against and hold the other party harmless from any and all claims, demands, losses, liabilities, lawsuits, judgments, costs and expenses (including without limitation reasonable attorneys' fees) with respect to any leasing commission or equivalent compensation alleged to be owing on account of any dealings with any real estate broker or agent, other than the Broker, occurring by, through, or under the indemnifying party.

29.25 **Independent Covenants**. This Lease shall be construed as though the covenants herein between Landlord and Tenant are independent and not dependent and Tenant hereby expressly waives the benefit of any statute to the contrary and agrees that if Landlord fails to perform its obligations set forth herein, Tenant shall not be entitled to make any repairs or perform any acts hereunder at Landlord's expense or to any setoff of the Rent or other amounts owing hereunder against Landlord.

29.26 **Project or Building Name and Signage**. Landlord shall have the right at any time to change the name of the Project or Building and to install, affix and maintain any and all signs on the exterior and on the interior of the Project or Building as Landlord may, in Landlord's sole discretion, desire. Tenant shall not use the name of the Project or Building or use pictures or illustrations of the Project or Building in advertising or other publicity or for any purpose other than as the address of the business to be conducted by Tenant in the Premises, without the prior written consent of Landlord.

29.27 **Counterparts**. This Lease may be executed in counterparts with the same effect as if both parties hereto had executed the same document. Both counterparts shall be construed together and shall constitute a single lease.

29.28 **Confidentiality**. Tenant acknowledges that the content of this Lease and any related documents are confidential information. Tenant shall keep such confidential information strictly confidential and shall not disclose such confidential information to any person or entity other than Tenant's financial, legal, and space planning consultants.

29.29 **Transportation Management**. Tenant shall fully comply with all present or future programs intended to manage parking, transportation or traffic in and around the Building, and in connection therewith, Tenant shall take responsible action for the transportation planning and management of all employees located at the Premises by working directly with Landlord, any governmental transportation management organization or any other transportation-related committees or entities.

29.30 **Building Renovations**. It is specifically understood and agreed that Landlord has made no representation or warranty to Tenant and has no obligation and has made no promises to alter, remodel, improve, renovate, repair or decorate the Premises, Building, or any part thereof and that no representations respecting the condition of the Premises or the Building have been made by Landlord to Tenant except as specifically set forth herein or in the Work Letter Agreement, and the completion of Landlord's build-out of the lobby and lobby area bathrooms prior to the Lease Commencement Date. However, Tenant hereby acknowledges that Landlord is currently renovating or may during the Lease Term renovate, improve, alter, or modify (collectively, the "**Renovations**") the Project, the Building and/or the Premises including without limitation the parking structure, common areas, systems and equipment, roof, and structural portions of the same, which Renovations may include, without limitation, (i) installing sprinklers in the Building common areas and tenant spaces, (ii) modifying the common areas and tenant spaces to comply with applicable laws and regulations, including regulations relating to the physically disabled, seismic conditions, and building safety and security, and (iii) installing new floor covering, lighting, and wall coverings in the Building common areas, and in connection with any Renovations, Landlord may, among other things, erect scaffolding or other necessary structures in the Building, limit or eliminate access to portions of the Project, including portions of the common areas, or perform work in the Building, which work may create noise, dust or leave debris in the Building. Tenant hereby agrees that such Renovations and Landlord's actions in connection with such Renovations shall in no way constitute a constructive eviction of Tenant nor entitle Tenant to any abatement of Rent. Landlord shall have no responsibility or for any reason be liable to Tenant for any direct or indirect injury to or interference with Tenant's business arising from the Renovations, nor shall Tenant be entitled to any compensation or damages from Landlord for loss of the use of the whole or any part of the Premises or of Tenant's personal property or improvements resulting from the Renovations or Landlord's actions in connection with such Renovations, or for any inconvenience or annoyance occasioned by such Renovations or Landlord's actions. Landlord shall use commercially reasonable efforts to have all such work performed on a continuous basis, and once started, to be completed reasonably expeditiously, with such work being organized and conducted in a manner which will minimize any interference to Tenant's business operations in, or access to, the Premises, the Project parking facilities and the Common Areas.

29.31 **No Violation**. Tenant hereby warrants and represents that neither its execution of nor performance under this Lease shall cause Tenant to be in violation of any agreement, instrument, contract, law, rule or regulation by which Tenant is bound, and Tenant shall protect, defend, indemnify and hold Landlord harmless against any claims, demands, losses, damages, liabilities, costs and expenses, including, without limitation, reasonable attorneys' fees and costs, arising from Tenant's breach of this warranty and representation.

29.32 **Communications and Computer Lines**. Tenant may install, maintain, replace, remove or use any communications or computer wires and cables (collectively, the "**Lines**") at the Project in or serving the Premises, provided that (i) Tenant shall obtain Landlord's prior written consent, use an experienced and qualified contractor approved in writing by Landlord, and comply with all of the other provisions of Articles 7 and 8 of this Lease, (ii) the Lines therefor (including riser cables) shall be (*x*) appropriately insulated to prevent excessive electromagnetic fields or radiation, (*y*) surrounded by a protective conduit reasonably acceptable to Landlord, and (*z*) identified in accordance with the "Identification Requirements" (as that term is defined hereinbelow), (iii) any new or existing Lines servicing the Premises shall comply with all applicable governmental laws and regulations, (iv) as a condition to permitting the installation of new Lines, Tenant shall remove existing Lines located in or serving the Premises and repair any damage in connection with such removal, and (v) Tenant shall pay all costs in connection therewith. All Lines shall be clearly marked with adhesive plastic labels (or plastic tags attached to such Lines with wire) to show Tenant's name, suite number, telephone number and the name of the person to contact in the case of an emergency (A) every four feet (4') outside the Premises (specifically including, but not limited to, the electrical room risers and other Common Areas), and (B) at the Lines' termination point(s) (collectively, the "**Identification Requirements**"). Upon the expiration of the Lease Term, or immediately following any earlier termination of this Lease, Tenant shall, at Tenant's sole cost and expense, remove all Lines installed by Tenant, and repair any damage caused by such removal. In the event that Tenant fails to complete such removal and/or fails to repair any damage caused by the removal of any Lines, Landlord may do so and may charge the cost thereof to Tenant. Landlord reserves the right to require that Tenant remove any Lines located in or serving the Premises which are installed in violation of these provisions, or which are at any time (1) are in violation of any Applicable Laws, (2) are inconsistent with then-existing industry standards (such as the standards promulgated by the National Fire Protection Association (*e.g.*, such organization's "2002 National Electrical Code")), or (3) otherwise represent a dangerous or potentially dangerous condition.

29.33 **Hazardous Substances**.

29.33.1 **Definitions**. For purposes of this Lease, the following definitions shall apply: "**Hazardous Material(s)**" shall mean any solid, liquid or gaseous substance or material that is described or characterized as a toxic or hazardous substance, waste, material, pollutant, contaminant or infectious waste, or any matter that in certain specified quantities would be injurious to the public health or welfare, or words of similar import, in any of the "Environmental Laws" (as that term is defined hereinbelow), or any other words which are intended to define, list or classify substances by reason of deleterious properties such as ignitability, corrosivity, reactivity, carcinogenicity, toxicity or reproductive toxicity and includes, without limitation, asbestos, petroleum (including crude oil or any fraction thereof, natural gas, natural gas liquids, liquefied natural gas, or synthetic gas usable for fuel, or any mixture thereof), petroleum products, polychlorinated biphenyls, urea formaldehyde, radon gas, nuclear or radioactive matter, medical waste, soot, vapors, fumes, acids, alkalis, chemicals, microbial matters (such as molds, fungi or other bacterial matters), biological agents and chemicals which may cause adverse health effects, including but not limited to, cancers and /or toxicity. "**Environmental Laws**" shall mean any and all federal, state, local or quasi-governmental laws (whether under common law, statute or otherwise), ordinances, decrees, codes, rulings, awards, rules, regulations or guidance or policy documents now or hereafter enacted or promulgated and

as amended from time to time, in any way relating to (i) the protection of the environment, the health and safety of persons (including employees), property or the public welfare from actual or potential release, discharge, escape or emission (whether past or present) of any Hazardous Materials or (ii) the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of any Hazardous Materials.

29.33.2 **Compliance with Environmental Laws**. Landlord covenants that during the Lease Term, Landlord shall comply with all Environmental Laws in accordance with, and as required by, the TCCs of Article 24 of this Lease. Tenant represents and warrants that, except as herein set forth, it will not use, store or dispose of any Hazardous Materials in or on the Premises. However, notwithstanding the preceding sentence, Landlord agrees that Tenant may use, store and properly dispose of commonly available household cleaners and chemicals to maintain the Premises and Tenant's routine office operations (such as printer toner and copier toner) (hereinafter the "**Permitted Chemicals**"). Landlord and Tenant acknowledge that any or all of the Permitted Chemicals described in this paragraph may constitute Hazardous Materials. However, Tenant may use, store and dispose of same, provided that in doing so, Tenant fully complies with all Environmental Laws.

29.33.3 **Landlord's Right of Environmental Audit**. Landlord may, upon reasonable notice to Tenant, be granted access to and enter the Premises no more than once annually to perform or cause to have performed an environmental inspection, site assessment or audit. Such environmental inspector or auditor may be chosen by Landlord, in its sole discretion, and be performed at Landlord's sole expense. To the extent that the report prepared upon such inspection, assessment or audit, indicates the presence of Hazardous Materials in violation of Environmental Laws, or provides recommendations or suggestions to prohibit the release, discharge, escape or emission of any Hazardous Materials at, upon, under or within the Premises, or to comply with any Environmental Laws, Tenant shall promptly, at Tenant's sole expense, comply with such recommendations or suggestions, including, but not limited to performing such additional investigative or subsurface investigations or remediation(s) as recommended by such inspector or auditor. Notwithstanding the above, if at any time, Landlord has actual notice or reasonable cause to believe that Tenant has violated, or permitted any violations of any Environmental Law, then Landlord will be entitled to perform its environmental inspection, assessment or audit at any time, notwithstanding the above mentioned annual limitation, and Tenant must reimburse Landlord for the cost or fees incurred for such as Additional Rent.

29.33.4 **Indemnifications**. Landlord agrees to indemnify, defend, protect and hold harmless the Tenant Parties from and against any liability, obligation, damage or costs, including without limitation, attorneys' fees and costs, resulting directly or indirectly from any use, presence, removal or disposal of any Hazardous Materials to the extent such liability, obligation, damage or costs was a result of actions caused or knowingly permitted by Landlord or a Landlord Party. Tenant agrees to indemnify, defend, protect and hold harmless the Landlord Parties from and against any liability, obligation, damage or costs, including without limitation, attorneys' fees and costs, resulting directly or indirectly from any use, presence, removal or disposal of any Hazardous Materials or breach of any provision of this section, to the extent such liability, obligation, damage or costs was a result of actions caused or permitted by Tenant or a Tenant Party.

29.34 **No Discrimination**. Tenant covenants by and for itself, its heirs, executors, administrators and assigns, and all persons claiming under or through Tenant, and this Lease is made and accepted upon and subject to the following conditions: that there shall be no discrimination against or segregation of any person or group of persons, on account of race, color, creed, sex, religion, marital status, ancestry or national origin in the leasing, subleasing, transferring, use, or enjoyment of the Premises, nor shall Tenant itself, or any person claiming under or through Tenant, establish or permit such practice or practices of discrimination or segregation with reference to the selection, location, number, use or occupancy, of tenants, lessees, sublessees, subtenants or vendees in the Premises.

ARTICLE 30

LETTER OF CREDIT

30.1 **Delivery of Letter of Credit**. Tenant shall deliver to Landlord, concurrently with the mutual execution of this Lease, an unconditional, clean, irrevocable letter of credit or an amendment to the existing "L-C" (as that term is defined in Section 30.1 of the Carmel Valley Corporate Center Lease) (the amendment to the existing L-C (along with the underlying existing L-C) or the aforementioned new letter of credit (as the case may be) shall be referred to as the "**L-C**") in the amount set forth in Section 30.3, below (the "**L-C Amount**"), which L-C shall be issued by a money-center, solvent, and nationally recognized bank (a bank which accepts deposits, maintains accounts, has a local San Diego, California office which will negotiate a letter of credit, and whose deposits are insured by the FDIC) reasonably acceptable to Landlord (such approved, issuing bank being referred to herein as the "**Bank**"), which Bank must have a short term Fitch Rating which is not less than "F1," and a long term Fitch Rating which is not less than "A" (or, in the event such Fitch Ratings are no longer available, a comparable rating from Standard and Poor's Professional Rating Service or Moody's Professional Rating Service) (collectively, the "**Bank's Credit Rating Threshold**"), and which new letter of credit satisfying the aforementioned L-C requirement shall be in the form of **Exhibit H**, attached hereto. Tenant shall pay all expenses, points and/or fees incurred by Tenant in obtaining the L-C. The L-C shall (i) be "callable" at sight, irrevocable and unconditional, (ii) be maintained in effect, whether through renewal or extension, for the period commencing on the date of this Lease and continuing until the date (the "**L-C Expiration Date**") that is no less than one hundred (100) days after the expiration of the Lease Term, as the same may be extended, and Tenant shall deliver a new L-C or certificate of renewal or extension to, Landlord at least thirty (30) days prior to the expiration of the L-C then held by Landlord, without any action whatsoever on the part of Landlord, (iii) be fully assignable by Landlord, its successors and assigns, (iv) permit partial draws and multiple presentations and drawings, and (v) be otherwise subject to the Uniform Customs and Practices for Documentary Credits (1993-Rev), International Chamber of Commerce Publication #500, or the International Standby Practices-ISP 98, International Chamber of Commerce Publication #590. Landlord, or its then managing agent, shall have the right to draw down an amount up to the face amount of the L-C if any of the following shall have occurred or be applicable: (A) such amount is due to Landlord under the terms of this Lease as a result of a default which occurs under this Lease, or as a result of a termination of this Lease, or (B) Tenant has filed a voluntary petition under the U.S. Bankruptcy Code or any state bankruptcy code (collectively, "**Bankruptcy Code**"), or (C) an involuntary petition has been filed against Tenant under the Bankruptcy Code, or (D) the Bank has notified Landlord that the

L-C will not be renewed or extended through the L-C Expiration Date, or (E) Tenant is placed into receivership or conservatorship, or becomes subject to similar proceedings under Federal or State law, or (F) Tenant executes an assignment for the benefit of creditors, or (G) any of the Bank's Fitch Ratings (or other comparable ratings to the extend the Fitch Ratings are no longer available) have been reduced below the Bank's Credit Rating Threshold and Tenant has failed to provide Landlord with a replacement letter of credit, conforming in all respects to the requirements of this Article 30, in the amount of the applicable L-C Amount, within ten (10) days following Landlord's written demand therefor (with no other notice or cure or grace period being applicable thereto, notwithstanding anything in this Lease to the contrary) (each of the foregoing being an "**L-C Draw Event**"). The L-C shall be honored by the Bank regardless of whether Tenant disputes Landlord's right to draw upon the L-C.

30.2 **Application of L-C**. Tenant hereby acknowledges and agrees that Landlord is entering into this Lease in material reliance upon the ability of Landlord to draw upon the L-C upon the occurrence of any L-C Draw Event. In the event of any L-C Draw Event, Landlord may, but without obligation to do so, and without notice to Tenant, draw upon the L-C, in part or in whole, to cure any such L-C Draw Event and/or to compensate Landlord for any and all damages of any kind or nature sustained, or which Landlord reasonably estimates that it will sustain, resulting from Tenant's breach or default of the Lease or other L-C Draw Event and/or to compensate Landlord for any and all damages arising out of, or incurred in connection with, the termination of this Lease, including, without limitation, those specifically identified _ in Section 1951.2 of the California Civil Code. The use, application or retention of the L-C, or any portion thereof, by Landlord should not prevent Landlord from exercising any other right or remedy provided by this Lease or by any applicable law, it being intended that Landlord shall not first be required to proceed against the L-C, and such L-C shall not operate as a limitation on any recovery to which Landlord may otherwise be entitled. Tenant agrees not in interfere in any way with payment to Landlord of the proceeds of the L-C, either prior to or following a "draw" by Landlord of any portion of the L-C, regardless of whether any dispute exists between Tenant and Landlord as to Landlord's right to draw upon the L-C. No condition or term of this Lease shall be deemed to render the L-C conditional to justify the issuer of the L-C in failing to honor a drawing upon such L-C in a timely manner. Tenant agrees and acknowledges that (i) the L-C constitutes a separate and independent contract between Landlord and the Bank, (ii) Tenant is not a third party beneficiary of such contract, (iii) Tenant has no property interest whatsoever in the L-C or the portions thereof, and (iv) in the event Tenant becomes a debtor under any chapter of the Bankruptcy Code, Tenant is placed into receivership or conservatorship, and/or there is an event of a receivership, conservatorship, or a bankruptcy filing by, or on behalf of, Tenant, neither Tenant, nor any trustee, nor Tenant's bankruptcy estate shall have any right to restrict or limit Landlord's claim and/or rights to the L-C and/or the proceeds thereof by application of Section 5O2(b)(6) of the U.S. Bankruptcy Code or otherwise.

30.3 **L-C Amount; Termination of L-C Requirement; Maintenance of L-C by Tenant**.

30.3.1 **L-C Amount**.

30.3.1.1 **In General**. The starting L-C Amount shall be equal to the amount set forth in Section 9 of the Summary.

30.3.1.2 **Conditional Increase of L-C Amount**. Landlord and Tenant hereby acknowledge and agree that the L-C Amount is subject to increase during the Lease Term at the end of (***x***) the first (1st) twelve (12) full calendar months of the initial Lease Term, (***y***) the second (2nd) twelve (12) full calendar months of the initial Lease Term (*i.e.*, the last day of the twenty-fourth (24th) full calendar month of the initial Lease Term), and (***z***) the third twelve (12) full calendar months of initial Lease Term (*i.e.*, the last day of the thirty-sixth (36th) full calendar month of the initial Lease Term) (each of the time periods identified in the foregoing items (***x***), (***y***) and (***z***) shall be referred to as an "**L-C Review Period**"). While the starting L-C Amount shall be equal to the amount set forth in Section 30.3.1.1 above, following the completion of each L-C Review Period, the L-C Amount shall be subject to increase pursuant to this Section 30.3.1.2 based on the Tenant's cash and short-term investments as of the completion of each such L-C Review Period. In the event that as of the last day of any of the L¬C Review Periods set forth above, the amount of Tenant's cash and short-term investments is less than […***…] Dollars ($[…***…]), then the L-C Amount shall be automatically increased by Tenant by an amount equal to […***…] Dollars ($[…***…]) (and Tenant shall be immediately required to deliver an amendment to the L-C to Landlord documenting such increase in the L-C Amount); provided, however, in no event shall the L-C Amount exceed a total amount equal to […***…] Dollars ($[…***…]). Tenant shall, within fifteen (15) days following the end of each L-C Review Period, deliver to the Landlord the appropriate financial documentation evidencing Tenant's cash and short-term investments as of the end of the particular L-C Review Period.

30.3.1.3 **Termination of L-C Requirement**. Notwithstanding any provision to the contrary contained in this Lease, in the event the Tenant becomes a publicly traded company on either the New York Stock Exchange (NYSE) or the NASDAQ, Tenant shall no longer be required to maintain an L-C pursuant to the provisions of this Article 30, and the L¬C requirements contained in this Article 30 shall be deemed waived for so long as Tenant continues to remain a publicly traded company on either of the aforementioned stock exchanges.

30.3.2 **In General**. If, as a result of any drawing by Landlord of all or any portion of the L-C, the amount of the L-C shall be less than the L-C Amount, Tenant shall, within five (5) days thereafter, provide Landlord with additional letter(s) of credit in an amount equal to the deficiency, and any such additional letter(s) of credit shall comply with all of the provisions of this Article 30. Tenant further covenants and warrants that it will neither assign nor encumber the L-C or any part thereof and that neither Landlord nor its successors or assigns will be bound by any such assignment, encumbrance, attempted assignment or attempted encumbrance. Without limiting the generality of the foregoing, if the L-C expires earlier than the L-C Expiration Date, Landlord will accept a renewal thereof (such renewal letter of credit to be in effect and delivered to Landlord, as applicable, not later than thirty (30) days prior to the expiration of the L-C), which shall be irrevocable and automatically renewable as above provided through the L-C Expiration Date upon the same terms as the expiring L-C or such other terms as may be acceptable to Landlord in its sole discretion. If Tenant exercises its option to extend the Lease Term pursuant to Section 2.2 of this Lease then, not later than thirty (30) days prior to the commencement of the Option Term, Tenant shall deliver to Landlord a new L-C or certificate of renewal or extension evidencing the L-C Expiration Date as one hundred twenty (120) days after the expiration of the applicable Option Term. However, if the L-C is not timely renewed, or if Tenant fails to maintain the L-C in the amount and in accordance with the terms

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set forth in this Article 30, Landlord shall have the right to present the L-C to the Bank in accordance with the terms of this Article 30, and the proceeds of the L-C may be applied by Landlord against any Rent payable by Tenant under this Lease that is not paid when due and/or to pay for all losses and damages that Landlord has suffered or that Landlord reasonably estimates that it will suffer as a result of any breach or default by Tenant under this Lease. In the event Landlord elects to exercise its rights under the foregoing item (x), (I) any unused proceeds shall constitute the property of Landlord (and not Tenant's property or, in the event of a receivership, conservatorship, or a bankruptcy filing by Tenant, property of such receivership, conservatorship, or Tenant's bankruptcy estate) and need not be segregated from Landlord's other assets, and (II) Landlord agrees to pay to Tenant within thirty (30) days after the L-C Expiration Date the amount of any proceeds of the L-C received by Landlord and not applied against any Rent payable by Tenant under this Lease that was not paid when due or used to pay for any losses and/or damages suffered by Landlord (or reasonably estimated by Landlord that it will suffer) as a result of any breach or default by Tenant under this Lease; provided, however, that if prior to the L-C Expiration Date a voluntary petition is filed by Tenant, or an involuntary petition is filed against Tenant by any of Tenant's creditors, under the Bankruptcy Code, then Landlord shall not be obligated to make such payment in the unused L-C proceeds until either all preference issues relating to payments under this Lease have been resolved in such bankruptcy or reorganization case or such bankruptcy or reorganization case has been dismissed.

30.4 **Transfer and Encumbrance**. The L-C shall also provide that Landlord may, at any time and without notice to Tenant and without first obtaining Tenant's consent thereto, transfer (one or more times) all or any portion of its interest in and to the L-C to another party, person, or entity, regardless of whether or not such transfer is from or as a part of the assignment by Landlord of its rights and interest in and to this Lease. In the event of a transfer of Landlord's interest in and under this Lease, Landlord shall transfer the L-C, in whole or in part, to the transferee and thereupon Landlord shall, without any further agreement between the parties, be released by Tenant from all liability therefor, and it is agreed that the provisions hereof shall apply to every transfer or assignment of the whole of said L-C to a new landlord. In connection with any such transfer of the L-C by Landlord, Tenant shall, at Tenant's sole cost and expense, execute and submit to the Bank such applications, documents and instruments as may be necessary to effectuate such transfer and, Tenant shall be responsible for paying the Bank's transfer and processing fees in connection therewith.

30.5 **L-C Not a Security Deposit**. Landlord and Tenant (1) acknowledge and agree that in no event or circumstance shall the L-C or any renewal thereof or substitute therefor or any proceeds thereof be deemed to be or treated' as a "security deposit" under any law applicable to security deposits in the commercial context, including, but not limited to, Section 1950.7 of the California Civil Code, as such Section now exists or as it may be hereafter amended or succeeded (the "**Security Deposit Laws**"), (2) acknowledge and agree that the L-C (including any renewal thereof or substitute therefor or any proceeds thereof) is not intended to serve as a security deposit, and the Security Deposit Laws shall have no applicability or relevancy thereto, and (c) waive any and all rights, duties and obligations that any such party may now, or in the future will, have relating to or arising from the Security Deposit Laws. Tenant hereby irrevocably waives and relinquishes the provisions of Section 1950.7 of the California Civil Code and any successor statue, and all other provisions of law, now or hereafter in effect, which (x) establish the time frame by which a landlord must refund a security deposit under a lease,

and/or (y) provide that a landlord may claim from a security deposit only those sums reasonably necessary to remedy defaults in the payment of rent, to repair damage caused by a tenant or to clean the premises, it being agreed that Landlord may, in addition, claim those sums specified in this Article 30 and/or those sums reasonably necessary to (a) compensate Landlord for any loss or damage caused by Tenant's breach of this Lease, including any damages Landlord suffers following termination of this Lease, and/or (b) compensate Landlord for any and all damages arising out of, or incurred in connection with, the termination of this Lease, including, without limitation, those specifically identified in Section 1951.2 of the California Civil Code.

30.6 **Non-Interference by Tenant**. Tenant agrees not to interfere in any way with any payment to Landlord of the proceeds of the L-C, either prior to or following a "draw" by Landlord of all or any portion of the L-C, regardless of whether any dispute exists between Tenant and Landlord as to Landlord's right to draw down all or any portion of the L-C. No condition or term of this Lease shall be deemed to render the L-C conditional and thereby afford the Bank a justification for failing to honor a drawing upon such L-C in a timely manner.

30.7 **Waiver of Certain Relief**. Tenant unconditionally and irrevocably waives (and as an independent covenant hereunder, covenants not to assert) any right to claim or obtain any of the following relief in connection with the L-C:

30.7.1 A temporary restraining order, temporary injunction, permanent injunction, or other order that would prevent, restrain or restrict the presentment of sight drafts drawn under any L-C or the Bank's honoring or payment of sight draft(s); or

30.7.2 Any attachment, garnishment, or levy in any manner upon either the proceeds of any L-C or the obligations of the Bank (either before or after the presentment to the Bank of sight drafts drawn under such L-C) based on any theory whatever.

30.8 **Remedy for Improper Drafts**. Tenant's sole remedy in connection with the improper presentment or payment of sight drafts drawn under any L-C shall be the right to obtain from Landlord a refund of the amount of any sight draft(s) that were improperly presented or the proceeds of which were misapplied, together with interest at the Interest Rate and reasonable actual out-of-pocket attorneys' fees, provided that at the time of such refund, Tenant increases the amount of such L-C to the amount (if any) then required under the applicable provisions of this Lease. Tenant acknowledges that the presentment of sight draws drawn under any L-C, or the Bank's payment of sight drafts drawn under such L-C, could not under any circumstances cause Tenant injury that could not be remedied by an award of money damages, and that the recovery of money damages would be an adequate remedy therefor. In the event Tenant shall be entitled to a refund as aforesaid and Landlord shall fail to make such payment within ten (10) business days after demand, Tenant shall have the right to deduct the amount thereof together with interest thereon at the Interest Rate from the next installment(s) of Base Rent.

30.9 **Notices to Bank**. Tenant shall not request or instruct the Bank of any L-C to refrain from paying sign draft(s) drawn under such L-C.

[*Signature page immediately follows*.]

IN WITNESS WHEREOF, Landlord and Tenant have caused this Lease to be executed the day and date first above written.

"LANDLORD":

KILROY REALTY, L.P.,
a Delaware limited partnership

BY: Kilroy Realty Corporation,
a Maryland corporation,
general partner

By: /s/ Jeffrey C. Hawken
Name: Jeffrey C. Hawken
Its: Executive Vice President
Chief Operating Officer

By: /s/ John T. Fucci
Name: John T. Fucci
Its: Sr. Vice President Asset Management

"TENANT":

TRION WORLDS, INC.,
a Delaware corporation

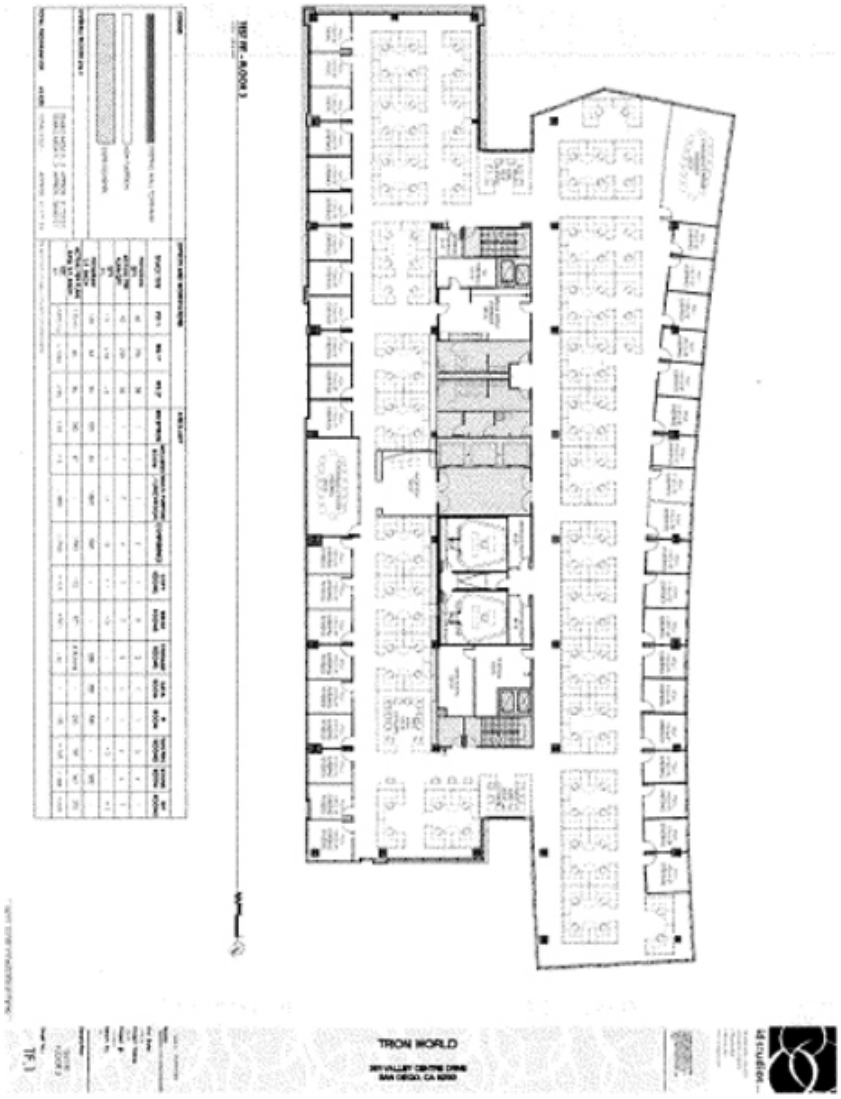
By: /s/ Ken Owyang
Name: Ken Owyang
Its: CFO

By: /s/ Lars Buttler
Name: Lars Buttler
Its: CEO

EXHIBIT A

KILROY CENTRE DEL MAR

OUTLINE OF PREMISES/SPACE PLAN



TRION WORLD
id studios

EXHIBIT A-1

KILROY CENTRE DEL MAR

PROJECT SITE PLAN

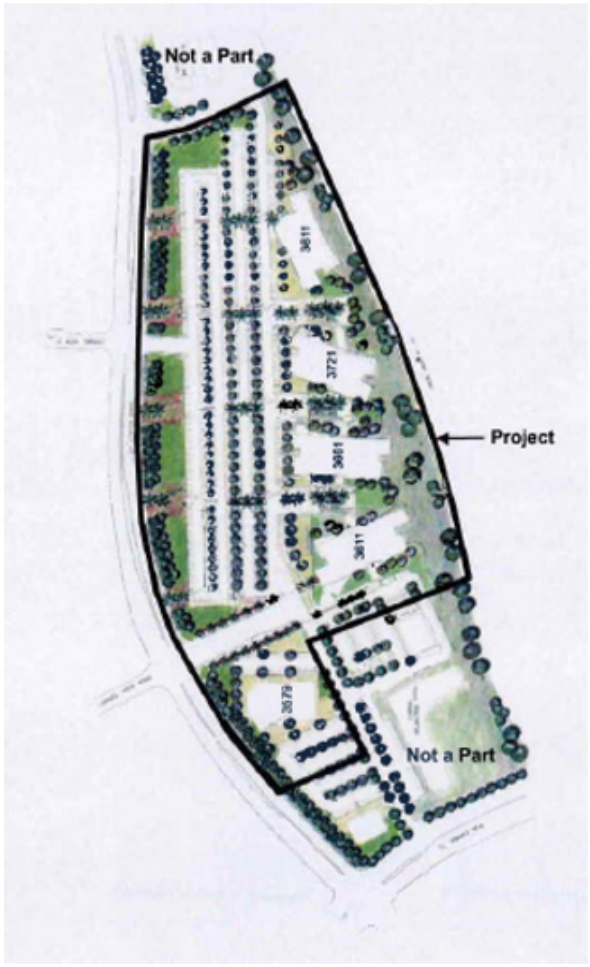


EXHIBIT B

KILROY CENTRE DEL MAR

WORK LETTER AGREEMENT

This Work Letter Agreement shall set forth the terms and conditions relating to the construction of the improvements in the Premises. This Work Letter Agreement is essentially organized chronologically and addresses the issues of the construction of the Premises, in sequence, as such issues will arise during the actual construction of the Premises. All references in this Work Letter Agreement to Articles or Sections of "this Lease" shall mean the relevant portion of Articles 1 through 30 of the Office Lease to which this Work Letter Agreement is attached as **Exhibit B** and of which this Work Letter Agreement forms a part, and all references in this Work Letter Agreement to Sections of "this Work Letter Agreement" shall mean the relevant portion of Sections 1 through 6 of this Work Letter Agreement.

ARTICLE 1

IMPROVEMENTS

Using Building standard materials, components and finishes, Landlord shall cause the installation and/or construction of the improvements in the Premises (the "**Improvements**") pursuant to that certain space plan attached to this Lease as **Exhibit A** (the "**Space Plan**"). Other than as expressly contemplated by Section 3.1 below, Tenant shall make no changes, additions or modifications to the Improvements or the Space Plan or require the installation of any "Non-Conforming Improvements" (as that term is defined in Article 2, below), without the prior written consent of Landlord, which consent may be withheld in Landlord's sole discretion if such change or modification would directly or indirectly delay the "**Substantial Completion**" (as that term is defined in Section 5.1, below) of the Improvements or impose any additional costs. Notwithstanding the foregoing or any contrary provision of this Lease, all Improvements shall be deemed Landlord's property under the terms of this Lease. Notwithstanding any provision to the contrary contained in this Work Letter Agreement, in no event shall the cost of the Improvements exceed a total amount equal to […***…] Dollars ($[…***…]) (*i.e.*, […***…] Dollars ($[…***…]) per each of the rentable square feet of the Premises) (the "**Landlord Contribution Amount**"). All costs in excess of the Landlord Contribution Amount shall be paid to Landlord by Tenant in advance within five (5) days following Tenant's receipt of a request therefor. All such funds provided by Tenant shall be disbursed by Landlord and exhausted prior to disbursement of the Landlord Contribution Amount. Notwithstanding any provision to the contrary contained in this Lease or this Work Letter, but except as expressly provided in Section 6.8 below, in no event shall the Landlord be obligated to pay (via the Landlord Contribution Amount or otherwise) for any moving costs or expenses or any costs or expenses associated with the purchase, installation, operation or maintenance of any furniture, fixtures, equipment, art, cabling, audio/visual equipment, access controls, security equipment and/or office signage.

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ARTICLE 2

OTHER IMPROVEMENTS; IMPROVEMENTS CHANGE

Notwithstanding anything to the contrary contained herein, Tenant shall be responsible for the cost of any items not identified on the Space Plan and/or any items requiring other than Building standard materials, components or finishes (collectively, the "**Non-Conforming Improvements**"). In the event Tenant desires such Non-Conforming Improvements, Tenant shall deliver written notice (the "**Change Notice**") of the same to Landlord, setting forth in detail the Non-Conforming Improvements (the "**Improvements Change**"). Landlord shall, following receipt of a Change Notice related to an Improvements Change, either (i) approve the Improvements Change, or (ii) disapprove the Improvements Change. In the event that Improvements Change is approved, and incorporated in the Final Working Drawings or the Improvements, any additional costs which arise in connection with any such Improvements Change shall be paid by Tenant to Landlord in cash, in advance, upon Landlord's request (including but not limited to all costs incurred by Landlord in connection with its review of the Change Notice and any related documents) (all such costs shall collectively be referred to as the "**Change Amount**"). Any such amounts required to be paid by Tenant shall be disbursed by Landlord prior to any Landlord provided funds for the costs of construction of the Improvements. In the event Tenant fails to pay the Change Amount, then Landlord may, at its option, cease work in the Premises until such time as Landlord receives payment of such portion of the Change Amount (and such failure to deliver shall be treated as a Tenant Delay, as that term is defined in Section 5.2 below).

ARTICLE 3

CONSTRUCTION DRAWINGS,

3.1 **Final Working Drawings**. Within twenty (20) days following the full execution and delivery of this Lease by Landlord and Tenant, Tenant shall cooperate and coordinate with the Landlord and any architect and/or engineers retained by Landlord in order to allow such parties to complete the architectural and engineering drawings for the Premises based on the Space Plan, and which drawings shall be consistent with, and a logical extension of, the Space Plan. The final architectural working drawings shall be in a form to allow subcontractors to bid on the work and to obtain all applicable permits (collectively, the "**Final Working Drawings**").

3.2 **Permits**. The Final Working Drawings shall be approved by Landlord (the "**Approved Working Drawings**") prior to the commencement of the construction of the Improvements. Landlord shall submit the Approved Working Drawings to the appropriate municipal authorities for all applicable building and other permits necessary to allow Landlord to commence and fully complete the construction of the Improvements; (the "**Permits**"). No changes, modifications or alterations in the Approved Working Drawings may be made without the prior written consent of Landlord, provided that Landlord may withhold its consent, in its sole discretion, to any change in the Approved Working Drawings if such change would directly or indirectly delay the "Substantial Completion" of the Premises as that term is defined in Section 5.1 of this Work Letter Agreement, or otherwise materially increase the costs of the

Improvements (unless Tenant agrees to bear such increased cost). Any such foregoing cost increases shall also be deemed a component of the Change Amount.

3.3 **Contractor's Warranties and Guaranties**. Landlord hereby assigns to Tenant all warranties and guaranties by the contractor who constructs the Improvements the "**Contractor**") relating to the Improvements, and Tenant hereby waives all claims against Landlord relating to or arising out of the design and construction of the Improvements and/or Non-Conforming Improvements.

ARTICLE 4

TENANT'S AGENTS

Tenant hereby protects, defends, indemnifies and holds Landlord harmless for any loss, claims, damages or delays arising from the actions of Tenant's space planner/architect and/or any separate contractors, subcontractors or consultants on the Premises or in the Building.

ARTICLE 5

COMPLETION OF THE IMPROVEMENTS; LEASE COMMENCEMENT DATE

5.1 **Ready for Occupancy**. The Premises shall be deemed "**Ready for Occupancy**" upon the Substantial Completion of the Improvements. For purposes of this Lease, "**Substantial Completion**" of the Improvements shall occur upon the completion of construction of the Improvements, with the exception of any punch list items, which punch list items will be completed as soon as reasonably possible. The server room must be fully operational for the Premises to be deemed "Ready for Occupancy".

5.2 **Delay of the Substantial Completion of the Premises**. Except as provided in this Section 5.2, the Lease Commencement Date shall occur as set forth in Article 2 of the Lease and Section 5.1 of this Work Letter Agreement, above. If there shall be a delay or there are delays in the Substantial Completion of the Improvements or in the occurrence of any of the other conditions precedent to the Lease Commencement Date, as set forth in Article 2 of the Lease, as a direct, indirect, partial, or total result of:

5.2.1 Tenant's failure to timely approve any matter requiring Tenant's approval;

5.2.2 A breach by Tenant of the terms of this Work Letter Agreement or the Lease;

5.2.3 Tenant's request for changes in the Improvements;

5.2.4 Any Non-Conforming Improvements;

5.2.5 Tenant's requirement for materials, components, finishes or improvements which are not available in a commercially reasonable time given the anticipated date of

Substantial Completion of the Premises, as set forth in the Lease, or which are different from, or not included in, Landlord's Building standards;

5.2.6 Any failure by Tenant to pay for in cash in advance any costs for Non-Conforming Improvements;

5.2.7 Changes to the base, shell and core work of the Building required by the Improvements or

52.8 Any other acts or omissions of Tenant, or its agents, or employees;

then, notwithstanding anything to the contrary set forth in the Lease or this Work Letter Agreement and regardless of the actual date of the Substantial Completion of the Improvements, the Substantial Completion of the Improvements shall be deemed to be the date the Substantial Completion of the Improvements would have occurred if no Tenant delay or delays, as set forth above, had occurred.

ARTICLE 6

MISCELLANEOUS

6.1 **Tenant's Entry Into the Premises Prior to Substantial Completion**. Provided that Tenant and its agents do not interfere with the construction of the Improvements, Tenant shall have reasonable access to the Premises prior to the Substantial Completion of the Improvements for the sole purpose of Tenant installing equipment, furniture, or fixtures (including Tenant's data and telephone equipment) in the Premises. Prior to Tenant's entry into the Premises as permitted by the terms of this Section 6.1, Tenant shall submit a schedule to Landlord and Contractor, for their approval, which schedule shall detail the timing and purpose of Tenant's entry. Tenant shall hold Landlord harmless from and indemnify, protect and defend Landlord against any loss or damage to the Building or Premises and against injury to any persons caused by Tenant's actions pursuant to this Section 6.1.

6.2 **Tenant's Representative**. Tenant has designated Nick Beliaeff as its sole representative with respect to the matters set forth in this Work Letter Agreement (whose e-mail address for the purposes of this Work Letter Agreement is nick@trionworlds.com), who, until further notice to Landlord, shall have full authority and responsibility to act on behalf of the Tenant as required in this Work Letter Agreement.

6.3 **Landlord's Representative**. Landlord has designated Mr. Jake Brehm as its sole representative with respect to the matters set forth in this Work Letter Agreement (whose e-mail address for the purposes of this Work Letter Agreement is jbrehm@kilroyrealty.com), who, until further notice to Tenant, shall have full authority and responsibility to act on behalf of the Landlord as required in this Work Letter Agreement.

6.4 **Tenant's Agents**. All subcontractors, laborers, materialmen, and suppliers retained directly by Tenant shall all be union labor in compliance with the master labor agreements existing between trade unions and the Southern California Chapter of the Associated General Contractors of America.

6.5 **Time of the Essence in This Work Letter Agreement**. Unless otherwise indicated, all references herein to a "number of days" shall mean and refer to calendar days. In all instances where Tenant is required to approve or deliver an item, if no written notice of approval is given or the item is not delivered within the stated time period, at Landlord's sole option, at the end of such period the item shall automatically be deemed approved or delivered by Tenant and the next succeeding time period shall commence.

6.6 **Tenant's Lease Default**. Notwithstanding any provision to the contrary contained in the Lease or this Work Letter Agreement, if any default by Tenant under the Lease or this Work Letter Agreement (including, without limitation, any failure by Tenant to fund in advance the costs for any Non-Conforming Improvements) occurs, then (i) in addition to all other rights and remedies granted to Landlord pursuant to the Lease, Landlord shall have the right to cause the cessation of construction of the Improvements (in which case, Tenant shall be responsible for any delay in the Substantial Completion of the Improvements and any costs occasioned thereby), and (ii) all other obligations of Landlord under the terms of the Lease and this Work Letter Agreement shall be forgiven until such time as such default is cured pursuant to the terms of this Lease.

6.7 **Electronic Approvals**. Notwithstanding any provision to the contrary contained in the Lease or this Work Letter Agreement, Landlord may, in Landlord's sole and absolute discretion, transmit or otherwise deliver any of the approvals required under this Work Letter Agreement via electronic mail to Tenant's representative identified in Section 6.1 of this Work Letter Agreement, or by any of the other means identified in Section 29.18 of this Lease.

6.8 **Data Cabling/Moving Allowance (Remaining Unused Landlord Contribution Amount)**. As set forth in Section 6.1 above, Tenant shall have the right to install voice, data and other information technology ("IT") cabling ("**Data Cabling**"), at its sole cost and expense (but subject to the following terms of this Section 6.8), and incur, at its sole cost and expense (but subject to the following terms of this Section 6.8), reasonable out-of-pocket moving costs in connection with its relocation from the CVCC Premises to the Premises (the "**Moving Costs**"). All such Data Cabling shall be installed in the Premises subject to the terms and conditions of Article 8 of the Lease. Notwithstanding the foregoing, following the Substantial Completion of the Improvements (and the disbursement of the Landlord Contribution Amount in connection with the completion of the Improvements (which disbursements shall include, but not be limited to, those related to the performance of punch-list items pertaining to the Improvements)), Tenant shall be entitled to a one-time disbursement of any then-remaining (*i.e.*, after the Improvements' have been fully paid for) portion of the Landlord Contribution Amount not to exceed a total of […***…] Dollars per each rentable square foot of the Premises (*i.e.*, up to a total of […***…] Dollars ($[…***…])) (which remaining portion of the Landlord Contribution Amount (if any) shall be referred to herein as the "**Data Cabling/Moving Allowance**") for costs relating to the design and installation of Tenant's Data Cabling and Tenant's Moving Costs. In no event shall any of the Data Cabling/Moving Allowance be used to pay for Tenant's furniture or other items of personal property. The Data Cabling/Moving Allowance will be disbursed by Landlord in accordance with Landlord's standard disbursement procedures, including, without limitation, following Landlord's receipt of (i) evidence (*i.e.*, invoices or other documentation reasonably satisfactory to Landlord) of payment for the Data Cabling and/or Moving Costs, and (ii) fully executed, unconditional lien

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releases from all contractors, subcontractors, laborers, materialmen, and suppliers used by Tenant in connection with the Data Cabling. In no event shall Landlord be obligated to disburse any portion of the Data Cabling/Moving Allowance subsequent to December 31, 2013, nor shall Landlord be obligated to disburse any amount in excess of the Data Cabling/Moving Allowance in connection with the installation of the Data Cabling and/or the reimbursement for Moving Costs. No portion of the Data Cabling/Moving Allowance, if any, remaining after the installation of the Data Cabling/payment of Moving Costs shall be available for use by Tenant (except as set forth in Section 6.9 below).

6.9 **Tenant's Construction Consultant**. Tenant may, at Tenant's option, elect to retain a construction consultant to assist Tenant in connection with the construction of the Improvements pursuant to the terms of this Work Letter (the "**Construction Consultant**"), at its sole cost and expense (but subject to the following terms of this Section 6.9). Any and all costs associated with Tenant's retention of the Construction Consultant shall be referred to herein as the "**Construction Consultant Costs**." Notwithstanding the foregoing, following the Substantial Completion of the Improvements (and the disbursement of the Landlord Contribution Amount in connection with the completion of the Improvements (which disbursements shall include, but not be limited to, those related to the performance of punch-list items pertaining to the Improvements) and the disbursement of the Data Cabling/Moving Allowance (if any)), Tenant shall be entitled to a one-time disbursement of any then-remaining (*i.e.*, after the Improvements, the Data Cabling and the Moving Costs have been fully paid for pursuant to the terms of this Work Letter) portion of the Landlord Contribution Amount not to exceed a total of […***…] ([…***…]%) of the hard costs incurred by Landlord in constructing the Improvement pursuant to the terms hereof (which remaining portion of the Landlord Contribution Amount (if any) following the disbursement of any Data Cabling/Moving Allowance shall be referred to herein as the "**Construction Consultant Allowance**") for the Construction Consultant Costs. In no event shall any of the Construction Consultant Allowance be used to pay for Tenant's furniture or other items of personal property. The Construction Consultant Allowance will be disbursed by Landlord in accordance with Landlord's standard disbursement procedures, including, without limitation, following Landlord's receipt of evidence (*i.e.*, invoices or other documentation reasonably satisfactory to Landlord) of payment for the Construction Consultant Costs. In no event shall Landlord be obligated to disburse any portion of the Construction Consultant Allowance subsequent to December 31, 2013, nor shall Landlord be obligated to disburse any amount in excess of the Construction Consultant Allowance in connection with the reimbursement of Construction Consultant Costs. No portion of the Construction Consultant Allowance, if any, remaining after the payment of the Construction Consultant Costs shall be available for use by Tenant.

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EXHIBIT C

KILROY CENTRE DEL MAR

FORM OF NOTICE OF LEASE TERM DATES

To: _____
_____
_____
_____

Re: Office Lease dated _____, 201__ between _____, a _____ ("Landlord"), and _____, a _____ ("Tenant") concerning Suite _____ on floor(s) _____ of the office building located at _____, _____, California.

Gentlemen:

In accordance with the Office Lease (the "Lease"), we wish to advise you and/or confirm as follows:

1. The Lease Term shall commence on or has commenced on _____ for a term of _____ ending on _____.

2. Rent commenced to accrue on _____, in the amount of _____.

3. If the Lease Commencement Date is other than the first day of the month, the first billing will contain a pro rata adjustment. Each billing thereafter, with the exception of the final billing, shall be for the full amount of the monthly installment as provided for in the Lease.

4. Your rent checks should be made payable to _____ at _____.

5. The exact number of rentable/usable square feet within the Premises is _____ square feet.

6. Tenant's Share as adjusted based upon the exact number of usable square feet within the Premises is _____%.

"Landlord":

KILROY REALTY, L.P.,
a Delaware limited partnership

By: _____
Its: _____

Agreed to and Accepted
as of _____, 201__.

"Tenant":

_____
a _____

By: _____
Its: _____

EXHIBIT D

KILROY CENTRE DEL MAR

RULES AND REGULATIONS

Tenant shall faithfully observe and comply with the following Rules and Regulations. Landlord shall not be responsible to Tenant for the nonperformance of any of said Rules and Regulations by or otherwise with respect to the acts or omissions of any other tenants or occupants of the Project. In the event of any conflict between the Rules and Regulations and the other provisions of this Lease, the latter shall control.

1. Tenant shall not alter any lock or install any new or additional locks or bolts on any doors or windows of the Premises without obtaining Landlord's prior written consent. Tenant shall bear the cost of any lock changes or repairs required by Tenant. Two keys will be furnished by Landlord for the Premises, and any additional keys required by Tenant must be obtained from Landlord at a reasonable cost to be established by Landlord. Upon the termination of this Lease, Tenant shall restore to Landlord all keys of stores, offices, and toilet rooms, either furnished to, or otherwise procured by, Tenant and in the event of the loss of keys so furnished, Tenant shall pay to Landlord the cost of replacing same or of changing the lock or locks opened by such lost key if Landlord shall deem it necessary to make such changes.

2. All doors opening to public corridors shall be kept closed at all times except for normal ingress and egress to the Premises.

3. Landlord reserves the right to close and keep locked all entrance and exit doors of the Building during such hours as are customary for comparable buildings in the San Diego, California area Tenant, its employees and agents must be sure that the doors to the Building are securely closed and locked when leaving the Premises if it is after the normal hours of business for the Building. Any tenant, its employees, agents or any other persons entering or leaving the Building at any time when it is so locked, or any time when it is considered to be after normal business hours for the Building, may be required to sign the Building register. Access to the Building may be refused unless the person seeking access has proper identification or has a previously arranged pass for access to the Building. Landlord will furnish passes to persons for whom Tenant requests same in writing. Tenant shall be responsible for all persons for whom Tenant requests passes and shall be liable to Landlord for all acts of such persons. The Landlord and his agents shall in no case be liable for damages for any error with regard to the admission to or exclusion from the Building of any person. In case of invasion, mob, riot, public excitement, or other commotion, Landlord reserves the right to prevent access to the Building or the Project during the continuance thereof by any means it deems appropriate for the safety and protection of life and property.

4. No furniture, freight or equipment of any kind shall be brought into the Building without prior notice to Landlord. All moving activity into or out of the Building shall be scheduled with Landlord and done only at such time and in such manner as Landlord designates. Landlord shall have the right to prescribe the weight, size and position of all safes and other heavy property brought into the Building and also the times and manner of moving the same in

and out of the Building. Safes and other heavy objects shall, if considered necessary by Landlord, stand on supports of such thickness as is necessary to properly distribute the weight. Landlord will not be responsible for loss of or damage to any such safe or property in any case. Any damage to any part of the Building, its contents, occupants or visitors by moving or maintaining any such safe or other property shall be the sole responsibility and expense of Tenant.

5. No furniture, packages, supplies, equipment or merchandise will be received in the Building or carried up or down in the elevators, except between such hours, in such specific elevator and by such personnel as shall be designated by Landlord.

6. The requirements of Tenant will be attended to only upon application at the management office for the Project or at such office location designated by Landlord. Employees of Landlord shall not perform any work or do anything outside their regular duties unless under special instructions from Landlord.

7. No sign, advertisement, notice or handbill shall be exhibited, distributed, painted or affixed by Tenant on any part of the Premises or the Building without the prior written consent of the Landlord. Tenant shall not disturb, solicit, peddle, or canvass any occupant of the Project and shall cooperate with Landlord and its agents of Landlord to prevent same.

8. The toilet rooms, urinals, wash bowls and other apparatus shall not be used for any purpose other than that for which they were constructed, and no foreign substance of any kind whatsoever shall be thrown therein. The expense of any breakage, stoppage or damage resulting from the violation of this rule shall be borne by the tenant who, or whose servants, employees, agents, visitors or licensees shall have caused same.

9. Tenant shall not overload the floor of the Premises, nor mark, drive nails or screws, or drill into the partitions, woodwork or drywall or in any way deface the Premises or any part thereof without Landlord’s prior written consent (except for standard picture hanging). Tenant shall not purchase spring water, ice, towel, linen, maintenance or other like services from any person or persons not approved by Landlord.

10. Except for vending machines intended for the sole use of Tenant’s employees and invitees, no vending machine or machines other than fractional horsepower office machines shall be installed, maintained or operated upon the Premises without the written consent of Landlord.

11. Tenant shall not use or keep in or on the Premises, the Building, or the Project any kerosene, gasoline, explosive material, corrosive material, material capable of emitting toxic fumes, or other inflammable or combustible fluid chemical, substitute or material. Tenant shall provide material safety data sheets for any Hazardous Material used or kept on the Premises.

12. Tenant shall not without the prior written consent of Landlord use any method of heating or air conditioning other than that supplied by Landlord.

13. Tenant shall not use, keep or permit to be used or kept, any foul or noxious gas or substance in or on the Premises, or permit or allow the Premises to be occupied or used in a manner offensive or objectionable to Landlord or other occupants of the Project by reason of

noise, odors, or vibrations, or interfere with other tenants or those having business therein, whether by the use of any musical instrument, radio, phonograph, or in any other way. Tenant shall not throw anything out of doors, windows or skylights or down passageways.

14. Tenant shall not bring into or keep within the Project, the Building or the Premises any firearms, animals, birds, aquariums, or, except in areas designated by Landlord, bicycles or other vehicles.

15. No cooking shall be done or permitted on the Premises, nor shall the Premises be used for the storage of merchandise, for lodging or for any improper, objectionable or immoral purposes. Notwithstanding the foregoing, Underwriters' laboratory-approved equipment and microwave ovens may be used in the Premises for heating food and brewing coffee, tea, hot chocolate and similar beverages for employees and visitors, provided that such use is in accordance with all applicable federal, state, county and city laws, codes, ordinances, rules and regulations.

16. The Premises shall not be used for manufacturing or for the storage of merchandise except as such storage may be incidental to the use of the Premises provided for in the Summary. Tenant shall not occupy or permit any portion of the Premises to be occupied as an office for a messenger-type operation or dispatch office, public stenographer or typist, or for the manufacture or sale of liquor, narcotics, or tobacco in any form, or as a medical office, or as a barber or manicure shop, or as an employment bureau without the express prior written consent of Landlord. Tenant shall not engage or pay any employees on the Premises except those actually working for such tenant on the Premises nor advertise for laborers giving an address at the Premises.

17. Landlord reserves the right to exclude or expel from the Project any person who, in the judgment of Landlord, is intoxicated or under the influence of liquor or drugs, or who shall in any manner do any act in violation of any of these Rules and Regulations.

18. Tenant, its employees and agents shall not loiter in or on the entrances, corridors, sidewalks, lobbies, courts, halls, stairways, elevators, vestibules or any Common Areas for the purpose of smoking tobacco products or for any other purpose, nor in any way obstruct such areas, and shall use them only as a means of ingress and egress for the Premises. Furthermore, in no event shall Tenant, its employees or agents smoke tobacco products within the Building or within seventy-five feet (75') of any entrance into the Building or into any other Project building.

19. Tenant shall not waste electricity, water or air conditioning and agrees to cooperate fully with Landlord to ensure the most effective operation of the Building's heating and air conditioning system, and shall refrain from attempting to adjust any controls. Tenant shall participate in recycling programs undertaken by Landlord.

20. Tenant shall store all its trash and garbage within the interior of the Premises. No material shall be placed in the trash boxes or receptacles if such material is of such nature that it may not be disposed of in the ordinary and customary manner of removing and disposing of trash and garbage in San Diego, California without violation of any law or ordinance governing such disposal. All trash, garbage and refuse disposal shall be made only through entry-ways and

elevators provided for such purposes at such times as Landlord shall designate. If the Premises is or becomes infested with vermin as a result of the use or any misuse or neglect of the Premises by Tenant, its agents, servants, employees, contractors, visitors or licensees, Tenant shall forthwith, at Tenant's expense, cause the Premises to be exterminated from time to time to the satisfaction of Landlord and shall employ such licensed exterminators as shall be approved in writing in advance by Landlord:

21. Tenant shall comply with all safety, fire protection and evacuation procedures and regulations established by Landlord or any governmental agency.

22. Any persons employed by Tenant to do janitorial work shall be subject to the prior written approval of Landlord, and while in the Building and outside of the Premises, shall be subject to and under the control and direction of the Building manager (but not as an agent or servant of such manager or of Landlord), and Tenant shall be responsible for all acts of such persons.

23. No awnings or other projection shall be attached to the outside walls of the Building without the prior written consent of Landlord, and no curtains, blinds, shades or screens shall be attached to or hung in, or used in connection with, any window or door of the Premises other than Landlord standard drapes. All electrical ceiling fixtures hung in the Premises or spaces along the perimeter of the Building must be fluorescent and/or of a quality, type, design and a warm white bulb color approved in advance in writing by Landlord. Neither the interior nor exterior of any windows shall be coated or otherwise sunscreened without the prior written consent of Landlord. Tenant shall be responsible for any damage to the window film on the exterior windows of the Premises and shall promptly repair any such damage at Tenant's sole cost and expense. Tenant shall keep its window coverings closed during any period of the day when the sun is shining directly on the windows of the Premises. Prior to leaving the Premises for the day, Tenant shall draw or lower window coverings and extinguish all lights. Tenant shall abide by Landlord's regulations concerning the opening and closing of window coverings which are attached to the windows in the Premises, if any, which have a view of any interior portion of the Building or Building Common Areas.

24. The sashes, sash doors, skylights, windows, and doors that reflect or admit light and air into the halls, passageways or other public places in the Building shall not be covered or obstructed by Tenant, nor shall any bottles, parcels or other articles be placed on the windowsills.

25. Tenant must comply with requests by the Landlord concerning the informing of their employees of items of importance to the Landlord.

26. Tenant must comply with applicable **"NO-SMOKING"** ordinances and all related, similar or successor ordinances, rules, regulations or codes. If Tenant is required under the ordinance to adopt a written smoking policy, a copy of said policy shall be on file in the office of the Building. In addition, no smoking of any substance shall be permitted within the Project except in specifically designated outdoor areas. Within such designated outdoor areas, all remnants of consumed cigarettes and related paraphernalia shall be deposited in ash trays and/or waste receptacles. No cigarettes shall be extinguished and/or left on the ground or any other surface of the Project. Cigarettes shall be extinguished only in ashtrays. Furthermore, in

no event shall Tenant, its employees or agents smoke tobacco products or other substances within any interior areas of the Project or within seventy-five feet (75') of any entrance into the Building or into any other Project building.

27. Tenant hereby acknowledges that Landlord shall have no obligation to provide guard service or other security measures for the benefit of the Premises, the Building or the Project. Tenant hereby assumes all responsibility for the protection of Tenant and its agents, employees, contractors, invitees and guests, and the property thereof, from acts of third parties, including keeping doors locked and other means of entry to the Premises closed, whether or not Landlord, at its option, elects to provide security protection for the Project or any portion thereof. Tenant further assumes the risk that any safety and security devices, services and programs which Landlord elects, in its sole discretion, to provide may not be effective, or may malfunction or be circumvented by an unauthorized third party, and Tenant shall, in addition to its other insurance obligations under this Lease, obtain its own insurance coverage to the extent Tenant desires protection against losses related to such occurrences. Tenant shall cooperate in any reasonable safety or security program developed by Landlord or required by law.

28. All office equipment of any electrical or mechanical nature shall be placed by Tenant in the Premises in settings approved by Landlord, to absorb or prevent any vibration, noise and annoyance.

29. Tenant shall not use in any space or in the public halls of the Building, any hand trucks except those equipped with rubber tires and rubber side guards.

30. No auction, liquidation, fire sale, going-out-of-business or bankruptcy sale shall be conducted in the Premises without the prior written consent of Landlord.

31. No tenant shall use or permit the use of any portion of the Premises for living quarters, sleeping apartments or lodging rooms.

32. Tenant shall not purchase spring water, towels, janitorial or maintenance or other similar services from any company or persons not approved by Landlord. Landlord shall approve a sufficient number of sources of such services to provide Tenant with a reasonable selection, but only in such instances and to such extent as Landlord in its judgment shall consider consistent with the security and proper operation of the Building.

33. Tenant shall install and maintain, at Tenant's sole cost and expense, an adequate, visibly marked and properly operational fire extinguisher next to any duplicating or photocopying machines or similar heat producing equipment, which may or may not contain combustible material, in the Premises.

Landlord reserves the right at any time to change or rescind any one or more of these Rules and Regulations, or to make such other and further reasonable Rules and Regulations as in Landlord's judgment may from time to time be necessary for the management, safety, care and cleanliness of the Premises, Building, the Common Areas and the Project, and for the preservation of good order therein, as well as for the convenience of other occupants and tenants therein. Landlord may waive any one or more of these Rules and Regulations for the benefit of any particular tenants, but no such waiver by Landlord shall be construed as a waiver of such

Rules and Regulations in favor of any other tenant, nor prevent Landlord from thereafter enforcing any such Rules or Regulations against any or all tenants of the Project. Tenant shall be deemed to have read these Rules and Regulations and to have agreed to abide by them as a condition of its occupancy of the Premises.

EXHIBIT E

KILROY CENTRE DEL MAR

FORM OF TENANT'S ESTOPPEL CERTIFICATE'

The undersigned as Tenant under that certain Office Lease (the "Lease") made and entered into as of , 201 by and between as Landlord, and the undersigned as Tenant, for Premises on the floor(s) of the office building located at , , California , certifies as follows:

1. Attached hereto as Exhibit A is a true and correct copy of the Lease and all amendments and modifications thereto. The documents contained in Exhibit A represent the entire agreement between the parties as to the Premises.

2. The undersigned currently occupies the Premises described in the Lease, the Lease Term commenced on , and the Lease Term expires on , and the undersigned has no option to terminate or cancel the Lease or to purchase all or any part of the Premises, the Building and/or the Project.

3. Base Rent became payable on .

4. The Lease is in full force and effect and has not been modified, supplemented or amended in any way except as provided in Exhibit A.

5. Tenant has not transferred, assigned, or sublet any portion of the Premises nor entered into any license or concession agreements with respect thereto except as follows:

6. Tenant shall not modify the documents contained in Exhibit A without the prior written consent of Landlord's mortgagee.

7. All monthly installments of Base Rent, all Additional Rent and all monthly installments of estimated Additional Rent have been paid when due through . The current monthly installment of Base Rent is $.

8. All conditions of the Lease to be performed by Landlord necessary to the enforceability of the Lease have been satisfied and Landlord is not in default thereunder. In addition, the undersigned has not delivered any notice to Landlord regarding a default by Landlord thereunder.

9. No rental has been paid more than thirty (30) days in advance and no security has been deposited with Landlord except as provided in the Lease.

10. As of the date hereof, there are no existing defenses or offsets, or, to the undersigned's knowledge, claims or any basis for a claim, that the undersigned has against Landlord.

11. If Tenant is a corporation or partnership, each individual executing this Estoppel Certificate on behalf of Tenant hereby represents and warrants that Tenant is a duly formed and existing entity qualified to do business in California and that Tenant has full right and authority to execute and deliver this Estoppel Certificate and that each person signing on behalf of Tenant is authorized to do so.

12. There are no actions pending against the undersigned under the bankruptcy or similar laws of the United States or any state.

13. Other than in compliance with all applicable laws and incidental to the ordinary course of the use of the Premises, the undersigned has not used or stored any hazardous substances in the Premises.

14. To the undersigned's knowledge, all improvement work to be performed by Landlord under the Lease has been completed in accordance with the Lease and has been accepted by the undersigned and all reimbursements and allowances due to the undersigned under the Lease in connection with any improvement work have been paid in full.

The undersigned acknowledges that this Estoppel Certificate may be delivered to Landlord or to a prospective mortgagee or prospective purchaser, and acknowledges that said prospective mortgagee or prospective purchaser will be relying upon the statements contained herein in making the loan or acquiring the property of which the Premises are a part and that receipt by it of this certificate is a condition of making such loan or acquiring such property.

Executed at on the day of , 201 .

"Tenant":

_____

_____,

a _____

By: _____

Its: _____

By: _____

Its: _____

EXHIBIT F

KILROY CENTRE DEL MAR

RECOGNITION OF COVENANTS, CONDITIONS, AND RESTRICTIONS

RECORDING REQUESTED BY
AND WHEN RECRODED RETURN TO:

ALLEN MATKINS LECK GAMBLE
MALORY & NATSIS LLP
1901 Avenue of the Stars, 18th Floor
Los Angeles, California 90067
Attention: Anton N. Natsis, Esq.

**RECOGNITION OF COVENANTS,
CONDITIONS, AND RESTRICTIONS**

This Recognition of Covenants, Conditions, and Restrictions (this "**Agreement**") is entered into as of the day of , 201 , by and between ("**Landlord**"), and ("Tenant"), with reference to the following facts:

A. Landlord and Tenant entered into that certain Office Lease Agreement dated , 201 (the "Lease"). Pursuant to the Lease, Landlord leased to Tenant and Tenant leased from Landlord space (the "**Premises**") located in an office building on certain real property described in **Exhibit A** attached hereto and incorporated herein by this reference (the "**Property**").

B. The Premises are located in an office building located on real property which is part of an area owned by Landlord containing approximately ( ) acres of real property located in the City of , California (the "**Project**"), as more particularly described in **Exhibit B** attached hereto and incorporated herein by this reference.

C. Landlord, as declarant, has previously recorded, or proposes to record concurrently with the recordation of this Agreement, a Declaration of Covenants, Conditions, and Restrictions (the "**Declaration**"), dated , 201 , in connection with the Project.

D. Tenant is agreeing to recognize and be bound by the terms of the Declaration, and the parties hereto desire to set forth their agreements concerning the same.

NOW, THEREFORE, in consideration of (a) the foregoing recitals and the mutual agreements hereinafter set forth, and (b) for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows,

1. Tenant's Recognition of Declaration. Notwithstanding that the Lease has been executed prior to the recordation of the Declaration, Tenant agrees to recognize and by bound by all of the terms and conditions of the Declaration.

2. Miscellaneous.

2.1 This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective heirs, estates, personal representatives, successors, and assigns.

2.2 This Agreement is made in, and shall be governed, enforced and construed under the laws of, the state of California.

2.3 This Agreement constitutes the entire understanding and agreements of the parties with respect to the subject matter hereof, and shall supersede and replace all prior understandings and agreements, whether verbal or in writing. The parties confirm and acknowledge that there are no other promises, covenants, understandings, agreements, representations, or warranties with respect to the subject matter of this Agreement except as expressly set forth herein.

2.4 This Agreement is not to be modified, terminated, or amended in any respect, except pursuant to any instrument in writing duly executed by both of the parties hereto.

2.5 In the event that either party hereto shall bring any legal action or other proceeding with respect to the breach, interpretation, or enforcement of this Agreement, or with respect to any dispute relating to any transaction covered by this Agreement, the losing party in such action or proceeding shall reimburse the prevailing party therein for all reasonable costs of litigation, including reasonable attorneys' fees, in such amount as may be determined by the court or other tribunal having jurisdiction, including matters on appeal.

2.6 All captions and heading herein are for convenience and ease of reference only, and shall not be used or referred to in any way in connection with the interpretation or enforcement of this Agreement.

2.7 If any provision of this Agreement, as applied to any party or to any circumstance, shall be adjudged by a court of competent jurisdictions to be void or unenforceable for any reason, the same shall not affect any other provision of this Agreement, the application of such provision under circumstances different form those adjudged by the court, or the validity or enforceability of this Agreement as a whole.

2.8 Time is of the essence of this Agreement.

2.9 The Parties agree to execute any further documents, and take any further actions, as may be reasonable and appropriate in order to carry out the purpose and intent of this Agreement.

2.10 As used herein, the masculine, feminine or neuter gender, and the singular and plural numbers, shall each be deemed to include the others whenever and whatever the context so indicates.

SIGNATURE PAGE OF RECOGNITION OF

COVENANTS, CONDITIONS AND RESTRICTIONS

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement as of the day and year first above written.

"Landlord":

_____,
a _____

By: _____
Its: _____

"Tenant":

_____,
a _____

By: _____
Its: _____
___

By: _____
Its: _____
___

EXHIBIT G

KILROY CENTRE DEL MAR

INTENTIONALLY OMITTED

EXHIBIT H

KILROY CENTRE DEL MAR

FORM OF LETTER OF CREDIT

****PROFORMA WORDING**FOR DISCUSSION ONLY** PLEASE REVIEW CAREFULLY***the verbiage below are only suggestions. If you agree to utilize such suggestive language it will be your sole decision. As a result of which you agree to hold harmless COMERICA BANK from or against all liabilities, including principal, interest, fines, damages, costs and expenses, incurred by or imposed on COMERICA BANK in connection with your use of such suggested verbiage.**

WORDING APPROVED, (APPLICANT).:

DATE:

COMERICA BANK
INTERNATIONAL TRADE SERVICES
2321 ROSECRANS AVE., 5TH FL.
EL SEGUNDO, CA. 90245

FAX NO: (310) 297-2890
SWIFT: MNBDUS6S LAX

DATE OF ISSUE: MMDDYYYY

BENEFICIARY:
Complete Name and Address)

GENTLEMEN:

WE HEREBY OPEN OUR IRREVOCABLE STANDBY LETTER OF CREDIT NO. [INSERT L/C NO.] IN YOUR FAVOR, FOR ACCOUNT OF (APPLICANT'S COMPLETE NAME AND ADDRESS) FOR A SUM NOT EXCEEDING USD (Amount in Words AND 00/100'S U.S. DOLLARS) AVAILABLE BY YOUR DRAFT(S) AT SIGHT DRAWN ON COMERICA BANK, (IN THE FORM ATTACHED HERETO AS ANNEX A) WHEN ACCOMPANIED BY:

1. THE ORIGINAL OF THIS STANDBY LETTER OF CREDIT AND AMENDMENT(S) IF ANY.

2. BENEFICIARY'S STATEMENT ON ITS LETTERHEAD DATED AND SIGNED BY AN OFFICER OR A DULY AUTHORIZED REPRESENTATIVE OF THE BENEFICIARY, INDICATING NAME AND TITLE OF THE SIGNER AND WITH ONE OF THE FOLLOWING ALTERNATIVE WORDINGS:

(1) THE UNDERSIGNED HEREBY CERTIFIES THAT THE LANDLORD, EITHER (A) UNDER THE LEASE (DEFINED BELOW) OR (B) AS A RESULT OF THE TERMINATION OF SUCH LEASE, HAS THE RIGHT TO DRAW DOWN THE AMOUNT OF USD IN ACCORDANCE WITH THE TERMS OF THAT CERTAIN OFFICE LEASE DATED [Insert Lease Date], AS AMENDED (COLLECTIVELY, THE "LEASE"), OR SUCH AMOUNT CONSTITUTES DAMAGES OWING BY THE TENANT UNDER SUCH LEASE TO BENEFICIARY RESULTING FROM THE BREACH OF SUCH LEASE BY THE TENANT THEREUNDER, AND SUCH AMOUNT REMAINS UNPAID AT THE TIME OF THIS DRAWING.

OR

(2) THE UNDERSIGNED HEREBY CERTIFIES THAT BENEFICIARY IS ENTITLED TO DRAW DOWN THE FULL AMOUNT OF LETTER OF CREDIT NO. AS THE RESULT OF THE FILING OF A VOLUNTARY PETITION UNDER THE U.S. BANKRUPTCY CODE OR A STATE BANKRUPTCY CODE BY THE TENANT UNDER THAT CERTAIN OFFICE LEASED DATED [Insert Lease Date], AS AMENDED (COLLECTIVELY, THE "LEASE"), WHICH FILING HAS NOT BEEN DISMISSED AT THE TIME OF THIS DRAWING.

OR

(3) THE UNDERSIGNED HEREBY CERTIFIES THAT BENEFICIARY IS ENTITLED TO DRAW DOWN THE FULL AMOUNT OF LETTER OF CREDIT NO, AS THE RESULT OF AN INVOLUNTARY PETITION HAVING BEEN FILED UNDER THE U.S. BANKRUPTCY CODE OR A STATE BANKRUPTCY CODE AGAINST THE TENANT UNDER THAT CERTAIN OFFICE LEASE DATED, [Insert Lease Date], AS AMENDED (COLLECTIVELY, THE "LEASE"), WHICH FILING HAS NOT BEEN DISMISSED AT THE TIME OF THIS DRAWING.

OR

(4) THE UNDERSIGNED HEREBY CERTIFIES THAT BENEFICIARY IS ENTITLED TO DRAW DOWN THE FULL AMOUNT OF LETTER OF CREDIT NO. AS THE RESULT OF THE REJECTION, OR DEEMED REJECTION, OF THAT CERTAIN OFFICE LEASE DATED [Insert Lease Date], AS AMENDED, UNDER SECTION 365 OF THE U.S. BANKRUPTCY CODE.

SPECIAL CONDITIONS:

ALL SIGNATURES MUST BE MANUALLY EXECUTED IN ORIGINALS.

ALL INFORMATION REQUIRED WHETHER INDICATED BY BLANKS, BRACKETS OR OTHERWISE, MUST BE COMPLETED AT THE TIME OF DRAWING.

PARTIAL DRAWINGS MAY BE MADE UNDER THIS LETTER OF CREDIT, PROVIDED, HOWEVER, THAT EACH SUCH DEMAND THAT IS PAID BY US SHALL REDUCE THE AMOUNT AVAILABLE UNDER THIS LETTER OF CREDIT.

IT IS A CONDITION OF THIS LETTER OF CREDIT THAT IT SHALL BE DEEMED AUTOMATICALLY EXTENDED WITHOUT AMENDMENT FOR A PERIOD OF ONE YEAR FROM THE PRESENT OR ANY FUTURE EXPIRATION DATE, UNLESS AT LEAST (60) SIXTY DAYS PRIOR TO THE CURRENT EXPIRATION DATE WE SEND YOU NOTICE BY COURIER THAT WE ELECT NOT TO EXTEND THIS CREDIT FOR ANY SUCH ADDITIONAL PERIOD. SAID NOTICE WILL BE SENT TO THE ADDRESS INDICATED ABOVE UNLESS A CHANGE OF ADDRESS IS OTHERWISE NOTIFIED BY YOU TO US IN WRITING BY RECEIPTED MAIL OR COURIER. UPON RECEIPT OF SUCH NOTICE, YOU MAY DRAW HEREUNDER BY MEANS OF YOUR SIGHT DRAFT(S) DRAWN ON US AND YOUR SIGNED STATEMENT READING AS FOLLOWS: "WE CERTIFY THAT THIS DRAWING REPRESENTS FUNDS DUE US AS A RESULT OF OUR HAVING RECEIVED NOTIFICATION FROM COMERICA BANK OF ITS INTENTION NOT TO EXTEND STANDBY LETTER OF CREDIT NO. [INSERT L/C NO]. IN NO EVENT, AND WITHOUT FURTHER NOTICE FROM OURSELVES, SHALL THE EXPIRATION DATE BE EXTENDED BEYOND A FINAL EXPIRATION DATE OF MM/DD/YYYY.

THIS LETTER OF CREDIT SETS FORTH IN FULL THE TERMS OF OUR UNDERTAKING AND SUCH UNDERTAKING SHALL NOT BE IN ANY WAY MODIFIED, AMENDED OR AMPLIFIED BY REFERENCE TO ANY DOCUMENT, INSTRUMENT OR AGREEMENT REFERRED TO HEREIN OR IN WHICH THIS LETTER OF CREDIT IS REFERRED TO OR TO WHICH THIS LETTER OF CREDIT RELATES, AND ANY SUCH REFERENCE SHALL NOT BE DEEMED TO INCORPORATE HEREIN BY REFERENCE ANY DOCUMENT, INSTRUMENT OR AGREEMENT.

ALL DRAFTS DRAWN UNDER THIS CREDIT MUST BE MARKED "DRAWN UNDER COMERICA BANK'S LETTER OF CREDIT NO. [INSERT L/C NO.]".

ALL DOCUMENTS MUST BE PRESENTED TO US IN ONE LOT VIA COURIER SERVICE TO: COMERICA BANK INTERNATIONAL TRADE SERVICES, 2321 ROSECRANS AVE., 5TH FL., EL SEGUNDO, CA 90245, ATTN: STANDBY LETTER OF CREDIT TEAM 44.

NOTWITHSTANDING ANYTHING TO THE CONTRARY SET FORTH HEREINABOVE EXCEPT SO FAR AS OTHERWISE EXPRESSLY STATED HEREIN, THIS STANDBY LETTER OF CREDIT IS SUBJECT TO THE "INTERNATIONAL STANDBY PRACTICES" (ISP 98) INTERNATIONAL CHAMBER OF COMMERCE (PUBLICATION NO. 590) (1998 VERSION AND ANY SUBSEQUENT REVISIONS).

WE ENGAGE WITH YOU THAT EACH DRAFT DRAWN UNDER AND IN COMPLIANCE WITH THE TERMS OF THIS CREDIT WILL BE DULY HONORED ON DELIVERY OF THE DOCUMENTS AS SPECIFIED IF PRESENTED AT THIS OFFICE (IDENTIFIED HEREINABOVE) ON OR BEFORE 3:00PM, OR ANY AUTOMATICALLY EXTENDED DATE.

ALL BANKING CHARGES ARE FOR THE APPLICANT'S ACCOUNT.

THIS LETTER OF CREDIT MAY BE TRANSFERRED SUCCESSIVELY IN WHOLE OR IN PART ONLY UP TO THE THEN AVAILABLE AMOUNT IN FAVOR OF A NOMINATED TRANSFEREE ("TRANSFEREE"), ASSUMING SUCH TRANSFER TO SUCH TRANSFEREE IS IN COMPLIANCE WITH ALL APPLICABLE U.S. LAWS AND REGULATIONS. AT THE TIME OF TRANSFER, THE ORIGINAL LETTER OF CREDIT AND ORIGINAL AMENDMENT(S), IF ANY MUST BE SURRENDERED TO US TOGETHER WITH OUR TRANSFER FORM (AVAILABLE UPON REQUEST) AND PAYMENT OF OUR CUSTOMARY TRANSFER FEES BY APPLICANT. IN CASE OF ANY TRANSFER UNDER THIS LETTER OF CREDIT, THE DRAFT AND ANY REQUIRED STATEMENT MUST BE EXECUTED BY THE TRANSFEREE AND WHERE THE BENEFICIARY'S NAME APPEARS WITHIN THIS STANDBY LETTER OF CREDIT, THE TRANSFEREE'S NAME IS AUTOMATICALLY' SUBSTITUTED' THEREFOR.

WE HEREBY AGREE WITH YOU THAT IF DRAFTS ARE PRESENTED TO COMERICA BANK UNDER THIS LETTER OF CREDIT AT OR PRIOR TO [Insert Time – (e.g., 11:00 AM)], ON A BUSINESS DAY, AND PROVIDED THAT SUCH DRAFTS PRESENTED CONFORM TO THE TERMS AND CONDITIONS OF THIS LETTER OF CREDIT, PAYMENT SHALL BE INITIATED BY US IN IMMEDIATELY AVAILABLE FUNDS BY OUR CLOSE OF BUSINESS ON THE SUCCEEDING BUSINESS DAY. IF DRAFTS ARE PRESENTED TO COMERICA BANK UNDER THIS LETTER OF CREDIT AFTER [Insert Time – (e.g., 11:00 AM)], ON A BUSINESS DAY, AND PROVIDED THAT SUCH DRAFTS CONFORM WITH THE TERMS AND CONDITIONS OF THIS LETTER OF CREDIT, PAYMENT SHALL BE INITIATED BY US IN IMMEDIATELY AVAILABLE FUNDS BY OUR CLOSE OF BUSINESS ON THE SECOND SUCCEEDING BUSINESS DAY. AS USED IN THIS LETTER OF CREDIT, "BUSINESS DAY" SHALL MEAN ANY DAY OTHER THAN A SATURDAY, SUNDAY, OR A DAY ON WHICH BANKING INSTITUTIONS IN THE STATE OF CALIFORNIA ARE AUTHORIZED OR REQUIRED BY LAW TO CLOSE. IF THE EXPIRATION DATE FOR THIS LETTER OF CREDIT SHALL EVER FALL ON A DAY WHICH IS NOT A BUSINESS DAY THEN SUCH EXPIRATION DATE SHALL AUTOMATICALLY BE EXTENDED TO THE DATE WHICH IS THE NEXT BUSINESS DAY.

IN THE EVENT THAT THE ORIGINAL OF THIS STANDBY LETTER OF CREDIT IS LOST, STOLEN, MUTILATED, OR OTHERWISE DESTROYED, WE HEREBY AGREE TO ISSUE A DUPLICATE ORIGINAL HEREOF UPON RECEIPT OF A WRITTEN REQUEST FROM YOU AND A CERTIFICATION BY YOU (PURPORTEDLY SIGNED BY YOUR AUTHORIZED REPRESENTATIVE) OF THE LOSS, THEFT, MUTILATION, OR OTHER DESTRUCTION OF THE ORIGINAL HEREOF.

_____

Authorized Signature
COMERICA BANK

[PLEASE ADD AN ANNEX B REGARDING FORM OF TRANSFER]

ANNEX A

SIGHT DRAFT

DATE: _____ REF. NO. _____

ARTICLE 31 AT SIGHT

PAY TO THE ORDER OF _____ US$_____

US DOLLARS _____

"DRAWN UNDER COMERICA BANK, IRREVOCABLE STANDBY LETTER OF CREDIT NUMBER NO. _____ DATED _____ __, 2008"

TO: COMERICA BANK
2321 ROSECRANS AVE., 5TH FL
EL SEGUNDO, CA 90245

_____
(INSERT NAME OF BENEFICIARY)

_____
AUTHORIZED SIGNATURE

GUIDELINES TO PREPARE THE SIGHT DRAFT:

1. **DATE**: ISSUANCE DATE OF DRAFT.
2. **REF. NO.**: YOUR REFERENCE NUMBER, IF ANY.
3. **PAY TO THE ORDER OF**: BENEFICIARY'S NAME
4 **US$**: AMOUNT OF DRAWING IN FIGURES.
5 **US DOLLARS**: AMOUNT OF DRAWING IN WORDS
6. **LETTER OF CREDIT NUMBER**: OUR STANDBY L/C NUMBER THAT PERTAINS TO THE DRAWING.
7. **DATED**: ISSUANCE DATE OF OUR STANDBY L/C.

NOTE: BENEFICIARY'S NAME SHOULD BE PRINTED AT THE BACK OF THE SIGHT DRAFT WITH ENDORSEMENT.

ANNEX B

FORM OF TRANSFER

[PLEASE PROVIDE]

EXHIBIT C

FURNITURE LIST

1	Lot of HON systems furniture		
2	Maple laminate	24x30 return shell	2
3	Maple laminate	24x36 return shell	9
4	Maple laminate	24x42 return shell	12
5	Maple laminate	24x48 return shell	1
6	Maple laminate	30x48 return shell	2
7	Maple laminate	30x60 desk shell	21
8	Maple laminate	30x66 desk shell	50
9	Cherry	30x66 desk shell	2
10	Maple laminate	36x72 bow front desk	2
11	Maple laminate	36x72 desk shell	1
12	Maple laminate	36x24x66 curved shell	6
13	Maple laminate	36 wide/2 high storage cabinet	1
14	Maple laminate	14x47 4 opening bookcase	17
15	Maple laminate	14x47 tall bookcase	1
16	Metal – misc colors	Rolling BBF peds	20
17	Mesh task chair	Black	10
18	Mahogany/Maple	42” round table	4
19	Mahogany	48” round table	1
20	Mahogany	72x36 racetrack table	1
21	Mahogany	42x96 table	1
22	Mahogany	42x96 table	1
23	Mahogany	48x120 table	1
24	Mahogany	54x216 table	1
25	Mahogany	48x144 table	2
26	Mahogany Laminate	60” round table	1
27	Brown wood/glass	60”x60”x60” Triangular table	1
28	Chairs to match table	Fabric/wood	4
29	White refrigerator		1
30	JMG Security Panel		
31	Altronix Panel		
32	HP Color Laserjet printer		5
33	1 lot – server room racks and data cable patch panels, liebert APM power system & associated installation		


NEW

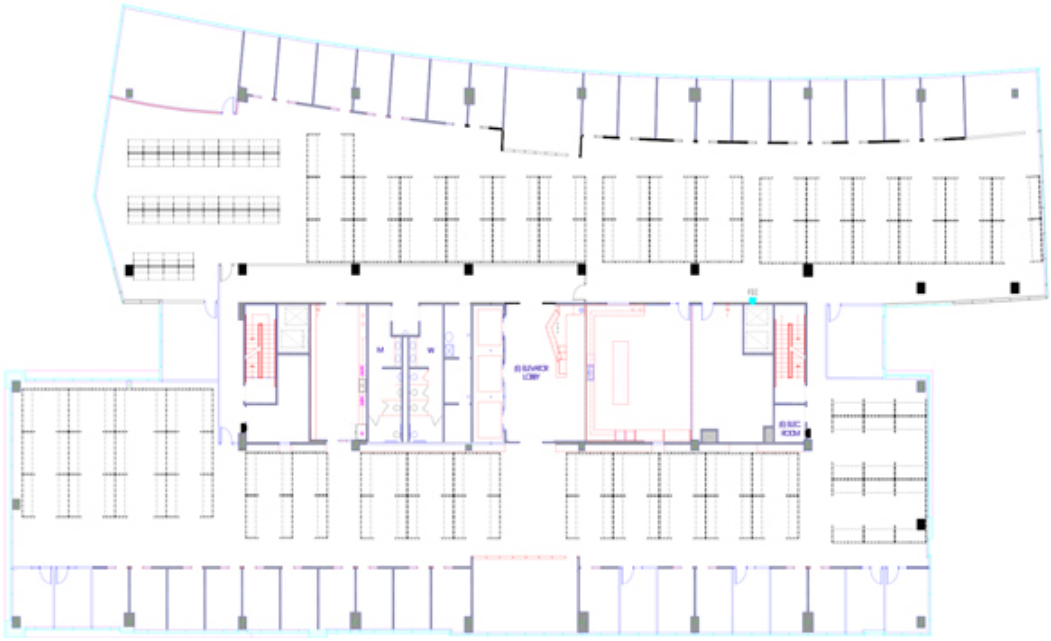
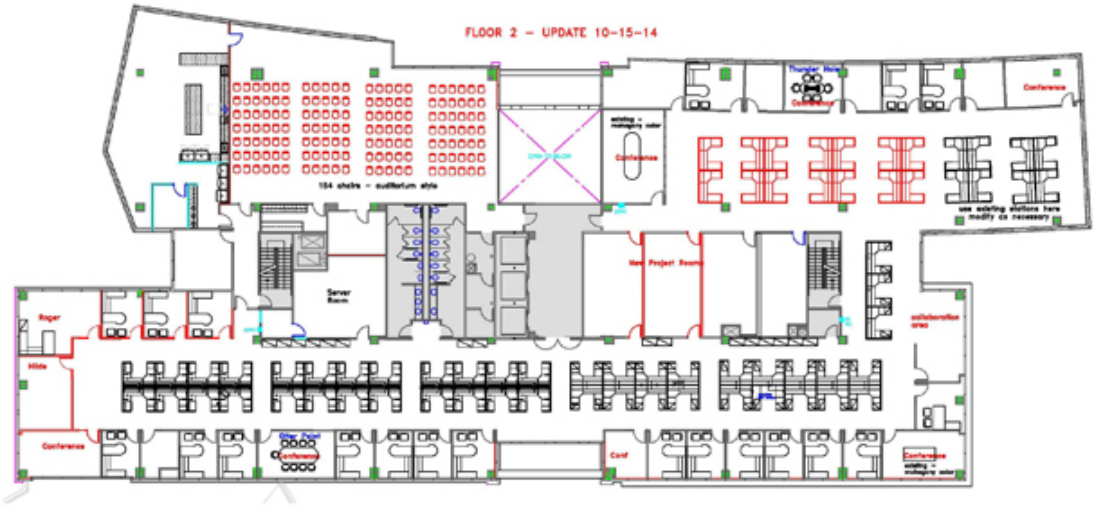


EXHIBIT D

INITIAL ALTERATIONS



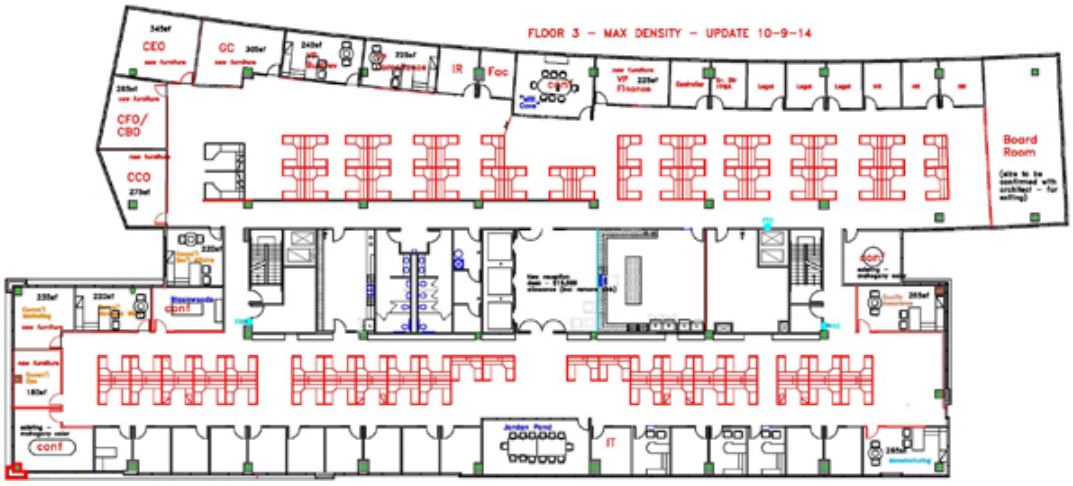


Exhibit 21.1

List of Subsidiaries

NAME OF SUBSIDIARY	JURISDICTION OF INCORPORATION
ACADIA Pharmaceuticals A/S	Denmark
ACADIA Pharmaceuticals GmbH	Switzerland

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (Nos. 333-171722, 333-185639, and 333-194273) and the Registration Statements on Form S-8 (Nos. 333-115956, 333-128290, 333-137557, 333-146398, 333-153346, 333-161057, 333-168667, 333-176212, 333-183151, 333-190400, and 333-197872) of ACADIA Pharmaceuticals Inc. of our report dated February 26, 2015 relating to the financial statements and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/PricewaterhouseCoopers LLP

San Diego, California
February 26, 2015

EXHIBIT 31.1

CERTIFICATION
Pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934,
as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Uli Hacksell, Ph.D., certify that:

1. I have reviewed this annual report on Form 10-K for the year ended December 31, 2014 of ACADIA Pharmaceuticals Inc.

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 26, 2015

/s/ ULI HACKSELL

Uli Hacksell, Ph.D.
Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION
Pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934,
as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Stephen R. Davis, certify that:

1. I have reviewed this annual report on Form 10-K for the year ended December 31, 2014 of ACADIA Pharmaceuticals Inc.

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 26, 2015

/s/ STEPHEN R. DAVIS

Stephen R. Davis
Executive Vice President, Chief Financial Officer
and Chief Business Officer

EXHIBIT 32.1

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

In connection with the Annual Report of ACADIA Pharmaceuticals Inc. (the "Company") on Form 10-K for the period ended December 31, 2014, as filed with the Securities and Exchange Commission on or about the date hereof (the "Report"), I, Uli Hacksell, Ph.D., Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

(1) the Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"); and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition of the Company at the end of the period covered by the Report and results of operations of the Company for the period covered by the Report.

Date: February 26, 2015

/s/ ULI HACKSELL

Uli Hacksell, Ph.D.
Chief Executive Officer

This certification shall not be deemed "filed" for purposes of Section 18 of the Exchange Act or otherwise subject to the liability of Section 18 of the Exchange Act. Such certification shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.

EXHIBIT 32.2

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

In connection with the Annual Report of ACADIA Pharmaceuticals Inc. (the "Company") on Form 10-K for the period ended December 31, 2014, as filed with the Securities and Exchange Commission on or about the date hereof (the "Report"), I, Stephen R. Davis, Executive Vice President, Chief Financial Officer and Chief Business Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

(1) the Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"); and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition of the Company at the end of the period covered by the Report and results of operations of the Company for the period covered by the Report.

Date: February 26, 2015

/s/ STEPHEN R. DAVIS

Stephen R. Davis
Executive Vice President, Chief Financial Officer
and Chief Business Officer

This certification shall not be deemed "filed" for purposes of Section 18 of the Exchange Act or otherwise subject to the liability of Section 18 of the Exchange Act. Such certification shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.