UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2012

☐ **TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number 000-21898

ARROWHEAD RESEARCH CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	**46-0408024**
(State of incorporation)	**(I.R.S. Employer Identification No.)**

225 S. Lake Avenue, Suite 300
Pasadena, California 91101
(626) 304-3400
(Address and telephone number of principal executive offices)

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

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

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

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

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

The number of shares of the registrant’s common stock outstanding as of May 1, 2012 was 11,212,995.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Arrowhead Research Corporation and Subsidiaries
(A Development Stage Company)
Consolidated Balance Sheets

ASSETS	March 31, 2012	September 30, 2011
CURRENT ASSETS		
Cash and cash equivalents	$ 3,595,112	$ 7,507,389
Trade receivable	22,660	—
Other receivables	2,306,606	1,608,382
Prepaid expenses and other current assets	456,603	110,818
Marketable securities	78,680	634,585
Note Receivable, net	2,357,900	—
TOTAL CURRENT ASSETS	8,817,561	9,861,174
PROPERTY AND EQUIPMENT		
Computers, office equipment and furniture	502,508	285,266
Research equipment	4,459,820	3,515
Software	105,916	77,020
Leasehold improvements	2,749,409	—
	7,817,653	365,801
Less: Accumulated depreciation and amortization	(1,072,439)	(340,364)
PROPERTY AND EQUIPMENT, NET	6,745,214	25,437
OTHER ASSETS		
Rent deposit	6,264	—
Patents and other intangible assets	2,675,478	1,731,211
Note Receivable, net	—	2,272,868
Derivative asset	170,500	161,125
Investment in Nanotope Inc., equity basis	1,478,959	1,649,748
Investment in Leonardo Biosystems Inc., at cost	187,000	187,000
TOTAL OTHER ASSETS	4,518,201	6,001,952
TOTAL ASSETS	**$ 20,080,976**	**$ 15,888,563**
LIABILITIES AND STOCKHOLDERS’ EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 801,104	$ 576,809
Accrued expenses	2,383,651	864,511
Accrued payroll and benefits	1,159,624	195,649
Deferred revenue	69,792	—
Derivative liabilities	1,643,403	944,980
Capital lease obligation	211,602	—
Other current liabilities	106,345	—
TOTAL CURRENT LIABILITIES	6,375,521	2,581,949
LONG-TERM LIABILITIES		
Note payable, net of current portion	748,104	606,786
Capital lease obligation, net of current portion	1,390,665	—
Other non-current liabilities	—	135,660
TOTAL LONG-TERM LIABILITIES	2,138,769	742,446
Commitments and contingencies		
STOCKHOLDERS’ EQUITY		
Arrowhead Research Corporation stockholders’ equity:		
Preferred stock, $0.001 par value; 5,000,000 shares authorized; no shares issued and outstanding	—	—
Common stock, $0.001 par value; 145,000,000 shares authorized; 10,806,306 and 8,642,286 shares issued and outstanding as of March 31, 2012 and September 30, 2011, respectively	105,582	86,423
Additional paid-in capital	136,487,707	127,476,435
Subscription receivable	(2,665,000)	(900,000)
Accumulated deficit during the development stage	(121,692,489)	(113,871,752)
Total Arrowhead Research Corporation stockholders’ equity	12,235,800	12,791,106
Noncontrolling interest	(669,114)	(226,938)
TOTAL STOCKHOLDERS’ EQUITY	11,566,686	12,564,168
TOTAL LIABILITIES AND STOCKHOLDERS’ EQUITY	**$ 20,080,976**	**$ 15,888,563**

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

Arrowhead Research Corporation and Subsidiaries
(A Development Stage Company)
Consolidated Statements of Operations
(unaudited)

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011	Six Months Ended March 31, 2012	Six Months Ended March 31, 2011	May 7, 2003 (Inception) to March 31, 2012
REVENUE	**$ 31,250**	**$ —**	**$ 55,208**	**$ 296,139**	**$ 4,047,167**
OPERATING EXPENSES					
Salaries and payroll related costs	2,017,064	425,600	3,337,757	733,491	23,314,966
General and administrative expenses	930,914	815,454	2,197,824	1,438,708	27,111,716
Research and development	1,358,691	140,658	2,127,765	2,402,511	39,355,050
Stock-based compensation	169,390	362,096	421,268	732,244	12,761,332
Depreciation & amortization	423,948	67,810	878,391	136,570	6,538,702
TOTAL OPERATING EXPENSES	**4,900,007**	**1,811,618**	**8,963,005**	**5,443,524**	**109,081,766**
OPERATING LOSS	(4,868,757)	(1,811,618)	(8,907,797)	(5,147,385)	(105,034,599)
OTHER INCOME (EXPENSE)					
Equity in income (loss) of unconsolidated affiliates	(64,261)	(74,827)	(170,788)	(26,000)	(894,041)
Gain on sale of stock in subsidiary	—	—	—	—	2,292,800
Gain on purchase of Roche Madison	—	—	1,576,107	—	1,576,107
Gain (loss) on sale of fixed assets, net	(33,484)	—	(33,484)	—	(160,572)
Realized and unrealized gain (loss) in marketable securities	—	359,920	(58,091)	359,920	62,954
Interest income (expense), net	5,015	35,037	12,890	50,283	2,727,368
Change in value of derivatives	(622,145)	404,152	(689,048)	869,422	2,205,464
Other income	—	—	—	—	250,000
TOTAL OTHER INCOME (EXPENSE)	**(714,875)**	**724,282**	**637,586**	**1,253,625**	**8,060,080**
LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	**(5,583,632)**	**(1,087,336)**	**(8,270,211)**	**(3,893,760)**	**(96,974,519)**
Provision for income taxes	—	—	—	—	—
LOSS FROM CONTINUING OPERATIONS	**(5,583,632)**	**(1,087,336)**	**(8,270,211)**	**(3,893,760)**	**(96,974,519)**
Income (loss) from discontinued operations	(483)	(132,495)	(702)	1,442,500	(47,547,264)
Gain on disposal of discontinued operations	—	3,919,213	—	3,919,213	4,708,588
NET INCOME (LOSS) FROM DISCONTINUED OPERATIONS	**(483)**	**3,786,718**	**(702)**	**5,361,713**	**(42,838,676)**
NET INCOME (LOSS)	**(5,584,115)**	**2,699,382**	**(8,270,913)**	**1,467,953**	**(139,813,195)**
Net (income) loss attributable to noncontrolling interests	248,882	205,855	450,176	(398)	18,284,666
NET INCOME (LOSS) ATTRIBUTABLE TO ARROWHEAD	**$ (5,335,233)**	**$ 2,905,237**	**$ (7,820,737)**	**$ 1,467,555**	**$(121,528,529)**
Earnings per share—basic:					
Loss from continuing operations attributable to Arrowhead common shareholders	$ (0.50)	$ (0.13)	$ (0.75)	$ (0.55)	
Income from discontinued operations attributable to Arrowhead common shareholders	—	0.53	—	0.75	
Net income (loss) attributable to Arrowhead shareholders	$ (0.50)	$ 0.40	$ (0.75)	$ 0.20	
Weighted average shares outstanding	10,663,869	7,180,669	10,390,986	7,179,290	
Earnings per share—diluted:					
Loss from continuing operations attributable to Arrowhead common shareholders	$ (0.50)	$ (0.11)	$ (0.75)	$ (0.49)	
Income from discontinued operations attributable to Arrowhead common shareholders	—	0.48	—	0.67	
Net income (loss) attributable to Arrowhead shareholders	$ (0.50)	$ 0.37	$ (0.75)	$ 0.18	
Weighted average shares outstanding	10,663,869	7,891,395	10,390,986	7,994,702	

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

Arrowhead Research Corporation and Subsidiaries
(A Development Stage Company)
Consolidated Statement of Stockholders' Equity
from inception through March 31, 2012
(unaudited)

	Common Stock		Preferred Stock		Additional Paid-in Capital	Subscription Receivable	Accumulated Deficit during the Development Stage	Noncontrolling interest	Totals
	Shares	Amount	Shares	Amount					
Initial Issuance of Stock:									
Common stock & warrants issued for cash @ $0.01 per unit	300,000	$ 3,000		$ —	$ —	$ —	$ —	$ —	$ 3,000
Common stock & warrants issued for cash @ $10.00 per unit	168,000	1,680		—	1,678,320	—	—	—	1,680,000
Stock issuance cost charged to additional paid-in capital	—	—	—	—	(168,000)	—	—	—	(168,000)
Net loss for period from inception to September 30, 2003	—	—	—	—	—	—	(95,238)	—	(95,238)
Balance at September 30, 2003	**468,000**	**4,680**	**—**	**—**	**1,510,320**	**—**	**(95,238)**	**—**	**1,419,762**
Exercise of stock options	7,500	75	—	—	14,925	—	—	—	15,000
Common stock & warrants issued for cash @ $10.00 per unit	47,500	475	—	—	474,525	—	—	—	475,000
Common stock & warrants issued for marketable securities @ $10.00 per unit	50,000	500	—	—	499,500	—	—	—	500,000
Stock issuance cost charged to additional paid-in capital	—	—	—	—	(96,500)	—	—	—	(96,500)
Common stock and warrants issued for cash @ $15.00 per unit	660,879	6,609	—	—	9,906,573	—	—	—	9,913,182
Common stock issued in reverse acquisition	70,553	706	—	—	(151,175)	—	—	—	(150,469)
Common stock issued as a gift for $10.90 per share	15,000	163	—	—	162,587	—	—	—	162,750
Common stock and warrants issued as stock issuance cost @ $15.00 per unit	35,623	356	—	—	533,988	—	—	—	534,344
Stock issuance cost charged to additional paid-in capital	—	—	—	—	(991,318)	—	—	—	(991,318)
Exercise of stock option @ $2.00 per share	7,500	75	—	—	14,925	—	—	—	15,000
Exercise of stock options @ $10.00 per share	600	6	—	—	5,994	—	—	—	6,000
Stock-based compensation	—	—	—	—	175,653	—	—	—	175,653
Net loss for the year ended September 30, 2004	—	—	—	—	—	—	(2,528,954)	1,777,699	(751,255)
Balance at September 30, 2004	**1,363,155**	**13,645**	**—**	**—**	**12,059,997**	**—**	**(2,624,192)**	**1,777,699**	**11,227,149**
Exercise of warrants @ $15.00 per share	1,381,289	13,813	—	—	20,705,522	—	—	—	20,719,335
Exercise of stock options @ $10.00 per share	2,500	25	—	—	24,975	—	—	—	25,000
Common stock issued to purchase Insert Therapeutics share @ $39.80 per share	50,226	502	—	—	1,999,498	—	—		2,000,000
Common stock issued for services	1,250	12	—	—	49,988	—	—	—	50,000
Stock-based compensation	—	—	—	—	508,513	—	—	—	508,513
Change in percentage of ownership in subsidiary	—	—	—	—	230,087	—	—	—	230,087
Net loss for the year ended September 30, 2005	—	—	—	—	—	—	(6,854,918)	121,491	(6,733,427)
Balance at September 30, 2005	**2,798,419**	**27,997**	**—**	**—**	**35,578,580**	**—**	**(9,479,110)**	**1,899,190**	**28,026,657**
Exercise of stock options	11,579	116	—	—	341,421	—	—	—	341,537
Common stock issued @ $48.80 per share	20,485	205	—	—	999,795	—	—	—	1,000,000
Common stock issued @ $38.40 per share	1,500	15	—	—	57,585	—	—	—	57,600
Common stock issued @ $35.00 per share	559,000	5,590	—	—	19,539,410	—	—	—	19,545,000
Common stock issued @ $59.10 per share	2,536	25	—	—	149,975	—	—	—	150,000
Common stock issued to purchase Calando Pharmaceuticals, Inc. @ $51.70 per share	20,838	208	—	—	1,077,125	—	—	—	1,077,333
Stock-based compensation	—	—	—	—	1,369,478	—	—	—	1,369,478
Net loss for the year ended September 30, 2006	—	—	—	—	—	—	(18,997,209)	(964,752)	(19,961,961)
Balance at September 30, 2006	**3,414,359**	**34,156**	**—**	**—**	**59,113,369**	**—**	**(28,476,319)**	**934,438**	**31,605,644**
Exercise of stock options	18,616	186	—	—	434,541	—	—	—	434,727
Common stock issued @ $57.80 per share, net	284,945	2,849	—	—	15,149,366	—	—	—	15,152,215
Arrowhead's increase in proportionate share of Insert Therapeutics' equity	—	—	—	—	2,401,394	—	—	—	2,401,394
Common stock issued for purchase of Carbon Nanotechnologies, Inc. @ $37.70 per share	143,122	1,431	—	—	5,398,569	—	—	—	5,400,000
Stock-based compensation	—	—	—	—	2,175,544	—	—	—	2,175,544
Net loss for the year ended September 30, 2007	—	—	—	—	—	—	(29,931,118)	(781,829)	(30,712,947)
Balance at September 30, 2007	**3,861,042**	**38,622**	**—**	**—**	**84,672,783**	**—**	**(58,407,437)**	**152,609**	**26,456,577**
Exercise of stock options	10,536	106	—	—	289,921	—	—	—	290,027
Common stock issued at approximately $18.00 per share, net	386,399	3,867	—	—	6,956,718	—	—	—	6,960,585
Arrowhead's increase in proportionate share of Unidym's equity	—	—	—	—	1,720,962	—	—	—	1,720,962
Common stock issued @ $27.20 per share to Rice University	5,000	50	—	—	135,950	—	—	—	136,000
Common stock issued @ $28.30 per share to purchase shares of Unidym, Inc.	7,055	71	—	—	199,929	—	—	—	200,000
Common stock issued @ $29.50 per share to purchase MASA Energy, LLC	10,505	105	—	—	309,895	—	—	—	310,000
Common stock issued @ $21.90 per share to Unidym for the acquisition of Nanoconduction	11,416	114	—	—	249,886	—	—	—	250,000
Common stock issued @ $21.80 per share	1,500	15	—	—	32,685	—	—	—	32,700
Stock-based compensation	—	—	—	—	3,187,397	—	—	—	3,187,397
Net loss for the year ended September 30, 2008	—	—	—	—	—	—	(27,089,030)	(152,609)	(27,241,639)
Balance at September 30, 2008	**4,293,452**	**42,950**	**—**	**—**	**97,756,126**	**—**	**(85,496,467)**	**—**	**12,302,609**
Common Stock issued @ $5.50 per share to Unidym stockholder in exchange for Unidym's shares	205,839	2,059	—	—	1,131,617	—	—	—	1,133,676
Common Stock issued @ $5.20 per share to TEL Ventures in exchange for Unidym's shares	222,222	2,222	—	—	1,156,111	—	—	—	1,158,333
Reclassification of former Unidym	—	—	—	—	2,000,000	—	—	—	2,000,000

mezzanine debt to equity									
Arrowhead's increase in proportionate share of Calando's equity	—	—	—	—	2,120,250	—	—	—	2,120,250
Common stock issued @ $3.00 per share	919,664	9,197	—	—	2,749,796	—	—	—	2,758,993
Change in percentage ownership in subsidiary	—	—	—	—	16,297	—	—	—	16,297
Stock-based compensation	—	—	—	—	2,676,170	—	—	—	2,676,170
Issuance of Preferred Stock for Subscription in Unidym	—	—	—	—	300,000	(300,000)	—	—	—
Amortization of discount on Unidym Series D Preferred Stock	—	—	—	—	163,960	—	(163,960)	—	—
Net loss for the year ended September 30, 2009	—	—	—	—	—	—	(19,308,392)	—	(19,308,392)
Balance at September 30, 2009	**5,641,177**	**56,428**	**—**	**—**	**110,070,327**	**(300,000)**	**(104,968,819)**	**—**	**4,857,936**
Exercise of stock options	688	7	—	—	7,624	—	—	—	7,631
Issuance of Preferred Stock for Subscription in Unidym	—	—	—	—	—	300,000	—	—	300,000
Issuance of Unidym's common stock to minority shareholders	—	—	—	—	245,345	—	—	54,655	300,000
Common stock issued @ $6.30 per share	508,343	5,083	—	—	3,217,813	—	—	—	3,222,896
Common stock issued @ $13.12 per share	659,299	6,593	—	—	3,692,078	—	—	—	3,698,671
Common Stock issued to Calando stockholders in exchange for Calando's shares	122,000	1,220	—	—	(160,667)	—	—	159,447	—
Common Stock issued to Unidym stockholders in exchange for Unidym's shares	15,318	153	—	—	(1,435)	—	—	1,282	—
Stock-based compensation	—	—	—	—	1,582,149	—	—	—	1,582,149
Exercise of warrants	225,189	2,251	—	—	1,063,600	—	—	200	1,066,051
Net loss for the year ended September 30, 2010	—	—	—	—	—	—	(5,774,048)	(1,182,990)	(6,957,038)
Balance at September 30, 2010	**7,172,014**	**71,735**	**—**	**—**	**119,716,834**	**—**	**(110,742,867)**	**(967,406)**	**8,078,296**
Exercise of warrants	8,656	87	—	—	43,192	—	—	—	43,279
Exercise of stock options	2,700	27	—	—	13,857	—	—	—	13,884
Divestiture of Unidym	—	—	—	—	—	—	—	254,275	254,275
Issuance of preferred stock in subsidiary	—	—	—	—	1,618,509	—	—	—	1,618,509
Change in percentage of ownership in subsidiary	—	—	—	—	(849,707)	—	—	849,707	—
Stock-based compensation	—	—	—	—	1,404,640	—	—	—	1,404,640
Common stock issued @ $3.80 per share	1,458,917	14,574	—	—	4,629,110	—	—	—	4,643,684
Issuance of Common Stock for Subscription	—	—	—	—	900,000	(900,000)			—
Net loss for the year ended September 30, 2011	—	—	—	—	—	—	(3,128,885)	(363,514)	(3,492,399)
Balance at September 30, 2011	**8,642,286**	**$ 86,423**	**—**	**$ —**	**$127,476,435**	**$ (900,000)**	**$ (113,871,752)**	**$ (226,938)**	**12,564,168**
Exercise of stock options	4,583	45	—	—	23,788	—	—	—	23,833
Stock-based compensation	—	—	—	—	421,268	—	—	—	421,268
Common stock issued @ $3.80 per share	138,158	1,382	—	—	523,618	—	—	—	525,000
Common stock issued @ $3.70 per share	675,000	6,750	—	—	2,490,750	(2,497,500)	—	—	—
Common stock issued @ $4.00 per share	100,000	1,000	—	—	399,000	—	—	—	400,000
Common stock issued under Committed Capital Agreement	68,926	689	—	—	(689)	—	—	—	—
Common stock issued in acquisition	901,702	9,017	—	—	4,138,813	—	—	—	4,147,830
Fractional shares redeemed in reverse stock split	(131)		—	—	—	—	—	—	—
Preferred stock issued @ $1,000 per share	—	—	1,015	1	1,014,999	(500,000)	—	—	515,000
Preferred stock converted to common stock	275,782	276	(1,015)	(1)	(275)	—	—	—	—
Exercise of Calando stock options	—	—	—	—	—	—	—	8,000	8,000
Issuance of Common Stock for Subscription	—	—	—	—	—	1,232,500	—	—	1,232,500
Net loss for the six months ended March 31, 2012	—	—	—	—	—	—	(7,820,737)	(450,176)	(8,270,913)
Balance at March 31, 2012	**10,806,306**	**$105,582**	**—**	**$ —**	**$136,487,707**	**$ (2,665,000)**	**$ (121,692,489)**	**$ (669,114)**	**11,566,686**

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

Arrowhead Research Corporation and Subsidiaries
(A Development Stage Company)
Consolidated Statements of Cash Flows
(unaudited)

	Six Months Ended March 31, 2012	Six Months Ended March 31, 2011	May 7, 2003 (Date of inception) to March 31, 2012
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	$ (8,270,913)	$ 1,467,953	$ (139,813,195)
Net (income) loss attributable to noncontrolling interests	450,176	(398)	18,284,666
Net income (loss) attributable to Arrowhead	(7,820,737)	1,467,555	(121,528,529)
(Income) loss from discontinued operations	702	(5,361,713)	42,838,676
Realized and unrealized (gain) loss on investments	58,091	(359,920)	(762,954)
(Gain) loss from sale of subsidiary	—	—	(306,344)
(Gain) loss on purchase of Roche Madison	(1,576,107)	—	(1,576,107)
Loss on sale/donation of fixed assets	33,484	—	160,572
Stock issued as gift	—	—	298,750
Stock issued for professional services	—	—	442,882
Stock issued for in-process research and development	—	—	13,166,347
Change in value of derivatives	689,048	(869,422)	(2,205,464)
Purchased in-process research and development—Nanoconduction	—	—	2,685,208
Stock-based compensation	421,268	732,244	12,761,332
Depreciation and amortization	878,391	136,570	6,538,702
Amortization (accretion) of note discounts, net	6,285	15,469	(1,653)
Gain on sale of stock in subsidiary	—	—	(2,292,800)
Equity in income (loss) of unconsolidated affiliates	170,788	26,000	894,041
Noncontrolling interest	(450,176)	398	(18,284,666)
Changes in operating assets and liabilities:			
Receivables	149,570	—	86,755
Other receivables	(698,224)	(395,562)	(2,303,187)
Prepaid expenses	(185,341)	(42,768)	(327,909)
Other current assets	—	—	(96,360)
Deposits	—	(32,759)	(36,795)
Accounts payable	224,495	(172,011)	430,929
Accrued expenses	398,787	(185,545)	933,327
Accrued severance and other liabilities	837,234	15,449	1,085,099
NET CASH USED IN OPERATING ACTIVITIES OF CONTINUING OPERATIONS	(6,862,442)	(5,026,015)	(67,400,148)
CASH FLOWS FROM INVESTING ACTIVITIES OF CONTINUING OPERATIONS:			
Purchase of marketable securities—US Treasury Bills	—	—	(18,575,915)
Purchase of property and equipment	(277,240)	(5,880)	(3,842,839)
Purchase of MASA Energy, LLC	—	—	(250,000)
Minority equity investment	—	—	(2,000,000)
Cash paid for interest in Insert	—	—	(10,150,000)
Cash obtained from interest in Insert	—	—	10,529,594
Proceeds from sale of marketable securities—US Treasury Bills	—	—	18,888,265
Proceeds from sale of investments	509,009	589,696	3,313,609
Proceeds from sale of subsidiaries	—	—	359,375
Proceeds from sale of fixed assets	6,528	—	148,903
Payment for patents	—	—	(303,440)
Restricted cash	—	—	50,773
Cash transferred in acquisition/divestitures	100,035	(1,700,398)	(1,600,363)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES OF CONTINUING OPERATIONS	338,332	(1,116,582)	(3,432,038)
CASH FLOWS FROM FINANCING ACTIVITIES OF CONTINUING OPERATIONS:			
Principal payments on capital leases	(91,598)	—	(91,598)
Proceeds from issuance of Calando debt	—	—	2,516,467
Proceeds from sale of stock in subsidiary	8,000	—	20,902,100
Proceeds from issuance of common stock and warrants, net	2,696,333	1,762,436	97,991,113
NET CASH PROVIDED BY FINANCING ACTIVITIES OF CONTINUING OPERATIONS	2,612,735	1,762,436	121,318,082
Cash flows from discontinued operations:			
Operating cash flows	(902)	2,322,598	(46,004,409)
Investing cash flows	—	—	790,625
Financing cash flows	—	—	(1,677,000)
Net cash provided by (used in) discontinued operations	(902)	2,322,598	(46,890,784)
NET INCREASE (DECREASE) IN CASH	(3,912,277)	(2,057,563)	3,595,112
CASH AT BEGINNING OF PERIOD	7,507,389	6,847,162	—
CASH AT END OF PERIOD	$ 3,595,112	$ 4,789,599	$ 3,595,112

Supplementary disclosures:						
Interest paid	$	22,853	$	105,000	$	253,272
Taxes paid	$	—	$	742,500	$	742,500

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

SUPPLEMENTAL NON-CASH TRANSACTIONS

All Arrowhead share and per share amounts have been adjusted to reflect the 1 for 10 reverse stock split effected on November 17, 2011.

On March 23, 2005, Arrowhead purchased 7,375,000 shares of Insert Therapeutics, Inc. common stock from two minority stockholders of Insert for 50,226 newly issued shares of Arrowhead Common Stock valued at $2,000,000 based on the closing market price of Arrowhead Common Stock on NASDAQ on the date of the closing.

On March 31, 2006, Arrowhead purchased 964,000 shares of Calando Pharmaceuticals, Inc. common stock from minority stockholders of Calando for $1,928,000 consisting of 20,838 newly issued shares of Arrowhead Common Stock valued at $1,077,333 plus $850,667 in cash. The 20,838 shares of Arrowhead Common Stock were valued based on the average closing price of Arrowhead's Common Stock on NASDAQ the ten trading days immediately prior to the date of the closing.

On April 20, 2007, Arrowhead purchased the Series E Preferred Stock of Carbon Nanotechnologies, Inc. in exchange for 143,122 shares of Arrowhead Common Stock with an estimated fair market value of $5,400,000 based on the average closing price of Arrowhead's Common Stock on NASDAQ the ten trading days immediately prior to March 24, 2007, as set forth in the Agreement and Plan of Merger among Unidym, Carbon Nanotechnologies, Inc., Arrowhead, and others.

On April 23, 2008, Arrowhead purchased 200,000 shares of the Common Stock of Unidym Inc., in exchange for 7,054 shares of Arrowhead Common Stock with an estimated fair market value of $200,000 based on the average closing price of Arrowhead's Common Stock on NASDAQ the ten trading days immediately prior to the date of the closing.

On April 29, 2008, Arrowhead purchased all of the membership units of MASA Energy, LLC for $560,000. The purchase price consisted of 10,504 shares of Arrowhead Common Stock with an estimated fair market value of $310,000 based on the average closing price of Arrowhead's Common Stock on NASDAQ the ten trading days immediately prior to the date of the closing, plus $250,000 in cash.

On August 8, 2008, Unidym acquired all of the outstanding stock of Nanoconduction, Inc. in exchange for 11,411 shares of Arrowhead stock with an estimated fair market value of $250,000.

On June 11, 2009, Arrowhead issued 132,462 shares of Common Stock with an estimated fair market value of $688,802 in exchange for an equal number of Series A Preferred Stock of Unidym, with minority stockholders of Unidym.

On June 25, 2009, Arrowhead issued 194,444 shares of Common Stock with an estimated fair market value of $972,222 in exchange for an equal number of Series C Preferred Stock of Unidym, with a minority stockholder of Unidym.

On September 22, 2009, Arrowhead issued 9,149 shares of Common Stock with an estimated fair market value of $46,662 in exchange for an equal number of Series A Preferred Stock of Unidym with a minority stockholder of Unidym.

On September 28, 2009, Arrowhead issued 64,227 shares of Common Stock with an estimated fair market value of $398,209 in exchange for 5,574 shares of Series A Preferred Stock and 636,699 shares of Series C Preferred Stock of Unidym, with several minority stockholders of Unidym.

On September 30, 2009, Arrowhead issued 27,777 shares of Common Stock with an estimated fair market value of $186,111 in exchange for an equal number of Series C-1 Preferred Stock of Unidym, with a minority stockholder of Unidym.

In October and November 2009, Arrowhead issued 15,317 shares of Common Stock with an estimated fair market value of $47,485 in exchange for an equal number of shares of Series C Preferred Stock of Unidym, with several minority stockholders of Unidym.

In October and November 2009, Arrowhead issued 114,000 shares of Common Stock with an estimated fair market value of $706,800 in exchange for 2,850,000 shares of Calando's common stock, with several minority stockholders of Calando. In conjunction with the exchange, Arrowhead also issued 24,000 Warrants to purchase Arrowhead Common Stock in exchange for 600,000 Warrants to purchase Calando common stock.

In February 2010, Arrowhead issued 8,000 shares of Common Stock and 2,400 warrants to purchase Arrowhead Common Stock, at an exercise price of $5.00, to several Calando shareholders, in exchange for 200,000 shares of Calando common stock and 60,000 warrants to purchase Calando common stock.

In March 2010, a warrant holder exercised 24,788 warrants to purchase Arrowhead Common Stock, in a cashless exercise, whereby Arrowhead issued to the warrant holder 12,870 shares of Arrowhead Common Stock.

In September 2010, Arrowhead issued warrants to purchase 390,625 shares of Arrowhead Common Stock, at an exercise price of $5.00, to two Calando shareholders, in exchange for 1,562.5 shares of Series A Preferred Stock of Calando Pharmaceuticals, Inc.

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

Arrowhead Research Corporation
Notes to Consolidated Financial Statements
(unaudited)

Unless otherwise noted, (1) the term "Arrowhead" refers to Arrowhead Research Corporation, a Delaware corporation, (2) the terms the "Company," "we," "us," and "our," refer to the ongoing business operations of Arrowhead and its Subsidiaries, whether conducted through Arrowhead or a subsidiary of Arrowhead, (3) the term "Subsidiaries" refers collectively to Arrowhead Madison Inc. ("Madison") , Calando Pharmaceuticals, Inc. ("Calando"), Ablaris Therapeutics, Inc. ("Ablaris"), Agonn Systems, Inc. ("Agonn"), and Tego Biosciences Corporation ("Tego") as well as our former subsidiary, Unidym, Inc. ("Unidym"), which was divested in January 2011, (4) the term "Minority Investments" refers collectively to Nanotope, Inc. ("Nanotope") and Leonardo Biosystems, Inc. ("Leonardo") in which the company holds a less than majority ownership position, and (5) the term "Common Stock" refers to Arrowhead's Common Stock and the term "stockholder(s)" refers to the holders of Arrowhead Common Stock. All Arrowhead share and per share data have been adjusted to reflect a one for ten reverse stock split effected on November 17, 2011.

NOTE 1. *ORGANIZATION AND BASIS OF PRESENTAION*

Nature of Business and Going Concern

Arrowhead Research Corporation is a nanomedicine company developing innovative therapies at the interface of biology and nanoengineering to cure disease and improve human health. Arrowhead has one of the most advanced and broadest technology platforms for therapeutics based on RNA interference (RNAi), including access to several different RNAi delivery systems and small interfering RNA (siRNA) structures in commercial development for RNAi therapeutics. This broad technology platform enables optimization of siRNA therapeutic candidates for delivery based on siRNA chemistry, tissue type, disease state, target gene and siRNA type and chemistry on a target-by-target basis. Arrowhead is leveraging its in house R&D expertise and capabilities, as well as a broad intellectual property portfolio for RNAi therapeutics, to seek development partnerships with other pharmaceutical and biotech companies committed to bringing RNAi therapeutics to market, as well as continuing the preclinical and clinical development of its own clinical candidates. Arrowhead's non-RNAi development programs include a unique therapeutic candidate that shows promise in pre-clinical studies for the potential treatment of obesity and advanced bioactive materials for the regeneration of injured tissues.

Arrowhead operates a wholly-owned subsidiary, Arrowhead Madison Inc., which is focused on the development of RNAi therapeutics, two majority owned subsidiaries, Calando, a leader in delivering small interfering RNAs for gene silencing, and Ablaris, an anti-obesity therapeutics company, and has minority investments in Nanotope, a regenerative medicine company and Leonardo, a multistage drug delivery company.

Liquidity

Arrowhead has historically financed its operations through the sale of securities of Arrowhead and its Subsidiaries. Development activities have required significant capital investment since the Company's inception and we expect our current portfolio companies to continue to require cash investment in fiscal 2012 and beyond to continue development.

At March 31, 2012, the Company had $3.6 million in cash to fund operations. During the six months ended March 31, 2012, the Company's cash position decreased by $3.9 million. The Company received cash from the issuance of equity of $2.7 million, cash from the sale of its holdings of stock in Wisepower Co. Ltd of $0.5 million, and cash collections from revenue of $0.2 million. The company had cash outflow of $6.9 million related to its continuing operating activities.

As a result of the sale of the Company's subsidiary, Unidym, in January 2011, the Company received $2.5 million in stock of the acquirer, Wisepower Co. Ltd. ("Wisepower") and a $2.5 million convertible bond from Wisepower, of which approximately $200,000 is owed to a third party who was a minority investor in Unidym. During the quarter ended December 31, 2011, the Company sold its remaining stock in Wisepower. The convertible bond with a face value of $2.5 million, is convertible into Wisepower common stock at a price of $2.00 per share, and can be redeemed on January 17, 2013, and at which time could represent an additional source of liquidity for the company. Based on financing commitments entered into in September and October 2011, the Company had subscriptions receivable of $2.7 million at March 31, 2012, which is expected to be collected over the next several months. In September 2011, the Company entered into an equity line facility whereby it has the ability to draw capital up to $15 million, and expects to draw upon the facility from time to time in fiscal 2012, depending on cash needs and market conditions.

On October 21, 2011, Arrowhead completed the acquisition of certain RNAi assets from Hoffmann-La Roche Inc. and F Hoffmann-La Roche Ltd., including intellectual property and a research and development facility in Madison, Wisconsin. At the time of the acquisition, the facility had 41 employees. Due to the costs associated with maintaining and operating the facility, including personnel costs, rent, research and development expenses, and other costs, it is expected that cash expenses will increase significantly in 2012 and beyond relative to prior periods as the Company accelerates its preclinical and clinical development efforts.

Based upon the Company's cash on hand, other sources of liquidity, as described above, and based upon the Company's operating plan, the Company's management anticipates that the Company will be able to satisfy the cash requirements of its operations through at least the next twelve months. The Company anticipates that further equity financings, and/or asset sales and license agreements will be necessary to continue to fund operations in the future.

Basis of Presentation and Principles of Consolidation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information and in accordance with the instructions to Form 10-Q and Article 8 of Regulation S-X. Accordingly, the financial statements do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, all adjustments, including normal recurring accruals, considered necessary for a fair presentation have been included. Interim results are not necessarily indicative of results for a full year. The September 30, 2011 balance sheet was derived from audited financial statements, but does not include all disclosures required by GAAP. This financial information should be read in conjunction with the consolidated financial statements and notes included in the Company's Annual Report on Form 10-K for the year ended September 30, 2011.

The consolidated financial statements of the Company include the accounts of Arrowhead and its wholly-owned and majority-owned Subsidiaries. Prior to April 2008, Arrowhead's Subsidiaries included Insert Therapeutics, Inc. ("Insert"), which was merged with Calando in April 2008. The merged entity is majority-owned by Arrowhead and continues to operate under the name of Calando. Arrowhead sold its interests in Unidym and Tego in 2011 and 2009, respectively. Unidym and Tego results are included in the Income (Loss) from Discontinued Operations. Income (Loss) from Discontinued Operations also includes Aonex Technologies, Inc. ("Aonex"), sold in 2008 and Nanotechnica, Inc. ("Nanotechnica"), dissolved in 2005. All significant intercompany accounts and transactions are eliminated in consolidation, and noncontrolling interests are accounted for in the Company's financial statements. Certain reclassifications have been made to prior period financial statements to conform to the current period presentation.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the accompanying financial statements. Actual results could differ from those estimates.

Recently Issued Accounting Standards

In September 2011, the FASB issued ASU 2011-08, Testing Goodwill for Impairment ("ASU 2011-08"), which amends the guidance in ASC 350-20, Intangibles—Goodwill and Other—Goodwill. ASU 2011-08 provides entities with the option of performing a qualitative assessment before calculating the fair value of the reporting unit when testing goodwill for impairment. If the fair value of the reporting unit is determined, based on qualitative factors, to be more likely than not less than the carrying amount of the reporting unit, the entities are required to perform a two-step goodwill impairment test. ASU 2011-08 was effective for us beginning January 1, 2012. The adoption of ASU 2011-08 did not have a material effect on our consolidated financial statements or disclosures.

In May 2011, the Financial Accounting Standards Board ("FASB") issued ASU 2011-04, Fair Value Measurement ("ASU 2011-04"), which amended ASC 820, Fair Value Measurements ("ASC 820"), providing a consistent definition and measurement of fair value, as well as similar disclosure requirements between U.S. GAAP and International Financial Reporting Standards. ASU 2011-04 changes certain fair value measurement principles, clarifies the application of existing fair value measurement and expands the disclosure requirements. ASU 2011-04 was effective for us beginning January 1, 2012. The adoption of ASU 2011-04 did not have a material effect on our consolidated financial statements or disclosures.

In June 2010, the FASB issued ASU No. 2010-17, *Revenue Recognition—Milestone Method (Topic 605): Milestone Method of Revenue Recognition.* This ASU codifies the consensus reached in EITF Issue No. 08-9, "Milestone Method of Revenue Recognition." The amendments to the Codification provide guidance on defining a milestone and determining when it may be appropriate to apply the milestone method of revenue recognition for research or development transactions. Consideration that is contingent on achievement of a milestone in its entirety may be recognized as revenue in the period in which the milestone is achieved only if the milestone is judged to meet certain criteria to be considered substantive. Milestones should be considered substantive in their entirety and may not be bifurcated. An arrangement may contain both substantive and nonsubstantive milestones, and each milestone should be evaluated individually to determine if it is substantive. This guidance was adopted effective October 1, 2010. The adoption of this guidance did not have a material impact on our consolidated financial statements.

In January 2010, the FASB issued Accounting Standards Update ASU No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820)—Improving Disclosures about Fair Value Measurements*. This guidance requires new disclosures related to recurring and nonrecurring fair value measurements. The guidance requires disclosure of transfers of assets and liabilities between Level 1 and

Level 2 of the fair value measurement hierarchy, including the reasons and the timing of the transfers and information on purchases, sales, issuance, and settlements on a gross basis in the reconciliation of the assets and liabilities measured under Level 3 of the fair value measurement hierarchy. The adoption of this guidance is effective for interim and annual reporting periods beginning after December 15, 2009. We have adopted this guidance in the financial statements presented herein, which did not have a material impact on our consolidated financial position or results of operations.

NOTE 2. ***ACQUISITION***

On October 21, 2011, the Company entered into a Stock and Asset Purchase Agreement (the "RNAi Purchase Agreement") with Hoffmann-La Roche Inc. and F Hoffmann-La Roche Ltd (collectively, "Roche"), pursuant to which the Company purchased from Roche (i) all of the outstanding common stock of Roche Madison Inc. ("Roche Madison") and (ii) the intellectual property rights then held by Roche related to its RNAi business and identified in the RNAi Purchase Agreement (the "Transaction"). In consideration for the purchase of Roche Madison and the Roche RNAi assets, the Company issued to Roche a promissory note with a principal value of $50,000 and 901,702 shares of Common Stock. Additionally, the Company agreed that, subject to stockholder approval under the NASDAQ Marketplace Rules, the Company would issue an additional 146,562 shares of Common Stock, plus a number of additional shares equal to 9.9% of the shares of Common Stock (or common stock equivalents) sold by the Company in capital raising transactions within one year from the closing, but only with respect to the first $3,118,615 of gross offering proceeds (the "Top-up Shares"). The Company received the necessary stockholder approval for these additional issuances on February 16, 2012 at its 2012 Annual Meeting of Stockholders.

Pursuant to the RNAi Purchase Agreement, Roche has a right of first negotiation on certain product candidates developed by the Company and its affiliates relating to the purchased assets. If the Company proposes to out-license, or enters into substantive negotiations to out-license, any Clinical Candidate or Existing Candidate (as such terms are defined in the RNAi Purchase Agreement), the Company must give notice of the Candidate it proposes to out-license and negotiate exclusively and in good faith with Roche for a period of time regarding the applicable out-license. This right of first negotiation applies to all Existing Candidates and the first five Clinical Candidates for which the Company delivers notice to Roche and subsequently enters into an out-license.

In addition to the consideration paid by the Company at the closing of the Transaction, the Company is obligated to make certain royalty and milestone payments to Roche upon the occurrence of certain events. For certain product candidates that are developed by the Company or its affiliates and that are covered by a valid claim by the patent rights transferred in the Transaction for which the Company and Roche do not enter into a licensing arrangement, the Company will be obligated to pay a 3% royalty on Net Sales (as defined in the RNAi Purchase Agreement), provided that the royalty rate may be reduced or offset in certain circumstances. The obligation to pay royalties on such candidates will last until the later of (i) the expiration of the last to expire patent right related to such product candidate that was transferred in the Transaction and (ii) ten years after the first commercial sale of such product candidate.

The Company will also be obligated to make cash payments to Roche upon the achievement of various milestones, including the first regulatory approval of an Existing Candidate in certain jurisdictions and upon certain annual sales milestones for Existing Candidates that may receive regulatory approval. The potential payments range from $2,500,000 to $6,000,000 per milestone.

The following table summarizes the estimated fair values at the date of acquisition:

Current assets	$ 432,709
Property and equipment	7,215,206
Intangible assets	1,090,000
Other noncurrent assets	6,264
Current liabilities	(414,122)
Noncurrent liabilities	(1,570,072)
Gain on purchase	(1,576,106)
Total purchase consideration	$ 5,183,879

The purchase consideration was composed of the following:

Promissory note due Roche	$ 50,000
Shares issued to Roche	4,147,830
Shares to be issued to Roche	674,188
Top-up shares	311,861
Total purchase consideration	$ 5,183,879

In-Process Research & Development (IPR&D)

Intangible assets include IPR&D, which represents the estimated fair value assigned to research and development projects acquired in a purchased business combination, which at the time of acquisition have not reached technological feasibility and had no alternative future use. IPR&D assets acquired in a business combination are capitalized as indefinite-lived intangible assets. These assets remain indefinite-lived until the completion or abandonment of the associated research and development efforts.

Impairment of Indefinite-Lived IPR&D

We review amounts capitalized as in-process research and development for impairment at least annually in the fourth quarter, and whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. In the event the carrying value of the assets is not expected to be recovered, the assets are written down to their estimated fair values. We continue to test our indefinite-lived IPR&D assets for potential impairment until the projects are completed or abandoned.

NOTE 3. *INVESTMENT IN SUBSIDIARIES*

Calando Pharmaceuticals, Inc. (formerly known as Insert Therapeutics, Inc. "Insert")

Calando is a clinical stage RNAi delivery company. On April 17, 2008, Calando merged with and into Insert, with Insert as the surviving company. Prior to the merger, Arrowhead invested an aggregate of $23.2 million in Calando through equity and debt financings. As a condition of the merger, the Preferred Stock of each of Calando and Insert was converted into common stock and the loans were converted to equity. As a result of the merger, shares of Insert common stock were issued to the stockholders of the former Calando, and Insert changed its name to Calando Pharmaceuticals, Inc.

On November 26, 2008, Calando entered into Unsecured Convertible Promissory Note Agreements ("Notes") for $2.5 million with accredited investors and Arrowhead, which invested $200,000 in the Notes offering. Arrowhead subsequently invested an additional $600,000 in the same offering. Except for one Note in the principal amount of $500,000, all Notes and accrued interest were converted into a total of 2,950 shares of Calando Series A Preferred Stock on June 23, 2009. The remaining Note is due November 26, 2013; see Note 4 for further information.

In fiscal 2010, Arrowhead issued 122,000 shares of its Common Stock in exchange for shares of Calando common stock, with several minority stockholders of Calando. In conjunction with this exchange, Arrowhead also issued 26,400 warrants to purchase Arrowhead Common Stock in exchange for warrants to purchase Calando common stock.

In January 2011, Arrowhead invested $9.1 million, through a cash investment of $1.0 million and the conversion of $8.1 million intercompany debt, acquiring newly issued Calando Series B and Series C preferred stock.

As of March 31, 2012, Calando owed to Arrowhead $2,108,483 under a series of 10% simple interest notes and advances. It is expected that these loans will either be repaid or converted to equity in the future. The balance of the notes and advances is eliminated in consolidation.

As of March 31, 2012, Arrowhead owned 79% of the outstanding shares of Calando and 76% on a fully diluted basis.

Ablaris Therapeutics, Inc.

Ablaris was formed and began operations in the first quarter of fiscal 2011, based on the license of certain anti-obesity technology developed at the MD Anderson Cancer Center at the University of Texas. During the year ended September 30, 2011, Ablaris raised $2.9 million in cash, of which $1.3 million was invested by Arrowhead and $1.6 million was invested by outside investors, through the issuance of Series A Preferred stock.

As of March 31, 2012, Arrowhead owned 64% of the outstanding shares of Ablaris and 64% on a fully diluted basis.

Nanotope, Inc.

Nanotope is developing advanced nanomaterials for the treatment of spinal cord injuries, cartilage regeneration and wound healing. As of March 31, 2012, Arrowhead owned 23% of the outstanding shares of Nanotope, and 19% on a fully diluted basis. Arrowhead accounts for its investment in Nanotope using the equity method of accounting. As of March 31, 2012, Nanotope owed to Arrowhead $1.8 million, which Arrowhead has included in other receivables. It is expected that this indebtedness will be repaid or converted to equity.

Summarized financial information for Nanotope, Inc. is as follows:

	March 31, 2012	September 30, 2011
Current assets	$ 27,000	$ 21,000
Non-current assets 529	63,000	85,000
Liabilities	1,982,000	1,255,000
Equity	(1,892,000)	(1,149,000)

	For the three months ended March 31, 2012	For the three months ended March 31, 2011	For the six months ended March 31, 2012	For the six months ended March 31, 2011
Revenue	$ 0	$ 17,000	$ 0	$ 9,000
Operating expenses	254,000	338,000	692,000	457,000
Net loss	(279,000)	(325,000)	(743,000)	(448,000)

	For the six months ended March 31, 2012	For the six months ended March 31, 2011
Cash flows used in operating activities	$ (560,000)	$ (128,000)
Cash flows used in investing activities	(5,000)	(20,000)
Cash flows provided by financing activities	563,000	545,000

Leonardo Biosystems, Inc.

Leonardo is developing a drug-delivery platform technology based on novel methods of designing porous silicon microparticles that selectively accumulate in tumor vasculature. Arrowhead accounts for its investment in Leonardo using the cost method of accounting. As of March 31, 2012, Leonardo owed to Arrowhead $530,000, included in other receivables, which is expected to be repaid or converted to equity. As of March 31, 2012, Arrowhead's ownership interest in Leonardo was 5%.

NOTE 4. *DISCONTINUED OPERATIONS*

Unidym, Inc.

Founded by Arrowhead in 2005, Unidym is developing electronic applications of carbon nanotubes. In line with the Company's strategy to focus on nanomedicine, Arrowhead sold its ownership interest in Unidym to Wisepower in January 2011. The consideration included $5.0 million in Wisepower stock and bonds, a percentage of certain revenue streams, as well as contingent payments up to $140 million based on revenue milestones over a ten-year period.

In conjunction with the disposition of Unidym, the gain on the sale and the results of historical operations are recorded as discontinued operations in the Company's Statements of Operations. Additionally, the cash flows from Unidym are reflected separately as cash flows from discontinued operations in the Company's Consolidated Statement of Cash Flows. Any future cash flows as discussed above will also be reflected as a part of cash flows from discontinued operations.

Tego Biosciences, Inc.

On April 20, 2007, Tego, a wholly-owned subsidiary of Arrowhead, acquired the assets of C Sixty, Inc., a Texas-based company developing protective products based on the anti-oxidant properties of fullerenes.

In December 2009, Tego completed the sale of all of its intellectual property assets to Luna Innovations, Inc. The consideration included an upfront purchase price of $350,000 and reimbursements of patent and license expenses of $80,000, as well as contingent payments based on milestones and royalties for each fullerene product developed by Luna and covered by Tego intellectual property. Due to the sale of substantially all of Tego's assets, the operations of Tego ceased and the gain on the sale and the results of historical operations are recorded as discontinued operation in the Company's Statements of Operations. Additionally, the cash flows from Tego are reflected separately as cash flows from discontinued operations. Any future cash flows as discussed above will be reflected as a part of cash flows from discontinued operations in the Company's Consolidated Statements of Cash Flows.

NOTE 5. *NOTES PAYABLE*

On November 26, 2008, Calando entered into Unsecured Convertible Promissory Note Agreements ("Notes") for $2.5 million with accredited investors and Arrowhead, which invested $200,000 in the Notes offering. Arrowhead subsequently invested an additional $600,000 in the same offering. Except for one Note in the principal amount of $500,000, all Notes and accrued interest were converted into a total of 2,950 shares of Calando Series A Preferred Stock on June 23, 2009. The remaining Note had a 10% interest rate, matured on November 26, 2010, and was renegotiated and extended until November 26, 2013. The terms of the new note include a 10% interest rate and require two times principal payment upon certain events as defined in the note and at maturity. At March 31, 2012, The Note is reflected on the balance sheet at the maturity amount of $1,000,000 less a discount of $251,896.

NOTE 6. ***STOCKHOLDERS' EQUITY***

At March 31, 2012, the Company had a total of 150,000,000 shares of capital stock authorized for issuance, consisting of 145,000,000 shares of Common Stock, par value $0.001, and 5,000,000 shares of Preferred Stock, par value $0.001.

At March 31, 2012, 10,806,306 shares of Common Stock were outstanding; no shares of Preferred Stock were outstanding. At March 31, 2012, 153,200 shares and 1,965,860 shares were reserved for issuance upon exercise of options granted under Arrowhead's 2000 Stock Option Plan and 2004 Equity Incentive Plan, respectively.

On September 30, 2011, the Company sold 1,458,917 shares of Common Stock at a price of $3.80 per share. Cash proceeds received in fiscal 2011 were $4.6 million, cash proceeds in the first six months of fiscal 2012 were $0.4 million, and the balance is expected to be received in 2012. On October 4, 2011, the Company completed a second closing to the private placement stock issuance of September 30, 2011, upon which the Company sold 138,158 shares of Common Stock at a price of $3.80 per share. Cash proceeds were $525,000.

On October 20, 2011, the Company and Lincoln Park Capital Fund, LLC, an Illinois limited liability company ("LPC") entered into a $15 million purchase agreement (the "Purchase Agreement"), together with a registration rights agreement, whereby LPC agreed to purchase up to $15 million of Common Stock, subject to certain limitations, from time to time during the three-year term of the Purchase Agreement. Additionally, the Company filed a registration statement with the U.S. Securities & Exchange Commission covering the resale of the shares that may be issued to LPC under the Purchase Agreement. On January 30, 2012, the SEC declared the registration statement effective for the resale of such shares. The Company has the right, in its sole discretion, over a 36-month period to sell up to $15 million of Common Stock (subject to certain limitations) to LPC, depending on certain conditions as set forth in the Purchase Agreement. As of March 31, 2012, the Company had not drawn upon the facility.

On October 21, 2011 and October 24, 2011, the Company entered into Subscription Agreements with certain accredited investors (the "Series A Purchasers"), pursuant to which the Company issued and sold an aggregate of 1,015 shares of Series A Preferred Convertible Stock, $0.001 par value per share, at a purchase price of $1,000 per share. The aggregate purchase price paid by the Series A Purchasers for the shares of Series A Preferred was $1,015,000. On February 16, 2012, upon approval by the Company's shareholders, 1,015 shares of Arrowhead Series A Preferred Convertible Stock, $0.001 par value per share, were converted to 275,782 shares of Common Stock.

On October 21, 2011, the Company entered into a Subscription Agreement with an accredited investor, pursuant to which the Company issued and sold an aggregate of 675,000 shares of Common Stock, $0.001 par value per share, at a purchase price of $3.70 per share. The aggregate purchase price to be paid by the purchaser for the shares of Common Stock is $2,497,500, of which $0.8 million had been received as of March 31, 2012, $0.8 million received in April 2012, and the balance is expected to be received in the next quarter.

As of November 17, 2011, the Company effected a 1 for 10 reverse stock split. As a result of the reverse stock split, each ten shares of the Company's Common Stock issued and outstanding immediately prior to the reverse split was combined into one share of Common Stock. Also, as a result of the Reverse Stock Split, the per share exercise price of, and the number of shares of Common Stock underlying Company stock options, warrants, and any Common Stock based equity grants outstanding immediately prior to the reverse stock split was proportionally adjusted, based on the one-for-ten split ratio, in accordance with the terms of such options, warrants or other Common Stock based equity grants as the case may be. No fractional shares of Common Stock were issued in connection with the reverse split. Stockholders received a cash payment in lieu of any fractional shares. All share and per share amounts in these financial statements have been retrospectively adjusted to reflect the reverse stock split.

The following table summarizes information about warrants outstanding at March 31, 2012:

Exercise prices	Number of Warrants	Remaining Life in Years
$70.60	94,897	5.1
$20.00	386,400	1.4
$5.00	1,163,033	2.7
$5.10	461,024	2.7
$3.70	329,650	3.7
$4.16	1,000	4.7
Total warrants outstanding	2,436,004	

NOTE 7. *LEASES*

In April 2011, the Company's corporate headquarters lease expired; the Company is currently leasing temporary offices for its corporate headquarters in Pasadena, California. The temporary offices are expected to be occupied for several months at a rental rate of approximately $8,000 per month. The current rental agreement is on a month-to-month basis and there were no long-term lease commitments in California at March 31, 2012. In April 2012, the Company signed a lease for new office space for its corporate headquarters, and expects to move to its new location in August 2012. The rental cost will be approximately $13,000 per month.

On October 21, 2011, Arrowhead acquired the RNAi operations from Roche, including its research facility in Madison, Wisconsin. Such lease expires on February 28, 2019; monthly rental expense is approximately $22,000, and monthly payments under a capitalized lease are approximately $21,000. Other monthly rental expenses include common area maintenance and real estate taxes totaling approximately $13,000 per month. Utilities costs are approximately $16,000 per month, which increase the total monthly expenditures to approximately $72,000.

Facility and equipment rent expense for the six months ended March 31, 2012 and 2011 was $214,000 and $104,000, respectively. From inception to date, rent expense was $3,859,664. Rent expense related to Unidym, until its disposal in January 2011, is included as a part of income/loss from discontinued operations.

As of March 31, 2012, future minimum lease payments under capitalized leases are as follows:

2012	$ 128,423
2013	256,846
2014	256,846
2015	256,846
2016	256,846
2017 and thereafter	620,710
Less interest	(174,250)
Principal	1,602,266
Less current portion	211,602
Noncurrent portion	$1,390,664

As of March 31, 2012, future minimum lease payments under operating leases are as follows:

2012	$ 129,845
2013	263,472
2014	269,956
2015	276,721
2016	283,685
2017 and thereafter	713,958
Total	$1,937,637

NOTE 8. *STOCK-BASED COMPENSATION*

Arrowhead has two plans that provide for equity-based compensation. Under the 2000 Stock Option Plan, 153,200 shares of Arrowhead's Common Stock are reserved for issuance upon exercise of non-qualified stock options. No further grants can be made under the 2000 Stock Option Plan. The 2004 Equity Incentive Plan reserves 1,965,860 shares for the grant of stock options, stock appreciation rights, restricted stock awards and performance unit/share awards by the Board of Directors to employees, consultants and others. As of March 31, 2012, there were options granted and outstanding to purchase 153,200 and 1,201,694 shares of Common Stock under the 2000 Stock Option Plan and the 2004 Equity Incentive Plan, respectively. During the six months ended March 31, 2012, 660,000 options were granted under the 2004 Equity Incentive Plan. All share and per share data in this footnote has been adjusted to reflect the 1 for 10 reverse stock split effected on November 17, 2011.

The following tables summarize information about stock options:

	Number of Options Outstanding	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Balance At September 30, 2010	812,334	$ 10.62		
Granted	20,000	5.86		
Cancelled	(100,539)	21.32		
Exercised	(2,699)	5.10		
Balance At September 30, 2011	729,096	9.03		
Granted	924,500	4.96		
Cancelled	(29,619)	14.99		
Exercised	(4,583)	5.20		
Balance At March 31, 2012	1,619,394	$ 6.61	8.4 years	$1,718,770
Exercisable At March 31, 2012	624,822	$ 8.67	6.4 years	$ 429,300

Stock-based compensation expense for the six months ended March 31, 2012 and 2011 was $421,268 and $732,244, respectively. For the six months ended March 31, 2012 and 2011, $0 and $27,519, respectively, of this expense is included in discontinued operations. There is no income tax benefit as the company is currently operating at a loss and an actual income tax benefit may not be realized. The result of the loss creates a timing difference, resulting in a deferred tax asset, which is fully reserved by a valuation allowance.

The fair value of the options granted by Arrowhead for the six months ended March 31, 2012 is estimated at $3,505,912. The aggregate fair value of options granted by Calando during the six months ended March 31, 2012 is estimated at $33,690. No Arrowhead or Calando options were issued during the six months ended March 31, 2011.

The intrinsic value of the options exercised during the six months ended March 31, 2012 was $0; no options were exercised during the six months ended March 31, 2011.

As of March 31, 2012, the pre-tax compensation expense for all unvested stock options at Arrowhead in the amount of approximately $2,074,971 will be recognized in our results of operations over a weighted average period of 3.2 years. As of March 31, 2012, the pre-tax compensation expense for all unvested stock options at Calando in the amount of approximately $82,397 will be recognized in our results of operations over a weighted average period of 3.1 years.

The fair value of each stock option award is estimated on the date of grant using the Black-Scholes option pricing model. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options, which do not have vesting restrictions and are fully transferable. The determination of the fair value of each stock option is affected by our stock price on the date of grant, as well as assumptions regarding a number of highly complex and subjective variables. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options. The assumptions used to value stock options are as follows:

	Six Months Ended March 31,	
	2012	2011
Dividend yield	—	—
Risk-free interest rate	0.9% to 1.7%	N/A
Volatility	90% - 100%	N/A
Expected life (in years)	6.25	N/A
Weighted average grant date fair value per share of options granted	$3.79	N/A

The dividend yield is zero as the Company currently does not pay a dividend.

The risk-free interest rate is based on the U.S. Treasury bond.

Volatility is estimated based on volatility average of the Company's Common Stock price.

NOTE 9. ***FAIR VALUE MEASUREMENTS & DERIVATIVE INSTRUMENTS***

The Company measures its financial assets and liabilities at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., exit price) in an orderly transaction between market participants at the measurement date. Additionally, the Company is required to provide disclosure and categorize assets and liabilities measured at fair value into one of three different levels depending on the assumptions (i.e., inputs) used in the valuation. Level 1 provides the most reliable measure of fair value while Level 3 generally requires significant management judgment. Financial assets and liabilities are classified in their entirety based on the lowest level of input significant to the fair value measurement. The fair value hierarchy is defined as follows:

Level 1—Valuations are based on unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2—Valuations are based on quoted prices for similar assets or liabilities in active markets, or quoted prices in markets that are not active for which significant inputs are observable, either directly or indirectly.

Level 3—Valuations are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. Inputs reflect management's best estimate of what market participants would use in valuing the asset or liability at the measurement date.

The following table summarizes fair value measurements at March 31, 2012 and September 30, 2011 for assets and liabilities measured at fair value on a recurring basis:

March 31, 2012:

	Level I	Level II	Level III	Total
Cash and cash equivalents	$3,595,112	$ —	$ —	$3,595,112
Marketable securities	$ 78,680	$ —	$ —	$ 78,680
Derivative assets	$ —	$ —	$ 170,500	$ 170,500
Derivative liabilities	$ —	$ —	$1,643,403	$1,643,403

September 30, 2011:

	Level I	Level II	Level III	Total
Cash and cash equivalents	$7,507,389	$ —	$ —	$7,507,389
Marketable securities	$ 634,585	$ —	$ —	$ 634,585
Derivative assets	$ —	$ —	$ 161,125	$ 161,125
Derivative liabilities	$ —	$ —	$ 944,980	$ 944,980

As part of the sale of proceeds from the sale of Unidym in January 2011, Arrowhead received a bond from Wisepower in the face amount of $2.5 million. The bond is convertible to Wisepower common stock at a price of $2.00 per share. The conversion feature is subject to derivative accounting as prescribed under ASC 815. Accordingly, the fair value of the conversion feature on the date of issuance was estimated using an option pricing model and recorded on the Company's consolidated balance sheet as a derivative asset. The fair value of the conversion feature is estimated at the end of each reporting period and the change in the fair value of the conversion feature is recorded as a nonoperating gain/loss as change in value of derivatives in Company's Consolidated Statement of Operations. A portion of the bond is owed to a third party, as such the company records a derivative asset for the entire conversion feature and records a derivative liability for the portion related to the third party. The original fair value of the derivative relating to the third party was $26,310; the fair value at September 30, 2011 was $6,854, and the fair value at March 31, 2012 was $7,253. The gain from the change in value of the derivative asset, net of the derivative liability, for the six months ended March 31, 2012 was $8,977, and is reflected in the change in value of derivatives in the Company's consolidated statement of operations.

During the six months ended March 31, 2012, the Company recorded a gain from the change in fair value of the derivative asset, net of $9,375. The assumptions used in valuing the derivative asset as of March 31, 2012 were as follows:

Risk free interest rate	0.51%
Expected life	1.8 Years
Dividend yield	none
Volatility	72%

The following is a reconciliation of the derivative asset for the six months ended March 31, 2012:

Value at October 1, 2011	$ 161,125
Receipt of instruments	—
Increase in value	9,375
Net settlements	—
Value at March 31, 2012	$ 170,500

As part of the equity financing on June 17, 2010, Arrowhead issued warrants to acquire up to 329,649 shares of Common Stock (the "Warrants") which contain a mechanism to adjust the strike price in the event of certain dilutive issuances of equity securities. Under certain provisions of the Warrants, if, during the term of the Warrants, the Company issues Common Stock at a price lower than the exercise price of the Warrants, the exercise price of the Warrants would be reduced to the amount equal to the issuance price of the Common Stock. Because the Warrants have this feature, the Warrants are subject to derivative accounting as prescribed under ASC 815. Accordingly, the fair value of the Warrants on the date of issuance was estimated using an option pricing model and recorded on the Company's consolidated balance sheet as a derivative liability. The fair value of the Warrants is estimated at the end of each reporting period and the change in the fair value of the Warrants is recorded as a nonoperating gain or loss in the Company's consolidated statement of operations. During the six months ended March 31, 2012, the Company recorded a non-cash loss from the change in fair value of the derivative liability of $677,032. The assumptions used in valuing the derivative liability as of March 31, 2012 were as follows:

Risk free interest rate	0.51%
Expected life	3.7 Years
Dividend yield	none
Volatility	100%

The following is a reconciliation of the derivative liability related to these warrants through March 31, 2012:

Value at September 30, 2011	$ 907,233
Receipt of instruments	—
Change in value	677,032
Net settlements	—
Value at March 31, 2012	$1,584,265

In conjunction with the financing of Ablaris during the year ended September 30, 2011, Arrowhead sold exchange rights to certain investors whereby the investors have the right to exchange their shares of Ablaris for a prescribed number of Arrowhead shares based upon a predefined ratio. The exchange rights have a seven-year term. During the first year, the exchange right allows the holder to exchange one Ablaris share for 0.06 Arrowhead shares (as adjusted for a subsequent reverse stock split). This ratio declines to 0.04 in the second year, 0.03 in the third year and 0.02 in the fourth year. In the fifth year and beyond the exchange ratio is 0.01. Exchange rights for 675,000 Ablaris shares were sold during the year ended September 30, 2011, and remain outstanding at March 31, 2012. The exchange rights are subject to derivative accounting as prescribed under ASC 815. Accordingly, the fair value of the exchange rights on the date of issuance was estimated using an option pricing model and recorded on the Company's consolidated balance sheet as a derivative liability. The fair value of the exchange rights is estimated at the end of each reporting period and the change in the fair value of the exchange rights is recorded as a nonoperating gain or loss in the Company's Consolidated Statement of Operations. During the six months ended March 31, 2012, the Company recorded a non-cash loss from the change in fair value of the derivative liability of $20,993. The assumptions used in valuing the derivative liability as of March 31, 2012 were as follows:

Risk free interest rate	0.8%
Expected life	6.0 Years
Dividend yield	none
Volatility	100%

The following is a reconciliation of the derivative liability related to these exchange rights through March 31, 2012:

Value at September 30, 2011	$ 30,892
Receipt of instruments	—
Change in value	20,993
Net settlements	—
Value at March 31, 2012	$ 51,885

The carrying amounts of the Company's other financial instruments, which include accounts receivable, accounts payable, and accrued expenses approximate their respective fair values due to the relatively short-term nature of these instruments.

NOTE 10. ***RELATED PARTY TRANSACTIONS***

Christopher Anzalone, Arrowhead's President and CEO, owns 1,395,900 shares of Nanotope, Inc. common stock or approximately 14.2% of Nanotope's outstanding voting securities. Dr. Anzalone does not hold options, warrants or any other rights to acquire securities of Nanotope. Dr. Anzalone has the right to appoint a representative to the board of directors of Nanotope. Dr. Anzalone currently serves on the Nanotope board in a seat reserved for Nanotope's CEO, and another individual holds the seat designated by Dr. Anzalone. Dr. Anzalone has served as President and Chief Executive Officer of Nanotope since its formation and continues to serve in these capacities. Dr. Anzalone has not received any compensation for his work on behalf of Nanotope since joining the Company on December 1, 2007. Dr. Anzalone has also waived his right to any unpaid compensation accrued for work done on behalf of Nanotope before he joined the Company.

In August 2010, the Company retained Vincent Anzalone, the brother of Arrowhead's Chief Executive Officer, as a consultant for the Company, focusing on business development and market analysis, with a monthly remuneration of $10,000 per month. Vincent Anzalone was paid $20,000 during the fiscal year ended September 30, 2010, $120,000 during the fiscal year ended September 30, 2011, and $30,000 during the six months ended March 31, 2012.

NOTE 11. ***SUBSEQUENT EVENTS***

On April 5, 2012, the Company entered into a Stock Purchase Agreement to purchase all of the outstanding shares of Alvos Therapeutics, Inc., ("Alvos"), a privately held company that licensed a large platform of proprietary human-derived homing peptides, and the method for their delivery, from MD Anderson Cancer Center. In conjunction with the acquisition, Arrowhead hired one employee from Alvos, and retained one employee on a consulting basis. In exchange for all of the outstanding shares of Alvos, Arrowhead issued an upfront payment of 315,467 shares of Arrowhead Common Stock, which shares were issued in a private placement under Section 4(2) of the Securities Act of 1933 and are deemed to be restricted securities. The former Alvos stockholders are also eligible to receive additional issuances of stock valued at up to $23.5 million at the time of issuance based on the future achievement of clinical, regulatory and sales milestones

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

This Quarterly Report on Form 10-Q contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, and we intend that such forward-looking statements be subject to the safe harbors created thereby. For this purpose, any statements contained in this Quarterly Report on Form 10-Q except for historical information may be deemed to be forward-looking statements. Without limiting the generality of the foregoing, words such as "may," "will," "expect," "believe," "anticipate," "intend," "could," "estimate," or "continue" or the negative or other variations thereof or comparable terminology are intended to identify forward-looking statements. In addition, any statements that refer to projections of our future financial performance, trends in our businesses, or other characterizations of future events or circumstances are forward-looking statements.

The forward-looking statements included herein are based on current expectations of our management based on available information and involve a number of risks and uncertainties, all of which are difficult or impossible to predict accurately and many of which are beyond our control. As such, our actual results may differ significantly from those expressed in any forward-looking statements. Readers should carefully review the factors identified in this report under the caption "Risk Factors" as well as the additional risks described in other documents we file from time to time with the Securities and Exchange Commission ("SEC"), including our most recent Annual Report on Form 10-K. In light of the significant risks and uncertainties inherent in the forward-looking information included herein, the inclusion of such information should not be regarded as a representation by us or any other person that such results will be achieved, and readers are cautioned not to place undue reliance on such forward-looking information. Except as may be required by law, we disclaim any intent to revise the forward-looking statements contained herein to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

Overview

Arrowhead Research Corporation is a nanomedicine company developing innovative therapies at the interface of biology and nanoengineering to cure disease and improve human health. Arrowhead has one of the most advanced and broadest technology platforms for therapeutics based on RNA interference (RNAi), including access to several different RNAi delivery systems and small interfering RNA (siRNA) structures in commercial development for RNAi therapeutics. This broad technology platform enables optimization of siRNA therapeutic candidates for delivery based on siRNA chemistry, tissue type, disease state, target gene and siRNA type and chemistry on a target-by-target basis. Arrowhead is leveraging its in house R&D expertise and capabilities, as well as a broad intellectual property portfolio for RNAi therapeutics, to attract development partnerships with other pharmaceutical and biotech companies committed to bringing RNAi therapeutics to market, as well as continuing the preclinical and clinical development of its own clinical candidates. Arrowhead's non-RNAi development programs include a unique therapeutic candidate that shows promise in pre-clinical studies for the potential treatment of obesity and advanced bioactive materials for the regeneration of injured tissues.

Arrowhead was originally incorporated in South Dakota in 1989, and was reincorporated in Delaware in 2000. The Company's principal executive offices are located at 225 South Lake Avenue, Suite 300, Pasadena, California 91101, and its telephone number is (626) 304-3400.

Liquidity and Capital Resources

As a development stage company, Arrowhead has historically financed its operations through the sale of securities of Arrowhead and its Subsidiaries. Research and development activities have required significant capital investment since the Company's inception, and are expected to continue to require significant cash investment in 2012.

At March 31, 2012, the Company had cash on hand of approximately $3.6 million. Cash and cash equivalents decreased during the first six months of fiscal 2012 by $3.9 million from $7.5 million at September 30, 2011.

During the six months ended March 31, 2012, cash used in operating activities was $6.9 million, which represents the on-going expenses for research and development activities, business development, and corporate overhead. Cash outlays related to research and development activities during this period were $4.0 million, and cash outlays for general and administrative purposes were $3.0 million. Cash expenses were partially offset by cash received from revenues of $0.2 million.

Cash provided by investing activities was $0.3 million, primarily related to cash received from the sale of investments.

Cash provided by financing activities of $2.6 million was primarily related to cash received from equity investments from the sale of Common Stock.

On October 21, 2011, Arrowhead completed the acquisition of certain RNAi assets from Hoffmann-La Roche Inc. and F Hoffmann-La Roche Ltd., including intellectual property and a research and development facility based in Madison, Wisconsin. At the time of the acquisition, the facility had 41 employees. Due to the costs associated with the facility, including personnel costs, rent, research and development expenses, and other costs, expenses during the six months ended March 31, 2012 increased, and it is expected that increased cash expenses will continue in 2012 and beyond as the Company accelerates its preclinical and clinical development efforts.

Recent Financing Activity:

On September 30, 2011, the Company sold 1,458,917 shares of Common Stock at a price of $3.80 per share. Cash proceeds received in fiscal 2011 were $4.6 million, cash proceeds in the first six months of fiscal 2012 were $0.4 million, and the balance is expected to be received in 2012. On October 4, 2011, the Company completed a second closing to the private placement stock issuance of September 30, 2011, upon which the Company sold 138,158 shares of Common Stock at a price of $3.80 per share. Cash proceeds were $525,000.

On October 20, 2011, the Company and Lincoln Park Capital Fund, LLC, an Illinois limited liability company ("LPC") entered into a $15 million purchase agreement (the "Purchase Agreement"), together with a registration rights agreement, whereby LPC agreed to purchase up to $15 million of Common Stock, subject to certain limitations, from time to time during the three-year term of the Purchase Agreement. Additionally, the Company filed a registration statement with the U.S. Securities & Exchange Commission covering the resale of the shares that may be issued to LPC under the Purchase Agreement. On January 30, 2012, the SEC declared the registration statement effective for the resale of such shares. The Company has the right, in its sole discretion, over a 36-month period to sell up to $15 million of Common Stock (subject to certain limitations) to LPC, depending on certain conditions as set forth in the Purchase Agreement. As of March 31, 2012, the Company had not drawn upon the facility.

On October 21, 2011 and October 24, 2011, the Company entered into Subscription Agreements with certain accredited investors (the "Series A Purchasers"), pursuant to which the Company issued and sold an aggregate of 1,015 shares of Series A Preferred Convertible Stock, $0.001 par value per share, at a purchase price of $1,000 per share. The aggregate purchase price paid by the Series A Purchasers for the shares of Series A Preferred was $1,015,000. On February 16, 2012, upon approval by the Company's shareholders, 1,015 shares of Arrowhead Series A Preferred Convertible Stock, $0.001 par value per share, were converted to 275,782 shares of Common Stock.

On October 21, 2011, the Company entered into a Subscription Agreement with an accredited investor, pursuant to which the Company issued and sold an aggregate of 675,000 shares of Common Stock, $0.001 par value per share, at a purchase price of $3.70 per share. The aggregate purchase price to be paid by the purchaser for the shares of Common Stock is $2,497,500, of which $0.8 million had been received as of March 31, 2012, $0.8 million received in April 2012, and the balance is expected to be received in the next quarter.

Based upon the Company's cash on hand and operating plan at March 31, 2012, collections from financings during the six months ended March 31, 2012 and other sources of liquidity, as described above, the Company's management anticipates that the Company will be able to satisfy the cash requirements of its operations through at least the next twelve months. However, the Company anticipates that further equity financings, and/or asset sales and license agreements will be necessary to continue to fund operations in the future.

Critical Accounting Policies and Estimates

Management makes certain judgments and uses certain estimates and assumptions when applying accounting principles generally accepted in the United States in the preparation of our Consolidated Financial Statements. We evaluate our estimates and judgments on an ongoing basis and base our estimates on historical experience and on assumptions that we believe to be reasonable under the circumstances. Our experience and assumptions form the basis for our judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may vary from what we anticipate and different assumptions or estimates about the future could change our reported results. We believe the following accounting policies are the most critical to us, in that they are important to the portrayal of our consolidated financial statements and require our most difficult, subjective or complex judgments in the preparation of our consolidated financial statements. For further information, see *Note 1*, *Organization and Significant Accounting Policies*, to our Consolidated Financial Statements which outlines our application of significant accounting policies and new accounting standards.

Stock Compensation Expense

We recognize stock-based compensation expense based on the grant date fair value using the Black-Scholes options pricing model, which requires us to make assumptions regarding certain variables including the risk-free interest rate, expected stock price volatility, and the expected life of the award. The assumptions used in calculating stock-based compensation expense represent management's best estimates, but these estimates involve inherent uncertainties, and if factors change or the Company used different assumptions, its stock-based compensation expense could be materially different in the future.

Derivative Financial Instruments

During the normal course of business, and associated with certain equity financings, the Company may issue warrants or become party to other agreements which require the use of derivative accounting treatment under GAAP. The company does not enter into derivative contracts for speculative purposes. We account for derivatives under the provisions of ASC Topic 815, which generally requires that derivative assets and liabilities be measured at fair value each reporting period with changes in fair value reflected as a current period income or loss, unless the derivatives qualify for hedge accounting treatment. The valuation of such derivatives are made using option pricing models which require various assumptions, some of which may be subjective, including but not limited to the Company's stock price, the expected life of the instrument, a risk-free interest rate, and expected stock price volatility. Subjective assumptions are estimated by management, but other reasonable assumptions could provide differing results.

Revenue Recognition

Revenue from product sales are recorded when persuasive evidence of an arrangement exists, title has passed and delivery has occurred, a price is fixed and determinable, and collection is reasonably assured.

We may generate revenue from technology licenses, collaborative research and development arrangements, research grants and product sales. Revenue under technology licenses and collaborative agreements typically consists of nonrefundable and/or guaranteed technology license fees, collaborative research funding, and various milestone and future product royalty or profit-sharing payments.

Revenue associated with research and development funding payments under collaborative agreements is recognized ratably over the relevant periods specified in the agreement, generally the research and development period. Revenue from up-front license fees, milestones and product royalties are recognized as earned based on the completion of the milestones and product sales, as defined in the respective agreements. Payments received in advance of recognition as revenue are recorded as deferred revenue.

First Half Review

On October 21, 2011, the Company acquired Roche Madison Inc. and other intangible assets from Roche. The acquisition included a laboratory research facility in Madison, Wisconsin comprising over 21,000 square feet. Roche Madison Inc. employed 41 employees at the time of the acquisition. Due to the significant new costs associated with the facility, its people and research programs, salary costs, general and administrative costs and research and development costs increased significantly relative to prior periods. During future quarters in fiscal 2012, we expect this increased cost structure to continue, as compared to prior years, as research and development efforts are accelerated.

Results of Operations

The Company had consolidated loss attributable to Arrowhead of $7,820,737 for the six months ended March 31, 2012, compared to consolidated income attributable to Arrowhead of $1,467,555 for the six months ended March 31, 2011. During the six months ended March 31, 2011, the Company recognized income from discontinued operations of $5.4 million related to the gain on disposal of Unidym, which was not repeated in the current period. In addition, as explained further below, research and development costs increased significantly in the current fiscal year due to the acquisition of Roche Madison. Details of the results of operations are presented below.

Revenue

The Company recorded revenue of $55,208 during the six months ended March 31, 2012, as compared to $296,139 during the six months ended March 31, 2011. The revenue in fiscal 2012 was related to two license agreements acquired in conjunction with the acquisition of Roche Madison Inc. The revenue in fiscal 2011 was related to grants received in the quarter. Revenue for the six months ended March 31, 2011 associated with Unidym prior to its disposition is presented as a part of discontinued operations.

Operating Expenses

The analysis below details the operating expenses and discusses the expenditures of the Company within the major expense categories. The following tables provide details of operating expenses for the three and six months ended March 31, 2012 and 2011.

Salaries – Three and six months ended March 31, 2012 compared to the three and six months ended March 31, 2011

The Company employs management, administrative, and scientific and technical staff at its corporate offices and its research facility. Salaries expense consists of salary and related benefits. Salary and benefits include two major categories: general and administrative compensation expense, and research and development compensation expense, depending on the primary activities of each employee. Arrowhead also manages certain general and administrative functions for Nanotope and Leonardo and charges fees for those services. The following tables provide detail of salary and related benefits expenses for the three and six months ended March 31, 2012 as compared to the three and six months ended March 31, 2011.

(in thousands)

	Three Months Ended March 31, 2012	% of Expense Category	Three Months Ended March 31, 2011	% of Expense Category	Increase (Decrease)	
					$	%
G&A - compensation-related	$ 1,124	56%	$ 364	85%	$ 760	209%
R&D - compensation-related	893	44%	62	15%	831	1340%
Total	$ 2,017	100%	$ 426	100%	$1,591	373%

	Six Months Ended March 31, 2012	% of Expense Category	Six Months Ended March 31, 2011	% of Expense Category	Increase (Decrease)	
					$	%
G&A - compensation-related	$ 1,717	51%	$ 610	83%	$1,107	181%
R&D - compensation-related	1,621	49%	123	17%	1,498	1218%
Total	$ 3,338	100%	$ 733	100%	$2,605	355%

During the three months ended March 31, 2012, G&A compensation expense increased from $364,000 to $1,124,000. The Company added two senior executive positions in October 2011, a Chief Operating Officer and a Chief Business Officer. Additionally, four of the employees hired in conjunction with the acquisition of Roche Madison Inc. were general and administrative employees. In addition to recurring payroll costs, the Company made bonus payments of approximately $350,000, while there were no such payments made in the prior year. Further, the Company recorded noncash expenses related to bonus accrual for the current year, potentially payable in the following year. R&D compensation related costs increased from $62,000 to $893,000. R&D compensation related costs increased due to the employees hired in conjunction with the acquisition of Roche Madison Inc.

General & Administrative Expenses – Three and six months ended March 31, 2012 compared to the three and six months ended March 31, 2011

The following tables provide detail of G&A expenses for the three and six months ended March 31, 2012 as compared to the three and six months ended March 31, 2011.

(in thousands)

	Three Months Ended March 31, 2012	% of Expense Category	Three Months Ended March 31, 2011	% of Expense Category	Increase (Decrease)	
					$	%
Professional/outside services	$ 379	42%	$ 371	45%	$ 8	2%
Patent expense	290	31%	229	28%	61	27%
Facilities and related	26	3%	66	8%	(40)	-61%
Travel	86	9%	23	3%	63	274%
Business insurance	50	5%	54	7%	(4)	-7%
Communication and technology	57	6%	23	3%	34	148%
Office expenses	20	2%	28	3%	(8)	-29%
Other	23	2%	21	3%	2	10%
Total	$ 931	100%	$ 815	100%	$ 116	14%

	Six Months Ended March 31, 2012	% of Expense Category	Six Months Ended March 31, 2011	% of Expense Category	Increase (Decrease)	
					$	%
Professional/outside services	$ 1,182	54%	$ 654	45%	$ 528	81%
Patent expense	511	23%	370	25%	141	38%
Facilities and related	52	2%	108	8%	(56)	-52%
Travel	149	7%	67	5%	82	122%
Business insurance	100	5%	108	8%	(8)	-7%
Communication and technology	102	5%	50	3%	52	104%
Office expenses	52	2%	40	3%	12	30%
Other	50	2%	42	3%	8	19%
Total	$ 2,198	100%	$ 1,439	100%	$ 759	53%

Professional/outside services include legal, accounting, consulting and other outside services retained by the Company. All periods include normally recurring legal and audit expenses related to SEC compliance and other corporate matters. Professional/outside services expense was $379,000 during the three months ended March 31, 2012, compared to $371,000 in the comparable prior period. During the six months ended March 31, 2012, professional/outside services expense was $1,182,000 during compared to $654,000 in the comparable prior period. The increase in professional fees during the six months ended March 31, 2012 was primarily due to a one-time finder's fee of $250,000 related to financing secured during the period, higher legal fees primarily due to services associated with the acquisition of Roche Madison Inc. and higher audit fees, related to historical audits of Roche Madison Inc. to comply with disclosure requirements.

Patent expense was $290,000 during the three months ended March 31, 2012, compared to $229,000 in the comparable prior period. During the six months ended March 31, 2012, patent expense was $511,000 during compared to $370,000 in the comparable prior period. Patent expense increased due to nonrecurring legal costs associated with the due diligence services on the patent portfolio of Roche Madison Inc. in association with its acquisition. Other patent costs relate to fees from services from attorneys related to the Company's intellectual property portfolio. The Company expects to continue to invest in patent protection as the Company extends and maintains protection for its current portfolios and files new patent applications as its product applications are improved. The cost will vary depending on the resources and needs of the Company.

Facilities-related expense was $26,000 during the three months ended March 31, 2012, compared to $66,000 in the comparable prior period. During the six months ended March 31, 2012, facilities-related expense was $52,000 during compared to $108,000 in the comparable prior period. Facilities expense decreased due to a reduction in the Company's rental expense for its corporate offices, as it is temporarily occupying smaller and less expensive office space. In April 2012, the Company signed a 5-year lease for new headquarters office space in Pasadena, California; it is expected that rental expense will increase in the second half of fiscal 2012 as compared to the first half.

Travel expense was $86,000 during the three months ended March 31, 2012, compared to $23,000 in the comparable prior period. During the six months ended March 31, 2012, travel expense was $149,000 compared to $67,000 in the comparable prior period. Travel expense increased due to travel associated with the acquisition of Roche Madison Inc., as well as additional travel costs related to Madison employees. During fiscal 2012, the Company hired a Chief Operating Officer and a Chief Business Officer, whose jobs functions require travel. Also, travel costs are expected to increase in the future due to increased travel between the Madison and Pasadena locations. Travel expense includes expenses related to travel by Company personnel for operational business meetings at other company locations, business initiatives and collaborations throughout the world with other companies, marketing, investor relations, fund raising and public relations purposes. Travel expenses can fluctuate from quarter to quarter and from year to year depending on current projects and activities.

Business insurance expense was $50,000 during the three months ended March 31, 2012, compared to $54,000 in the comparable prior period. During the six months ended March 31, 2012, business insurance expense was $100,000 during compared to $108,000 in the comparable prior period. The company experienced favorable rate decreases in its Directors and Officers insurance coverage, which was mostly offset by additional insurance costs associated with Madison.

Communication and technology expense was $57,000 during the three months ended March 31, 2012 compared to $23,000 in the comparable prior period. During the six months ended March 31, 2012, communication and technology expense was $102,000 during compared to $50,000 in the comparable prior period. The increase was related to software maintenance costs at Madison, primarily end-user software and software maintenance on laboratory computer software.

Office expense was $20,000 during the three months ended March 31, 2012 compared to $28,000 in the comparable prior period. During the six months ended March 31, 2012, office expense was $52,000 during compared to $40,000 in the comparable prior period. The increase was related to costs incurred at Madison.

Research and Development Expenses – Three and six months ended March 31, 2012 compared to the three and six months ended March 31, 2011

R&D expenses are related to the Company's on-going research and development efforts, primarily related to its laboratory research facility in Madison, Wisconsin, and also include outsourced R&D services. The following tables provide detail of research and development expenses for the three and six months ended March 31, 2012 as compared to the three and six months ended March 31, 2011.

(in thousands)

	Three Months Ended March 31, 2012	% of Expense Category	Three Months Ended March 31, 2011	% of Expense Category	Increase (Decrease) $	Increase (Decrease) %
Outside labs & contract services	$ 269	20%	$ 99	70%	$ 170	172%
In vivo studies	94	7%	—	0%	94	NM
Drug manufacturing	390	28%	—	0%	390	NM
Consulting	133	10%	27	19%	106	393%
License, royalty & milestones	22	2%	13	10%	9	69%
Laboratory supplies & services	219	16%	—	0%	219	NM
Facilities and related	198	15%	2	1%	196	NM
Sponsored research	28	2%	—	0%	28	NM
Depreciation—R&D-related	—	0%	—	0%	—	NM
Other research expenses	6	0%	—	0%	6	NM
Total	$ 1,359	100%	$ 141	100%	$1,218	864%

	Six Months Ended March 31, 2012	% of Expense Category	Six Months Ended March 31, 2011	% of Expense Category	Increase (Decrease) $	%
Outside labs & contract services	$ 513	25%	$ 173	7%	$ 340	197%
In vivo studies	107	5%	14	1%	93	NM
Drug manufacturing	470	22%	—	0%	470	NM
Consulting	287	13%	197	8%	90	46%
License, royalty & milestones	37	2%	2,013	84%	(1,976)	-98%
Laboratory supplies & services	302	14%	2	0%	300	NM
Facilities and related	330	16%	4	0%	326	NM
Sponsored research	73	3%	—	0%	73	NM
Other research expenses	9	0%	—	0%	9	NM
Total	$ 2,128	100%	$ 2,403	100%	$ (275)	-11%

NM = Not Meaningful

Outside labs and contract services expense was $269,000 during the three months ended March 31, 2012, compared to $99,000 in the comparable prior period. During the six months ended March 31, 2012, outside labs and contract services expense was $513,000 during compared to $173,000 in the comparable prior period. The primary reason for the increase is due to outside services to complement the work performed at our Madison research facility, which was not part of the prior period data.

In vivo studies expense was $94,000 during the three months ended March 31, 2012, compared to $0 in the comparable prior period. During the six months ended March 31, 2012, in vivo studies expense was $107,000 compared to $14,000 in the comparable prior period. The current period expense relates to animal studies at our Madison research facility, and we expect the level of expenditures for such studies to continue at an elevated level as the company accelerates its preclinical testing associated with projects at the Madison research facility. The prior period expense related to certain limited outsourced in vivo studies related to Calando.

Drug manufacturing expense was $390,000 during the three months ended March 31, 2012, compared to $0 in the comparable prior period. During the six months ended March 31, 2012, drug manufacturing expense was $470,000 during compared to $0 in the comparable prior period. The increase was related to outside manufacturing costs for raw materials, specifically, polymer components for RONDEL. The company is utilizing outside manufactures to produce these components for the Company; these costs will continue until the manufacturing is completed in 2012.

Consulting expense was $133,000 during the three months ended March 31, 2012, compared to $27,000 in the comparable prior period. During the six months ended March 31, 2012, consulting expense was $287,000 during compared to $197,000 in the comparable prior period. The increase in consulting expense was primarily related to cost incurred for our consultants monitoring our clinical trial at Calando, as well as higher costs associated with the scientific advisory board at Ablaris.

Licensing fees, royalty and milestones expense was $22,000 during the three months ended March 31, 2012, compared to $13,000 in the comparable prior period. During the six months ended March 31, 2012, licensing fees, royalty and milestones expense was $37,000 during compared to $2,013,000 in the comparable prior period. Licensing fees, royalty and milestones expenses during the six months ended March 31, 2011 were due $2 million in licensing fees owed to the University of Texas MD Anderson Cancer Center related to a Patent and Technology License Agreement entered into in December 2010. On-going license fees related to Ablaris are approximately $70,000 per year, and represent the majority of the costs in fiscal 2012.

Laboratory supplies and services expense was $219,000 during the three months ended March 31, 2012, compared to $0 in the comparable prior period. During the six months ended March 31, 2012, laboratory supplies and services expense was $302,000 during compared to $2,000 in the comparable prior period. The increase was due to costs incurred in the Company’s new facility in Madison. In the prior year, the Company did not have a research lab.

Facilities expense was $198,000 during the three months ended March 31, 2012, compared to $2,000 in the comparable prior period. During the six months ended March 31, 2012, facilities expense was $330,000 during compared to $4,000 in the comparable prior period. The increase was due to costs incurred in the Company’s new facility in Madison.

Sponsored research expense was $28,000 during the three months ended March 31, 2012, compared to $0 in the comparable prior period. During the six months ended March 31, 2012, sponsored research expense was $73,000 during compared to $0 in the comparable prior period. The cost was related to a research agreement with the University of Cincinnati related to Ablaris.

Stock-based compensation expense

Stock-based compensation expense, a noncash expense, was $421,000 during the six months ended March 31, 2012, compared to $732,000 during the six months ended March 31, 2011. Stock-based compensation expense is based upon the valuation of stock options granted to employees, directors, and certain consultants. Many variables affect the amount expensed, including the Company's stock price on the date of the grant, as well as other assumptions. Based on the completion of vesting of a number of stock options during the second half of fiscal 2011, compensation expense related to those awards ended. This was somewhat offset by additional options granted to new and existing employees.

Depreciation and amortization expense

Depreciation and amortization expense, a noncash expense, was $878,000 during the six months ended March 31, 2012, compared to $137,000 during the six months ended March 31, 2011. The majority of depreciation and amortization expense relates to depreciation on lab equipment obtained as part of the acquisition of Arrowhead Madison. In addition, the Company records depreciation on leasehold improvements at Arrowhead Madison. The Madison facility was acquired in October 2011; therefore, there was no related depreciation in the prior year. Finally, certain patents acquired previously have been capitalized and amortized over the remaining useful lives of the respective patents.

Other income (expense) – Three and six months ended March 31, 2012 compared to the three and six months ended March 31, 2011

Other expense was $715,000 during the three months ended March 31, 2012, compared to other income of $724,000 in the comparable prior period. During the six months ended March 31, 2012, other income was $638,000 compared to $1,254,000 in the comparable prior period. The primary component of other expense in the three months ended March 31, 2012 was the change in the value of derivative liability of $622,000, a non-cash expense, the value of which is dependent on several assumptions and variables, primarily by the Company's stock price. The primary component of other income in the six months ended March 31, 2012 was a noncash gain recorded upon the acquisition of Roche Madison Inc. This gain was partially offset by the change in the value of derivatives of $689,000, a noncash loss based on Arrowhead's share of losses in Nanotope of $171,000, and realized and unrealized losses of marketable securities of $58,000. The primary components of the other income in the three and six months ended March 31, 2011 were as a noncash gains from the change in the value of derivatives, and realized and unrealized gains from the change in value of marketable securities. See note 8 in the Consolidated Financial Statements (Unaudited) for further discussion.

Off-Balance Sheet Arrangements

We do not have and have not had any off-balance sheet arrangements or relationships.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable

ITEM 4. CONTROLS AND PROCEDURES

Our Chief Executive Officer and our Chief Financial Officer, after evaluating our "disclosure controls and procedures" (as defined in Rules 13a-15(e) and 15d-15(e)) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") as of the end of the period covered by this Quarterly Report on Form 10-Q (the "Evaluation Date")), have concluded that, as of the Evaluation Date, our disclosure controls and procedures are effective to ensure that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and to ensure that information required to be disclosed by us in such reports is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer where appropriate, to allow timely decisions regarding required disclosure.

No change in the Company's internal controls over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) occurred during the Company's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, we may be involved in routine legal proceedings, as well as demands, claims and threatened litigation, which arise in the normal course of our business. We believe there is no litigation pending that could, individually or in the aggregate, have a material adverse effect on our results of operations or financial condition.

ITEM 1A. RISK FACTORS

We are a development stage company and we have limited historical operations. We urge you to consider our likelihood of success and prospects in light of the risks, expenses and difficulties frequently encountered by entities at similar stages of development.

The following is a summary of certain risks we face. They are not the only risks we face. Additional risks, of which we are not presently aware, or that we currently believe are immaterial may also harm our business and results of operations. The trading price of our common stock could decline due to the occurrence of any of these risks, and investors could lose all or part of their investment. In assessing these risks, investors should also refer to the other information contained or incorporated by reference in our other filings with the Securities and Exchange Commission.

Risks Related to Our Financial Condition

We have a history of net losses, and we expect to continue to incur net losses and may not achieve or maintain profitability.

We have incurred net losses since our inception, including net losses of $8.3 million for the six months ended March 31, 2012 and a cumulative net loss since inception of approximately $139.8 million. We expect that our operating losses will continue as we fund our drug development and discovery efforts. To achieve profitability, we must, either directly or through licensing and/or partnering relationships, successfully develop and obtain regulatory approval for a drug candidate and effectively manufacture, market and sell any drugs we successfully develop. Even if we successfully commercialize drug candidates that receive regulatory approval, we may not be able to realize revenues at a level that would allow us to achieve or sustain profitability. Accordingly, we may never generate significant revenue and, even if we do generate significant revenue, we may never achieve profitability.

We have limited cash resources.

Our plan of operations is to provide substantial amounts of development funding and financial support to our subsidiaries over an extended period of time. With the recent acquisition of Roche’s RNAi business, including a research facility in Madison, Wisconsin and new employees, our use of cash is expected to substantially increase compared to recent historical periods. We will need to obtain additional capital to further our development efforts, and we intend to seek additional capital by out-licensing technology, securing funded partnerships, conducting one or more private or public offerings of equity securities of the Company or our subsidiaries, or through a combination of one or more of such financing alternatives. However, there can be no assurance that we will be successful in any of these endeavors or, if we are successful, that such transactions will be accomplished on favorable terms. If we are unable to obtain additional capital, we will need to curtail our operations in order to preserve working capital, which could materially harm our business and our ability to achieve cash flow in the future, including delaying or reducing implementation of certain aspects of our plan of operations. Even if we are successful in obtaining additional capital, because we and each subsidiary are separate entities, it could be difficult or impossible to allocate funds in a way that meets the needs of all entities. Although we anticipate that the Company will be able to satisfy the cash requirements of its operations through at least the next twelve months with current cash resources, we may be unable to obtain long-term funding and our near-term expenses could be greater than projected.

The current financial market conditions may exacerbate certain risks affecting our business.

We do not yet generate substantial revenue, and our operations and research and development activities have been primarily funded to date through the sale of Company securities and securities of our Subsidiaries. The global financial markets are volatile and those market conditions, as well as possible concerns over the value of the U.S. dollar denominated investments, may impair our ability to raise the capital we require. If we are unable to secure additional cash resources from the sale of securities or other sources, it could become necessary to slow or suspend development efforts. In addition, we may have to reduce expenses, which could impair our ability to manage our business. Even if investment capital is available to us, the terms may be onerous. If outside capital is invested directly into a subsidiary and Arrowhead does not have the funds to make a pro rata investment, our ownership interest could be diluted. The sale of additional Arrowhead stock could result in significant dilution to stockholders.

The potential monetization of our Subsidiaries through an ownership position might not occur in an orderly manner. Exit opportunities could include an initial public offering (“IPO”) for the subsidiary or acquisition of the subsidiary by another company. During the recent economic recession, companies have been adopting conservative acquisition strategies and, even if there is interest, we may not be able to sell our Subsidiaries on terms that are attractive to us. These factors could reduce the realizable return on our investment if we are able to sell a subsidiary. Additionally, the market for IPOs continues to be unpredictable, which limits public exit opportunities for our Subsidiaries.

Because we have not generated significant revenues to cover our operating expenses, we are dependent on raising additional capital from investors or lenders.

To date, we have only generated a small amount of revenue. Given our strategy of financing new and unproven technology research, there can be no assurance we will ever generate significant revenue. Our revenue-producing opportunities depend on liquidity events within our Subsidiaries, such as a sale of the Subsidiary, licensing transaction or initial public offering. We cannot be certain that we will be able to create a liquidity event for any of our Subsidiaries and, even if we are able to, we cannot be certain of the timing or the potential proceeds to Arrowhead as a stockholder. Accordingly, our revenue prospects are uncertain and we must plan to finance our operations through the sales of equity securities or debt financing. If we are unable to continue raising operating capital from these sources, we may be forced to curtail or cease our operations.

We will need to achieve commercial acceptance of our applications to generate revenues and achieve profitability.

Even if our research and development efforts yield technologically feasible applications, we may not successfully develop commercial products which would take years to study in human clinical trials prior to regulatory approval, and, even if successfully developed, we may not do so on a timely basis. During this development period, superior competitive technologies may be introduced which could diminish or extinguish the potential commercial uses for our drug candidates. Additionally, the degree to which patients and consumers will adopt any product we develop is uncertain. We cannot predict whether significant commercial market acceptance for our products, if approved, will ever develop, and we cannot reliably estimate the projected size of any such potential market. Our revenue growth and achievement of profitability will depend substantially on our ability to introduce new technological applications to manufacturers for products accepted by customers. If we are unable to cost-effectively achieve acceptance of our technology among the medical establishment and patients, or if the associated products do not achieve wide market acceptance, our business will be materially and adversely affected.

We have debt on our consolidated balance sheet through our subsidiary, Calando, which could have negative consequences if we were unable to repay the principal or interest due.

Calando has a $500,000 unsecured convertible promissory note outstanding. The note bears 10% interest accrued annually, and matures in November 2013. The note is payable at two times face value at maturity and upon the occurrence of certain events, including, the license of Calando’s siRNA delivery system. If Calando is unable to meet its obligations to the bearer of the note, Arrowhead may not be in a position to lend Calando sufficient cash to pay such demand note. Unless other sources of financing become available, this could result in Calando’s insolvency.

Our Subsidiaries are party into technology license agreements with third parties that require us to satisfy obligations to keep them effective and, if these agreements are terminated, our technology and our business would be seriously and adversely affected.

Through our Subsidiaries, we are party into exclusive, long-term license agreements with California Institute of Technology, Alnylam Pharmaceuticals, Inc. and other entities to incorporate their proprietary technologies into our proposed products. These license agreements require us to pay royalties and satisfy other conditions, including conditions in some cases related to the commercialization of the licensed technology. We may not be able to successfully incorporate these technologies into marketable products or, if we do, whether sales will be sufficient to recover the amounts that we are obligated to pay to the licensors. Failure by us to satisfy our obligations under these agreements may result in the modification of the terms of the licenses, such as by rendering them non-exclusive, or may give our licensors the right to terminate their respective agreement with us, which would limit our ability to implement our current business plan and harm our business and financial condition.

Risks Related to Our Company

Drug development is time consuming, expensive and risky.

We are focused on technology related to new and improved pharmaceutical candidates. Product candidates that appear promising in the early phases of development, such as in early animal and human clinical trials, often fail to reach the market for a number of reasons, such as:

- Clinical trial results may be unacceptable, even though preclinical trial results were promising;
- Inefficacy and/or harmful side effects in humans or animals;
- The necessary regulatory bodies, such as the U.S. Food and Drug Administration, may not approve our potential product for the intended use; and
- Manufacturing and distribution may be uneconomical.

For example, the positive pre-clinical results studying Adipotide in animals may not be replicated in human clinical studies or that this drug candidate may be found to be unsafe in humans. Additionally, clinical trial results are frequently susceptible to varying interpretations by scientists, medical personnel, regulatory personnel, statisticians and others, which often delays, limits, or prevents further clinical development or regulatory approvals of potential products. Clinical trials can take years to complete, including the process of study design, clinical site selection and the enrollment of patients. As a result, we can experience significant delays in

completing clinical studies, which can increase the cost of developing a drug candidate. If our drug candidates are not successful in human clinical trials, we may be forced to curtail or abandon certain development programs and if we experience significant delays in commencing or completing our clinical studies, we could suffer from significant cost overruns, which could negatively affect our capital resources and our ability to complete these studies.

We may be unable to attract revenue-generating collaborations with other pharmaceutical and biotech companies to advance our drug candidates.

Our business strategy includes collaborations with other pharmaceutical and biotech companies to provide funding and therapeutic siRNA candidates to which we can apply our various siRNA delivery technologies. We may not be able to attract such partners, and even if we are able to enter into such partnerships, the terms may be less favorable than anticipated. Further, entering into partnership agreements may limit our commercialization options and/or require us to share revenues and profits with our partners.

We may lose a considerable amount of control over our intellectual property and may not receive anticipated revenues in strategic transactions involving our Subsidiaries, particularly where the consideration is contingent on the achievement of development or sales milestones.

Our business model has been to develop new technologies and to exploit the intellectual property created through the research and development process to develop commercially successful products. Calando has licensed a portion of its technology to Cerulean Pharma, Inc. and we intend to pursue licensing arrangements with other companies. A significant portion of the potential value from these licenses is tied to the achievement of the development and sales milestones, which we cannot control. Similarly, the majority of the consideration, up to $140 million, potentially payable by Wisepower in connection with our sale of Unidym is tied to the achievement of commercialization milestones, over which we cannot exercise control. Although Wisepower and Cerulean are required to use certain minimum efforts to achieve the post-closing milestones, we cannot control whether they actually achieve these milestones. If the acquirers fail to achieve performance milestones, we may not receive a significant portion of the total value of any sale, license or other strategic transaction.

There are substantial risks inherent in attempting to commercialize new technological applications, and, as a result, we may not be able to successfully develop nanotechnology for commercial use.

Much of the Company research and development efforts involve nanotechnology and RNAi, which are largely unproven technologies. Our scientists and engineers are working on developing technology in various stages. However, such technology’s commercial feasibility and acceptance are unknown. Scientific research and development requires significant amounts of capital and takes a long time to reach commercial viability, if at all. To date, our research and development projects have not produced commercially viable applications, and may never do so. During the research and development process, we may experience technological barriers that we may be unable to overcome. Because of these uncertainties, it is possible that none of our potential applications will be successfully developed. If we are unable to successfully develop nanotechnology applications for commercial use, we will be unable to generate revenue or build a sustainable or profitable business.

We will need to establish additional relationships with strategic and development partners to fully develop and market our products.

We do not possess all of the resources necessary to develop and commercialize products that may result from our technologies on a mass scale. Unless we expand our product development capacity and enhance our internal marketing capability, we will need to make appropriate arrangements with strategic partners to develop and commercialize current and future products. If we do not find appropriate partners, or if our existing arrangements or future agreements are not successful, our ability to develop and commercialize products could be adversely affected. Even if we are able to find collaborative partners, the overall success of the development and commercialization of product candidates in those programs will depend largely on the efforts of other parties and is beyond our control. In addition, in the event we pursue our commercialization strategy through collaboration, there are a variety of technical, business and legal risks, including:

- A development partner would likely gain access to our proprietary information, potentially enabling the partner to develop products without us or design around our intellectual property;
- We may not be able to control the amount and timing of resources that our collaborators may be willing or able to devote to the development or commercialization of our product candidates or to their marketing and distribution; and
- Disputes may arise between us and our collaborators that result in the delay or termination of the research, development or commercialization of our product candidates or that result in costly litigation or arbitration that diverts our management’s resources.

The occurrence of any of the above events or other related events not foreseen by us could impair our ability to generate revenues and harm our business and financial condition.

We may not be able to effectively secure first-tier technologies when competing against other investors.

Our success may require that we acquire new or complimentary technologies. However, we compete with a substantial number of other companies that may also compete for technologies we desire. In addition, many venture capital firms and other institutional investors, as well as other pharmaceutical and biotech companies, invest in companies seeking to commercialize various types of emerging technologies. Many of these companies have greater financial, scientific and commercial resources than us. Therefore, we may not be able to secure the technologies we desire. Furthermore, should any commercial undertaking by us prove to be successful, there can be no assurance competitors with greater financial resources will not offer competitive products and/or technologies.

We rely on outside sources for various components and processes for our products.

We rely on third parties for various components and processes for our products. While we try to have at least two sources for each component and process, we may not be able to achieve multiple sourcing because there may be no acceptable second source, other companies may choose not to work with us, or the component or process sought may be so new that a second source does not exist, or does not exist on acceptable terms. In addition, due to the continued tightening of global credit markets, there may be a disruption or delay in the performance of our third-party contractors, suppliers or collaborators. If such third parties are unable to satisfy their commitments to us, our business would be adversely affected. Therefore, it is possible that our business plans will have to be slowed down or stopped completely at times due to our inability to obtain required raw materials, components and outsourced processes at an acceptable cost, if at all, or to get a timely response from vendors.

We must overcome the many obstacles associated with integrating and operating varying business ventures to succeed.

Our model to integrate and oversee the strategic direction of various Subsidiaries and research and development projects presents many risks, including:

- The difficulty of integrating operations and personnel; and
- The diversion of our management's attention as a result of evaluating, negotiating and integrating acquisitions or new business ventures.

If we are unable to timely and efficiently design and integrate administrative and operational support for our Subsidiaries, we may be unable to manage projects effectively, which could adversely affect our ability to meet our business objectives and the value of an investment in the Company could decline.

In addition, consummating acquisitions and taking advantage of strategic relationships could adversely impact our cash position, and dilute stockholder interests, for many reasons, including:

- Changes to our income to reflect the amortization of acquired intangible assets, including goodwill;
- Interest costs and debt service requirements for any debt incurred to fund our growth strategy; and
- Any issuance of securities to fund our operations or growth, which dilutes or lessens the rights of current stockholders.

Our success depends on the attraction and retention of senior management and scientists with relevant expertise.

Our future success will depend to a significant extent on the continued services of our key employees, including Dr. Anzalone, our President and Chief Executive Officer, Kenneth Myszkowski, our Chief Financial Officer and Bruce Given, our Chief Operating Officer. We do not maintain key man life insurance for any of our executives. Our ability to execute our strategy also will depend on our ability to continue to attract and retain qualified scientists and additional managerial personnel. If we are unable to find, hire and retain qualified individuals, we could have difficulty implementing our business plan in a timely manner, or at all. We may need to terminate additional employees, including senior management and technical employees, or such employees may seek other employment which may result in the loss of valuable know-how and development efforts could be negatively affected.

Members of our senior management team and Board may have a conflict of interest in also serving as officers and/or directors of our Subsidiaries.

While we expect that our officers and directors who also serve as officers and/or directors of our Subsidiaries will comply with their fiduciary duties owed to our stockholders, they may have conflicting fiduciary obligations to our stockholders and the minority stockholders of our Subsidiaries. Specifically, Dr. Anzalone, our President and CEO, is the founder, CEO and a board member of Nanotope, a regenerative medicine company in which the Company owns a 23% interest. Further, Dr. Anzalone as well as Dr. Mauro Ferrari, an Arrowhead board member, are board members of Leonardo, a drug delivery company in which Arrowhead owns a 5% interest. Dr. Anzalone owns a noncontrolling interest in the stock of Nanotope. Drs. Anzalone and Ferrari own a noncontrolling interest in Leonardo. Douglass Given, a member of our board of directors, is the brother of Bruce Given. To the extent that any of our directors choose to recuse themselves from particular Board actions to avoid a conflict of interest, the other members of our Board of Directors will have a greater influence on such decisions.

We face uncertainty related to healthcare reform, pricing and reimbursement, which could reduce our revenue.

In the United States, President Obama signed in March 2010 the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Affordability Reconciliation Act (collectively, "PPACA"), which is expected to substantially change the way health care is financed by both governmental and private payers. PPACA provides for changes to extend medical benefits to those who currently lack insurance coverage, encourages improvements in the quality of health care items and services, and significantly impacts the U.S. pharmaceutical industry in a number of ways, further listed below. By extending coverage to a larger population, PPACA may substantially change the structure of the health insurance system and the methodology for reimbursing medical services, drugs and devices. These structural changes, as well as other changes that may be made as part of deficit and debt reduction efforts in Congress, could entail modifications to the existing system of private payers and government programs, such as Medicare, Medicaid and State Children's Health Insurance Program, as well as the creation of a government-sponsored healthcare insurance source, or some combination of both. Such restructuring of the coverage of medical care in the United States could impact the extent of reimbursement for prescribed drugs, including our product candidates, biopharmaceuticals, and medical devices. Some of the specific PPACA provisions, among other things:

- Establish annual, non-deductible fees on any entity that manufactures or imports certain branded prescription drugs and biologics, which began in 2011;
- Increase minimum Medicaid rebates owed by manufacturers under the Medicaid Drug Rebate Program;
- Extend manufacturers' Medicaid rebate liability to covered drugs dispensed to individuals who are enrolled in Medicaid managed care organizations;
- Establish a new Patient-Centered Outcomes Research Institute to oversee, identify priorities in and conduct comparative clinical effectiveness research;
- Require manufacturers to participate in a coverage gap discount program, under which they must agree to offer 50 percent point-of-sale discounts off negotiated prices of applicable brand drugs to eligible beneficiaries during their coverage gap period, as a condition for the manufacturer's outpatient drugs to be covered under Medicare Part D, beginning in 2011; and
- Increase the number of entities eligible for discounts under the Public Health Service pharmaceutical pricing program, which changes became effective in January 2010.

If future reimbursement for approved product candidates, if any, is substantially less than we project, or rebate obligations associated with them are substantially increased, our business could be materially and adversely impacted.

Sales of any approved drug candidate will depend in part on the availability of coverage and reimbursement from third-party payers such as government insurance programs, including Medicare and Medicaid, private health insurers, health maintenance organizations and other health care related organizations. Accordingly, coverage and reimbursement may be uncertain. Adoption of any drug candidate by the medical community may be limited if third-party payers will not offer coverage. Cost control initiatives may decrease coverage and payment levels for any new drug and, in turn, the price that we will be able to charge. We are unable to predict all changes to the coverage or reimbursement methodologies that will be applied by private or government payers. Any denial of private or government payer coverage or inadequate reimbursement could harm our business and reduce our revenue.

In addition, both the federal and state governments in the United States and foreign governments continue to propose and pass new legislation affecting coverage and reimbursement policies, which are designed to contain or reduce the cost of health care, as well as hold public hearings on these matters, which has resulted in certain private companies dropping the prices of their drugs. Further federal and state proposals and healthcare reforms are likely, which could limit the prices that can be charged for the product candidates that we develop and may further limit our commercial opportunity. There may be future changes that result in reductions in current coverage and reimbursement levels for our product candidates, if approved and commercialized, and we cannot predict the scope of any future changes or the impact that those changes would have on our operations.

There may be a difference in the investment valuations that we used when making initial and subsequent investments in our Subsidiaries and minority investments and actual market values.

Our investments in our Subsidiaries and noncontrolling interests were the result of negotiation with subsidiary management and equity holders, and the investment valuations may not always have been independently verified. Traditional methods used by independent valuation analysts include a discounted cash flow analysis and a comparable company analysis. We have not generated a positive cash flow to date and do not expect to generate significant cash flow in the near future. Additionally, we believe that few comparable public companies exist to provide meaningful valuation comparisons. Accordingly, we have not always sought independent valuation analysis in connection with our investments and may have invested in our various holdings at higher or lower valuations than an independent source would have recommended. There may be no correlation between the investment valuations that we used over the years for our investments and the actual market values. If we should eventually sell all or a part of any of our consolidated business or that of a subsidiary, the ultimate sale price may be for a value substantially different than previously determined by us, which could materially and adversely impair the value of our Common Stock.

Risks Related to Our Intellectual Property

Our ability to protect our patents and other proprietary rights is uncertain, exposing us to the possible loss of competitive advantage.

Our Subsidiaries have licensed rights to pending patents and have filed and will continue to file patent applications. The researchers sponsored by us may also file patent applications that we choose to license. If a particular patent is not granted, the value of the invention described in the patent would be diminished. Further, even if these patents are granted, they may be difficult to enforce. Even if successful, efforts to enforce our patent rights could be expensive, distracting for management, cause our patents to be invalidated, and frustrate commercialization of products. Additionally, even if patents are issued and are enforceable, others may independently develop similar, superior or parallel technologies to any technology developed by us, or our technology may prove to infringe upon patents or rights owned by others. Thus, the patents held by or licensed to us may not afford us any meaningful competitive advantage. If we are unable to derive value from our licensed or owned intellectual property, the value of your investment may decline.

Our ability to develop and commercialize products will depend on our ability to enforce our intellectual property rights and operate without infringing the proprietary rights of third parties.

Our ability to develop and commercialize products based on our patent portfolios will depend, in part, on our ability to enforce those patents and operate without infringing the proprietary rights of third parties. We cannot be certain that any patents that may issue from patent applications owned or licensed by us will provide sufficient protection to conduct our respective businesses as presently conducted or as proposed to be conducted, or that we will remain free from infringement claims by third parties. In particular, there can be no assurance that we will be successful enforcing our rights in the intellectual property that we acquired in the Roche RNAi acquisition.

We may be subject to patent infringement claims, which could result in substantial costs and liability and prevent us from commercializing our potential products.

Because the nanotechnology intellectual property landscape is rapidly evolving and interdisciplinary, it is difficult to conclusively assess our freedom to operate without infringing on third party rights. However, we are currently aware of certain patent rights held by third parties that, if found to be valid and enforceable, could be alleged to render one or more of our business lines infringing. If a claim should be brought and is successful, we may be required to pay substantial damages, be forced to abandon any affected business lines and/or seek a license from the patent holder. In addition, any patent infringement claims brought against us, whether or not successful, may cause us to incur significant expenses and divert the attention of our management and key personnel from other business concerns. These could negatively affect our results of operations and prospects. We cannot be certain that patents owned or licensed by us or our Subsidiaries will not be challenged by others.

In addition, if our potential products infringe the intellectual property rights of third parties, these third parties may assert infringement claims against our customers, and we may be required to indemnify our customers for any damages they suffer as a result of these claims. The claims may require us to initiate or defend protracted and costly litigation on behalf of customers, regardless of the merits of these claims. If any of these claims succeed, we may be forced to pay damages on behalf of our customers or may be required to obtain licenses for the products they use. If we cannot obtain all necessary licenses on commercially reasonable terms, we may be unable to continue selling such products.

Our technology licensed from various third parties may be subject to government rights and retained rights of the originating research institutions.

We license technology from Caltech, and other universities and companies. Our licensors may have obligations to government agencies or universities. Under their agreements, a government agency or university may obtain certain rights over the technology that we have developed and licensed, including the right to require that a compulsory license be granted to one or more third parties selected by the government agency.

In addition, our collaborators often retain certain rights under their agreements with us, including the right to use the underlying technology for noncommercial academic and research use, to publish general scientific findings from research related to the technology, and to make customary scientific and scholarly disclosures of information relating to the technology. It is difficult to monitor whether our collaborators limit their use of the technology to these uses, and we could incur substantial expenses to enforce our rights to our licensed technology in the event of misuse.

Our corporate compliance program cannot guarantee that we are in compliance with all applicable federal and state regulations.

Our operations, including our research and development and our commercialization efforts, such as clinical trials, manufacturing and distribution, are subject to extensive federal and state regulation. While we have developed and instituted a corporate compliance program, we cannot be assured that the Company or our employees are, or will be in compliance with all potentially applicable federal and state regulations or laws. If we fail to comply with any of these regulations or laws, a range of actions could result, including, but not limited to, the termination of clinical trials, the failure to approve a commercialized product, significant fines, sanctions, or litigation, any of which could harm our business and financial condition.

Risks Related to our Stock

Stockholder equity interest may be substantially diluted in any additional financing.

Our certificate of incorporation authorizes the issuance of 145,000,000 shares of Common Stock and 5,000,000 shares of Preferred Stock, on such terms and at such prices as our Board of Directors may determine. Adjusted for the 1 for 10 reverse stock split that was implemented on November 17, 2011, as of March 31, 2012, we had 10,806,306 shares of Common Stock issued and outstanding, and no shares of Preferred Stock issued and outstanding. The issuance of additional securities in financing transactions by us or through the exercise of options or warrants will dilute the equity interests of our existing stockholders, perhaps substantially, and might result in dilution in the tangible net book value of a share of our Common Stock, depending upon the price and other terms on which the additional shares are issued.

Our Common Stock price has fluctuated significantly over the last several years and may continue to do so in the future, without regard to our results of operations and prospects.

Because we are a development stage company, there are few objective metrics by which our progress may be measured. Consequently, we expect that the market price of our Common Stock will likely continue to fluctuate significantly. We may not generate substantial revenue from the license or sale of our technology for several years, if at all. In the absence of product revenue as a measure of our operating performance, we anticipate that investors and market analysts will assess our performance by considering factors such as:

- Announcements of developments related to our business;
- Our ability to enter into or extend investigation phase, development phase, commercialization phase and other agreements with new and/or existing partners;
- Announcements regarding the status of any or all of our collaborations or products;
- Market perception and/or investor sentiment regarding our technology;
- Announcements regarding developments in the nanotechnology field in general;
- Market perception and/or announcements regarding the field of siRNA (small interfering, RNAs);
- The issuance of competitive patents or disallowance or loss of our patent rights; and
- Variations in our operating results.

We will not have control over many of these factors but expect that they may influence our stock price. As a result, our stock price may be volatile and could result in the loss of all or part of your investment. Additionally, in the past, when the market price of a stock has been volatile, holders of that stock have often initiated securities class action litigation against the company that issued the stock. If any of our stockholders brought a lawsuit against us, we could incur substantial costs defending the lawsuit. The lawsuit could also divert the time and attention of our management.

The market for purchases and sales of our Common Stock may be very limited, and the sale of a limited number of shares could cause the price to fall sharply.

Although our Common Stock is listed for trading on the NASDAQ Capital Market, historically our securities have been relatively thinly traded. Investor trading patterns could serve to exacerbate the volatility of the price of the stock. For example, mandatory sales of our Common Stock by institutional holders could be triggered if an investment in our Common Stock no longer satisfies their investment standards and guidelines. Accordingly, it may be difficult to sell shares of our Common Stock quickly without significantly depressing the value of the stock. Unless we are successful in developing continued investor interest in our stock, sales of our stock could continue to result in major fluctuations in the price of the stock.

If securities or industry analysts do not publish research reports about our business or if they make adverse recommendations regarding an investment in our stock, our stock price and trading volume may decline.

The trading market for our Common Stock can be influenced by the research and reports that industry or securities analysts publish about our business. We do not currently have and may never obtain research coverage by industry or securities analysts. Investors have many investment opportunities and may limit their investments to companies that receive coverage from analysts. If no industry or securities analysts commence coverage of the Company, the trading price of our stock could be negatively impacted. In the

event we obtain industry or security analyst coverage, if one or more of the analysts downgrade our stock or comment negatively on our prospects, our stock price may decline. If one or more of these analysts cease to cover our industry or us or fails to publish reports about the Company regularly, our Common Stock could lose visibility in the financial markets, which could also cause our stock price or trading volume to decline.

The market price of our Common Stock may be adversely affected by the sale of shares by our management or founding stockholders.

Sales of our Common Stock by our officers, directors and founding stockholders could adversely and unpredictably affect the price of those securities. Additionally, the price of our Common Stock could be affected even by the potential for sales by these persons. We cannot predict the effect that any future sales of our Common Stock, or the potential for those sales, will have on our share price. Furthermore, due to relatively low trading volume of our stock, should one or more large stockholders seek to sell a significant portion of their stock in a short period of time, the price of our stock may decline.

We do not intend to declare cash dividends on our Common Stock.

We will not distribute cash to our stockholders unless and until we can develop sufficient funds from operations to meet our ongoing needs and implement our business plan. The time frame for that is unpredictable and investors should not expect dividends in the near future, if at all.

Our Board of Directors has the authority to issue shares of "blank check" preferred stock, which may make an acquisition of the Company by another company more difficult.

We have adopted and may in the future adopt certain measures that may have the effect of delaying, deferring or preventing a takeover or other change in control of the Company that a holder of our Common Stock might consider in its best interest. Specifically, our Board of Directors, without further action by our stockholders, currently has the authority to issue up to 4,998,985 shares of preferred stock and to fix the rights (including voting rights), preferences and privileges of these shares ("blank check" preferred). Such preferred stock may have rights, including economic rights, senior to our Common Stock.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

All information under this Item has been previously reported on our Current Reports on Form 8-K.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

ITEM 5. OTHER INFORMATION

On April 12, 2012, Arrowhead Research Corporation (the "Company") entered into a Lease Agreement, which became effective on May 2, 2012, (the "Lease Agreement") with South Lake Avenue Investors, LLC, a Delaware limited liability company ("Landlord") to lease approximately 5,303 rentable square feet of office space located at 225 South Lake Avenue, Suite 1050, Pasadena, California 91101. The Lease Agreement will commence upon substantial completion of tenant improvements, expected to be approximately August 1, 2012 (the "Commencement Date") and expire 65 months after the Commencement Date.

The total monthly base rent for the Lease will be approximately $13,257 for the first 12 months, increasing 3% per annum. Pursuant to the Lease Agreement, rent will be abated in months 2 through 6 of the term. The Company will be responsible for a proportionate share of expenses billed by the Landlord under the Lease Agreement. The Landlord has provided a tenant improvement allowance of $265,000 which is expected to cover the costs of the renovation.

The foregoing is intended only as a summary of the terms of the Lease Agreement and is qualified in its entirety by the text of the Agreement, the form of which the Company has filed as an exhibit to this Quarterly Report on Form 10-Q for the quarter ending March 31, 2012.

ITEM 6. EXHIBITS

Exhibit Number	Document Description
10.1	Office lease agreement by and between South Lake Avenue Investors and Arrowhead Research Corporation*
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-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 Chief Financial Officer pursuant to Rule 13a-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 Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*
101	The following materials from Registrant’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2012, formatted in XBRL (Extensible Business Reporting Language): (1) Consolidated Balance Sheets, (2) Consolidated Statements of Operations, (3) Consolidated Statement of Stockholders’ Equity, (4) Consolidated Statements of Cash Flows, and (5) Notes to Consolidated Financial Statements, tagged as blocks of text. **

* Filed herewith

** Furnished herewith

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this Quarterly Report on Form 10-Q to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: May 8, 2012

ARROWHEAD RESEARCH CORPORATION

By: /s/ Kenneth A. Myszkowski

Kenneth A. Myszkowski
Chief Financial Officer

Exhibit 10.1

OFFICE LEASE AGREEMENT

BY AND BETWEEN

SOUTH LAKE AVENUE INVESTORS LLC,
a Delaware limited liability company

AS LANDLORD

and

ARROWHEAD RESEARCH CORPORATION,
a Delaware corporation

AS TENANT

DATED April 12, 2012

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LEASE AGREEMENT

BASIC LEASE INFORMATION

Lease Date:	April 12, 2012
Landlord:	SOUTH LAKE AVENUE INVESTORS LLC, a Delaware limited liability company
Landlord's Address:	Attention: Asset Manager - Corporate Center Pasadena c/o UBS Realty Investors, LLC 455 Market Street, Suite 1540 San Francisco, California 94105 *All notices sent to Landlord under this Lease shall be sent to the above address, with copies to:* General Manager PM Realty Group, L.P. 251 South Lake Avenue, Suite 100 Pasadena, California 91101-3057 All rent amounts shall be made payable to: SOUTH LAKE AVENUE INVESTORS LLC and shall be mailed to: P.O. Box 748163 Los Angeles, CA 90074-8163
Tenant:	ARROWHEAD RESEARCH CORPORATION, a Delaware corporation
Tenant's Contact Person:	Ken Myszkowski
Tenant's Address:	225 South Lake Avenue, Suite 1050 Pasadena, California 91101
Premises Square Footage:	Approximately 5,303 rentable square feet.
Premises Address:	225 South Lake Avenue, Suite 1050, Pasadena, California 91101.
Project:	Corporate Center Pasadena, comprising 637,651 rentable square feet, together with the accompanying land and all Common Areas.

Building:	225 South Lake Avenue Building, comprising 238,607 rentable square feet
Tenant's Proportionate Share of Project:	0.83%
Tenant's Proportionate Share of Building:	2.22%
Length of Term:	Sixty-Five (65) months, with one (1) sixty (60) month option to extend the Term.
Estimated Commencement Date:	August 1, 2012
Estimated Expiration Date:	December 31, 2017

Base Rent:

Months	Rentable Sq. Ft.	Approx. Annual Base Rate	Annual Base Rent	Approx. Monthly Base Rate	Monthly Base Rent
1 - 12	5,303	$ 30.00	$ 159,090.00	$ 2.50	$ 13,257.50
13 - 24	5,303	$ 30.90	$ 163,862.76	$ 2.57	$ 13,655.23
25 - 36	5,303	$ 31.83	$ 168,778.56	$ 2.65	$ 14,064.88
37 - 48	5,303	$ 32.78	$ 173,841.96	$ 2.73	$ 14,486.83
49 - 60	5,303	$ 33.77	$ 179,057.16	$ 2.81	$ 14,921.43
61 - 65	5,303	$ 34.78	$ 184,428.96	$ 2.90	$ 15,369.08

Prepaid Base Rent:	$13,257.50
Month to which Prepaid Base Rent will be Applied:	First (1st) month of the Term.
Base Year:	2012
Security Deposit:	$15,369.08
Permitted Use:	General office use consistent with the standards of a "Class A" office building.
Reserved Parking Spaces:	Up to three (3) exclusive and designated parking spaces at the Building's then-prevailing standard reserved parking rate, which is subject to change from time to time, to be located as close to the Building's P1 parking level entrance as available. As of the Lease Date, reserved parking spaces are $125.00/month.

Unreserved Parking Spaces:	Fifteen (15) nonexclusive and undesignated parking spaces at the Building's then-prevailing standard unreserved parking rate, which is subject to change from time to time, less the number of Reserved Parking Spaces Tenant elects to use from time to time (not to exceed the maximum allowed number of Reserved Parking Spaces set forth above). As of the Lease Date, unreserved parking Spaces are $85.00/month.
Broker(s):	CBRE, Inc. (Landlord's Broker) CresaPartners (Tenant's Broker)

OFFICE LEASE AGREEMENT

THIS OFFICE LEASE AGREEMENT is made and entered into by and between Landlord and Tenant on the Lease Date. The defined terms used in this Lease which are defined in the Basic Lease Information attached to this Lease Agreement ("**Basic Lease Information**") shall have the meaning and definition given them in the Basic Lease Information. The Basic Lease Information, the exhibits, the addendum or addenda described in the Basic Lease Information, and this Lease Agreement are and shall be construed as a single instrument and are referred to herein as the "**Lease**."

1. DEMISE

In consideration for the rents and all other charges and payments payable by Tenant, and for the agreements, terms and conditions to be performed by Tenant in this Lease, LANDLORD DOES HEREBY LEASE TO TENANT, AND TENANT DOES HEREBY HIRE AND TAKE FROM LANDLORD, the Premises described below (the "**Premises**"), upon the agreements, terms and conditions of this Lease for the Term hereinafter stated.

2. PREMISES

The Premises demised by this Lease are located in that certain building (the "**Building**") specified in the Basic Lease Information, which Building is located in that certain real estate development (the "**Project**") specified in the Basic Lease Information. The Premises has the address and contains the square footage specified in the Basic Lease Information; *provided*, *however*, that any statement of square footage set forth in this Lease, or that may have been used in calculating any of the economic terms hereof, is an approximation which Landlord and Tenant agree is reasonable and, except as expressly set forth in Sections 4(c)(iii) and 4(c)(v) below, no economic terms based thereon shall be subject to revision whether or not the actual square footage is more or less. The location and dimensions of the Premises are depicted on ***Exhibit A,*** which is attached hereto and incorporated herein by this reference. Tenant shall have the non-exclusive right (in common with the other tenants, Landlord and any other person granted use by Landlord) to use the Common Areas (as hereinafter defined), except that with respect to the Project's parking areas (the "**Parking Areas**"), Tenant shall have only the rights, if any, set forth in Section 44 below. For purposes of this Lease, the term "**Common Areas**" means all areas and facilities outside the Premises and within the exterior boundary line of the Project that are, from time to time, provided and designated by Landlord for the non-exclusive use of Landlord, Tenant and other tenants of the Project and their respective employees, guests and invitees.

The Premises shall be leased by Tenant in "As-Is," "Where Is" and "With all Faults" condition and without any representation, warranty or implied warranty of any kind or nature as to the condition, use or occupancy which may be made thereof and without any improvements or alterations by Landlord unless Landlord has expressly agreed to make such improvements or alterations in a tenant work letter attached hereto, if at all, as ***Exhibit B***. If Landlord has agreed to make any such improvements or alterations, then the Premises demised by this Lease shall include any Tenant Improvements (as that term is defined in the tenant improvement work letter) to be constructed by Landlord within the interior of the Premises. Landlord shall construct any Tenant Improvements on the terms and conditions set forth in ***Exhibit B***, if attached hereto. Landlord and Tenant agree to and shall be bound by the terms and conditions of ***Exhibit B***, if any.

Landlord has the right, in its sole discretion, from time to time, to: (a) make changes to the Common Areas, the Building and/or the Project, including, without limitation, changes in the location, size, shape and number of driveways, entrances, parking spaces, parking areas, ingress, egress, direction of driveways, entrances, hallways, corridors, lobby areas and walkways; (b) close temporarily any of the Common Areas for maintenance purposes so long as reasonable access to the Premises remains available; (c) add additional buildings and improvements to the Common Areas or remove existing buildings or improvements therefrom; (d) use the Common Areas while engaged in making additional improvements, repairs or alterations to the Project or any portion thereof, and (e) do and perform any other acts, alter or expand, or make any other changes in, to or with respect to the Common Areas, the Building and/or the Project as Landlord may, in its sole discretion, deem to be appropriate. Without limiting the foregoing, Landlord reserves the right from time to time to install, use, maintain, repair, relocate and replace pipes, ducts, conduits, wires, and appurtenant meters and equipment for service to the Premises or to other parts of the Building which are above the ceiling surfaces, below the floor surfaces, within the walls and in the central core areas of the Building which are located within the Premises or located elsewhere in the Building. In connection with any of the foregoing activities of Landlord, Landlord shall use reasonable efforts while conducting such activities to minimize any interference with Tenant's use of, or access to, the Premises.

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, the same shall be without liability to Landlord and without any reduction or diminution of Tenant's obligations under this Lease.

3. TERM

The term of this Lease (the "**Term**") shall be for the period of months and days specified in the Basic Lease Information, commencing on the date which is the earlier to occur of (i) twenty (20) business days following the date the Tenant Improvements are approved by the appropriate governmental agency as being in accordance with its building code and the building permit issued for such improvements, as evidenced by the issuance of a final building inspection approval, and Landlord has notified Tenant that the Tenant Improvements have been substantially completed in accordance with the plans and specifications therefor, or (ii) the date Tenant occupies the Premises for the purpose of conducting business therein (the "**Commencement Date**"). In the event the Commencement Date, as determined pursuant to the foregoing, is a date other than the Estimated Commencement Date, then Landlord and Tenant shall promptly execute a Commencement and Expiration Date Memorandum in the form attached hereto as ***Exhibit C***, wherein the parties shall specify the Commencement Date, the date on which the Term expires (the "**Expiration Date**") and the date on which Tenant is to commence paying Rent (as defined below). If the actual Commencement Date is a day other than the first day of a calendar month, the Term shall be extended through the end of the month in which the Lease expires, so that the Expiration Date occurs on the last day of the month.

4. RENT

(a) ***Base Rent***. Tenant shall pay to Landlord, in advance on the first day of each month, without further notice or demand and without abatement, offset, rebate, credit or deduction for any reason whatsoever, the monthly installments of rent specified in the Basic Lease Information (the "**Base Rent**"). Notwithstanding anything herein to the contrary, provided that Tenant is not in default beyond any applicable notice and cure period pursuant to the terms of this Lease at any time during the Term, then Tenant shall be excused from the obligation of paying the monthly Base Rent (but not any other amounts) due hereunder for the second (2nd) through the sixth (6th) months of the Term (the "**Excused Base Rent**"). However, should Tenant default hereunder beyond any applicable cure period such that Landlord properly exercises Landlord's remedies pursuant to Section 25 below, then the Excused Base Rent shall no longer be excused and shall become an obligation of Tenant hereunder, and Landlord shall be entitled to seek recovery of the Excused Base Rent as part of the damages to which Landlord is entitled pursuant to the terms of the Lease. Additionally, Tenant has the right to utilize a portion of the Allowance as a credit against Base Rent subject to, and in accordance with, the provisions of Section 1.2(c) of ***Exhibit B*** hereto. Upon execution of this Lease, Tenant shall pay to Landlord the Security Deposit and the Prepaid Rent specified in the Basic Lease Information to be applied toward Base Rent and Additional Rent for the month of the Term specified in the Basic Lease Information.

As used in this Lease, the term "**Additional Rent**" means all sums of money, other than Base Rent, that shall become due from and payable by Tenant pursuant to this Lease, and "**Expenses**" means the total of Operating Expenses, Insurance Expenses, Utility Expenses, and Taxes.

(b) ***Additional Rent***.

(i) Commencing as of the first anniversary of the Commencement Date, in addition to the Base Rent, Tenant shall pay to Landlord as Additional Rent, in accordance with this Section 4(b), (i) Tenant's Proportionate Share(s) of the total dollar increase, if any, in Operating Expenses (as defined below) attributable to each Computation Year (as defined below) over Base Operating Expenses (as defined below), (ii) Tenant's Proportionate Share(s) of the total dollar increase, if any, in Insurance Expenses (as defined below) attributable to each Computation Year over Base Insurance Expenses (as defined below), (iii) Tenant's Proportionate Share(s) of the total dollar increase, if any, in Utility Expenses (as defined below) attributable to each Computation Year over Base Utility Expenses (as defined below), and (iv) Tenant's Proportionate Share(s) of the total dollar increase, if any, in Taxes (as defined below) attributable to each Computation Year over Base Taxes (as defined below).

(ii) As used in this Lease, the following terms shall have the meanings specified:

(A) "**Operating Expenses**" means the total costs and expenses paid or incurred by Landlord in connection with the ownership, operation, maintenance, management and repair of the Premises, the Building and/or the Project or any part thereof, including, without limitation, all the following items:

(1) *Common Area Operating Expenses*. All costs to operate, maintain, repair, replace, supervise, insure and administer the Common Areas, including, without limitation, any Parking Areas owned by Landlord for the use of tenants, and further including, without limitation, supplies, materials, labor and equipment used in or related to the operation and maintenance of the Common Areas, including, without limitation, Parking Areas (including, without limitation, all costs of resurfacing and restriping Parking Areas), signs and directories on the Building and/or the Project, landscaping (including, without limitation, maintenance contracts and fees payable to landscaping consultants), amenities, sprinkler systems, sidewalks, walkways, driveways, curbs, lighting systems and security services, if any, provided by Landlord for the Common Areas, and any charges, assessments, costs or fees levied by any association or entity of which the Project or any part thereof is a member or to which the Project or any part thereof is subject.

(2) *Parking Charges; Public Transportation Expenses*. Any parking charges or other costs levied, assessed or imposed by, or at the direction of, or resulting from statutes or regulations, or interpretations thereof, promulgated by any governmental authority or insurer in connection with the use or occupancy of the Building or the Project, and the cost of maintaining any public transit system, vanpool, or other public or semi-public transportation imposed upon Landlord's ownership and operation of the Building and/or the Project.

(3) *Maintenance and Repair Costs*. All costs to maintain, repair, and replace the Premises, the Building and/or the Project or any part thereof and the personal property used in conjunction therewith, including, without limitation, insurance deductibles and, without limitation, (a) all costs paid under maintenance, management and service agreements such as contracts for janitorial, security and refuse removal, (b) all costs to maintain, repair and replace the roof coverings of the Building or the Project or any part thereof, (c) all costs to maintain, repair and replace the heating, ventilating, air conditioning, plumbing, sewer, drainage, electrical, fire protection, escalator, elevator, life safety and security systems and other mechanical, electrical and communications systems and equipment serving the Premises, the Building and/or the Project or any part thereof (collectively, the "**Systems**"), (d) the cost of all cleaning and janitorial services and supplies, the cost of window glass replacement and repair, and (e) the cost of maintenance, depreciation and replacement of machinery, tools and equipment (if owned by Landlord) and for rental paid for such machinery, tools and equipment (if rented) used in connection with the operation or maintenance of the Building, and (f) costs for improvements made to the Project which, although capital in nature, Landlord determines, in its sole discretion, are necessary to enhance the security systems and improve the security measures at the Project.

(4) *Life Safety and Security Costs.* All costs to install, maintain, repair and replace all life safety systems, including, without limitation, (a) all fire alarm systems serving the Premises, the Building and/or the Project or any part thereof (including, without limitation, all maintenance contracts and fees payable to life safety consultants), whether such systems are or shall be required by Landlord's insurance carriers, Laws (as hereinafter defined) or otherwise, and (b) all costs of security and security systems at the Project, including, without limitation; (i) wages and salaries (including, without limitation, management fees) of all employees engaged in the security of the Project; (ii) all supplies,

materials, equipment, and devices used in the security of the Project, and any upgrades thereto; and (iii) all service or maintenance contracts with independent contractors for Project security, including, without limitation, alarm service personnel, security guards, watchmen, and any other security personnel.

(5) *Management and Administration*. All costs for management and administration of the Premises, the Building and/or the Project or any part thereof, including, without limitation, a property management fee, accounting, auditing, billing, postage, salaries and benefits for all employees and contractors engaged in the management, operation, maintenance, repair and protection of the Building and the Project, whether located on the Project or off-site, payroll taxes and legal and accounting costs, fees for licenses and permits related to the ownership and operation of the Project, and office rent for the Building and/or Project management office or the rental value of such office if it is located within the Building and/or Project.

(6) *Capital Improvements*. Notwithstanding anything herein to the contrary, amounts paid for capital improvements and 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 to the extent of their anticipated savings, (b) that are required to comply with conservation programs, (c) which are replacements or modifications of nonstructural items located in the Common Areas required to keep the Common Areas in good order or condition, (d) that are non-structural in nature and required under any governmental law or regulation enacted, or first enforced (provided Landlord was not aware of a violation as of the Lease Date), after the Commencement Date, or (e) which Landlord determines, in its reasonable discretion are necessary to enhance Building security and improve security measures at the Project, all of which shall be amortized uniformly over the useful life of the improvement consistent with generally accepted real estate accounting principles.

Notwithstanding anything in this Section (b) to the contrary, Insurance Expenses, Utility Expenses and Taxes shall not be deemed to constitute "**Operating Expenses**" for purposes of this Section (A).

(B) "**Insurance Expenses**" means the total costs and expenses paid or incurred by Landlord in connection with the obtaining of insurance on the Premises, the Building and/or the Project or any part thereof or interest therein, including, without limitation, premiums for "all risk" fire and extended coverage insurance, commercial general liability insurance, rent loss or abatement insurance, earthquake insurance, flood or surface water coverage, and other insurance as Landlord deems necessary in its sole discretion, and any deductibles paid under policies of any such insurance. The foregoing shall not be deemed an agreement by Landlord to carry any particular insurance relating to the Premises, Building, or Project.

(C) "**Utility Expenses**" means the cost of all electricity, water, gas, sewers, oil and other utilities (collectively, "**Utilities**"), including, without limitation, any surcharges imposed, serving the Premises, the Building and the Project or any part thereof that are not separately metered to Tenant or any other tenant, and any amounts, taxes, charges, surcharges, assessments or impositions levied, assessed or imposed upon the Premises, the Building or the Project or any part thereof, or upon Tenant's use and occupancy thereof, as a result of any rationing of Utility services or restriction on Utility use affecting the Premises, the Building and/or the Project, as contemplated in Section 5 below.

(D) "**Taxes**" means all real estate taxes and assessments, which shall include any form of tax, assessment (including, without limitation, any special or general assessments and any assessments or charges for Utilities or similar purposes included within any tax bill for the Building or the Project or any part thereof, including, without limitation, entitlement fees, allocation unit fees and/or any similar fees or charges), fee, license fee, business license fee, levy, penalty (if a result of Tenant's delinquency), sales tax, rent tax, occupancy tax or other tax (other than net income, estate, succession, inheritance, transfer or franchise taxes), imposed by any authority having the direct or indirect power to tax, or by any city, county, state or federal government or any improvement or other district or division thereof, whether such tax is determined by the area of the Premises, the Building and/or the Project or any part thereof, or the Rent and other sums payable hereunder by Tenant or by other tenants, including, without limitation, (i) any gross income or excise tax levied by any of the foregoing authorities, with respect to receipt of Rent and/or other sums due under this Lease; (ii) upon any legal or equitable interest of Landlord in the Premises, the Building and/or the Project or any part thereof, (iii) upon this transaction or any document to which Tenant is a party creating or transferring any interest in the Premises, the Building and/or the Project; (iv) levied or assessed in lieu of, in substitution for, or in addition to, existing or additional taxes against the Premises, the Building and/or the Project, whether or not now customary or within the contemplation of the parties; or surcharged against the Parking Areas. "**Taxes**" shall also include legal and consultants' fees, costs and disbursements incurred in connection with proceedings to contest, determine or reduce taxes, Landlord specifically reserving the right, but not the obligation, to contest by appropriate legal proceedings the amount or validity of any taxes. Tenant and Landlord acknowledge that Proposition 13 was adopted by the voters of the State of California in the June, 1978 election and that assessments, taxes, fees, levies and charges may be imposed by governmental agencies for such purposes as fire protection, street, sidewalk, road, utility construction and maintenance, refuse removal and for other governmental services which may formerly have been provided without charge to property owners or occupants. It is the intention of the parties that all new and increased assessments, taxes, fees, levies and charges due to any cause whatsoever are to be included within the definition of real property taxes for purposes of this Lease.

(E) "**Base Year**" means the calendar year specified in the Basic Lease Information.

(F) "**Base Operating Expenses**" means the amount of Operating Expenses for the Base Year.

(G) "**Base Insurance Expenses**" means the amount of Insurance Expenses for the Base Year.

(H) "**Base Taxes**" means the amount of Taxes for the Base Year.

(I) "**Base Utility Expenses**" means the amount of Utility Expenses for the Base Year. Notwithstanding anything to the contrary contained in this Lease, Base Utility Expenses shall not include increases in utility costs due to extraordinary circumstances,

including, without limitation, conservation, bond and/or debt repayment surcharges, charges of a one-time nature, boycotts, strikes, embargoes or other events resulting in shortages. In addition, in the event that, in any Computation Year after the Base Year, Landlord obtains a decrease in the unit cost of electricity being provided to the Building through its negotiations with utility providers or otherwise ("**Reduced Electrical Rate**"), Landlord shall have the right to revise the electrical cost component of the Utility Expenses for the Base Year to be equal to the amount such electrical cost component would have been had the unit cost of electricity during the Base Year been equal to the Reduced Electrical Rate.

(J) "**Computation Year**" means each twelve (12) consecutive month period commencing January 1 of each year during the Term following the Base Year, provided that Landlord, upon notice to Tenant, may change the Computation Year from time to time to any other twelve (12) consecutive month period, and, in the event of any such change, Tenant's Proportionate Share(s) of Operating Expenses over Base Operating Expenses, of Insurance Expenses over Base Insurance Expenses, of Utility Expenses over Base Utility Expenses, and of Taxes over Base Taxes shall be equitably adjusted for the Computation Years involved in any such change.

(K) "**Expense Adjustment Deadline**" means the date which is eighteen (18) months after the Expiration Date or earlier termination date of this Lease. Notwithstanding anything to the contrary contained in this Lease, Tenant shall have no obligation to pay any Expenses to Landlord which are first billed by the Landlord after the Expense Adjustment Deadline (subject to adjustment for Force Majeure); *provided*, *however*, nothing contained herein shall be deemed to relieve Tenant from its liability to pay Tenant's Proportionate Share of Expenses under this Lease which were billed by Landlord prior to the Expense Adjustment Deadline. Similarly, Landlord shall have no obligation to return, rebate or credit to Tenant any refund, rebate, or return of Expenses received by Landlord after the Expense Adjustment Deadline.

(L) "**Exclusions**". The following items shall not be included within the definitions of Operating Expenses, Insurance Expenses, Utility Expenses or Taxes: (1) costs associated with the operation of the business of the ownership or entity which constitutes "**Landlord**," as distinguished from the cost of building operations, including without limitation, accounting and legal matters, cost of defending any law suits with any mortgagee (except as to the actions of Tenant which may be at issue) or tenant, costs of selling, syndicating, financing, mortgaging, or hypothecating any of Landlord's interest in the Building, costs of any disputes between Landlord and its employees not engaged in Building operation, and disputes of Landlord with Building management; (2) costs of capital improvements which are not contemplated under Section (A)(6); (3) ground lease rent and/or any interest and principal payments pursuant to any deed of trust secured by the property of which the Building is a part; (4) legal fees, space planners' fees, real estate brokers' leasing commissions, and advertising expenses incurred in connection with the leasing space in the Building; (5) costs for which Landlord is reimbursed or entitled to be reimbursed by its insurance carrier or any tenant's insurance carrier(s); (6) any bad debt loss, rent loss, or reserves for bad debts or rent loss, except for the premiums, if any, associated with rental loss insurance; (7) fines, penalties and interest incurred as a result of Landlord's failure to make timely payments; (8) electric power costs for which any tenant directly contracts with the local public service company; (9) expenses directly

resulting from the negligence or willful misconduct of Landlord, its agents, servants or employees; (10) costs, including, permit, license and inspection costs, incurred with respect to the installation of tenant improvements made for new tenants in the Building or incurred in renovating or otherwise improving, decorating, painting or redecorating vacant space for tenants or other occupants of the Building; and (11) except for equipment rentals necessary for emergency services, rentals and other related expenses incurred in leasing air conditioning systems, elevators or other equipment ordinarily considered to be of a capital nature.

(c) ***Payment of Additional Rent***.

(i) Within ninety (90) days of the end of the Base Year and each Computation Year or as soon thereafter as practicable, Landlord shall give to Tenant notice of Landlord's estimate of the total amounts that will be payable by Tenant under Section (b) for the following Computation Year, and Tenant shall pay such estimated Additional Rent on a monthly basis, in advance, on the first day of each month. Tenant shall continue to make said monthly payments until notified by Landlord of a change therein. If at any time or times Landlord determines that the amounts payable under Section (b) for the current Computation Year will vary from Landlord's estimate given to Tenant, Landlord, by notice to Tenant, may revise the estimate for such Computation Year, and subsequent payments by Tenant for such Computation Year shall be based upon such revised estimate. By April 1 of each calendar year following the initial Computation Year, Landlord shall endeavor to provide to Tenant a reasonably detailed statement showing the actual Additional Rent due to Landlord for the prior Computation Year. If the total of the monthly payments of Additional Rent that Tenant has made for the prior Computation Year is less than the actual Additional Rent chargeable to Tenant for such prior Computation Year, then Tenant shall pay the difference in a lump sum within ten (10) days after receipt of such statement from Landlord. Any overpayment by Tenant of Additional Rent for the prior Computation Year shall, at Landlord's option, be either credited towards the Additional Rent next due or returned to Tenant in a lump sum payment within ten (10) days after delivery of such statement.

(ii) Landlord's then-current annual operating and capital budgets for the Building and the Project or the pertinent part thereof shall be used for purposes of calculating Tenant's monthly payment of estimated Additional Rent for the current year, subject to adjustment as provided above. Landlord shall make the final determination of Additional Rent for the year in which this Lease terminates as soon as commercially practicable after termination of such year. Even though the Term has expired and Tenant has vacated the Premises, with respect to the year in which this Lease expires or terminates, Tenant shall remain liable for payment of any amount due to Landlord in excess of the estimated Additional Rent previously paid by Tenant, and, conversely, Landlord shall promptly return to Tenant any overpayment. Failure of Landlord to submit statements as called for herein shall not be deemed a waiver of Tenant's obligation to pay Additional Rent as herein provided.

(iii) With respect to Expenses, which Landlord allocates to the Building, Tenant's "**Proportionate Share**" shall be the percentage set forth in the Basic Lease Information as Tenant's Proportionate Share of the Building, as adjusted by Landlord from time to time for a remeasurement of or changes in the physical size of the Premises or the Building, whether such changes in size are due to an addition to or a sale or conveyance of a portion of the Building or

otherwise. With respect to Expenses, which Landlord allocates to the Project as a whole or to only a portion of the Project, Tenant's "**Proportionate Share**" shall be, with respect to Operating Expenses, Insurance Expenses, Utility Expenses or Taxes which Landlord allocates to the Project as a whole, the percentage set forth in the Basic Lease Information as Tenant's Proportionate Share of the Project and, with respect to Expenses, which Landlord allocates to only a portion of the Project, a percentage calculated by Landlord from time to time in its sole discretion and furnished to Tenant in writing, in either case as adjusted by Landlord from time to time for a remeasurement of or changes in the physical size of the Premises or the Project, whether such changes in size are due to an addition to or a sale or conveyance of a portion of the Project or otherwise. Notwithstanding the foregoing, Landlord may equitably adjust Tenant's Proportionate Share(s) for all or part of any item of expense or cost reimbursable by Tenant that relates to a repair, replacement, or service that benefits only the Premises or only a portion of the Building and/or the Project or that varies with the occupancy of the Building and/or the Project. Without limiting the generality of the foregoing, Tenant understands and agrees that Landlord shall have the right to adjust Tenant's Proportionate Share(s) of any Utility Expenses based upon Tenant's use of the Utilities or similar services as reasonably estimated and determined by Landlord based upon factors such as size of the Premises and intensity of use of such Utilities by Tenant such that Tenant shall pay the portion of such charges reasonably consistent with Tenant's use of such Utilities and similar services. If Tenant disputes any such estimate or determination of Utility Expenses, then Tenant shall either pay the estimated amount or, with the prior written approval of Landlord, which approval may be given or withheld in Landlord's sole and absolute discretion, cause the Premises to be separately metered at Tenant's sole expense.

(iv) In the event the average occupancy level of the Building or the Project for the Base Year and/or any subsequent Computation Year is not ninety-five percent (95%) or more of full occupancy, then the Operating Expenses for such year shall be apportioned among the tenants by the Landlord to reflect those costs which would have occurred had the Building or the Project, as applicable, been ninety-five percent (95%) occupied during such year.

(v) Without limiting the terms of Section (c) above, Landlord reserves the right from time to time to remeasure the Premises, the Building and/or the Project in accordance with the current or revised standards promulgated from time to time by the Building Owners and Managers Association (BOMA) or the American National Standards Institute or other generally accepted measurement standards utilized by Landlord and to thereafter adjust the Proportionate Share(s) of Tenant and any other affected tenants of the Building and/or Project.

(d) ***General Payment Terms***. The Base Rent, Additional Rent and all other sums payable by Tenant to Landlord hereunder, any late charges assessed pursuant to Section 6 below and any interest assessed pursuant to Section 46 below, are referred to as the "**Rent**." All Rent shall be paid in lawful money of the United States of America and through a domestic branch of a United States financial institution. Checks are to be made payable and mailed as set forth in the Basic Lease Information, or to such other person or place as Landlord may, from time to time, designate to Tenant in writing. The Rent for any fractional part of a calendar month at the commencement or termination of the Term shall be a prorated amount of the Rent for a full calendar month based upon a thirty (30) day month.

(e) ***Statements Binding***. Every statement given by Landlord pursuant to Section (c) shall be conclusive and binding upon Tenant unless (i) within ninety (90) days after the receipt of such statement Tenant shall notify Landlord that it disputes the correctness thereof, specifying the particular respects in which the statement is claimed to be incorrect, and (ii) if such dispute shall not have been settled by agreement, Tenant shall submit the dispute to arbitration within one hundred eighty (180) days after receipt of the statement. Pending the determination of such dispute by agreement or arbitration as aforesaid, Tenant shall, within thirty (30) days after receipt of such statement, pay Additional Rent in accordance with Landlord's statement and such payment shall be without prejudice to Tenant's position. If the dispute shall be determined in Tenant's favor, Landlord shall within thirty (30) days thereafter pay Tenant the amount of Tenant's overpayment of Additional Rent resulting from compliance with Landlord's statement.

(f) ***Audit Rights***. Provided Tenant notifies Landlord in accordance with the terms of Section (e) above that Tenant disputes a statement received from Landlord, Tenant or its CPA (as defined below) shall have the right, at Tenant's sole cost and expense, provided Tenant utilizes a Certified Public Accountant (the "**CPA**") compensated solely on an hourly basis, upon at least thirty (30) days prior notice to Landlord at any time during regular business hours to audit, review and photocopy Landlord's records pertaining to the Expenses for the immediately previous calendar year only. Tenant shall complete the audit and present any disputed charges to Landlord, in writing, within six (6) months of receipt of Landlord's statement pursuant to Section (c). If Tenant fails to complete the audit and present any disputed charges to Landlord within the foregoing six (6) month period. Tenant shall forfeit any rights to claim a refund, rebate, or return of the Expenses set forth in the statement. If, following Landlord's receipt of the audit and any disputed charges (the "**Report Date**"), Landlord disputes the findings contained therein, and Landlord and Tenant are not able to resolve their differences within thirty (30) days following the Report Date, the dispute shall be resolved by binding arbitration as follows: Landlord and Tenant shall each designate an independent certified public accountant, which shall in turn jointly select a third independent Certified Public Accountant (the "**Third CPA**"). The Third CPA, within thirty (30) days of selection, shall, at Tenant's sole expense, audit the relevant records and certify the proper amount within. That certification shall be final and conclusive. If the Third CPA determines that the amount of Operating Expenses billed to Tenant was incorrect, the appropriate party shall pay to the other party the deficiency or overpayment, as applicable, within thirty (30) days following delivery of the Third Party CPA's decision, without interest. Tenant agrees to keep all information thereby obtained by Tenant confidential and to obtain the agreement of its CPA and Third CPA to keep all such information confidential. Tenant shall provide a copy of such CPA agreements to Landlord promptly upon request. Notwithstanding anything herein to the contrary, if the Third CPA determines that Landlord overstated the amount of Expenses by more than seven percent (7%), then Landlord shall reimburse Tenant for its reasonable out-of-pocket audit expenses, including the cost of the Third CPA.

5. UTILITIES AND SERVICES

(a) ***Building Services; Hours***. From 8:00 a.m. to 6:00 p.m. on weekdays and Saturday from 9:00 a.m. to 1:00 p.m. ("**Normal Business Hours**" (excluding legal holidays)), Landlord shall furnish to the Premises electricity for lighting and operation of low-power usage office machines, water, heat and air conditioning, and elevator service. During all other hours, Landlord shall furnish such service except for heat and air conditioning. Landlord shall provide

janitorial services for the Premises five (5) days a week (excluding legal holidays) as determined reasonably necessary by Landlord**.** Tenant shall separately arrange with, and pay directly to, the applicable local public authorities or utilities, as the case may be, for the furnishing, installation and maintenance of all telephone services and equipment as may be required by Tenant in the use of the Premises. Landlord shall not be liable for any damages resulting from interruption of, or Tenant's inability to receive such service, and any such inability shall not relieve Tenant of any of its obligations under this Lease. If at any time during the Term Landlord shall determine that installation of a separate electrical meter for the Premises is necessary or desirable as a result of Tenant's electrical usage, Tenant shall pay the cost of installing and maintaining such meter and the cost of Tenant's electrical usage as measured by such meter.

(b) ***After Hours HVAC***. If requested in writing by Tenant with reasonable advance notice, Landlord shall furnish heat and air conditioning at times other than Normal Business Hours and the cost of such services as established by Landlord shall be paid by Tenant as Additional Rent, payable concurrently with the next installment of Base Rent. As of the Lease Date, HVAC service after Normal Business Hours is $65.00 per hour.

(c) ***Electric Service Provider***. Without limiting the terms of Section 5(a) above, Tenant acknowledges that Landlord has contracted with the City of Pasadena to provide electricity for the Building, and that Landlord reserves the right to change the provider of such service at any time and from time to time in Landlord's sole discretion (any such provider being referred to herein as the "**Electric Service Provider**"). Tenant shall obtain and accept electrical service for the Premises only from and through Landlord, in the manner and to the extent expressly provided in this Lease, at all times during the term of this Lease, and Tenant shall have no right (and hereby waives any right Tenant may otherwise have) (i) to contract with or otherwise obtain any electrical service for or with respect to the Premises or Tenant's operations therein from any provider of electrical service other than the Electric Service Provider, or (ii) to enter into any separate or direct contract or other similar arrangement with the Electric Service Provider for the provision of electrical service to Tenant at the Premises. Tenant shall cooperate with Landlord and the Electric Service Provider at all times to facilitate the delivery of electrical service to Tenant at the Premises and to the Building, including, without limitation, allowing Landlord and the Electric Service Provider, and their respective agents and contractors, (a) to install, repair, replace, improve and remove any and all electric lines, feeders, risers, junction boxes, wiring, and other electrical equipment, machinery and facilities now or hereafter located within the Building or the Premises for the purpose of providing electrical service to or within the Premises or the Building, and (b) reasonable access for the purpose of maintaining, repairing, replacing or upgrading such electrical service from time to time. Tenant shall provide such information and specifications regarding Tenant's use or projected use of electricity at the Premises as shall be required from time to time by Landlord or the Electric Service Provider to efficiently provide electrical service to the Premises or the Building. In no event shall Landlord be liable or responsible for any loss, damage, expense or liability, including, without limitation, loss of business or any consequential damages, arising from any failure or inadequacy of the electrical service being provided to the Premises or the Building, whether resulting from any change, failure, interference, disruption, or defect in the supply or character of the electrical service furnished to the Premises or the Building, or arising from the partial or total unavailability of electrical service to the Premises or the Building, from any cause whatsoever, or otherwise, nor shall any such failure, inadequacy, change, interference, disruption, defect or

unavailability constitute an actual or constructive eviction of Tenant, or entitle Tenant to any abatement or diminution of Rent or otherwise relieve Tenant from any of its obligations under this Lease.

(d) ***Usage Restriction***. Tenant acknowledges that the Premises, the Building and/or the Project may become subject to the rationing of Utility services or restrictions on Utility use as required by a public utility company, governmental agency or other similar entity having jurisdiction thereof. Tenant acknowledges and agrees that its tenancy and occupancy hereunder shall be subject to such rationing or restrictions as may be imposed upon Landlord, Tenant, the Premises, the Building and/or the Project, and Tenant shall in no event be excused or relieved from any covenant or obligation to be kept or performed by Tenant by reason of any such rationing or restrictions. Tenant agrees to comply with energy conservation programs implemented by Landlord by reason of rationing, restrictions or Laws.

(e) ***Landlord Not Liable***. Landlord shall not be liable for any loss, injury or damage to property caused by or resulting from any variation, interruption, or failure of Utilities due to any cause whatsoever, or from failure to make any repairs or perform any maintenance. No temporary interruption or failure of such services incident to the making of repairs, alterations, improvements, or due to accident, strike, or conditions or other events shall be deemed an eviction of Tenant or, subject to the terms of Section 5(g) below, relieve Tenant from any of its obligations hereunder. In no event shall Landlord be liable to Tenant for any damage to the Premises or for any loss, damage or injury to any property therein or thereon occasioned by bursting, rupture, leakage or overflow of any plumbing or other pipes (including, without limitation, water, steam, and/or refrigerant lines), sprinklers, tanks, drains, drinking fountains or washstands, or other similar cause in, above, upon or about the Premises, the Building, or the Project.

(f) ***Tenant's Utilities Consumption***. Landlord makes no representation with respect to the adequacy or fitness of the air-conditioning or ventilation equipment in the Building to maintain temperatures which may be required for, or because of, any equipment of Tenant, other than normal fractional horsepower office equipment, or occupancy of the Premises by more than one person per 200 rentable square feet. Landlord shall have no liability for loss or damage in connection therewith. Tenant shall not, without Landlord's prior written consent, use heat-generating machines, machines other than normal fractional horsepower office machines, 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 this Section 5. If such consent is given, Landlord shall have the right to install supplementary air conditioning units or other facilities in the Premises, including, without limitation, supplementary or additional metering devices, and the cost thereof, including, without limitation, 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. Tenant shall not use water or heat or air conditioning in excess of that normally supplied by Landlord. Tenant's consumption of electricity shall not exceed the Building's capacity considering all other tenants of the Building.

(g) ***Service Interruption***. Notwithstanding anything herein to the contrary, if the Premises is made untenantable, inaccessible or unsuitable for the ordinary conduct of Tenant's

business, as a result of an interruption in any of the basic services provided by Landlord pursuant to this Section 5, then (i) Landlord shall use commercially reasonable good faith efforts to restore the same as soon as is reasonably possible, (ii) if, despite such commercially reasonable good faith efforts by Landlord, such interruption persists for a period in excess of five (5) consecutive business days, then Tenant, as its sole remedy, shall be entitled to receive an abatement of Base Rent and Additional Rent payable hereunder during the period beginning on the sixth (6th) consecutive business day of such interruption and ending on the day the utility or service has been restored; provided, however, that in the event such interruption is not due to Landlord's negligence or willful misconduct, then such abatement shall only apply to the extent Landlord collects proceeds under the policy of rental-loss insurance the cost of which has been included in Operating Expenses and the proceeds from which are allocable to the Premises.

6. LATE CHARGE

Notwithstanding any other provision of this Lease to the contrary, Tenant hereby acknowledges that late payment to Landlord of Rent, or other amounts due hereunder will cause Landlord to incur costs not contemplated by this Lease, the exact amount of which will be extremely difficult to ascertain. If any Rent or other sums due from Tenant are not received by Landlord or by Landlord's designated agent within five (5) days after their due date, then Tenant shall pay to Landlord a late charge equal to five percent (5%) of such overdue amount, plus any costs and attorneys' fees incurred by Landlord by reason of Tenant's failure to pay Rent and/or other charges when due hereunder. Landlord and Tenant hereby agree that such late charges represent a fair and reasonable estimate of the cost that Landlord will incur by reason of Tenant's late payment and shall not be construed as a penalty. Landlord's acceptance of such late charges shall not constitute a waiver of Tenant's default with respect to such overdue amount or stop Landlord from exercising any of the other rights and remedies granted under this Lease.

7. SECURITY DEPOSIT

Concurrently with Tenant's execution of the Lease, Tenant shall deposit with Landlord the Security Deposit specified in the Basic Lease Information as security for the full and faithful performance of each and every term, covenant and condition of this Lease. Landlord may use, apply or retain the whole or any part of the Security Deposit as may be reasonably necessary (a) to remedy any Default by Tenant under this Lease, (b) to repair damage to the Premises caused by Tenant, (c) to perform Tenant's obligations under Section 11, in the event Tenant fails to do so, (d) to reimburse Landlord for the payment of any amount which Landlord may reasonably spend or be required to spend by reason of Tenant's Default, and (e) to compensate Landlord for any other loss or damage which Landlord may suffer by reason of Tenant's Default. Should Tenant faithfully and fully comply with all of the terms, covenants and conditions of this Lease, within thirty (30) days following the expiration of the Term, the Security Deposit or any balance thereof shall be returned to Tenant or, at the option of Landlord, to the last assignee of Tenant's interest in this Lease. Landlord shall not be required to keep the Security Deposit separate from its general funds and Tenant shall not be entitled to any interest on such deposit. If Landlord so uses or applies all or any portion of said deposit, within five (5) days after written demand therefor Tenant shall deposit cash with Landlord in an amount sufficient to restore the Security Deposit to the full extent of the above amount, and Tenant's failure to do so shall be a default under this Lease. In the event Landlord transfers its interest in this Lease, Landlord shall transfer

the then remaining amount of the Security Deposit to Landlord's successor in interest, and thereafter Landlord shall have no further liability to Tenant with respect to such Security Deposit. Tenant hereby waives any and all rights under and the benefits of Section 1950.7 of the California Civil Code, and all other provisions of law now in force or that become in force after the date of execution of this Lease, that provide that 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 Tenant, or to clean the Premises. Landlord and Tenant agree that Landlord may, in addition, claim those sums reasonably necessary to compensate Landlord for any other foreseeable or unforeseeable loss or damage caused by the act or omission of Tenant or Tenant's officers, agents, employees, independent contractors, or invitees.

8. POSSESSION

(a) ***Tenant's Right of Possession***. Subject to Section 8(c), Tenant shall be entitled to possession of the Premises upon commencement of the Term.

(b) ***Early Access***. Tenant shall have the right to access the Premises prior to the Commencement Date subject to and in accordance with the terms of Section 7 of ***Exhibit B*** hereto.

(c) ***Delay in Delivering Possession***. If for any reason whatsoever, Landlord cannot deliver possession of the Premises to Tenant on or before the Estimated Commencement Date with the Tenant Improvements substantially completed, this Lease shall not be void or voidable, nor shall Landlord, or Landlord's agents, advisors, employees, partners, shareholders, directors, invitees, independent contractors or Landlord's manager or investment advisors (collectively, "**Landlord's Agents**"), be liable to Tenant for any loss or damage resulting therefrom. Notwithstanding the foregoing, if the Tenant Improvements are not substantially completed and the Premises delivered by the date which is six (6) months following the Estimated Commencement Date (as such date may be extended by Force Majeure), then Tenant shall have the option to terminate this Lease by written notice to Landlord within ten (10) days thereafter, unless Landlord delivers possession of the Premises to Tenant with the Tenant Improvements substantially completed prior to the expiration of such ten (10) day period, and, upon any such termination, all deposits and prepayments shall be refunded. The foregoing right of termination shall be the sole remedy available to Tenant as a result of Landlord's failure to deliver the Premises to Tenant on a timely basis.

9. USE OF PREMISES

(a) ***Permitted Use***. The use of the Premises by Tenant and Tenant's agents, advisors, employees, partners, shareholders, directors, customers, invitees and independent contractors (collectively, "**Tenant's Agents**") shall be solely for the Permitted Use specified in the Basic Lease Information and for no other use. Tenant shall not permit any objectionable or unpleasant odor, smoke, dust, gas, noise or vibration to emanate from or near the Premises. The Premises shall not be used to create any nuisance or trespass, for any illegal purpose, for any purpose not permitted by Laws (as hereinafter defined), for any purpose that would invalidate the insurance or increase the premiums for insurance on the Premises, the Building or the Project or for any purpose or in any manner that would interfere with other tenants' use or occupancy of the

Project. If any of Tenant's office machines or equipment disturb any other tenant in the Building, then Tenant shall provide adequate insulation or take such other action as may be necessary to eliminate the noise or disturbance. Tenant agrees to pay to Landlord, as Additional Rent, any increases in premiums on policies resulting from Tenant's Permitted Use (other than general office use) or any other use or action by Tenant or Tenant's Agents which increases Landlord's premiums or requires additional coverage by Landlord to insure the Premises. Tenant agrees not to overload the floor(s) of the Building.

(b) ***Compliance with Governmental Regulations and Private Restrictions***. Tenant and Tenant's Agents shall, at Tenant's expense, faithfully observe and comply with (1) all municipal, state and federal laws, statutes, codes, rules, regulations, ordinances, requirements, and orders (collectively, "**Laws**"), now in force or which may hereafter be in force pertaining to the Premises or Tenant's use of the Premises, the Building or the Project; (2) all recorded covenants, conditions and restrictions affecting the Project ("**Private Restrictions**") now in force or which may hereafter be in force; and (3) the Rules and Regulations (as defined in Section 41 of this Lease). Without limiting the generality of the foregoing, to the extent Landlord is required by the city or county in which the Building is located to maintain carpooling and public transit programs, Tenant shall cooperate in the implementation and use of these programs by and among Tenant's employees. The judgment of any court of competent jurisdiction, or the admission of Tenant in any action or proceeding against Tenant, whether Landlord be a party thereto or not, that Tenant has violated any Laws or Private Restrictions, shall be conclusive of that fact as between Landlord and Tenant.

(c) ***Compliance with Americans with Disabilities Act***. The Premises, the Building and/or the Project may be subject to, among other Laws, the Americans with Disabilities Act, 42 U.S.C. 12101 *et seq.*, including, without limitation, to Title III thereof, and all regulations and guidelines related thereto, together with any and all laws, rules, regulations, ordinances, codes and statutes now or hereafter enacted by local or state agencies having jurisdiction thereof (including, without limitation, all of the requirements of Title 24 of the California Code of Regulations), as the same may be in effect on the date of this Lease and may be hereafter modified, amended or supplemented (collectively, the "**ADA**"). Any Tenant Improvements to be constructed hereunder shall comply with the ADA, and all costs incurred to comply therewith shall be a part of and included in the cost of the Tenant Improvements. Tenant shall be solely responsible for conducting its own independent investigation of this matter and for ensuring that the design of all Tenant Improvements strictly complies with all requirements of the ADA. Subject to reimbursement pursuant to Section 4(b) above, if any barrier removal work or other work is required to the Building, the Common Areas or the Project under the ADA, then such work shall be the responsibility of Landlord; provided that, if such work is required under the ADA as a result of Tenant's use of the Premises (other than general office use) or any work or Alteration (as hereinafter defined) made to the Premises by or on behalf of Tenant (other than the Tenant Improvements), then such work shall be performed by Landlord at the sole cost and expense of Tenant.

Except as otherwise expressly provided in this provision, Tenant shall be responsible at its sole cost and expense for fully and faithfully complying with all applicable requirements of the ADA. Within ten (10) days after receipt, Tenant shall advise Landlord in writing, and provide Landlord with copies of (as applicable), any notices alleging violation of the ADA

relating to any portion of the Premises, the Building or the Project; any Claims made or threatened orally or in writing regarding noncompliance with the ADA and relating to any portion of the Premises, the Building, or the Project; or any governmental or regulatory actions or investigations instituted or threatened regarding noncompliance with the ADA and relating to any portion of the Premises, the Building or the Project. Tenant shall and hereby agrees to protect, defend (with counsel reasonably acceptable to Landlord) and hold Landlord and Landlord's Agents harmless and indemnify Landlord and Landlord's Agents from and against all actions, causes of action, charges, claims, costs, damages, demands, expenses (including reasonable attorneys' fees, costs of court and expenses incurred), fines, judgments, liabilities, liens, losses, or penalties of every kind and nature whatsoever (collectively, "**Claims**") necessary in the prosecution or defense of any litigation including the enforcement of this provision arising from or in any way related to, directly or indirectly, Tenant's or Tenant's Agents violation or alleged violation of the ADA. Tenant agrees that the obligations of Tenant herein shall survive the expiration or earlier termination of this Lease.

(d) ***No Roof Access***. At no time during the Term shall Tenant have access to the roof of the Building or have the right to install, operate or maintain a satellite-earth communications station (antenna and associated equipment), microwave equipment and/or an FM antenna on the Building or the Project.

10. ACCEPTANCE OF PREMISES

By its execution hereof, Tenant acknowledges that it had the opportunity to fully inspect the Premises, including, without limitation, conducting any desired testing. Tenant hereby certifies to Landlord that neither Tenant nor any of its employees, agents, or contractors observed or has any actual knowledge of any mold, mildew, Mold Conditions (as hereinafter defined) or moisture within the Premises. Subject to Landlord's obligations under ***Exhibit B***, Landlord shall deliver the Premises, Tenant shall accept the Premises as suitable for Tenant's intended use and as being in good and sanitary operating order, condition and repair, "As-Is," "Where Is" and "With all Faults" condition and without any representation, warranty or implied warranty of any kind or nature as to the condition, use or occupancy which may be made thereof and without any improvements or alterations by Landlord. Any exceptions to the foregoing must be by written agreement executed by Landlord and Tenant.

11. SURRENDER

Tenant agrees that on the last day of the Term, or on the sooner termination of this Lease, Tenant shall surrender the Premises to Landlord (a) in broom clean, good condition and repair (damage by acts of God, fire, normal wear and tear, casualty and condemnation excepted), and (b) otherwise in accordance with Section 32(f). Normal wear and tear shall not include any damage or deterioration that would have been prevented by Tenant performing all of its maintenance obligations under this Lease. On or before the expiration or sooner termination of this Lease, (i) Tenant shall remove all of Tenant's Property (as hereinafter defined), all communications, computer or other electronic service wiring, cabling and related devices installed in the Premises or elsewhere in the Building by or at the request of Tenant (provided such removal shall be performed by an engineer or telecom provider designated by Landlord), and Tenant's signage from the Premises, the Building and the Project, and Tenant shall repair

any damage caused by such removal, and (ii) Landlord may, subject to the provisions of Section 12(i) below, by notice to Tenant given not later than ninety (90) days prior to the Expiration Date (except in the event of a termination of this Lease prior to the scheduled Expiration Date, in which event no advance notice shall be required), require Tenant at Tenant's expense to remove any or all Alterations that Landlord has not consented to or that Landlord has not informed Tenant may remain in the Premises pursuant to 12(i) below, and to repair any damage caused by such removal; provided, however that Tenant shall not be required to remove any of the initial Tenant Improvements installed by Landlord under ***Exhibit B***. Any of Tenant's Property not so removed by Tenant as required herein shall be deemed abandoned and may be stored, removed, and disposed of by Landlord at Tenant's expense, and Tenant waives all Claims against Landlord for any damages resulting from Landlord's retention and disposition of such property; *provided*, *however*, that Tenant shall remain liable to Landlord for all costs incurred in storing and disposing of such abandoned property of Tenant. All Tenant Improvements and Alterations except those which Landlord requires Tenant to remove shall remain in the Premises as the property of Landlord.

12. ALTERATIONS AND ADDITIONS

(a) ***No Alterations Without Consent***. Tenant shall not make, or permit to be made, any alteration, addition or improvement (hereinafter referred to individually as an "Alteration" and collectively as the "**Alterations**") to the Premises or any part thereof without the prior written consent of Landlord, which consent shall not be unreasonably withheld, conditioned or delayed; *provided*, *however*, that Landlord shall have the right in its sole and absolute discretion to consent or to withhold its consent to any Alteration which conflicts with the Construction Rules and Regulations (as hereinafter defined) or affects the structural portions of the Premises, the Building or the Project or the Systems serving the Premises, the Building and/or the Project or any portion thereof. As used herein, "**Construction Rules and Regulations**" means Landlord's standard rules and regulations to construction and alterations, as updated and revised from time to time. Notwithstanding the foregoing, provided Tenant is not in Default under this Lease, Tenant may, upon no less than ten (10) days prior written notice to Landlord and submission to Landlord of plans and specifications therefor (if applicable), but without the necessity of obtaining Landlord's prior written consent, (1) paint and/or carpet the Premises, without regard to the cost thereof, and (2) make other interior, cosmetic Alterations to the Premises having a cost not to exceed $5,000.00, so long as the same do not (A) require a building permit, (B) affect, interfere with or disrupt any of the Systems of the Building, (C) affect the outside appearance of the Building, (D) affect the roof of the Building, or (E) affect any structural element of the Building. Notwithstanding anything herein to the contrary, Landlord will not require approval of the contractor or the posting of a performance bond in connection with any Alterations which do not require consent in accordance with the foregoing.

(b) ***All Alterations at Tenant's Expense; Pre-Construction Requirements***. Any Alteration to the Premises shall be at Tenant's sole cost and expense, in compliance with all applicable Laws and all requirements reasonably requested by Landlord, including, without limitation, the requirements of any insurer providing coverage for the Premises or the Project or any part thereof, and in accordance with plans and specifications approved in writing by Landlord, and shall be constructed and installed by a contractor approved in writing by Landlord, in each case, Landlord's approval not to be unreasonably withheld, conditioned or delayed. In

connection with any Alteration, Tenant shall deliver plans and specifications therefor to Landlord. As a further condition to giving consent, Landlord may require Tenant to provide Landlord, at Tenant's sole cost and expense, a payment and performance bond in form reasonably acceptable to Landlord, in a principal amount not less than one and one-half times the estimated costs of such Alterations, to ensure Landlord against any liability for mechanic's and materialmen's liens and to ensure completion of work. Before Alterations may begin, valid building permits or other required permits or licenses must be furnished to Landlord, and, once the Alterations begin, Tenant will diligently and continuously pursue their completion. Landlord may monitor construction of the Alterations and Tenant shall reimburse Landlord for its actual, reasonable, third-party costs (including, without limitation, the costs of any construction manager retained by Landlord) in reviewing plans and documents and in monitoring construction, which amount shall be deemed to be Additional Rent hereunder and payable within thirty (30) days following Landlord's invoice therefor. Tenant shall maintain during the course of construction, at its sole cost and expense, builders' risk insurance for the amount of the completed value of the Alterations on an all-risk non-reporting form covering all improvements under construction, including, without limitation, building materials, and other insurance in amounts and against such risks as Landlord shall reasonably require in connection with the Alterations. In addition to and without limitation on the generality of the foregoing, Tenant shall ensure that its contractors procure and maintain in full force and effect during the course of construction a "broad form" commercial general liability and property damage policy of insurance naming Landlord, Tenant, Landlord's investment adviser, any property manager designated by Landlord and Landlord's lenders as additional insureds. The minimum limit of coverage of the aforesaid policy shall be in the amount of not less than Three Million Dollars ($3,000,000.00) for injury or death of one person in any one accident or occurrence and in the amount of not less than Three Million Dollars ($3,000,000.00) for injury or death of more than one person in any one accident or occurrence, and shall contain a severability of interest clause or a cross liability endorsement. Such insurance shall further insure Landlord and Tenant against liability for property damage of at least One Million Dollars ($1,000,000.00).

(c) ***Property of Landlord***. All Alterations, including, without limitation, heating, lighting, electrical, air conditioning, fixed partitioning, drapery, wall covering and paneling, built-in cabinet work and carpeting installations made by Tenant, together with all property that has become an integral part of the Premises or the Building, shall at once be and become the property of Landlord, and shall not be deemed trade fixtures or Tenant's Property.

(d) ***Equipment Installations***. No private telephone systems and/or other related computer or telecommunications equipment or lines may be installed without Landlord's prior written consent not to be unreasonably withheld, conditioned or delayed. If Landlord gives such consent, all equipment, wiring and cabling must be installed within the Premises and, at the request of Landlord made at any time prior to the expiration of the Term, removed upon the expiration or sooner termination of this Lease and the Premises restored to the same condition as before such installation. Notwithstanding the foregoing, Landlord consents to the initial cabling and other installations of computer and telecommunications equipment of Tenant which shall be made prior to the Commencement Date.

(e) ***Heat Generating Equipment***. Notwithstanding anything herein to the contrary, before installing any equipment or lights which generate an undue amount of heat in the

Premises, or if Tenant plans to use any high-power usage equipment in the Premises, Tenant shall obtain the written permission of Landlord. Landlord may refuse to grant such permission unless Tenant agrees to pay the reasonable costs to Landlord for installation of supplementary air conditioning capacity or electrical systems necessitated by such equipment.

(f) ***Notices***. Tenant agrees not to proceed to make any Alterations, notwithstanding consent from Landlord to do so, until Tenant notifies Landlord in writing of the date Tenant desires to commence construction or installation of such Alterations and Landlord has approved such date in writing, in order that Landlord may post appropriate notices to avoid any liability to contractors or material suppliers for payment for Tenant's improvements. Tenant will at all times permit such notices to be posted and to remain posted until the completion of work.

(g) ***Contractors***. Tenant shall not, at any time prior to or during the Term, directly or indirectly employ, or permit the employment of, any contractor, mechanic or laborer in the Premises, whether in connection with any Alteration or otherwise, if it is reasonably foreseeable that such employment will materially interfere or cause any material conflict with other contractors, mechanics, or laborers engaged in the construction, maintenance or operation of the Project by Landlord, Tenant or others. In the event of any such interference or conflict, Tenant, upon demand of Landlord, shall cause all contractors, mechanics or laborers causing such interference or conflict to leave the Project immediately.

(h) ***Mold***. Tenant shall not use or employ materials that are susceptible to the growth of mold, particularly in areas where moisture accumulation is common.

(i) ***Removal***. At the time of requesting Landlord's consent to any Alterations (or prior to the installation of any Alterations that do not require the consent of Landlord) Tenant shall have the right to request that Landlord inform Tenant whether such Alterations may remain in the Premises following, or must be removed from the Premises prior to, the expiration or sooner termination of this Lease.

13. MAINTENANCE AND REPAIRS OF PREMISES

(a) ***Maintenance by Tenant***. Throughout the Term, Tenant shall, at its sole expense, subject to Sections 5(a), 13(b), 21 and 22 hereof, (1) keep and maintain in good order and condition the Premises and Tenant's Property, (2) keep and maintain in good order and condition, repair and replace all of Tenant's security systems in or about or serving the Premises, (3) maintain and replace all specialty lamps, bulbs, starters and ballasts; provided Landlord shall replace all building standard lamps, bulbs, starters and ballasts in the Premises as required by normal usage, and (4) comply with its obligations under Section 32. Tenant shall not do nor shall Tenant allow Tenant's Agents to do anything to cause any damage, deterioration or unsightliness to the Premises, the Building or the Project. If Landlord performs any work at the request of Tenant (or because of Tenant's failure to perform any work required by this Lease to be undertaken by Tenant), Tenant shall reimburse Landlord all Landlord's costs in connection therewith, plus Landlord's overhead and administrative fee of 15% of such costs, all of which amounts shall be deemed to be Additional Rent hereunder and payable within thirty (30) days following Landlord's invoice therefor.

(b) ***Maintenance by Landlord***. Subject to the provisions of Sections 13(a), 21 and 22, and further subject to Tenant's obligation under Section 4 to reimburse Landlord, in the form of Additional Rent, for Tenant's Proportionate Share(s) of the cost and expense of the following items, Landlord shall repair and maintain the following items: the roof coverings (provided that Tenant installs no additional air conditioning or other equipment on the roof that damages the roof coverings, in which event Tenant shall pay all costs resulting from the presence of such additional equipment); the Systems serving the Premises (excluding any specialty systems installed by or for Tenant) and the Building; the Parking Areas and pavement, landscaping, sprinkler systems, sidewalks, driveways, curbs, and lighting systems in the Common Areas. Subject to the provisions of Sections 13(a), 21 and 22, Landlord, at its own cost and expense, agrees to repair and maintain the following items: the structural portions of the roof (specifically excluding the roof coverings), the foundation, the footings, the floor slab, and the load bearing walls and exterior walls of the Building (excluding any glass and any routine maintenance, including, without limitation, any painting, sealing, patching and waterproofing of such walls). Notwithstanding anything in this Section 13 to the contrary but subject to Section 17, Landlord shall have the right to either repair or to require Tenant to repair any damage to any portion of the Premises, the Building and/or the Project caused by or created due to any negligence or willful misconduct of Tenant or Tenant's Agents and to restore the Premises, the Building and/or the Project, as applicable, to the condition existing prior to the occurrence of such damage; *provided*, *however*, that in the event Landlord elects to perform such repair and restoration work, Tenant shall reimburse Landlord upon demand for all reasonable costs and expenses incurred by Landlord in connection therewith. Landlord's obligation hereunder to repair and maintain is subject to the condition precedent that Landlord shall have received written notice of the need for such repairs and maintenance and a reasonable time to perform such repair and maintenance. Tenant shall promptly report in writing to Landlord any defective condition known to it, which Landlord is required to repair.

(c) ***Tenant's Waiver of Rights***. Tenant hereby expressly waives all rights to make repairs at the expense of Landlord or to terminate this Lease, as provided for in California Civil Code Sections 1941 and 1942, and 1932(l), respectively, and any similar or successor statute or law in effect or any amendment thereof during the Term.

14. LANDLORD'S INSURANCE

Landlord shall purchase and keep in force fire, extended coverage and "all risk" insurance covering the Building and the Project. Tenant shall, at its sole cost and expense, comply with any and all reasonable requirements pertaining to the Premises, the Building and the Project of any insurer necessary for the maintenance of reasonable fire and commercial general liability insurance, covering the Building and the Project. Landlord may maintain "Loss of Rents" insurance, insuring that the Rent will be paid in a timely manner to Landlord for a period of at least twelve (12) months if the Premises, the Building or the Project or any portion thereof are destroyed or rendered unusable or inaccessible by any cause insured against under this Lease.

15. TENANT'S INSURANCE

(a) ***Commercial General Liability Insurance***. Tenant shall, at Tenant's expense, secure and keep in force a "broad form" commercial general liability insurance and property

damage policy covering the Premises, insuring Tenant, and naming Landlord, any property manager designated by Landlord, UBS Realty Investors LLC, and Landlord’s lenders as additional insureds (collectively, “**Landlord’s Insureds**”) against any liability arising out of the ownership, use, occupancy or maintenance of the Premises. The minimum limit of coverage of such policy shall be in the amount of not less than Three Million Dollars ($3,000,000.00) for injury or death of one person in any one accident or occurrence and in the amount of not less than Three Million Dollars ($3,000,000.00) for injury or death of more than one person in any one accident or occurrence, shall include an extended liability endorsement providing contractual liability coverage (which shall include coverage for Tenant’s indemnification obligations in this Lease), and shall contain a severability of interest clause or a cross liability endorsement. Such insurance shall further insure Landlord and Tenant against liability for property damage of at least Three Million Dollars ($3,000,000.00). Landlord may from time to time require reasonable increases in any such limits if Landlord believes that additional coverage is necessary or desirable. The limit of any insurance shall not limit the liability of Tenant hereunder. No policy maintained by Tenant under this Section 15(a) shall contain a deductible greater than two thousand five hundred dollars ($2,500.00). No policy shall be cancelable or subject to reduction of coverage without thirty (30) days prior written notice to Landlord. Such policies of insurance shall be issued as primary policies and not contributing with or in excess of coverage that Landlord may carry, by an insurance company authorized to do business in the state/commonwealth in which the Premises are located for the issuance of such type of insurance coverage and rated B+:XIII or better in Best’s Key Rating Guide.

(b) ***Personal Property Insurance***. Tenant shall maintain in full force and effect on all of its personal property, furniture, furnishings, trade or business fixtures and equipment (collectively, “**Tenant’s Property**”) on the Premises, a policy or policies of fire and extended coverage insurance with standard coverage endorsement to the extent of the full replacement cost thereof. No such policy shall contain a deductible greater than two thousand five hundred dollars ($2,500.00). During the term of this Lease the proceeds from any such policy or policies of insurance shall be used for the repair or replacement of the fixtures and equipment so insured. Landlord shall have no interest in the insurance upon Tenant’s equipment and fixtures and will sign all documents reasonably necessary in connection with the settlement of any claim or loss by Tenant. Landlord will not carry insurance on Tenant’s possessions.

(c) ***Worker’s Compensation Insurance; Employer’s Liability Insurance***. Tenant shall, at Tenant’s expense, maintain in full force and effect worker’s compensation insurance with not less than the minimum limits required by law, and employer’s liability insurance with a minimum limit of coverage of One Million Dollars ($1,000,000).

(d) ***Evidence of Coverage***. Tenant shall deliver to Landlord certificates of insurance and true and complete copies of any and all endorsements required herein for all insurance required to be maintained by Tenant hereunder at the time of execution of this Lease by Tenant. Tenant shall, at least thirty (30) days prior to expiration of each policy, furnish Landlord with certificates of renewal thereof. Each certificate shall expressly provide that such policies shall not be cancelable or otherwise subject to modification except after thirty (30) days prior written notice to Landlord and the other parties named as additional insureds as required in this Lease (except for cancellation for nonpayment of premium, in which event cancellation shall not take effect until at least ten (10) days notice has been given to Landlord).

16. INDEMNIFICATION

Tenant shall defend, protect, indemnify and hold harmless Landlord and Landlord's Agents against and from any and all Claims to the extent arising from (1) the use of the Premises, the Building or the Project by Tenant or Tenant's Agents, or from any activity done, permitted or suffered by Tenant or Tenant's Agents in or about the Premises, the Building or the Project, including, without limitation, any mold or Mold Conditions (as hereinafter defined) caused by Tenant or Tenant's Agents, and (2) any act, neglect, fault, willful misconduct or omission of Tenant or Tenant's Agents, or from any breach or default in the terms of this Lease by Tenant or Tenant's Agents, and (3) any action or proceeding brought on account of any matter in items (1) or (2); however, the foregoing indemnity shall not be applicable to the extent any claims arising by reason of the negligence or willful misconduct of Landlord or Landlord's Agents. If any action or proceeding is brought against Landlord by reason of any such claim, upon notice from Landlord, Tenant shall defend the same at Tenant's expense by counsel reasonably satisfactory to Landlord. As a material part of the consideration to Landlord, Tenant hereby releases Landlord and Landlord's Agents from responsibility for, waives its entire claim of recovery for and assumes all risk of (i) damage to property or injury to persons in or about the Premises, the Building or the Project from any cause whatsoever (except to the extent caused by the gross negligence or willful misconduct of Landlord or Landlord's Agents or by any default by Landlord hereunder), or (ii) loss resulting from business interruption or loss of income at the Premises. The foregoing indemnity shall not relieve any insurance carrier of its obligations under any policies required to be carried by either party pursuant to this Lease, to the extent that such policies cover the peril or occurrence that results in the claim that is subject to the foregoing indemnity. The obligations of Tenant under this Section 16 shall survive any termination of this Lease.

17. SUBROGATION

Landlord and Tenant hereby mutually waive any claim against the other and its Agent(s) for any loss or damage to any of their property located on or about the Premises, the Building or the Project that is caused by or results from perils covered by property insurance carried by the respective parties, to the extent of the proceeds of such insurance actually received with respect to such loss or damage, whether or not due to the negligence of the other party or its Agents. Because the foregoing waivers will preclude the assignment of any claim by way of subrogation to an insurance company or any other person, each party shall immediately notify its insurer, in writing, of the terms of these mutual waivers and have their insurance policies endorsed to prevent the invalidation of the insurance coverage because of these waivers. Nothing in this Section 17 shall relieve a party of liability to the other for failure to carry insurance required by this Lease.

18. SIGNS

Landlord shall provide, at Landlord's cost, sufficient space in the electronic directory in the lobby of the Building to list Tenant's name and the names of its professional staff. Additionally, Landlord shall provide one (1) Building-standard suite identification sign ("**Entrance Sign**") from the management office of the Building, which shall be installed by Landlord at the entry to the Premises at Landlord's sole cost and expense. The Entrance Sign

shall not contain any logos or artwork, shall utilize Building-standard fonts, sizes and colors and shall be subject to Landlord's approval. No other signs may be posted at the entrance to Tenant's suite. Tenant shall not place or permit to be placed in, upon, or about the Premises, the Building or the Project any exterior lights, decorations, balloons, flags, pennants, banners, advertisements or notices, or erect or install any signs, window or door lettering, placards, decorations, or advertising media of any type which can be viewed from the exterior of the Premises without obtaining Landlord's prior written consent. Tenant shall remove any sign, advertisement or notice placed on the Premises, the Building or the Project by Tenant upon the expiration of the Term or sooner termination of this Lease, and Tenant shall repair any damage or injury to the Premises, the Building or the Project caused thereby, all at Tenant's expense. If any signs are not removed, or necessary repairs not made, Landlord shall have the right to remove the signs and repair any damage or injury to the Premises, the Building or the Project at Tenant's sole cost and expense. In addition to any other rights or remedies available to Landlord, in the event that Tenant erects or installs any sign in violation of this Section 18, and Tenant fails to remove same within three (3) business days after notice from Landlord or erects or installs a similar sign in the future, Landlord shall have the right to charge Tenant a signage fee equal to $100.00 per day for each day thereafter that such sign is not removed or a similar sign is installed or erected in the future. Landlord's election to charge such fee shall not be deemed to be a consent by Landlord to such sign and Tenant shall remain obligated to remove such sign in accordance with Landlord's notice.

19. FREE FROM LIENS

Tenant shall keep the Premises, the Building and the Project free from any liens arising out of any work performed, material furnished or obligations incurred by or for Tenant. In the event that Tenant shall not, within ten (10) days following the imposition of any such lien, cause the lien to be released of record by payment or posting of a proper bond, Landlord shall have in addition to all other remedies provided herein and by law the right but not the obligation to cause same to be released by such means as it shall deem proper, including, without limitation, payment of the claim giving rise to such lien. All such sums paid by Landlord and all expenses incurred by it in connection therewith (including, without limitation, reasonable attorneys' fees) shall be payable to Landlord by Tenant upon demand. Landlord shall have the right at all times to post and keep posted on the Premises any notices permitted or required by law or that Landlord shall deem proper for the protection of Landlord, the Premises, the Building and the Project, from mechanics' and materialmen's liens. Tenant shall give to Landlord at least five (5) business days' prior written notice of commencement of any repair or construction on the Premises except in the case of an emergency, for which no notice shall be required.

20. ENTRY BY LANDLORD

Tenant shall permit Landlord and Landlord's Agents to enter into and upon the Premises at all reasonable times, upon reasonable notice (except in the case of an emergency, for which no notice shall be required), and subject to Tenant's reasonable security arrangements, for the purpose of inspecting the same or showing the Premises to prospective purchasers, lenders or tenants or to provide services, alter, improve, maintain and repair the Premises or the Building as required or permitted of Landlord under the terms hereof, or for any other business purpose, without any rebate of Rent and without any liability to Tenant for any loss of occupation or quiet

enjoyment of the Premises thereby occasioned (except for actual damages resulting from the sole active gross negligence or willful misconduct of Landlord); Tenant shall permit Landlord to post notices of non-responsibility and ordinary "for sale" or during the final nine (9) months of the Term, "for lease" signs. No such entry shall be construed to be a forcible or unlawful entry into, or a detainer of, the Premises, or an eviction or constructive eviction of Tenant from the Premises. Landlord may temporarily close entrances, doors, corridors, elevators or other facilities without liability to Tenant by reason of such closure in the case of an emergency and when Landlord otherwise deems such closure necessary.

21. Destruction and Damage

(a) ***Insured Damage***. If the Premises are damaged by fire or other perils covered by extended coverage insurance, Tenant shall give Landlord immediate notice thereof and Landlord shall, at Landlord's option:

(i) **Total Destruction**. In the event of total destruction (which shall mean destruction or damage in excess of twenty-five percent (25%) of the full insurable value thereof) of the Premises, elect either to commence promptly to repair and restore the Premises and prosecute the same diligently to completion, in which event this Lease shall remain in full force and effect; or not to repair or restore the Premises, in which event this Lease shall terminate. Landlord shall give Tenant written notice of its intention within sixty (60) days after the date Landlord obtains actual knowledge of such destruction (the "**Casualty Discovery Date**"). If Landlord elects not to restore the Premises, this Lease shall be deemed to have terminated as of the Casualty Discovery Date.

(ii) **Partial Destruction**. In the event of a partial destruction (which shall mean destruction or damage to an extent not exceeding twenty-five percent (25%) of the full insurable value thereof) of the Premises for which Landlord will receive insurance proceeds sufficient to cover the cost to repair and restore such partial destruction and, if the damage thereto is such that the Premises may be substantially repaired or restored to its condition existing immediately prior to such damage or destruction within two hundred seventy (270) days from the Casualty Discovery Date, Landlord shall commence and proceed diligently with the work of repair and restoration, in which event the Lease shall continue in full force and effect. If such repair and restoration requires longer than two hundred seventy (270) days or if the insurance proceeds therefor (plus any amounts Tenant may elect or is obligated to contribute) are not sufficient to cover the cost of such repair and restoration, Landlord may elect either to so repair and restore, in which event the Lease shall continue in full force and effect, or not to repair or restore, in which event the Lease shall terminate. In either case, Landlord shall give written notice to Tenant of its intention within sixty (60) days after the Casualty Discovery Date. If Landlord elects not to restore the Premises, this Lease shall be deemed to have terminated as of the Casualty Discovery Date.

(iii) **Damage Near End of Lease Term**. Notwithstanding anything to the contrary contained in this Section, in the event of damage to the Premises occurring during the last twelve (12) months of the Term that cannot be repaired within sixty (60) days after the Casualty Discovery Date, either Landlord or, if such damage to the Premises materially impairs Tenant's ability to continue its business operations therein, then Tenant may elect to terminate this Lease by written notice of such election given to the other party within thirty (30) days after the Casualty Discovery Date.

(b) ***Uninsured Damage***. If the Premises are damaged by any peril not fully covered by insurance proceeds to be received by Landlord, and the cost to repair such damage exceeds any amount Tenant may agree to contribute, Landlord may elect either to commence promptly to repair and restore the Premises and prosecute the same diligently to completion, in which event this Lease shall remain in full force and effect; or not to repair or restore the Premises, in which event this Lease shall terminate. Landlord shall give Tenant written notice of its intention within sixty (60) days after the Casualty Discovery Date. If Landlord elects not to restore the Premises, this Lease shall be deemed to have terminated as of the date on which Tenant surrenders possession of the Premises to Landlord, except that if the damage to the Premises materially impairs Tenant's ability to continue its business operations in the Premises, then this Lease shall be deemed to have terminated as of the date such damage occurred.

(c) ***Termination Rights***. Notwithstanding anything to the contrary in this Section 21, Landlord shall have the option to terminate this Lease, exercisable by notice to Tenant within sixty (60) days after the Casualty Discovery Date, in each of the following instances:

(i) If more than twenty-five percent (25%) of the full insurable value of the Building or the Project is damaged or destroyed, regardless of whether or not the Premises is destroyed.

(ii) If the Building or the Project or any portion thereof is damaged or destroyed and the repair and restoration of such damage requires longer than one hundred eighty (180) days from the Casualty Discovery Date, regardless of whether or not the Premises is destroyed.

(iii) If the Building or the Project or any portion thereof is damaged or destroyed and the insurance proceeds therefor are not sufficient to cover the costs of repair and restoration, regardless of whether or not the Premises is destroyed.

(iv) If the Building or the Project or any portion thereof is damaged or destroyed during the last twelve (12) months of the Term, regardless of whether or not the Premises is destroyed.

(d) ***Rent Abatement***. In the event of repair and restoration as herein provided, the monthly installments of Rent shall be abated proportionately in the ratio which Tenant's use of the Premises is impaired during the period of such repair or restoration; *provided*, *however*, that Tenant shall not be entitled to such abatement to the extent that such damage or destruction resulted from the gross negligence or willful misconduct of Tenant or Tenant's Agents. Except as expressly provided in the immediately preceding sentence with respect to abatement of Rent, Tenant shall have no claim against Landlord for, and hereby releases Landlord and Landlord's Agents from responsibility for and waives its entire claim of recovery for any cost, loss or expense suffered or incurred by Tenant as a result of any damage to or destruction of the Premises, the Building or the Project or the repair or restoration thereof, including, without limitation, any cost, loss or expense resulting from any loss of use of the whole or any part of the

Premises, the Building or the Project and/or any inconvenience or annoyance occasioned by such damage, repair or restoration except to the extent caused by the gross negligence of willful misconduct of Landlord.

(e) ***Repair and Restoration Obligations***. If Landlord is obligated to or elects to repair or restore as herein provided, Landlord shall repair or restore only the initial tenant improvements, if any, constructed by Landlord in the Premises pursuant to the terms of this Lease, substantially to their condition existing immediately prior to the occurrence of the damage or destruction; and Tenant shall promptly repair and restore, at Tenant's expense, Tenant's Alterations which were not constructed by Landlord.

(f) ***Civil Code Waivers***. Tenant hereby waives the provisions of California Civil Code Section 1932(2) and Section 1933(4), which permit termination of a lease upon destruction of the leased premises, and the provisions of any similar law now or hereinafter in effect, and the provisions of this Section 21 shall govern exclusively in case of such destruction.

22. CONDEMNATION

(a) ***Effect of Termination***. If twenty-five percent (25%) or more of either the Premises, the Building, the Project or the parking areas for the Building or the Project is permanently taken for any public or quasi-public purpose by any lawful governmental power or authority, by exercise of the right of appropriation, inverse condemnation, condemnation or eminent domain, or sold to prevent such taking (each such event being referred to as a "**Condemnation**"), Landlord may, at its option, terminate this Lease as of the date title vests in the condemning party. If twenty-five percent (25%) or more of the Premises is taken and if the Premises remaining after such Condemnation and any repairs by Landlord would be untenantable (in Landlord's reasonable opinion) for the conduct of Tenant's business operations, Tenant shall have the right to terminate this Lease as of the date title vests in the condemning party. If either party elects to terminate this Lease as provided herein, such election shall be made by written notice to the other party given within thirty (30) days after the nature and extent of such Condemnation have been finally determined. If neither Landlord nor Tenant elects to terminate this Lease to the extent permitted above, Landlord shall promptly proceed to restore the Premises, to the extent of any Condemnation award received by Landlord, to substantially the same condition as existed prior to such Condemnation, allowing for the reasonable effects of such Condemnation, and a proportionate abatement shall be made to the Rent corresponding to the time during which, and to the portion of the floor area of the Premises (adjusted for any increase thereto resulting from any reconstruction) of which, Tenant is deprived on account of such Condemnation and restoration, as reasonably determined by Landlord. Except as expressly provided in the immediately preceding sentence with respect to abatement of Rent, Tenant shall have no claim against Landlord for, and hereby releases Landlord and Landlord's Agents from responsibility for and waives its entire claim of recovery for any cost, loss or expense suffered or incurred by Tenant as a result of any Condemnation, whether permanent or temporary, or the repair or restoration of the Premises, the Building or the Project or the parking areas for the Building or the Project following such Condemnation, including, without limitation, any cost, loss or expense resulting from any loss of use of the whole or any part of the Premises, the Building, the Project or the parking areas and/or any inconvenience or annoyance occasioned by such Condemnation, repair or restoration except to the extent caused by the gross negligence or

willful misconduct of Landlord. The provisions of California Code of Civil Procedure Section 1265.130, which allows either party to petition the Superior Court to terminate the Lease in the event of a partial taking of the Premises, the Building or the Project or the parking areas for the Building or the Project, and any other applicable law now or hereafter enacted, are hereby waived by Tenant.

(b) ***Allocation of Compensation***. Landlord shall be entitled to any and all compensation, damages, income, rent, awards, or any interest therein whatsoever which may be paid or made in connection with any Condemnation, and Tenant shall have no claim against Landlord for the value of any unexpired term of this Lease or otherwise; *provided*, *however*, that Tenant shall be entitled to receive any award separately allocated by the condemning authority to Tenant for Tenant's relocation expenses or the value of Tenant's Property (specifically excluding fixtures, Alterations and other components of the Premises which under this Lease or by law are or at the expiration of the Term will become the property of Landlord), provided that such award does not reduce any award otherwise allocable or payable to Landlord.

23. ASSIGNMENT AND SUBLETTING

(a) ***No Transfer Without Consent***. Tenant shall not voluntarily or by operation of law, (1) mortgage, pledge, hypothecate or encumber this Lease or any interest herein, (2) assign or transfer this Lease or any interest herein, sublease the Premises or any part thereof, or any right or privilege appurtenant thereto, or allow any other person (the employees and invitees of Tenant excepted) to occupy or use the Premises, or any portion thereof, without first obtaining the written consent of Landlord, which consent shall not be withheld unreasonably as set forth below in this Section 23, provided that Tenant is not then in Default under this Lease nor is any event then occurring which with the giving of notice or the passage of time, or both, would constitute a Default hereunder.

(b) ***Limited Recapture Option***. If Tenant shall desire to assign this Lease or to sublet all of the Premises for substantially the remainder of the Term (other than to a Related Entity), then Tenant shall first notify Landlord in writing, which notice shall include: (a) whether Tenant proposes to assign this Lease or to sublet all of the Premises for substantially all of the remainder of the Term; and (b) the effective date of the proposed assignment or sublease. Landlord shall thereupon have the option, to be exercised within fifteen (15) days of receipt of Tenant's notice, to (1) terminate this Lease as of the proposed effective date of such assignment or sublease, or (2) waive such right to terminate this Lease. Landlord agrees that if it has not elected to terminate this Lease within fifteen (15) days following the date that Tenant has duly submitted such notice of intent to assign or sublease, then Landlord shall be deemed to have waived its right to terminate this Lease as provided in this Section 23(b). In the event Landlord elects to terminate this Lease as provided in the foregoing clause (1), then Landlord shall have the additional right to negotiate directly with Tenant's proposed assignee or subtenant and to enter into a direct lease or occupancy agreement with such party on such terms as shall be acceptable to Landlord in its sole and absolute discretion, and Tenant hereby waives any Claims against Landlord related thereto, including, without limitation, any Claims for any compensation or profit related to such lease or occupancy agreement.

(c) ***Consent Request***. If Tenant shall have complied with the provisions of Section 23(b) above in connection with any transaction that is subject to the provisions of Section 23(b) above and Landlord shall have elected (or be deemed to have elected) not to terminate the Lease, or in any circumstance in which Tenant is not required to comply with the provisions of Section 23(b) above, Landlord will not unreasonably withhold or delay its consent to any request for its consent to an assignment of the Lease or a sublease of the Premises subject to the following provisions. Tenant shall first notify Landlord in writing of the name and address of the proposed assignee or subtenant and the nature and character of the business of the proposed assignee or subtenant, and shall provide, if available, current and three (3) years' prior financial statements for the proposed assignee or subtenant, which financial statements shall be audited to the extent available and shall in any event be prepared in accordance with generally accepted accounting principles. Tenant shall also provide Landlord with a copy of the proposed sublease or assignment agreement, including, without limitation, all material terms and conditions thereof. Landlord shall have the option, to be exercised within thirty (30) days of receipt of the foregoing, to (1) consent to the proposed assignment or sublease, or (2) refuse its consent to the proposed assignment or sublease, provided that (A) such consent shall not be unreasonably withheld, conditioned or delayed so long as Tenant is not then in Default under this Lease nor is any event then occurring which, with the giving of notice or the passage of time, or both, would constitute a Default hereunder, and (B) as a condition to providing such consent, Landlord may require attornment from the proposed subtenant on terms and conditions reasonably acceptable to Landlord. Without otherwise limiting the criteria upon which Landlord may withhold its consent, Landlord shall be entitled to consider all reasonable criteria including, without limitation, the following: (1) whether or not the proposed subtenant or assignee is engaged in a business which, and the use of the Premises will be in an manner which, is in keeping with the then character and nature of all other tenancies in the Project, (2) whether the use to be made of the Premises by the proposed subtenant or assignee will conflict with any so-called "exclusive" use then in favor of any other tenant of the Building or the Project, and whether such use would be prohibited by any other portion of this Lease, including, without limitation, any rules and regulations then in effect, or under applicable Laws, and whether such use imposes a greater load upon the Premises and the Building and Project services than imposed by Tenant, (3) the business reputation of the proposed individuals who will be managing and operating the business operations of the proposed assignee or subtenant, and the long-term financial and competitive business prospects of the proposed assignee or subtenant, and (4) the creditworthiness and financial stability of the proposed assignee or subtenant in light of the responsibilities involved. In any event, Landlord may withhold its consent to any assignment or sublease, if (i) the actual use proposed to be conducted in the Premises or portion thereof conflicts with the provisions of Section 9(a) or 9(b) above or with any other lease which restricts the use to which any space in the Building or the Project may be put, (ii) the portion of the Premises proposed to be sublet is irregular in shape and/or does not permit safe or otherwise appropriate means of ingress and egress, or does not comply with governmental safety and other codes, (iii) the proposed sublessee or assignee is either a governmental or quasi-governmental agency or instrumentality thereof, (iv) the proposed sublessee or assignee, or any person or entity which directly or indirectly, controls, is controlled by, or is under common control with, the proposed sublessee or assignee, either (x) occupies space in the Project at the time of the request for Landlord's consent, or (y) is negotiating with Landlord or has negotiated with Landlord to lease space in the Project during the six (6) month period immediately preceding the date Landlord receives Tenant's request for consent, and (v) if the proposed subtenant or assignee is a Prohibited Person (as hereinafter defined).

(d) ***Sublease Rental Rate***. As a further condition to any rights Tenant may have under this Lease to sublet all or any portion of the Premises, Tenant shall not publicly advertise space for sublease at a starting base rental rate lower than Landlord's then current highest asking base rental rate for other space in the Project which is then on the market for direct lease. If there is no space in the Project then currently on the market for direct lease, Tenant shall not publicly advertise the space for sublease at a starting base rental rate lower than a rate which is the average of the starting rate for Landlord's last two new leases and/or renewals in the Project, or if Landlord has not entered into two new leases and/or renewals within the immediately preceding six (6) month period, then Tenant shall offer the space for sublease at a starting base rental rate no lower than Landlord's advertised rental rate for comparable spaces within the Building. Nothing contained in this Section 23(d) shall prevent Tenant from subleasing all or any portion of the Premises at rates below those then being quoted by Landlord.

(e) ***Transfer Premium***. If Landlord approves an assignment or subletting as herein provided, Tenant shall pay to Landlord, as Additional Rent, fifty percent (50%) of the excess, if any, of (1) the rent and any additional rent payable by the assignee or sublessee to Tenant, less all costs and expenses incurred by Tenant in connection with marketing the space and the execution and performance of such assignment or sublease including, without limitation, reasonable and customary market-based leasing commissions, costs of renovation or construction of tenant improvements required under such assignment or sublease, attorneys' and consultant fees, and any other concessions offered to such assignee or sublessee; minus (2) Base Rent plus Additional Rent allocable to that part of the Premises affected by such assignment or sublease pursuant to the provisions of this Lease, which commissions shall, for purposes of the aforesaid calculation, be amortized on a straight-line basis over the term of such assignment or sublease. The assignment or sublease agreement, as the case may be, after approval by Landlord, shall not be amended without Landlord's prior written consent, and shall contain a provision directing the assignee or subtenant to pay the rent and other sums due thereunder directly to Landlord upon receiving written notice from Landlord that Tenant is in default under this Lease with respect to the payment of Rent. In the event that, notwithstanding the giving of such notice, Tenant collects any rent or other sums from the assignee or subtenant, then Tenant shall hold such sums in trust for the benefit of Landlord and shall immediately forward the same to Landlord. Landlord's collection of such rent and other sums shall not constitute an acceptance by Landlord of attornment by such assignee or subtenant.

(f) ***No Release***. Notwithstanding any assignment or subletting, Tenant and any guarantor or surety of Tenant's obligations under this Lease shall at all times remain fully and primarily responsible and liable for the payment of the Rent and for compliance with all of Tenant's other obligations under this Lease (regardless of whether Landlord's approval has been obtained for any such assignment or subletting).

(g) ***Payment of Landlord's Costs***. Tenant shall reimburse Landlord for its actual, reasonable, out of pocket third-party expenses (including, without limitation, the fees of Landlord's counsel), incurred in connection with Landlord's review and processing of documents regarding any proposed assignment or sublease, not to exceed $1,500.00.

(h) ***No Further Consent Implied***. A consent to one assignment, subletting, occupation or use shall not be deemed to be a consent to any other or subsequent assignment, subletting, occupation or use, and consent to any assignment or subletting shall in no way relieve Tenant of any liability under this Lease. Any assignment or subletting without Landlord's consent if required shall be void, and shall, at the option of Landlord, constitute a Default under this Lease.

(i) ***Right to Collect Rent Directly***. If this Lease is assigned, whether or not in violation of the provisions of this Lease, Landlord may collect Rent from the assignee. If the Premises or any part thereof is sublet or used or occupied by anyone other than Tenant, whether or not in violation of this Lease, Landlord may, after a Default by Tenant, collect Rent from the subtenant or occupant. In either event, Landlord may apply the net amount collected to Rent, but no such assignment, subletting, occupancy or collection shall be deemed a waiver of any of the provisions of this Section 23, or the acceptance of the assignee, subtenant or occupant as tenant, or a release of Tenant from the further performance by Tenant of Tenant's obligations under this Lease. The consent by Landlord to an assignment, mortgaging, pledging, encumbering, transfer, use, occupancy or subletting pursuant to any provision of this Lease shall not, except as otherwise provided herein, in any way be considered to relieve Tenant from obtaining the express consent of Landlord to any other or further assignment, mortgaging, pledging, encumbering, transfer, use, occupancy or subletting. References in this Lease to use or occupancy by anyone other than Tenant shall not be construed as limited to subtenants and those claiming under or through subtenants but as including also licensees or others claiming under or through Tenant, immediately or remotely. The listing of any name other than that of Tenant on any door of the Premises or on any directory or in any elevator in the Building, or otherwise, shall not, except as otherwise provided herein, operate to vest in the person so named any right or interest in this Lease or in the Premises, or be deemed to constitute, or serve as a substitute for, or any waiver of, any prior consent of Landlord required under this Section 23.

(j) ***Incorporation of Terms***. Each subletting and/or assignment pursuant to this Section shall be subject to all of the covenants, agreements, terms, provisions and conditions contained in this Lease and each of the covenants, agreements, terms, provisions and conditions of this Lease shall be automatically incorporated therein. If Landlord shall consent to, or reasonably withhold its consent to, any proposed assignment or sublease, Tenant shall indemnify, defend and hold harmless Landlord against and from any and all loss, liability, damages, costs and expenses (including, without limitation, reasonable counsel fees) resulting from any Claims that may be made against Landlord by the proposed assignee or sublessee or by any brokers or other persons claiming a commission or similar fee in connection with the proposed assignment or sublease.

(k) ***Reasonableness of Restrictions***. Tenant acknowledges and agrees that the restrictions, conditions and limitations imposed by this Section 23 on Tenant's ability to assign or transfer this Lease or any interest herein, to sublet the Premises or any part thereof, to transfer or assign any right or privilege appurtenant to the Premises, or to allow any other person to occupy or use the Premises or any portion thereof, are, for the purposes of California Civil Code Section 1951.4, as amended from time to time, and for all other purposes, reasonable at the time that the Lease was entered into, and shall be deemed to be reasonable at the time that Tenant seeks to assign or transfer this Lease or any interest herein, to sublet the Premises or any part

thereof, to transfer or assign any right or privilege appurtenant to the Premises, or to allow any other person to occupy or use the Premises or any portion thereof. Tenant's sole remedy if Landlord unreasonably withholds its consent to an assignment, sublet or transfer in violation of Tenant's rights under this Lease shall be injunctive relief, and Tenant hereby expressly waives California Civil Code Section 1995.310, which permits all remedies provided by law for breach of contract, including, without limitation, the right to contract damages and the right to terminate this Lease if Landlord unreasonably withholds consent to a transfer in violation of Tenant's rights under this Lease, and any similar or successor statute or law in effect or any amendment thereof during the Term.

(l) ***Transfers to Affiliates***. Notwithstanding anything to the contrary contained in this Section 23, Tenant, upon written notice to Landlord within a reasonable time frame thereafter, but without Landlord's consent, may assign Tenant's interest in the Lease or sublet all or any part of the Premises to any entity (each herein called a **"Related Entity"**) which controls, is controlled by, or is under common control with Tenant; which results from a merger of, reorganization of, or consolidation with Tenant; or which acquires substantially all of the stock or assets of Tenant, as a going concern, with respect to the business that is being conducted in the Premises. Concurrently with providing notice to Landlord of the making of an assignment or sublease to a Related Entity, Tenant shall be required to submit reasonably satisfactory evidence that the assignment or sublessee is to a Related Entity, together with an executed counterpart of the assignment or sublease. As used herein in defining Related Entity, **"control"** must include over fifty percent (50%) of the stock or other voting interest of the controlled corporation or other business entity. Similar evidence that such assignee or sublessee continues to be a Related Entity shall be furnished by Tenant to Landlord within fifteen (15) days after request therefor, provided such request is not made more often than annually. Any assignment or sublease to a Related Entity shall not relieve Tenant from liability under this Lease. The transfer premium and any costs otherwise payable to Landlord pursuant to Section 23(e) shall not be applicable or payable in connection with a confirmed assignment or sublease to a Related Entity under this Section 23(l).

24. DEFAULT

(a) The occurrence of any one of the following events shall constitute a default on the part of Tenant ("**Default**"):

(i) **Failure to Pay Rent**. Failure to pay any installment of Rent or any other monies due and payable hereunder, said failure continuing for a period of three (3) days after notice of delinquency;

(ii) **Assignment for Creditors**. A general assignment by Tenant or any guarantor or surety of Tenant's obligations hereunder, including, without limitation, Lease Guarantor, if any, (collectively, "**Guarantor**") for the benefit of creditors;

(iii) **Filing of Bankruptcy Petition**. The filing of a voluntary petition in bankruptcy by Tenant or any Guarantor, the filing by Tenant or any Guarantor of a voluntary petition for an arrangement, the filing by or against Tenant or any Guarantor of a petition, voluntary or involuntary, for reorganization, or the filing of an involuntary petition by the creditors of Tenant or any Guarantor, said involuntary petition remaining undischarged for a period of sixty (60) days;

(iv) **Attachment**. Receivership, attachment, or other judicial seizure of substantially all of Tenant's assets on the Premises, such attachment or other seizure remaining undismissed or undischarged for a period of sixty (60) days after the levy thereof;

(v) **Death; Dissolution**. Death or disability of Tenant or any Guarantor, if Tenant or such Guarantor is a natural person, or the failure by Tenant or any Guarantor to maintain its legal existence, if Tenant or such Guarantor is a corporation, partnership, limited liability company, trust or other legal entity;

(vi) **Failure to Deliver Ancillary Documents**. Failure of Tenant to execute and deliver to Landlord any estoppel certificate, subordination agreement, or lease amendment within the time periods and in the manner required by Sections 30 or 31 or 42, and/or failure by Tenant to deliver to Landlord any financial statement within the time period and in the manner required by Section 40;

(vii) **Transfers**. An assignment or sublease, or attempted assignment or sublease, of this Lease or the Premises by Tenant contrary to the provision of Section 23, unless such assignment or sublease is expressly conditioned upon Tenant having received Landlord's consent thereto;

(viii) **Security Deposit**. Failure of Tenant to restore the Security Deposit to the amount and within the time period provided in Section 7 above;

(ix) **Other Defaults**. A default under any other agreement with Landlord beyond any applicable notice and cure period under such agreement.

(x) **General Non-Monetary Breaches**. Failure in the performance of any of Tenant's covenants, agreements or obligations hereunder (except those failures specified as events of Default in other subsections of this Section 24, which shall be governed by the notice and cure periods set forth in such other subsections), which failure continues for thirty (30) days after written notice thereof from Landlord to Tenant, provided that, if Tenant has exercised reasonable diligence to cure such failure and such failure cannot be cured within such thirty (30) day period despite reasonable diligence, Tenant shall not be in default under this subsection so long as Tenant thereafter diligently and continuously prosecutes the cure to completion and actually completes such cure within sixty (60) days after the giving of the aforesaid written notice;

(xi) **Chronic Delinquency**. Chronic delinquency by Tenant in the payment of Rent, or any other periodic payments required to be paid by Tenant under this Lease. "Chronic delinquency" means failure by Tenant to pay Rent, or any other payments required to be paid by Tenant under this Lease within ten (10) days after written notice thereof for any three (3) months (consecutive or nonconsecutive) during any period of twelve (12) months;

(xii) **Chronic Overuse**. Chronic overuse by Tenant or Tenant's Agents of the number of undesignated parking spaces set forth in the Basic Lease Information. "Chronic

overuse" means use by Tenant or Tenant's Agents of a number of parking spaces greater than the number of parking spaces set forth in the Basic Lease Information more than three (3) times during any period of twelve (12) months after written notice by Landlord;

(xiii) **Termination of Insurance**. Any insurance required to be maintained by Tenant pursuant to this Lease shall be canceled or terminated or shall expire or be reduced or materially changed, except as permitted in this Lease;

(xiv) **Liens**. Any failure by Tenant to discharge any lien or encumbrance placed on the Project or any part thereof in violation of this Lease within ten (10) days after the date such lien or encumbrance is filed or recorded against the Project or any part thereof;

(xv) **Hazardous Materials**. Any failure by Tenant to immediately remove, abate or remedy any Hazardous Materials located in, on or about the Premises or the Building in connection with any failure by Tenant to comply with Tenant's obligations under Section 32;

(xvi) **Failure to Commence Business Operations**. Tenant's failure to commence business operations in the Premises within ninety (90) days following the Commencement Date, subject to delays beyond Tenant's reasonable control (other than financial difficulty); and

(xvii) **False Representations**. Any representation of Tenant herein or in any financial statement or other materials provided by Tenant or any guarantor of Tenant's obligations under this Lease shall prove to be untrue or inaccurate in any material respect, or any such financial statements or other materials shall have omitted any material fact.

Tenant agrees that any notice given by Landlord pursuant to this Section 24 shall satisfy the requirements for notice under California Code of Civil Procedure Section 1161, and Landlord shall not be required to give any additional notice in order to be entitled to commence an unlawful detainer proceeding.

25. LANDLORD'S REMEDIES

(a) ***Termination***. In the event of any Default by Tenant, then in addition to any other remedies available to Landlord at law or in equity and under this Lease, Landlord may terminate this Lease immediately and all rights of Tenant hereunder by giving written notice to Tenant of such intention to terminate. If Landlord shall elect to so terminate this Lease then Landlord may recover from Tenant:

(i) the worth at the time of award of any unpaid Rent and any other sums due and payable which have been earned at the time of such termination; plus

(ii) the worth at the time of award of the amount by which the unpaid Rent and any other sums due and payable which would have been earned after termination until the time of award exceeds the amount of such rental loss Tenant proves could have been reasonably avoided; plus

(iii) the worth at the time of award of the amount by which the unpaid Rent and any other sums due and payable for the balance of the term of this Lease after the time of award exceeds the amount of such rental loss that Tenant proves could be reasonably avoided; plus

(iv) any other amount necessary to compensate Landlord for all the detriment proximately caused by Tenant's failure to perform its obligations under this Lease or which in the ordinary course would be likely to result therefrom, including, without limitation, (A) any costs or expenses incurred by Landlord (i) in retaking possession of the Premises; (ii) in maintaining, repairing, preserving, restoring, replacing, cleaning, altering, remodeling or rehabilitating the Premises or any affected portions of the Building or the Project, including, without limitation, such actions undertaken in connection with the reletting or attempted reletting of the Premises to a new tenant or tenants; (iii) for leasing commissions, advertising costs and other expenses of reletting the Premises; or (iv) in carrying the Premises, including, without limitation, taxes, insurance premiums, utilities and security precautions; (B) any unearned brokerage commissions paid in connection with this Lease; (C) reimbursement of any previously waived or abated Base Rent or Additional Rent or any free rent or reduced rental rate granted hereunder; and (D) any concession made or paid by Landlord for the benefit of Tenant including, without limitation, any moving allowances, contributions, payments or loans by Landlord for tenant improvements or build-out allowances (including, without limitation, any unamortized portion of the Tenant Improvement Allowance, such Tenant Improvement Allowance to be amortized over the Term in the manner reasonably determined by Landlord, if any, and any outstanding balance (principal and accrued interest) of the Tenant Improvement Loan, if any), or assumptions by Landlord of any of Tenant's previous lease obligations; plus

(v) such reasonable attorneys' fees incurred by Landlord as a result of a Default, and costs in the event suit is filed by Landlord to enforce such remedy; and plus

(vi) 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.

(vii) As used in subsections (i) and (ii) above, the "**worth at the time of award**" is computed by allowing interest at an annual rate equal to twelve percent (12%) per annum or the maximum rate permitted by law, whichever is less. As used in subsection (iii) above, the "**worth at the time of award**" is computed by discounting such amount at the discount rate of Federal Reserve Bank of San Francisco at the time of award, plus one percent (1%).

Tenant hereby waives for Tenant and for all those claiming under Tenant all right 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, specifically, Tenant waives redemption or relief from forfeiture under California Code of Civil Procedure Sections 1174 and 1179, or under any other pertinent present or future Law, in the event Tenant is evicted or Landlord takes possession of the Premises by reason of any Default of Tenant hereunder.

(b) ***Continuation of Lease***. In the event of any Default by Tenant, then in addition to any other remedies available to Landlord at law or in equity and under this Lease, Landlord shall have the remedy described in California Civil Code Section 1951.4, and the following provision from such Civil Code Section is hereby repeated: "The Lessor has 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 right to sublet or assign, subject only to reasonable limitations)." In addition, Landlord shall not be liable in any way whatsoever for its failure or refusal to relet the Premises. For purposes of this Section 25(b), the following acts by Landlord will not constitute the termination of Tenant's right to possession of the Premises:

(i) Acts of maintenance or preservation or efforts to relet the Premises, including, without limitation, alterations, remodeling, redecorating, repairs, replacements and/or painting as Landlord shall consider advisable for the purpose of reletting the Premises or any part thereof, or

(ii) The appointment of a receiver upon the initiative of Landlord to protect Landlord's interest under this Lease or in the Premises.

Even if Tenant has abandoned the Premises, this Lease shall continue in effect for so long as Landlord does not terminate Tenant's right to possession, and Landlord may enforce all its rights and remedies under this Lease, including, without limitation, the right to recover rent as it becomes due. Any such payments due Landlord shall be made upon demand therefor from time to time and Tenant agrees that Landlord may file suit to recover any sums falling due from time to time. Notwithstanding the exercise by Landlord of its right under this Section to continue the Lease without termination, Landlord may do so without prejudice to its right at any time thereafter to terminate this Lease in accordance with the other provisions contained in this Section.

(c) ***Re-entry***. In the event of any Default by Tenant, Landlord shall also have the right, with or without terminating this Lease, in compliance with applicable law, to re-enter the Premises, by force if necessary, and remove all persons and property from the Premises; such property may be removed and stored in a public warehouse or elsewhere at the cost of and for the account of Tenant.

(d) ***Reletting***. In the event of the abandonment of the Premises by Tenant or in the event that Landlord shall elect to re-enter as provided in Section 25(b) or shall take possession of the Premises pursuant to legal proceeding or pursuant to any notice provided by law, then if Landlord does not elect to terminate this Lease as provided in Section 25(a), Landlord may from time to time, without terminating this Lease, relet the Premises or any part thereof for such term or terms and at such rental or rentals and upon such other terms and conditions as Landlord in its sole discretion may deem advisable with the right to make alterations and repairs to the Premises in Landlord's sole discretion. In the event that Landlord shall elect to so relet, then rentals received by Landlord from such reletting shall be applied in the following order: (1) to reasonable attorneys' fees incurred by Landlord as a result of a Default and costs in the event suit is filed by Landlord to enforce such remedies; (2) to the payment of any indebtedness other than Rent due hereunder from Tenant to Landlord; (3) to the payment of any costs of such reletting;

(4) to the payment of the costs of any alterations and repairs to the Premises; (5) to the payment of Rent due and unpaid hereunder; and (6) the residue, if any, shall be held by Landlord and applied in payment of future Rent and other sums payable by Tenant hereunder as the same may become due and payable hereunder. Should that portion of such rentals received from such reletting during any month, which is applied to the payment of Rent hereunder, be less than the Rent payable during the month by Tenant hereunder, then Tenant shall pay such deficiency to Landlord. Such deficiency shall be calculated and paid monthly. Tenant shall also pay to Landlord, as soon as ascertained, any costs and expenses incurred by Landlord in such reletting or in making such alterations and repairs not covered by the rentals received from such reletting.

(e) ***Termination***. No re-entry or taking of possession of the Premises by Landlord pursuant to this Section 25 shall be construed as an election to terminate this Lease unless a written notice of such intention is given to Tenant or unless the termination thereof is decreed by a court of competent jurisdiction. Notwithstanding any reletting without termination by Landlord because of any Default by Tenant, Landlord may at any time after such reletting elect to terminate this Lease for any such Default.

(f) ***Cumulative Remedies***. The remedies herein provided are not exclusive and Landlord shall have any and all other remedies provided herein or by law or in equity including, without limitation, any and all rights and remedies of Landlord under California Civil Code Section 1951.8, California Code of Civil Procedure Section 1161 et seq., or any similar, successor or related provision of applicable Laws.

(g) ***No Surrender***. No act or conduct of Landlord, whether consisting of the acceptance of the keys to the Premises, or otherwise, shall be deemed to be or constitute an acceptance of the surrender of the Premises by Tenant prior to the expiration of the Term, and such acceptance by Landlord of surrender by Tenant shall only flow from and must be evidenced by a written acknowledgment of acceptance of surrender signed by Landlord. The surrender of this Lease by Tenant, voluntarily or otherwise, shall not work a merger unless Landlord elects in writing that such merger take place, but shall operate as an assignment to Landlord of any and all existing subleases, or Landlord may, at its option, elect in writing to treat such surrender as a merger terminating Tenant’s estate under this Lease, and thereupon Landlord may terminate any or all such subleases by notifying the sublessee of its election so to do within five (5) days after such surrender.

(h) ***Landlord’s Lien***. In addition to any statutory lien Landlord has, Tenant hereby grants to Landlord a continuing security interest for all sums of money becoming due hereunder upon personal property of Tenant situated on or about the Premises and such property will not be removed therefrom without the consent of Landlord until all sums of money then due Landlord have been first paid and discharged. If a default occurs under this Lease, Landlord will have, in addition to all other remedies provided herein or by law, all rights and remedies under the Uniform Commercial Code, including, without limitation, the right to sell the property described in this subjection (g) at public or private sale upon five (5) days’ notice to Tenant. This contractual lien will be in addition to any statutory lien for rent.

(i) ***Tenant’s Waiver of Redemption***. Tenant waives redemption or relief from forfeiture under California Code of Civil Procedure Sections 1174 and 1179, or under any other pertinent present or future Law, in the event Tenant is evicted or Landlord takes possession of the Premises by reason of any Default of Tenant hereunder.

26. LANDLORD'S RIGHT TO PERFORM TENANT'S OBLIGATIONS

(a) ***Right to Perform if Tenant in Default***. Without limiting the rights and remedies of Landlord contained in Section 25 above, if Tenant shall be in Default in the performance of any of the terms, provisions, covenants or conditions to be performed or complied with by Tenant pursuant to this Lease, then Landlord may at Landlord's option, without any obligation to do so, and upon five (5) days prior notice to Tenant perform any such term, provision, covenant, or condition, or make any such payment and Landlord by reason of so doing shall not be liable or responsible for any loss or damage thereby sustained by Tenant or anyone holding under or through Tenant or any of Tenant's Agents.

(b) ***Right to Perform in Emergency***. Without limiting the rights of Landlord under Section 26(a) above, Landlord shall have the right at Landlord's option, without any obligation to do so, to perform any of Tenant's covenants or obligations under this Lease without notice to Tenant in the case of an emergency, as determined by Landlord in its sole and absolute judgment, or if Landlord otherwise determines in its sole discretion that such performance is necessary or desirable for the proper management and operation of the Building or the Project or for the preservation of the rights and interests or safety of other tenants of the Building or the Project.

(c) ***Reimbursement of Costs***. If Landlord performs any of Tenant's obligations hereunder in accordance with this Section 26, the full amount of the cost and expense incurred or the payment so made or the amount of the loss so sustained shall immediately be owing by Tenant to Landlord, and Tenant shall promptly pay to Landlord upon demand, as Additional Rent, the full amount thereof with interest thereon from the date of payment by Landlord at the lower of (i) ten percent (10%) per annum, or (ii) the highest rate permitted by applicable law.

27. ATTORNEY'S FEES

(a) ***Prevailing Party Awarded Fees***. If either party hereto fails to perform any of its obligations under this Lease or if any dispute arises between the parties hereto concerning the meaning or interpretation of any provision of this Lease, then the defaulting party or the party not prevailing in such dispute, as the case may be, shall pay any and all costs and expenses incurred by the other party on account of such default and/or in enforcing or establishing its rights hereunder, including, without limitation, court costs and reasonable attorneys' fees and disbursements. Any such attorneys' fees and other expenses incurred by either party in enforcing a judgment in its favor under this Lease shall be recoverable separately from and in addition to any other amount included in such judgment, and such attorneys' fees obligation is intended to be severable from the other provisions of this Lease and to survive and not be merged into any such judgment.

(b) ***Collection Costs***. Without limiting the generality of Section 27(a) above, if Landlord utilizes the services of an attorney for the purpose of collecting any Rent due and unpaid by Tenant or in connection with any other breach of this Lease by Tenant, Tenant agrees to pay Landlord reasonable attorneys' fees incurred by Landlord for such services, regardless of the fact that no legal action may be commenced or filed by Landlord.

28. TAXES

Tenant shall be liable for and shall pay directly to the taxing authority, prior to delinquency, all taxes levied against Tenant's Property. If any Alteration installed by Tenant pursuant to Section 12 or any of Tenant's Property is assessed and taxed with the Project or Building, Tenant shall pay such taxes to Landlord within ten (10) days after delivery to Tenant of a statement therefor.

29. EFFECT OF CONVEYANCE

The term "Landlord" as used in this Lease means, from time to time, the then current owner of the Building or the Project containing the Premises, so that, in the event of any sale of the Building or the Project, Landlord shall be and hereby is entirely freed and relieved of all covenants and obligations of Landlord hereunder, and it shall be deemed and construed, without further agreement between the parties and the purchaser at any such sale, that the purchaser of the Building or the Project has assumed and agreed to carry out any and all covenants and obligations of Landlord hereunder.

30. TENANT'S ESTOPPEL CERTIFICATE

From time to time, upon written request of Landlord, Tenant shall execute, acknowledge and deliver to Landlord or its designee, an Estoppel Certificate in substantially the form attached hereto as ***Exhibit E*** and with any other statements reasonably requested by Landlord or its designee. Any such Estoppel Certificate may be relied upon by a prospective purchaser of Landlord's interest or a mortgagee of (or holder of a deed of trust encumbering) Landlord's interest or assignment of any mortgage or deed of trust upon Landlord's interest in the Premises. If Tenant fails to provide such certificate within ten (10) days of receipt by Tenant of a written request by Landlord as herein provided, such failure shall, at Landlord's election, constitute a Default under this Lease, and Tenant shall be deemed to have given such certificate as above provided without modification and shall be deemed to have admitted the accuracy of any information supplied by Landlord to a prospective purchaser or mortgagee or deed of trust holder.

31. SUBORDINATION

(a) ***Subordination***. At the option of Landlord, this Lease, and all rights of Tenant hereunder, are and shall be subject and subordinate to all ground leases, overriding leases and underlying leases affecting the Building or the Project now or hereafter existing and each of the terms, covenants and conditions thereto (the "**Superior Lease(s)**"), and to all mortgages or deeds of trust which may now or hereafter affect the Building, the Property or any of such leases and each of the terms, covenants and conditions thereto (the "**Superior Mortgage(s)**"), whether or not such mortgages or deeds of trust shall also cover other land, buildings or leases, to each and every advance made or hereafter to be made under such mortgages or deeds of trust, and to all renewals, modifications, replacements and extensions of such leases and such mortgages or deeds of trust and spreaders and consolidations of such mortgages or deeds of trust. This Section shall be self-operative and no further instrument of subordination shall be required.

Tenant shall promptly execute, acknowledge and deliver any reasonable instrument that Landlord, the lessor under any such lease or the holder of any such mortgage or deed of trust or any of their respective successors in interest may reasonably request to evidence such subordination; if Tenant fails to execute, acknowledge or deliver any such instrument within ten (10) business days after request therefor, Tenant hereby irrevocably constitutes and appoints Landlord as Tenant's attorney-in-fact, coupled with an interest, to execute and deliver any such instrument for and on behalf of Tenant. As used herein the lessor of a Superior Lease or its successor in interest is herein called "**Superior Lessor**"; and the holder of a Superior Mortgage is herein called "**Superior Mortgagee**".

(b) ***Attornment***. If any Superior Lessor or Superior Mortgagee shall succeed to the rights of Landlord under this Lease, whether through possession or foreclosure action or delivery of a new lease or deed (such party so succeeding to Landlord's rights herein called "**Successor Landlord**"), then Tenant shall attorn to and recognize such Successor Landlord as Tenant's landlord under this Lease (without the need for further agreement) and shall promptly execute and deliver any reasonable instrument that such Successor Landlord may reasonably request to evidence such attornment. This Lease shall continue in full force and effect as a direct lease between the Successor Landlord and Tenant upon all of the terms, conditions and covenants as are set forth in this Lease, except that the Successor Landlord shall not (a) be liable for any previous act or omission of Landlord under this Lease, except to the extent such act or omission shall constitute a continuing Landlord default hereunder; (b) be subject to any offset, not expressly provided for in this Lease; or (c) be bound by any previous modification of this Lease or by any previous prepayment of more than one month's Base Rent, unless such modification or prepayment shall have been expressly approved in writing by the Successor Landlord (or predecessor in interest).

32. ENVIRONMENTAL COVENANTS

(a) ***Hazardous Materials***. As used in this Lease, the term "**Hazardous Materials**" means (i) any substance or material that is included within the definitions of "hazardous substances," "hazardous materials," "toxic substances," "pollutant," "contaminant," "hazardous waste," or "solid waste" in any Environmental Law; (ii) petroleum or petroleum derivatives, including, without limitation, crude oil or any fraction thereof, all forms of natural gas, and petroleum products or by-products or waste; (iii) polychlorinated biphenyls (PCB's); (iv) asbestos and asbestos containing materials (whether friable or non-friable); (v) lead and lead based paint or other lead containing materials (whether friable or non-friable); (vi) urea formaldehyde; (vii) microbiological pollutants; (viii) batteries or liquid solvents or similar chemicals; (ix) radon gas; and (x) mildew, fungus, mold, bacteria and/or other organic spore material, whether or not airborne, colonizing, amplifying or otherwise.

(b) ***Environmental Laws***. As used in this Lease, the term "**Environmental Laws**" means all statutes, terms, conditions, limitations, restrictions, standards, prohibitions, obligations, schedules, plans and timetables that are contained in or promulgated pursuant to any federal, state or local laws (including, without limitation, rules, regulations, ordinances, codes,

judgments, orders, decrees, contracts, permits, stipulations, injunctions, the common law, court opinions, and demand or notice letters issued, entered, promulgated or approved thereunder), relating to pollution or the protection of the environment, including, without limitation, laws relating to emissions, discharges, releases or threatened releases of Hazardous Materials into ambient air, surface water, ground water or lands or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of Hazardous Materials including, without limitation, but not limited to the: Comprehensive Environmental Response Compensation and Liability Act of 1980 (CERCLA), as amended by the Superfund Amendments and Reauthorization Act of 1986 (SARA), 42 U.S.C. § 9601 et seq.; Solid Waste Disposal Act, as amended by the Resource Conservation and Recovery Act of 1976 (RCRA), 42 U.S.C. § 6901 et seq.; Federal Water Pollution Control Act, 33 U.S.C. § 1251 et seq.; Toxic Substances Control Act, 15 U.S.C. § 2601 et seq.; Clean Air Act, 42 U.S.C. § 7401 et seq.; and the Safe Drinking Water Act, 42 U.S.C. § 300f et seq.; and any analogous state statutes, including, without limitation, the Porter-Cologne Water Quality Control Act (Cal. Water Code § 13020 et seq.), the Safe Drinking Water and Toxic Enforcement Act of 1986 (Cal. Health & Safety Code § 25249.5 et seq.), the Hazardous Substance Account Act (Cal. Health & Safety Code § 25300 et seq.), the Hazardous Waste Control Act (Cal. Health & Safety Code § 25100 et seq.), and any other applicable provisions of the California Health & Safety Code, Water Code, or Government Code, and local counterparts or equivalents thereto. "**Environmental Laws**" shall include any statutory or common law that has developed or develops in the future regarding mold, fungus, microbiological pollutants, mildew, bacteria and/or other organic spore material. "Environmental Law" shall not include laws relating to industrial hygiene or worker safety, except to the extent that such laws address asbestos and asbestos containing materials (whether friable or non-friable) or lead and lead based paint or other lead containing materials.

(c) ***Cleaning and Business Supplies***. During its use and occupancy of the Premises Tenant will not permit Hazardous Materials to be present on or about the Premises except for normal quantities of cleaning and other business supplies customarily used and stored in an office and that it will comply with all Environmental Laws relating to the use, storage or disposal of any such Hazardous Materials.

(d) ***Obligation to Remediate***. If Tenant's use of Hazardous Materials on or about the Premises results in a release, discharge or disposal of Hazardous Materials on, in, at, under, or emanating from, the Premises or the property in which the Premises are located, Tenant agrees to investigate, clean up, remove or remediate such Hazardous Materials in full compliance with (a) the requirements of (i) all Environmental Laws and (ii) any governmental agency or authority responsible for the enforcement of any Environmental Laws; and (b) any additional requirements of Landlord that are necessary, in Landlord's reasonable discretion, to protect the value of the Premises or the property in which the Premises are located. Landlord shall also have the right, but not the obligation, to take whatever action with respect to any such Hazardous Materials that it deems necessary, in Landlord's reasonable discretion, to protect the value of the Premises or the property in which the Premises are located. All costs and expenses paid or incurred by Landlord in the exercise of such right shall be payable by Tenant promptly upon demand.

(e) ***Inspection Rights***. Upon reasonable notice to Tenant, Landlord may inspect the Premises for the purpose of determining whether there exists on the Premises any Hazardous Materials or other condition or activity that is in violation of the requirements of this Lease or of

any Environmental Laws. The right granted to Landlord herein to perform inspections shall not create a duty on Landlord's part to inspect the Premises, or liability on the part of Landlord for Tenant's use, storage or disposal of Hazardous Materials, it being understood that Tenant shall be solely responsible for all liability in connection therewith.

(f) ***Condition on Surrender***. Tenant shall surrender the Premises to Landlord upon the expiration or earlier termination of this Lease free of (i) mold, Mold Conditions (as hereinafter defined), debris, waste arising from Tenant's use of the Premises and (ii) Hazardous Materials placed on or about the Premises by Tenant or Tenant's Agents. Tenant's obligations and liabilities pursuant to this Section 32 shall be in addition to any other surrender requirements in this Lease and shall survive the expiration or earlier termination of this Lease. If it is determined by Landlord that, at the expiration or earlier termination of this Lease, the condition of all or any portion of the Premises, the Building, and/or the Project is not in compliance with the provisions of this Lease with respect to Hazardous Materials, mold, debris, or waste, including, without limitation, all Environmental Laws to the extent Tenant is responsible hereunder, then at Landlord's sole option, Landlord may require Tenant to hold over possession of the Premises until Tenant can surrender the Premises to Landlord in the condition required hereunder. Any such holdover by Tenant will be with Landlord's consent, will not be terminable by Tenant in any event or circumstance and will otherwise be subject to the provisions of Section 35 of this Lease.

(g) ***Indemnification***. Tenant shall indemnify and hold harmless Landlord from and against any and all Claims (including, without limitation, loss in value of the Premises or the property in which the Premises is located, damages due to loss or restriction of rentable or usable space, and damages due to any adverse impact on marketing of the space and any and all sums paid for settlement of Claims) incurred by Landlord during or after the term of this Lease and attributable to (i) any Hazardous Materials placed on or about the Premises, the Building or the Project by Tenant or Tenant's Agents, or resulting from the action or inaction of Tenant or Tenant's Agents, or (ii) Tenant's breach of any provision of this Section 32. This indemnification includes, without limitation, any and all costs incurred by Landlord due to any investigation of the site or any cleanup, removal or restoration mandated by a federal, state or local agency or political subdivision.

(h) ***Mold Prevention Practices***. Tenant, at its sole cost and expense, shall: (i) adopt and enforce good housekeeping practices, ventilation and vigilant moisture control within the Premises (particularly in kitchen areas, janitorial closets, bathrooms, in and around water fountains and other plumbing facilities and fixtures, break rooms, in and around outside walls, and in and around HVAC systems and associated drains) for the prevention of mold (such measures, "**Mold Prevention Practices**"), (ii) regularly monitor the Premises for the visual presence of mold and conditions that reasonably can be expected to give rise to or be attributed to mold or fungus including, but not limited to, observed or suspected instances of water damage, condensation, seepage, leaks or any other water collection or penetration (from any source, internal or external), mold growth, mildew, repeated complaints of respiratory ailments or eye irritation by Tenant's employees or any other occupants of the Premises, or any notice from a governmental agency of complaints regarding the indoor air quality at the Premises (the "**Mold Conditions**"), and (iii) immediately notify Landlord in writing if it observes, suspects, or has reason to believe mold or Mold Conditions in, at, or about the Premises and surrounding areas.

(i) ***Inspection***. In the event of suspected mold or Mold Conditions in, at, or about the Premises and surrounding areas, Landlord may cause an inspection of the Premises to be conducted, during such time as Landlord may designate, to determine if mold or Mold Conditions are present in, at, or about the Premises.

(j) ***Survival***. The provisions of this Section 32 shall survive the expiration or earlier termination of this Lease.

33. NOTICES

All notices and demands which are required or may be permitted to be given to either party by the other hereunder shall be in writing and shall be sent by United States mail, postage prepaid, certified, or by personal delivery or nationally recognized overnight courier, addressed to the addressee at Tenant's Address or Landlord's Address as specified in the Basic Lease Information, or to such other place as either party may from time to time designate in a notice to the other party given as provided herein. Copies of all notices and demands given to Landlord shall additionally be sent to Landlord's property manager at the address specified in the Basic Lease Information or at such other address as Landlord may specify in writing from time to time. Notice shall be deemed given upon actual receipt (or attempted delivery if delivery is refused), if personally delivered, or one (1) business day following deposit with a reputable overnight courier that provides a receipt, or on the third (3rd) day following deposit in the United States mail in the manner described above. In no event shall either party use a post office box or other address which does not accept overnight delivery.

34. WAIVER

The waiver of any breach of any term, covenant or condition of this Lease shall not be deemed to be a waiver of such term, covenant or condition or of any subsequent breach of the same or any other term, covenant or condition herein contained. The subsequent acceptance of Rent by Landlord shall not be deemed to be a waiver of any preceding breach by Tenant, other than the failure of Tenant to pay the particular rental so accepted, regardless of Landlord's knowledge of such preceding breach at the time of acceptance of such Rent. No delay or omission in the exercise of any right or remedy of Landlord in regard to any Default by Tenant shall impair such a right or remedy or be construed as a waiver. Any waiver by Landlord of any Default must be in writing and shall not be a waiver of any other Default concerning the same or any other provisions of this Lease.

35. HOLDING OVER

Any holding over after the expiration of the Term, without the express written consent of Landlord, shall constitute a Default and, without limiting Landlord's remedies provided in this Lease, such holding over shall be construed to be a tenancy at sufferance, at a rental rate equal to one hundred fifty percent (150%) of Base Rent last due in this Lease, plus Additional Rent, and shall otherwise be on the terms and conditions herein specified, so far as applicable; *provided*, *however*, in no event shall any renewal or expansion option, option to purchase, or other similar right or option contained in this Lease be deemed applicable to any such tenancy at sufferance. If the Premises are not surrendered at the end of the Term or sooner termination of this Lease

absent the consent of Landlord to such holdover, and in accordance with the provisions of Sections 11 and 32(e), Tenant shall indemnify, defend and hold Landlord harmless from and against any and all loss or liability resulting from delay by Tenant in so surrendering the Premises including, without limitation, any loss or liability resulting from any claim against Landlord made by any succeeding tenant or prospective tenant founded on or resulting from such delay and losses to Landlord due to lost opportunities to lease any portion of the Premises to any such succeeding tenant or prospective tenant, together with, in each case, actual attorneys' fees and costs.

36. SUCCESSORS AND ASSIGNS

The terms, covenants and conditions of this Lease shall, subject to the provisions as to assignment, apply to and bind the heirs, successors, executors, administrators and assigns of all of the parties hereto. If Tenant shall consist of more than one entity or person, the obligations of Tenant under this Lease shall be joint and several.

37. TIME

Time is of the essence of this Lease and each and every term, condition and provision herein.

38. BROKERS

Landlord and Tenant each represents and warrants to the other that neither it nor its officers or agents nor anyone acting on its behalf has dealt with any real estate broker except the Broker(s) specified in the Basic Lease Information in the negotiating or making of this Lease, and each party agrees to indemnify and hold harmless the other from any Claims incurred by the indemnified party in conjunction with any such Claims of any other broker or brokers to a commission in connection with this Lease as a result of the actions of the indemnifying party. Landlord agrees to pay a commission to Tenant's Broker pursuant to separate agreement.

39. LIMITATION OF LIABILITY

In the event of any default or breach 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 Tenant's remedies shall be limited solely and exclusively to an amount which is equal to the lesser of (a) the interest in the Building of the then-current Landlord 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. For purposes of this Lease, "**Landlord Parties**" means collectively, Landlord, its partners, shareholders, officers, directors, employees, investment advisors, or any successor in interest of any of them. 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 39 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), future member in Landlord (if Landlord is a limited liability company) or trustee or beneficiary (if Landlord or any partner or member 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, without limitation, 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. The provisions of this section shall apply only to the Landlord and the parties herein described, and shall not be for the benefit of any insurer nor any other third party.

40. FINANCIAL STATEMENTS

Within ten (10) days after Landlord's request, Tenant shall deliver to Landlord the then current audited financial statements of Tenant (including interim periods following the end of the last fiscal year for which annual statements are available), prepared or compiled by a certified public accountant, including a balance sheet and profit and loss statement for the most recent prior year, all prepared in accordance with generally accepted accounting principles consistently applied. Notwithstanding the foregoing, Tenant shall have no obligation to deliver any financial statements if Tenant is a publicly traded entity or an entity that is otherwise required to file financial statements with any governmental entity that are publicly available and Tenant is in compliance with such public reporting requirement.

41. RULES AND REGULATIONS

Tenant shall comply with the rules and regulations attached hereto as ***Exhibit D***, along with any reasonable modifications, amendments and supplements thereto, and such reasonable rules and regulations as Landlord may adopt in the future, from time to time, for the orderly and proper operation of the Building and the Project (collectively, the "**Rules and Regulations**"). The Rules and Regulations may include, but shall not be limited to, the following: (a) restriction of employee parking to a limited, designated area or areas; and (b) regulation of the removal, storage and disposal of Tenant's refuse and other rubbish. The then-current Rules and Regulations shall be binding upon Tenant upon delivery of a copy of them to Tenant. Landlord shall not be responsible to Tenant for the failure of any other person to observe and abide by any of said Rules and Regulations.

42. MORTGAGEE PROTECTION

(a) ***Modifications for Lender***. If, in connection with obtaining financing for the Project or any portion thereof, Landlord's lender shall request reasonable modifications to this Lease as a condition to such financing, Tenant shall not unreasonably withhold, delay or defer its consent to such modifications, provided such modifications do not materially adversely affect Tenant's rights or increase Tenant's obligations under this Lease.

(b) ***Rights to Cure***. Tenant shall give to any trust deed or mortgage holder ("**Holder**"), by a method provided for in Section 33 above, at the same time as it is given to

Landlord, a copy of any notice of default given to Landlord, provided that prior to such notice Tenant has been notified, in writing, (by way of notice of assignment of rents and leases, or otherwise) of the address of such Holder. Tenant further agrees that if Landlord shall have failed to cure such default within the time provided for in this Lease, then the Holder shall have an additional reasonable period within which to cure such default, or if such default cannot be cured without Holder pursuing its remedies against Landlord, then such additional time as may be necessary to commence and complete a foreclosure proceeding, provided Holder commences and thereafter diligently pursues the remedies necessary to cure such default (including, without limitation, commencement of foreclosure proceedings, if necessary to effect such cure), in which event this Lease shall not be terminated.

43. RELOCATION

In order to accommodate a tenant of 10,000 rentable square feet or more, Landlord shall have the right at any time during the Term to relocate the entire Premises to another part of the Building or to another building in the Project in accordance with the following:

(a) The new premises shall (i) have the same or not more than fifty percent (50%) more than the usable and rentable area as the Premises described in this Lease, (ii) be contiguous space located on the 8th floor or higher and have comparable or better views, (iii) have a comparable layout and décor, and (iv) have tenant improvements of equal or greater quality, appearance, condition and function (for Tenant's purposes) as the original Premises;

(b) The physical relocation of the Premises, including, without limitation, the relocation of cabling, wiring, telephone lines and computer equipment, and moving of Tenant's furniture, equipment, supplies, and personal property to the relocated premises shall be accomplished by Landlord at its cost;

(c) Landlord shall deliver to Tenant at least ninety (90) days prior written notice of Landlord's intention to relocate the Premises (a "**Relocation Notice**"), which Relocation Notice shall identify the proposed Relocated Premises and set for the date by which the relocation shall have occurred (the "**Relocation Date**"). Tenant shall have the right, exercisable by delivery of written notice to Landlord (a "**Relocation Termination Notice**") within ten (10) business days of delivery to Tenant of a Relocation Notice, to terminate this Lease, in which event Tenant shall vacate and surrender the Premises to Landlord in accordance with this Lease on or before the Relocation Date and this Lease shall terminate upon the later of the date of such surrender or the Relocation Date; *provided*, *further*, upon receipt of a Relocation Termination Notice from Tenant, Landlord shall have the right, exercisable upon delivery of written notice to Tenant to rescind its Relocation Notice and Tenant's right to terminate this Lease;

(d) The physical relocation of the Premises shall take place on a weekend and shall be substantially completed before the Monday following the weekend in which the relocation takes place. If the physical relocation has not been completed in that time, Rent shall abate from the time the physical relocation commences to the time it is substantially completed;

(e) Reasonable, out-of-pocket costs incurred by Tenant as a result of the relocation, including, without limitation, costs incurred in changing addresses on stationery, business cards, directories, advertising, and other such items, shall be paid by Landlord, in a sum not to exceed seven thousand five hundred dollars ($7,500.00);

(f) Landlord shall not have the right to relocate the Premises prior to the end of the eighteenth (18th) month or more than once during the Term of this Lease;

(g) If the relocated Premises is a different square footage than the Premises described in this Lease, the Base Rent shall be adjusted to a sum computed by multiplying the Base Rent specified in the Basic Lease Information by a fraction, the numerator of which shall be the total number of rentable square feet in the relocated Premises, and the denominator of which shall be the total number of rentable square feet in the Premises before relocation, *provided*, *however*, in no event shall the Base Rent or Tenant's Proportionate Share(s) be increased as a result of such relocation; and

(h) The parties shall immediately execute an amendment to this Lease stating the relocation of the Premises and the adjustment of Base Rent and Tenant's Proportionate Share(s), if any.

44. PARKING

(a) ***Parking Rights***. Tenant shall have the right but not the obligation to lease the number of parking spaces in the Parking Areas as specified in the Basic Lease Information throughout the Term, and any extension thereof, subject to the provisions of this Section 44; *provided*, *however*, that the number of parking spaces allocated to Tenant hereunder shall be reduced on a proportionate basis in the event any of the parking spaces in the Parking Areas are taken or otherwise eliminated as a result of any Condemnation or casualty event affecting such Parking Areas or any modifications made by Landlord to such Parking Areas. Tenant shall pay the parking rental being charged for such spaces, as the same may be increased from time to time, in advance, as Additional Rent, on the first day of each month. The parking rental payable by Tenant hereunder may include taxes imposed on the use of the parking spaces by any governmental or quasi-governmental authority. The use of such spaces shall be for the parking of standard size passenger automobiles, pick-up trucks, vans and sport utility vehicles used by Tenant, its officers, directors, employees, consultants and independent contractors only, and shall be subject to applicable Laws. Parking spaces may not be assigned or transferred separate and apart from this Lease. Upon the expiration or earlier termination of this Lease, Tenant's rights with respect to all leased parking spaces shall immediately terminate. Further, if Tenant fails to pay parking rental when the same shall be due, then, upon written notice from Landlord, in addition to all other remedies available to Landlord, Tenant's rights with respect to all leased parking spaces shall immediately terminate.

(b) ***Management of Project Parking Areas***. The Parking Areas shall be subject to the reasonable control and management of Landlord, who may, from time to time, establish, modify and enforce reasonable rules and regulations with respect thereto. If parking spaces are not assigned pursuant to the terms of this Lease, Landlord reserves the right at any time to assign parking spaces, and Tenant shall thereafter be responsible to insure that its officers, directors, consultants, independent contractors and employees park in the designated areas. Tenant shall, if requested by Landlord, furnish to Landlord a complete list of the license plate numbers of all

vehicles operated by Tenant, any transferee, or their respective officers, directors, consultants, independent contractors and employees. Landlord reserves the right to change, reconfigure, or rearrange the Parking Areas, to reconstruct or repair any portion thereof, and to restrict or eliminate the use of any Parking Areas and do such other acts in and to such areas as Landlord deems necessary or desirable, without such actions being deemed an eviction of Tenant or a disturbance of Tenant's use of the Premises, and without Landlord being deemed in default hereunder, provided that Landlord shall use commercially reasonable efforts (without any obligation to engage overtime labor or commence any litigation) to minimize the extent and duration of any resulting interference with Tenant's parking rights. Landlord may, in its sole discretion, convert the Parking Areas to a reserved and/or controlled parking facility, or operate the Parking Areas (or a portion thereof) as a tandem, attendant assisted and/or valet parking facility. Landlord may delegate its responsibilities with respect to the Parking Areas to a parking operator, in which case such parking operator shall have all the rights of control and management granted to Landlord. In such event, Landlord may direct Tenant, in writing, to enter into a parking agreement directly with the operator of the Parking Areas, and to pay all parking charges directly to such operator.

(c) ***Indemnification; Waiver***. Each vehicle shall, at Landlord's option to be exercised from time to time, bear a permanently affixed and visible identification sticker to be provided by Landlord. Tenant shall not and shall not permit its Agents to park any vehicles in locations other than those specifically designated by Landlord as being for Tenant's use. The license granted hereunder is for self-service parking only and does not include additional rights or services. Neither Landlord nor its Agents shall be liable for: (i) loss or damage to any vehicle or other personal property parked or located upon or within such parking spaces or any Parking Areas whether pursuant to this license or otherwise and whether caused by fire, theft, explosion, strikes, riots or any other cause whatsoever; or (ii) injury to or death of any person in, about or around such parking spaces or any Parking Areas or any vehicles parking therein or in proximity thereto whether caused by fire, theft, assault, explosion, riot or any other cause whatsoever and Tenant hereby waives any claim for or in respect to the above and against all Claims arising out of loss or damage to property or injury to or death of persons, or both, relating to any of the foregoing. Tenant shall not assign any of its rights hereunder and in the event an attempted assignment is made, it shall be void.

(d) ***Visitor Parking***. Tenant recognizes and agrees that visitors, clients and/or customers (collectively the "**Visitors**") to the Project and the Premises must park automobiles or other vehicles only in areas designated by Landlord from time to time as being for the use of such Visitors and Tenant hereby agrees to ask its Visitors to park only in the areas designated by Landlord from time to time for the use of Tenant's Visitors. Further, parking for Visitors is subject to the payment of fees ("**Visitor Parking Fees**") at rates set and to be set by Landlord from time to time in its sole discretion. Tenant hereby covenants and agrees to pay or ask its Visitors to pay the Visitor Parking Fees, plus tax thereon, as shall be set by Landlord from time to time and to comply with and abide by Landlord's or Landlord's parking operator's rules and regulations governing the use of such Visitor's parking as may be in existence from time to time.

(e) ***Governmental Fees***. In the event any tax, surcharge or regulatory fee is at any time imposed by any governmental authority upon or with respect to parking or vehicles parking in the parking spaces referred to herein, Tenant shall pay such tax, surcharge or regulatory fee as

Additional Rent under this Lease, such payments to be made in advance and from time to time as required by Landlord (except that they shall be paid monthly with Base Rent payments if permitted by the governmental authority).

45. ENTIRE AGREEMENT

This Lease, including the Exhibits and any Addenda attached hereto, which are hereby incorporated herein by this reference, contains the entire agreement of the parties hereto, and no representations, inducements, promises or agreements, oral or otherwise, between the parties, not embodied herein or therein, shall be of any force and effect. If there is more than one Tenant, the obligations hereunder imposed shall be joint and several.

46. INTEREST

Any installment of Rent and any other sum due from Tenant under this Lease which is not received by Landlord within five (5) days from when the same is due shall bear interest from the date such payment was originally due under this Lease until paid at the lesser of (a) an annual rate equal to the maximum rate of interest permitted by law, or (b) ten percent (10%) per annum. Payment of such interest shall not excuse or cure any Default by Tenant. In addition, Tenant shall pay all costs and reasonable attorneys' fees incurred by Landlord in collection of such amounts.

47. GOVERNING LAW; CONSTRUCTION

This Lease shall be construed and interpreted in accordance with the laws of state in which the Premises is located. The parties acknowledge and agree that no rule of construction to the effect that any ambiguities are to be resolved against the drafting party shall be employed in the interpretation of this Lease, including the Exhibits and any Addenda attached hereto. All captions in this Lease are for reference only and shall not be used in the interpretation of this Lease. Whenever required by the context of this Lease, the singular shall include the plural, the masculine shall include the feminine, and vice versa. If any provision of this Lease shall be determined to be illegal or unenforceable, such determination shall not affect any other provision of this Lease and all such other provisions shall remain in full force and effect. The words "include," "includes," and "including" shall be deemed to be followed by the phrase "without limitation." The phrase "business days" means Monday through Friday, excluding holidays. If there shall be more than one person or entity comprising Tenant, the act of or notice from, or notice or refund to, or the signature of, any one or more of them, in connection with any matter arising under this Lease, including but not limited to, any renewal, extension, expiration, termination or modification of this Lease, shall be binding upon each and all of the persons and entities comprising Tenant with the same force and effect as if each and all of them had so acted or so given or received such notice or refund or so signed.

48. REPRESENTATIONS AND WARRANTIES OF TENANT

Tenant (and, if Tenant is a corporation, partnership, limited liability company or other legal entity, such corporation, partnership, limited liability company or entity) hereby makes the following representations and warranties, each of which is material and being relied upon by Landlord, is true in all respects as of the date of this Lease, and shall survive the expiration or termination of the Lease. Tenant shall re-certify such representations to Landlord periodically, upon Landlord's reasonable request.

(a) If Tenant is an entity, Tenant is duly organized, validly existing and in good standing under the laws of the state of its organization, and is qualified to do business in the state in which the Premises is located, and the persons executing this Lease on behalf of Tenant have the full right and authority to execute this Lease on behalf of Tenant and to bind Tenant without the consent or approval of any other person or entity. Tenant has full power, capacity, authority and legal right to execute and deliver this Lease and to perform all of its obligations hereunder. This Lease is a legal, valid and binding obligation of Tenant, enforceable in accordance with its terms.

(b) Tenant has not (i) made a general assignment for the benefit of creditors, (ii) filed any voluntary petition in bankruptcy or suffered the filing of an involuntary petition by any creditors, (iii) suffered the appointment of a receiver to take possession of all or substantially all of its assets, (iv) suffered the attachment or other judicial seizure of all or substantially all of its assets, (v) admitted in writing its inability to pay its debts as they come due, or (vi) made an offer of settlement, extension or composition to its creditors generally.

(c) Tenant hereby represents and warrants to Landlord that Tenant is not:

(i) in violation of any Anti-Terrorism Law (as hereinafter defined); or

(ii) a Prohibited Person, nor are any of Tenant's affiliates, officers, directors, members or lease guarantor, as applicable, a Prohibited Person.

If at any time any of these representations becomes false, then it shall be considered a material default under this Lease.

As used herein, "**Anti-Terrorism Law**" is defined as any law relating to terrorism, anti-terrorism, money-laundering or anti-money laundering activities, including without limitation the United States Bank Secrecy Act, the United States Money Laundering Control Act of 1986, Executive Order No. 13224, Title 3 of the USA Patriot Act, Cal. Gov. Code §7513.6, and any regulations promulgated under any of them. As used herein "**Executive Order No. 13224**" is defined as Executive Order No. 13224 on Terrorist Financing effective September 24, 2001, and relating to "Blocking Property and Prohibiting Transactions With Persons Who Commit, Threaten to Commit, or Support Terrorism", as may be amended from time to time. "**Prohibited Person**" is defined as (i) a person or entity that is listed in the Annex to Executive Order No. 13224, or a person or entity owned or controlled by an entity that is listed in the Annex to Executive Order No. 13224; (ii) a person or entity with whom Landlord is prohibited from dealing or otherwise engaging in any transaction by any Anti-Terrorism Law; or (iii) a person or entity that is named as a "specially designated national and blocked person" on the most current list published by the U.S. Treasury Department Office of Foreign Assets Control at its official website, http://www.treas.gov/ofac/t11sdn.pdf or at any replacement website or other official publication of such list. "**USA Patriot Act**" is defined as the "Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001" (Public Law 107-56), as may be amended from time to time.

49. NAME OF BUILDING

In the event Landlord chooses to change the name or address of the Building and/or the Project, Tenant agrees that such change shall not affect in any way its obligations under this Lease, and that, except for the name or address change, all terms and conditions of this Lease shall remain in full force and effect. Tenant agrees further that such name or address change shall not require a formal amendment to this Lease, but shall be effective upon Tenant's receipt of written notification from Landlord of said change.

50. SECURITY

(a) ***No Security Obligations***. Tenant acknowledges and agrees that, while Landlord may in its sole and absolute discretion engage security personnel to patrol the Building or the Project, Landlord is not providing any security services with respect to the Premises and that Landlord shall not be liable to Tenant for, and Tenant waives any claim against Landlord with respect to, any bodily injury, loss by theft or any other damage suffered or incurred by Tenant or Tenant's employees, invitees, and visitors in connection with any unauthorized entry into the Premises or any other breach of security with respect to the Premises, the Building or the Project.

(b) ***Cooperation With Security Measures***. Tenant hereby agrees to the exercise by Landlord and Landlord's Agents, within their sole discretion, of such security measures as, but not limited to, the evacuation of the Premises, the Building or the Project for cause, suspected cause or for drill purposes, the denial of any access to the Premises, the Building or the Project and other similarly related actions that it deems necessary to prevent any threat of property damage or bodily injury. The exercise of such security measures by Landlord and Landlord's Agents, and the resulting interruption of service and cessation of Tenant's business, if any, shall not be deemed an eviction or disturbance of Tenant's use and possession of the Premises, or any part thereof, or render Landlord or Landlord's Agents liable to Tenant for any resulting damages or relieve Tenant from Tenant's obligations under this Lease.

51. JURY TRIAL WAIVER

Landlord and Tenant each hereby waives any right to trial by jury with respect to any action or proceeding (i) brought by Landlord, Tenant or any other party, relating to (A) this Lease and/or any understandings or prior dealings between the parties hereto, or (B) the Premises, the Building or the Project or any part thereof, or (ii) to which Landlord or Tenant is a party. Landlord and Tenant each hereby agrees that this Lease constitutes a written consent to waiver of trial by jury pursuant to the provisions of California Code of Civil Procedure Section 631.

52. RECORDATION

Neither this Lease, nor any memorandum, affidavit or other writing with respect thereto, shall be recorded by Tenant or by any one acting through, under or on behalf of Tenant, and the recording thereof in violation of this provision shall make this Lease null and void at Landlord's election.

53. 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 interest of the 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 Project.

54. 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 (collectively, the "**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 cause by a Force Majeure.

55. ACCEPTANCE

This Lease shall only become effective and binding upon full execution hereof by Landlord and delivery of a signed copy to Tenant and Landlord's receipt of any Security Deposit and Prepaid Base Rent set forth in the Basic Lease Information Section of this Lease.

56. RENEWAL OPTION (WITH FMV RENT)

(a) ***Exercise of Options***. Provided Tenant is not in default (beyond applicable notice and grace periods) pursuant to any of the terms and conditions of this Lease, at the date of both the Expiration Date and the effective date of the Option (as defined below), Tenant shall have the option (the "**Option**") to renew this Lease for an additional sixty (60) month period (the "**Extension Term**") commencing on the date following the Expiration Date upon the terms and conditions contained in this Section 56. To exercise the Option, Tenant shall give Landlord notice (the "**Extension Notice**") of intent to exercise said Option not less than nine (9) months and not more than twelve (12) months prior to the date on which the Extension Term which is the subject of the notice will commence. The notice shall be given as provided in Section 33 hereof. In the event Tenant exercises the Option, this Lease will terminate in its entirety at the end of the Extension Term and Tenant will have no further option to renew or extend the Term of this Lease.

(b) ***Procedures for Determining Prevailing Market Rate***.

(i) If Tenant timely exercises the Option, Landlord shall deliver to Tenant a good faith written proposal of the "**Prevailing Market Rate**" (as hereinafter defined) for the Premises for the Extension Term. Within thirty (30) days after receipt of Landlord's proposal, Tenant shall notify Landlord in writing that (A) Tenant accepts Landlord's proposal or (B)

Tenant rejects Landlord’s proposal. If Tenant does not give Landlord a timely notice in response to Landlord’s proposal, Landlord’s proposal of the Prevailing Market Rate for the Extension Term shall be deemed accepted by Tenant.

(ii) If Tenant timely rejects Landlord’s proposal, Landlord and Tenant shall first negotiate in good faith in an attempt to agree upon the Prevailing Market Rate for the Extension Term. If Landlord and Tenant are able to agree within thirty (30) days following Landlord’s receipt of Tenant’s notice rejecting Landlord’s proposal (the “**Negotiation Period**”), such agreement shall constitute a determination of Prevailing Market Rate for purposes of this Article. If Landlord and Tenant are unable to agree upon the Prevailing Market Rate during the Negotiation Period, then within thirty (30) days after expiration of the Negotiation Period, the parties shall meet and concurrently deliver to each other their respective written estimates of the Prevailing Market Rate for the Extension Term, supported by the reasons therefore (respectively, “**Landlord’s Determination**” and “**Tenant’s Determination**”). Landlord’s Determination may be more or less than its initial proposal of Prevailing Market Rate. If either party fails to deliver its Determination in a timely manner, then the Prevailing Market Rate shall be the amount specified by the other party. If the higher of such Determinations is not more than one hundred five percent (105%) of the lower of such Determinations, then the Prevailing Market Rate shall be the average of the two Determinations. If the Prevailing Market Rate is not resolved by exchange of the Determinations, the Prevailing Market Rate shall be determined as follows, each party being bound to its Determination and such Determinations constituting the only two choices available to the Appraisal Panel (as hereinafter defined).

(iii) Within thirty (30) days after the parties exchange Landlord’s and Tenant’s Determinations, the parties shall each appoint a neutral and impartial appraiser who shall be certified as an MAI or ASA appraiser and shall have at least ten (10) years’ experience, immediately prior to his or her appointment, as a real estate appraiser of office properties in the City of Pasadena, including significant experience appraising high rise office space in the South Lake Avenue business and shopping district. For purposes hereof, an “**MAI**” appraiser means an individual who holds an MAI designation conferred by, and is an independent member of, the American Institute of Real Estate Appraisers (or its successor organization, or, if there is no successor organization, the organization and designation most similar), and an “**ASA**” appraiser means an individual who holds the Senior Member designation conferred by, and is an independent member of, the American Society of Appraisers (or its successor organization, or, if there is no successor organization, the organization and designation most similar). If either Landlord or Tenant fails to appoint an appraiser within said thirty (30) day period, the Prevailing Market Rate for the Extension Term shall be the Determination of the other party who timely appointed an appraiser.

Landlord’s and Tenant’s appraisers shall work together in good faith to appoint a neutral or impartial third party appraiser within 10 business days, and notify both Landlord and Tenant of such selection. The three appraisers shall then work together in good faith to decide which of the two Determinations more closely reflects the Prevailing Market Rate of the Premises for the Extension Term. The Determination selected by such appraisers shall be binding upon Landlord and Tenant. If all three appraisers cannot agree upon which of the two Determinations more closely reflects the Prevailing Market Rate within thirty (30) days, the decision of a majority of the appraisers shall prevail.

(iv) Within five (5) days following notification of the identity of the third appraiser, Landlord and Tenant shall submit copies of Landlord's Determination and Tenant's Determination to the third appraiser. The three appraisers are referred to herein as the "**Appraisal Panel**." The Appraisal Panel, if it so elects, may conduct a hearing, at which Landlord and Tenant may each make supplemental oral and/or written presentations, with an opportunity for rebuttal by the other party and for questioning by the members of the Appraisal Panel. Within thirty (30) days following the appointment of the third appraiser, the Appraisal Panel, by majority vote, shall select either Landlord's Determination or Tenant's Determination as the Prevailing Market Rate of the Premises for the Extension Term, and shall have no right to propose a middle ground or to modify either of the two proposals or the provisions of this Lease. The decision of the Appraisal Panel shall be final and binding upon the parties, and may be enforced in accordance with the provisions of California law. In the event of the failure, refusal or inability of any member of the Appraisal Panel to act, a successor shall be appointed in the manner that applied to the selection of the member being replaced.

(v) Each party shall pay the fees and expenses of the appraiser appointed by such party, and one-half of the fees and expenses of the third appraiser and the expenses incident to the proceedings of the Appraisal Panel (excluding attorneys' fees and similar expenses of the parties which shall be borne separately by each of the parties).

(c) ***Prevailing Market Rate***. As used in this Lease, the phrase "**Prevailing Market Rate**" means the amount that a landlord under no compulsion to lease the Premises, and a tenant under no compulsion to lease the Premises, would agree upon at arm's length as Base Rent for the Premises for the Extension Term, as of the commencement of the Extension Term. The Prevailing Market Rate shall be based upon non-sublease, non-encumbered, non-equity lease transactions recently entered into for space in the Building and in Comparable Buildings ("**Comparison Leases**") and may include periodic increases. Rental rates payable under Comparison Leases shall be adjusted to account for variations between this Lease and the Comparison Leases with respect to: (i) the length of the Extension Term compared to the lease term of the Comparison Leases; (ii) rental structure, including additional rent, and taking into consideration any "base year"; (iii) the size of the Premises compared to the size of the premises under the Comparison Leases; (iv) utility, location, floor levels, views and efficiencies of the floor(s) of the Premises compared to the premises under the Comparison Leases; (v) the age and quality of construction of the Building; (vi) the value of existing leasehold improvements; and (vii) the financial condition and credit history of Tenant compared to the tenants under the Comparison Leases. In determining the Prevailing Market Rate, no consideration shall be given to (i) any rental abatement period granted to tenants in Comparison Leases in connection with the design and construction of tenant improvements, (ii) whether Landlord or the landlords under Comparison Leases are paying real estate brokerage commissions in connection with Tenant's exercise of the Extension Option or in connection with the Comparison Leases, and (iii) moving allowances paid. As used herein, "**Comparable Buildings**" mean those buildings located in Pasadena, California of the same or similar age, quality, tenant mix, parking, views, and the like.

(d) ***Option is Personal***. The rights contained in this Section 56 shall be personal to the Named Tenant (and any assignee pursuant to Section 23(l)) and shall not be transferable to any other assignee, sub-lessee or other transferee and may only be exercised by the Named Tenant (or any assignee pursuant to Section 23(l)) if such party occupies the entire Premises at the Expiration Date and at the commencement of the Extension Term.

[Signatures on next page]

IN WITNESS WHEREOF, Landlord and Tenant have executed and delivered this Lease as of the Lease Date specified in the Basic Lease Information.

LANDLORD: SOUTH LAKE AVENUE INVESTORS LLC,
a Delaware limited liability company

By: TPF Equity REIT Operating Partnership LP,
a Delaware limited partnership,
Its sole member

By: TPF Equity REIT Operating Partnership GP LLC,
a Delaware limited liability company,
Its General Partner

By: /s/ Scott D. Mullen
Scott D. Mullen, Director

TENANT: ARROWHEAD RESEARCH CORPORATION,
a Delaware corporation

By: /s/ Kenneth A. Myszkowski
Kenneth A. Myszkowski, Chief Financial Officer

Exhibit 31.1

CERTIFICATION PURSUANT SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Christopher Anzalone, Chief Executive Officer of Arrowhead Research Corporation, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Arrowhead Research Corporation;

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(s) 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(s) 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: May 8, 2012

/s/ CHRISTOPHER ANZALONE

Christopher Anzalone
Chief Executive Officer

Exhibit 31.2

CERTIFICATION PURSUANT SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Kenneth A. Myszkowski, Chief Financial Officer of Arrowhead Research Corporation, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Arrowhead Research Corporation;

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(s) 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(s) 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: May 8, 2012

/s/ KENNETH A. MYSZKOWSKI

Kenneth A. Myszkowski,
Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Christopher Anzalone, Chief Executive Officer of Arrowhead Research Corporation (the "Company"), certify, pursuant to Rule 13(a)-14(b) or Rule 15(d)-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, that (i) the Quarterly Report on Form 10-Q of the Company for the quarterly period ended March 31, 2012, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and (ii) the information contained in such Quarterly Report on Form 10-Q fairly presents in all material respects the financial condition and results of operations of the Company.

Date: May 8, 2012

/s/ CHRISTOPHER ANZALONE

Christopher Anzalone
Chief Executive Officer

A signed original of these written statements required by 18 U.S.C. Section 1350 has been provided to Arrowhead Research Corporation and will be retained by Arrowhead Research Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Kenneth A. Myszkowski, Chief Financial Officer of Arrowhead Research Corporation (the “Company”), certify, pursuant to Rule 13(a)-14(b) or Rule 15(d)-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, that (i) the Quarterly Report on Form 10-Q of the Company for the quarterly period ended March 31, 2012, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and (ii) the information contained in such Quarterly Report on Form 10-Q fairly presents in all material respects the financial condition and results of operations of the Company.

Date: May 8, 2012

/s/ KENNETH A. MYSZKOWSKI

Kenneth A. Myszkowski
Chief Financial Officer

A signed original of these written statements required by 18 U.S.C. Section 1350 has been provided to Arrowhead Research Corporation and will be retained by Arrowhead Research Corporation and furnished to the Securities and Exchange Commission or its staff upon request.