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

FORM 10-Q

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

For the quarterly period ended March 31, 2020

OR

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

For the transition period from _____ to _____.

Commission File Number: 001-37985

ANAPTYSBIO, INC.

(Exact name of registrant as specified in its charter)

Delaware	**20-3828755**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**

10421 Pacific Center Court, Suite 200
San Diego, CA 92121
(Address of principal executive offices and zip code)

(858) 362-6295
(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, $0.001 par value	ANAB	The Nasdaq Stock Market LLC

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 every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

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

Large Accelerated Filer	☒	Accelerated Filer	☐
Non-accelerated Filer	☐	Smaller Reporting Company	☐
		Emerging Growth Company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

As of May 4, 2020, there were 27,277,115 shares of the Registrant's Common Stock outstanding.

ANAPTYSBIO, INC.
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PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

ANAPTYSBIO, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except par value data)

	March 31, 2020	December 31, 2019
	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 165,317	$ 171,017
Receivable from collaborative partners	5,000	—
Short-term investments	197,166	203,210
Prepaid expenses and other current assets	3,572	3,506
Total current assets	371,055	377,733
Property and equipment, net	1,610	1,618
Long-term investments	50,215	54,305
Other long-term assets	1,293	1,481
Restricted cash	60	60
Total assets	$ 424,233	$ 435,197
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 8,571	$ 16,237
Accrued expenses	13,781	11,052
Notes payable, current portion	—	1,375
Other current liabilities	898	871
Total current liabilities	23,250	29,535
Other long-term liabilities	419	654
Stockholders' equity:		
Preferred stock, $0.001 par value, 10,000 shares authorized and no shares, issued or outstanding at March 31, 2020 and December 31, 2019, respectively	—	—
Common stock, $0.001 par value, 500,000 shares authorized, 27,277 shares and 27,255 shares issued and outstanding at March 31, 2020 and December 31, 2019, respectively	27	27
Additional paid in capital	651,680	648,669
Accumulated other comprehensive income	1,145	338
Accumulated deficit	(252,288)	(244,026)
Total stockholders' equity	400,564	405,008
Total liabilities and stockholders' equity	$ 424,233	$ 435,197

See accompanying notes to unaudited consolidated financial statements.

ANAPTYSBIO, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(in thousands, except per share data)
(unaudited)

	Three Months Ended March 31,	
	2020	**2019**
Collaboration revenue	$ 15,000	$ —
Operating expenses:		
Research and development	20,968	20,631
General and administrative	4,285	4,141
Total operating expenses	25,253	24,772
Loss from operations	(10,253)	(24,772)
Other income (expense), net:		
Interest expense	—	(320)
Interest income	1,897	2,988
Other income, net	94	7
Total other income (expense), net	1,991	2,675
Loss before income taxes	(8,262)	(22,097)
Provision for income taxes	—	19
Net loss	(8,262)	(22,078)
Other comprehensive income:		
Unrealized income on available for sale securities, net of tax of $0 and $115, respectively	807	427
Comprehensive loss	$ (7,455)	$ (21,651)
Net loss per common share:		
Basic and diluted	$ (0.30)	$ (0.82)
Weighted-average number of shares outstanding:		
Basic and diluted	27,264	26,981

See accompanying notes to unaudited consolidated financial statements.

ANAPTYSBIO, INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(in thousands)
(unaudited)

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount				
Balance, December 31, 2019	27,255	$ 27	$ 648,669	$ 338	$ (244,026)	$ 405,008
Shares issued under employee stock plans	22	—	36	—	—	36
Stock-based compensation	—	—	2,975	—	—	2,975
Comprehensive income, net	—	—	—	807	—	807
Net loss	—	—	—	—	(8,262)	(8,262)
Balance, March 31, 2020	27,277	$ 27	$ 651,680	$ 1,145	$ (252,288)	$ 400,564

See accompanying notes to unaudited consolidated financial statements.

ANAPTYSBIO, INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(in thousands)
(unaudited)

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive (Loss) Income	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount				
Balance, December 31, 2018	26,922	$ 27	$ 633,251	$ (223)	$ (146,690)	$ 486,365
Shares issued under employee stock plans	84	—	574	—	—	574
Stock-based compensation	—	—	2,867	—	—	2,867
Comprehensive income, net	—	—	—	427	—	427
Net loss	—	—	—	—	(22,078)	(22,078)
Balance, March 31, 2019	27,006	$ 27	$ 636,692	$ 204	$ (168,768)	$ 468,155

See accompanying notes to unaudited consolidated financial statements.

ANAPTYSBIO, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Three Months Ended March 31,	
	2020	**2019**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (8,262)	$ (22,078)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	140	115
Stock-based compensation	2,975	2,867
Accretion/amortization of investments, net	(8)	(1,028)
Non-cash interest expense	—	164
Changes in operating assets and liabilities:		
Receivable from collaborative partners	(5,000)	—
Prepaid expenses and other assets	233	(1,215)
Accounts payable and other liabilities	(5,190)	5,076
Net cash used in operating activities	(15,112)	(16,099)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of investments	(74,013)	(79,763)
Sales and maturities of investments	84,851	89,600
Purchases of property and equipment	(87)	(180)
Net cash provided by investing activities	10,751	9,657
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of common stock, upon the exercise of stock options	36	574
Payments on notes payable	(1,375)	(1,875)
Net cash used in financing activities	(1,339)	(1,301)
Net decrease in cash, cash equivalents, and restricted cash	(5,700)	(7,743)
Cash, cash equivalents and restricted cash, beginning of period	171,077	113,656
Cash, cash equivalents and restricted cash, end of period	$ 165,377	$ 105,913
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	$ 4	$ 172
Non-cash investing and financing activities:		
Amounts accrued for property and equipment	$ 86	$ 233

See accompanying notes to unaudited consolidated financial statements.

1. Description of the Business

AnaptysBio, Inc. ("we," "us," "our," or the "Company") was incorporated in the state of Delaware in November 2005. We are a clinical stage biotechnology company developing first-in-class immunology therapeutic product candidates to patients. We are focused on emerging immune control mechanisms applicable to inflammation and immuno-oncology indications. We develop our product candidates using our proprietary antibody discovery technology platform, which is based upon a breakthrough understanding of the natural process of antibody generation, known as somatic hypermutation, or SHM, and replicates this natural process of antibody generation *in vitro*. We currently generate revenue from milestones achieved under our collaborative research and development arrangements.

Since our inception, we have devoted our primary effort to raising capital and research and development activities. Our financial support has been provided primarily from the sale of our common and preferred stock, as well as through funds received under our collaborative research and development agreements. Going forward, as we continue our expansion, we may seek additional financing and/or strategic investments. However, there can be no assurance that any additional financing or strategic investments will be available to us on acceptable terms, if at all. If events or circumstances occur such that we do not obtain additional funding, we will most likely be required to reduce our plans and/or certain discretionary spending, which could have a material adverse effect on our ability to achieve our intended business objectives. Management believes its currently available resources will provide sufficient funds to enable the Company to meet its operating plans for at least the next twelve months. The accompanying consolidated financial statements do not include any adjustments that might be necessary if we are unable to continue as a going concern.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission, or the SEC. Certain information and note disclosures normally included in annual financial statements prepared in accordance with U.S. generally accepted accounting principles, or U.S. GAAP, have been omitted. The accompanying unaudited consolidated financial statements include all known adjustments necessary for a fair presentation of the results of interim periods as required by U.S. GAAP. These adjustments consist primarily of normal recurring accruals and estimates that impact the carrying value of assets and liabilities. Also, certain reclassifications have been made to 2019 financial information to conform to the current year presentation of prepaid expenses and other assets on the Consolidated Statements of Cash Flows. Operating results for the three months ended March 31, 2020 are not necessarily indicative of the results that may be expected for the year ending December 31, 2020. Interim results are not necessarily indicative of results for a full year, particularly in light of the novel coronavirus pandemic, or COVID-19, and its impact on domestic and global economies. To limit the spread of COVID-19, governments have taken various actions including the issuance of stay-at-home orders and social distancing guidelines, causing some businesses to suspend operations and or experience a reduction in demand for many products from direct or ultimate customers. Accordingly, businesses have adjusted, reduced or suspended operating activities. The effects of the stay-at-home orders and our work-from-home policies may negatively impact productivity, disrupt our business and delay our development programs, regulatory and commercialization timelines, the magnitude of which will depend, in part, on the length and severity of the restrictions and other limitations on our ability to conduct our business in the ordinary course. Our future research and development expenses and general and administrative expenses may vary significantly if we experience an increased impact from COVID-19 on the costs and timing associated with the conduct of our clinical trials and other related business activities. The financial statements should be read in conjunction with our audited financial statements for the year ended December 31, 2019, included in our Annual Form 10-K.

Basis of Consolidation

The accompanying consolidated financial statements include us and our wholly-owned Australian subsidiary. All intercompany accounts and transactions have been eliminated in consolidation. We operate in one reportable segment and our functional and reporting currency is the U.S. dollar.

Use of Estimates

The preparation of the accompanying consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. We base our estimates and assumptions on historical experience when available and on various factors that we believe to be reasonable under the circumstances. We evaluate our estimates and assumptions on an ongoing basis. The full extent to which the COVID-19 pandemic will directly or indirectly impact our business, results of operations and financial condition, including expenses, reserves and allowances, manufacturing, clinical trials, research and development costs and employee-related amounts, will depend on future developments that are highly uncertain, including as a result of new information that may emerge concerning COVID-19 and the actions taken to contain it or treat COVID-19, as well as the economic impact on local, regional, national and international markets. Our actual results could differ from these estimates under different assumptions or conditions.

Net Loss Per Common Share

Basic net loss per common share is computed by dividing net loss by the weighted-average number of common shares outstanding during the period. Diluted net loss per share is computed by dividing net loss by the weighted-average number of common equivalent shares outstanding for the period, as well as any dilutive effect from outstanding stock options and warrants using the treasury stock method. For each period presented, there is no difference in the number of shares used to calculate basic and diluted net loss per share.

The following table sets forth the outstanding potentially dilutive securities that have been excluded in the calculation of diluted net loss per share because to do so would be anti-dilutive (in common stock equivalent shares):

(in thousands)	Three Months Ended March 31,	
	2020	2019
Options to purchase common stock	3,021	2,359

Accounting Pronouncements Recently Adopted

In December 2019, the Financial Accounting Standards Board “FASB” issued ASU 2019-12, *Income Taxes (Topic 740)* intended to simplify the accounting for income taxes. The guidance removes the following exceptions: 1) exception to the incremental approach for intraperiod tax allocation when there is a loss from continuing operations and income or a gain from other items, 2) exception to the requirement to recognize a deferred tax liability for equity method investments when a foreign subsidiary becomes an equity method investment, 3) exception to the ability not to recognize a deferred tax liability for a foreign subsidiary when a foreign equity method investment becomes a subsidiary and 4) exception to the general methodology for calculating income taxes in an interim period when a year-to-date loss exceeds the anticipated loss for the year. Additionally, the guidance simplifies the accounting for income taxes by: 1) requiring that an entity recognize a franchise tax (or similar tax) that is partially based on income as an income-based tax and account for any incremental amount incurred as a non-income-based tax, 2) requiring that an entity evaluate when a step up in the tax basis of goodwill should be considered part of the business combination in which the book goodwill was originally recognized and when it should be considered a separate transaction, 3) specifying that an entity is not required to allocate the consolidated amount of current and deferred tax expense to a legal entity that is not subject to tax in its separate financial statements (although the entity may elect to do so (on an entity-by-entity basis) for a legal entity that is both not subject to tax and disregarded by the taxing authority), 4) requiring that an entity reflect the effect of an enacted change in tax laws or rates in the annual effective tax rate computation in the interim period that includes the enactment date and 5) making minor improvements for income tax accounting related to employee stock ownership plans and investments in qualified affordable housing projects accounted for using the equity method. The guidance will be effective for fiscal years and interim periods beginning after December 15, 2020. Different components of the guidance require retrospective, modified retrospective or prospective adoption, and early adoption is permitted. We early adopted this standard on January 1, 2020 and the adoption of the standard did not have a material impact to our consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments (Topic 326)*, which changes the accounting treatment for recognizing the impairment of financial assets. Under the new guidance, credit losses for certain types of financial instruments will be estimated based on expected losses. The new guidance also eliminates the other-than-temporary impairment model for available-for-sale (AFS) debt securities. Entities will begin to recognize credit losses on AFS debt securities as allowances rather than as reductions in the carrying value of the securities. Impairment that is not credit-related impairment will continue to be recognized in other comprehensive income and entities will no longer consider the length of time a security has been in an unrealized loss position when determining whether a

credit loss exists. ASU 2016-13 becomes effective for annual and interim periods beginning after December 15, 2019. We adopted this standard prospectively on January 1, 2020 and the adoption of the standard did not have a material impact to our consolidated financial statements as credit losses are not expected to be significant based on historical trends, the financial condition of our investments and external market factors. We will continue to actively monitor the impact of the recent coronavirus (COVID-19) pandemic on expected credit losses.

3. Balance Sheet Accounts and Supplemental Disclosures

Property and Equipment

Property and equipment consist of the following:

(in thousands)	March 31, 2020	December 31, 2019
Laboratory equipment	$ 5,018	$ 4,911
Office furniture and equipment	820	811
Leasehold improvements	575	575
Property and equipment, gross	6,413	6,297
Less: accumulated depreciation and amortization	(4,803)	(4,679)
Total property and equipment, net	$ 1,610	$ 1,618

Accrued Expenses

Accrued expenses consist of the following:

(in thousands)	March 31, 2020	December 31, 2019
Accrued compensation and related expenses	$ 1,363	$ 2,152
Accrued professional fees	494	435
Accrued research, development and manufacturing expenses	11,689	8,196
Other	235	269
Total accrued expenses	$ 13,781	$ 11,052

4. Collaborative Research and Development Agreements

TESARO Collaboration

In March 2014, we entered into a Collaboration and Exclusive License Agreement, or the TESARO Agreement, with TESARO, Inc. and TESARO Development, Inc., or collectively, TESARO, an oncology-focused biopharmaceutical company now a part of GlaxoSmithKline. Under the terms of the agreement, we agreed to perform certain discovery and early preclinical development of therapeutic antibodies with the goal of generating immunotherapy antibodies for subsequent preclinical, clinical, regulatory and commercial development to be performed by TESARO. Under the terms of the agreement, TESARO paid an upfront license fee of $17.0 million in March 2014 and agreed to provide funding to us for research and development services related to antibody discovery programs for three specific targets. In November 2014, we and TESARO entered into Amendment No. 1 to the Agreement to add an antibody discovery program against an undisclosed fourth target for an upfront license fee of $2.0 million.

For each development program, we are eligible to receive milestone payments of up to $18.0 million if certain preclinical and clinical trial events are achieved by TESARO, up to an additional $90.0 million if certain U.S. and European regulatory submissions and approvals in multiple indications are achieved, and up to an additional $165.0 million upon the achievement of specified levels of annual worldwide net sales. We will also be eligible to receive tiered single-digit royalties related to worldwide net sales of products developed under the collaboration. Unless earlier terminated by either party upon specified circumstances, the agreement will terminate, with respect to each specific developed product, upon the latter of the 12th anniversary of the first commercial sale of the product or the expiration of the last to expire of any patent. Prior to the adoption of ASC 606, *Revenue from Contracts with Customers*, we determined that the upfront license fees and research funding under the agreement, as amended, should be accounted for as a single unit of accounting and that the upfront license fees should be deferred and recognized as revenue over the same period that the research and development services are performed. In December 2015, we determined that the research and development services would be extended through December 31, 2016. As a result, the period over which the unrecognized license fees and milestones were recognized was extended through December 31, 2016, and have since been recognized in full.

We assessed this arrangement in accordance with ASC 606 and concluded that the contract counterparty, TESARO, is a customer. We identified the following material promises under the TESARO Agreement: (1) the licenses under certain patent rights relating to six discovery programs (four targets) and transfer of certain development and regulatory information, (2) R&D services and (3) Joint Steering Committee meetings. We considered the research and discovery capabilities of TESARO for these specific programs, TESARO's inability to sub-license, and the fact that the discovery and optimization of these antibodies is proprietary and could not, at the time of the contract inception, be provided by other vendors, to conclude that the license does not have stand-alone functionality and is therefore not distinct. Additionally, we determined that the steering committee participation would not have been provided without the R&D services and license agreement. Based on these assessments, we identified all services to be interrelated, and therefore concluded that the promises should be combined into a single performance obligation at the inception of the arrangement.

As of March 31, 2020, the transaction price includes the upfront payment, research reimbursement revenue, and milestones earned to date, which are allocated in their entirety to the single performance obligation. We earned and recognized two clinical milestones for $15.0 million during the three months ended March 31, 2020. No other future clinical or regulatory milestones have been included in the transaction price, as all milestone amounts were subject to the revenue constraint. As part of the constraint evaluation, we considered numerous factors including the fact that the receipt of milestones is outside of our control and contingent upon success in future clinical trials, an outcome that is difficult to predict, and the licensees' efforts. Any consideration related to sales-based milestones, including royalties, will be recognized when the related sales occur as they were determined to relate predominantly to the IP license granted to TESARO and therefore have also been excluded from the transaction price. We will re-evaluate the variable transaction price in each reporting period and as uncertain events are resolved or other changes in circumstances occur.

Milestones recognized through March 31, 2020 under the TESARO Agreement are as follows:

	Anti-PD-1 (TSR042/Dostarlimab)		Anti-TIM-3 (TSR022/Cobolimab)		Anti-LAG-3 (TSR033/Encelimab)	
Milestone Event	**Amount**	**Quarter Recognized**	**Amount**	**Quarter Recognized**	**Amount**	**Quarter Recognized**
Initiated *in vivo* toxicology studies using good laboratory practices (GLPs)	$1.0M	Q2'15	$1.0M	Q4'15	$1.0M	Q3'16
IND clearance from the FDA	$4.0M	Q1'16	$4.0M	Q2'16	$4.0M	Q2'17
Phase 2 clinical trial initiation	$3.0M	Q2'17	$3.0M	Q4'17	$3.0M	Q4'19
Phase 3 clinical trial initiation - first indication	$5.0M	Q3'18	—	—	—	—
Phase 3 clinical trial initiation - second indication	$5.0M	Q2'19	—	—	—	—
Filing of the first NDA - first indication	$10.0M	Q1'20	—	—	—	—
Filing of the first MAA - first indication	$5.0M	Q1'20	—	—	—	—

Milestones achieved during the discovery period were recognized as revenue pro-rata through December 31, 2016. Milestones achieved during fiscal 2017 were recognized as revenue in the period earned, while milestones after December 31, 2017 are recognized upon determination that a significant reversal of revenue would not be probable. Cash is generally received within 30 days of milestone achievement.

We recognized $15.0 million and $0.0 million in revenue under this agreement during the three months ended March 31, 2020 and 2019, respectively.

Antibody Generation Agreement with Celgene Corporation

In December 2011, we entered into a license and collaboration agreement with Celgene, now a part of Bristol-Myers Squibb, or the Celgene Agreement, to develop therapeutic antibodies against multiple targets. We granted Celgene the option to obtain worldwide commercial rights to antibodies generated against each of the targets under the agreement, which option was triggered on a target-by-target basis by our delivery of antibodies meeting certain pre-specified parameters pertaining to each target under the agreement.

The agreement provided for an upfront payment of $6.0 million from Celgene, which we received in 2011 and recognized through 2014, milestone payments of up to $53.0 million per target, low single-digit royalties on net sales of antibodies against each target, and reimbursement of specified research and development costs.

We assessed this arrangement in accordance with ASC Topic 606 and concluded that the contract counterparty, Celgene, is a customer. We identified the following material promises under the Celgene Agreement: (1) the licenses under certain patent rights relating to four targets and transfer of certain development and regulatory information, (2) R&D services, (3) a written report documenting findings and (4) Steering Committee meetings. We considered the research and discovery capabilities of Celgene, Celgene's inability to sub-license the four targets, and the fact that the discovery and optimization of these antibodies is proprietary and could not, at the time of the contract inception, be provided by other vendors, to conclude that the license does not have stand-alone functionality and is therefore not distinct. Additionally, we determined that the report of findings and steering committee participation would not have been provided without the R&D services and license agreement. Based on these assessments, we identified all services to be interrelated, and therefore concluded that the promises should be combined into a single performance obligation at the inception the arrangement.

As of March 31, 2020, the transaction price includes the upfront payment, success fees, expense reimbursement, and milestones earned to date, which are allocated in their entirety to the single performance obligation. None of the future clinical or regulatory milestones have been included in the transaction price, as all milestone amounts were subject to the revenue constraint. As part of the constraint evaluation, we considered numerous factors, including the fact that the receipt of milestones is outside of our control and contingent upon success in future clinical trials and the licensees' efforts. Any consideration related to sales-based milestones, including royalties, will be recognized when the related sales occur as they were determined to relate predominantly to the IP license granted to Celgene and therefore have also been excluded from the transaction price. We will re-evaluate the transaction price in each reporting period and as uncertain events are resolved or other changes in circumstances occur.

Milestones achieved through March 31, 2020 under the Celgene Agreement are as follows:

	Anti-PD-1 (CC-90006)	
Milestone Event	**Amount**	**Quarter Recognized**
Completion of first *in vivo* toxicology studies using GLPs	$0.5M	Q2'16
Phase 1 clinical trial initiation	$1.0M	Q4'16

Revenue from future contingent milestone payments will be recognized when it is more likely than not that the revenue will not be reversed in future periods. Cash is generally received within 30 days of milestone achievement.

There was no revenue recognized under this agreement during the three months ended March 31, 2020 and 2019.

5. Notes Payable

On December 24, 2014, we entered into a Loan and Security Agreement, as amended from time to time, the Loan Agreement, with a bank and a financial institution whereby we may borrow up to $15.0 million in three separate draws of $5.0 million each. The Term A Loans, for an aggregate of $5.0 million, were drawn on December 24, 2014 with a fixed interest rate of 6.97%.

In January 2016, the Loan Agreement was amended to combine Term B Loans and Term C Loans for a total of $10.0 million available for draw through December 31, 2016 and delay the beginning of our Term A Loans' principal repayments from February 1, 2016 until February 1, 2017. The Term B Loans and Term C Loans became available for draw on July 1, 2016. In December 2016, we further amended the Loan Agreement to (i) allow for the Term B Loans and Term C Loans to be drawn on December 30, 2016, (ii) delay principal repayments of all Term Loans until February 1, 2018 and (iii) amend the interest rate for each Term Loan. The Term B Loans and the Term C Loans were drawn on December 30, 2016, and Term A, B and C Loans are now collectively referred to as the Term Loans. Principal repayments began in February 2018, and were paid in full, without penalty or premium on January 1, 2020.

The costs incurred to issue the Term Loans were deferred and were included in the discount to the carrying value of the Term Loans in the accompanying balance sheet. The Term Loans also included a final payment fee of $0.8 million due at the earlier of prepayment or the maturity date of the Term Loans. The deferred costs and the final payment fee were amortized to interest expense over the expected term of the Term A Loans using the effective interest method.

6. Fair Value Measurements and Available for Sale Investments

Fair Value Measurements

Our financial instruments consist principally of cash, cash equivalents, restricted cash, short-term and long-term investments, receivables, accounts payable, and notes payable. Certain of our financial assets and liabilities have been recorded at fair value in the consolidated balance sheet in accordance with the accounting standards for fair value measurements.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. Accounting guidance also establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 - Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

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

Level 3 - Unobservable inputs that are supported by little or no market activities, therefore requiring an entity to develop its own assumptions.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following table summarizes our assets and liabilities that require fair value measurements on a recurring basis and their respective input levels based on the fair value hierarchy:

		Fair Value Measurements at End of Period Using:		
(in thousands)	Fair Value	Quoted Market Prices for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
At March 31, 2020				
Money market funds[1]	$ 151,542	$ 151,542	$ —	$ —
Mutual funds[1]	13,883	13,883	—	—
U.S. Treasury securities[2]	112,933	112,933	—	—
Certificates of deposit[2]	5,685	—	5,685	—
Agency securities[2]	41,890	—	41,890	—
Commercial and corporate obligations[2]	86,873	—	86,873	—
At December 31, 2019				
Money market funds[1]	$ 162,928	$ 162,928	$ —	$ —
Mutual funds[1]	7,619	7,619	—	—
U.S. Treasury securities[2]	96,434	96,434	—	—
Certificates of deposit[2]	5,428	—	5,428	—
Agency securities[2]	33,623	—	33,623	—
Commercial and corporate obligations[2]	122,030	—	122,030	—

(1) Included in cash and cash equivalents or restricted cash in the accompanying consolidated balance sheets.

(2) Included in short-term or long-term investments in the accompanying consolidated balance sheets depending on the respective maturity date.

The following methods and assumptions were used to estimate the fair value of our financial instruments for which it is practicable to estimate that value:

Marketable Securities. For fair values determined by Level 1 inputs, which utilize quoted prices in active markets for identical assets, the level of judgment required to estimate fair value is relatively low. For fair values determined by Level 2 inputs, which utilize quoted prices in less active markets for similar assets, the level of judgment required to estimate fair value is also considered relatively low.

Fair Value of Other Financial Instruments

The fair value of our other financial instruments estimated as of March 31, 2020 and December 31, 2019 are presented below:

	March 31, 2020		December 31, 2019	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Notes payable	$ —	$ —	$ 1,375	$ 1,365

The following methods and assumptions were used to estimate the fair value of our notes payable:

Notes Payable—We use the income approach to value the aforementioned debt instrument. We use a present value calculation to discount principal and interest payments and the final maturity payment on these liabilities using a discounted cash flow model based on observable inputs. We discount these debt instruments based on what the current market rates would offer us as of the reporting date. Based on the assumptions used to value these liabilities at fair value, these debt instruments are categorized as Level 2 in the fair value hierarchy.

The carrying amounts of certain of our financial instruments, including cash and cash equivalents, accounts payable, and accrued expenses approximate fair value due to their short-term nature.

Available for Sale Investments

We invest our excess cash in agency securities, debt instruments of financial institutions and corporations, commercial obligations, and U.S. Treasury securities, which we classify as available-for-sale investments. These investments are carried at fair value and are included in the tables above. The aggregate market value, cost basis, and gross unrealized gains and losses of available-for-sale investments by security type, classified in cash equivalents, short-term and long-term investments as of March 31, 2020 are as follows:

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Total Fair Value
Agency securities[1]	$ 41,754	$ 139	$ (3)	$ 41,890
Certificates of deposit[2]	5,639	46	—	5,685
Commercial and corporate obligations[3]	86,805	97	(29)	86,873
U.S. Treasury securities[4]	111,831	1,102	—	112,933
Total available-for-sale investments	$ 246,029	$ 1,384	$ (32)	$ 247,381

(1) Of our outstanding agency securities, $14.9 million have maturity dates of less than one year and $27.0 million have a maturity date of between one to two years as of March 31, 2020.

(2) Of our outstanding certificates of deposit, $5.0 million have a maturity date of less than one year and $0.7 million have a maturity date of between one to two years as of March 31, 2020.

(3) Of our outstanding commercial and corporate obligations, $82.6 million have maturity dates of less than one year and $4.3 million have a maturity date of between one to two years as of March 31, 2020.

(4) Of our outstanding U.S. Treasury securities, $94.7 million have maturity dates of less than one year and $18.2 million have a maturity date of between one to two years as of March 31, 2020.

The following tables present gross unrealized losses and fair values for those investments that were in an unrealized loss position as of March 31, 2020 and December 31, 2019, aggregated by investment category and the length of time that individual securities have been in a continuous loss position:

	March 31, 2020					
	Less than 12 Months		12 Months or Greater		Total	
(in thousands)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Agency securities	$ 1,848	$ (3)	$ —	$ —	$ 1,848	$ (3)
Commercial and corporate obligations	34,431	(29)	—	—	34,431	(29)
Total	$ 36,279	$ (32)	$ —	$ —	$ 36,279	$ (32)

	December 31, 2019					
	Less than 12 Months		12 Months or Greater		Total	
(in thousands)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Commercial and corporate obligations	$ 5,986	$ (4)	$ —	$ —	$ 5,986	$ (4)
US Treasury Securities	17,608	(2)	—	—	17,608	(2)
Total	$ 23,594	$ (6)	$ —	$ —	$ 23,594	$ (6)

7. Stockholders' Equity

Common Stock

Of the 500,000,000 shares of common stock authorized, 27,277,115 shares were issued and outstanding as of March 31, 2020. Common stock reserved for future issuance upon the exercise, issuance or conversion of the respective equity instruments at March 31, 2020 are as follows:

Issued and Outstanding:	
Stock options	2,866,929
Shares Reserved For:	
2017 Equity Incentive Plan	3,118,332
2017 Employee Stock Purchase Plan	997,682
Total	6,982,943

8. Equity Incentive Plans

2017 Equity Incentive Plan

On January 12, 2017, our board of directors and stockholders approved and adopted the 2017 Equity Incentive Plan, or the 2017 Plan. The 2017 Plan became effective upon the execution and delivery of the underwriting agreement for our initial public offering on January 26, 2017, and replaced our existing 2006 Equity Incentive Plan, or the 2006 Plan. Under the 2017 Plan we may grant stock options, stock appreciation rights, restricted stock, restricted stock units and other awards to individuals who are then our employees, officers, directors or consultants. In addition, the number of shares of stock available for issuance under the 2017 Plan will be automatically increased each January 1, beginning on January 1, 2018, by 4% of the aggregate number of outstanding shares of our common stock as of the immediately preceding December 31 or such lesser number as determined by our board of directors. The 2017 Plan automatically increased by 1,090,203 shares as of January 1, 2020.

Employee Stock Purchase Plan

On January 12, 2017, our board of directors and stockholders approved and adopted the 2017 Employee Stock Purchase Plan or the ESPP. The ESPP became effective upon the execution and delivery of the underwriting agreement for our initial public offering on January 26, 2017. In addition, the number shares of stock available for issuance under the ESPP will be automatically increased each January 1, beginning on January 1, 2018, by 1% of the aggregate number of outstanding shares of our common stock as of the immediately preceding December 31 or such lesser number as determined by our board of directors. The ESPP automatically increased by 272,550 shares as of January 1, 2020.

Stock Options

Stock options granted to employees and non-employees generally vest over a four-year period while stock options granted to directors vest over a one year period. Each have a maximum term of ten years from the date of grant, subject to earlier cancellation prior to vesting upon cessation of service to us. A summary of the activity related to stock option awards during the three months ended March 31, 2020 is as follows:

	Shares Subject to Options	Weighted-Average Exercise Price per Share	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at January 1, 2020	3,039,880	$ 29.40		
Granted	115,550	$ 15.88		
Exercises	(22,033)	$ 1.66		
Forfeitures and cancellations	(266,468)	$ 37.14		
Outstanding at March 31, 2020	2,866,929	$ 28.35	7.30	$ 6,683
Exercisable at March 31, 2020	1,423,084	$ 26.04	5.33	$ 6,565

Stock-Based Compensation Expense

The estimated fair values of stock option awards granted to employees were determined on the date of grant using the Black-Scholes option valuation model with the following weighted average assumptions:

	Three Months Ended March 31,	
	2020	2019
Risk-free interest rate	1.7%	2.5%
Expected volatility	92.0%	68.5%
Expected dividend yield	—%	—%
Expected term (in years)	6.25	6.25
Weighted average grant date fair value per share	$ 11.25	$ 43.96

We determine the appropriate risk free interest rate, expected term for employee stock based awards, contractual term for non-employee stock based awards, and volatility assumptions. The weighted-average expected option term for employee and non-employee stock based awards reflects the application of the simplified method, which defines the life as the average of the contractual term of the options and the weighted average vesting period for all option tranches. Estimated volatility incorporates historical volatility of our stock price as well as similar entities whose share prices are publicly available. The risk free interest rate is based upon U.S. Treasury securities with remaining terms similar to the expected or contractual term of the stock based payment awards. The assumed dividend yield is based on our expectation of not paying dividends in the foreseeable future.

Total non-cash stock based compensation expense for all stock awards that was recognized in the consolidated statements of operations and comprehensive loss is as follows:

	Three Months Ended March 31,	
(in thousands)	2020	2019
Research and development	$ 1,146	$ 1,240
General and administrative	1,829	1,627
Total	$ 2,975	$ 2,867

At March 31, 2020, there was $27.7 million of unrecognized compensation cost related to unvested stock option awards, which is expected to be recognized over a remaining weighted average vesting period of 3.13 years.

9. Commitments and Contingencies

Operating Leases

We have two non-cancellable office leases with remaining lease terms of approximately 1.5 years, each of which are classified as operating leases. Both leases expire in 2021. Only one of our leases has remaining renewal options, which includes three options to renew for one additional year. The exercise of lease renewal options is at our sole discretion, which we currently do not anticipate exercising and as such were not recognized as part of our ROU asset and lease liabilities. Our lease payments are fixed, and we recognize lease expense for these leases on a straight-line basis over the lease term. Operating lease ROU assets and lease liabilities are recorded based on the present value of the future minimum lease payments over the lease term at commencement date. As our leases do not provide an implicit rate, we used our incremental borrowing rate based on the information available at effective date of adoption in determining the present value of future payments. The weighted-average discount rate used was 8.59%.

Our balance sheet includes our ROU assets and lease liabilities as follows (in thousands):

Leases	Classification on the Balance Sheet	March 31, 2020	December 31, 2019
Operating ROU assets	Other long-term assets	$ 1,213	$ 1,402
Operating lease liabilities	Other current liabilities	898	871
Operating lease liabilities	Other long-term liabilities	419	654

The following costs are included in our cash flow statement (in thousands):

		Three Months Ended March 31,	
Leases	Classification on the Cash Flow	2020	2019
Operating lease cost	Operating	$ 220	$ 220
Cash paid for amounts included in the measurement of lease liabilities	Operating	239	231

At March 31, 2020, the future minimum annual obligations under non-cancellable operating lease commitments in excess of one year are as follows (in thousands):

Years Ending December 31,		
2020	$	729
2021		676
2022		—
2023		—
2024		—
Thereafter		—
Total minimum payments required		1,405
Less imputed interest		(88)
Total	$	1,317

Shareholder Lawsuit

On March 25, 2020, a putative shareholder class action complaint was filed in the United States District Court for the Southern District of California against us and three of our current or former officers. The complaint purports to assert claims under Section 10(b) of the Exchange Act, Exchange Act Rule 10b-5, and Section 20(a) of the Exchange Act, on behalf of persons and entities who acquired our common stock between October 10, 2017 and November 7, 2019, or the Class Period. The complaint alleges that, during the Class Period, the defendants made material misrepresentations or omissions regarding our etokimab drug that artificially inflated our stock price. The plaintiff seeks, among other things, damages in an unspecified amount, as well as costs and expenses. We believe that the claims in the action are without merit.

10. Subsequent Events

On May 4, 2020, we entered into a lease agreement, or Lease Agreement, with Wateridge Property Owner, LP, with respect to facilities in the building at 10770 Wateridge Circle, San Diego, California 92121. Under the Lease Agreement, we agreed to lease approximately 45,000 square feet of space in the 10770 Wateridge Circle Building for a term of 124 months, beginning on March 1, 2021 (or on such later date as described in the Lease Agreement). The terms of the Lease Agreement provide us with an option to extend the term of the lease for an additional five years, as well as a one-time option we have to terminate the lease after seven years with the payment of a termination fee. The monthly base rent will be $4.20 per rentable square foot, and will be increased by 3% annually. We are also responsible for real estate taxes, building insurance, maintenance and our pro rata share of direct expenses and utilities under the Lease Agreement.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q (Quarterly Report) contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (Exchange Act), and section 27A of the Securities Act of 1933, as amended (Securities Act). The words “believe,” “may,” “will,” “potentially,” “estimate,” “continue,” “anticipate,” “intend,” “could,” “would,” “project,” “plan” and “expect,” and similar expressions that convey uncertainty of future events or outcomes are intended to identify forward-looking statements.

The forward-looking statements in this report include, among other things, statements about:

- the success, cost and timing of our product candidate development activities and ongoing and planned clinical trials;
- our plans to develop and commercialize antibodies, including our lead product candidates: etokimab for patients with respiratory disorders and ANB019 for patients with generalized pustular psoriasis, or GPP, and palmoplantar pustulosis, or PPP;
- the impact of the coronavirus, or COVID-19, pandemic on our business and the U.S. and global economies;
- the likelihood that the clinical data generated in any study we performed, are performing or plan to perform in a non-US jurisdiction will be subsequently accepted by the U.S. Food and Drug Administration, or FDA and/or by foreign regulatory authorities outside of the jurisdiction where the study was being performed;
- the timing and ability of our collaborators to develop and commercialize our partnered product candidates;
- the potential benefits and advantages of our product candidates and approaches versus those of our competitors;
- our ability to execute on our strategy, including advancing our lead product candidates, identifying emerging opportunities in key therapeutic areas, continuing to expand our wholly-owned pipeline and retaining rights to strategic products in key commercial markets;
- our ability to obtain funding for our operations, including funding necessary to complete further development and commercialization of our product candidates;
- the timing of and our ability to obtain and maintain regulatory approvals for etokimab and ANB019 and our other product candidates;
- our ability to develop our product candidates;
- the rate and degree of market acceptance and clinical utility of any approved product candidates;
- the size and growth potential of the markets for any approved product candidates, and our ability to serve those markets;
- our commercialization, marketing and manufacturing capabilities and strategy;
- our expectations regarding our ability to obtain and maintain intellectual property protection for our product candidates;
- regulatory developments in the United States, the United Kingdom, Australia and other foreign countries;
- the success of competing therapies that are or may become available;

- our ability to attract and retain key scientific or management personnel;
- our use of the net proceeds from our public offerings;
- our ability to identify additional products or product candidates with significant commercial potential that are consistent with our commercial objectives; and
- our estimates regarding expenses, future revenue, capital requirements and needs for additional financing.

These forward-looking statements are subject to a number of risks, uncertainties and assumptions, including those described in Part II, Item 1A, "Risk Factors," and elsewhere in this Quarterly Report. Moreover, we operate in a competitive and rapidly changing environment, and new risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this Quarterly Report may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements.

You should not rely upon forward-looking statements as predictions of future events. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee that the future results, levels of activity, performance or events and circumstances reflected in the forward-looking statements will be achieved or occur. We undertake no obligation to update publicly any forward-looking statements to conform these statements to actual results or to changes in our expectations, except as required by law.

You should read this Quarterly Report with the understanding that our actual future results, levels of activity, performance, and events and circumstances may be materially different from what we expect.

Unless the context indicates otherwise, as used in this Quarterly Report, the terms "AnaptysBio," "company," "we," "us" and "our" refer to AnaptysBio, Inc., a Delaware corporation, and its subsidiaries taken as a whole, unless otherwise noted. AnaptysBio is our common law trademark. This Quarterly Report contains additional trade names, trademarks and service marks of other companies, which are the property of their respective owners. We do not intend our use or display of other companies' trade names, trademarks or service marks to imply a relationship with, or endorsement or sponsorship of us by, these other companies.

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

You should read the following discussion and analysis of our financial condition and results of operations together with our unaudited consolidated financial statements and related notes for the three months ended March 31, 2020, included in Part I, Item 1 of this report and with our audited consolidated financial statements and related notes thereto for the year ended December 31, 2019, included in the Company's Form 10-K. This discussion and other sections of this Quarterly Report contain forward-looking statements that involve risks and uncertainties, such as our plans, objectives, expectations, intentions and beliefs. Our actual results could differ materially from those discussed in these forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified below and those discussed in the section entitled "Risk Factors" included in Part II, Item 1A of this Quarterly Report. You should also carefully read "Special Note Regarding Forward-Looking Statements".

Overview

We are a clinical stage biotechnology company developing first-in-class immunology therapeutic product candidates to patients. We are focused on emerging immune control mechanisms applicable to inflammation and immuno-oncology indications. We develop our product candidates using our proprietary antibody discovery technology platform, which is based upon a breakthrough understanding of the natural process of antibody generation, known as somatic hypermutation, or SHM, and replicates this natural process of antibody generation *in vitro*. Our strategy is to advance the development of our proprietary product candidates, and where applicable, establish partnerships with leading biopharmaceutical companies where we retain certain development and commercialization rights. Our most advanced wholly-owned antibody programs, etokimab, ANB019, ANB030 and ANB032, are designed to modulate therapeutic targets that are genetically associated with human inflammatory disorders.

Etokimab, our anti-IL-33 antibody previously referred to as ANB020, inhibits the activity of the interleukin-33 cytokine, or IL-33, which we believe is broadly applicable to the treatment of respiratory disorders. We are conducting a randomized, placebo-controlled Phase 2 trial of etokimab in approximately 100 adult patients with CRSwNP, also referred to as the ECLIPSE trial, which is a debilitating atopic disorder associated with elevated IL-33 pathway signaling. We have over-enrolled this trial beyond the first 100 patients to compensate for lost patient visits due to the COVID-19 pandemic, and hence anticipate interim top-line data from this trial to be available in the third quarter of 2020. We have previously completed a Phase 2a randomized, placebo-controlled, single dose study of etokimab in 25 severe adult eosinophilic asthma patients. We presented full data from this trial at the 2019 European Academy of Allergy and Clinical Immunology (EAACI), which demonstrated that a single dose of etokimab resulted in rapid and sustained lung function improvement as measured using Forced Expiratory Volume in One Second, or FEV1, patient reported outcomes associated with asthma symptoms, as measured using the Asthma Control Questionnaire 5. As a result of the topline data from our recently completed Phase 2b etokimab ATLAS trial in moderate-to-severe atopic dermatitis, the Company has decided to discontinue further clinical development in atopic dermatitis. We have also postponed initiation of a previously announced Phase 2b etokimab clinical trial in eosinophilic asthma until data is available from the aforementioned ECLIPSE trial.

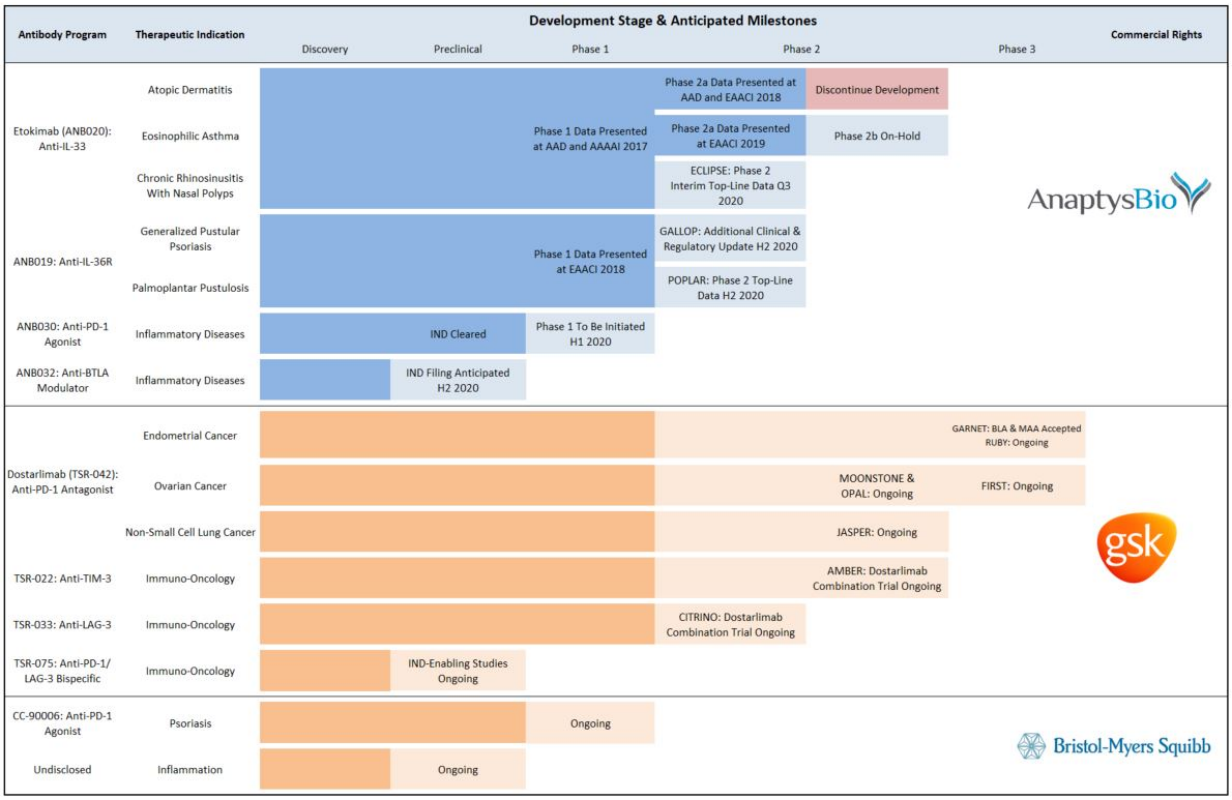
Our ANB019 antibody inhibits the interleukin-36 receptor, or IL-36R, and is being developed for the treatment of rare inflammatory diseases including generalized pustular psoriasis, or GPP, and palmoplantar pustulosis, or PPP. We completed a Phase 1 clinical trial in healthy volunteers, which was presented at EAACI 2018, where ANB019 was well-tolerated by all subjects, no dose-limiting toxicities were observed, and no serious adverse events were reported among any subjects in the trial. We are conducting an open-label, multi-dose, single-arm Phase 2 trial of ANB019 in up to 10 GPP patients, also referred to as the GALLOP trial, where an interim analysis, announced in September 2019, was conducted after the first two patients completed 16-weeks (Day 113) with ANB019 monotherapy. Both patients achieved the primary endpoint of disease improvement at Day 29 and Day 113 without requiring rescue therapy. Patients demonstrated rapid and sustained modified Japanese Dermatology Association (mJDA) improvement and complete clearance of skin pustules from Day 8 through Day 113. C-reactive protein, or CRP, levels decreased to nearly normal in both patients and genotypic testing of these two patients indicated that ANB019 may be broadly applicable to pustular disease patients without a requirement for genetic screening. Enrollment is ongoing in GALLOP and we anticipate additional clinical data and a regulatory strategy update for the development of ANB019 in GPP during the second half of 2020. We are also conducting a randomized, double-blind, placebo-controlled approximately 50-patient multi-dose trial of ANB019 in PPP, also referred to as the POPLAR trial, where top-line data are anticipated in the second half of 2020. While we do not believe that the aforementioned timelines are materially impacted by the COVID-19 pandemic at this point, some of the sites involved in the GALLOP and POPLAR trials have been affected by the COVID-19 pandemic, and we will continue to monitor the situation over the upcoming months.

Our third wholly-owned program, ANB030, is an anti-PD-1 agonist antibody program designed to augment PD-1 signaling through ANB030 treatment to suppress T-cell driven human inflammatory diseases. Genetic mutations in the PD-1 pathway are known to be associated with increased susceptibility to human inflammatory diseases, and hence we believe that ANB030 is applicable to diseases where PD-1 checkpoint receptor function may be under-represented. We presented preclinical data for ANB030 at the 2019 Federation of Clinical Immunological Societies (FOCIS) Annual Meeting in June 2019. Our Investigational New Drug Application, or IND, for ANB030 has been cleared, and we anticipate initiation of a Phase 1 healthy volunteer clinical trial in the first half of 2020.

Our fourth wholly-owned program is an anti-BTLA modulator antibody, known as ANB032, which is broadly applicable to human inflammatory diseases associated with lymphoid and myeloid immune cell dysregulation. Mutations in the BTLA signaling pathway are associated with human inflammatory disease and we believe ANB032 silences pro-inflammatory signaling by modulating BTLA binding to HVEM. We anticipate filing an IND for ANB032 in the second half of 2020.

In addition to our wholly-owned antibody programs, multiple AnaptysBio-developed antibody programs have been advanced to preclinical and clinical milestones under our collaborations. We have received to date approximately $100.0 million in cash receipts from collaborations. Our collaborations include an immuno-oncology-focused collaboration with TESARO, Inc. and TESARO Development, Ltd., or collectively TESARO, now a part of GlaxoSmithKline or GSK, and an inflammation-focused collaboration with Celgene Corporation, or Celgene, now part of Bristol-Myers Squibb. A Biologics License Application, or BLA, for our most advanced partnered program, which is an anti-PD-1 antagonist antibody called dostarlimab, was submitted by GSK and accepted by the FDA for endometrial cancer. In addition, the European Medicines Agency, or EMA, recently accepted GSK's Marketing Authorization Application, or MAA, for dostarlimab in the EU for endometrial cancer. We anticipate marketing approval of dostarlimab by the FDA for endometrial cancer during 2020. Dostarlimab is also under development at GSK for a number of additional oncological indications. For more information about these collaborations, see Part I-Note 4, Collaborative Research and Development Agreements, above.

The following table summarizes certain key information about our wholly-owned and partnered product candidates:



In addition, in December 2019, a strain of coronavirus was reported in Wuhan, China, and began to spread globally, including to the United States and Europe, in the following months. The World Health Organization has declared COVID-19 to be a pandemic and a public health emergency of international concern. The full impact of the COVID-19 outbreak is inherently

uncertain at the time of this report. The COVID-19 outbreak has resulted in travel restrictions and in some cases, prohibitions of non-essential activities, disruption and shutdown of businesses and greater uncertainty in global financial markets. As COVID-19 has spread, it has significantly impacted the health and economic environment around the world and many governments have closed most public establishments, including restaurants, workplaces and schools. Our ongoing clinical trials have been, and may continue to be, affected by the closure of offices, or country borders, among other measures being put in place around the world. The inability to travel and conduct face-to-face meetings can also make it more difficult to enroll new patients in ongoing or planned clinical trials. Any of these circumstances will potentially have a negative impact on our financial results and liquidity in fiscal 2020.

The COVID-19 pandemic has caused us to modify our business practices (including but not limited to curtailing or modifying employee travel, moving to full remote work, and cancelling physical participation in meetings, events and conferences), and we may take further actions as may be required by government authorities or that we determine are in the best interests of our employees, patients and business partners.

The extent of the impact of the COVID-19 on our future liquidity and operational performance will depend on certain developments, including the duration and spread of the outbreak, the impact on our trials, patients and collaboration partners, and the effect on our suppliers.

Components of Operating Results

Collaboration Revenue

We have not generated any revenue from product sales. Our revenue has been derived from amortization of upfront license payments, research and development funding and milestone payments under collaboration and license agreements with our collaborators. From inception through March 31, 2020, we have received $99.6 million in cash in non-dilutive funding from our collaborators.

Research and Development Expense

Research and development expenses consist of costs associated with our research and development activities, including drug discovery efforts, preclinical and clinical development of our programs, and manufacturing. Our research and development expenses include:

- External research and development expenses incurred under arrangements with third parties, such as Contract Research Organizations, or CROs, consultants, members of our scientific and therapeutic advisory boards, and Contract Manufacturing Organizations, or CMOs;
- Employee-related expenses, including salaries, benefits, travel and stock-based compensation;
- Facilities, depreciation and other allocated expenses, which include direct and allocated expenses for rent and maintenance of facilities, depreciation of leasehold improvements and equipment, and laboratory supplies; and
- License and sub-license fees.

We expense research and development costs as incurred. We account for nonrefundable advance payments for goods and services that will be used in future research and development activities as expense when the service has been performed or when the goods have been received.

We are conducting research and development activities primarily on inflammation programs. We have a research and development team that conducts antibody discovery, characterization, translational studies, IND-enabling preclinical studies and clinical development. We conduct some of our early research and preclinical activities internally and plan to rely on third parties, such as CROs and CMOs, for the execution of certain of our research and development activities, such as *in vivo* toxicology and pharmacology studies, drug product manufacturing and clinical trials.

We have completed Phase 1 and 2a trials for etokimab and Phase 1 trials for ANB019 and have ongoing Phase 2 clinical trials as well.

General and Administrative Expense

General and administrative expenses consist primarily of salaries and related benefits, including stock-based compensation for our executive, finance, legal, business development, human resource and support functions. Other general and administrative expenses include allocated facility-related costs not otherwise included in research and development expenses, travel expenses and professional fees for auditing, tax and legal services.

Interest Expense

Interest expense consists of floating interest payments and amortization of discounts on our outstanding notes payable relating to our Loan and Security Agreement with Oxford Finance LLC and Silicon Valley Bank, as amended, which we refer to as the Loan Agreement.

Interest Income

Interest income consists primarily of interest earned on our short-term and long-term investments, and is recognized when earned.

Critical Accounting Policies and Use of Estimates

Our management's discussion and analysis of our financial condition and results of operations are based on our financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles, or GAAP. The preparation of these financial statements requires us to make judgments and estimates that affect the reported amounts of assets, liabilities, revenues, and expenses and the disclosure of contingent assets and liabilities in our financial statements. We base our estimates on historical experience, known trends and events, and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. On an ongoing basis, we evaluate our judgments and estimates in light of changes in circumstances, facts and experience. We believe there have been no significant changes in our critical accounting policies as discussed in our Annual Report on Form 10-K filed with the SEC on March 2, 2020.

Results of Operations - Comparison of the Three Months Ended March 31, 2020 and 2019

Collaboration Revenue

We recognized $15.0 million and $0.0 million in collaboration revenue for the three months ended March 31, 2020 and 2019, respectively, related to two milestones associated with dostarlimab, the anti-PD-1 antagonist antibody partnered with TESARO. The first milestone was for $10.0 million for successful filing of the first NDA in a first indication and the second milestone was for $5.0 million for successful filing of the first MAA in a first indication. We expect that any collaboration revenue we generate will continue to fluctuate from period to period as a result of the timing and amount of milestones from our existing collaborations.

Research and Development Expenses

Research and development expenses were $21.0 million during the three months ended March 31, 2020 compared to $20.6 million during the three months ended March 31, 2019 for an increase of $0.4 million, primarily due to a $0.5 million increase in clinical expenses and a $0.2 million increase in outside services for preclinical and manufacturing expenses, offset by a $0.1 million decrease in salaries and related expenses, including stock compensation expense, and a $0.2 million decrease in other research and development expenses.

We do not track fully burdened research and development costs separately for each of our drug candidates. We review our research and development expenses by focusing on external development and internal development costs. External development expenses consist of costs associated with our external preclinical and clinical trials, including pharmaceutical development and manufacturing. Included in preclinical and other unallocated costs are external corporate overhead costs that are not specific to any one program. Internal costs consist of salaries and wages, share-based compensation and benefits, which are not tracked by product candidate as several of our departments support multiple product candidate research and development programs. The following table summarizes the external costs attributable to each program and internal costs:

	Three Months Ended March 31,		
	2020	2019	Increase/(Decrease)
External Costs			
Etokimab	$ 7,921	$ 7,515	$ 406
ANB019	5,191	5,037	154
ANB030	667	1,483	(816)
Preclinical and other unallocated costs	2,605	1,947	658
Total External Costs	16,384	15,982	402
Internal Costs	4,584	4,649	(65)
Total Costs	$ 20,968	$ 20,631	$ 337

General and Administrative Expenses

General and administrative expenses were $4.3 million during the three months ended March 31, 2020 compared to $4.1 million during the three months ended March 31, 2019 for an increase of $0.2 million, primarily due to a $0.2 million increase in personnel costs including stock compensation expense and a $0.2 million increase in insurance expense, offset by a $0.2 million decrease in professional fees.

We expect that our general and administrative expenses will increase for the foreseeable future as we incur additional costs associated with being a publicly traded company, including legal, auditing and filing fees, additional insurance premiums, investor relations expenses and general compliance and consulting expenses. We also expect our intellectual property related legal expenses, including those related to preparing, filing, prosecuting and maintaining patent applications, to increase as our intellectual property portfolio expands.

Interest Expense

Interest expense was $0.0 million and $0.3 million during the three months ended March 31, 2020 and 2019, respectively. The decrease in interest expense during the period is due to the final payment made on our Term Loans on January 1, 2020.

Interest Income

Interest income was $1.9 million and $3.0 million during the three months ended March 31, 2020 and 2019, respectively, which primarily related to our short-term and long-term investments, the balance of which decreased during the period as a result of ongoing clinical trial programs. The decrease in interest income is also attributable to lower interest rates during the three months ended March 31, 2020.

Other Income (Expense), Net

Other income (expense), net was income of less than $0.1 million during both the three months ended March 31, 2020 and 2019, respectively, and primarily related to foreign exchange transactions through our Australian subsidiary and with our foreign CROs and CMOs.

Liquidity and Capital Resources

From our inception through March 31, 2020, we have received an aggregate of $738.5 million to fund our operations which included $619.8 million from the sale of equity securities, $99.6 million from our collaboration agreements and $19.1 million from venture debt. As of March 31, 2020, we had $412.7 million in cash, cash equivalents and investments.

In addition to our existing cash, cash equivalents and investments, we are eligible to earn milestone and other contingent payments for the achievement of defined collaboration objectives and certain nonclinical, clinical, regulatory and sales-based events, and royalty payments under our collaboration agreements. Our ability to earn these milestone and contingent payments and the timing of achieving these milestones is primarily dependent upon the outcome of our collaborators' research and development activities and is uncertain at this time. Our rights to payments under our collaboration agreements are our only committed external source of funds.

We may seek to obtain additional financing in the future through equity or debt financings or through collaborations or partnerships with other companies. If we are unable to obtain additional financing on commercially reasonable terms, our business, financial condition and results of operations will be materially adversely affected.

Funding Requirements

Our primary uses of capital are, and we expect will continue to be, third-party clinical and preclinical research and development services, including manufacturing, laboratory and related supplies, compensation and related expenses, legal, patent and other regulatory expenses and general overhead costs. We have entered into agreements with certain vendors for the provision of services, including services related to commercial manufacturing, that we are unable to terminate for convenience. Under such agreements, we are contractually obligated to make certain minimum payments to the vendors, with the amounts to be based on the timing of the termination and the specific terms of the agreement.

As a publicly traded company, we incur significant legal, accounting and other expenses that were not required as a private company. In addition, the Sarbanes-Oxley Act of 2002, as well as rules adopted by the SEC and The Nasdaq Global Stock Market, requires public companies to implement specified corporate governance practices that were inapplicable to us as a private company. These rules and regulations have increased our legal and financial compliance costs, have made and will continue to make certain activities more time-consuming and costly.

Cash, cash equivalents and investments totaled $412.7 million as of March 31, 2020, compared to $428.5 million as of December 31, 2019. We believe that our existing cash, cash equivalents and investments will fund our current operating plan at least into 2023. We have based this estimate on assumptions that may prove to be wrong, and we could use our capital resources sooner than we expect. Additionally, the process of testing drug candidates in clinical trials is costly, and the timing of progress and expenses in these trials is uncertain.

Cash Flows

The following table summarizes our cash flows for the three months ended March 31, 2020 and 2019:

(in thousands)	Three Months Ended March 31, 2020	2019
Net cash (used in) provided by:		
Operating activities	$ (15,112)	$ (16,099)
Investing activities	10,751	9,657
Financing activities	(1,339)	(1,301)
Net decrease in cash, cash equivalents, and restricted cash	$ (5,700)	$ (7,743)

Operating Activities

Net cash used in operating activities during the three months ended March 31, 2020 of $15.1 million was primarily due to our net loss of $8.3 million, adjusted for addbacks for non-cash expenses of $3.1 million which includes stock-based compensation and net decreases in working capital of $10.0 million. Net cash used in operating activities during the three months ended March 31, 2019 of $16.1 million was primarily due to our net loss of $22.1 million, adjusted for non-cash expenses of $2.1 million which includes stock-based compensation and net increases in working capital of $3.9 million.

Investing Activities

Net cash provided by investing activities during the three months ended March 31, 2020 and 2019 of $10.8 million and $9.7 million, respectively, primarily relates to the timing of our investment maturity, which was used to fund our operating expenses.

Financing Activities

The net cash used in financing activities during the three months ended March 31, 2020 of $1.3 million primarily related to principal and final payments of $1.4 million made on our Term Loans, offset by $0.04 million in proceeds from the issuance of common stock upon the exercise of stock options. The net cash used in financing activities during the three months ended March 31, 2019 of $1.3 million primarily related to principal payments of $1.9 million made on our Term Loans, offset by $0.6 million in proceeds from the issuance of common stock upon the exercise of stock options.

Contractual Obligations

Operating Leases

We have two non-cancellable office leases with remaining lease terms of approximately 1.5 years, each of which are classified as operating leases. Both leases expire in 2021. Only one of our leases has remaining renewal options, which includes three options to renew for one additional year. The exercise of lease renewal options is at our sole discretion, which we currently do not anticipate exercising and as such were not recognized as part of our ROU asset and lease liabilities. Our lease payments are fixed, and we recognize lease expense for these leases on a straight-line basis over the lease term. Operating lease ROU assets and lease liabilities are recorded based on the present value of the future minimum lease payments over the lease term at commencement date. As our leases do not provide an implicit rate, we used our incremental borrowing rate based on the information available at effective date of adoption in determining the present value of future payments. The weighted-average discount rate used was 8.59%.

At March 31, 2020, the future minimum annual obligations under non-cancellable operating lease commitments are $0.7 million for both the remainder of fiscal years ending 2020 and 2021, respectively.

Other Commitments and Contingencies

We have entered into agreements with certain vendors for the provision of goods and services, which includes manufacturing services with contract manufacturing organizations and development services with contract research organizations. These agreements may include certain provisions for purchase obligations and termination obligations that could require payments for the cancellation of committed purchase obligations or for early termination of the agreements. The amount of the cancellation or termination payments vary and are based on the timing of the cancellation or termination and the specific terms of the agreement.

Guarantees and Indemnifications

We enter into standard indemnification arrangements in the ordinary course of business. Pursuant to certain of these arrangements, we indemnify, hold harmless, and agree to reimburse the indemnified parties for losses suffered or incurred by the indemnified party for third-party claims in connection with our breach of the agreement, our negligence or willful misconduct in connection with the agreement, or any trade secret, copyright, patent or other intellectual property infringement claim with respect to our technology. The term of these indemnification arrangements is generally perpetual. The maximum potential amount of future payments we could be required to make under these agreements is not determinable because it involves claims that may be made against us in the future, but have not yet been made.

We indemnify our officers and directors for certain events or occurrences, subject to certain limits, while the officer or director is or was serving in such capacity, as permitted under Delaware law, in accordance with our certificate of incorporation and bylaws, and pursuant to agreements providing for indemnification entered into with our officers and directors. The term of the indemnification period lasts as long as an officer or director may be subject to any proceeding arising out of acts or omissions of such officer or director in such capacity.

The maximum amount of potential future indemnification of directors and officers is unlimited; however, we currently hold director and officer liability insurance. This insurance allows the transfer of risk associated with our exposure and may enable us to recover a portion of any future amounts paid.

We believe that the fair value of these indemnification obligations is minimal. Accordingly, we have not recognized any liabilities relating to these obligations for any period presented.

Off-Balance Sheet Arrangements

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As of March 31, 2020, there have been no material changes surrounding our market risk, including interest rate risk, inflation risk, and foreign currency exchange risk from the discussion provided in Item 7A. Quantitative and Qualitative Disclosures About Market Risk of our Fiscal 2019 Form 10-K.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our disclosure controls and procedures are designed to ensure that information required to be disclosed in the reports we file or submit under the Securities Exchange Act of 1934, as amended, or the "Exchange Act", is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including the Chief Executive Officer and the Chief Financial Officer, to allow timely decisions regarding required disclosures. As of March 31, 2020, our management, with the participation of our Chief Executive Officer and Interim Chief Financial Officer, performed an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act. Based on this evaluation, our Chief Executive Officer and Interim Chief Financial Officer concluded that the design and operation of our disclosure controls and procedures were effective at a reasonable assurance level.

Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objective and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by Rules 13a-15(f) and 15d-15(f) of the Exchange Act that occurred during the quarter ended March 31, 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On March 25, 2020, a putative shareholder class action complaint was filed in the United States District Court for the Southern District of California against us and three of our current or former officers. The complaint purports to assert claims under Section 10(b) of the Exchange Act, Exchange Act Rule 10b-5, and Section 20(a) of the Exchange Act, on behalf of persons and entities who acquired our common stock between October 10, 2017 and November 7, 2019, or the Class Period. The complaint alleges that, during the Class Period, the defendants made material misrepresentations or omissions regarding our etokimab drug that artificially inflated our stock price. The plaintiff seeks, among other things, damages in an unspecified amount, as well as costs and expenses. We believe that the claims in the action are without merit.

From time to time, we may be involved in legal proceedings arising in the ordinary course of our business. Subject to the above-mentioned lawsuit, we are not presently a party to any legal proceedings that, in the opinion of management, would have a material adverse effect on our business should such litigation be resolved unfavorably. Regardless of outcome, litigation can have an adverse impact on us due to defense and settlement costs, diversion of management resources, negative publicity and reputational harm, and other factors.

ITEM 1A. RISK FACTORS

Investing in our common stock involves a high degree of risk. You should carefully consider the risks described below, as well as the other information in this report, including our consolidated financial statements and the related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations," before deciding whether to invest in our common stock. The occurrence of any of the events or developments described below could harm our business, financial condition, results of operations and growth prospects. In such an event, the market price of our common stock could decline, and you may lose all or part of your investment.

Risks Related to Discovery and Development of Our Product Candidates

Our product candidates are in early stages of development and may fail in development or suffer delays that adversely affect their commercial viability. Results from our initial clinical trials may not be representative of the results we will experience in later clinical trials. If we or our collaborators are unable to complete development of or commercialize our product candidates or experience significant delays in doing so, our business will be materially harmed.

We are using our proprietary technology platform to develop therapeutic antibodies, including our wholly-owned product candidates, as well as other programs that are being developed by our collaborators. However, all of our wholly-owned and partnered product candidates are in the early stages of development, and, for a wide variety of reasons discussed below, may fail in development or suffer delays that adversely affect their commercial viability.

A product candidate can unexpectedly fail at any stage of preclinical and clinical development. The historical failure rate for product candidates is high due to scientific feasibility, safety, efficacy, changing standards of medical care and other variables. The results from preclinical testing or early clinical trials of a product candidate may not predict the results that will be obtained in later phase clinical trials of the product candidate. For example, results from our initial Phase 2a clinical trial of etokimab in moderate-to-severe atopic dermatitis patients was not representative of the results we experienced in our later Phase 2b trial. Similarly, we reported interim results of our GALLOP Phase 2 clinical trial of ANB019, which included data for two patients who had completed the Day 113 trial period. While we believe these results are likely to be representative of subsequent patients in the trial, the results we have observed to date may not be predictive of results once all 10 patients have completed the trial. If our later clinical trials are unsuccessful, our product candidates may be delayed in development or fail entirely, which would have a material adverse impact on our business.

We have elected to structure our initial Phase 2a clinical trials with etokimab as investigational studies that enroll a relatively limited number of patients and are intended to allow us to better assess patient responses and potential efficacy results before designing and commencing Phase 2b clinical trials. We believe the results we have observed in the initial Phase 2a clinical trials of etokimab in severe adult eosinophilic asthma may suggest a reasonable basis for continuing development of etokimab in this indication through a larger Phase 2b clinical trial. However, as a result of the recently announced topline data

from our ATLAS trial in atopic dermatitis, we have decided to postpone the initiation of our planned Phase 2b etokimab clinical trial in eosinophilic asthma, a multi-dose, randomized, double-blinded, placebo-controlled trial in 300-400 patients, until we have the opportunity to analyze the results from our currently ongoing Phase 2 trial of etokimab in CRSwNP. Our Phase 2a trials involved relatively small patient populations, for example 25 patients in our Phase 2a trial in severe adult eosinophilic asthma. The results we have observed in this smaller patient populations may not be predictive of results we will experience in later studies. Furthermore, the average results reported from our Phase 2a trial in severe eosinophilic asthma (for example, the average change in FEV1 reported) were subject to significant variability due to the small number of patients enrolled, and as expected were not statistically significant. In addition, we elected to structure our initial Phase 2a clinical trial in eosinophilic asthma as a single dose study, which may not be representative of the efficacy and/or safety observed in subsequent multi-dose Phase 2, Phase 2b or Phase 3 clinical trials.

In addition, later studies may also include different design elements that could contribute to us experiencing different results than we have observed in our Phase 2a trials. One such design element may be differences in efficacy endpoints between Phase 2a trials and subsequent Phase 2, Phase 2b or Phase 3 clinical trials. For instance, while our single dose Phase 2a clinical trial of etokimab in eosinophilic asthma demonstrated efficacy in terms of FEV1 improvement versus placebo, we did not structure that trial to assess efficacy in terms of exacerbation reduction, which is the endpoint historically used by the FDA for drug approval in asthma, and hence our future Phase 2, Phase 2b or Phase 3 trials in asthma may not demonstrate efficacy in exacerbation reduction leading to potential delays or failure to obtain approval of etokimab in asthma. In addition, the initial results we have report from our Phase 2a clinical trials have included interim analyses and top-line results at early timepoints, which may not accurately predict the final results of these clinical trials or the results of future clinical trials. For instance, our single dose Phase 2a trial of etokimab in atopic dermatitis demonstrated certain levels of EASI-50 response upon interim analysis at Day 29, but this EASI-50 response level was not maintained at the end of this clinical trial at Day 140. In another example, interim analysis data from our Phase 2a study of severe adult eosinophilic asthma demonstrated FEV1 improvement over placebo at Day 64, but this FEV1 improvement was not maintained at the same levels through study completion at the Day 127 timepoint.

Furthermore, our rationale for conducting clinical trials of etokimab in multiple indications is that we believe etokimab's mechanism of action, the inhibition of IL-33, has the potential be effective for treatment of a range of atopic inflammatory disorders. However, in light of the recently announced topline data from our ATLAS trial of etokimab in atopic dermatitis, it is possible that our assumptions regarding the effectiveness of etokimab's mechanism of action may be incorrect, and that etokimab may be ineffective in certain inflammatory disorders or may be ineffective in treating inflammatory disorders generally. If this were the case, then results from our ongoing Phase 2 clinical trial of etokimab in CRSwNP, and results from any other clinical trials of etokimab that we conduct, are less likely to be positive.

If our later clinical trials of etokimab or ANB019 are unsuccessful, whether for one of the reasons mentioned above or otherwise, etokimab or ANB019 may be delayed in development or fail entirely, which would have a material adverse impact on our business.

The success of our current product candidates, and any other product candidates we may develop in the future, will depend on many factors, including the following:

- obtaining regulatory permission to initiate clinical trials;
- successful enrollment of patients in, and the completion of, our planned clinical trials;
- receiving marketing approvals from applicable regulatory authorities;
- establishing commercial manufacturing capabilities and/or making arrangements with third-party manufacturers;
- obtaining and maintaining patent and trade secret protection and non-patent exclusivity for our product candidates and their components;
- enforcing and defending intellectual property rights and claims;
- achieving desirable therapeutic properties for our product candidates' intended indications;
- launching commercial sales of our product candidates, if and when approved, whether alone or in collaboration with third parties;
- acceptance of our product candidates, if and when approved, by patients, the medical community and third-party payors;
- effectively competing with other therapies; and

- maintaining an acceptable safety profile of our product candidates through clinical trials and following regulatory approval.

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

Furthermore, delays or difficulties in patient enrollment or difficulties in retaining trial participants can result in increased costs, longer development times or termination of a clinical trial. Clinical trials of a new product candidate require the enrollment of a sufficient number of patients, including patients who are suffering from the disease the product candidate is intended to treat and who meet other eligibility criteria. Rates of patient enrollment are affected by many factors, including the size of the patient population, the eligibility criteria for the clinical trial, the age and condition of the patients, the stage and severity of disease, the nature of the protocol, the proximity of patients to clinical sites and the availability of effective treatments for the relevant disease. We may not be able to initiate our planned clinical trials if we are unable to locate and enroll a sufficient number of eligible patients to participate in these trials as required by the U.S. Food and Drug Administration, or FDA, or foreign regulatory authorities. More specifically, some of our product candidates, including ANB019, initially target indications that are very rare, which can prolong the clinical trial timeline for the regulatory process if sufficient patients cannot be enrolled in a timely manner.

The COVID-19 pandemic has had a material impact on the U.S. and global economies and could have a material adverse impact on our employees, contractors, and patients, which could adversely and materially impact our business, financial condition and results of operations.

The World Health Organization has declared the outbreak of the novel coronavirus that causes COVID-19 disease a pandemic and public health emergency of international concern. In March 2020, the President of the United States declared a State of National Emergency due to the COVID-19 outbreak. In addition, many jurisdictions have limited, and may further limit, social mobility and gathering. As the COVID-19 pandemic develops, governments (at national, state and local levels), corporations and other authorities may continue to implement restrictions or policies that could adversely impact consumer spending, global capital markets, the global economy and our stock price.

The COVID-19 pandemic has caused us to modify our business practices (including but not limited to curtailing or modifying employee travel, moving to full remote work, and cancelling physical participation in meetings, events and conferences), and we may take further actions as may be required by government authorities or that we determine are in the best interests of our employees and patients. In the first quarter of 2020, the shelter-in-place orders stemming from the COVID-19 pandemic have caused disruptions to our corporate operations. A prolonged disruption or any further unforeseen delay in our operations or within any of our business activities could continue to result in reduced participation in ongoing trials or delays in enrolling our planned trials, as we rely on contract research organizations (for non-clinical and clinical activities), or CROs, and contract manufacturing organizations, or CMOs, to conduct our clinical trials and to manufacture our product candidates. If our CROs are unable to continue ongoing trials or to enroll new patients for new trials, or if our CMOs are unable to obtain sufficient quantities of reagents or manufacture adequate drug quantities, our clinical trials could be materially delayed or disrupted. We may also encounter delays from the FDA and other regulatory authorities in our clinical development efforts. We could also be adversely affected if government authorities impose additional restrictions on public gatherings, human interactions, mandatory closures, seek voluntary closures, restrict hours of operations or impose curfews, restrict the import or export of products or if reagent suppliers issue mass recalls of products. Moreover, there is no certainty that such measures will be sufficient to mitigate the risks posed by the virus or otherwise be satisfactory to government authorities. We cannot say with certainty how long these measures will remain in place, or what the total impact on our business may be.

Further, in reaction to the spread of COVID-19 in the United States and internationally, many patients and medical facilities are delaying or canceling elective procedures, adding further strain to health care budgets globally. Additionally, the disruption and volatility in the global and domestic capital markets may increase the cost of capital and limit our ability to access capital. Both the health and economic aspects of the COVID-19 virus are highly fluid and the future course of each is uncertain. For these reasons and other reasons that may come to light if the COVID-19 pandemic and associated protective or preventative measures expand, we may experience a material adverse effect, either directly or indirectly through our CROs, CMOs, collaboration partners or patients, on our business operations, revenues and financial condition; however, its ultimate impact is highly uncertain and subject to change.

We have only limited data regarding the safety profile of our wholly-owned product candidates when dosed in humans. Our ongoing and planned clinical trials or those of our collaborators may reveal significant adverse events, toxicities or

other side effects and may result in a safety profile that could inhibit regulatory approval or market acceptance of any of our product candidates.

In order to obtain marketing approval for any of our product candidates, we must demonstrate the safety and efficacy of the product candidate for the relevant clinical indication or indications through preclinical studies and clinical trials as well as additional supporting data. If our product candidates are associated with undesirable side effects in preclinical studies or clinical trials or have characteristics that are unexpected, we may need to interrupt, delay or abandon their development or limit development to more narrow uses or subpopulations in which the undesirable side effects or other characteristics are less prevalent, less severe or more acceptable from a risk-benefit perspective.

We have conducted various preclinical studies of our product candidates, but we do not know the predictive value of these studies for humans, and we cannot guarantee that any positive results in preclinical studies will successfully translate to human patients. We have only completed early Phase 1 and Phase 2a clinical trials for etokimab, and subsequent patient trials with etokimab are currently ongoing. We also have only recently completed a Phase 1 clinical trial with ANB019 and subsequent patient trials with ANB019 are currently ongoing. It is not uncommon to observe results in human clinical trials that are unexpected based on preclinical testing, or to observe results in later stage clinical trials that are unexpected based on early clinical trials. Many product candidates fail in clinical trials despite promising preclinical and early clinical results. In addition, top-line results of a clinical trial, which generally reflect preliminary reviews of primary efficacy and/or safety results, do not necessarily predict final results, and any top-line findings or assessments are subject to change pending the completion of final data review procedures. Moreover, preclinical and clinical data are often susceptible to varying interpretations and analyses, and many companies that believed their product candidates performed satisfactorily in preclinical studies and clinical trials have nonetheless failed to obtain marketing approval for their products.

Some patients in our clinical trials have experienced adverse events, including serious adverse events. The most frequent treatment-emergent adverse events reported were mild dizziness or vomiting in patients subsequent to placebo dosing, and mild headache, strep throat, upper respiratory tract infection, or in one case, severe neutropenia which was acute and not persistent in patients post-etokimab administration. In addition, we reported that one patient dropped out of the GALLOP Phase 2 clinical trial for ANB019 due to diagnosis with Staphylococcal aureus bacteremia on Day 3 post-ANB019 administration, which was a serious adverse event deemed to be possibly drug-related. Subjects in our ongoing and planned clinical trials may in the future suffer significant adverse events or other side effects not observed in our preclinical studies or in our Phase 1 or Phase 2a clinical trials. The observed potency and kinetics of our product candidates in preclinical studies may not be observed in human clinical trials. We have tested the dosing frequency and route of administration of our product candidates in preclinical studies, which will inform our dosing strategy for future clinical trials, however such dose and route of administration may not result in sufficient exposure or pharmacological effect in humans, and may lead to unforeseen toxicity not previously observed in preclinical testing. If preclinical studies of our product candidates fail to provide preliminary evidence of safety to the satisfaction of regulatory authorities or do not otherwise produce satisfactory results, we may incur additional costs or experience delays in initiating and/or advancing the development and commercialization of our product candidates. Further, if clinical trials of our product candidates fail to demonstrate efficacy to the satisfaction of regulatory authorities or do not otherwise produce positive results, we may incur additional costs or experience delays in completing, or ultimately be unable to complete, the development and commercialization of our product candidates.

If further significant adverse events or other side effects are observed in any of our current or future clinical trials, we may have difficulty recruiting patients to the clinical trial, patients may drop out of our trial, or we may be required to abandon the trial or our development efforts of that product candidate altogether. We, the FDA, or other applicable regulatory authorities, or an Institutional Review Board, or IRB, may suspend clinical trials of a product candidate at any time for various reasons, including a belief that subjects in such trials are being exposed to unacceptable health risks or adverse side effects. Some potential therapeutics developed in the biotechnology industry that initially showed therapeutic promise in early-stage studies have later been found to cause side effects that prevented their further development. Even if the side effects do not preclude the drug from obtaining or maintaining marketing approval, undesirable side effects may inhibit market acceptance of the approved product due to its tolerability versus other therapies. Any of these developments could materially harm our business, financial condition and prospects.

Further, if any of our product candidates obtain marketing approval, toxicities associated with our product candidates may also develop after such approval and lead to a requirement to conduct additional clinical safety trials, additional warnings being added to the labeling, significant restrictions on the use of the product or the withdrawal of the product from the market. We cannot predict whether our product candidates will cause toxicities in humans that would preclude or lead to the revocation of regulatory approval based on preclinical studies or early stage clinical testing.

We and/or our collaborators may be unable to obtain, or may be delayed in obtaining, required regulatory approvals in the United States or in foreign jurisdictions, which would materially impair our ability to commercialize and generate revenue from our product candidates.

Our ability to continue to develop our product candidates, and to have the potential to achieve and sustain profitability, depends on the FDA and foreign regulatory authorities permitting us to conduct human clinical trials and, if our products are safe and effective, obtaining approval from the FDA and foreign regulatory authorities to market them and subsequently successfully commercializing them, either alone or with our collaborators. The research, testing, manufacturing, labeling, approval, selling, marketing and distribution of drug and biologic products are subject to extensive regulation by the FDA and foreign regulatory authorities. Though we have cleared an IND and CTA to conduct clinical trials for both etokimab and ANB019 in the United States and United Kingdom, respectively, before commencing clinical trials in the United States for any other product candidate, we must submit an IND to the FDA; foreign regulatory authorities enforce similar requirements for initiation of clinical trials in other countries. An IND or foreign equivalent requires extensive preclinical studies, and there is no guarantee that the FDA or foreign regulatory authorities will allow clinical trials to proceed based on the IND or equivalent submission. For example, although we have initiated toxicology studies for our product candidates, the FDA in the United States, the Therapeutic Goods Administration in Australia or other foreign regulatory authorities, as applicable, may not allow our clinical trials to proceed in the regulatory authority's jurisdiction if we are unable to show safety margins acceptable to the particular regulatory authority in appropriate animal species in our preclinical toxicology studies.

Even if we or our collaborators initiate and complete clinical trials for our product candidates, these product candidates will not be permitted to be marketed in the United States until approval of a Biologics License Application, or BLA, from the FDA, is received, and will not be permitted to be marketed in other countries without marketing approval from foreign regulatory authorities. Obtaining approval of a BLA or other marketing approvals is often a lengthy, expensive and uncertain process over which the FDA and foreign regulatory authorities have substantial discretion. Other than submitting and receiving acceptance for initiation of our previous and current clinical trials in Australia, the United States and United Kingdom, we have not yet discussed with the FDA or foreign regulatory authorities the development plans for any of our product candidates or the designs of any of our later-stage clinical studies. We thus may not have the full benefit of the FDA's or foreign regulatory authorities' current thinking on trial designs or product development for our target indications. For example, we believe a small pivotal trial, potentially with less than 100 patients, may be sufficient to demonstrate substantial evidence of efficacy of ANB019 in generalized pustular psoriasis, or GPP, patients. However, we have not yet discussed clinical trial design for this indication with the FDA, and the FDA may disagree with our proposed trial design, including the number of patients necessary to demonstrate efficacy and/or may require us to conduct more than one pivotal study in order to obtain approval of a BLA.

Preclinical studies and clinical trials are expensive, difficult to design and implement, can take many years to complete and are uncertain as to outcome. Products, on average, take 10 to 15 years to be developed from the time they are discovered to the time they are approved and available for treating patients. The start or end of a clinical trial is often delayed or halted for many reasons, including:

- imposition of a clinical hold for safety reasons or following an inspection of clinical trial operations or site by the FDA or other regulatory authorities;
- manufacturing challenges;
- insufficient supply or quality of product candidates or other materials necessary to conduct clinical trials;
- delays in reaching or failure to reach agreement on acceptable clinical trial contracts or clinical trial protocols with prospective trial sites and contract research organizations, or CROs, or failure by such CROs or trials sites to carry out the clinical trial in accordance with our agreed-upon terms;
- non-clinical or clinical sites becoming unavailable due to political, economic or public health events, such as the recent coronavirus outbreak;
- clinical sites electing to terminate their participation in one of our clinical trials;
- inability or unwillingness of patients or medical investigators to follow clinical trial protocols;
- required clinical trial administrative actions;
- slower than anticipated patient enrollment;
- changing standards of care;
- safety concerns;
- availability or prevalence of use of a comparative drug or required prior therapy; or

- clinical outcomes or financial constraints.

Our product candidates may not be effective, may be only moderately effective or may prove to have undesirable or unintended side effects, toxicities or other characteristics that may preclude our obtaining marketing approval or prevent or limit commercial use. Regulatory authorities may refuse to accept any application or may decide that our data are insufficient for approval and require additional preclinical or other studies or clinical trials. In addition, varying interpretations of the data obtained from preclinical and clinical testing could delay, limit or prevent marketing approval of a product candidate. Moreover, regulatory authorities may determine that the clinical and other benefits of a product candidate do not outweigh the safety or other risks. Changes in marketing approval policies during the development period, changes in or the enactment of additional statutes or regulations, or changes in regulatory review for each submitted product application, may also cause delays in or prevent the approval of an application.

If we experience any of the issues described above, or other similar or related issues, we may:

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

We may not be successful in our efforts to use our technology platform to expand our pipeline of product candidates and develop marketable products.

Because we have limited financial and managerial resources, we focus on research programs and product candidates that we identify for specific indications. Our business depends on our successful development and commercialization of the limited number of internal product candidates we have in preclinical and early-stage clinical development. Even if we are successful in continuing to build our pipeline, development of the potential product candidates that we identify will require substantial investment in additional clinical development, management of clinical, preclinical and manufacturing activities, regulatory approval in multiple jurisdictions, building a commercial organization, and significant marketing efforts before we generate any revenue from product sales. Furthermore, such product candidates may not be suitable for clinical development, including as a result of their harmful side effects, limited efficacy or other characteristics that indicate that they are unlikely to be products that will receive marketing approval and achieve market acceptance. If we cannot validate our technology platform by successfully developing and commercializing product candidates based upon our technological approach, we may not be able to obtain product or partnership revenue in future periods, which would adversely affect our business, prospects, financial condition and results of operations.

As a result of our current focus on our lead product candidates, we may forego or delay pursuit of opportunities with other product candidates or for other indications that later prove to have greater commercial potential. Our resource allocation decisions may cause us to fail to capitalize on viable commercial products or profitable market opportunities. Our spending on current and future research and development programs and product candidates for specific indications may not yield any commercially viable products. Our understanding and evaluation of biological targets for the discovery and development of new product candidates may fail to identify challenges encountered in subsequent preclinical and clinical development. If we do not accurately evaluate the commercial potential or target market for a particular product candidate, we may relinquish valuable rights to that product candidate through collaboration, licensing or other royalty arrangements in cases in which it would have been more advantageous for us to retain sole development and commercialization rights.

We have recently commenced clinical development of etokimab, ANB019 and ANB030, and have no other history of conducting clinical trials or commercializing biotechnology products, which may make it difficult to evaluate the prospects for our future viability.

Our operations to date have been largely limited to financing and staffing our company, developing our technology and developing our wholly-owned product candidates, and other product candidates in partnerships with our collaborators. As a company, we have only very limited experience conducting clinical trials and have not had previous experience commercializing product candidates, including submitting a BLA to the FDA. In part because of this lack of experience, we

cannot be certain that planned clinical trials will begin or be completed on time, if at all, that our planned development programs would be acceptable to the FDA or other regulatory authorities, or that, if approval is obtained, such product candidates can be successfully commercialized. Clinical trials and commercializing our wholly-owned product candidates will require significant additional financial and management resources, and reliance on third-party clinical investigators, CROs, consultants or collaborators. Relying on third-party clinical investigators, CROs or collaborators may result in delays that are outside of our control.

Furthermore, we may not have the financial resources to continue development of, or to enter into collaborations for, a product candidate if we experience any problems or other unforeseen events that delay or prevent regulatory approval of, or our ability to commercialize, product candidates, including:

- negative or inconclusive results from our clinical trials or the clinical trials of others for product candidates similar to ours, leading to a decision or requirement to conduct additional preclinical testing or clinical trials or abandon a program;
- delays in submitting INDs or comparable foreign applications or delays or failure in obtaining the necessary approvals from regulators to commence a clinical trial, or a suspension or termination of a clinical trial once commenced;
- conditions imposed by the FDA or foreign regulatory authorities regarding the number, scope or design of our clinical trials;
- delays in enrolling research subjects in clinical trials;
- high drop-out rates of research subjects;
- inadequate supply or quality of clinical trial materials or other supplies necessary for the conduct of our clinical trials;
- greater than anticipated clinical trial costs;
- poor effectiveness or unacceptable side effects of our product candidates during clinical trials;
- unfavorable FDA or other regulatory agency inspection and review of a clinical trial site;
- failure of our third-party contractors or investigators to comply with regulatory requirements or otherwise meet their contractual obligations in a timely manner, or at all;
- serious and unexpected drug-related side effects experienced by participants in our planned clinical trials or by individuals using drugs similar to our product candidates;
- delays and changes in regulatory requirements, policy and guidelines, including the imposition of additional regulatory oversight around clinical testing generally or with respect to our technology in particular; or
- varying interpretations of data by the FDA and foreign regulatory authorities.

Consequently, any predictions you make about our future success or viability based on our short operating history may not be as accurate as they could be if we had a longer operating history or an established track record in conducting clinical trials or commercializing products.

Further, as a new business, we may encounter unforeseen expenses, difficulties, complications, delays and other known and unknown factors. We will need to transition from a company with a research focus to a company capable of supporting commercial activities. We may not be successful in such a transition.

We face significant competition, and if our competitors develop and market products that are more effective, safer or less expensive than our product candidates, our commercial opportunities will be negatively impacted.

The biotechnology industry is highly competitive and subject to rapid and significant technological change. Products we may develop in the future are also likely to face competition from other drugs and therapies, some of which we may not currently be aware. We have competitors both in the United States and internationally, including major multinational pharmaceutical and biotechnology companies, established biotechnology companies, specialty biotechnology companies, emerging and start-up companies, universities and other research institutions. Many of our competitors have significantly greater financial, manufacturing, marketing, drug development, technical and human resources and commercial expertise than we do. Large pharmaceutical and biotechnology companies, in particular, have extensive experience in clinical testing, obtaining regulatory approvals, recruiting patients and manufacturing biotechnology products. These companies also have

significantly greater research and marketing capabilities than we do and may also have products that have been approved or are in late stages of development, and collaborative arrangements in our target markets with leading companies and research institutions. Established pharmaceutical and biotechnology companies may also invest heavily to accelerate discovery and development of novel compounds or to in-license novel compounds that could make the product candidates that we develop obsolete. As a result of all of these factors, our competitors may succeed in obtaining patent protection and/or approval from the FDA or foreign regulatory authorities or discovering, developing and commercializing products in our field before we do.

For asthma, our competitors include omalizumab (Xolair; Roche), which has received FDA approval and functions by inhibiting the binding between free IgE and FceRI; antibodies that bind IL-5 and inhibit its interaction with the IL-5 receptor such as mepolizumab (Nucala; Glaxosmithkline) and reslizumab (Cinqair; Teva), both of which the FDA has approved for the add-on maintenance treatment in patients with severe eosinophilic asthma; antibodies such as benralizumab (FASENRA, AstraZeneca) that bind the IL-5 receptor; antibodies that bind the IL-4 receptor and inhibit its signaling through IL-4 and IL-13 cytokines such as dupilumab (Dupixent; Regeneron/Sanofi), which has been approved by the FDA for use with other asthma medicines for the maintenance treatment of moderate-to-severe asthma in patients aged 12 years and older whose asthma is not controlled with their current asthma medicines; antibodies that bind to IL-13 such as lebrikizumab (Dermira), tralokinumab (AstraZeneca, LEO Pharma) and anrukinzumab (Pfizer), which are in clinical testing; antibodies that bind the IL-4 receptor alpha chain, such as AMG 317 (Amgen) in clinical testing; ST2-binding antibodies including Roche's RG6149 and GSK's GSK3772847, and Regeneron's IL-33 antibody (REGN3500) each in clinical development for asthma and chronic obstructive pulmonary disease; a recently announced IL-33 related program by AstraZeneca (MEDI3506) in a Phase 1 clinical trial indicated for chronic obstructive pulmonary disease; DP-2 antagonists including fevipiprant (Novartis) under development for asthma and GB001 (Gossamer Bio) under development for asthma; and an anti-TSLP antibody called tezepelumab (AMG 157, MEDI9929, Amgen/AstraZeneca) being developed by Amgen and AstraZeneca for asthma.

Our competitors in CRSwNP include dupilumab (Regeneron/Sanofi), mepolizumab (GSK), benralizumab (AstraZeneca), omalizumab (Novartis), GB001 (Gossamer Bio) and PF-06817024 (Pfizer), each of which are in clinical testing.

For GPP and PPP, our competitors include marketed therapies such as secukinumab (Cosentyx; Novartis), which binds IL-17A; ustekinumab (Stelara; Janssen), which blocks IL-12 and 23 cytokine function; and acitretin (Soriatane; GlaxoSmithKline), as well as therapies in development such as guselkumab (Janssen), which blocks IL-23 cytokine function, gevokizumab (Xoma 052) and canakinumab (Ilaris, Novartis), which binds IL-1 beta, anakinra (Kineret; Swedish Orphan Biovitrum AB), a recombinant form the IL-1 receptor antagonist and an anti-IL-36 receptor antibody called BI-655130 (Boehringer Ingelheim).

For our anti-inflammatory checkpoint modulator antibody programs, our competitors include CC-90006 (Celgene/BMS) which is an anti-PD-1 agonist antibody developed under our partnership with Celgene, a BTLA modulator antibody called LY3361237 being developed by Eli Lilly and a PD-1 agonist antibody also being developed by Eli Lilly.

With the enactment of the Biologics Price Competition and Innovation Act of 2009, or BPCIA, an abbreviated pathway for the approval of biosimilar and interchangeable biological products was created. The abbreviated regulatory pathway establishes legal authority for the FDA to review and approve biosimilar biologics, including the possible designation of a biosimilar as interchangeable based on its similarity to an existing reference product. Under the BPCIA, an application for a biosimilar product cannot be approved by the FDA until 12 years after the original branded product is approved under a BLA. To date, several biosimilar products have been approved under the BPCIA, but no interchangeable biological products have been approved. The law is complex and is still being interpreted and implemented by the FDA. As a result, its ultimate impact, implementation, and meaning are subject to uncertainty. While it is uncertain when such processes intended to implement BPCIA may be fully adopted by the FDA, any such processes could have a material adverse effect on the future commercial prospects for our biological products.

We believe that if any of our product candidates are approved as a biological product under a BLA it should qualify for the 12-year period of exclusivity. However, there is a risk that the FDA will not consider any of our product candidates to be reference products for competing products, potentially creating the opportunity for biosimilar competition sooner than anticipated. Additionally, this period of regulatory exclusivity does not apply to companies pursuing regulatory approval via their own traditional BLA, rather than via the abbreviated pathway. Moreover, the extent to which a biosimilar, once approved, will be substituted for any one of our reference products in a way that is similar to traditional generic substitution for non-biological products is not yet clear, and will depend on a number of marketplace and regulatory factors that are still developing.

Our commercial opportunity could be reduced or eliminated if our competitors develop and commercialize products that are safer, more effective, have fewer or less severe effects, are more convenient, are less expensive or capture significant market share prior to or during our commercialization. Our competitors also may obtain FDA or other regulatory approval for

their products more rapidly than we may obtain approval for ours, which could result in our competitors establishing a strong market position before we are able to enter the market. In addition, our ability to compete may be affected in many cases by insurers or other third party payors seeking to encourage the use of biosimilar products. Even if our product candidates achieve marketing approval, they may be priced at a significant premium over competitive biosimilar products if any have been approved by then.

Smaller and other early stage companies may also prove to be significant competitors, particularly through collaborative arrangements with large and established companies. These companies compete with us in recruiting and retaining qualified scientific and management personnel, establishing clinical trial sites and patient registration for planned clinical trials, as well as in acquiring technologies complementary to, or necessary for, our programs. In addition, the biotechnology industry is characterized by rapid technological change. If we fail to stay at the forefront of technological change, we may be unable to compete effectively. Technological advances or products developed by our competitors may render our technologies or product candidates obsolete, less competitive or not economical.

Our product candidates may not achieve adequate market acceptance among physicians, patients, health care payors and others in the medical community necessary for commercial success.

Even if our product candidates receive regulatory approval, they may not gain adequate market acceptance among physicians, patients, health care payors and others in the medical community. The degree of market acceptance of any of our approved product candidates will depend on a number of factors, including:

- the efficacy and safety profile as demonstrated in planned clinical trials;
- the timing of market introduction of the product candidate as well as competitive products;
- the clinical indications for which the product candidate is approved;
- restrictions on the use of our products, if approved, such as boxed warnings or contraindications in labeling, or a risk evaluation and mitigation strategy, or REMS, if any, which may not be required of alternative treatments and competitor products;
- acceptance of the product candidate as a safe and effective treatment by physicians, clinics and patients;
- the potential and perceived advantages of product candidates over alternative treatments, including any similar generic treatments;
- the cost of treatment in relation to alternative treatments;
- the availability of coverage and adequate reimbursement and pricing by third parties and government authorities;
- relative convenience and ease of administration;
- the frequency and severity of adverse events;
- the effectiveness of sales and marketing efforts; and
- unfavorable publicity relating to the product candidate.

If any product candidate is approved but does not achieve an adequate level of acceptance by physicians, hospitals, health care payors and patients, we may not generate or derive sufficient revenue from that product candidate and may not become or remain profitable.

If companion diagnostics for our product candidates for which such diagnostics are required, are not successfully, and in a timely manner, validated, developed or approved, we may not achieve marketing approval or realize the full commercial potential of our product candidates.

If companion diagnostics are developed in conjunction with clinical programs, the FDA may require regulatory approval of a companion diagnostic as a condition to approval of the product candidate. For example, if we use a genetic test to determine which patients are most likely to benefit from ANB019 for the treatment of GPP or PPP by designing our pivotal trial or trials of ANB019 in that indication to require that subjects test positive for specific genetic mutations as a criterion for enrollment, then we will likely be required to obtain FDA approval or clearance of a companion diagnostic, concurrent with approval of ANB019, to test for those genetic mutations; we may also be required to demonstrate to the FDA the predictive utility of the companion diagnostic—namely, that the diagnostic selects for patients in whom the biologic therapy will be effective or more effective compared to patients not selected for by the diagnostic. We do not have experience or capabilities in developing or commercializing diagnostics and plan to rely in large part on third parties to perform these functions. We do not

currently have any agreement in place with any third party to develop or commercialize companion diagnostics for any of our product candidates. Companion diagnostics are subject to regulation by the FDA and foreign regulatory authorities as medical devices and require separate regulatory approval or clearance prior to commercialization.

If we or our partners, or any third party, are unable to successfully develop companion diagnostics for our product candidates, or experience delays in doing so:

- the development of our product candidates may be adversely affected if we are unable to appropriately select patients for enrollment in our planned clinical trials;
- our product candidates may not receive marketing approval if their safe and effective use depends on a companion diagnostic; and
- we may not realize the full commercial potential of any product candidates that receive marketing approval if, among other reasons, we are unable to appropriately identify patients with the specific genetic alterations targeted by our product candidates.

In addition, although we believe genetic testing is becoming more prevalent in the diagnosis and treatment of various diseases and conditions, our product candidates may be perceived negatively compared to alternative treatments that do not require the use of companion diagnostics, either due to the additional cost of the companion diagnostic or the need to complete additional procedures to identify genetic markers prior to administering our product candidates.

If any of these events were to occur, our business would be harmed, possibly materially.

The manufacture of biologics is complex and our third-party manufacturers may encounter difficulties in production. If any of our third-party manufacturers encounter such difficulties, our ability to provide supply of our product candidates for clinical trials, our ability to obtain marketing approval, or our ability to provide supply of our products for patients, if approved, could be delayed or stopped.

The process of manufacturing biologics is complex, highly-regulated and subject to multiple risks. Manufacturing biologics is highly susceptible to product loss due to contamination, equipment failure, improper installation or operation of equipment, vendor or operator error, inconsistency in yields, variability in product characteristics and difficulties in scaling the production process. Even minor deviations from normal manufacturing processes could result in reduced production yields, product defects and other supply disruptions. If microbial, viral or other contaminations are discovered at the facilities of our manufacturer, such facilities may need to be closed for an extended period of time to investigate and remedy the contamination, which could delay clinical trials and adversely harm our business. Moreover, if the FDA determines that our manufacturer is not in compliance with FDA laws and regulations, including those governing current good manufacturing practices, or cGMPs, the FDA may deny BLA approval until the deficiencies are corrected or we replace the manufacturer in our BLA with a manufacturer that is in compliance.

In addition, there are risks associated with large scale manufacturing for clinical trials or commercial scale including, among others, cost overruns, potential problems with process scale-up, process reproducibility, stability issues, compliance with good manufacturing practices, lot consistency and timely availability of raw materials. Even if we or our collaborators obtain regulatory approval for any of our product candidates, there is no assurance that manufacturers will be able to manufacture the approved product to specifications acceptable to the FDA or other regulatory authorities, to produce it in sufficient quantities to meet the requirements for the potential launch of the product or to meet potential future demand. Moreover, we source certain of the raw materials needed for our product candidates from China. Although we have not experienced any supply interruptions to date, it is possible that the recent coronavirus outbreak could cause such interruptions in the future. If our manufacturers are unable to produce sufficient quantities for clinical trials or for commercialization, commercialization efforts would be impaired, which would have an adverse effect on our business, financial condition, results of operations and growth prospects.

Scaling up a biologic manufacturing process is a difficult and uncertain task, and we may not be successful in transferring our production system or the manufacturer may not have the necessary capabilities to complete the implementation and development process. If we are unable to adequately validate or scale-up the manufacturing process with our current manufacturers, we will need to transfer to other manufacturers and complete the manufacturing validation process, which can be lengthy and costly. If we are able to adequately validate and scale-up the manufacturing process for our product candidates with contract manufacturers, we will still need to negotiate with such contract manufacturers agreements for commercial supply, and it is not certain we will be able to come to agreement on terms acceptable to us.

Risks Related to Our Financial Position and Capital Needs

We have limited operating revenue and a history of operational losses and may not achieve or sustain profitability. We have no products approved for commercial sale, and to date we have not generated any revenue or profit from product sales.

We are an early-stage biotechnology company with a limited operating history. We have no approved products. To date, our revenue has been primarily derived from our TESARO and Celgene research collaboration and license agreements, and we are significantly dependent on such collaborators for the successful development of product candidates in these collaborations. Our ability to generate revenue and become profitable depends upon our ability, alone or with our collaborators, to successfully complete the development of our product candidates for our target indications and to obtain necessary regulatory approvals.

Since our inception, we have incurred significant operating losses in every year except fiscal year 2014. We had $15.0 million in collaboration revenue and our net loss was $8.3 million for the three months ended March 31, 2020 and $22.1 million for the three months ended March 31, 2019, with no collaboration revenue. As of March 31, 2020, we had an accumulated deficit of $252.3 million.

We have financed our operations primarily through our initial public offering of common stock in January 2017, our follow-on public offerings of common stock in October 2017 and September 2018, private placements of our preferred stock and the issuance of debt. We have devoted substantially all of our efforts to research and development. We have only recently initiated clinical development for two of our product candidates and expect that it will be many years, if ever, before we have a product candidate ready for commercialization. We expect to continue to incur significant expenses and increasing operating losses for the foreseeable future, and the net losses we incur may fluctuate significantly from quarter to quarter. Our revenue has been historically derived from amortization of upfront payments, research and development funding and milestone payments under collaboration and license agreements with our collaborators. Our ability to generate future product revenue from our current or future product candidates depends on a number of additional factors, including our ability (or as applicable our collaborators' ability) to:

- continue research and preclinical development of our product candidates;
- identify additional product candidates;
- maintain existing and enter into new collaboration agreements;
- conduct additional preclinical studies and initiate clinical trials for our product candidates;
- obtain approvals for the product candidates we develop or developed under our collaboration arrangements;
- establish a sales, marketing and distribution infrastructure to commercialize any product candidates for which we may obtain marketing approval;
- maintain, expand and protect our intellectual property portfolio;
- hire additional executive, clinical, quality control and scientific personnel;
- add operational, financial and management information systems and personnel, including personnel to support our product development and commercialization efforts;
- establish and maintain supply and manufacturing relationships with third parties, and ensure adequate and legally compliant manufacturing of our products;
- obtain coverage and adequate product reimbursement from third-party payors, including government payors;
- acquire or in-license other product candidates and technologies; and
- achieve market acceptance for our or our collaborators' products, if any.

We are unable to predict the timing or amount of increased expenses, or when, or if, we will be able to achieve or maintain profitability because of the numerous risks and uncertainties associated with product development. In addition, our expenses could increase significantly beyond expectations if we are required by the FDA or other regulatory authorities to perform studies or trials in addition to those that we currently anticipate. Even if ANB019 and etokimab, or any of our other product candidates, are approved for commercial sale, we anticipate incurring significant costs associated with the commercial launch of any product candidate.

We are currently only in the clinical development stages for our most advanced product candidates. In order to become and remain profitable we must, alone or with our collaborators, develop and eventually commercialize a product or products

with significant market potential. This may require us to be successful in a range of challenging activities, including completing clinical trials of our product candidates, successfully developing companion diagnostics, obtaining marketing approval for these product candidates and manufacturing, marketing and selling those products for which we may obtain marketing approval. We may never succeed in these activities and, even if we do, may never generate revenues that are significant or large enough to achieve profitability. If we do achieve profitability, we may not be able to sustain or increase profitability on a quarterly or annual basis. Our failure to become and remain profitable would decrease the value of our company and could impair our ability to raise capital, maintain or expand our research and development efforts, expand our business or continue our operations. A decline in the value of our company would also cause you to lose part or even all of your investment.

We will require additional capital to finance our operations, which may not be available to us on acceptable terms, or at all. As a result, we may not complete the development and commercialization of our product candidates or develop new product candidates.

As a research and development company, our operations have consumed substantial amounts of cash since our inception. We expect our research and development expenses to increase substantially in connection with our ongoing activities, particularly as we continue our discovery and preclinical development to identify new clinical candidates, and we and our collaborators conduct clinical trials of, and seek marketing approval for, our product candidates. In addition, if we obtain marketing approval for any of our product candidates, we expect to incur significant commercialization expenses related to product sales, marketing, manufacturing and distribution. Furthermore, we incur additional costs associated with operating as a public company. We believe that our existing cash, cash equivalents and investments will fund our current operating plan at least into 2023. However, circumstances may cause us to consume capital more rapidly than we currently anticipate. For example, as we continue to move our product candidates through preclinical studies, submit INDs or foreign equivalents and conduct clinical development, we may have adverse results requiring us to find new product candidates, or our collaborators may not elect to pursue the development and commercialization of any of our product candidates that are subject to their respective agreements with us. Any of these events may increase our development costs more than we expect. We may need to raise additional funds or otherwise obtain funding through product collaborations to continue development of our product candidates.

If we need to secure additional financing, such additional fundraising efforts may divert our management from our day-to-day activities, which may adversely affect our ability to develop and commercialize our product candidates. In addition, we cannot guarantee that future financing will be available in sufficient amounts or on terms acceptable to us, if at all. If we do not raise additional capital when required or on acceptable terms, we may need to:

- significantly delay, scale back or discontinue the development or commercialization of our product candidates or cease operations altogether;
- seek strategic alliances for research and development programs at an earlier stage than we would otherwise desire or on terms less favorable than might otherwise be available;
- relinquish, or license on unfavorable terms, our rights to technologies or future product candidates that we otherwise would seek to develop or commercialize ourselves; or
- eliminate staff to conserve resources.

If we need to conduct additional fundraising activities and we do not raise additional capital in sufficient amounts or on terms acceptable to us, we may be prevented from pursuing development and commercialization efforts, which will have a material adverse effect on our business, operating results and prospects. Our forecast of the period of time through which our financial resources will adequately support our operations is a forward-looking statement and involves risks and uncertainties, and actual results could vary as a result of a number of factors, including the factors discussed elsewhere in this “Risk Factors” section. We have based this estimate on assumptions that may prove to be wrong, and we could use our available capital resources sooner than we currently expect. Our future funding requirements, both short and long-term, will depend on many factors, including:

- the initiation, progress, timing, costs and results of preclinical studies and clinical trials for our product candidates and future product candidates we may develop;
- the number and size of clinical trials needed to show safety, efficacy and an acceptable risk/benefit profile for any of our product candidates;
- the outcome, timing and cost of seeking and obtaining regulatory approvals from the FDA and foreign regulatory authorities, including the potential for such authorities to require that we perform more studies or trials than those that we currently expect;

- our ability to maintain existing and enter into new collaboration agreements;
- the cost to establish, maintain, expand and defend the scope of our intellectual property portfolio, including the amount and timing of any payments we may be required to make, or that we may receive, in connection with licensing, preparing, filing, prosecuting, defending and enforcing of any patents or other intellectual property rights;
- the effect of competing technological and market developments;
- market acceptance of any approved product candidates;
- the costs of acquiring, licensing or investing in additional businesses, products, product candidates and technologies;
- the cost of recruiting and retaining key employees;
- the costs and fees associated with any delays or cancellations of forecasted manufacturing batches;
- the cost and timing of selecting, auditing and potentially validating manufacturing sites for commercial-scale manufacturing; and
- the cost of establishing sales, marketing and distribution capabilities for our product candidates for which we may receive regulatory approval and that we determine to commercialize ourselves or in collaboration with our collaborators.

If we cannot expand our operations or otherwise capitalize on our business opportunities due to a lack of capital, our business, financial condition and results of operations could be adversely affected.

Raising additional capital may cause dilution to our existing stockholders, restrict our operations or require us to relinquish rights to our product candidates on unfavorable terms to us.

We may seek additional capital through a variety of means, including through public or private equity, debt financings or other sources, including up-front payments and milestone payments from strategic collaborations. To the extent that we raise additional capital through the sale of equity or convertible debt securities, your ownership interest will be diluted, and the terms may include liquidation or other preferences that adversely affect your rights as a stockholder. Such financing may result in dilution to stockholders, imposition of debt covenants, increased fixed payment obligations, or other restrictions that may affect our business. If we raise additional funds through up-front payments or milestone payments pursuant to strategic collaborations with third parties, we may have to relinquish valuable rights to our product candidates, or grant licenses on terms that are not favorable to us. In addition, we may seek additional capital due to favorable market conditions or strategic considerations even if we believe we have sufficient funds for our current or future operating plans.

Risks Related to Managing Growth, Operations and Macroeconomic Conditions

We must attract and retain highly skilled employees in order to succeed.

To succeed, we must recruit, retain, manage and motivate qualified clinical, scientific, technical and management personnel, and we face significant competition for experienced personnel. This is especially critical as we ramp up our hiring needs entering into later stage product development of our product candidates. If we do not succeed in attracting and retaining qualified personnel, particularly at the management level, it could adversely affect our ability to execute our business plan, harm our operating results and adversely affect our ability to successfully commercialize our product candidates. In particular, we believe that our future success is highly dependent upon the contributions of our senior management, particularly our President and Chief Executive Officer, as well as our senior scientists. We also appointed Eric Loumeau, our General Counsel, to serve as interim Chief Financial Officer in August 2019, and until we appoint a permanent chief financial officer, this transition may be disruptive and may require additional attention from our senior management. The loss of services of any of these individuals, who all have at-will employment arrangements with us, could delay or prevent the successful development of our product pipeline, completion of our planned clinical trials or the commercialization of our product candidates, if approved. The competition for qualified personnel in the biotechnology field is intense and, as a result, we may be unable to continue to attract and retain qualified personnel necessary for the development of our business or to recruit suitable replacement personnel. In addition, certain members of our senior management team have worked together for only a relatively short period of time, and it may be difficult to evaluate their effectiveness, on an individual or collective basis, and ability to address future challenges to our business.

Many of the other biotechnology companies that we compete against for qualified personnel have greater financial and other resources, different risk profiles and a longer history in the industry than we do. They also may provide more diverse opportunities and better chances for career advancement. Some of these characteristics may be more appealing to high-quality

candidates than what we have to offer. If we are unable to continue to attract and retain high-quality personnel, the rate and success at which we can discover and develop product candidates and our business will be limited.

The manufacture of biotechnology products is complex and manufacturers often encounter difficulties in production. If we or any of our third-party manufacturers encounter any loss of our master cell banks or if any of our third-party manufacturers encounter other difficulties, or otherwise fail to comply with their contractual obligations, our ability to provide product candidates for clinical trials or our products to patients, once approved, could be delayed or stopped.

The manufacture of biotechnology products is complex and requires significant expertise and capital investment, including the development of advanced manufacturing techniques and process controls. We and our contract manufacturers must comply with cGMP regulations and guidelines for the manufacturing of biologics used in clinical trials and, if approved, marketed products. Manufacturers of biotechnology products often encounter difficulties in production, particularly in scaling up and validating initial production. Furthermore, if microbial, viral or other contaminations are discovered in our products or in the manufacturing facilities in which our products are made, such manufacturing facilities may need to be closed for an extended period of time to investigate and remedy the contamination. Delays in raw materials availability and supply may also extend the period of time required to develop our products.

All of our therapeutic antibodies are manufactured by starting with cells which are stored in a cell bank. We have one master cell bank for each antibody manufactured in accordance with cGMP and multiple working cell banks and believe we would have adequate backup should any cell bank be lost in a catastrophic event. However, it is possible that we could lose multiple cell banks and have our manufacturing severely impacted by the need to replace the cell banks.

We cannot assure you that any stability or other issues relating to the manufacture of any of our product candidates or products will not occur in the future. Additionally, our manufacturers may experience manufacturing difficulties due to resource constraints or as a result of labor disputes or unstable political environments. If our manufacturers were to encounter any of these difficulties, or otherwise fail to comply with their contractual obligations, our ability to provide product candidates to patients in planned clinical trials and products to patients, once approved, would be jeopardized. Any delay or interruption in the supply of clinical trial supplies could delay the completion of planned clinical trials, increase the costs associated with maintaining clinical trial programs and, depending upon the period of delay, require us to commence new clinical trials at additional expense or terminate clinical trials completely. Any adverse developments affecting clinical or commercial manufacturing of our product candidates or products may result in shipment delays, inventory shortages, lot failures, product withdrawals or recalls, or other interruptions in the supply of our product candidates or products. We may also have to take inventory write-offs and incur other charges and expenses for product candidates or products that fail to meet specifications, undertake costly remediation efforts or seek more costly manufacturing alternatives. Accordingly, failures or difficulties faced at any level of our supply chain could adversely affect our business and delay or impede the development and commercialization of our product candidates or products and could have an adverse effect on our business, prospects, financial condition and results of operations.

We currently have no marketing and sales force. If we are unable to establish effective sales or marketing capabilities or enter into agreements with third parties to sell or market our product candidates, we may not be able to effectively sell or market our product candidates, if approved, or generate product revenue.

We currently do not have a marketing or sales team for the marketing, sales and distribution of any of our product candidates that are able to obtain regulatory approval. In order to commercialize any product candidates, we must build on a territory-by-territory basis marketing, sales, distribution, managerial and other non-technical capabilities or make arrangements with third parties to perform these services, and we may not be successful in doing so. If our product candidates receive regulatory approval, we may decide to establish an internal sales or marketing team with technical expertise and supporting distribution capabilities to commercialize our product candidates, which will be expensive and time-consuming and will require significant attention of our executive officers to manage. Any failure or delay in the development of our internal sales, marketing and distribution capabilities would adversely impact the commercialization of any of our product candidates that we obtain approval to market. With respect to the commercialization of all or certain of our product candidates, we may choose to collaborate, either globally or on a territory-by-territory basis, with third parties that have direct sales forces and established distribution systems, either to augment our own sales force and distribution systems or in lieu of our own sales force and distribution systems. If we are unable to enter into such arrangements when needed on acceptable terms, or at all, we may not be able to successfully commercialize any of our product candidates that receive regulatory approval or any such commercialization may experience delays or limitations. If we are not successful in commercializing our product candidates, either on our own or through collaborations with one or more third parties, our future product revenue will suffer and we may incur significant additional losses.

We expect to expand our development and regulatory capabilities, and as a result, we may encounter difficulties in managing our growth, which could disrupt our operations.

We expect to experience growth in the number of our employees and the scope of our operations, particularly in the areas of product candidate development and growing our capability to conduct clinical trials. To manage our anticipated future growth, we must continue to implement and improve our managerial, operational and financial systems, expand our facilities and continue to recruit and train additional qualified personnel. Due to our limited financial resources and the limited experience of our management team in managing a company with such anticipated growth, we may not be able to effectively manage the expansion of our operations or recruit and train additional qualified personnel. The expansion of our operations may lead to significant costs and may divert our management and business development resources. Any inability to manage growth could delay the execution of our business plans or disrupt our operations.

We conduct certain operations through our Australian wholly-owned subsidiary. If we are unable to receive the research and development tax credit allowed by Australian regulations, our business and results of operations will suffer.

In March 2015, we formed a wholly-owned Australian subsidiary, AnaptysBio Pty Ltd, or AnaptysBio Pty, to develop and commercialize our ANB019 and etokimab antibody program in Australia. We have no assurance that the results of any clinical trials that we conducted for our product candidates in Australia will be accepted by the FDA or foreign regulatory authorities for development and commercialization approvals.

In addition, current Australian tax regulations provide for a refundable research and development, or R&D, tax credit equal to 43.5% of qualified expenditures. We have received $9.3 million USD in R&D tax credits since the inception of our operations in Australia, and currently do not intend to submit for any additional tax credits. If we are ineligible or unable to retain the research and development tax credits received thus far and are required to repay all or a portion of the credit, our business and results of operation would be adversely affected.

We may be vulnerable to disruption, damage and financial obligation as a result of system failures.

Despite the implementation of security measures, any of the internal computer systems belonging to us, our collaborators or our third-party service providers are vulnerable to damage from computer viruses, unauthorized access, natural disasters, terrorism, war and telecommunication and electrical failure. Any system failure, accident or security breach that causes interruptions in our own, in collaborators' or in third-party service vendors' operations could result in a material disruption of our drug discovery and development programs. For example, the loss of clinical trial data from completed or future clinical trials could result in delays in our or our collaborators' regulatory approval efforts and significantly increase our costs in order to recover or reproduce the lost data. To the extent that any disruption or security breach results in a loss or damage to our data or applications, or inappropriate disclosure of confidential or proprietary information, we may incur liability as a result, our drug discovery programs and competitive position may be adversely affected and the further development of our product candidates may be delayed. Furthermore, we may incur additional costs to remedy the damages caused by these disruptions or security breaches.

Our operations, or the third parties upon whom we depend, are vulnerable to interruption by fire, earthquake, power loss, telecommunications failure, terrorist activity, health epidemics or pandemics and other events beyond our control, which could harm our business.

Our facilities are located in San Diego, California, which is a seismically active region, and has also historically been subject to wildfires and electrical blackouts as a result of a shortage of available electrical power. We have not undertaken a systematic analysis of the potential consequences to our business and financial results from a major earthquake, fire, power loss, terrorist activity, health epidemics or pandemics such as the recent coronavirus outbreak or other disasters and do not have a recovery plan for such disasters. In addition, we do not carry sufficient insurance to compensate us for actual losses from interruption of our business that may occur, and any losses or damages incurred by us could harm our business. We maintain multiple copies of each of our antibody sequences and electronic data records, most of which we maintain at our headquarters. If our facility was impacted by a seismic or wildfire event, we could lose some of our antibody sequences, which would have an adverse effect on our ability to perform our obligations under our collaborations and discover new targets.

Furthermore, integral parties in our supply chain are geographically concentrated and operating from single sites, increasing their vulnerability to natural disasters or other sudden, unforeseen and severe and/or serious adverse events. If such an event were to affect our supply chain, it could have a material adverse effect on our business.

Risks Related to Our Dependence on Third Parties

Our existing collaborations, including those with TESARO and Celgene, are important to our business, and future collaborations may also be important to us. If we are unable to maintain any of these collaborations, or if these collaborations are not successful, our business could be adversely affected.

We have entered into collaborations with TESARO and Celgene to develop several of our product candidates. We have also entered into antibody generation and/or development collaborations with various collaborators, including TESARO and Celgene, under which we have generated therapeutic quality antibodies using our technology platform and conducted certain preclinical studies in collaboration. We are currently aware that TESARO and Celgene have advanced multiple antibodies generated through our collaboration into clinical trials. If our collaborators terminate any of our collaborations, we may not receive all or any of this funding, which would adversely affect our business or financial condition. Our operational obligations under each of our collaborations has ended.

Moreover, both TESARO and Celgene recently were acquired by large pharmaceutical companies. GlaxoSmithKline plc completed the acquisition of TESARO on January 22, 2019 and Bristol-Myers Squibb Co. completed the acquisition of Celgene Corp on November 20, 2019. There can be no assurance that these collaborators, following their respective acquisitions by third parties, or such third-party acquirers, will continue to develop and commercialize these product candidates consistent with and with similar timelines as done previous to the acquisitions or that they will comply with the covenants, restrictions, sub-license and other agreement provisions, which, if they don't comply, could lead us into disputes and potentially trigger breaches of our agreements with other partners.

We are unable to predict the success of our collaborations. Our collaborators have discretion in determining and directing the efforts and resources, including the ability to discontinue all efforts and resources, they apply to the development and, if approval is obtained, commercialization and marketing of the product candidates covered by such collaborations. As a result, our collaborators may elect to de-prioritize our programs, change their strategic focus or pursue alternative technologies in a manner that results in reduced, delayed or no revenue to us. Our collaborators may have other marketed products and product candidates under collaboration with other companies, including some of our competitors, and their corporate objectives may not be consistent with our best interests. Our collaborators may also be unsuccessful in developing or commercializing our products. If our collaborations are unsuccessful, our business, financial condition, results of operations and prospects could be adversely affected. In addition, any dispute or litigation proceedings we may have with our collaborators in the future could delay development programs, create uncertainty as to ownership of intellectual property rights, distract management from other business activities and generate substantial expense.

We may not succeed in establishing and maintaining additional development and commercialization collaborations, which could adversely affect our ability to develop and commercialize product candidates.

In addition to our current licensing arrangements with TESARO and Celgene, a part of our strategy is to enter into additional strategic product development and commercialization collaborations in the future, including collaborations to broaden and accelerate clinical development and potential commercialization of our product candidates. We may face significant competition in seeking appropriate development partners, and the negotiation process is time-consuming and complex. Moreover, we may not succeed in our efforts to establish collaborations or other alternative arrangements for any of our other existing or future product candidates and programs because our research and development pipeline may be insufficient, our product candidates and programs may be deemed to be at too early a stage of development for collaborative effort and/or third parties may not view our product candidates and programs as having the requisite potential to demonstrate safety and efficacy or to be commercially viable. Even if we are successful in our efforts to establish new collaborations, the terms that we agree upon may not be favorable to us, and we may not be able to maintain such collaborations if, for example, development or approval of a product candidate is delayed or sales of an approved product candidate are disappointing. Any delay in entering into new collaboration agreements related to our product candidates could delay the development and commercialization of our product candidates and reduce their competitiveness if they reach the market.

Moreover, if we fail to establish and maintain additional collaborations related to our product candidates:

- the development of certain of our current or future product candidates may be terminated or delayed;
- our cash expenditures related to development of certain of our current or future product candidates would increase significantly and we may need to seek additional financing;
- we may be required to hire additional employees or otherwise develop expertise, such as sales and marketing expertise, for which we have not budgeted; and
- we will bear all of the risk related to the development and commercialization of any such product candidates.

If third parties on which we depend to conduct our planned preclinical studies and clinical trials do not perform as contractually required, fail to satisfy regulatory or legal requirements or miss expected deadlines, our development program could be delayed with adverse effects on our business, financial condition, results of operations and prospects.

We rely on third party clinical investigators, CROs, CMOs, and consultants to design, conduct, supervise and monitor key activities relating to, discovery, manufacturing, non-clinical studies and clinical trials of our product candidates, and we intend to do the same for future activities relating to existing and future programs. Because we rely on third parties and do not have the ability to conduct all required discovery, manufacturing, preclinical studies or clinical trials independently, we have less control over the timing, quality and other aspects of discovery, manufacturing, preclinical studies and clinical trials than we would if we conducted them on our own. These investigators, CROs, CMOs and consultants are not our employees and we have limited control over the amount of time and resources that they dedicate to our programs. These third parties may have contractual relationships with other entities, some of which may be our competitors, which may draw time and resources from our programs. The third parties we contract with might not be diligent, careful or timely in conducting our discovery, manufacturing, preclinical studies or clinical trials, resulting in discovery, manufacturing, preclinical studies or clinical trials being delayed or unsuccessful, in whole or in part.

If we cannot contract with acceptable third parties on commercially reasonable terms, or at all, or if these third parties do not carry out their contractual duties, satisfy legal and regulatory requirements for the conduct of preclinical studies or clinical trials or meet expected deadlines, our clinical development programs could be delayed and otherwise adversely affected. In all events, we are responsible for ensuring that each of our preclinical studies and clinical trials is conducted in accordance with the general investigational plan and protocols for the trial. Our reliance on third parties that we do not control does not relieve us of these responsibilities and requirements. Any such event could have an adverse effect on our business, financial condition, results of operations and prospects.

We rely completely on third parties to manufacture our nonclinical, clinical and future commercial drug supplies of any approved products.

We outsource the manufacture of our product candidates. We do not currently have the infrastructure or internal capability to manufacture supplies of our product candidates for use in development and commercialization. If we were to experience an unexpected loss of supply of our product candidates for any reason, whether as a result of manufacturing, supply or storage issues or otherwise, our business would be harmed, and we could experience delays, disruptions, suspensions or terminations of, or be required to restart or repeat, any pending or ongoing clinical trials. Although we generally do not begin a clinical trial unless we believe we have a sufficient supply of a product candidate to complete the clinical trial, we may be required to manufacture additional supplies of our product candidates to the extent our estimates of the amounts required prove inaccurate, we suffer unexpected losses of product candidate supplies, or we are required to have fresh product candidate supplies manufactured to satisfy regulatory requirements or specifications. Any significant delay or discontinuation in the supply of a product candidate, or the raw material components thereof, due to the need to replace a contract manufacturer or other third-party manufacturer, could considerably harm our business and ability to generate revenue and delay completion of our clinical trials, product testing and potential regulatory approval of our product candidates.

Any delays in our preclinical or clinical development could lead to delays or cancellations of forecasted manufacturing batches, which would typically result in significant fees owed by us to the manufacture and an uncertainty as to when the manufacturer will have the availability for a new time slot to manufacture the batch, which could lead to further delays in the development of the product candidate and have an adverse effect on our business.

Reliance on third-party manufacturers entails additional risks, including the possible breach of the manufacturing agreement by the third party, and the possible termination or nonrenewal of the agreement by the manufacturer at a time that is costly or inconvenient for us. If our contract manufacturers were to breach or terminate their manufacturing arrangements with us, the development or commercialization of the affected product candidates could be significantly delayed, which could have an adverse effect on our business. Any change in our manufacturers could be costly because the commercial terms of any new arrangement could be less favorable and because the expenses relating to the transfer of necessary technology and processes could be significant.

We depend on a small number of suppliers for the raw materials necessary to produce our product candidates. The loss of these suppliers, or their failure to supply us with these raw materials, would materially and adversely affect our business.

We depend on the availability of key raw materials for our product candidates from a small number of third-party suppliers. Because there are a limited number of suppliers for the raw materials that we use to manufacture our product

candidates, we may need to engage alternate suppliers to prevent a possible disruption of the manufacture of the materials necessary to produce our product candidates for our clinical trials. We do not have any control over the availability of raw materials. If we or our manufacturers are unable to purchase these raw materials on acceptable terms, at sufficient quality levels, or in adequate quantities, if at all, the development of our product candidates would be delayed or there would be a shortage in supply, which would impair our ability to meet our development objectives for our product candidates or generate revenues from the sale of any approved products.

Risks Related to Regulatory Approval of Our Product Candidates and Other Legal Compliance Matters

Even if our product candidates receive regulatory approval, they will be subject to significant post-marketing regulatory requirements.

Any regulatory approvals that we may receive for our product candidates will require surveillance to monitor the safety and efficacy of the product candidate, may contain significant limitations related to use restrictions for specified age groups, warnings, precautions or contraindications, and may include burdensome post-approval study or risk management requirements. For example, the FDA may require a risk evaluation and mitigation strategy in order to approve our product candidates, which could entail requirements for a medication guide, physician communication plans or additional elements to ensure safe use, such as restricted distribution methods, patient registries and other risk minimization tools. In addition, if the FDA or foreign regulatory authorities approve our product candidates, the manufacturing processes, labeling, packaging, distribution, adverse event reporting, storage, advertising, promotion, import, export and recordkeeping for our product candidates will be subject to extensive and ongoing regulatory requirements. These requirements include submissions of safety and other post-marketing information and reports, registration, as well as continued compliance with cGMPs and good clinical practices, or GCPs, for any clinical trials that we conduct post-approval. In addition, manufacturers of drug products and their facilities are subject to continual review and periodic inspections by the FDA and other regulatory authorities for compliance with cGMP regulations and standards. If we or a regulatory agency discover previously unknown problems with a product, such as adverse events of unanticipated severity or frequency, or problems with the facilities where the product is manufactured, a regulatory agency may impose restrictions on that product, the manufacturing facility or us, including requiring recall or withdrawal of the product from the market or suspension of manufacturing. In addition, failure to comply with FDA and foreign regulatory requirements may, either before or after product approval, if any, subject our company to administrative or judicially imposed sanctions, including:

- restrictions on our ability to conduct clinical trials, including full or partial clinical holds on ongoing or planned trials;
- restrictions on the products, manufacturers or manufacturing process;
- warning or untitled letters;
- civil and criminal penalties;
- injunctions;
- suspension or withdrawal of regulatory approvals;
- product seizures, detentions or import bans;
- voluntary or mandatory product recalls and publicity requirements;
- total or partial suspension of production;
- imposition of restrictions on operations, including costly new manufacturing requirements; and
- refusal to approve pending BLAs or supplements to approved BLAs.

The occurrence of any event or penalty described above may inhibit our ability to commercialize our product candidates and generate revenue.

Advertising and promotion of any product candidate that obtains approval in the United States will be heavily scrutinized by the FDA, the Department of Justice, the Department of Health and Human Services' Office of Inspector General, state attorneys general, members of Congress and the public. Violations, including promotion of our products for unapproved (or off-label) uses, are subject to enforcement letters, inquiries and investigations, and civil and criminal sanctions by the government. Additionally, comparable foreign regulatory authorities will heavily scrutinize advertising and promotion of any product candidate that obtains approval outside of the United States.

In the United States, engaging in the impermissible promotion of our products for off-label uses can also subject us to false claims litigation under federal and state statutes, which can lead to civil and criminal penalties and fines and agreements

that materially restrict the manner in which a company promotes or distributes drug products. These false claims statutes include the federal False Claims Act, which allows any individual to bring a lawsuit against a biotechnology company on behalf of the federal government alleging submission of false or fraudulent claims, or causing to present such false or fraudulent claims, for payment by a federal program such as Medicare or Medicaid. If the government prevails in the lawsuit, the individual will share in any fines or settlement funds. Since 2004, these False Claims Act lawsuits against biotechnology companies have increased significantly in volume and breadth, leading to several substantial civil and criminal settlements regarding certain sales practices promoting off-label drug uses involving fines in excess of $1.0 billion. This growth in litigation has increased the risk that a biotechnology company will have to defend a false claim action, pay settlement fines or restitution, agree to comply with burdensome reporting and compliance obligations, and be excluded from Medicare, Medicaid and other federal and state health care programs. If we do not lawfully promote our approved products, we may become subject to such litigation and, if we do not successfully defend against such actions, those actions may have an adverse effect on our business, financial condition and results of operations.

Our failure to obtain regulatory approval in international jurisdictions would prevent us from marketing our product candidates outside the United States.

In order to market and sell our products in other jurisdictions, we must obtain separate marketing approvals and comply with numerous and varying regulatory requirements. The approval procedure varies among countries and can involve additional testing. The time required to obtain approval may differ substantially from that required to obtain FDA approval. The regulatory approval process outside the United States generally includes all of the risks associated with obtaining FDA approval. In addition, in many countries outside the United States, we must secure product reimbursement approvals before regulatory authorities will approve the product for sale in that country. Obtaining foreign regulatory approvals and compliance with foreign regulatory requirements could result in significant delays, difficulties and costs for us and could delay or prevent the introduction of our products in certain countries.

If we fail to comply with the regulatory requirements in international markets and receive applicable marketing approvals, our target market will be reduced and our ability to realize the full market potential of our product candidates will be harmed and our business will be adversely affected. We may not obtain foreign regulatory approvals on a timely basis, if at all. Our failure to obtain approval of any of our product candidates by regulatory authorities in another country may significantly diminish the commercial prospects of that product candidate and our business prospects could decline.

We plan to seek Orphan Drug Designation for ANB019 or certain of our other product candidates and we may not be able to obtain or maintain Orphan Drug Designation or obtain the benefits associated with Orphan Drug status, including market exclusivity.

We plan to seek Orphan Drug Designation for ANB019 or certain of our other product candidates. Regulatory authorities in some jurisdictions, including the United States and the European Union, or EU, may designate biologics for relatively small patient populations as Orphan Drugs. Under the Orphan Drug Act, the FDA may designate a biologic as an Orphan Drug if it is intended to treat a rare disease or condition, which is generally defined as a patient population of fewer than 200,000 individuals in the United States. Generally, if a biologic with an Orphan Drug Designation subsequently receives the first marketing approval for the indication for which it has such designation, the biologic is entitled to a period of marketing exclusivity, which precludes the FDA, in the United States, or the European Medicines Agency, or EMA, in the EU, from approving another marketing application for a drug containing the same active moiety for the same indication for that time period. The applicable period is seven years in the United States and ten years in the EU. The EU exclusivity period can be reduced to six years if a biologic no longer meets the criteria for Orphan Drug Designation or if the biologic is sufficiently profitable so that market exclusivity is no longer justified. Orphan Drug exclusivity may be lost if the FDA or EMA determines that the request for designation was materially defective or if the manufacturer is unable to assure sufficient quantity of the drug to meet the needs of patients with the rare disease or condition. In addition, the Orphan Drug Designation does not convey any advantage in, or shorten the duration of, the regulatory review or approval process. Also, regulatory approval for any product candidate may be withdrawn and other candidates may obtain approval before us.

We have not been granted Orphan Drug Designation for ANB019 for any indication, and may not be able to obtain designation or any of the potential benefits associated with it. For example, we plan to seek FDA Orphan Drug Designation for ANB019 for the treatment of GPP and PPP, which will likely require that we demonstrate to FDA that GPP and PPP are distinct diseases from psoriasis generally (a non-rare disease) or that use of ANB019 may be appropriate for the treatment of GPP and PPP but not appropriate for use in the general psoriasis population.

Even if we obtain Orphan Drug Designation, we may not receive Orphan Drug exclusivity, and such exclusivity, if obtained, may not effectively protect the candidate from competition because different drugs or biologics can be approved for

the same condition and only the first biologic with an Orphan Drug Designation to receive regulatory approval for a particular indication will receive marketing exclusivity. Even after a drug or biological with Orphan Drug Designation is approved, the FDA can subsequently approve another biologic containing the same active moiety (which in the case of an antibody is the principal molecular structure) for the same condition if the FDA concludes that the later biologic is clinically superior in that it is shown to be safer, more effective or makes a major contribution to patient care.

Any drugs we develop may become subject to unfavorable third-party reimbursement practices and pricing regulations.

The availability and extent of coverage and adequate reimbursement by governmental and private payors is essential for most patients to be able to afford expensive treatments. Sales of any of our product candidates that receive marketing approval will depend substantially, both in the United States and internationally, on the extent to which the costs of our product candidates will be paid by health maintenance, managed care, pharmacy benefit and similar health care management organizations, or reimbursed by government health administration authorities, private health coverage insurers and other third-party payors. If reimbursement is not available, or is available only to limited levels, we may not be able to successfully commercialize our product candidates. Even if coverage is provided, the approved reimbursement amount may not be high enough to allow us to establish or maintain pricing sufficient to realize a sufficient return on our investment. Coverage and reimbursement may impact the demand for, or the price of, any product candidate for which we obtain marketing approval. If coverage and reimbursement are not available or reimbursement is available only at limited levels, we may not successfully commercialize any product candidate for which we obtain marketing approval.

There is significant uncertainty related to the insurance coverage and reimbursement of newly approved products. In the United States, the principal decisions about reimbursement for new products are typically made by the Centers for Medicare & Medicaid Services, or CMS, an agency within the U.S. Department of Health and Human Services, because CMS decides whether and to what extent a new product will be covered and reimbursed under Medicare. Private payors often follow CMS's decisions regarding coverage and reimbursement to a substantial degree. However, one payor's determination to provide coverage for a drug product does not assure that other payors will also provide coverage for the drug product. As a result, the coverage determination process is often a time-consuming and costly process that will require us to provide scientific and clinical support for the use of our products to each payor separately, with no assurance that coverage and adequate reimbursement will be applied consistently or obtained in the first instance.

Increasingly, third-party payors are requiring that drug companies provide them with predetermined discounts from list prices and are challenging the prices charged for medical products. Further, such payors are increasingly examining the medical necessity and reviewing the cost effectiveness of medical drug products. There may be especially significant delays in obtaining coverage and reimbursement for newly approved drugs. Third-party payors may limit coverage to specific drug products on an approved list, known as a formulary, which might not include all FDA approved drugs for a particular indication. We or our collaborators may need to conduct expensive pharmaco-economic studies to demonstrate the medical necessity and cost effectiveness of our products. Nonetheless, our product candidates may not be considered medically necessary or cost effective. We cannot be sure that coverage and reimbursement will be available for any product that we commercialize and, if reimbursement is available, what the level of reimbursement and the timing of achieving a reimbursement determination will be.

Outside the United States, international operations are generally subject to extensive governmental price controls and other market regulations, and we believe the increasing emphasis on cost containment initiatives in Europe, Canada and other countries has and will continue to put pressure on the pricing and usage of therapeutics including our product candidates. In many countries, particularly the countries of the EU, the prices of medical products are subject to varying price control mechanisms as part of national health systems. In these countries, pricing negotiations with governmental authorities can take considerable time after the receipt of marketing approval for a product. To obtain reimbursement or pricing approval in some countries, we may be required to conduct a clinical trial that compares the cost-effectiveness of our product candidate to other available therapies. In general, the prices of products under such systems are substantially lower than in the United States. Other countries allow companies to fix their own prices for products, but monitor and control company profits. Additional foreign price controls or other changes in pricing regulation could restrict the amount that we are able to charge for our product candidates. Accordingly, in markets outside the United States, the reimbursement for our products may be reduced compared with the United States and may be insufficient to generate commercially reasonable revenue and profits.

Moreover, increasing efforts by governmental and third-party payors, in the United States and internationally, to cap or reduce health care costs may cause such organizations to limit both coverage and level of reimbursement for new products approved and, as a result, they may not cover or provide adequate payment for our product candidates. We expect to experience pricing pressures in connection with the sale of any of our product candidates due to the trend toward managed health care, the increasing influence of health maintenance organizations and additional legislative changes. The downward pressure on health

care costs in general, particularly prescription drugs and surgical procedures and other treatments, has become very intense. As a result, increasingly high barriers are being erected to the entry of new products into the health care market.

In addition to CMS and private payors, professional organizations such as the American Medical Association can influence decisions about reimbursement for new products by determining standards for care. In addition, many private payors contract with commercial vendors who sell software that provide guidelines that attempt to limit utilization of, and therefore reimbursement for, certain products deemed to provide limited benefit to existing alternatives. Such organizations may set guidelines that limit reimbursement or utilization of our product candidates.

Furthermore, some of our target indications, such as GPP, are rare diseases with small patient populations. In order for therapeutics that are designed to treat smaller patient populations to be commercially viable, the reimbursement for such therapeutics must be higher, on a relative basis, to account for the low volume of sales. Accordingly, we will need to implement a coverage and reimbursement strategy for any approved product candidate that accounts for the smaller potential market size.

If we are unable to establish or sustain coverage and adequate reimbursement for any future product candidates from third-party payors, the adoption of those products and sales revenue will be adversely affected, which, in turn, could adversely affect the ability to market or sell those product candidates, if approved. Coverage policies and third-party reimbursement rates may change at any time. Even if favorable coverage and reimbursement status is attained for one or more products for which we or our collaborators receive regulatory approval, less favorable coverage policies and reimbursement rates may be implemented in the future.

Recently enacted legislation may increase the difficulty and cost for us to obtain marketing approval of and commercialize our product candidates and affect the prices we may obtain.

Some of the provisions of the ACA have yet to be implemented, and there have been judicial and Congressional challenges to certain aspects of the ACA. In addition, the current administration and Congress have previously sought, and will likely continue to seek, legislative and regulatory changes, including repeal and replacement of all or certain provisions of the ACA. While Congress has not passed repeal legislation, the Tax Cuts and Jobs Act of 2017 includes a provision repealing, effective January 1, 2019, the tax-based shared responsibility payment imposed by the ACA on certain individuals who fail to maintain qualifying health coverage for all or part of a year that is commonly referred to as the “individual mandate”. Additionally, the current administration signed a continuing resolution on appropriations for fiscal year 2018 that delayed the implementation of certain ACA-mandated fees, including the so-called “Cadillac” tax on certain high cost employer-sponsored insurance plans, the annual fee imposed on certain health insurance providers based on market share, and the medical device excise tax on non-exempt medical devices. Further, the Bipartisan Budget Act of 2018, among other things, amends the ACA, effective January 1, 2019, to increase from 50% to 70% the point-of-sale discount that is owed by pharmaceutical manufacturers who participate in Medicare Part D and to close the coverage gap in most Medicare drug plans, commonly referred to as the “donut hole”. Congress may consider other legislation to repeal or replace elements of the ACA.

We may face difficulties from changes to current regulations and future legislation.

Existing regulatory policies may change and additional government regulations may be enacted that could prevent, limit or delay regulatory approval of our product candidates. We cannot predict the likelihood, nature or extent of government regulation that may arise from future legislation or administrative action, either in the United States or abroad. If we are slow or unable to adapt to changes in existing requirements or the adoption of new requirements or policies, or if we are not able to maintain regulatory compliance, we may lose any marketing approval that we may have obtained and we may not achieve or sustain profitability.

More recently, President Trump has signed an executive order and made statements that suggest he plans to seek repeal of all or portions of the ACA. There is uncertainty with respect to which legislation, if any, will be enacted and the impact President Trump’s Administration may have, if any, and any changes likely will take time to unfold, and could have an impact on coverage and reimbursement for health care items and services covered by plans that were authorized by the ACA. However, we cannot predict the ultimate content, timing or effect of any health care reform legislation or the impact of potential legislation on us. In addition, other legislative changes have been proposed and adopted since the ACA was enacted. These changes included aggregate reductions to Medicare payments to providers of up to 2% per fiscal year, effective April 1, 2013, which, due to subsequent legislative amendments, will stay in effect through 2027 unless additional Congressional action is taken. In January 2013, President Obama signed into law the American Taxpayer Relief Act of 2012, which, among other things, reduced Medicare payments to several providers, and increased the statute of limitations period for the government to recover overpayments to providers from three to five years. These new laws may result in additional reductions in Medicare

and other health care funding, which could have a material adverse effect on customers for our drugs, if approved, and accordingly, our financial operations.

Likewise, the annual Medicare Physician Fee Schedule update, which, until recently, was based on a target-setting formula system called the Sustainable Growth Rate, or SGR, was adjusted to reflect the comparison of actual expenditures to target expenditures. Because one of the factors for calculating the SGR was linked to the growth in the U.S. gross domestic product, or GDP, the SGR formula often resulted in a negative payment update when growth in Medicare beneficiaries' use of services exceeded GDP growth. Congress repeatedly intervened to delay the implementation of negative SGR payment updates. For example, on April 1, 2014, with the enactment of the Protecting Access to Medicare Act of 2014, Congress prevented the 24 percent cut that was to occur by continuing the previously implemented 0.5 percent payment increase through December 31, 2014 and maintaining a zero percent payment update from January 1, 2015 through March 31, 2015. However, on April 14, 2015, Congress passed the Medicare Access and CHIP Reauthorization Act of 2015, which was signed into law by President Obama on April 16, 2015. This law repeals the SGR methodology from the physician payment formula, institutes a 0% update to the Medicare Physician Fee Schedule for the January 1 to July 1, 2015 period, a 0.5% payment update for July 2015 through the end of 2019, and a 0% payment update for 2020 through 2025, along with a merit-based incentive payment system beginning January 1, 2019, that will replace current incentive programs. For 2026 and subsequent years, the payment update will be either 0.75% or 0.25%, depending on which Alternate Payment Model the physician participates.

We expect that the ACA, as well as other health care reform measures that may be adopted in the future, may result in more rigorous coverage criteria and in additional downward pressure on the price that we receive for any approved product. Any reduction in reimbursement from Medicare or other government programs may result in a similar reduction in payments from private payors. The implementation of cost containment measures or other health care reforms may prevent us from being able to generate revenue, attain profitability, or commercialize our product candidates.

Legislative and regulatory proposals have been made to expand post-approval requirements and restrict sales and promotional activities for biotechnology products. We cannot be sure whether additional legislative changes will be enacted, or whether FDA regulations, guidance or interpretations will be changed, or what the impact of such changes on the marketing approvals of our product candidates, if any, may be. In addition, increased scrutiny by the U.S. Congress of the FDA's approval process may significantly delay or prevent marketing approval, as well as subject us to more stringent product labeling and post-marketing testing and other requirements.

Our business entails a significant risk of product liability, and our ability to obtain sufficient insurance coverage could have an adverse effect on our business, financial condition, results of operations or prospects.

Our business exposes us to significant product liability risks inherent in the development, testing, manufacturing and marketing of therapeutic treatments. Product liability claims could delay or prevent completion of our development programs. If we succeed in marketing products, such claims could result in an FDA investigation of the safety and effectiveness of our products, our manufacturing processes and facilities or our marketing programs and potentially a recall of our products or more serious enforcement action, limitations on the approved indications for which they may be used or suspension or withdrawal of approvals. Regardless of the merits or eventual outcome, liability claims may also result in decreased demand for our products, injury to our reputation, costs to defend the related litigation, a diversion of management's time and our resources, substantial monetary awards to trial participants or patients and a decline in our stock price. We currently have product liability insurance that we believe is appropriate for our stage of development and may need to obtain higher levels prior to marketing any of our product candidates. Any insurance we have or may obtain may not provide sufficient coverage against potential liabilities. Furthermore, clinical trial and product liability insurance is becoming increasingly expensive. As a result, we may be unable to obtain sufficient insurance at a reasonable cost to protect us against losses caused by product liability claims that could have an adverse effect on our business.

Our relationships with customers and third-party payors will be subject to applicable anti-kickback, fraud and abuse, transparency and other health care laws and regulations, which could expose us to, among other things, criminal sanctions, civil penalties, contractual damages, reputational harm, administrative burdens and diminished profits and future earnings.

Health care providers and third-party payors play a primary role in the recommendation and prescription of any product candidates for which we obtain marketing approval. Our future arrangements with third-party payors and customers may expose us to broadly applicable fraud and abuse and other health care laws and regulations that may constrain the business or financial arrangements and relationships through which we market, sell and distribute our products for which we obtain marketing approval. Restrictions under applicable federal and state health care laws and regulations include the following:

- the federal Anti-Kickback Statute prohibits, among other things, persons and entities from knowingly and willfully soliciting, offering, receiving or providing remuneration, directly or indirectly, in cash or in kind, to induce or reward, or in return for, either the referral of an individual for, or the purchase, order or recommendation of, any good or service, for which payment may be made under a federal health care program such as Medicare and Medicaid;
- the federal false claims and civil monetary penalties laws, including the civil False Claims Act, impose criminal and civil penalties, including civil whistleblower or qui tam actions, against individuals or entities for, among other things, knowingly presenting, or causing to be presented, to the federal government, claims for payment that are false or fraudulent or making a false statement to avoid, decrease or conceal an obligation to pay money to the federal government;
- the federal Health Insurance Portability and Accountability Act of 1996, or HIPAA, imposes criminal and civil liability for, among other things, executing or attempting to execute a scheme to defraud any health care benefit program or making false statements relating to health care matters;
- HIPAA, as amended by the Health Information Technology for Economic and Clinical Health Act and its implementing regulations, also imposes obligations, including mandatory contractual terms, with respect to safeguarding the privacy, security and transmission of individually identifiable health information;
- the federal Physician Payments Sunshine Act requires applicable manufacturers of covered drugs, devices, biologics, and medical supplies for which payment is available under Medicare, Medicaid, or the Children's Health Insurance Program, with specific exceptions, to report to CMS annually information regarding payments and other transfers of value to physicians and teaching hospitals as well as information regarding ownership and investment interests held by physicians and their immediate family members. The information was initially made publicly available on a searchable website in September 2014 and is disclosed on an annual basis; and
- analogous state and foreign laws and regulations, such as state anti-kickback and false claims laws, may apply to sales or marketing arrangements and claims involving health care items or services reimbursed by non-governmental third-party payors, including private insurers.

Some state laws require biotechnology companies to comply with the biotechnology industry's voluntary compliance guidelines and the relevant compliance guidance promulgated by the federal government and may require drug manufacturers to report information related to payments and other transfers of value to physicians and other health care providers or marketing expenditures. For example, several states now require prescription drug companies to report certain expenses relating to the marketing and promotion of drug products and to report gifts and payments to individual health care practitioners in these states. Other states prohibit various marketing-related activities, such as the provision of certain kinds of gifts or meals. Still other states require the posting of information relating to clinical studies and their outcomes. Some states require the reporting of certain pricing information, including information pertaining to and justifying price increases, or prohibit prescription drug price gouging. And states such as California, Connecticut, Nevada, and Massachusetts require pharmaceutical companies to implement compliance programs and/or marketing codes. Other states are considering similar proposals. Compliance with these laws is difficult and time consuming, and companies that do not comply with these state laws face civil penalties.

State and foreign laws also govern the privacy and security of health information in some circumstances, many of which differ from each other in significant ways and often are not preempted by HIPAA, thus complicating compliance efforts. For example, the collection and use of health data in the EU is governed by the General Data Protection Regulation (GDPR), which became fully applicable in May 2018. The GDPR extends the geographical scope of EU Data protection law to non-EU entities under certain conditions, tightens existing EU data protection principles and creates new obligations for companies and new rights for individuals. The GDPR is new and guidance, interpretation and application under the GDPR are still developing. Failure to comply with the GDPR may result in substantial fines and other administrative penalties. The GDPR may increase our responsibility and liability in relation to personal data that we process and we may be required to put in place additional mechanisms ensuring compliance with the GDPR. The GDPR is new and the pending EU ePrivacy Regulation is expected to establish, new requirements applicable to the handling of personal data and imposes penalties for non-compliance of up to the greater of €20 million or 4% of worldwide revenue. Additionally, in June 2018, California passed the California Consumer Privacy Act, or CCPA, which provides new data privacy rights for consumers and new operational requirements for companies effective in 2020. The costs of compliance with, and other burdens imposed by, the GDPR, CCPA and other U.S., EU and worldwide laws may impose onerous requirements on our business and, if our efforts to comply with such laws are not successful, our business could be adversely affected.

Efforts to ensure that our current and future business arrangements with third parties will comply with applicable health care laws and regulations will involve substantial costs. It is possible that governmental authorities will conclude that our business practices may not comply with current or future statutes, regulations or case law involving applicable fraud and abuse

or other health care laws and regulations. If our operations are found to be in violation of any of these laws or any other governmental regulations that may apply to us, we may be subject to significant penalties, including civil, criminal and administrative penalties, damages, fines, disgorgement, imprisonment, exclusion from participation in government funded health care programs, such as Medicare and Medicaid, contractual damages, reputational harm, diminished profits and future earnings, and the curtailment or restructuring of our operations. Defending against any such actions can be costly, time-consuming and may require significant financial and personnel resources. Therefore, even if we are successful in defending against any such actions that may be brought against us, our business may be impaired. Further, if any of the physicians or other health care providers or entities with whom we expect to do business is found to be not in compliance with applicable laws, they may be subject to criminal, civil or administrative sanctions, including exclusions from government funded health care programs.

Our employees may engage in misconduct or other improper activities, including noncompliance with regulatory standards and requirements and insider trading.

We are exposed to the risk of employee fraud or other misconduct. Misconduct by employees could include failures to comply with FDA regulations, to provide accurate information to the FDA, to comply with federal and state health care fraud and abuse laws and regulations, to report financial information or data accurately or to disclose unauthorized activities to us. In particular, sales, marketing and business arrangements in the health care industry are subject to extensive laws and regulations intended to prevent fraud, misconduct, kickbacks, self-dealing and other abusive practices. These laws and regulations may restrict or prohibit a wide range of pricing, discounting, marketing and promotion, sales commission, customer incentive programs and other business arrangements. Employee misconduct could also involve the improper use of information obtained in the course of clinical trials, which could result in regulatory sanctions and serious harm to our reputation. We have adopted a code of conduct, but it is not always possible to identify and deter employee misconduct, and the precautions we take to detect and prevent this activity may not be effective in controlling unknown or unmanaged risks or losses or in protecting us from governmental investigations or other actions or lawsuits stemming from a failure to comply with these laws or regulations. If any such actions are instituted against us, and we are not successful in defending ourselves or asserting our rights, those actions could have a significant impact on our business, including the imposition of significant fines or other sanctions.

Risks Related to Intellectual Property

If we are unable to obtain or protect intellectual property rights, we may not be able to compete effectively in our market.

Our success depends in significant part on our and our licensors', licensees' or collaborators' ability to establish, maintain and protect patents and other intellectual property rights and operate without infringing the intellectual property rights of others. We have filed numerous patent applications both in the United States and in foreign jurisdictions to obtain patent rights to inventions we have discovered. We have also licensed from third parties rights to patent portfolios. Some of these licenses give us the right to prepare, file and prosecute patent applications and maintain and enforce patents we have licensed, and other licenses may not give us such rights. The patent prosecution process is expensive and time-consuming, and we and our current or future licensors, licensees or collaborators may not be able to prepare, file and prosecute all necessary or desirable patent applications at a reasonable cost or in a timely manner. It is also possible that we or our licensors, licensees or collaborators will fail to identify patentable aspects of inventions made in the course of development and commercialization activities before it is too late to obtain patent protection on them. Moreover, in some circumstances, we may not have the right to control the preparation, filing and prosecution of patent applications, or to maintain the patents, covering technology that we license from or license to third parties and are reliant on our licensors, licensees or collaborators. Therefore, these patents and applications may not be prosecuted and enforced in a manner consistent with the best interests of our business. If our current or future licensors, licensees or collaborators fail to establish, maintain or protect such patents and other intellectual property rights, such rights may be reduced or eliminated. If our licensors, licensees or collaborators are not fully cooperative or disagree with us as to the prosecution, maintenance or enforcement of any patent rights, such patent rights could be compromised.

The patent position of biotechnology companies generally is highly uncertain, involves complex legal and factual questions and has in recent years been the subject of much litigation. As a result, the issuance, scope, validity, enforceability and commercial value of our and our current or future licensors', licensees' or collaborators' patent rights are highly uncertain. Our and our licensors', licensees' or collaborators' pending and future patent applications may not result in patents being issued which protect our technology or products, in whole or in part, or which effectively prevent others from commercializing competitive technologies and products. The patent examination process may require us or our licensors, licensees or collaborators to narrow the scope of the claims of our or our licensors', licensees' or collaborators' pending and future patent applications, which may limit the scope of patent protection that may be obtained. In the past, we have not always been able to obtain the full scope of patent protection we have initially sought in our patent applications, and as described above and as is

typical for most biotechnology patent prosecution, we have been required to narrow or eliminate patent claims as part of the patent prosecution process. In addition, some patent applications that we or our licensors have filed have not resulted in issued patents because we or our licensors have abandoned those patent applications as changes in business and/or legal strategies dictated.

We cannot assure you that all of the potentially relevant prior art relating to our patents and patent applications has been found. If such prior art exists, it can invalidate a patent or prevent a patent from issuing from a pending patent application. Even if patents do successfully issue and even if such patents cover our product candidates, third parties may initiate opposition, interference, re-examination, post-grant review, inter partes review, nullification or derivation action in court or before patent offices, or similar proceedings challenging the validity, enforceability or scope of such patents, which may result in the patent claims being narrowed or invalidated. Our and our licensors', licensees' or collaborators' patent applications cannot be enforced against third parties practicing the technology claimed in such applications unless and until a patent issues from such applications, and then only to the extent the issued claims cover the technology.

Because patent applications in the United States and most other countries are confidential for a period of time after filing, and some remain so until issued, we cannot be certain that we or our licensors were the first to file any patent application related to a product candidate. Furthermore, if third parties have filed such patent applications on or before March 15, 2013, an interference proceeding in the United States can be initiated by such third parties to determine who was the first to invent any of the subject matter covered by the patent claims of our applications. If third parties have filed such applications after March 15, 2013, a derivation proceeding in the United States can be initiated by such third parties to determine whether our invention was derived from theirs. Even where we have a valid and enforceable patent, we may not be able to exclude others from practicing our invention where the other party can show that they used the invention in commerce before our filing date or the other party benefits from a compulsory license. In addition, patents have a limited lifespan. In the United States, if all maintenance fees are timely paid, the natural expiration of a patent is generally 20 years from its earliest U.S. filing date. Various extensions may be available, but the life of a patent, and the protection it affords, is limited. Even if patents covering our product candidates are obtained, once the patent life has expired for a product, we may be open to competition from competitive medications, including biosimilar or generic medications.

Furthermore, given the amount of time required for the development, testing and regulatory review of new product candidates, patents protecting such candidates might expire before or shortly after such candidates are commercialized. As a result, our owned and licensed patent portfolio may not provide us with sufficient rights to exclude others from commercializing products similar or identical to ours. We expect to seek extensions of patent terms where these are available in any countries where we are prosecuting patents. This includes in the United States under the Drug Price Competition and Patent Term Restoration Act of 1984, which permits a patent term extension of up to five years beyond the expiration of the patent. However the applicable authorities, including the FDA and the U.S. Patent and Trademark Office, or USPTO, in the United States, and any equivalent foreign regulatory authority, may not agree with our assessment of whether such extensions are available, and may refuse to grant extensions to our patents, or may grant more limited extensions than we request. If this occurs, our competitors may take advantage of our investment in development and clinical trials by referencing our clinical and preclinical data and launch their product earlier than might otherwise be the case.

We may not be able to protect our intellectual property rights throughout the world.

Filing, prosecuting, enforcing and defending patents on product candidates in all countries throughout the world would be prohibitively expensive, and our or our licensors' or collaborators' intellectual property rights may not exist in some countries outside the United States or may be less extensive in some countries than in the United States. In addition, the laws of some foreign countries do not protect intellectual property rights to the same extent as federal and state laws in the United States. Consequently, we and our licensors or collaborators may not be able to prevent third parties from practicing our and our licensors' or collaborators' inventions in all countries outside the United States, or from selling or importing products made using our and our licensors' or collaborators' inventions in and into the United States or other jurisdictions. Competitors may use our and our licensors' or collaborators' technologies in jurisdictions where we have not obtained patent protection to develop their own products and, further, may export otherwise infringing products to territories where we and our licensors or collaborators have patent protection, but enforcement is not as strong as that in the United States. These products may compete with our product candidates, and our and our licensors' or collaborators' patents or other intellectual property rights may not be effective or sufficient to prevent them from competing.

Many companies have encountered significant problems in protecting and defending intellectual property rights in foreign jurisdictions. The legal systems of certain countries, particularly certain developing countries, do not favor the enforcement of patents and other intellectual property protection, particularly those relating to biotechnology, which could make it difficult for us and our licensors or collaborators to stop the infringement of our and our licensors' or collaborators'

patents or marketing of competing products in violation of our and our licensors' or collaborators' proprietary rights generally. Proceedings to enforce our and our licensors' or collaborators' patent rights in foreign jurisdictions could result in substantial costs and divert our and our licensors' or collaborators' efforts and attention from other aspects of our business, could put our and our licensors' or collaborators' patents at risk of being invalidated or interpreted narrowly and our and our licensors' or collaborators' patent applications at risk of not issuing and could provoke third parties to assert claims against us or our licensors or collaborators. We or our licensors or collaborators may not prevail in any lawsuits that we or our licensors or collaborators initiate, and the damages or other remedies awarded, if any, may not be commercially meaningful.

Changes in patent law could diminish the value of patents in general, thereby impairing our ability to protect our product candidates.

As is the case with other biopharmaceutical companies, our success is heavily dependent on intellectual property, particularly patents. Obtaining and enforcing patents in the biopharmaceutical industry involve technological and legal complexity, and obtaining and enforcing biopharmaceutical patents is costly, time-consuming, and inherently uncertain.

Patent reform legislation could increase the uncertainties and costs surrounding the prosecution of our and our licensors' or collaborators' patent applications and the enforcement or defense of our or our licensors' or collaborators' issued patents. On September 16, 2011, the Leahy-Smith America Invents Act, or the Leahy-Smith Act, was signed into law. The Leahy-Smith Act includes a number of significant changes to U.S. patent law. These include provisions that affect the way patent applications are prosecuted and may also affect patent litigation.

An important change introduced by the AIA is that, as of March 16, 2013, the United States transitioned to a "first-to-file" system for deciding which party should be granted a patent when two or more patent applications are filed by different parties claiming the same invention. A third party that files a patent application in the USPTO after that date but before us could therefore be awarded a patent covering an invention of ours even if we had made the invention before it was made by the third party. This will require us to be cognizant going forward of the time from invention to filing of a patent application, but circumstances could prevent us from promptly filing patent applications on our inventions.

Among some of the other changes introduced by the AIA are changes that limit where a patentee may file a patent infringement suit and providing opportunities for third parties to challenge any issued patent in the USPTO. This applies to all of our U.S. patents, even those issued before March 16, 2013. Because of a lower evidentiary standard in USPTO proceedings compared to the evidentiary standard in United States federal courts necessary to invalidate a patent claim, a third party could potentially provide evidence in a USPTO proceeding sufficient for the USPTO to hold a claim invalid even though the same evidence would be insufficient to invalidate the claim if first presented in a district court action. Accordingly, a third party may attempt to use the USPTO procedures to invalidate our patent claims that would not have been invalidated if first challenged by the third party as a defendant in a district court action. The Leahy-Smith Act and its implementation could increase the uncertainties and costs surrounding the prosecution of our patent applications and the enforcement or defense of our issued patents.

Moreover, future and recent past changes in the patent laws in the U.S. and abroad could impact or could increase the uncertainties and costs surrounding the prosecution of our and our licensors' or collaborators' patent applications and the enforcement or defense of our or our collaborators' issued patents, which could have an impact on our business and financial conditions. For example, over the past decade, the Supreme Court and the U.S. Court of Appeals for the Federal Circuit have rendered decisions in several patent cases such as Association for Molecular Pathology v. Myriad Genetics, Inc. (Myriad I), BRCA1- & BRCA2-Based Hereditary Cancer Test Patent Litig., (Myriad II), Mayo Collaborative Services v. Prometheus Laboratories, Inc., and Alice Corporation Pty. Ltd. v. CLS Bank International, either narrowing the scope of patent protection available in certain circumstances or weakening the rights of patent owners in certain situations. In addition to increasing uncertainty with regard to our and our licensors' or collaborators' ability to obtain patents in the future, these type of changes in the patent laws have created uncertainty with respect to the value of patents, once obtained. Depending on decisions by Congress, the federal courts, and the USPTO, the laws and regulations governing patents could change in unpredictable ways that would weaken our and our licensors' or collaborators' ability to obtain new patents or to enforce existing patents and patents that we and our licensors or collaborators may obtain in the future.

Obtaining and maintaining our patent protection depends on compliance with various procedural, document submission, fee payment and other requirements imposed by governmental patent agencies, and our patent protection could be reduced or eliminated for non-compliance with these requirements.

Periodic maintenance and annuity fees on any issued patent are due to be paid to the USPTO and foreign patent agencies in several stages over the lifetime of the patent. The USPTO and various foreign governmental patent agencies require

compliance with a number of procedural, documentary, fee payment and other similar provisions during the patent application process. While an inadvertent lapse can in many cases be cured by payment of a late fee or by other means in accordance with the applicable rules, there are situations in which noncompliance can result in abandonment or lapse of the patent or patent application, resulting in partial or complete loss of patent rights in the relevant jurisdiction. Non-compliance events that could result in abandonment or lapse of a patent or patent application include failure to respond to official actions within prescribed time limits, non-payment of fees and failure to properly legalize and submit formal documents. If we or our licensors or collaborators fail to maintain the patents and patent applications covering our product candidates, our competitors might be able to enter the market, which would have an adverse effect on our business.

Our reliance on third parties requires us to share our trade secrets, which increases the possibility that a competitor will discover them or that our trade secrets will be misappropriated or disclosed.

Because we collaborate with various collaborators on the development and commercialization of one or more of our product candidates and because we rely on third parties to manufacture our product candidates, we must, at times, share trade secrets with them. We seek to protect our wholly-owned technology in part by entering into confidentiality agreements and, if applicable, material transfer agreements, consulting agreements or other similar agreements with our advisors, employees, third-party contractors and consultants prior to disclosing proprietary information. These agreements typically limit the rights of the third parties to use or disclose our confidential information, including our trade secrets. Despite the contractual provisions employed when working with third parties, the need to share trade secrets and other confidential information increases the risk that such trade secrets become known by our competitors, are inadvertently incorporated into the technology of others, or are disclosed or used in violation of these agreements. Given that our proprietary position is based, in part, on our know-how and trade secrets, a competitor's discovery of our trade secrets or other unauthorized use or disclosure would impair our competitive position and may have an adverse effect on our business.

In addition, these agreements typically restrict the ability of our advisors, employees, third-party contractors and consultants to publish data potentially relating to our trade secrets, although our agreements may contain certain limited publication rights. For example, any academic institution that we may collaborate with in the future may be granted rights to publish data arising out of such collaboration, provided that we are notified in advance and given the opportunity to delay publication for a limited time period in order for us to secure patent protection of intellectual property rights arising from the collaboration, in addition to the opportunity to remove confidential or trade secret information from any such publication. Our existing collaborative research and development programs may require us to share trade secrets under the terms of our research and development collaborations or similar agreements. Despite our efforts to protect our trade secrets, our competitors may discover our trade secrets, either through breach of our agreements with third parties, independent development or publication of information by any of our third-party collaborators. A competitor's discovery of our trade secrets would impair our competitive position and have an adverse impact on our business.

We may become involved in lawsuits to protect or enforce our intellectual property, which could be expensive, time-consuming and unsuccessful and have an adverse effect on the success of our business.

Third parties may infringe our or our licensors' or collaborators' patents or misappropriate or otherwise violate our or our licensors' or collaborators' intellectual property rights. In the future, we or our licensors or collaborators may initiate legal proceedings to enforce or defend our or our licensors' or collaborators' intellectual property rights, to protect our or our licensors' or collaborators' trade secrets or to determine the validity or scope of intellectual property rights we own or control. Also, third parties may initiate legal proceedings against us or our licensors or collaborators to challenge the validity or scope of intellectual property rights we own or control. These proceedings can be expensive and time-consuming, and many of our or our licensors' or collaborators' adversaries in these proceedings may have the ability to dedicate substantially greater resources to prosecuting these legal actions than we or our licensors or collaborators. In addition, in an infringement proceeding, a court may decide that a patent owned by or licensed to us is invalid or unenforceable, or may refuse to stop the other party from using the technology at issue on the grounds that our or our licensors' or collaborators' patents do not cover the technology in question. Furthermore, an adverse result in any litigation or administrative proceeding could put one or more of our or our licensors' or collaborators' patents at risk of being invalidated, held unenforceable or interpreted narrowly.

Accordingly, despite our or our licensors' or collaborators' efforts, we or our licensors or collaborators may not prevent third parties from infringing upon or misappropriating intellectual property rights we own or control, particularly in countries where the laws may not protect those rights as fully as in the United States. In addition, litigation and administrative proceedings could result in substantial costs and diversion of management resources, which could harm our business and financial results.

Within and outside of the United States, there has been a substantial amount of litigation and administrative proceedings regarding patent and other intellectual property rights in the pharmaceutical industry including opposition, derivation, reexamination, inter partes review or interference proceedings, or other preissuance or post-grant proceedings. Such proceedings may be provoked by third parties or by us or our licensors or collaborators to protect or enforce our or our licensors' or collaborators' patents or patent applications. Additionally, third-party preissuance submission of prior art to the USPTO or other foreign jurisdictions may jeopardize the issuance or scope of our or our licensors' or collaborators' patent applications. An unfavorable outcome in any such proceedings could require us or our licensors or collaborators to cease using the related technology, or to attempt to license rights to it from the prevailing party. Our business could be harmed if the prevailing party does not offer us or our licensors or collaborators a license on commercially reasonable terms or at all, and we could be forced to stop commercializing our product candidates. Even if we or our licensors or collaborators obtain a license, it may be non-exclusive, thereby giving our competitors access to the same technologies licensed to us or our licensors or collaborators.

In addition, if the breadth or strength of protection provided by our or our licensors' or collaborators' patents and patent applications is threatened, it could dissuade companies from collaborating with us to license, develop or commercialize current or future product candidates. Even if we successfully defend such litigation or proceeding, we may incur substantial costs, and it may distract our management and other employees. We could be found liable for monetary damages, including treble damages and attorneys' fees if we are found to have willfully infringed a patent.

Furthermore, because of the substantial amount of discovery required in connection with intellectual property litigation, there is a risk that some of our confidential information could be compromised by disclosure during this type of litigation. There could also be public announcements of the results of hearings, motions or other interim proceedings or developments. If securities analysts or investors perceive these results to be negative, it could have an adverse effect on the price of shares of our common stock.

If we breach the license agreements related to our product candidates, we could lose the ability to continue the development and commercialization of our product candidates.

Our commercial success depends upon our ability, and the ability of our licensors and collaborators, to develop, manufacture, market and sell our product candidates and use our and our licensors' or collaborators' wholly-owned technologies without infringing the proprietary rights of third parties. A third party may hold intellectual property, including patent rights that are important or necessary to the development of our products. As a result, we are a party to a number of technology licenses that are important to our business and expect to enter into additional licenses in the future. For example, we have in-licensed the rights to certain intellectual property relating to SHM under our in-license agreement with the Medical Research Council, which is the subject of issued patents and pending patent applications in certain countries. If we fail to comply with the obligations under these agreements, including payment and diligence terms, our licensors may have the right to terminate these agreements, in which event we may not be able to develop, manufacture, market or sell any product that is covered by these agreements or may face other penalties under the agreements. Such an occurrence could adversely affect the value of the product candidate being developed under any such agreement. Termination of these agreements or reduction or elimination of our rights under these agreements may result in our having to negotiate new or reinstated agreements, which may not be available to us on equally favorable terms, or at all, or cause us to lose our rights under these agreements, including our rights to intellectual property or technology important to our development programs.

Disputes may arise regarding intellectual property subject to a licensing agreement, including:

- the scope of rights granted under the license agreement and other interpretation-related issues;
- the extent to which our technology and processes infringe on intellectual property of the licensor that is not subject to the licensing agreement;
- the sublicensing of patent and other rights under any collaboration relationships we might enter into in the future;
- our diligence obligations under the license agreement and what activities satisfy those diligence obligations;
- the ownership of inventions and know-how resulting from the joint creation or use of intellectual property by our licensors and us and our collaborators; and
- the priority of invention of patented technology.

If disputes over intellectual property that we have licensed prevent or impair our ability to maintain our current licensing arrangements on acceptable terms, we may be unable to successfully develop and commercialize the affected product candidates.

Third parties may initiate legal proceedings against us alleging that we infringe their intellectual property rights, or we may initiate legal proceedings against third parties to challenge the validity or scope of intellectual property rights controlled by third parties, the outcome of which would be uncertain and could have an adverse effect on the success of our business.

Third parties may initiate legal proceedings against us or our licensors or collaborators alleging that we or our licensors or collaborators infringe their intellectual property rights, or we or our licensors or collaborators may initiate legal proceedings against third parties to challenge the validity or scope of intellectual property rights controlled by third parties, including in oppositions, interferences, reexaminations, post-grant reviews, inter partes reviews or derivation proceedings in the United States or other jurisdictions. These proceedings can be expensive and time-consuming, and many of our or our licensors' or collaborators' adversaries in these proceedings may have the ability to dedicate substantially greater resources to prosecuting these legal actions than we or our licensors or collaborators.

Parties making claims against us may obtain injunctive or other equitable relief, which could effectively block our ability to further develop and commercialize one or more of our product candidates. Defense of these claims, regardless of their merit, would involve substantial litigation expense and would be a substantial diversion of management and employee resources from our business. An unfavorable outcome could require us or our licensors or collaborators to cease using the related technology or developing or commercializing our product candidates, or to attempt to license rights to it from the prevailing party. Our business could be harmed if the prevailing party does not offer us or our licensors or collaborators a license on commercially reasonable terms or at all. Even if we or our licensors or collaborators obtain a license, it may be non-exclusive, thereby giving our competitors access to the same technologies licensed to us or our licensors or collaborators. In addition, we could be found liable for monetary damages, including treble damages and attorneys' fees if we are found to have willfully infringed a patent. A finding of infringement could prevent us from commercializing our product candidates or force us to cease some of our business operations, which could harm our business.

We may be subject to claims by third parties asserting that our employees or we have misappropriated their intellectual property, or claiming ownership of what we regard as our own intellectual property.

Many of our employees, including our senior management, were previously employed at universities or at other biopharmaceutical companies, including our competitors or potential competitors. Some of these employees executed proprietary rights, non-disclosure and non-competition agreements in connection with such previous employment. Although we try to ensure that our employees do not use the proprietary information or know-how of others in their work for us, we may be subject to claims that we or these employees have used or disclosed confidential information or intellectual property, including trade secrets or other proprietary information, of any such employee's former employer. Litigation may be necessary to defend against these claims.

If we fail in prosecuting or defending any such claims, in addition to paying monetary damages, we may lose valuable intellectual property rights or personnel or sustain damages. Such intellectual property rights could be awarded to a third party, and we could be required to obtain a license from such third party to commercialize our technology or products, which license could be non-exclusive, thereby giving our competitors access to the same technologies licensed to us. Such a license may not be available on commercially reasonable terms or at all. Even if we successfully prosecute or defend against such claims, litigation could result in substantial costs and distract management.

Our inability to protect our confidential information and trade secrets would harm our business and competitive position.

In addition to seeking patents for some of our technology and products, we also rely on trade secrets, including unpatented know-how, technology and other proprietary information, to maintain our competitive position. We seek to protect these trade secrets, in part, by entering into non-disclosure and confidentiality agreements with parties who have access to them, such as our employees, corporate collaborators, outside scientific collaborators, contract manufacturers, consultants, advisors and other third parties. We also enter into confidentiality and invention or patent assignment agreements with our employees and consultants. Despite these efforts, any of these parties may breach the agreements and disclose our proprietary information, including our trade secrets, and we may not be able to obtain adequate remedies for such breaches. Enforcing a claim that a party illegally disclosed or misappropriated a trade secret is difficult, expensive and time-consuming, and the outcome is unpredictable. In addition, some courts both within and outside the United States may be less willing or unwilling to protect trade secrets. Furthermore, if a competitor lawfully obtained or independently developed any of our trade secrets, we would have no right to prevent such competitor from using that technology or information to compete with us, which could harm our competitive position. Additionally, if the steps taken to maintain our trade secrets are deemed inadequate, we may have insufficient recourse against third parties for misappropriating the trade secret.

If we do not obtain protection under the Hatch-Waxman Amendments and similar foreign legislation for extending the term of patents covering each of our product candidates, our business may be harmed.

Depending upon the timing, duration and conditions of FDA marketing approval of our product candidates, one or more of our U.S. patents may be eligible for limited patent term extension under the Drug Price Competition and Patent Term Restoration Act of 1984, referred to as the Hatch-Waxman Amendments. The Hatch-Waxman Amendments permit a patent term extension of up to five years for a patent covering an approved product as compensation for effective patent term lost during product development and the FDA regulatory review process. However, we may not receive an extension if we fail to apply within applicable deadlines, fail to apply prior to expiration of relevant patents or otherwise fail to satisfy applicable requirements. Moreover, the length of the extension could be less than we request. If we are unable to obtain patent term extension or the term of any such extension is less than we request, the period during which we can enforce our patent rights for that product will be shortened, and our competitors may obtain approval to market competing products sooner. As a result, our revenue from applicable products could be reduced, possibly materially.

Risks Related to Ownership of Our Common Stock

The market price of our stock has been and may continue to be volatile, and you could lose all or part of your investment.

The trading price of our common stock may be highly volatile and subject to wide fluctuations in response to various factors, some of which we cannot control. In addition to the factors discussed in this “Risk Factors” section and elsewhere in this report, these factors include:

- the success of competitive products;
- regulatory actions with respect to our products or our competitors’ products;
- actual or anticipated changes in our growth rate relative to our competitors;
- announcements by us or our competitors of significant acquisitions, strategic collaborations, joint ventures, collaborations or capital commitments;
- results of preclinical studies and clinical trials of our product candidates or those of our competitors;
- regulatory or legal developments in the United States and other countries;
- developments or disputes concerning patent applications, issued patents or other proprietary rights;
- the recruitment or departure of key personnel;
- the level of expenses related to any of our product candidates or clinical development programs;
- developments with respect to our existing collaboration agreements and announcements of new collaboration agreements;
- disputes, breaches and terminations of our manufacturing agreements, collaborations agreements or other important agreements;
- the results of our efforts to in-license or acquire additional product candidates or products;
- actual or anticipated changes in estimates as to financial results, development timelines or recommendations by securities analysts;
- variations in our financial results or those of companies that are perceived to be similar to us;
- fluctuations in the valuation of companies perceived by investors to be comparable to us;
- share price and volume fluctuations attributable to inconsistent trading volume levels of our shares;
- announcement or expectation of additional financing efforts;
- sales of our common stock by us, our insiders or our other stockholders;
- changes in the structure of health care payment systems;
- market conditions in the biotechnology sector; and
- general economic, industry and market conditions.

In addition, the stock market in general, and the Nasdaq Global Select Market and biotechnology companies in particular, have experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of these companies. Broad market and industry factors may negatively affect the market price of our common stock, regardless of our actual operating performance. The realization of any of the above risks or any of a broad range of other risks, including those described in this "Risk Factors" section, could have a dramatic and adverse impact on the market price of our common stock.

We have broad discretion in the use of the net proceeds from our public offerings and may not use them effectively.

Our management has broad discretion in the application of the net proceeds from our public offerings, and you will be relying on the judgment of our management regarding the application of these proceeds. Our management might not apply the net proceeds from our public offerings in ways that ultimately increase the value of your investment. If we do not invest or apply the net proceeds from our public offerings in ways that enhance stockholder value, we may fail to achieve expected financial results, which could cause our stock price to decline.

We may be subject to securities litigation, which is expensive and could divert management attention.

The market price of our common stock is volatile and, in the past, companies that have experienced volatility in the market price of their stock have been subject to securities class action litigation. We have been, and may in the future be, the target of this type of litigation. For example, a purported securities class action is pending in the United States District Court for the Southern District of California against us and certain of our officers and directors. The suit purports to allege claims for allegedly misleading statements regarding our business and financial results. Regardless of the outcome, these matters or future litigation against us could result in substantial costs and divert our management's attention from other business concerns, which could seriously harm our business.

We incur increased costs and devote substantial management time as a result of operating as a public company.

As a public company, we incur significant legal, accounting and other expenses that we did not incur as a private company, and these expenses have increased and will continue to increase. We are subject to the reporting requirements of the Exchange Act, the Sarbanes-Oxley Act, the Dodd-Frank Wall Street Reform and Protection Act, as well as rules adopted, and to be adopted, by the SEC and the Nasdaq Global Select Market. Our management and other personnel devote a substantial amount of time to these compliance initiatives. Moreover, these rules and regulations substantially increase our legal and financial compliance costs and make some activities more time-consuming and costly. The increased costs increase our net loss. For example, we expect these rules and regulations to make it more difficult and more expensive for us to obtain director and officer liability insurance and we may be required to incur substantial costs to maintain sufficient coverage. We cannot predict or estimate the amount or timing of additional costs we may incur to respond to these and future requirements. The impact of these requirements could also make it more difficult for us to attract and retain qualified persons to serve on our board of directors, our board committees or as executive officers.

In addition, we are required to maintain internal control over financial reporting and to report any material weaknesses in such internal control. Section 404 of the Sarbanes-Oxley Act of 2002 requires that we evaluate and determine the effectiveness of our internal control over financial reporting and provide a management report on our internal controls on an annual basis. If we have material weaknesses in our internal control over financial reporting, we may not detect errors on a timely basis and our financial statements may be materially misstated. We have only recently compiled the systems, processes and documentation necessary to comply with Section 404 of the Sarbanes-Oxley Act. We will need to maintain and enhance these processes and controls as we grow, and we may require additional management and staff resources to do so. Additionally, even if we conclude our internal controls are effective for a given period, we may in the future identify one or more material weaknesses in our internal controls, in which case our management will be unable to conclude that our internal control over financial reporting is effective. Irrespective of compliance with Section 404, any failure of our internal control over financial reporting could have a material adverse effect on our reported operating results and harm our reputation. Internal control deficiencies could also result in a restatement of our financial results.

Future sales and issuances of our common stock or rights to purchase common stock, including pursuant to our equity incentive plans, could result in additional dilution of the percentage ownership of our stockholders and could cause our stock price to fall.

We expect that significant additional capital may be needed in the future to continue our planned operations, including conducting clinical trials, commercialization efforts, expanded research and development activities and costs associated with operating a public company. To raise capital, we may sell common stock, convertible securities or other equity securities in one

or more transactions at prices and in a manner we determine from time to time. If we sell common stock, convertible securities or other equity securities, investors may be materially diluted by subsequent sales. We also have registered all shares of common stock that we may issue under our equity incentive plans or that are issuable upon exercise of outstanding options. These shares can be freely sold in the public market upon issuance and once vested, subject to volume limitations applicable to affiliates. If any of these additional shares are sold, or if it is perceived that they will be sold, in the public market, the market price of our common stock could decline. Such sales may also result in material dilution to our existing stockholders, and new investors could gain rights, preferences and privileges senior to the holders of our common stock.

Our disclosure controls and procedures may not prevent or detect all errors or acts of fraud.

We are subject to the periodic reporting requirements of the Exchange Act. We designed our disclosure controls and procedures to reasonably assure that information we must disclose in reports we file or submit under the Exchange Act is accumulated and communicated to management, and recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. We believe that any disclosure controls and procedures or internal controls and procedures, no matter how well-conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by an unauthorized override of the controls. Accordingly, because of the inherent limitations in our control system, misstatements due to error or fraud may occur and not be detected.

We do not intend to pay dividends on our common stock, so any returns will be limited to the value of our stock.

We have never declared or paid any cash dividend on our common stock. We currently anticipate that we will retain future earnings for the development, operation and expansion of our business and do not anticipate declaring or paying any cash dividends for the foreseeable future. Any return to stockholders will therefore be limited to the appreciation of their stock.

Provisions in our restated certificate of incorporation and restated bylaws and Delaware law might discourage, delay or prevent a change in control of our company or changes in our management and, therefore, depress the market price of our common stock.

Our restated certificate of incorporation and restated bylaws contain provisions that could depress the market price of our common stock by acting to discourage, delay or prevent a change in control of our company or changes in our management that the stockholders of our company may deem advantageous. These provisions, among other things:

- establish a classified board of directors so that not all members of our board are elected at one time;
- permit only the board of directors to establish the number of directors and fill vacancies on the board;
- provide that directors may only be removed “for cause” and only with the approval of two-thirds of our stockholders;
- require super-majority voting to amend some provisions in our restated certificate of incorporation and restated bylaws;
- authorize the issuance of “blank check” preferred stock that our board could use to implement a stockholder rights plan (also known as a “poison pill”);
- eliminate the ability of our stockholders to call special meetings of stockholders;
- prohibit stockholder action by written consent, which requires all stockholder actions to be taken at a meeting of our stockholders;
- prohibit cumulative voting; and
- establish advance notice requirements for nominations for election to our board or for proposing matters that can be acted upon by stockholders at annual stockholder meetings.

In addition, Section 203 of the Delaware General Corporation Law may discourage, delay or prevent a change in control of our company. Section 203 imposes certain restrictions on mergers, business combinations and other transactions between us and holders of 15% or more of our common stock.

If securities or industry analysts do not publish research or reports about our business, or if they issue an adverse or misleading opinion regarding our stock, our stock price and trading volume could decline.

The trading market for our common stock is influenced by the research and reports that industry or securities analysts publish about us or our business. If any of the analysts who cover us issue an adverse or misleading opinion regarding us, our business model, our intellectual property or our stock performance, or if our clinical trial results or operating results fail to meet the expectations of analysts, our stock price would likely decline. If one or more of these analysts cease coverage of us or fail to publish reports on us regularly, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to decline.

We plan to use potential future operating losses and our federal and state net operating loss, or NOL, carryforwards to offset taxable income from revenue generated from operations or corporate collaborations. However, our ability to use NOL carryforwards could be limited as a result of additional issuances of equity securities.

We plan to use our current year operating losses to offset taxable income from any revenue generated from operations or corporate collaborations. To the extent we have taxable income, we plan to use our NOL carryforwards to offset income that would otherwise be taxable. However, under the Tax Reform Act of 1986, the benefits from the use of our NOL carryforwards may be impaired or limited under Section 382 of the Internal Revenue Code of 1984, as amended, or the Code, if we incur a cumulative ownership change of more than 50%, as interpreted by the U.S. Internal Revenue Service, over a three-year period. In September 2015, we completed a Section 382 and 383 ownership change analysis through December 31, 2014 and determined that there was an ownership change in 2007 that may limit the utilization of approximately $5.3 million and $5.4 million in federal and state NOLs, respectively, and $0.2 million in both federal and state research tax credits. We extended the analysis period of the study through December 31, 2018, noting an additional ownership change during fiscal 2017 that may limit the utilization of federal and state NOLs. Our use of federal NOL carryforwards could be limited further by the provisions of Section 382 of the Code depending upon the timing and amount of additional equity securities that we have issued or will issue. State NOL carryforwards may be similarly limited. Any such disallowances may result in greater tax liabilities than we would incur in the absence of such a limitation, and any increased liabilities could adversely affect our business, results of operations, financial condition and cash flow.

On December 22, 2017, the President of the United States signed into law the Tax Reform Act. The legislation significantly changes U.S. tax law by, among other things, lowering the corporate income tax rates. The Tax Reform Act permanently reduces the U.S. corporate income tax rate from a maximum of 35% to a flat 21% rate, effective January 1, 2018. Additionally, the Tax Reform Act will no longer allow deductions for compensation in excess of $1 million for certain employees, even if paid as commissions or performance-based compensation. We may be subject to these limitations as provided for under Section 162(m) of the Internal Revenue Code in the future. The Tax Reform Act also limits the amount taxpayers are able to deduct for federal NOL carryforwards generated in taxable years beginning after December 31, 2017 to 80% of the taxpayer’s taxable income. The law also generally repeals all carrybacks. However, any NOLs generated in taxable years after December 31, 2017 can be carried forward indefinitely. Losses arising in taxable years beginning before December 31, 2017 may still be carried back two years and are subject to their current expiration period. As of December 31, 2019, we have federal NOLs of approximately $239.4 million, which expire beginning December 31, 2028 through December 31, 2037, if not used to reduce income taxes payable in the future. The federal net operating loss carryover includes $95.5 million of net operating losses generated in 2019. Federal net operating losses generated in 2019 carryover indefinitely and may generally be used to offset up to 80% of future taxable income in the year it is utilized.

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

Not applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

On May 4, 2020, we entered into a lease agreement, or Lease Agreement, with Wateridge Property Owner, LP, with respect to facilities in the building at 10770 Wateridge Circle, San Diego, California 92121. Under the Lease Agreement, we agreed to lease approximately 45,000 square feet of space in the 10770 Wateridge Circle Building for a term of 124 months, beginning on March 1, 2021 (or on such later date as described in the Lease Agreement). The terms of the Lease Agreement provide us with an option to extend the term of the lease for an additional five years, as well as a one-time option we have to terminate the lease after seven years with the payment of a termination fee. The monthly base rent will be $4.20 per rentable square foot, and will be increased by 3% annually. We are also responsible for real estate taxes, building insurance, maintenance and our pro rata share of direct expenses and utilities under the Lease Agreement.

ITEM 6. EXHIBITS

The exhibits filed or furnished as part of this Quarterly Report on Form 10-Q are set forth on the Exhibit Index, below.

EXHIBIT INDEX

Exhibit Number	Exhibit Description	Filed Herewith
31.1	Certification of Principal Executive Officer, pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	
31.2	Certification of Principal Financial Officer, pursuant to Rule 13a-14(a)/15d-14(a), 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.	
10.16	Wateridge Lease Agreement.	X
101.INS	Inline XBRL Report Instance Document - The Instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document	
101.SCH	Inline XBRL Taxonomy Extension Schema Document	
101.CAL	Inline XBRL Taxonomy Calculation Linkbase Document	
101.LAB	Inline XBRL Taxonomy Label Linkbase Document	
101.PRE	Inline XBRL Presentation Linkbase Document	
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document	
104	Cover Page Interactive Data File - (formatted in Inline XBRL and contained in Exhibit 101)	

*This certification is deemed not filed for purpose of section 18 of the Exchange Act or otherwise subject to the liability of that section, nor shall it be deemed incorporated by reference into any filing under the Securities Act or the Exchange Act.

SIGNATURES

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

ANAPTYSBIO, INC.

Date: May 6, 2020

By: /s/ Hamza Suria

Hamza Suria
Chief Executive Officer
(Principal Executive Officer)

Date: May 6, 2020

By: /s/ Eric Loumeau

Eric Loumeau
Interim Chief Financial Officer and General Counsel
(Principal Financial and Accounting Officer)

LEASE AGREEMENT

BETWEEN

WATERIDGE PROPERTY OWNER, LP,
a Delaware limited partnership

(LANDLORD)

AND

ANAPTYSBIO, INC.,
a Delaware corporation

(TENANT)

May 4, 2020

10770 WATERIDGE CIRCLE
SAN DIEGO, CALIFORNIA

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LIST OF EXHIBITS

LEASE AGREEMENT

THIS LEASE AGREEMENT (this "Lease") is made as of May 4, 2020 ("Effective Date"), by and between WATERIDGE PROPERTY OWNER, LP, a Delaware limited partnership ("Landlord"), and ANAPTYSBIO, INC., a Delaware corporation ("Tenant").

ARTICLE 1
TERMS AND DEFINITIONS

For the purposes of this Lease, the following terms shall have the following definitions and meanings:

1.1 Landlord: Wateridge Property Owner, LP, a Delaware limited partnership

1.2 Landlord's Address:

Wateridge Property Owner, LP
c/o Bioscience Properties, Inc.
514 Via De La Valle, Suite 300A
Solana Beach, CA 92075
Attention: Steve Bollert

1.3 Tenant: AnaptysBio, Inc., a Delaware corporation

1.4 Tenant's Address:

Prior to the Commencement Date:

AnaptysBio, Inc.
10421 Pacific Center Court, Suite 200
San Diego, CA 92121
Attn: Eric Loumeau

As of the Commencement Date:

AnaptysBio, Inc.
10770 Wateridge Circle, Suite 210
San Diego, CA 92121
Attn: Eric Loumeau

1.5 Building: That certain two (2)-story building located at 10770 Wateridge Circle, San Diego, California 92121.

1.6 Premises: Approximately 45,057 rentable square feet of area ("Rentable Square Feet"), subject to adjustment in accordance with Section 2.2 below, in Suite number 210 in the Building.

1.7 Initial Term: One hundred twenty-four (124) months.

1.8 Tenant's Vehicle Parking Spaces: One hundred thirty-six (136) parking spaces (consisting of three (3) parking spaces which shall be reserved for Tenant's visitors and one hundred thirty-three (133) unreserved parking spaces) within the Parking Area (defined in Article 33 below) at no additional charge during the Initial Term, subject to the terms and conditions of Article 33 below.

1.9 Tenant Improvement Allowance: (i) Up to One Hundred Ninety Dollars ($190.00) per Rentable Square Foot of the Premises (i.e., up to $8,560,830.00) ("Initial Allowance"), plus (ii) at Tenant's election and subject to repayment as provided herein, an additional amount of up to a maximum of Fifteen Dollars ($15.00) per Rentable Square Foot of the Premises (i.e., up to $675,855.00) ("Additional Allowance"), plus (iii) all or a portion of the Abated Rent Amount (as defined below) which Tenant timely elects to apply to the Tenant Improvements (in lieu of abated rent) ("Abated Rent Allowance"), to be contributed by Landlord toward the cost of constructing the Tenant Improvements

pursuant to the Work Letter Agreement described in Section 2.1 below. The Initial Allowance and, if applicable, the Additional Allowance and the Abated Rent Allowance, shall be collectively referred to herein as the "Tenant Improvement Allowance." If Tenant elects to use the Additional Allowance or a portion thereof, (a) such amount shall be amortized over the Initial Term on a straight line basis at an annual percentage rate of eight percent (8%) and payable by Tenant as a component of Basic Rent, and (b) as a condition to Landlord providing any portion of the Additional Allowance, Tenant shall be obligated to apply and convert an equal amount of the Abated Rent Allowance on a per rentable square foot basis, pari passu (e.g., if Tenant elects to use $5.00 per Rentable Square Foot of the Additional Allowance, Tenant must also elect to apply a portion of the Abated Rent Amount equal to $5.00 per Rentable Square Foot toward the cost of the Tenant Improvements), and the amount of Basic Rent to be abated pursuant to Section 5.1 below shall be reduced accordingly. Tenant shall notify Landlord of its election to use the Additional Allowance and a corresponding portion of the Abated Rent Allowance prior to commencement of construction of the Tenant Improvements.

1.10 Early Occupancy Date: The earlier to occur of (i) the date upon which Tenant first commences the conduct of business in the Premises for the Permitted Use, and (ii) the later to occur of (x) the date on which the Tenant Improvements are Substantially Complete pursuant to the terms and conditions of, and as that term is defined in, the Work Letter Agreement, and (y) March 1, 2021 ("Estimated Completion Date"). Beginning on the Early Occupancy Date, Tenant shall have the right to occupy and use the Premises on all of the same terms and conditions of this Lease except as expressly provided herein. The period between the Early Occupancy Date and the Commencement Date (as defined below) shall be referred to herein as the "Early Occupancy Period". During the Early Occupancy Period, Tenant shall have no obligation to pay Basic Rent. All other terms and provisions of this Lease (including, without limitation, the obligation to pay separately metered utilities and all Additional Rent) shall apply to the Premises both during the Early Occupancy Period and thereafter.

1.11 Commencement Date: The date which is two (2) weeks following the Early Occupancy Date.

1.12 Basic Rent:

Months of Initial Term	Basic Rent per Rentable Square Foot ($/mo)	Monthly Installments of Basic Rent ($/mo)	Annual Basic Rent ($/yr)
1-12*	$4.20	$189,239.40	$2,270,872.80
13-24	$4.33	$194,916.58	$2,338,998.96
25-36	$4.46	$200,764.08	$2,409,168.96
37-48	$4.59	$206,787.00	$2,481,444.00
49-60	$4.73	$212,990.61	$2,555,887.32
61-72	$4.87	$219,380.33	$2,632,563.96
73-84	$5.02	$225,961.74	$2,711,540.88
85-96	$5.17	$232,740.59	$2,792,887.08
97-108	$5.32	$239,722.81	$2,876,673.72
109-120	$5.48	$246,914.49	$2,962,973.88
121-124	$5.64	$254,321.92	$3,051,863.04

*Provided that Tenant is not in default under this Lease beyond any applicable notice and cure period, monthly installments of Basic Rent shall be abated for months two (2) through seven (7) of the Initial Term, for a total "Abated Rent Amount" of $1,135,436.40, pursuant to the terms and conditions of Section 5.1 below.

1.13 Tenant's Percentage: 24.55%.

1.14 Security Deposit: $254,321.92; **Letter of Credit Amount**: $2,000,000.00.

1.15 Broker(s): Avison Young (Brian Cooper), representing Tenant, and Jones Lang LaSalle (Chad Urie, Tim Olson and Grant Schoneman), representing Landlord.

1.16 Permitted Use: Office, laboratory and research and development and all uses ancillary thereto, and no other use, subject to compliance with all applicable Laws (defined below).

1.17 Building Area: 183,565 Rentable Square Feet.

ARTICLE 2

PREMISES AND COMMON AREAS

2.1 Premises. Landlord hereby leases to Tenant and Tenant hereby leases from Landlord the Premises outlined on the Floor Plan attached hereto, marked Exhibit "A-I", and incorporated herein by this reference ("Outline of Premises"). The Premises are located in the Building, which, together with the Parking Area, is located on the parcel or parcels of real property ("Project Site") outlined on the Project Site Plan attached hereto, marked as Exhibit "A-II", and incorporated herein by this reference ("Project Site Plan") (all of which, together with the Building Common Areas and the Project Common Areas, as hereinafter defined, are collectively referred to as the "Project"). The Premises are leased in their "AS-IS" condition in accordance with Article 14; provided however, the Premises will be improved by Landlord with the Tenant Improvements described in the Work Letter Agreement, a copy of which is attached hereto, marked as Exhibit "B" and incorporated herein by this reference ("Work Letter Agreement"). The Premises are agreed, for the purposes of this Lease, to have approximately the number of Rentable Square Feet designated in Section 1.6, subject to adjustment as described in Section 2.2 below. The parties hereto agree that this Lease is upon and subject to the terms, covenants and conditions herein set forth. Each of Landlord and Tenant covenants as a material part of the consideration for this Lease to keep and perform each and all of said terms, covenants and conditions by it to be kept and performed.

2.2 Rentable Area.

2.2.1. Landlord and Tenant stipulate and agree that: (a) subject to Section 2.2.2 below, the Rentable Square Feet contained in the Building is as specified in Section 1.17, and (b) the Rentable Square Feet of the Building shall include all of, and the Rentable Square Feet of the Premises shall include a portion of (such portion to be equitably determined by Landlord) the total square feet contained in any common areas (e.g., lobbies, mail room, fire control room, etc.) of the Building. The initial Monthly Basic Rent and Tenant's Percentage specified in Section 1.13 of this Lease are based upon the approximate Rentable Square Feet of the Premises set forth in Section 1.6 and the Rentable Square Feet of the Building set forth in Section 1.17. The Memorandum of Lease Terms (as defined in Section 3) shall indicate, among other things, the actual Rentable Square Feet of the Premises, as set forth in this Section 2.2.1.

2.2.2. Landlord reserves the right (a) to modify the standards utilized hereunder for the measurement of Rentable Square Feet (so long as any such modification is reasonably consistent with then prevailing Institutional Owner Practices (defined below)) and (b) consistent with any such modifications of measurement standards, to adjust the Rentable Square Feet of the Premises and the Building and/or portions thereof and any economic terms set forth herein (such as Tenant's Percentage) calculated on the basis thereof; provided that Landlord shall have no right to adjust the Basic Rent then in effect as a result of any such modification.

2.3 Common Areas. Tenant and its employees, invitees and agents shall have the nonexclusive right to use in common with Landlord and other tenants or occupants of the Project and their respective employees, invitees and agents, subject to the Rules and Regulations referred to in Section 36.1 below and all covenants, conditions and restrictions affecting the Project, any of the following areas which may be appurtenant to the Premises (collectively, "Common Areas"):

2.3.1. any common entrances, lobbies, shared entry lobbies and corridors, shared restrooms, service areas, elevators, stairways, accessways and/or ramps which may be located in the Building, and any common pipes, wires and appurtenant equipment which may be serving the Premises (collectively, "Building Common Areas"); and

2.3.2. the Parking Area and any loading and unloading areas, trash areas, service areas, parking areas, roadways, sidewalks, walkways, plazas, parkways, driveways, landscaped areas and similar areas and facilities from time to time situated within the Project (collectively, "Project Common Areas").

2.4 Landlord's Reservation of Rights. Landlord reserves for itself, and for the owner(s) and operator(s) of the Project or any portion thereof, the right from time to time without material interference with Tenant's Permitted Use or access to the Premises:

2.4.1. to install, use, maintain, repair and replace pipes, ducts, conduits, wires and appurtenant meters and equipment for service to other parts of the Building above the ceiling surfaces, below the floor surfaces, within the walls and in the central core areas of the Premises, and to relocate any pipes, ducts, conduits, wires and

appurtenant meters and equipment which are located in the Premises or elsewhere, and to expand the Building and/or the Parking Area (after which expansion there shall be an appropriate adjustment made to Tenant's Percentage); provided in no event shall such reservation of rights reduce the Rentable Square Feet of the Premises;

2.4.2. to make changes in its sole and absolute discretion to the Common Areas, including, without limitation, changes in the location, size, shape and number of driveways, entrances, parking spaces, parking areas, loading and unloading areas, ingress, egress, direction of traffic, landscaped areas and walkways;

2.4.3. to close temporarily any of the Common Areas for maintenance purposes and to avoid claims of prescriptive rights so long as reasonable access to the Premises remains available;

2.4.4. to designate other land outside the boundaries of the Building or the Project to be a part of the Project Common Areas;

2.4.5. to add additional buildings and improvements to the Project Common Areas;

2.4.6. to use the Common Areas while engaged in making additional improvements, repairs or alterations to the Building, the Parking Area or the Project, or any portion thereof; and

2.4.7. to do and perform such other acts and make such other changes in, to or with respect to the Project or any portion thereof as Landlord and/or the owner(s) and/or operator(s) thereof may deem to be appropriate.

ARTICLE 3

TERM

3.1 Initial Term. The "Initial Term" of this Lease shall be for the period designated in Section 1.7, commencing on the Commencement Date and ending on the last day of the month in which the expiration of such period occurs, unless sooner terminated as hereinafter provided; provided that if the Commencement Date occurs on a day other than the first day of any calendar month, for purposes of calculating the date ("Expiration Date") on which the Term is scheduled to expire and the timing of all scheduled increases in Basic Rent during the Term, the Commencement Date shall be deemed to be the first day of the calendar month following the Commencement Date. The Commencement Date, the date upon which the Initial Term of this Lease shall end unless sooner terminated pursuant to the provisions hereof, the Rentable Square Feet in the Premises and Tenant's Percentage as determined pursuant to Section 2.2 above shall be specified in a Memorandum of Lease Terms, which shall be in the form of Exhibit "C", attached hereto and incorporated herein by this reference ("Memorandum of Lease Terms"), and shall be executed by Tenant as soon as practicable after the Commencement Date. As used herein, "Term" shall refer to the Initial Term as it may be extended by written agreement of Landlord and Tenant, including, without limitation, as a result of Tenant's exercise of the Option in accordance with Section 3.2 below.

3.2 Option Term. Tenant shall have the right and option ("Option") to extend the Term of this Lease for one (1) additional period of five (5) years ("Option Term"). The Option Term shall commence on the day immediately succeeding the expiration date of the Initial Term and shall end on the day immediately preceding the fifth (5^{th}) anniversary of the first day of such Option Term. Notwithstanding any provision of this Section 3.2 to the contrary, the Option shall be personal to the original Tenant under this Lease (i.e., AnaptysBio, Inc.) ("Original Tenant") and to any Permitted Transferee.

3.2.1. Tenant shall exercise the Option by giving written notice to Landlord of its election to do so not earlier than fifteen (15) months and not later than twelve (12) months prior to the expiration of the Initial Term. The giving of such notice of extension by Tenant shall automatically extend the Term of this Lease for such Option Term, and no instrument of renewal or extension need be executed. In the event that Tenant fails to give timely notice to Landlord, this Lease shall automatically terminate at the end of the Initial Term and Tenant shall have no further option to extend the Term of this Lease. The Option shall be exercisable by Tenant only on the express condition that (i) at the time of the exercise, and at all times prior to the commencement of the Option Term, Tenant shall not be in Default under any of the provisions of this Lease, and (ii) Tenant shall not have been ten (10) or more days late in the payment of Monthly Basic Rent more than once during any twelve (12) consecutive month period during the Term.

3.2.2. The Option Term shall be on all the terms and conditions of this Lease, except that: (i) Tenant shall have no further right or option to extend the Term as provided by this Section 3.2 and (ii) the Basic Rent for the Option Term shall be equal to the Fair Market Rental Value of the Premises for such Option Term, determined pursuant to Subsection 3.2.3 below. If Tenant subleases any portion of the Premises or assigns or otherwise transfers any interest under this Lease to anyone other than a Permitted Transferee, the Option shall lapse. If Tenant subleases any portion of the Premises or assigns or otherwise transfers any interest of Tenant under this Lease to any person or entity other than a Permitted Transferee after the exercise of the Option but prior to the commencement of the Option Term (whether with or without Landlord's consent), the Option shall lapse and the Term of this Lease shall expire as if the Option was not exercised.

3.2.3. For the purposes hereof, "Fair Market Rental Value" of the Premises shall mean the prevailing annual market rental value (which rental value determination may include increases in Rent during the Option Term) for Class "A" office and laboratory/research and development space of comparable size, quality and location in comparable first-class office and laboratory/research and development buildings located in the Sorrento Mesa submarket of San Diego, California, as of the date of commencement of the Option Term ("Comparable Transactions"), taking into consideration the amenities offered in or near the Project and the amount, availability and cost of parking; provided, however, that in calculating the Fair Market Rental Value, no consideration shall be given to (1) the fact that Landlord is or is not required to pay a real estate brokerage commission in connection with Tenant's exercise of its right to lease the Premises during the Option Term or the fact that landlords are or are not paying real estate brokerage commissions in connection with such comparable space, and (2) any period of rental abatement, if any, granted to tenants in comparable transactions in connection with the design, permitting and construction of tenant improvements in such comparable spaces. The Fair Market Rental Value shall additionally include a determination as to whether, and if so to what extent, Tenant must provide Landlord with financial security, such as a letter of credit or security deposit, for Tenant's Rent obligations in connection with Tenant's lease of the Premises during the Option Term. Such determination shall be made by reviewing the extent of financial security then generally being imposed in Comparable Transactions from tenants of comparable financial condition and credit history to the then existing financial condition and credit history of Tenant (with appropriate adjustments to account for differences in the then-existing financial condition of Tenant and such other tenants).

3.2.4. Promptly after receiving Tenant's notice of its election to exercise the Option to extend the Term of this Lease, Landlord shall provide Tenant with Landlord's good faith estimate of the Fair Market Rental Value of the Premises for the Option Term ("Landlord's Fair Market Rental Value Notice"). In the event that Tenant objects to Landlord's determination of the Fair Market Rental Value within ten (10) business days following Tenant's receipt of Landlord's Fair Market Rental Value Notice, Landlord and Tenant shall attempt to agree upon the Fair Market Rental Value using their best good faith efforts. If Landlord and Tenant fail to reach agreement within ten (10) business days following Tenant's objection to the Fair Market Rental Value ("Outside Agreement Date"), then each party shall make a separate determination of the Fair Market Rental Value within five (5) business days after the Outside Agreement Date, and such determinations shall be submitted to arbitration in accordance with Subsection 3.2.4(A) through Subsection 3.2.4(G) below.

(A) Landlord and Tenant shall each appoint one arbitrator who shall be a real estate broker or attorney who shall have been active over the five (5) year period ending on the date of such appointment in the leasing of office and laboratory/research and development properties in the Sorrento Mesa submarket of San Diego, California. The determination of the arbitrators shall be limited solely to the issue of whether Landlord's or Tenant's submitted Fair Market Rental Value is the closest to the actual Fair Market Rental Value, as determined by the arbitrators, taking into account the requirements of Subsection 3.2.3. Each such arbitrator shall be appointed within fifteen (15) days after the applicable Outside Agreement Date.

(B) The two (2) arbitrators so appointed shall within ten (10) days of the date of the appointment of the last appointed arbitrator agree upon and appoint a third arbitrator who shall be qualified under the same criteria set forth hereinabove for qualification of the initial two (2) arbitrators.

(C) The three (3) arbitrators shall within thirty (30) days of the appointment of the third arbitrator reach a decision as to whether the parties shall use Landlord's or Tenant's submitted Fair Market Rental Value and shall notify Landlord and Tenant thereof.

(D) The decision of the majority of the three (3) arbitrators shall be binding upon Landlord and Tenant.

(E) If either Landlord or Tenant fails to appoint an arbitrator within fifteen (15) days after the applicable Outside Agreement Date, then the arbitrator appointed by one of them shall reach a decision, notify Landlord and Tenant thereof and such arbitrator's decision shall be binding upon Landlord and Tenant.

(F) If the two (2) arbitrators fail to agree upon and appoint a third arbitrator, or if both parties fail to appoint an arbitrator, then the appointment of the third arbitrator or any arbitrator shall be dismissed and the matter to be decided shall be forthwith submitted to arbitration under the provisions of the American Arbitration Association, but subject to the instruction set forth in this Subsection 3.2.4.

(G) The cost of the arbitration shall be paid by Landlord and Tenant equally.

ARTICLE 4

DELIVERY

Landlord will endeavor to tender possession of the Premises to Tenant with the Tenant Improvements Substantially Complete on or before the Estimated Completion Date; provided, that if the date on which Landlord actually tenders possession of the Premises to Tenant in such condition does not occur on or before the Estimated Completion Date, this Lease shall not be void or voidable, the Term of this Lease shall not be extended, and Landlord shall not be liable to Tenant for any loss or damage resulting therefrom; provided further that Landlord shall use commercially reasonable efforts to tender to Tenant delivery of possession of the Premises in such condition as soon as reasonably possibly after the Estimated Completion Date. Notwithstanding the foregoing, if Landlord is unable to deliver possession of the Premises to Tenant on or before the date which is six (6) months after the Estimated Completion Date ("Outside Delivery Date"), then Tenant shall have the right to terminate this Lease by delivering Notice thereof to Landlord no later than five (5) business days after the Outside Delivery Date, which termination shall be effective thirty (30) days after the date of such Notice, provided that if Landlord delivers possession of the Premises to Tenant within such thirty (30) day period, then Tenant's notice to terminate shall be deemed void and this Lease shall continue in full force and effect. If this Lease is terminated in accordance with the immediately preceding sentence, Landlord shall promptly return to Tenant any unapplied portion of the Security Deposit and any pre-paid Rent. Tenant's failure to deliver a Notice of termination within five (5) business days after the Outside Delivery Date shall be deemed Tenant's waiver of its right to terminate this Lease due to a delay in delivery of the Premises. Notwithstanding anything contained herein to the contrary, the Outside Delivery Date shall be extended on a day-for-day basis for any delay to the extent caused solely by an event of Force Majeure and/or a Tenant Delay; provided that if such event of Force Majeure arises as a result of the Orders (as defined herein), the Outside Delivery Date shall not be extended beyond the date that is four (4) months after the Orders are no longer effective. As used herein, "Orders" means (i) that certain Executive Order N-33-20 issued on March 19, 2020 by Governor Gavin Newsom, as amended from time to time (the "California Order"), (ii) that certain Order, dated March 27, 2020, issued by the County of San Diego Health and Human Services Agency, as amended from time to time (the "County Order"), (iii) that certain City of San Diego Executive Order No. 2020-1, dated March 16, 2020, as amended from time to time (the "City Order"), and (iv) any law, ordinance, or regulation enacted during the Term that has the same effect as the California Order, the County Order and/or the City Order or otherwise prevent in-person workforces in the Premises. If Tenant is entitled to terminate this Lease in accordance with this Article 4 but elects not to so terminate this Lease, and provided that Tenant is not in default under this Lease beyond any applicable notice and cure period, Tenant shall be entitled to receive a credit to be applied to the Basic Rent next due and payable under this Lease in an amount equal to fifty percent (50%) of the Holdover Penalty (as defined below), if any, actually charged to Tenant and paid by Tenant under (a) that certain Sublease, dated May 18, 2018, by and between Tenant and Trex Enterprises Corporation, a California corporation ("Trex"), for certain premises located at 10455 Pacific Center Court, San Diego, California 92121 ("Trex Sublease"), and/or (b) that certain Office Lease, dated April 19, 2011, by and between Tenant and Kilroy Realty, L.P., a Delaware limited liability company ("Kilroy"), for certain premises located at 10421 Pacific Center Court, San Diego, California 92121, as amended by that certain First Amendment to Office Lease, dated September 10, 2015 ("Kilroy Lease") (collectively, the "Prior Leases"), to the extent attributable to the period of time commencing on the date that any Holdover Penalty is incurred under any Prior Lease and the actual date on which possession of the Premises is delivered to Tenant with the Tenant Improvements Substantially Complete ("Actual Delivery Date"), but excluding the number of days of delay arising from a Tenant Delay. As used in this Article 4, "Holdover Penalty" shall mean the additional base rent actually charged by Trex and/or Kilroy, as applicable, as a result of Tenant's holdover beyond the term of any Prior Lease and paid by

Tenant, up to the maximum amounts set forth below, as evidenced by an invoice or other formal notice delivered by Trex and/or Kilroy, as applicable, a copy of which shall be delivered to Landlord hereunder.

	Maximum Monthly Holdover Penalty	**Landlord's Share (50%) of Maximum Monthly Holdover Penalty**
Trex Sublease	$16,517.28	$8,258.64
Kilroy Lease	$25,115.84	$12,557.92

In no event shall Landlord be liable for any other amounts charged to Tenant under the Prior Leases (including, without limitation, consequential damages), other than an amount equal to fifty percent (50%) of the Holdover Penalty as expressly set forth herein. For clarification and the avoidance of doubt, if Landlord delivers the Premises to Tenant with the Tenant Improvements Substantially Complete on or before the Outside Delivery Date, as the same may be extended pursuant to this Article 4, or if Tenant terminates this Lease in accordance with this Article 4, then Landlord shall have no obligation to pay for any portion of the Holdover Penalty. The remedies set forth in this Article 4 shall be Tenant's sole and exclusive remedies at law or equity for the matters described herein.

ARTICLE 5

RENT

5.1 Basic Rent. Tenant shall pay Landlord as consideration for the use and enjoyment of the Premises the Basic Rent designated in Section 1.11 (subject to proration as hereinafter provided) in equal monthly installments, each in advance on the first day of each calendar month during the Term commencing on the Commencement Date, except that the first month's Rent shall be paid to Landlord upon delivery to Landlord of a copy of this Lease, executed by Tenant. If the Term of this Lease commences on a day other than the first day of a calendar month or ends on a day other than the last day of a calendar month, then the Rent for such period shall be prorated on the basis of a thirty (30) day month. Notwithstanding the foregoing, and provided that Tenant is not in default under this Lease beyond any applicable notice and cure period, the monthly installment of Basic Rent for the Premises shall be abated during months two (2) through seven (7) of the Initial Term ("Abatement Period"), subject to adjustment thereof as provided in Section 1.9 above. All other terms and provisions of this Lease (including, without limitation, the obligation to pay separately metered utilities and all Additional Rent) shall apply to the Premises both during the Abatement Period and thereafter.

5.2 Additional Rent. In addition to the Basic Rent, Tenant agrees to pay as Additional Rent (defined below) the amount of Rent adjustments and other charges required by this Lease. Other charges to be paid by Tenant hereunder, including, without limitation, payments for Operating Expenses, Real Property Taxes, insurance, insurance deductibles and repairs shall be considered "Additional Rent" for purposes of this Lease. The term "Rent" as used in this Lease shall mean Basic Rent and Additional Rent and all other amounts payable by Tenant pursuant to this Lease. When no other time is stated herein for payment, payment of any amount due from Tenant to Landlord hereunder shall be made within ten (10) business days after Tenant's receipt of Landlord's invoice or statement therefor. All Rent shall be paid to Landlord, without prior demand and without any deduction or offset except as specified herein, in lawful money of the United States of America, via Automated Clearing House (ACH) or to such other person or at such other place as Landlord may from time to time designate in writing.

5.3 Late Payment. If Tenant fails to pay any installment of Rent when due or in the event Tenant fails to make any other payment for which Tenant is obligated under this Lease when due, such late amount shall accrue interest and Tenant shall pay Landlord as Additional Rent interest on such amount at an annual rate ("Default Rate") equal to the lesser of: (a) the then prevailing prime rate of Bank of America NT & SA ("Prime Rate") plus six (6) percentage points or (b) the maximum rate permitted by law from the date such amount became due until such amount is paid. If the format or components of the Prime Rate are materially changed, or if the Prime Rate ceases to exist, Landlord shall substitute a prime rate or alternative base rate of interest that is maintained by the Bank of America NT & SA or similar financial institution which Landlord determines in its reasonable business judgment. In addition to said interest, Tenant shall pay to Landlord concurrently with any installment of Rent, or other payment, not paid within five (5) days of the date upon which it is due, and Landlord may demand same from Tenant, as Additional Rent, a late charge equal to eight percent (8%) of the late amount to compensate Landlord for the extra costs incurred as a result of such late payment; provided that no such late charge shall be due with respect to the first delinquent payment in any twelve (12) month period provided that such payment is made within ten (10) days after delivery of written notice from

Landlord that such amount is due. THE PARTIES AGREE THAT ANY SUCH LATE PAYMENT MAY CAUSE LANDLORD TO INCUR ADMINISTRATIVE COSTS AND OTHER DAMAGE, THE EXACT AMOUNT OF WHICH WOULD BE IMPRACTICABLE OR EXTREMELY DIFFICULT TO ASCERTAIN, AND THAT SUCH INTEREST AND LATE CHARGE REPRESENT A FAIR AND REASONABLE ESTIMATE OF THE DETRIMENT THAT LANDLORD WILL SUFFER BY REASON OF LATE PAYMENT BY TENANT. Acceptance of any such interest and late charge shall not constitute a waiver of any Tenant Default with respect to the overdue amount, or prevent Landlord from exercising any of the other rights and remedies available to Landlord hereunder or at law.

5.4 Additional Late Payment Remedies. Any payment returned to Landlord shall be subject to a handling charge of $50.00. If Tenant fails to pay an installment of Basic Rent within ten (10) days following the date the same is due on any three (3) or more occasions during any twelve (12) month period, Landlord shall have the right, in addition to any other rights or remedies it may have hereunder or at law, to require Tenant thereafter to pay installments of Basic Rent quarterly in advance.

ARTICLE 6

RENT ADJUSTMENT

6.1 Definitions. For the purposes of this Lease, the following terms shall be defined as follows:

6.1.1. **Operating Expenses**: "Operating Expenses" shall consist of all costs of operation, management, ownership, insurance, maintenance and repair of the Project, including without limitation the Building, the Common Areas and all other portions of the Project, including any expansions thereof by Landlord or by the owner(s) and/or the operator(s) thereof. Operating Expenses shall include, without limitation, the following: (a) any and all non-tax assessments payable by Landlord for, or costs or expenses incurred by Landlord in connection with, the Building or the Project pursuant to any covenants, conditions or restrictions, reciprocal easement agreements, tenancy-in-common agreements or similar restrictions and agreements affecting the Building or the Project; (b) assessments and any taxes or assessments hereafter imposed in lieu thereof; (c) Rent taxes and gross receipts taxes (whether assessed against Landlord or assessed against Tenant and paid by Landlord, or both); (d) water and sewer charges; (e) accounting, legal and other consulting fees incurred by Landlord in connection with the Project or any portion thereof; (f) the net cost and expense of insurance, and any associated insurance deductibles, for which Landlord and/or the owner(s) and/or the operator(s) of the Project is (are) responsible or any first mortgagee with a lien affecting the Premises reasonably deems necessary in connection with the operation of the Building or the Project; (g) utilities, including, but not limited to, any and all costs and fees associated with the installation, maintenance, repair, or replacement of intrabuilding network telephone and data cable; (h) janitorial services, security, labor, utilities surcharges or any other costs levied, assessed or imposed by, or at the direction of, or resulting from statutes, including, but not limited to, the Americans with Disabilities Act (42 U.S.C. Section 12101 et seq.), or regulations or interpretations thereof promulgated by, any federal, state, regional, local or municipal governmental authority, agency or subdivision (each, a "Governmental Authority") in connection with the use or occupancy of the Project or any portion thereof; (i) costs and expenses incurred or suffered by Landlord in connection with transportation or energy management programs; (j) the cost (amortized over such period as is customary under sound institutional real estate property management procedures ("Institutional Owner Practices"), together with interest at a rate ("Interest Rate") equal to the Prime Rate plus two (2) percentage points on the enumerated balance): (i) of any capital improvements or replacements intended as labor-saving devices or to effect other economies in the maintenance or operation of, or stability of services to, the Building (including Building Common Areas) or the Project Common Areas by Landlord or by the owner(s) and/or the operator(s) thereof, or (ii) of replacing any equipment, systems or materials needed to operate the Project or any portion thereof at the same quality levels as prior to the improvement or replacement or as mandated by revisions or governmental interpretations of any applicable Laws (defined below) or (iii) which are designed to reduce Operating Expenses or to comply with Laws; (k) costs incurred in the management of the Project, including supplies, materials, equipment, on-site management office rent, wages and salaries of employees used in the management, operation and maintenance thereof, payroll taxes and similar governmental charges with respect thereto, and a Building management fee (not to exceed three percent (3%) of gross receipts, grossed up to reflect ninety-five percent (95%) occupancy); (l) all costs and expenses for air-conditioning, waste disposal, heating, ventilating, elevator repair and maintenance, supplies, materials, equipment, and tools incurred in connection with the Project or any portion thereof (except as the same is payable to Landlord by tenants of the Project under their leases for space in the Project); (m) repair and maintenance of the roof and structural portions of the Building and the Common Areas, including the plumbing, heating, ventilating, air conditioning and electrical systems installed

or furnished by Landlord; (n) maintenance costs of the Building, the Common Areas and the Project or any portion thereof, including utilities and payroll expenses, rent of personal property used in maintenance and all other upkeep; (o) costs and expenses of gardening and landscaping the Project or any portion thereof; (p) maintenance of signs located in or about the Project (other than Tenant's signs or the signs of other tenants or occupants of the Building who are responsible to maintain their own signs); (q) personal property taxes levied on or attributable to personal property of Landlord or the owner(s) and/or operator(s) of the Project used in connection with the Project; (r) reasonable audit or verification fees incurred in connection with the Project; and (s) the costs and expenses of repairs (including latent defects), resurfacing, maintenance, painting, lighting, cleaning, refuse removal, security and similar items incurred with respect to the Project, including appropriate reserves.

Operating Expenses shall not include: (A) depreciation on the Building or equipment therein; (B) Landlord's executive salaries; (C) real estate broker's commissions and advertising costs in connection with leasing space in the Project; (D) legal fees and disbursements incurred for collection of tenant accounts or negotiation of leases, or relating to disputes between Landlord and other tenants and occupants of the Building or Project; (E) the cost of any capital improvements unless specifically permitted by this Section 6.1.1, parts (a) through (s), inclusive; (F) amounts received by Landlord on account of proceeds of insurance to the extent the proceeds are reimbursement for expenses which were previously included in Operating Expenses; (G) payments of principal and interest on any mortgages upon the Project or Building; (H) payments of ground rent pursuant to any ground lease covering the Project or Building; (I) the costs of gas, steam or other fuel; operation of elevators and security systems; heating, cooling, air conditioning and ventilating; chilled water, hot and cold domestic water, sewer and other utilities or any other service work or facility, or level or amount thereof, provided to any other tenant or occupant in the Project which either (x) is not required to be supplied or furnished by Landlord to Tenant under the provisions of this Lease or (y) is supplied or furnished to Tenant pursuant to the terms of this Lease with separate or additional charge; (J) any cost that is expressly excluded from Operating Expenses in an express provision contained in this Lease; (K) initial improvements or alterations to tenant spaces in the Project; (L) the cost of providing any service directly to and paid directly by a single individual lessee, or costs incurred for the benefit of a single lessee; (M) costs incurred due to Landlord's breach of a law or ordinance; (N) repairs necessitated by the gross negligence or willful misconduct of Landlord or Landlord's employees, agents, or contractors; (O) charitable or political contributions and membership fees or other payments to trade organizations; (P) Landlord's general overhead expenses not related to the Project; (Q) Landlord's costs of any services provided to lessees or other occupants for which Landlord is actually reimbursed by such lessees or other occupants (other than reimbursement through Operating Expenses) as an additional charge or rental over and above the basic rent (and escalations thereof) payable under the lease with such lessee or other occupant; (R) costs (i.e., interest and penalties) incurred due to Landlord's default of this Lease or any other lease, mortgage, or other agreement, in each case affecting the Project; (S) payments to subsidiaries or affiliates of Landlord, or to any other party, in each case as a result of a non-arm's length transaction, for management or other services for the Project, or for supplies or other materials for the Project, to the extent that such payments exceed arm's length competitive prices in the market where the Premises are located for the services, supplies or materials provided; (T) costs or expenses incurred in connection with the financing or sale of the Project or any portion thereof; (U) costs of environmental testing, monitoring, removal or remediation of any Hazardous Materials in the Project that are in existence at the Project prior to the Commencement Date except to the extent caused by Tenant; (V) the costs of acquiring investment-grade art; and (W) any item that, if included in Operating Expense, would involve a double collection for such item by Landlord.

6.1.2. **Real Property Taxes**: "Real Property Taxes" shall mean and include any form of assessment, re-assessment, license fee, license tax, business license fee, commercial rent tax, levy, charge, penalty, tax or similar imposition, imposed by any authority having the direct power to tax, including any Governmental Authority, or any school, agricultural, lighting, drainage or other improvement or special assessment district thereof, as against any legal or equitable interest of Landlord in the Building, the Premises or the Project, including but not limited to the following:

(A) any tax on Landlord's "right" to other income from the Project or any portion thereof or as against Landlord's business of leasing the Project or any portion thereof;

(B) any assessment, tax, fee, levy or charge in substitution, partially or totally, of any assessment, tax, fee, levy or charge previously included within the definition of real estate tax, including but not limited to, any assessments, taxes, fees, levies and charges that may be imposed by any Governmental Authority for such services as fire protection, street, sidewalk or road maintenance, refuse removal and for other governmental services formerly provided without charge to property owners or occupants, it being the intention of Tenant and Landlord that all such new and increased assessments, taxes, fees, levies and charges be included within the definition of "Real Property Taxes" for the purposes of this Lease;

(C) any assessment, tax, fee, levy or charge allocable to or measured by the area of any premises in the Project or the Rent payable hereunder and under any other leases for premises in the Building, the Parking Area or the Project, including without limitation any gross income tax or excise tax levied by any Governmental Authority or any political subdivision thereof, with respect to the receipt of such Rent, or upon or with respect to the possession, leasing, operating, management, maintenance, alteration, repair, use or occupancy by tenants of their premises in the Project, or any portion thereof; and

(D) any assessment, tax, fee, levy or charge upon this transaction or any document creating or transferring an interest or an estate in the Project or any portion thereof, or based upon a reassessment of the Project or any portion thereof by virtue of a "change in ownership", and as a result thereof, and to the extent that in connection therewith, the Building is reassessed for real estate tax purposes by the appropriate Governmental Authority pursuant to the terms of Proposition 13 (as adopted by the voters of the State of California in the June, 1978 election, or any successor statute).

Notwithstanding any provision of this Section 6.1.2 expressed or implied to the contrary, "Real Property Taxes" shall not include (a) Landlord's federal or state income, franchise, inheritance or estate taxes, or (b) fines, penalties and/or interest incurred as a result of Landlord's failure to pay any Real Property Tax when due.

6.1.3. **Tenant's Percentage**. "Tenant's Percentage" means the percentage set forth in Section 1.13; provided, however, that Landlord reserves the right from time to time during the Term of this Lease to recalculate Tenant's Percentage, in which case Tenant's Percentage shall mean that numeric figure obtained by dividing the Rentable Square Feet of the Premises, as adjusted pursuant to Section 2.2, by the total Rentable Square Feet of the Building.

6.2 Calculation Methods and Adjustments.

6.2.1. Subject to the provisions of this Section 6.2, all calculations, determinations, allocations and decisions to be made hereunder with respect to Operating Expenses and Real Property Taxes shall be made on a triple net basis in accordance with the good faith determination of Landlord applying sound accounting and property management principles consistently applied which are consistent with Institutional Owner Practices. If the Project is not at least one hundred percent (100%) occupied during all or a portion of the any year, Landlord shall make an appropriate adjustment to the components of Operating Expenses for such year to determine the amount of Operating Expenses that would have been incurred had the Project been ninety-five percent (95%) occupied; and the amount so determined shall be deemed to have been the amount of Operating Expenses for such year. Landlord shall have the right to equitably allocate some or all Operating Expenses among particular classes or groups of tenants in the Project or Building (for example, retail tenants) to reflect Landlord's good faith determination that measurably different amounts or types of services, work or benefits associated with Operating Expenses, as applicable, are being provided to or conferred upon such classes or groups. All discounts, reimbursements, rebates, refunds, or credits (collectively, "Reimbursements") attributable to Operating Expenses or Real Property Taxes received by Landlord in a particular year shall be deducted from Operating Expenses or Real Property Taxes, as applicable, in the year the same are received; provided, however, if such practice is consistent with Institutional Owner Practices, Landlord may treat Reimbursements generally (or under particular circumstances) on a different basis.

6.2.2. As of the date of this Lease, Tenant shall pay Additional Rent under this Article 6 based on the Operating Expenses and Real Property Taxes for the Project. If the Project at any time contains more than one building, Landlord shall have the right, from time to time, to equitably allocate some or all of the Operating Expenses and/or Real Property Taxes for the buildings comprising the Project among the Building and some or all of the other buildings of the Project. In such event, Landlord shall reasonably determine a method of allocating such Operating

Expenses and/or Real Property Taxes attributable to the Building and/or such other building(s) of the Project to the Building and/or such other building(s) and Tenant shall be responsible for paying its proportionate share of such expense(s) which are allocated to the Building. Landlord shall also have the right, from time to time, to require Tenant to pay Tenant's Percentage of Operating Expenses and Real Property Taxes based solely on the Operating Expenses and Real Property Taxes for the Building.

6.3 Payment of Tenant's Percentage of Operating Expenses and Real Property Taxes. This shall be a triple net Lease and Basic Rent shall be paid to Landlord absolutely net of all costs and expenses, except as specifically provided to the contrary in this Lease. The provisions for payment of Tenant's Percentage of Operating Expenses and Tenant's Percentage of Real Property Taxes are intended to pass on to Tenant, and reimburse Landlord for, all costs and expenses of the nature described in Section 6.1 incurred in connection with the ownership, operation, management, insurance, maintenance and repair of the Project. For each calendar year of the Term, Tenant shall pay Tenant's Percentage of the Operating Expenses and Tenant's Percentage of the Real Property Taxes paid or incurred by Landlord for such year as Additional Rent. Tenant shall pay such amounts as follows:

6.3.1. **Estimate of Annual Operating Expenses and Real Property Taxes**. At the beginning of each calendar year, or as soon thereafter as practicable, Landlord shall deliver to Tenant a reasonable estimate ("Estimated Statement") of Tenant's Percentage of Operating Expenses and Tenant's Percentage of Real Property Taxes for the then current calendar year. Landlord may revise its estimates of Tenant's Percentage of Operating Expenses and Tenant's Percentage of Real Property Taxes for any year from time to time in its reasonable discretion, and upon receipt of a revised Estimated Statement, Tenant shall begin making payments under this Section 6.3.1 in accordance with such revised estimates. For each calendar year during the Term of this Lease, or portion thereof, Tenant shall pay to Landlord the estimated Tenant's Percentage of Operating Expenses and the estimated Tenant's Percentage of Real Property Taxes, as specified in the Estimated Statement. These estimated amounts shall be divided into twelve (12) equal monthly installments. Tenant shall pay to Landlord, concurrently with the regular monthly Basic Rent payment next due following the receipt of such an Estimated Statement, an amount equal to one monthly installment multiplied by the number of months from the commencement of the calendar year for which such estimates were prepared to the month of such payment, both months inclusive, less any amounts paid under this Section 6.3.1 after commencement of such calendar year based on the last Estimated Statement delivered by Landlord. Subsequent payments under this Section 6.3.1 shall be payable concurrently with the regular monthly Rent payments for the balance of that calendar year and shall continue until the next Estimated Statement is delivered by Landlord. Failure of Landlord to deliver an Estimated Statement for any calendar year shall not relieve Tenant of its obligation to make estimated payments of Tenant's Percentage of Operating Expenses and Tenant's Percentage of Real Property Taxes under this Section 6.3.1.

6.3.2. **Annual Reconciliation**. At the end of each calendar year or as soon thereafter as practicable Landlord shall deliver to Tenant a statement ("Annual Reconciliation") of (a) the actual annual Operating Expenses and Tenant's Percentage of Operating Expenses for the preceding year, and (b) the actual annual Real Property Taxes and Tenant's Percentage of Real Property Taxes for the preceding year. If for any year, the sum of Tenant's Percentage of Operating Expenses and Tenant's Percentage of Real Property Taxes (as specified in the Annual Reconciliation) is less than the total amount of the estimated payments made by Tenant under Section 6.3.1 above for such year, then any such overpayment, or overpayments, shall be credited toward the monthly Rent next falling due after determination by Landlord of such overpayment or overpayments and shall be paid to Tenant in a lump sum for periods after the expiration of the Term. Similarly, if for any year, the sum of Tenant's Percentage of Operating Expenses and Tenant's Percentage of Real Property Taxes (as specified in the Annual Reconciliation) is more than the total amount of the estimated payments made by Tenant under Section 6.3.1 above for such year, then any such underpayment, or underpayments, shall be paid by Tenant to Landlord concurrently with the next regular monthly Basic Rent payment coming due after Tenant's receipt of the Annual Reconciliation (or if the Term shall have expired or terminated, within thirty (30) days following Tenant's receipt of such Annual Reconciliation).

6.3.3. **Survival of Reconciliation.** Even though the Term shall have expired and Tenant shall have vacated the Premises, when the final determination of Tenant's Percentage of actual annual Operating Expenses, and/or of Tenant's Percentage of actual annual Real Property Taxes, for the year in which this Lease terminates is delivered to Tenant, (a) Tenant shall immediately pay any amounts payable to Landlord under Section 6.3.2 above (as a result of any underpayments by Tenant under Section 6.3.1 above), and/or (b) conversely, Landlord shall promptly

rebate any amounts payable to Tenant under Section 6.3.2 (as a result of any overpayments under Section 6.3.1 above) provided that no Tenant Default existed at the expiration or earlier termination of this Lease.

6.4 Review of Annual Reconciliation. Provided that Tenant is not then in default with respect to its obligations under this Lease and provided further that Tenant strictly complies with the provisions of this Section 6.4, Tenant shall have the right, at Tenant's sole cost and expense and upon thirty (30) days prior Notice ("Review Notice") to Landlord delivered no later than sixty (60) days after an Annual Reconciliation is delivered to Tenant, to reasonably review or audit Landlord's supporting books and records (at Landlord's manager's corporate offices) for any portion of the Operating Expenses or Real Property Taxes for the particular year covered by such Annual Reconciliation, in accordance with the procedures set forth in this Section 6.4. To the extent that any amounts specified in such Annual Reconciliation were not previously paid, Tenant shall pay all such amounts to Landlord simultaneously with Tenant's delivery the Review Notice. Any review or audit of records under this Section 6.4 shall be at the sole expense of Tenant, shall be conducted by independent certified public accountants of national standing which are not compensated on a contingency fee or similar basis relating to the results of such review or audit and shall be completed within sixty (60) days after Landlord provides Tenant with access to Landlord's supporting books and records. Tenant shall, within thirty (30) days after completion of any such review or audit, deliver Notice to Landlord specifying the items described in the Annual Reconciliation that are claimed to be incorrect by such review or audit ("Dispute Notice"). The right of Tenant under this Section 6.4 may only be exercised once for each year covered by any Annual Reconciliation, and if Tenant fails to deliver a Review Notice within the sixty (60) day period described above or a Dispute Notice within the thirty (30) day period described above, or if Tenant fails to meet any of the other above conditions of exercise of such right, the right of Tenant to review or audit a particular Annual Reconciliation (and all of Tenant's rights to make any claim relating thereto) under this Section 6.4 shall automatically be deemed waived by Tenant. Tenant acknowledges and agrees that any records of Landlord reviewed or audited under this Section 6.4 (and the information contained therein) constitute confidential information of Landlord, which shall not be disclosed other than to Tenant's accountants performing the review or audit and principals of Tenant who receive the results of the review or audit. If Landlord disagrees with Tenant's contention that an error exists with respect to the Annual Reconciliation in dispute, Landlord shall have the right to cause another review or audit of that portion of the Annual Reconciliation to be made by a firm of independent certified public accountants of national standing selected by Landlord ("Landlord's Accountant"). In the event of a disagreement between the two accounting firms, the review or audit of Landlord's Accountant shall be deemed to be correct and shall be conclusively binding on both Landlord and Tenant. In the event that it is finally determined pursuant to this Section 6.4 that a particular Annual Reconciliation overstated amounts payable by Tenant under this Article 6 with respect to the applicable year by more than five percent (5%), Landlord shall reimburse Tenant for the reasonable costs of Tenant's accountant and Landlord shall be liable for the costs of Landlord's Accountant. In all other cases, Tenant shall reimburse Landlord for the reasonable costs of Landlord's Accountant.

ARTICLE 7

SECURITY DEPOSIT

7.1 Security Deposit. Tenant shall deposit with Landlord, upon delivery to Landlord of a copy of this Lease executed by Tenant, the Security Deposit designated in Section 1.14. Said sum shall be held by Landlord as security for the full and faithful performance by Tenant of all of the terms, covenants and conditions of this Lease to be kept and performed by Tenant during the Term hereof and any extension hereof. Landlord shall have the right, but not the obligation, to apply all or any portion of the Security Deposit for the payment of Rent or any other sum due hereunder, to cure any default by Tenant of its obligations with respect to the restoration and surrender of the Premises or to cure any Tenant Default at any time, in which event Tenant shall be obligated to restore the Security Deposit to its original amount within ten (10) business days, and Tenant's failure to do so shall be deemed to be a Default under this Lease. Tenant hereby irrevocably waives and relinquishes any and all rights, benefits, or protections, if any, Tenant now has, or in the future may have, under Section 1950.7 of the California Civil Code, any successor statute, and all other provisions of law, now or hereafter in effect, including, but not limited to, any provision of law which: (a) establishes the time frame by which a landlord must refund a security deposit under a lease, or (b) provides that a landlord may claim from a security deposit only those sums reasonably necessary to remedy defaults in the payment of Rent, to repair damage caused by a tenant, or to clean the subject premises. Tenant acknowledges and agrees that: (i) any statutory time frames for the return of a security deposit are superseded by the express period identified in this Section 7.1 and (ii) rather than be so limited, Landlord may claim from the Security Deposit: (A) any and all sums expressly identified in this Section 7.1, and (B) any additional sums reasonably necessary to compensate Landlord for

any and all losses or damages caused by Tenant's default of this Lease, including, but not limited to, all damages or Rent due upon termination of this Lease pursuant to Section 1951.2 of the California Civil Code, as amended and recodified from time to time. Landlord shall not be required to keep the Security Deposit separate from its general funds, and Tenant shall not be entitled to interest on such Security Deposit. Within thirty (30) days following the expiration of the Term, Landlord shall (provided that Tenant is not in Default under this Lease) return the Security Deposit to Tenant, less such portion as Landlord shall have applied in accordance with this Section 7.1. Should Landlord sell its interest in the Premises during the Term hereof and if Landlord deposits with (or gives a credit to) the purchaser thereof the then balance of the Security Deposit held by Landlord, Landlord shall be released from any further liability with respect to the Security Deposit.

7.2 Letter of Credit. If at any time during the Term (a) the balance of Tenant's cash, cash equivalents and Eligible Investments (as defined below) is less than One Hundred Million Dollars ($100,000,000.00) or (b) Tenant is unable to continue as a going concern, as each is determined by Tenant's audited financial statements and/or disclosed by any of Tenant's SEC filings (including, without limitation, any 10-Q or 10-K), Tenant shall immediately deliver Notice thereof to Landlord and, within ten (10) business days thereafter, Tenant shall deposit with Landlord the Letter of Credit (as defined in Exhibit "D-2") in the Letter of Credit Amount as set forth in Section 1.14 above. As used herein, "Eligible Investments" mean U.S. government obligations, corporate obligations, bank instruments, FDIC-backed bank debt and U.S. treasury and U.S. government agency institutional money market funds. The Letter of Credit shall comply with the requirements of Exhibit "D-2" attached hereto and incorporated by reference herein. If Tenant fails to provide such Letter of Credit within the ten (10) business day period set forth above, such failure shall be deemed a Tenant Default, without notice or opportunity to cure. If the Letter of Credit is delivered to Landlord as required under this Section 7.2, and subsequent to such delivery, (i) the balance of Tenant's cash, cash equivalents and Eligible Investments exceeds One Hundred Million Dollars ($100,000,000.00) and (ii) Tenant confirms its ability to continue as a going concern, as each is determined by Tenant's audited financial statements and/or Tenant's SEC filings, Landlord shall return the Letter of Credit to Tenant within thirty (30) days after Tenant's written request therefor.

ARTICLE 8

USE

8.1 General. Tenant shall use the Premises for the Permitted Use set forth in Section 1.16 above, and shall not use or permit the Premises to be used for any other purpose without the prior written consent of Landlord. Nothing contained herein shall be deemed to give Tenant any exclusive right to such use in the Project or any portion thereof (excluding only the Premises).

8.2 Laws/CC&R's.

8.2.1. Tenant shall not use or occupy the Premises in violation of any applicable laws, regulations, rules, orders, statutes or ordinances of any Governmental Authority, office, board or private entity in effect on or after the Effective Date and applicable to the Project or the use or occupancy of the Project, including, without limitation, the rules, regulations and requirements of the Pacific Fire Rating Bureau, and of any similar body, the Americans with Disabilities Act (42 U.S.C. Section 12101 et seq.) ("ADA") and Hazardous Material Laws (as defined in Section 8.3.7 below) (collectively, "Laws") or in violation of any government-issued permit for the Building or Project or any of the Rules and Regulations (as defined below), and shall, upon Notice from Landlord, discontinue any use of the Premises which is declared by any Governmental Authority having jurisdiction to be a violation of any Laws, or of any government-issued permit for the Building or Project. Tenant shall cause the Premises to comply with all applicable Laws and shall comply with any direction of any Governmental Authority having jurisdiction which shall, by reason of the nature of Tenant's use or occupancy of the Premises, impose any obligation (including, but not limited to, any obligation imposed pursuant to the ADA), upon Tenant or Landlord with respect to the Premises or with respect to the use or occupancy thereof; provided, however, unless resulting from an Alteration performed by Tenant or by Tenant's specific use of the Premises (as opposed to general office and laboratory/research and development use), Tenant shall not be responsible for any obligation imposed by the ADA after completion of the initial Tenant Improvements with respect to the Common Areas of the Building and the Premises (except its prorata share of compliance costs included in Operating Expenses). Tenant shall comply with all rules, orders, regulations and requirements of the Pacific Fire Rating Bureau or any other organization performing a similar function. Tenant shall not do or permit to be done in or about the Premises anything which causes the insurance on the Premises, the Building or the Project or any portion

thereof to be canceled or the cost thereof increased. Tenant shall promptly, upon demand, reimburse Landlord for any additional premium charged for any insurance policy by reason of Tenant's failure to comply with the provisions of this Section 8.2. In determining whether increased premiums are a result of Tenant's use of the Premises, a schedule issued by the organization computing the insurance rate on the Project or the Tenant Improvements showing the various components of such rate shall be conclusive evidence of the several items and charges which make up such rate. Tenant shall promptly comply with all reasonable requirements of the insurance authority or any present or future insurer relating to the Premises. Tenant shall not do or permit anything to be done in or about the Premises which will in any way obstruct or interfere with the rights of Landlord or other tenants or occupants of the Building, the Parking Area or the Project, or injure or unreasonably annoy them, or use or allow the Premises to be used for any improper, immoral, unlawful or objectionable purpose, nor shall Tenant cause, maintain or permit any nuisance in or about the Premises or the Project. Tenant shall comply with all restrictive covenants and obligations created by private contracts that affect the use and operation of the Premises, the Building, the Common Areas or any other portion of the Project. Tenant shall not commit or suffer to be committed any waste in or upon the Premises or the Project and shall keep the Premises in first class repair and appearance. If any governmental license or permit shall be required for the proper and lawful conduct of Tenant's business in the Premises, Tenant, at its expense, shall procure, maintain and comply with the terms and conditions of each such license or permit.

Without limiting the generality of the foregoing:

(A) Landlord and Tenant agree to cooperate, and Tenant shall use its commercially reasonable efforts to participate in governmentally mandated regulations applicable to businesses located in the area or to the Project. Neither this Section 8.2.1(A) nor any other provision of this Lease, however, is intended to or shall create any rights or benefits in any other person, firm, company, Governmental Authority or the public.

(B) Landlord and Tenant agree to cooperate and comply with any and all guidelines or controls imposed upon either Landlord or Tenant by any Governmental Authority.

(C) All costs, fees, assessments and other charges paid by Landlord to any Governmental Authority in connection with any program of the types described in Sections 8.2.1(A) and 8.2.1(B) above, and all costs and fees paid by Landlord to any Governmental Authority or third party pursuant to or to effect such program, shall be included in Operating Expenses for the purposes of Article 6, whether or not specifically listed in such Article 6.

(D) Tenant shall be liable for all penalties, noncompliance costs or other losses, costs or expenses incurred by Landlord primarily as a result of Tenant's failure to comply with any of the provisions of Sections 8.2.1(A) through 8.2.1(C) above. Any such amount shall be payable by Tenant to Landlord within ten (10) business days after Landlord's demand therefor as Additional Rent. Failure of Tenant to pay any amount due pursuant to this Section 8.2.1(D) when due shall be deemed a Tenant Default pursuant to this Lease.

8.2.2. Tenant shall be responsible for all structural engineering required to determine structural load for any of Tenant's furniture, fixtures, equipment, other personal property, Alterations and Tenant Improvements; provided that Landlord reserves the right to prescribe the weight and position of all file cabinets, safes and heavy equipment which Tenant desires to place in the Premises so as to properly distribute the weight thereof. Further, Tenant's business machines and mechanical equipment which cause vibration or noise that may be transmitted to the Building structure or to any other space in the Building shall be so installed, maintained and used by Tenant as to eliminate such vibration or noise.

8.3 Hazardous Materials.

8.3.1. Tenant shall not cause or permit any Hazardous Materials (as defined in Section 8.3.7 below) to be brought upon, kept or used in or about the Premises, the Building or the Project in violation of applicable Laws by Tenant or any of its employees, agents, representatives, contractors or invitees (collectively with Tenant, each a "Tenant Party"). If (a) Tenant breaches such obligation, (b) the presence of Hazardous Materials as a result of such a breach results in contamination of the Project, any portion thereof, or any adjacent property, (c) contamination of the Premises otherwise occurs during the Term or any extension or renewal hereof or holding over hereunder or (d)

contamination of the Project occurs as a result of Hazardous Materials that are placed on or under or are released into the Project by a Tenant Party, then Tenant shall indemnify, save, defend (at Landlord's option and with counsel reasonably acceptable to Landlord) and hold the Landlord Indemnified Parties (as defined in Section 22.1.2 below) harmless from and against any and all Claims (as defined in Article 20 below) of any kind or nature, including (i) diminution in value of the Project or any portion thereof, (ii) damages for the loss or restriction on use of rentable or usable space or of any amenity of the Project, (iii) damages arising from any adverse impact on marketing of space in the Project or any portion thereof and (iv) sums paid in settlement of Claims that arise before, during or after the Term as a result of such breach or contamination. This indemnification by Tenant includes costs incurred in connection with any investigation of site conditions or any clean-up, remedial, removal or restoration work required by any Governmental Authority because of Hazardous Materials present in the air, soil or groundwater above, on, under or about the Project. Without limiting the foregoing, if the presence of any Hazardous Materials in, on, under or about the Project, any portion thereof or any adjacent property caused or permitted by any Tenant Party results in any contamination of the Project, any portion thereof or any adjacent property, then Tenant shall promptly take all actions at its sole cost and expense as are necessary to return the Project, any portion thereof or any adjacent property to its respective condition existing prior to the time of such contamination; provided that Landlord's written approval of such action shall first be obtained, which approval Landlord shall not unreasonably withhold; and provided, further, that it shall be reasonable for Landlord to withhold its consent if such actions could have a material adverse long-term or short-term effect on the Project, any portion thereof or any adjacent property. Tenant's obligations under this Section shall not be affected, reduced or limited by any limitation on the amount or type of damages, compensation or benefits payable by or for Tenant under workers' compensation acts, disability benefit acts, employee benefit acts or similar legislation.

8.3.2. Landlord acknowledges that it is not the intent of this Article to prohibit Tenant from operating its business for the Permitted Use. Tenant may operate its business according to the custom of Tenant's industry so long as the use or presence of Hazardous Materials is strictly and properly monitored in accordance with applicable Laws. As a material inducement to Landlord to allow Tenant to use Hazardous Materials in connection with its business, Tenant agrees to deliver to Landlord (a) a list identifying each type of Hazardous Material to be present at the Premises that is subject to regulation under any environmental applicable Laws (other than customary quantities of typical office and cleaning supplies, provided no permits or approvals from, and no notice or disclosure to, any Governmental Authorities is required in connection with the presence of such supplies at the Premises), (b) a list of any and all approvals or permits from Governmental Authorities required in connection with the presence of such Hazardous Material at the Premises and (c) correct and complete copies of (i) notices of violations of applicable Laws related to Hazardous Materials and (ii) plans relating to the installation of any storage tanks to be installed in, on, under or about the Project (provided that installation of storage tanks shall only be permitted after Landlord has given Tenant its written consent to do so, which consent Landlord may withhold in its sole and absolute discretion) and closure plans or any other documents required by any and all Governmental Authorities for any storage tanks installed in, on, under or about the Project for the closure of any such storage tanks (collectively, "Hazardous Materials Documents"). Tenant shall deliver to Landlord updated Hazardous Materials Documents, within fourteen (14) days after receipt of a written request therefor from Landlord, not more often than once per year, unless (m) there are any changes to the Hazardous Materials Documents or (n) Tenant initiates any Alterations or changes its business, in either case in a way that involves any material increase in the types or amounts of Hazardous Materials. For each type of Hazardous Material listed, the Hazardous Materials Documents shall include (t) the chemical name, (u) the material state (e.g., solid, liquid, gas or cryogen), (v) the concentration, (w) the storage amount and storage condition (e.g., in cabinets or not in cabinets), (x) the use amount and use condition (e.g., open use or closed use), (y) the location (e.g., room number or other identification) and (z) if known, the chemical abstract service number. Notwithstanding anything in this Section to the contrary, Tenant shall not be required to provide Landlord with any Hazardous Materials Documents containing information of a proprietary nature, which Hazardous Materials Documents, in and of themselves, do not contain a reference to any Hazardous Materials or activities related to Hazardous Materials. Landlord may, at Landlord's expense, cause the Hazardous Materials Documents to be reviewed by a person or firm qualified to analyze Hazardous Materials to confirm compliance with the provisions of this Lease and with applicable Laws. In the event that a review of the Hazardous Materials Documents indicates non-compliance with this Lease or applicable Laws, Tenant shall, at its expense, diligently take steps to bring its storage and use of Hazardous Materials into compliance. Notwithstanding anything in this Lease to the contrary or Landlord's review into Tenant's Hazardous Materials Documents or use or disposal of hazardous materials, however, Landlord shall not have and expressly disclaims any liability related to Tenant's or other

tenants' use or disposal of Hazardous Materials, it being acknowledged by Tenant that Tenant is best suited to evaluate the safety and efficacy of its Hazardous Materials usage and procedures.

8.3.3. At any time, and from time to time, Landlord shall have the right to conduct appropriate tests of the Project or any portion thereof to demonstrate that Hazardous Materials are present or that contamination has occurred due to the acts or omissions of a Tenant Party. Tenant shall pay all reasonable costs of such tests if such tests reveal that Hazardous Materials exist at the Project in violation of Tenant's obligations under this Lease.

8.3.4. Tenant shall not install or utilize any underground or other storage tanks storing Hazardous Materials on the Premises without Landlord's prior written consent, which consent may be withheld in Landlord's sole and absolute discretion. Subject to the foregoing, if underground or other storage tanks storing Hazardous Materials installed or utilized by Tenant are located on the Premises, or are hereafter placed on the Premises by Tenant (or by any other party, if such storage tanks are utilized by Tenant), then Tenant shall monitor the storage tanks, maintain appropriate records, implement reporting procedures, properly close any underground storage tanks, and take or cause to be taken all other steps necessary or required under the applicable Laws.

8.3.5. Tenant shall promptly report to Landlord any actual or suspected presence of mold or water intrusion at the Premises.

8.3.6. Tenant's obligations under this Section 8.3 shall survive the expiration or earlier termination of the Lease. During any period of time needed by Tenant or Landlord after the termination of this Lease to complete the removal from the Premises of any Hazardous Materials, Tenant shall be deemed a holdover tenant and subject to the provisions of Section 8.3.

8.3.7. As used in this Lease, the term "Hazardous Material" means any toxic, explosive, corrosive, flammable, infectious, radioactive, carcinogenic, mutagenic or otherwise hazardous substance, material or waste that is or becomes regulated by applicable Laws or any Governmental Authority, and the term "Hazardous Material Laws" means and includes all now and hereafter existing statutes, laws, ordinances, codes, regulations, rules, rulings, orders, decrees, directives, policies and requirements by any federal, state or local governmental authority regulating, relating to, or imposing liability or standards of conduct concerning public health and safety, the environment or any Hazardous Material, including, without limitation, the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended (42 U.S.C. Section 9601 et seq.), Resource Conservation and Recovery Act, as amended (42 U.S.C. Section 6901 et seq.), and California Health and Safety Code (Sections 25100, 25249.5, 25316 and 39000, et seq. in each case).

8.3.8. Notwithstanding anything to the contrary in this Lease, Landlord shall have sole control over the equitable allocation of control areas (as defined in the California Building Standards Code) within the Project for the storage of Hazardous Materials. Without limiting the foregoing, if the use of Hazardous Materials by Tenant is such that Tenant utilizes fire control areas in the Project in excess of Tenant's Percentage, then Tenant shall, at its sole cost and expense and upon Landlord's written request, establish and maintain a separate area of the Premises classified by the California Building Standards Code as a "Group H" occupancy area for the use and storage of Hazardous Materials, or take such other action as is necessary to ensure that its share of the fire control areas of the Building and the Project is not greater than Tenant's Percentage. Notwithstanding anything in this Lease to the contrary, Landlord shall not have and expressly disclaims any liability related to Tenant's or other tenants' use or disposal of fire control areas, it being acknowledged by Tenant that Tenant and other tenants are best suited to evaluate the safety and efficacy of its Hazardous Materials usage and procedures.

8.4 Odors and Exhaust. Tenant acknowledges that Landlord would not enter into this Lease with Tenant unless Tenant assured Landlord that under no circumstances will any other occupants of the Building or the Project (including persons legally present in any outdoor areas of the Project) be subjected to odors or fumes (whether or not noxious), and that the Building and the Project will not be damaged by any exhaust, in each case from Tenant's operations. Landlord and Tenant therefore agree as follows:

8.4.1. Tenant shall not cause or permit (or conduct any activities that would cause) any release of any odors or fumes of any kind from the Premises.

8.4.2. If the Building has a ventilation system that, in Landlord's judgment, is adequate, suitable, and appropriate to vent the Premises in a manner that does not release odors affecting any indoor or outdoor part of the Project, Tenant shall vent the Premises through such system. If Landlord at any time determines that any existing ventilation system is inadequate, or if no ventilation system exists, Tenant shall in compliance with applicable Laws vent all fumes and odors from the Premises (and remove odors from Tenant's exhaust stream) as Landlord requires. The placement and configuration of all ventilation exhaust pipes, louvers and other equipment shall be subject to Landlord's approval. Tenant acknowledges Landlord's legitimate desire to maintain the Project (indoor and outdoor areas) in an odor-free manner, and Landlord may require Tenant to abate and remove all odors in a manner that goes beyond the requirements of applicable Laws.

8.4.3. Tenant shall, at Tenant's sole cost and expense, provide odor eliminators and other devices (such as filters, air cleaners, scrubbers and whatever other equipment may in Landlord's judgment be necessary or appropriate from time to time) to completely remove, eliminate and abate any odors, fumes or other substances in Tenant's exhaust stream that, in Landlord's judgment, emanate from Tenant's Premises. Any work Tenant performs under this Section shall constitute Alterations.

8.4.4. Tenant's responsibility to remove, eliminate and abate odors, fumes and exhaust shall continue throughout the Term. Landlord's construction of the Tenant Improvements shall not preclude Landlord from requiring additional measures to eliminate odors, fumes and other adverse impacts of Tenant's exhaust stream (as Landlord may designate in Landlord's discretion). Tenant shall install additional equipment as Landlord requires from time to time under the preceding sentence. Such installations shall constitute Alterations.

8.4.5. If Tenant fails to install satisfactory odor control equipment within ten (10) business days after Landlord's demand made at any time, then Landlord may, without limiting Landlord's other rights and remedies, require Tenant to cease and suspend any operations in the Premises that, in Landlord's determination, cause odors, fumes or exhaust. For example, if Landlord determines that Tenant's production of a certain type of product causes odors, fumes or exhaust, and Tenant does not install satisfactory odor control equipment within ten (10) business days after Landlord's request, then Landlord may require Tenant to stop producing such type of product in the Premises unless and until Tenant has installed odor control equipment satisfactory to Landlord.

ARTICLE 9

MOLD

Tenant agrees to maintain the Premises in a manner that prevents the occurrence of an infestation of mold, mildew, microbial growths, and any associated mycotoxins in the Premises, and shall comply, at a minimum, with the following: (a) subject to the terms and conditions of Article 20, Article 21 and Section 22.4 below, Tenant agrees to immediately fix/abate any water intrusion in the Premises, except to the extent caused by Landlord, another tenant or any third party not within Tenant's control, or to the extent such water intrusion is caused by an event within Landlord's express maintenance and repair obligations under this Lease; (b) Tenant agrees to use all reasonable care to close all windows and other openings in the Premises to prevent outdoor water from penetrating into the interior unit; (c) Tenant agrees to clean and dry any visible moisture on windows, walls, and other surfaces, including personal property, as soon as reasonably possible; (d) Tenant agrees to keep the Premises free of dirt and debris that could reasonably be expected to harbor mold; (e) Tenant agrees to regularly clean and sanitize kitchens and other surfaces within the Premises where water, moisture condensation, and mold can collect; (f) Tenant agrees not to interfere with regular air flow and circulation throughout the Premises; (g) Tenant agrees to limit the indoor watering of plants; (h) Tenant agrees to prevent the overflow or release of water from bathrooms or kitchens, including but not limited to toilets, sinks, kitchen appliances, and other receptacles of water; (i) Tenant agrees not to obstruct fresh air supply to furnace, air conditioner or heater ducts; (j) Tenant agrees to maintain and not obstruct ventilation at all locations in the Premises; (k) Tenant agrees to use commercially reasonable efforts to prevent the clogging of all plumbing within the Premises; (l) Tenant agrees not to engage in any conduct that could reasonably be expected to promote or create mold growth; (m) Tenant agrees to report within forty-eight (48) hours the following to Landlord to the extent Tenant has actual knowledge thereof: (i) any non-working fan, heater, air conditioner or ventilation system; (ii) plumbing leaks, drips, sweating pipes, wet spots; (iii) overflows from bathroom, kitchen, or other facilities, including, but not limited to, tubs, showers, shower enclosures, toilets, sinks, kitchen appliances, or other receptacles of water, especially in cases where the overflow may have permeated walls, floors, ceilings or fixtures; (iv) water intrusion of any kind; (v) any mold or black or brown spots or

moisture on surfaces inside the Premises; (vi) broken plumbing systems or standing water near structures within the Premises; and (vii) any odors consistent with mold growth within the Premises. Tenant agrees not to commence any mold investigation, testing, remediation or repair without first obtaining the prior written consent of Landlord which shall not be unreasonably withheld, conditioned or delayed. If Landlord consents to any mold investigation, remediation or repair by Tenant, Tenant agrees to not use any methods of mold investigation, testing, remediation and repair that are speculative and not generally accepted within the scientific community, and Landlord reserves the right to approve any and all third parties retained by Tenant to conduct any such mold investigation, testing, remediation and repair. As of the Effective Date such speculative and generally unaccepted methods of investigation, testing, remediation and repair include: (A) any use of settled dust vacuum sampling; (B) any use of interior wall cavity air sampling; (C) Tenant's use of do-it-yourself mold investigation kits; and (D) use of any other methods that have not been peer reviewed and generally accepted within the scientific community.

ARTICLE 10

NOTICES

10.1 Method of Delivery. Any notice, consent, approval or objection required or permitted by this Lease (a "Notice") shall be in writing and may be delivered: (a) in person (by hand or by messenger or courier service) or (b) by certified or registered mail or United States Postal Service Express Mail, with postage prepaid, or (c) by a nationally recognized overnight delivery service that provides delivery verification, or (d) by facsimile transmission, addressed to Tenant at the Premises and to Landlord at each of the addresses designated in Section 1.2, and shall be deemed sufficiently given if served in a manner specified in this Article 10. Either party may specify a different address for Notice purposes by Notice to the other.

10.2 Receipt of Notices. Any Notice sent by registered or certified mail, return receipt requested, shall be deemed given on the date of delivery shown on the receipt card, or if no delivery date is shown, the postmark thereon. Notices delivered by United States Postal Service Express Mail or overnight delivery service that guarantees next day delivery shall be deemed given on the next business day after delivery of the same to the United States Postal Service or overnight delivery service. If any Notice is transmitted by facsimile transmission or similar means, the same shall be deemed served or delivered upon telephone confirmation of receipt of the transmission thereof, provided a copy is also delivered on or before the next business day via one of the methods in Section 10.1(a)-(c) above. If any Notice is received on a Saturday, Sunday or legal holiday, it shall be deemed received on the next business day.

10.3 Statutory Service of Notice. When a statute permits, or requires, service of a notice in a particular manner, service of that notice (or a similar Notice permitted, or required, by this Lease) in the manner permitted, or required, by this Article 10 shall replace and satisfy the statutory service-of-notice procedures, including, but not limited to, those required by California Code of Civil Procedure Section 1162, or any similar or successor statute.

ARTICLE 11

BROKERS

Tenant warrants that it has had no dealings with any real estate broker, finder or agent in connection with the negotiation of this Lease except for the broker(s) whose name(s) is (are) set forth in Section 1.16, whose commission shall be payable by Landlord pursuant to one or more separate agreements, and that it knows of no other real estate broker, finder or agent who is or might be entitled to a commission in connection with this Lease. Tenant shall be solely responsible for the payment of any fee due to any other broker, finder, agent or other party claiming under Tenant, and shall hold Landlord free and harmless against any liability in respect thereto, including attorneys' fees and costs incurred by Landlord in connection therewith.

ARTICLE 12

HOLDING OVER

If Tenant holds over after the expiration or earlier termination of the Term hereof without the express written consent of Landlord, Tenant shall become a Tenant at sufferance, at a Basic Rent equal to one hundred fifty percent (150%) of the Rent payable during the last month of the Term, and otherwise subject to the terms, covenants and conditions herein specified, so far as applicable. Acceptance by Landlord of Rent after such expiration or earlier termination without Landlord's prior written consent shall not waive Landlord's right to evict Tenant without thirty

(30) days prior written notice. The foregoing provisions of this Article 12 are in addition to and do not affect Landlord's right of reentry or any rights of Landlord hereunder or as otherwise provided by law. If Tenant fails to surrender the Premises upon the expiration or earlier termination of this Lease, Tenant shall indemnify, defend and hold Landlord harmless from all Claims, including, without limitation, any claim made by any succeeding tenant founded on or resulting from such failure to surrender, lost profits and other consequential damages, and any and all attorneys' fees and costs incurred by Landlord in connection Tenant's failure to surrender the Premises in accordance with the provisions of this Lease on the expiration or earlier termination of this Lease.

ARTICLE 13

TAXES ON TENANT'S PROPERTY

13.1 Personal Property and Fixtures. Tenant shall be liable for and shall pay before delinquency, all taxes levied against any of Tenant's Personal Property (defined below) placed by Tenant or any Tenant Party in or about the Premises. If any such taxes on Tenant's Personal Property are levied against Landlord or Landlord's property, or if the assessed value of the Premises, Building or Project is increased by the inclusion therein of a value placed upon such Tenant's Personal Property, and if Landlord, after Notice to Tenant, pays the taxes based upon such increased assessment, which Landlord shall have the right to do regardless of the validity thereof (but only under proper protest if so requested by Tenant), Tenant shall, upon demand, repay to Landlord the taxes so levied against Landlord, or the portion of such taxes resulting from such increase in the assessment.

13.2 Tenant Improvements. If any Alterations installed in the Premises by or on behalf of Tenant are assessed for real property tax purposes at a valuation higher than the valuation at which the initial Tenant Improvements are assessed, then the real property taxes and assessments levied against the Building or Project by reason of such excess assessed valuation shall be deemed to be taxes levied against Tenant's Personal Property and shall be governed by the provisions of Section 13.1 above. If the records of the County Assessor are available and sufficiently detailed to serve as a basis for determining whether the Alterations are assessed at a higher valuation than the Tenant Improvements, such records shall be binding on both Landlord and Tenant. If the records of the County Assessor are not available or sufficiently detailed to serve as a basis for making said determination, the actual cost of construction shall be used.

13.3 Additional Taxes . Tenant shall pay to Landlord, within ten (10) business days of Landlord's demand therefor, and in such manner and at such times as Landlord shall direct from time to time by written notice to Tenant, any excise, sales, privilege or other tax, assessment or other charge (other than income or franchise taxes) imposed, assessed or levied by any Governmental Authority upon Landlord on account of: (a) the Rent payable by Tenant hereunder (or any other benefit received by Landlord hereunder), including, without limitation, any gross receipts tax, license fee or excise tax levied by any Governmental Authority, (b) this Lease, Landlord's business as a lessor hereunder, and the possession, leasing, operation, management, maintenance, alteration, repair, use or occupancy of any portion of the Premises (including, without limitation, any applicable possessory interest taxes), (c) this transaction or any document to which Tenant is a party creating or transferring an interest or an estate in the Premises, or (d) otherwise in respect of or as a result of the agreement or relationship of Landlord and Tenant hereunder.

ARTICLE 14

CONDITION OF PREMISES

Tenant acknowledges and agrees that: (a) Tenant has inspected the Project, the Building and the Premises and accepts them in their "AS IS, WHERE IS" condition, (b) neither Landlord nor any agent of Landlord has made any representation or warranty with respect to the Premises, the Building, the Parking Area or any other portion of the Project or with respect to the condition thereof or the suitability of the same for the conduct of Tenant's business, (c) except as expressly provided in the Work Letter Agreement and Section 16.2 below, Landlord shall have no obligation to alter, remodel, improve, repair, decorate or paint the Premises or any part thereof, or any portion of the Building or Project and (d) except as expressly provided in this Lease, Landlord shall have no obligation to provide Tenant with any allowance, rent credit or abatement in connection with Tenant's entering into this Lease. The taking of possession of the Premises by Tenant shall conclusively establish that the Project, the Building and the Premises were at such time in good order and clean condition and that Landlord shall have discharged all of its obligations under the Work Letter Agreement (other than the obligation to complete punch list items), and the execution of this Lease by Tenant shall

conclusively establish that the Premises, the Building, the Project and the Parking Area were in good and sanitary order, condition and repair at such time, except for latent defects, if any. Without limiting the foregoing, Tenant's execution of the Memorandum of Terms shall constitute a specific acknowledgment and acceptance of the various start-up inconveniences that may be associated with the use of the Building, the Parking Area and other portions of the Project, such as certain construction obstacles (e.g., scaffolding), delays in use of freight elevator service, unavailability of certain elevators for Tenant's use, uneven air-conditioning services and other typical conditions incident to recently constructed (or recently modified) office and laboratory/research and development buildings. Tenant (for itself and all other claiming through Tenant) hereby irrevocably waives and releases its right to terminate this Lease under Section 1932(l) of the California Civil Code.

ARTICLE 15

ALTERATIONS

15.1 Alterations and Major Alterations. Except for Permitted Alterations, Tenant shall make no alterations, additions, or improvements in or to the Premises (collectively, the "Alterations") without Landlord's prior written consent, which consent shall not be unreasonably withheld, conditioned or delayed for all Alterations other than Major Alterations (which shall be granted in Landlord's sole discretion), and then only by licensed contractors or mechanics approved by Landlord in writing, which approval shall not be unreasonably withheld, conditioned or delayed (provided that any contractors performing any Major Alterations shall be subject to approval by Landlord in its sole and absolute discretion). Tenant shall submit to Landlord plans and specifications for any proposed Alterations to the Premises, and may not make such Alterations until Landlord has approved such plans and specifications and the contractor performing any Alterations in writing. Tenant shall construct such Alterations in accordance with the plans and specifications approved by Landlord and in compliance with all applicable Laws, and shall not amend or modify such plans and specifications without Landlord's prior written consent. If any proposed Alterations require the consent or approval of any lessor of a superior lease or the holder of a mortgage encumbering the Premises, Tenant acknowledges that such consent or approval must be secured prior to the construction of such Alterations. Tenant agrees not to construct or erect partitions or other obstructions that might interfere with Landlord's free access to mechanical installations or service facilities of the Building or interfere with the moving of Landlord's equipment to or from the enclosures containing said installations or facilities. All Alterations shall be done at such times and in such manner as Landlord may from time to time reasonably designate. Tenant will pay the entire cost and expense of all Alterations, including, without limitation, for any painting, restoring or repairing of the Premises or the Building necessitated by the Alterations, and Landlord's actual out-of-pocket third party review and Landlord's supervision fee in an amount equal to five percent (5%) of the cost of the Alterations in question (except for Permitted Alterations). Tenant will also obtain and/or require: (a) builder's "all-risk" insurance (or the equivalent thereof) in an amount at least equal to the replacement value of the Alterations; (b) liability insurance insuring Tenant and each of Tenant's contractors against construction related risks in at least the form, amounts and coverage required of Tenant under Article 22; and (c) if requested by Landlord, demolition (if applicable) and payment and performance bonds in an amount not less than the full cost of the Alterations. The insurance policies described in clause (b) of this Section 15.1 must name Landlord, Landlord's lender (if any), Bioscience Properties, Inc. ("Property Manager") and other parties reasonably requested by Landlord as additional insureds, specifically including completed operations. Tenant covenants and agrees that all Alterations done by Tenant shall be performed in full compliance with all Laws. If any Governmental Authority requires any alterations or modifications to the Building or the Premises as a result of Tenant's Permitted Use of the Premises or as a result of any Alteration to the Premises made by or on behalf of Tenant, Tenant will pay the cost of all such alterations or modifications. If any such Alterations involve any modifications to (i) the structural portions of the Building, (ii) the mechanical, electrical, plumbing, fire/life safety or heating, ventilating and air conditioning systems of the Building (collectively, "Building Systems") or (iii) any portion of the Building outside of the interior of the Premises (a "Major Alteration"), it shall be reasonable for Landlord to withhold its consent to any such Major Alterations and it shall be reasonable for Landlord to condition its consent to any Major Alterations on Landlord making the Major Alterations, provided that Landlord may first require Tenant to deposit with Landlord an amount sufficient to pay the cost of the Major Alterations (including, without limitation, reasonable overhead, administrative costs and profit). Before commencing any work, Tenant shall give Landlord at least ten (10) days' Notice of the proposed commencement of such work and shall, if required by Landlord, deliver a copy of the completion and payment bond required by Landlord in form, substance and amount satisfactory to Landlord. "Permitted Alterations" means only usual and customary maintenance and repairs of Leasehold Improvements if and to the extent that such maintenance and repairs: (A) are

of a type and extent which are customarily permitted to be made without consent by landlords acting consistently with Institutional Owner Practices leasing similar space for similar uses to similar tenants, (B) are in compliance with the Rules and Regulations and all applicable Laws, (C) are not Major Alterations, and (D) do not cost more than Fifty Thousand and 00/100 Dollars ($50,000.00) in each instance.

15.2 Removal of Alterations and Tenant's Personal Property. The Tenant Improvements together with all Alterations upon the Premises made by Tenant after the Commencement Date, including, without limitation, all wall coverings, built-in cabinet work, paneling and the like (collectively, "Leasehold Improvements"), shall, at Landlord's election, either be removed by Tenant or shall become the property of Landlord and shall remain upon, and be surrendered with, the Premises at the end of the Term hereof; provided, however, that if Landlord, by Notice to Tenant given at the time Landlord approves any Alteration, requires Tenant to remove any such Leasehold Improvements, Tenant shall repair all damage resulting from such removal or, at Landlord's option, shall pay to Landlord the cost of such removal, as reasonably estimated by Landlord, prior to the expiration of the Term of this Lease. All articles of personal property and all business and trade fixtures, cabling, machinery and equipment, furniture and movable partitions owned by Tenant or any other Tenant Party or that are installed by or for Tenant or any other Tenant Party at its expense in the Premises (collectively, "Tenant's Personal Property") shall be and remain the property of Tenant and shall be removed by Tenant prior to the expiration of the Term, and Tenant shall repair all damage to the Premises, if any, resulting from such removal. If Tenant shall fail to remove any of the foregoing from the Premises prior to termination of this Lease for any cause whatsoever, Tenant shall be deemed to be holding over in the Premises without the consent of Landlord and Landlord may, at its option, remove the same in any manner that Landlord shall choose, and store the same without liability to Tenant for loss thereof. In such event, Tenant agrees to pay to Landlord upon demand, any and all expenses incurred in such removal (including court costs and attorneys' fees) and storage charges thereon, for any length of time that the same shall be in Landlord's possession or control. Landlord may, at its option, without Notice, sell such property, or any of the same, at a private sale and without legal process, for such price as Landlord may obtain and apply the proceeds of such sale to any amounts due under this Lease from Tenant to Landlord and/or to all expenses, including attorneys' fees and costs, incident to the removal and/or sale thereof.

ARTICLE 16

REPAIRS

16.1 Tenant Obligations. Tenant shall, when and if needed, at Tenant's sole cost and expense and subject to Article 15 above, make all repairs to the Premises and every part thereof to maintain the Premises in the condition and repair that existed as of the Commencement Date, reasonable wear and tear and casualty damage excepted, and free from any Hazardous Materials. Except as expressly set forth in Section 16.2 below, all Supplemental Equipment and all Building Systems located within and exclusively serving the Premises shall be maintained, repaired and replaced as needed by Tenant at Tenant's sole cost and expense and Landlord shall have no liability for the operation, repair, maintenance or replacement of any Supplemental Equipment, nor shall Landlord have any liability for the operation, repair or maintenance of any Building Systems located within and/or exclusively serving the Premises. "Supplemental Equipment" means any items that are installed within the Premises by or at the direction of Tenant or that exclusively serve the Premises (other than standard Building Systems), including, without limitation: (A) any supplemental, specialty or non-Building standard electrical (including lighting), mechanical, plumbing, heating, ventilation and air conditioning systems, fixtures and equipment; (B) any supplemental, specialty or non-Building standard fire, life, safety or security systems, fixtures and equipment; and (C) all video, audio, communications or computer systems, fixtures and equipment (including cabling). Without limiting the foregoing, Tenant shall maintain, at its sole cost and expense, a contract for the regular maintenance and repair of the heating, ventilation and air conditioning systems, fixtures and equipment located within and/or exclusively serving the Premises.

16.2 Landlord Obligations. Landlord shall maintain, repair and replace the structural portions of the Building (including, without limitation, the roof structure, roof membrane, slab and exterior walls) outside of the Premises, the Parking Area and the Building Systems (other than Building Systems and/or components thereof located within and/or exclusively serving the Premises), and the costs incurred by Landlord in performing such maintenance, repairs and replacements shall be included in Operating Expenses (except to the extent expressly excluded pursuant to Section 6.1 above). For purposes of clarification, Landlord shall have no obligation to repair, maintain or replace any part of the Premises, any Building Systems located within and/or exclusively serving the Premises or any Supplemental Equipment. Landlord shall not be liable for any failure to make any repairs or replacements or to perform any

maintenance to the extent that the need for such repairs, replacements or maintenance is caused by the negligence or willful misconduct of any Tenant Party. Except as provided in Articles 23 and 24 hereof, there shall be no abatement of Rent and no liability of Landlord by reason of any injury to or interference with Tenant's business arising from the making of any repairs, alterations, improvements or replacements in or to any portion of the Building or the Premises or in or to fixtures, appurtenances and equipment therein. Tenant waives the right to make repairs and replacements at Landlord's expense under any Law now or hereafter in effect including Section 1941 and 1942 of the California Civil Code (as the same may be amended from time to time) and any successor statute and similar Law now or hereafter in effect.

ARTICLE 17

LIENS

Tenant shall not cause or permit to be filed against the Premises, the Building or the Project or of any portion thereof or against Tenant's leasehold interest in the Premises any mechanics', materialmen's or other liens, including without limitation any state, federal or local "superfund" or Hazardous Materials cleanup lien imposed as a result of the presence of Hazardous Materials in, on or about the Premises, the Building or any other portion of the Project. Landlord shall have the right at all reasonable times to post and keep posted on the Premises any notices that it deems necessary for protection from such liens. Tenant shall discharge any lien filed against the Premises or against the Building for work claimed to have been done for, or materials claimed to have been furnished to, Tenant, by bond or otherwise, within ten (10) business days after the filing thereof, at the cost and expense of Tenant. If any such liens are filed and Tenant fails to discharge them pursuant to the foregoing sentence, Landlord may, without waiving its rights and remedies based on such breach of Tenant and without releasing Tenant from any of its obligations hereunder, cause such lien(s) to be released by any means it shall deem proper, including payments in satisfaction of the claim giving rise to such lien or by obtaining a corporate statutory mechanic's lien release bond in an amount equal to one hundred fifty percent (150%) of such lien claim. Tenant shall: (a) pay to Landlord, immediately upon Notice from Landlord, any cost or expense, including, without limitation, attorneys' fees and costs, incurred by Landlord by reason of Tenant's failure to discharge any such lien, together with interest thereon at the maximum rate per annum permitted by Law from the date of such payment by Landlord and (b) shall indemnify, defend and hold the Landlord Indemnified Parties harmless from and against any liens.

ARTICLE 18

ENTRY BY LANDLORD

Landlord reserves and shall upon at least twenty-four (24) hours prior notice to Tenant (except in the case of an emergency) have the right to enter the Premises during Tenant's normal business hours (except in the case of an emergency, in which case such entry may be at any time) to supply any service to be provided by Landlord to Tenant hereunder, to inspect the same, to show the Premises to prospective purchasers, lenders, or investors and during the last twelve (12) months of the Term or following a default by Tenant to prospective tenants, to post notices of non-responsibility, to alter, improve or repair the Premises or any other portion of the Building and/or the Project, as provided in Section 2.4 above, or for any other reasonable purpose, all without being deemed guilty of any eviction of Tenant and without abatement of Rent. Landlord may, in order to carry out such purposes, erect scaffolding and other necessary structures where reasonably required by the character of the work to be performed, provided that the business of Tenant shall be interfered with as little as is reasonably practicable. Tenant hereby waives any claim for damages for any injury or inconvenience to or interference with Tenant's business, for any loss of occupancy or quiet enjoyment of the Premises and for any other loss in, upon and about the Premises, the Building or the Project on account of Landlord's entry or work permitted by this Article 18 or by Section 2.4 above. Landlord shall at all times have and retain a key with which to unlock all doors in the Premises, excluding Tenant's vaults and safes. Landlord shall have the right to use any and all means that Landlord may deem proper to open said doors in an emergency in order to obtain entry to the Premises. Any entry to the Premises obtained by Landlord by any of said means, or otherwise, shall not be construed or deemed to be a forcible or unlawful entry into the Premises, or an eviction of Tenant from the Premises or any portion thereof, and any damages caused on account thereof shall be paid by Tenant. Landlord shall use commercially reasonable efforts to minimize any interference with Tenant's business in connection with any entry onto the Premises pursuant to this Article 18.

ARTICLE 19

UTILITIES AND SERVICES

19.1 Premises Utilities. Notwithstanding anything to the contrary in this Lease, Tenant shall pay for the cost of all water (including the cost to service, repair and replace reverse osmosis, de-ionized and other treated water), electricity, gas, heating, ventilation and air-conditioning ("HVAC"), light, power, telephone, internet service, cable television, other telecommunications and other utilities supplied to the Premises, together with any fees, surcharges and taxes thereon. All such utilities and services provided to the Premises that are separately metered shall be paid by Tenant directly to the supplier of such utilities or services. If any such utility is not separately metered to Tenant, Tenant shall pay Tenant's Percentage of all charges of such utility jointly metered with other premises as Additional Rent or, in the alternative, Landlord may, at its option, monitor the usage of such utilities by Tenant and charge Tenant with the cost of purchasing, installing and monitoring such metering equipment, which cost shall be paid by Tenant as Additional Rent. Landlord may base its bills for utilities on reasonable estimates; provided that Landlord adjusts such billings promptly thereafter or as part of the next Annual Reconciliation to reflect the actual cost of providing utilities to the Premises. In the event that the Building or Project is less than fully occupied during a calendar year, Tenant acknowledges that Landlord may extrapolate utility usage that varies depending on the occupancy of the Building or Project (as applicable) to equal Landlord's reasonable estimate of what such utility usage would have been had the Building or Project, as applicable, been one hundred percent (100%) occupied during such calendar year; provided, however, that Landlord shall not recover more than one hundred percent (100%) of the cost of such utilities. Landlord may, in Landlord's sole and absolute discretion, at any time and from time to time, contract, or require Tenant to contract, for utility services (including generation, transmission, or delivery of the utility service) with a utility service provider(s) of Landlord's choosing. Tenant shall fully cooperate with Landlord and any utility service provider selected by Landlord. Upon at least twenty four (24) hours' prior Notice and only during Tenant's normal business hours, Tenant shall permit Landlord and the utility service provider to have reasonable access to the Premises and the utility equipment serving the Premises, including lines, feeders, risers, wiring, pipes, and meters.

19.2 Janitorial Service. Tenant, at its sole cost and expense, shall enter into an agreement for regular janitorial services for the Premises with a company which is fully bonded and insured and approved by Landlord in its reasonable discretion. Tenant shall keep the Premises at all times in a clean and orderly condition, at Tenant's expense and to the reasonable satisfaction of Landlord. Unless otherwise agreed to by Landlord, no one other than persons approved by Landlord shall be permitted to enter the Premises for the purpose of providing janitorial or cleaning service.

19.3 Landlord Exculpation. Landlord's failure to furnish or cause to be furnished any service which Landlord is required or elects to provide under this Article 19 shall not result in any liability to Landlord. Landlord shall not be responsible or liable for any loss, damage, or expense that Tenant may incur as a result of any change of utility service, including any change that makes the utility supplied less suitable for Tenant's needs, or for any failure, interruption, stoppage, or defect in any utility service. In addition, except as expressly set forth in Section 19.8 below, Tenant shall not be entitled to any abatement or reduction of Rent, no eviction of Tenant shall result from and Tenant shall not be relieved from the performance of any covenant or agreement in this Lease by reason of any such change, failure, interruption, stoppage or defect. In the event of any such failure, interruption, stoppage or defect of a service which Landlord is required to provide hereunder, Landlord shall diligently attempt to cause service to be resumed promptly.

19.4 Limitations on Tenant's Utilities. Tenant shall not, without Landlord's prior written consent, use any device in the Premises (including data processing machines) that will in any way (a) increase the amount of ventilation, air exchange, gas, steam, electricity or water required or consumed in the Premises based upon Tenant's Percentage of the Building or Project (as applicable) beyond the existing capacity of the Building or the Project usually furnished or supplied for the Permitted Use or (b) exceed Tenant's Percentage of the Building's or Project's (as applicable) capacity to provide such utilities or services. If Tenant shall require utilities or services in excess of those usually furnished or supplied for tenants in similar spaces in the Building or the Project by reason of Tenant's equipment or extended hours of business operations, then Tenant shall first procure Landlord's consent for the use thereof, which consent shall not be unreasonably withheld, conditioned or delayed (except that Landlord may condition such consent upon the availability of such excess utilities or services), and Tenant shall pay as Additional Rent an amount equal to the cost of providing such excess utilities and services.

19.5 Common Area Water. Landlord shall provide water in the Common Area for, to the extent applicable, lavatory and landscaping purposes only, which water shall be from the local municipal or similar source; provided, however, that if Landlord reasonably determines that Tenant requires, uses or consumes water provided to the Common Area for any purpose other than ordinary lavatory purposes, Landlord may install a water meter ("Tenant Water Meter") and thereby measure Tenant's water consumption for all purposes. Upon such determination by Landlord, Tenant shall pay Landlord for the costs of any Tenant Water Meter and the installation and maintenance thereof during the Term. If Landlord installs a Tenant Water Meter, Tenant shall pay for water consumed, as shown on such meter, as and when bills are rendered. If Tenant fails to timely make such payments, Landlord may pay such charges and collect the same from Tenant. Any such costs or expenses incurred or payments made by Landlord for any of the reasons or purposes stated in this Section shall be deemed to be Additional Rent payable by Tenant and collectible by Landlord as such.

19.6 Energy Tracking. Within ten (10) business days following Landlord's written request therefor, Tenant shall deliver to Landlord copies of any invoices for utility services provided to the Premises and related information reasonably requested by Landlord in connection with the requirements of California Public Resources Code Section 25402.10, the corresponding regulations adopted by the California Energy Commission and provided in California Code of Regulations, Title 20, Division 2, Chapter 4, Article 9, Sections 1680-1684, and any supplemental and/or successor statute or regulations concerning the reporting of energy usage and efficiency relative to commercial buildings. Tenant acknowledges that any utility information for the Premises, the Building and the Project may be shared with third parties, including Landlord's consultants and Governmental Authorities. In addition to the foregoing, Tenant shall comply with all applicable Laws related to the disclosure and tracking of energy consumption at the Premises. The provisions of this Section shall survive the expiration or earlier termination of this Lease.

19.7 Reservation of Rights. Landlord reserves the right, upon Notice to Tenant (except in the event of an emergency, in which case no notice shall be required), to temporarily stop service of the plumbing, ventilation, air conditioning and utility systems, when Landlord deems necessary or desirable, due to accident, emergency or the need to make repairs, alterations or improvements, until such repairs, alterations or improvements shall have been completed, and Landlord shall further have no responsibility or liability for failure to supply plumbing, ventilation, air conditioning or utility service when prevented from doing so by Force Majeure (as defined in Section 36.8 below). Without limiting the foregoing, it is expressly understood and agreed that any covenants on Landlord's part to furnish any service pursuant to any of the terms, covenants, conditions, provisions or agreements of this Lease, or to perform any act or thing for the benefit of Tenant, shall not be deemed breached if Landlord is unable to furnish or perform the same by virtue of Force Majeure. In the case of all such service interruptions, Landlord shall use commercially reasonable efforts to minimize any interference with Tenant's business.

19.8 Abatement of Rent. In the event that Tenant is prevented from using, and does not use, the Premises or any material portion thereof for more than five (5) consecutive business days as a result of a failure to provide any utilities to the Premises which Landlord is required to provide under this Lease, to the extent within Landlord's sole control (an "Abatement Event"), then Tenant shall give Landlord written Notice of such Abatement Event, and if such Abatement Event continues for an additional five (5) consecutive business days after Landlord's receipt of any such Notice ("Eligibility Period") and Landlord does not diligently commence and pursue to completion the remedy of such Abatement Event, then, except to the extent covered by business interruption or similar insurance carried or required to be carried by Tenant hereunder, Basic Rent shall be abated or reduced, as the case may be, after expiration of the Eligibility Period for such time that Tenant continues to be so prevented from using, and does not use, the Premises or a portion thereof, in the proportion that the rentable area of the portion of the Premises that Tenant is prevented from using, and does not use, bears to the total rentable area of the Premises. If, however, Tenant reoccupies any portion of the Premises during such period, the Basic Rent allocable to such reoccupied portion, based on the proportion that the rentable area of such reoccupied portion of the Premises bears to the total rentable area of the Premises, shall be payable by Tenant from the date Tenant reoccupies such portion of the Premises. Such right to abate Basic Rent shall be Tenant's sole and exclusive remedy at law or in equity for an Abatement Event. Except as expressly provided in this Section 19.8, nothing contained herein shall be interpreted to mean that Tenant is excused from paying Rent due hereunder.

ARTICLE 20

INDEMNIFICATION AND EXCULPATION OF LANDLORD

Tenant shall indemnify, defend and hold harmless the Landlord Indemnified Parties (as defined in Section 22.1.2 below) from and against any and all claims, demands, penalties, fines, liabilities, actions (including, without limitation, informal proceedings), settlements, judgments, damages, losses, costs and expenses (including attorneys' fees and costs) of whatever kind or nature, known or unknown, contingent or otherwise, incurred or suffered by or asserted against such Landlord Indemnified Party (collectively, "Claims") arising from or in connection with, directly or indirectly, (a) any cause whatsoever in the Premises (including, but not limited to, Claims resulting in whole or in part from the ordinary negligence of the Landlord Indemnified Party), except to the extent directly caused by the gross negligence or intentional misconduct of such Landlord Indemnified Party, (b) the presence at or use or occupancy of the Premises or Project by a Tenant Party, (c) any act, neglect, fault or omission on the part of any Tenant Party, or (d) a breach or default by Tenant in the performance of any of its obligations hereunder. Payment shall not be a condition precedent to enforcement of the foregoing indemnity. In case any action or proceeding shall be brought against any Landlord Indemnified Party by reason of any such Claim, Landlord shall provide written notice of such Claim to Tenant and Tenant shall have the right to assume the defense of any Claim with respect to which Landlord is entitled to indemnification hereunder. If Tenant assumes such defense, (i) such defense shall be conducted by counsel selected by Tenant and reasonably approved by Landlord; (ii) Tenant shall have the right to control said defense and shall not be required to pay the fees or disbursements of any counsel engaged by Landlord; and (iii) Tenant shall have the right, without the consent of Landlord, to settle such Claim, but only provided that such settlement involves only the payment of money, does not include an admission of fault or guilt and is subject to a confidential settlement agreement, and Tenant pays all amounts due in connection with or by reason of such settlement. Landlord shall have the right to participate in the defense of such Claim at the expense of Landlord, but Tenant shall have the sole right to control such defense. In no event shall (A) Landlord settle any Claim without the consent of Tenant so long as the Tenant is conducting the defense thereof in accordance with this Lease, or (B) if a Claim is covered by Tenant's insurance, Landlord shall not knowingly take or omit to take any action that would cause the insurer not to defend such Claim or to disclaim liability in respect thereof. Tenant, as a material part of the consideration to Landlord, hereby assumes all risk of damage to property (including, without limitation, any damage to personal property or scientific research, including loss of records kept by Tenant within the Premises (in each case, regardless of whether such damage is foreseeable)) or injury to Tenant or any other Tenant Parties in, upon or about the Premises, the Building, the Parking Area or the Project from any cause whatsoever and hereby waives all Claims (including consequential damages and claims for injury to Tenant's business or loss of income arising out of any loss of use of the Premises, the Building, the Parking Area or the Project or any equipment or facilities therein, or relating to any such damage or destruction of personal property as described in this Section) in respect thereof against each Landlord Indemnified Party, except that which is solely caused by, or solely the result of: (i) any Landlord Default (defined below), (ii) the grossly negligent acts of such Landlord Indemnified Party, or (iii) the willful misconduct of such Landlord Indemnified Party. Except to the extent arising from the gross negligence or willful misconduct of Landlord, Landlord shall not be liable for any damages arising from any act, omission or neglect of any other tenant in the Building or the Project, or of any other third party. Without limitation on other obligations of Tenant that survive the expiration of the Term, the clauses of this Article 20 shall survive the expiration or earlier termination of this Lease until all Claims against the Landlord Indemnified Parties involving any of the indemnified matters are fully, finally, and absolutely barred by the applicable statutes of limitations.

ARTICLE 21

DAMAGE TO TENANT'S PROPERTY

Notwithstanding the provisions of Article 20 or anything to the contrary in this Lease, no Landlord Indemnified Party shall be liable for loss or damage to any property by theft or any other cause whatsoever, any injury or damage to persons or property resulting from fire, explosion, falling plaster, steam, gas, electricity, electrical or electronic emanations or disturbance, water, rain or leaks from any part of the Building or from the pipes, or caused by dampness, vandalism, malicious mischief or by any other cause of whatever nature, unless caused by or due to the gross negligence or willful misconduct of such Landlord Indemnified Party. In no event shall any Landlord Indemnified Party be liable for any loss, the risk of which is covered by Tenant's insurance or is required to be so covered by this Lease; nor shall any Landlord Indemnified Party be liable for any such damage caused by other persons in the Building or caused by operations in construction of any private, public, or quasi-public work; nor shall any Landlord Indemnified Party be

liable for any latent defect in the Premises or in the Building. Tenant shall immediately give Notice to Landlord in case of the occurrence of any fire or accidents in or about the Premises, the Building or any other portion of the Project of which Tenant has actual knowledge, or the discovery of any defects therein (including, without limitation, any latent defect in the Premises) or in any fixtures or equipment that are the property of Landlord or Tenant.

Without limiting the foregoing, Tenant acknowledges that safety and access control devices, services and programs provided by Landlord, if any, while intended to deter crime and ensure safety, may not in given instances prevent theft or other criminal acts, or ensure safety of persons or property. Landlord shall not be liable for injuries or losses caused by criminal acts of third parties, and the risk that any safety or access control device, service or program may not be effective, or may malfunction, or be circumvented by a criminal, is assumed by Tenant with respect to Tenant's property and interests, and Tenant shall obtain insurance coverage to the extent Tenant desires protection against such criminal acts and other losses, as further described in Article 22. Tenant agrees to cooperate in any reasonable safety or security program developed by Landlord or required by Law.

ARTICLE 22
INSURANCE

22.1 Tenant's Insurance. Tenant shall, during the Term hereof (and during any period that Tenant may enter, occupy and/or use the Premises prior to the Commencement Date and any holdover period), at its sole cost and expense, keep in full force and effect the following insurance:

22.1.1. Property insurance insuring against any perils included within the classification "All Risk," including, without limitation, fire, windstorm, cyclone, tornado, hail, explosion, riot, riot attending a strike, civil commotion, aircraft, vehicle, smoke damage, vandalism, malicious mischief and sprinkler leakage, excluding damage from earth movement, nuclear hazards, war, flood and earthquakes. Such insurance shall insure all property owned by Tenant or any other Tenant Party, for which Tenant or any other Tenant Party is legally liable or that was installed at the expense of Tenant or any other Tenant Party, and which is located in the Building, including, without limitation, furniture, furnishings, installations, fixtures and equipment, any other personal property, and in addition, all improvements and betterments to the Premises, including all Leasehold Improvements, in an amount not less than one hundred percent (100%) of the full replacement cost thereof. For the purposes of this Section 22.1.1, the Premises shall consist of the floor area shown in the Outline of Premises, consisting of the cubic space spanning from the floor slab to the bottom surface of the floor slab of the floor immediately above the Premises ("Upper Slab"), without any offsets or deductions that are included for the Permitted Use of Tenant. Such cubic space shall include the plenum space which is bounded by the lower surface of the Upper Slab and the suspended ceiling of the Premises. In the event that there shall be a dispute as to the amount that comprises full replacement cost, the decision of Landlord or any mortgagees of Landlord shall be conclusive. Such policy shall name Landlord, any mortgagees of Landlord and any other additional parties designated by Landlord as loss payees, as their respective interests may appear.

22.1.2. Commercial General Liability Insurance insuring Tenant on the current ISO CG 00 01 occurrence form or any equivalent reasonably acceptable to Landlord against any liability arising out of the lease, use, occupancy or maintenance of the Premises, the Building or the Project, or any portion of the foregoing. Such insurance shall be in the following minimum limits: $2,000,000 per occurrence and $2,000,000 in the aggregate and shall be endorsed to have the aggregate apply on a per location/per project basis and shall cover injury (including mental anguish) to or death of one or more persons and damage to tangible property (including loss of use) including blanket contractual liability, broad form property damage (including coverage for explosion, collapse and underground hazards), $1,000,000 personal & advertising injury, and $2,000,000 Products Completed Operations. The policy shall not include any exclusions or limitations other than those incorporated in the standard form. The policy shall insure the hazards of the Premises and Tenant's operations thereon, Tenant's independent contractors and Tenant's contractual liability (including, without limitation, the indemnity contained in Article 20 hereof) and shall: (i) name Landlord (Wateridge Property Owner, LP); SB LWR Investors, LLC; the Property Manager; any additional entity Landlord may designate from time to time; and their respective partners, parents, affiliates, divisions and subsidiaries, and each of their respective directors, officers, principals, partners, shareholders, members, managing members, agents, employees, successors and assigns (together with Landlord, collectively, "Landlord Indemnified Parties") as additional insureds; and (ii) include coverage for cross liability claims between Named Insureds (i.e., "Named Insured vs. Named Insured" Cross Liability Coverage Endorsement if required for coverage and no exclusion for cross liability claims between Named Insureds). Such

insurance shall indicate that defense costs shall be outside of the policy limits, and shall not contain any exclusions or restrictions applicable to operations of the type contemplated by this Lease. In addition to any insurance required of Tenant, Tenant shall secure, pay for and maintain or cause Tenant's contractors and sub-contractors to secure, pay for and maintain insurance during any construction or work to the Premises performed by or on behalf of Tenant at a minimum equal to the limits of liability required by Tenant. Tenant's products and completed operations insurance shall be maintained for a minimum period equal to the greater of (i) the period under which a claim can be asserted under any applicable statutes of limitations and/or repose or (ii) three (3) years after Substantial Completion of the Tenant Improvements. Tenant's contractual liability insurance shall include coverage sufficient to meet the indemnity obligations included herein.

22.1.3. Worker's Compensation Insurance in compliance with statutory requirements of the state(s) in which the employee resides, is hired and in which this Lease takes place, which insurance shall apply to all persons employed by Tenant, and Employer's Liability insurance in amounts not less than $1,000,000 per accident, $1,000,000 per disease, and $1,000,000 disease-policy limit.

22.1.4. Business interruption insurance and extra expense coverage on ISO coverage form CP 00 30 or equivalent reasonably acceptable to Landlord, which shall cover Tenant's monetary obligations under this Lease and any direct or indirect loss of earnings attributable to perils insured against in Section 22.1.1 above for a period of at least twelve (12) months. If Tenant fails to obtain business interruption insurance, it is understood and agreed upon that Tenant is fully responsible for its own business interruption exposure whether insured or not.

22.1.5. Comprehensive Automobile Liability Insurance including coverage for all owned, leased, hired and non-owned vehicles with a minimum combined single limit of $1,000,000 per occurrence for bodily injury and property damage liability.

22.1.6. Umbrella/Excess Liability Insurance policy with a per occurrence and annual aggregate limit of $5,000,000 per location/project. The limits of liability required in Section 22.1.2 above for Commercial General Liability can be provided in a combination of a Commercial General Liability policy and an Umbrella Liability policy. Coverage shall be in excess of Commercial General Liability, Auto Liability and Employers' Liability insurance with such coverage being on a follow form basis, concurrent to and not more restrictive than underlying insurance. Tenant shall, by specific endorsement to its Umbrella/Excess Liability policy, cause the coverage afforded to the Landlord Indemnified Parties thereunder to be first tier umbrella/excess coverage above the primary coverage afforded to the Landlord Indemnified Parties as set forth in this Lease and not concurrent with or excess to any other valid and collectible insurance available to the Landlord Indemnified Parties whether provided on a primary or excess basis. It is the specific intent of the parties that Tenant procure the excess carriers' agreement to waive and/or forego any viable "horizontal exhaustion" rights it might have in regard to any insurance any Landlord Indemnified Party might carry for its own benefit or on behalf of any other Landlord Indemnified Party.

22.1.7. If Tenant sells or dispenses alcoholic beverages as part of its business, Liquor Liability Insurance with limits of not less than $5,000,000 per occurrence; provided the foregoing shall not be required with respect to consumption of alcoholic beverages in the Premises by Tenant, its employees, or invitees.

22.1.8. Medical malpractice insurance at limits of not less than $1,000,000 each claim during such periods, if any, that Tenant engages in the practice of medicine at the Premises.

22.1.9. Pollution Legal Liability insurance if Tenant stores, handles, generates or treats Hazardous Materials, as reasonably determined by Landlord, on or about the Premises. Such coverage shall include bodily injury, sickness, disease, death or mental anguish or shock sustained by any person; property damage including physical injury to or destruction of tangible property including the resulting loss of use thereof, clean-up costs, and the loss of use of tangible property that has not been physically injured or destroyed; and defense costs, charges and expenses incurred in the investigation, adjustment or defense of claims for such compensatory damages. Coverage shall apply to both sudden and non-sudden pollution conditions including the discharge, dispersal, release or escape of smoke, vapors, soot, fumes, acids, alkalis, toxic chemicals, liquids or gases, waste materials or other irritants, contaminants or pollutants into or upon land, the atmosphere or any watercourse or body of water. Claims-made coverage is permitted, provided the policy retroactive date is continuously maintained prior to the Commencement Date (or such earlier date that Tenant

has access to the Premises), and coverage is continuously maintained during all periods in which Tenant occupies the Premises. Coverage shall be maintained with limits of not less than $1,000,000 per incident with a $2,000,000 policy aggregate.

22.1.10. Any other form or forms of insurance as Tenant or Landlord or any mortgagees of Landlord may reasonably require from time to time in form, in amounts and for insurance risks against which a prudent tenant would protect itself.

22.1.11. Tenant may place all or any of the foregoing insurance coverages under blanket insurance policies carried by Tenant provided that no other loss which may also be insured by such blanket insurance shall affect the insurance coverages required hereby and so long as such policy complies with the amount of coverage required hereunder and otherwise provides the same protection as would a separate policy insuring only Tenant's insurance obligations in compliance with the provisions of Section 22.1 hereof. In addition, Tenant shall deliver to Landlord a certificate specifically stating that such coverages apply to Landlord, the Premises, the Building and the Project.

22.1.12. If Tenant shall hire or bring a vendor or contractor onto the Premises to perform any alterations, work or improvements, Tenant agrees to have a written agreement with such vendor or contractor whereby such vendor or contractor will be required to carry the same insurance coverages for Commercial General Liability, Auto and Worker's Compensation, Employer's Liability and Pollution Legal Liability insurance as required of Tenant herein. Tenant shall also require that such vendor's or contractor's insurance meet the same additional terms as required of Tenant herein with regards to adding the Landlord Indemnified Parties and all mortgagees as additional insureds, maintaining primary and non-contributory coverage, waiving all rights of recovery and subrogation, and making certificates of insurance available as evidence of all policies during the term of their work and in advance of all applicable renewals. Tenant shall not allow any vendors or contractors to begin work prior to obtaining certificates evidencing all insurance requirements contained herein.

22.2 Standard of Insurance. All policies shall be written in a form satisfactory to Landlord, and the Commercial General Liability, Comprehensive Automobile Liability, Umbrella/Excess Liability, Liquor Liability (if applicable) and Pollution Legal Liability policies required under Section 22.1 shall name all Landlord Indemnified Parties as additional insureds on a primary and non-contributory basis. In addition, if Tenant places any such required coverages under a blanket insurance policy as set forth in Section 22.1.11, the blanket policy shall name all Landlord Indemnified Parties as additional insureds on a primary and non-contributory basis. All insurance policies required under Section 22.1 shall be issued by companies authorized to do business in the State of California with an A.M. Best's Rating of at least A-/VIII. No deductibles or Self-Insured Retention ("SIR") of Tenant shall exceed $25,000 without Landlord's prior written approval. All deductibles and SIR are the responsibility of Tenant and must be shown on the certificate of insurance. On or before the date which is ten (10) days after the execution of this Lease, and prior to or on the renewal of such policies thereafter, Tenant shall deliver to Landlord copies of policies or certificates evidencing the existence of the amounts and forms of coverage satisfactory to Landlord. No such policy shall be cancelable or reducible in coverage except after thirty (30) days prior Notice to Landlord. Any insurance limits required by this Lease are minimum limits only and not intended to restrict the liability imposed on any Tenant for liability under this Lease. Tenant shall, within thirty (30) days prior to the expiration of such policies, furnish Landlord with renewals or "binders" thereof, or Landlord may order such insurance and charge the cost thereof to Tenant as Additional Rent. If Landlord obtains any insurance that is the responsibility of Tenant under this Article 22, Landlord shall deliver to Tenant a written statement setting forth the cost of any such insurance and showing in reasonable detail the manner in which it has been computed and Tenant shall remit said amount to Landlord within ten (10) business days.

22.3 Landlord Insurance.

22.3.1. During the Term of this Lease, Landlord shall insure the Building and the Parking Areas (to the extent Landlord is the owner thereof) (excluding any property which Tenant is obligated to insure under Sections 22.1 and 22.2 hereof) against damage with All-Risk insurance (which may, but shall not be required to, insure against earthquake damage) and public liability insurance, all in such amounts and with such deductibles as Landlord considers appropriate. Landlord may, but shall not be obligated to, obtain and carry any other form or forms of insurance as Landlord or Landlord's mortgagees may determine advisable. Notwithstanding any contribution by Tenant to the cost

of insurance premiums, as provided herein, Tenant acknowledges that it has no right to receive any proceeds from any insurance policies carried by Landlord.

22.3.2. If any of Landlord's insurance policies shall be canceled or cancellation shall be threatened or the coverage thereunder reduced or threatened to be reduced in any way because of Tenant's specific use of the Premises or any part thereof by Tenant or any assignee or subtenant of Tenant or by anyone Tenant permits on the Premises and, if Tenant fails to remedy the condition giving rise to such cancellation, threatened cancellation, reduction of coverage, threatened reduction of coverage, increase in premiums, or threatened increase in premiums, within forty-eight (48) hours after Notice thereof, Landlord may, at its option, but without any obligation so to do, enter upon the Premises and attempt to remedy such condition, and Tenant shall promptly pay the cost thereof to Landlord as Additional Rent.

22.4 Subrogation Waivers.

22.4.1. **Subrogation Waiver – Policies Other than Property Insurance**. Tenant hereby waives all rights against the Landlord Indemnified Parties, Landlord's contractors (and their subcontractors of every tier), and their respective employees and agents, for any claims that arise from Tenant's work or activities and for recovery of damages under Tenant's insurance policies required under Section 22.1 or any other insurance policy carried by Tenant related to the Premises or this Lease (excluding Tenant's property insurance, which is addressed hereunder in Section 22.4.2). Tenant shall obtain an endorsement effecting the foregoing waiver with respect to its workers compensation and employers liability insurance. If any other policy implicated by the waiver in this Section 22.4.1 does not allow Tenant to waive rights of recovery against others prior to a loss, Tenant shall obtain an endorsement effecting the applicable waiver.

22.4.2. **Subrogation Waiver – Property Insurance**. Landlord and Tenant waive all rights against each other for damages caused by fire or other causes of loss occurring on and after the date on which this Lease is executed to the extent such damages are covered (or are required to be covered) by any property insurance required under this Article 22 (including business income and loss of rent insurance) or otherwise carried by such party in relation to the Premises, the Building or the Project, regardless of whether such insurance is specifically required under this Lease. Tenant's waiver in this Section 22.4.2 also extends to the Landlord Indemnified Parties. Each party shall obtain an endorsement pursuant to which its insurers waive their subrogation rights against the parties specified in this Section 22.4.2. If a property insurance policy implicated by the waiver in this Section 22.4.2 does not allow the insured to waive rights of recovery against others prior to a loss, the insured shall cause the policy to be endorsed to provide for such waiver. The waivers in this Section 22.4.2 will be effective as to a person or entity even though that person or entity would otherwise have a duty of indemnification, did not pay the insurance premium directly or indirectly, or did not have an insurable interest in the property damaged. To the extent that either party self-insures for its insurance obligations under this Lease (e.g., maintains a deductible amount), such party shall be treated as an independent insurer with full waiver of subrogation.

ARTICLE 23
DAMAGE OR DESTRUCTION

23.1 Damages. If the Building and/or the Premises are damaged by fire or other perils covered by Landlord's insurance, Landlord shall:

23.1.1. In the event of one hundred percent (100%) destruction of the Premises ("Total Destruction"), at Landlord's option, as soon as reasonably possible thereafter, commence repair, reconstruction and restoration of the Building and/or the Premises and prosecute the same diligently to completion, in which event this Lease shall remain in full force and effect; provided, however, that (a) Landlord may elect by Notice to Tenant given within ninety (90) days after such destruction not to repair, reconstruct or restore the Building and/or the Premises, in which case, this Lease shall terminate as of the date of such Total Destruction, and (b) if such repair, reconstruction and restoration cannot reasonably be expected to be completed within two hundred seventy (270) days after such Total Destruction Tenant shall have the right to terminate this Lease upon written notice to Landlord delivered within thirty (30) days after such destruction.

23.1.2. In the event of a partial destruction of the Building and/or the Premises and if the damage thereto is such that the Building and/or the Premises is capable of being repaired, reconstructed or restored within a period of ninety (90) days from the date of Landlord's discovery of such damage, and if Landlord will receive insurance proceeds sufficient to cover the total cost of such repairs, reconstruction or restoration, Landlord shall commence and proceed diligently with the work of repairs, reconstruction and restoration of the Building and/or the Premises or both, as the case may be, and this Lease shall continue in full force and effect. If such work of repair, reconstruction and restoration shall require a period longer than ninety (90) days or exceeds twenty-five percent (25%) of the full replacement cost of the Building and/or the Premises, or both, as the case may be, or if insurance proceeds will not be sufficient to cover the cost of such repairs, reconstruction and restoration, then Landlord either may elect to so repair, reconstruct or restore and this Lease shall continue in full force and effect or may elect not to repair, reconstruct or restore and this Lease shall then terminate as of the date of such partial destruction. Under any of the conditions of this Section 23.1.2, Landlord shall give Notice to Tenant of its intention regarding repairs within said ninety (90) day period. If damage is due to any cause other than fire or other peril covered by extended coverage insurance, Landlord may elect to terminate this Lease.

23.1.3. In any case where Landlord elects to repair, restore or reconstruct the Premises following the occurrence of any damage to which this Article 23 applies, then Tenant shall assign to Landlord the proceeds of its property insurance attributable to the Leasehold Improvements. If the cost of restoring the Leasehold Improvements exceeds the amount of the proceeds of Tenant's property insurance that are received by Landlord, Tenant shall promptly pay the amount of such deficiency to Landlord upon demand.

23.2 Termination of Lease. Upon any termination of this Lease under any of the provisions of this Article 23, the parties shall be released without further obligation to the other from the date possession of the Premises is surrendered to Landlord except for items which have therefore accrued and/or are then unpaid or items which expressly survive the expiration or sooner termination of this Lease.

23.3 Rent Abatement. In the event of any casualty, the Rent payable under this Lease shall be abated proportionately with the degree to which Tenant's Permitted Use of the Premises is impaired either during the period of such repair, reconstruction or restoration or until termination of the Lease pursuant to this Article 23, but only to the extent that Landlord is compensated for such loss by the insurance carried or required to be carried pursuant to Section 22.1.4 above. Notwithstanding the foregoing, there shall be no abatement of Rent if such damage is caused primarily by the negligence or intentional wrongdoing of Tenant or any Tenant Party. Tenant shall not be entitled to any compensation or damages for loss in the use of the whole or any part of the Premises and/or any inconvenience or annoyance occasioned by such damage, repair, reconstruction or restoration. If Landlord is obligated to or elects to repair or restore as herein provided, Landlord shall be obligated to repair or restore only those portions of the Building and the Premises which were originally provided at Landlord's expense, and the repair and restoration of items not provided at Landlord's expense shall be the obligation of Tenant.

23.4 Damage Near End of Term. Notwithstanding anything to the contrary contained in this Article 23, if material damage to the Premises occurs during the last twelve (12) months of the Term, either party may elect, no earlier than sixty (60) days after the date of the damage and not later than ninety (90) days after the date of such damage, to terminate this Lease by written notice to the other effective as of the date specified in the notice, which date shall not be less than ten (10) business days nor more than sixty (60) days after the date such notice is given.

23.5 Waiver of Statute. In the event of damage to the Premises and/or the Building, Tenant shall not be released from any of its obligations under this Lease except to the extent and upon the conditions expressly stated in this Article 23. Tenant hereby waives the provisions of California Civil Code Section 1932, Subsection 2, and Section 1933, Subsection 4, and any other statute or court decision relating to the abatement or termination of a lease upon destruction of the Premises and the provisions of this Article 23 shall govern in case of such destruction.

ARTICLE 24

EMINENT DOMAIN

24.1 Permanent Taking. If all of the Premises, or such part thereof as shall substantially interfere with Tenant's Permitted Use and occupancy thereof, shall be taken for any public or quasi-public purpose by any lawful power or authority by exercise of the right of appropriation, condemnation or eminent domain, or sold to prevent such

taking (a "Taking"), either party shall have the right to terminate this Lease by Notice to the other effective as of the date possession is required to be surrendered to said authority. Tenant shall not assert any claim against Landlord or the taking authority for any compensation because of such Taking, and Landlord shall be entitled to receive the entire amount of any award without deduction for any estate or interest of Tenant. If the amount of property or the type of estate taken shall not substantially interfere with the conduct of Tenant's business, Landlord shall be entitled to the entire amount of the award without deduction for any estate or interest of Tenant, Landlord shall restore the Premises to substantially their same condition prior to such partial Taking, and Basic Rent shall be reduced, effective as of the date the condemning authority takes possession, in the same proportion which the Rentable Square Feet of the portion of the Premises so taken bears to the Rentable Square Feet of the entire Premises before the Taking. Nothing contained in this Section 24.1 shall be deemed to give Landlord any interest in any award made to Tenant for the taking of personal property and fixtures belonging to Tenant or for relocation costs and expenses.

24.2 Temporary Taking. Notwithstanding anything to the contrary in Section 24.1 above, in the event of Taking of the Premises or any part thereof for temporary use, (a) this Lease shall be and remain unaffected thereby and Rent shall not abate, and (b) Tenant shall be entitled to receive for itself such portion or portions of any award made for such use with respect to the period of the Taking which is within the Term, provided that if such Taking shall remain in force at the expiration or earlier termination of this Lease, Tenant shall then pay to Landlord a sum equal to the reasonable cost of performing Tenant's obligations under Section 15.2 above and Article 31 below with respect to surrender of the Premises and, upon such payment, shall be excused from such obligations. For purpose of this Article 24, a "temporary" Taking shall be defined as a Taking for a period of two hundred seventy (270) days or less and a "permanent" Taking shall be defined as a Taking for a period of more than two hundred seventy (270) days.

24.3 Waiver of Statute. Tenant (for itself and all others claiming through Tenant) hereby irrevocably waives and releases its rights under Section 1265.130 of the California Code of Civil Procedure.

ARTICLE 25

DEFAULTS AND REMEDIES

25.1 Tenant Default. The occurrence of any one or more of the following events, upon the expiration of any applicable time period, shall constitute a default hereunder by Tenant ("Tenant Default"):

25.1.1. Abandonment of the Premises by Tenant. Notwithstanding the provisions of California Civil Code Section 1951.3, "Abandonment" is defined to include, but not limited to, any absence by Tenant from the Premises for thirty (30) days or longer while in default pursuant to this Section 25.1;

25.1.2. The failure by Tenant to make any payment of Rent or any other payment required to be made by Tenant hereunder, as and when due, where such failure shall continue for a period of three (3) business days after Landlord's delivery of Notice thereof;

25.1.3. The failure by Tenant to obtain and keep in force at all times any insurance Tenant is required to obtain and keep in force under Article 22 where such failure is not cured within three (3) business days after Landlord's delivery of Notice of such failure;

25.1.4. Hypothecation, assignment or other transfer of this Lease or subletting of the Premises, or attempts of such actions in violation of Article 27 of this Lease;

25.1.5. The failure by Tenant to deliver any certificate, instrument or statement that is required to be delivered by Tenant under Article 28, Article 29 or Section 36.16 within the time frames required in Article 28, Article 29 or Section 36.16, as applicable, which Tenant fails to cure within five (5) business days after Landlord's delivery of Notice thereof;

25.1.6. The failure by Tenant to observe or perform any of the express or implied covenants or provisions of this Lease to be observed or performed by Tenant, other than as specified in Sections 25.1.1 – 25.1.5 above or Section 25.1.7 below, where such failure shall continue for a period of thirty (30) days after Landlord's delivery of Notice thereof; provided that if the nature of any such failure is such that more than thirty (30) days are reasonably required for its cure, then no Tenant Default shall be deemed to occur if (and for so long as) Tenant commences the cure of such failure within said thirty (30) day period and thereafter diligently prosecutes such cure to completion within ninety (90) days after Landlord's delivery of Notice thereof; or

25.1.7. The (a) making by Tenant of any general assignment for the benefit of creditors; (b) filing

by or against Tenant of a petition to have Tenant adjudged a bankrupt or a petition for reorganization or arrangement under any Law relating to bankruptcy; (c) appointment of a trustee or receiver to take possession of substantially all of Tenant's assets located at the Premises or of Tenant's interest in this Lease; (d) attachment, execution or other judicial seizure of substantially all of Tenant's assets located at the Premises or of Tenant's interest in this Lease; or (e) Tenant's convening of a meeting of its creditors or any class thereof for the purpose of effecting a moratorium upon or composition of its debts, or any class thereof; provided that no Tenant Default will be deemed to occur under this Section 25.1.7 if (i) any petition described in clause (a) above that filed against (rather than by) Tenant, is dismissed within thirty (30) days) after filing, (ii) in the event any trustee or receiver shall take possession of substantially all of Tenant's assets located at the Premises or Tenant's interest in this Lease, possession of the same is restored to Tenant within thirty (30) days or (iii) any attachment, execution or other judicial seizure described in clause (d) above is discharged within thirty (30) days.

Any Notice from Landlord required hereby shall be in lieu of, and not in addition to, any Notice required under California Code of Civil Procedure Section 1161 regarding unlawful detainer actions or any similar successor statute. Accordingly, Tenant (for itself and all others claiming through Tenant) hereby expressly and irrevocably waives the notice requirements of California Code of Civil Procedure Section 1162 that would otherwise govern notices required under Section 1161, and agrees that any notice provided pursuant to this Section 25.1 shall replace and satisfy any such requirements of Section 1162.

25.2 Landlord Remedies. In the event of any such Tenant Default, in addition to any other remedies available to Landlord at law or in equity, including, without limitation, the remedies available under California Civil Code Section 1951.2 and any successor statute, Landlord shall have the immediate option to terminate this Lease and all rights of Tenant hereunder. In the event that Landlord shall elect to so terminate this Lease then Landlord may recover from Tenant:

25.2.1. The worth at the time of award of any unpaid Rent which had been earned at the time of such termination; plus

25.2.2. the worth at the time of award of the amount by which the unpaid Rent which would have been earned after termination until the time of award exceeds the amount of such Rent loss that Tenant proves could have been reasonably avoided; plus

25.2.3. the worth at the time of award of the amount by which the unpaid Rent for the balance of the Term after the time of award exceeds the amount of such Rent loss that Tenant proves could be reasonably avoided; plus

25.2.4. any other amount necessary to compensate Landlord for all the detriment proximately caused by Tenant's failure to perform Tenant's obligations under this Lease or which in the ordinary course of things would be likely to result therefrom, including but not limited to the cost of recovering possession of the Premises, expenses of reletting, including necessary repair, renovation and alteration of the Premises, reasonable attorneys' fees and any other reasonable costs; and

25.2.5. 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.

As used in Sections 25.2.1 and 25.2.2 above, the "worth at the time of award" is computed by allowing interest at the Default Rate. As used in Section 25.2.3 above, the "worth at the time of award" is computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco ("Discount Rate") at the time of award plus one percent (1%). If the format or components of the Discount Rate are materially changed, or if the Discount Rate ceases to exist, Landlord shall substitute a discount rate which is maintained by the Federal Reserve Bank of San Francisco or similar financial institution and which is most nearly equivalent to the Discount Rate.

25.3 Additional Remedies. If any such Tenant Default occurs, Landlord may utilize the remedy described in California Civil Code Section 1951.4 (which provides landlord may continue the lease in effect after a tenant's breach and abandonment and recover Rent as it becomes due, if tenant has the right to sublet or assign subject to reasonable limitations). Accordingly, in the event of any Tenant Default and abandonment of the Premises by Tenant, if Landlord

does not elect to terminate this Lease on account of such Tenant Default, then Landlord may from time-to-time, without terminating this Lease, enforce all of its rights and remedies under this Lease, including the right to recover all Rent as it becomes due. In the event of the Abandonment of the Premises by Tenant or in the event that Landlord utilizes the remedy described in this Section 25.3 above 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 above, Landlord may from time to time, without terminating this Lease, either recover all Rent as it becomes due or relet the Premises or any part thereof for the Term of this Lease on terms and conditions as Landlord in its sole discretion may deem advisable with the right to make alterations and repairs to the Premises.

If Landlord shall elect to so relet, such reletting shall not relieve Tenant of any obligation hereunder, except that the rents received by Landlord from such reletting shall be applied as follows: (a) first, to the payment of any indebtedness other than Rent due hereunder from Tenant to Landlord; (b) second, to the payment of any cost of such reletting; (c) third, to the payment of the cost of any alterations and repairs to the Premises; (d) fourth, to the payment of Rent due and unpaid hereunder and (e) the residue, if any, shall be held by Landlord and applied to payment of future Rent as the same may become due and payable hereunder. Should that portion of such rents received from such reletting during any month, which is applied to the payment of Rent hereunder, be less than the Rent payable during that month by Tenant hereunder, then Tenant shall pay such deficiency to Landlord immediately upon demand therefor by Landlord. Such deficiency shall be calculated and paid monthly. Tenant shall also pay to Landlord, as soon as ascertained, any costs and expenses, including attorneys' fees, incurred by Landlord in such reletting or in making such alterations and repairs not covered by the rents received from such reletting. During the continuance of a Tenant Default, Landlord shall have the right to market the Premises to potential new tenants and may show the Premises to such potential new tenants during normal business hours.

25.4 Notice of Default. Tenant hereby acknowledges that default by Tenant hereunder, and Landlord's election to prepare and serve a Notice of any such default hereunder (a "Notice of Default"), will cause Landlord to incur costs not contemplated by this Lease, and costs in addition to any costs which may be reimbursed to Landlord by any provision which may be contained herein relative to the payment of interest or late charges on amounts due hereunder. Accordingly, Landlord shall be entitled to reasonable attorneys' fees and all other costs and expenses incurred in the preparation and service of a Notice of Default and consultations in connection therewith, with respect to which Landlord and Tenant agree that Seven Hundred Fifty Dollars ($750.00) is a reasonable minimum sum per such occurrence, whether or not legal action is subsequently commenced in connection with any such default. It is further hereby specifically agreed by and between Landlord and Tenant that any and all such fees and costs shall be deemed Additional Rent hereunder, and may, at the option of Landlord, be included in any Notice of Default hereunder.

25.5 Landlord's Right to Cure. If Tenant should fail to make any payment or perform any of its other obligations hereunder, Landlord, without being under any obligation to do so and without thereby waiving such default, may make such payment and/or remedy such other default for the account of Tenant (and enter the Premises for such purpose): (a) immediately and without notice in the case: (i) of emergency, (ii) of a default by Tenant of its obligations under Section 8.3, Section 15.2 and/or Article 31, (iii) where such default unreasonably interferes with any other tenant in the Building or Project, (iv) a failure to satisfy or otherwise discharge any lien, or (v) where such default will result in the violation of Law or the cancellation of any insurance policy maintained by Landlord and (b) in any other case if such default continues beyond the applicable notice and cure period specified in Section 25.1 above, and thereupon Tenant shall be obligated to, and hereby agrees to pay Landlord, upon demand, all costs, expenses, and disbursements incurred by Landlord in taking such remedial action, together with an amount equal to five percent (5%) thereof for Landlord's overhead and administrative expenses, and the sum of such costs, together with interest thereon at the rate described in Section 5.3 from the date of Landlord's payment thereof, shall be deemed Additional Rent.

25.6 Waiver of Redemption. Tenant (for itself and all others claiming through Tenant) hereby irrevocably waives and releases its rights to redemption and reinstatement under any present or future case law or statutory provision (including, without limitation, Sections 473, 1174 and 1179 of the California Code of Civil Procedure and Section 3275 of the California Civil Code) in the event that Tenant is dispossessed from the Premises for any reason.

25.7 Landlord's Default. Landlord's failure to perform or observe any of its obligations under this Lease shall constitute a default by Landlord under this Lease (a "Landlord Default") only if Landlord, or the Holder (defined below) of any Security Instrument (defined below) covering the Premises, fails to perform obligations required of

Landlord within thirty (30) days after Notice by Tenant to Landlord (and to each Holder pursuant to Section 36.5 below), specifying wherein Landlord has failed to perform such obligations in reasonable detail; provided, however, that if the nature of Landlord's obligation is such that more than thirty (30) days are required for performance, then no Landlord Default shall occur if Landlord commences performance within such thirty (30) day period and thereafter diligently prosecutes the same to completion (or if any Holder of any Security Instrument commences and prosecutes the cure pursuant to Section 36.5 below). In no event shall Tenant be entitled to terminate this Lease by reason of any Landlord Default, and Tenant's remedies shall be limited to an action for monetary damages at law. Without limiting the foregoing, in recognition that Landlord must receive timely payments of Rent and operate the Building and Project, Tenant shall have no right of self-help to perform repairs or any other obligation of Landlord and, except as expressly provided in Articles 23 and 24, shall have no right to withhold, set-off, or abate Rent.

ARTICLE 26

NO WAIVER

All rights, options and remedies of Landlord contained in this Lease shall be construed and held to be cumulative, and not one of them shall be exclusive of the other, and Landlord shall have the right to pursue any one or all of such remedies or any other remedy or relief which may be provided by Law, whether or not stated in this Lease. The waiver by Landlord of any breach of any term, covenant or condition herein contained shall not be deemed to be a waiver of any subsequent breach of the same or any other term, covenant or condition herein contained, nor shall any custom or practice which may grow up between the parties in the administration of the terms hereof be deemed a waiver of or in any way affect the right of Landlord to insist upon the performance by Tenant in strict accordance with said terms. The subsequent acceptance of Rent hereunder by Landlord shall not be deemed to be a waiver of any preceding breach by Tenant of any term, covenant or condition of this Lease, other than the failure of Tenant to pay the particular Rent so accepted, regardless of Landlord's knowledge of such preceding breach at the time of acceptance of such Rent. No acceptance by Landlord of a lesser sum than the Basic Rent and Additional Rent or other sum then due shall be deemed to be other than on account of the earliest installment of such Rent or other amount due, nor shall any endorsement or statement on any check or any letter accompanying any check be deemed an accord and satisfaction, and Landlord may accept such check or payment without prejudice to Landlord's right to recover the balance of such installment or other amount or pursue any other remedy provided in this Lease. Without limiting the foregoing, Tenant (for itself and all others claiming through Tenant) acknowledges that this Article 26 imparts actual notice to Tenant, pursuant to California Code of Civil Procedure Section 1161.1(c), that Landlord's acceptance of partial payment of Rent shall not constitute a waiver of any rights available under this Lease or at law or equity, including, without limitation, the right to recover possession of the Premises.

ARTICLE 27

ASSIGNMENT AND SUBLETTING

27.1 Transfer. Tenant shall not voluntarily or by operation of law: (a) sublease all or any part of the Premises ("Sublease"), (b) assign this Lease ("Assignment"), or (c) enter into any other agreement or arrangement: (i) that permits a third party (other than Tenant's employees and occasional guests) to enter, occupy or use any portion of the Premises or remove any of Tenant's Personal Property therefrom or (ii) otherwise assigns, transfers, mortgages, pledges, hypothecates, encumbers or permits a lien to attach to Tenant's interest under this Lease or in the Premises (each of the foregoing (a), (b) and (c), a "Transfer"), without first obtaining Landlord's prior written consent in accordance with this Article 27. In addition, for purposes of this Lease a "Transfer" (which shall be subject to the provisions of this Article 27) shall also include: (A) a direct or indirect transfer, assignment, pledge, or hypothecation of a Controlling (defined below) interest in Tenant and/or (B) the dissolution of the entity that constitutes Tenant without its immediate reconstitution. "Control" or "Controlling" means possession of the direct or indirect power to direct or cause the direction of the management and policies of a person or entity. No consent to an assignment, encumbrance or sublease shall constitute a waiver of any provision of this Article 27 or consent to any future assignment, encumbrance or transfer. Any Transfer without Landlord's prior written consent shall be voidable at Landlord's election and shall constitute a Tenant Default.

27.2 Transfer Procedure. If Tenant desires to make any Transfer requiring Landlord's consent, then at least thirty (30) days prior to the date when Tenant desires the Transfer to be effective ("Transfer Date") Tenant shall give Landlord a Notice ("Transfer Notice") setting forth: (a) the name, address and business of the person or entity to

which the Transfer is proposed ("Proposed Transferee"); (b) information (including references) concerning the character, ownership and financial condition of the Proposed Transferee; (c) the proposed Transfer Date (which shall not be later than 90 days following the Transfer Notice); (d) any ownership or commercial relationship between Tenant and the Proposed Transferee; and (e) the consideration and all other material terms and conditions of the proposed Transfer, all in such detail as Landlord shall reasonably require. If Landlord reasonably requests additional detail (including, without limitation, financial statements of the proposed Transferee or a current estoppel certificate from Tenant), the Transfer Notice shall not be deemed to have been received until Landlord receives such additional detail, and Landlord may withhold consent to any proposed Transfer until such information is provided to it.

27.3 Recapture. In the event Tenant requests to assign this Lease or sublease fifty percent (50%) or more of the Rentable Square Feet of the Premises for all or substantially all of the remainder of the then-existing Term, then, within thirty (30) days of Landlord's receipt of the Transfer Notice and all information specified in Section 27.2 above, Landlord may, at its option, in its sole and absolute discretion, by Notice to Tenant, elect to terminate this Lease (a) in its entirety in the case of an assignment or (b) as to the portion of the Premises to be sublet in the case of a sublease. If Landlord elects to terminate this Lease as aforesaid, Tenant shall have the right to rescind its request for consent to such assignment or sublease by delivering Notice to Landlord within five (5) business days after delivery of Landlord's recapture notice, in which case, the consent request shall be void and this Lease shall remain in full force and effect. If this Lease shall be terminated pursuant to this Section 27.3, the Term shall end on the Transfer Date as if that date had been originally fixed in this Lease for the expiration of the Term.

27.4 Landlord's Consent; Consent Standards; No Release.

27.4.1. Unless Landlord elects to exercise any of its rights under Section 27.3 above, Landlord shall, by Notice to Tenant, elect to: (a) consent to such proposed Transfer upon the terms and to the Proposed Transferee; or (b) refuse to give its consent to the proposed Transfer. Landlord shall not unreasonably withhold its consent to any Proposed Transfer; provided that, without limiting other situations in which it may be reasonable for Landlord to withhold its consent to any proposed Transfer, it shall be deemed reasonable for Landlord to withhold its consent to any proposed Transfer if Landlord determines in its sole discretion that: (i) the Proposed Transferee does not have sufficient financial strength or stability to perform all obligations under this Lease, and to perform them without any higher risk of default than Tenant; (ii) the intended use of the Premises (or the applicable portion thereof) by the Proposed Transferee is inconsistent or incompatible with other uses in the Building or in the Project; (iii) the intended use of the Premises (or the applicable portion thereof) by the Proposed Transferee will require alteration of the Premises; (iv) the intended use of the Premises (or the applicable portion thereof) by the Proposed Transferee will violate this Lease or any Laws governing the Premises or the Building or Project; (v) the Proposed Transferee has the power of eminent domain, is a Governmental Authority or an agency or subdivision of a foreign government; (vi) either the Proposed Transferee, or any person which directly or indirectly controls, is controlled by, or is under common control with the Proposed Transferee: (A) occupies space in the Project or has negotiated with Landlord or any of its affiliates within the preceding one hundred eighty (180) days (or is currently negotiating with Landlord or any of its affiliates) to lease space in the Building or Project or (B) does not intend to occupy the Premises or the applicable portion thereof; (vii) at the time Tenant delivers the Transfer Notice, there exists an uncured Tenant Default; (viii) the proposed Transfer would cause Landlord to be in violation of another lease or agreement to which Landlord is a party or would give an occupant of the Building or Project a right to cancel or modify its lease; (ix) any ground lessor or mortgagee whose consent to such Transfer is required fails to consent thereto; (x) the use of the Premises (or the applicable portion thereof), the Building or the Project by the Proposed Transferee would, in Landlord's reasonable judgment, significantly increase pedestrian traffic in and out of the Building and/or the Project, generate increased loitering in Common Areas, increase security risk, or require any alterations to the Building or the Project to comply with applicable Laws; (xi) the Proposed Transferee would be a competitor to another tenant in the Building; (xii) the Proposed Transferee has been required by any prior landlord, lender or Governmental Authority to take material remedial action in connection with Hazardous Materials contaminating a property, which contamination resulted from Proposed Transferee's action or omission or use of the property in question; or (xiii) the Proposed Transferee is subject to a material enforcement order issued by any Governmental Authority in connection with the use, disposal or storage of Hazardous Materials.

27.4.2. Tenant further agrees that Landlord may condition its consent to any proposed Transfer upon satisfaction of any of the following conditions: (a) delivery to Landlord of a true copy of a fully executed sublease, assignment of lease or other instrument pursuant to which the applicable Transfer is made ("Transfer Instrument"); (b)

delivery to Landlord of original executed copies (by Tenant and the Transferee (defined below)) of Landlord's form of Consent to Sublease (in the case of a Sublease) or Assignment and Assumption of Lease and Consent (in the case of an Assignment) or other instrument under which Landlord grants consent to the applicable Transfer ("Consent Instrument") and (c) receipt by Landlord of all sums and amounts to which Landlord is entitled under Section 27.5 below. Tenant acknowledges and agrees that any Consent Instrument may, without limitation: (i) in the case of a Sublease or Assignment, require the person or entity to which the Transfer is made ("Transferee") to be bound by all of the terms and provisions of this Lease and to perform all of the obligations of Tenant hereunder applicable to the Premises, or the portion thereof that is the subject of the applicable Transfer; (ii) in the case of an Assignment, include waivers by Tenant of all applicable suretyship defenses, including, but not limited to, those contained in Sections 2787 to 2855, inclusive, of the California Civil Code; and (iii) in the case of a Sublease: (A) provide that such Sublease is subject and subordinate to this Lease to all Security Instruments encumbering the Building or the Project, (B) require the Transferee to, upon demand by Landlord following the occurrence of any Tenant Default, remit directly to Landlord, all monies payable from such Transferee to Tenant in connection with such Sublease and (C) provide that in the event of termination of this Lease for any reason, including without limitation a voluntary surrender by Tenant, or in the event of any reentry or repossession of the Premises by Landlord, Landlord may, at its option, either: (x) terminate the sublease or (y) take over all of the right, title and interest of Tenant, as sublessor, under such sublease, in which case such sublessee shall attorn to Landlord, but that nevertheless Landlord shall not: (1) be liable for any previous act or omission of Tenant under such sublease, (2) be subject to any defense or offset previously accrued in favor of the sublessee against Tenant, or (3) be bound by any previous modification of any sublease made without Landlord's written consent, or by any previous prepayment by sublessee of more than one month's rent.

27.4.3. If Landlord grants its consent to any proposed Transfer described in any Transfer Notice, Tenant may during the thirty (30) days thereafter consummate such Transfer with the Proposed Transferee upon the terms and conditions described in the applicable Transfer Notice; provided, however, that any material change in such terms shall be subject to Landlord's consent as provided in this Article 27. No Assignment or Sublease or other Transfer (whether with or without Landlord's consent) shall relieve Tenant or any assignee or sublessee from any obligation under this Lease whether or not accrued as of the date of the Assignment or Sublease (and, to the extent such Tenant is deemed a surety of an assignee, Tenant hereby waives all applicable suretyship defenses, including, but not limited to, those contained in Sections 2787 to 2855, inclusive, of the California Civil Code.

27.5 Landlord's Costs; Transfer Premiums.

27.5.1. If Tenant requests Landlord's consent to a proposed Transfer under the provisions of this Article 27, Tenant shall, upon demand, reimburse all of Landlord's reasonable expenses, costs and attorneys' fees incurred in connection with processing such request for consent, whether or not Landlord grants consent to such proposed Transfer; provided that such costs and expenses shall not exceed $3,000 per request.

27.5.2. If Landlord consents to a Transfer, Tenant shall pay to Landlord fifty percent (50%) of any rent or other consideration attributable to occupancy realized by Tenant pursuant to such Transfer in excess of (i) the Rent payable by Tenant under this Lease, (ii) any reasonable tenant improvement allowance or other economic concession (e.g., space planning allowance, moving expenses, free or reduced rent periods, etc.) actually incurred by Tenant in connection with such Transfer, (iii) any reasonable advertising costs and brokerage commissions actually incurred by Tenant in connection with such Transfer, and (iv) any reasonable legal fees actually incurred by Tenant in connection with such Transfer. Landlord shall have the right to audit the books, records and papers of Tenant relating to any Transfer, and if the amount of such Additional Rent shall be found understated, Tenant shall immediately pay such deficiency upon demand and, if understated by more than two percent (2%), Tenant shall also pay Landlord's costs of such audit.

27.6 Rights Not Transferable. All: (a) options to extend or renew the Term and/or to expand the Premises, if any, contained in this Lease or any addendum or amendment hereto or letter of agreement; (b) all rights to any signage at the Project in any location outside of the Premises, if any, contained in this Lease or any addendum or amendment hereto or letter of agreement; (c) all rights to above standard (or discounted) parking at the Project, if any, contained in this Lease or any addendum or amendment hereto or letter of agreement; and (d) all rights to receive any above standard services or utilities, if any, contained in this Lease or any addendum or amendment hereto or letter of agreement, are personal to the Original Tenant or a Permitted Transferee, and may not be transferred in connection with any Transfer

or exercised by any Transferee (other than a Permitted Transferee). Consent by Landlord to any Transfer shall not include consent to the assignment or transfer of any such options, rights or privileges (and such options, rights, or privileges shall terminate upon such assignment or subletting), unless Landlord, in its sole and absolute discretion, specifically grants in writing such options, rights, privileges or services to such assignee or subtenant.

27.7 Permitted Transfers. Notwithstanding the foregoing, Tenant may Transfer its interest in this Lease or the Premises to (a) an affiliate of Tenant (an entity which is controlled by, controls, or is under common control with Tenant), (b) an entity which acquires all or substantially all of the assets or interests (partnership, stock or other) of Tenant, or (c) an entity which is the resulting entity of a merger or consolidation of Tenant, provided that (i) the financial condition (including, without limitation, the credit) of such transferee entity is, in Landlord's reasonable judgment, the same or greater than that of the Original Tenant both as of the Effective Date of this Lease and as of the date of the proposed Transfer; (ii) Tenant notifies Landlord of such Transfer at least thirty (30) days prior thereto and promptly thereafter supplies Landlord with any documents or information reasonably requested by Landlord regarding such Transfer or such entity; and (iii) such Transfer is not a subterfuge by Tenant to avoid its obligations under this Lease or otherwise effectuate any "release" by Tenant of such obligations. The condition set forth in clause (i) above shall not be required in the case of a Transfer to an affiliate pursuant to clause (a) above provided that, if a Letter of Credit has not theretofore been delivered to Landlord and such Transfer is reasonably expected to trigger the requirement for a Letter of Credit under Section 7.2 above, then the effectiveness of such Transfer shall be conditioned upon delivery of such Letter of Credit to Landlord; otherwise, Tenant shall deliver reasonable proof to Landlord that such Transfer will not trigger the requirement for a Letter of Credit. A Transfer made in accordance with this Section 27.7 shall be referred to as a "Permitted Transfer" and the transferee shall be referred to as a "Permitted Transferee." "Control," as used in this Section 27.7, shall mean the ownership, directly or indirectly, of more than fifty percent (50%) of the voting securities of, or possession of the right to vote, in the ordinary direction of its affairs, of more than fifty percent (50%) of the voting interest in, any person or entity. No Transfer under this Section 27.7 shall relieve Tenant from any of its obligations under this Lease whether or not accrued as of the date of Transfer.

ARTICLE 28

SUBORDINATION

Without the necessity of any additional documents being executed by Tenant for the purpose of effecting a subordination, and at the election of Landlord, or any current or future mortgagee or holder of deed of trust with a lien on the Building or the Project or any ground lessor with respect to the Building or the Project (each, a "Holder"), this Lease shall be subject and subordinate at all times to: (a) all ground leases or underlying leases which may now exist or hereafter be executed affecting the Building, the Project, or the land upon which the Building and the Project are situated, or both; and (b) the lien of any mortgage or deed of trust which may now exist or hereafter be executed in any amount for which the Building, the Project, the land upon which the Building and the Project are situated, ground leases or underlying leases, or Landlord's interest or estate in any of said items is specified as security (collectively, "Security Instruments"). Notwithstanding the foregoing, Landlord shall have the right to subordinate or cause to be subordinated such ground leases or any such liens to this Lease. In the event that any ground lease or underlying lease terminates for any reason or any mortgage or deed of trust is foreclosed or a conveyance in lieu of foreclosure is made for any reason, Tenant shall, notwithstanding any subordination, attorn to and become the tenant of the successor-in-interest to Landlord, at the option of such successor-in-interest to Landlord. Tenant covenants and agrees to execute and deliver, within ten (10) business days after demand by Landlord therefor, any customary and reasonable documents necessary to evidence the priority or subordination of this Lease with respect to any such Security Instruments, and Landlord shall have the right, but not the obligation, to cause any such additional documents to be recorded in the official records of the county in which the Project is located.

ARTICLE 29

ESTOPPEL CERTIFICATE

29.1 Tenant Estoppel Certificate. Within ten (10) business days following any written request which Landlord may make from time to time, Tenant shall execute and deliver to Landlord a statement, in a form substantially similar to the form of Exhibit "E" attached hereto, and incorporated herein by this reference (a "Tenant Estoppel Certificate") certifying: (a) the Commencement Date of this Lease; (b) that this Lease is unmodified and in full force and effect (or, if there have been modifications hereto, that this Lease is in full force and effect, and stating the date

and nature of such modifications); (c) the date to which the Rent and other sums payable under this Lease have been paid; (d) that to the actual knowledge of Tenant, there are no current defaults under this Lease by Landlord except as specified in Tenant's statement; and (e) such other matters as are reasonably included in such statement by Landlord. Landlord and Tenant intend that any statement delivered pursuant to this Article 29 may be relied upon by any mortgagee, lessor, beneficiary, purchaser or prospective purchaser of the Building or the Project or any interest therein.

29.2 Failure to Deliver. Tenant's failure to deliver such statement within such time shall be conclusive upon Tenant: (a) that this Lease is in full force and effect, without modification except as may be represented by Landlord, (b) that there are no uncured defaults in Landlord's performance, (c) that not more than one (1) month's Rent has been paid in advance and (d) that the statements included in the Tenant Estoppel Certificate are true and correct, without exception. Additionally, any such failure to timely deliver a Tenant Estoppel Certificate shall constitute an immediate Tenant Default hereunder.

ARTICLE 30

INTENTIONALLY OMITTED

ARTICLE 31

SURRENDER OF PREMISES

Upon the expiration or earlier termination of the Term hereof, Tenant shall peaceably surrender the Premises and all Leasehold Improvements therein, excepting only any of the same that are required to be removed in accordance with Section 15.2 above, to Landlord broom-clean, in good order, repair and condition (reasonable wear and tear and casualty damage excepted), with all of Tenant's Personal Property removed and free of any Hazardous Materials, and shall otherwise comply with all of the requirements of Section 15.2 above and Section 41.1 below. The voluntary or other surrender of this Lease by Tenant, or a mutual cancellation thereof, shall not work a merger, and shall, at the option of Landlord, operate as an assignment to it of any or all subleases or subtenancies. The delivery of keys to any employee of Landlord or to Landlord's agent or any employee thereof shall not be sufficient to constitute a termination of this Lease or a surrender of the Premises.

ARTICLE 32

PERFORMANCE BY TENANT

All covenants and agreements to be performed by Tenant under any of the terms of this Lease shall be timely performed by Tenant at Tenant's sole cost and expense and without any abatement of Rent. If Tenant shall fail to pay any sum of money owed to any party other than Landlord, for which it is liable hereunder, or if Tenant shall fail to timely perform any other act on its part to be performed hereunder Landlord may, without waiving or releasing Tenant from obligations of Tenant, but shall not be obligated to, make any such payment or perform any such other act to be made or performed by Tenant pursuant to Section 25.5 above.

ARTICLE 33

PARKING

Beginning on the Commencement Date, Tenant and Tenant's business visitors ("Tenant's Parking Invitees") shall be entitled to use the number of Tenant's Vehicle Parking Spaces set forth in Section 1.8 during the Initial Term, which Tenant's Vehicle Parking Spaces shall be located in the surface parking area of the Project ("Parking Area"). Subject to availability, as determined by Landlord in its sole discretion, Tenant may elect to use up to an additional fifteen (15) parking spaces in the Parking Area by delivery of written notice to Landlord, provided that Landlord delivers a written response thereto indicating the number of spaces, if any, available for Tenant's use and the dates upon which such spaces are available; provided further that Landlord shall have the right to reduce the number of such additional parking spaces at any time upon thirty (30) days' prior notice to Tenant. There shall be no direct charge attributable to Tenant's use of the Parking Area, other than any taxes imposed by any governmental authority in connection with the renting of parking spaces by Tenant or the use of the Parking Area by Tenant. Tenant's continued right to use the Parking Area is conditioned upon Tenant abiding by the Parking Rules and Regulations set forth on Exhibit "G" as amended from time to time for the orderly operation and use of the Parking Area, including any sticker, parking pass or other identification system established by Landlord, Tenant's cooperation in seeing that Tenant's employees and visitors also comply with the Parking Rules and Regulations and Tenant not being in default under this Lease (beyond

any applicable notice and cure periods). Landlord specifically reserves the right to change the size, configuration, design, layout and all other aspects of the Parking Area at any time and Tenant acknowledges and agrees that Landlord may, from time to time, close-off or restrict access to the Parking Area for purposes of permitting or facilitating any such construction, alteration or improvements; provided, however, in connection with any such access restrictions, the same shall be without incurring any liability to Tenant and without any abatement of Rent under this Lease to the extent Landlord provides any reasonably required temporary, alternate parking in close proximity to the Project. Landlord may delegate its responsibilities hereunder to a parking operator in which case such parking operator shall have all the rights of control attributed hereby to Landlord. Any parking passes issued to Tenant pursuant to this Article 33 shall be provided to Tenant solely for use by Tenant's own personnel and such passes may not be transferred, assigned, subleased or otherwise alienated by Tenant without Landlord's prior approval. Tenant may validate visitor parking by such method or methods as Landlord may establish, at the validation rate from time to time generally applicable to visitor parking.

ARTICLE 34

LIMITATION ON LIABILITY

34.1 Landlord's Liability. In consideration of the benefits accruing hereunder, Tenant and all of its successors and assigns covenant and agree that, in the event of any actual or alleged failure, breach or default hereunder by Landlord:

34.1.1. The sole and exclusive remedy shall be against Landlord's interest in the Building and Project;

34.1.2. Intentionally omitted;

34.1.3. No writ of attachment, execution, possession, or sale, will ever be levied against the assets of Landlord, except the Building;

34.1.4. The obligations under this Lease do not constitute personal obligations of any Landlord Indemnified Party (other than Landlord), and Tenant shall not seek recourse against any Landlord Indemnified Party (other than Landlord) or any of their personal assets (other than Landlord's interest in the Building and Project) for satisfaction of any liability in respect to this Lease (and, without limiting the foregoing, neither the negative capital account of any Landlord Indemnified Party, nor any obligation of any Landlord Indemnified Party to restore a negative capital account or to contribute capital to Landlord, shall at any time be deemed to be the property or an asset of Landlord, and neither Tenant nor any of its successors or assigns shall have any right to collect, enforce or proceed against or with respect to any such negative capital account of an Landlord Indemnified Party's obligation to restore or contribute); and

34.1.5. These covenants and agreements are enforceable by Landlord and the other Landlord Indemnified Parties.

ARTICLE 35

CONFIDENTIALITY

Tenant agrees that the terms and conditions of this Lease and any documents or information delivered hereunder are confidential and constitute proprietary information. Disclosure of the terms and conditions hereof or any documents or information delivered hereunder could adversely affect the ability of Landlord to negotiate with other tenants or potential tenants of the Building. Tenant and its partners, officers, members, managers, directors, employees, agents, advisors, representatives and attorneys, shall not disclose the terms and conditions of this Lease or any documents or information delivered hereunder to any other person without the prior written consent of Landlord except (a) pursuant to an order of a court of competent jurisdiction, (b) to its lenders or prospective lenders, (c) to accountants who audit its financial statements or prepare its tax returns, (d) to its attorneys, insurers, to any Governmental Authority or person to whom disclosure is required by applicable Law and (e) in connection with any action brought to enforce the terms of this Lease on account of the breach or alleged breach hereof. In the event that Tenant concludes that it is obligated by Law to disclose the terms of this Lease (e.g., pursuant to a filing with the Securities and Exchange Commission ("SEC") or the New York Stock Exchange), Tenant shall provide written notice to Landlord before any public disclosure,

and the parties shall use their commercially reasonable efforts to cause a mutually agreeable release or announcement to be issued. The foregoing shall not preclude communications or disclosures by Tenant necessary to implement the provisions of this Lease or to comply with the accounting and disclosure obligations of the SEC or the rules of the New York Stock Exchange. If Tenant determines that it is required to file this Lease, a summary thereof, or a notification thereof, and/or descriptions related thereto, to comply with the requirements of an applicable stock exchange, SEC regulation, or any Governmental Authority, including the SEC, Tenant shall use commercially reasonable efforts to provide the maximum amount of advance written notice of any such required disclosure to Landlord with a minimum advance notice period of five (5) business days. Tenant will provide Landlord with a copy of this Lease marked to show provisions for which Tenant intends to seek confidential treatment. Tenant shall reasonably consider and incorporate Landlord's comments thereon to the extent consistent with the legal requirements governing redaction of information from material agreements that must be publicly filed.

ARTICLE 36

MISCELLANEOUS

36.1 Rules and Regulations. Tenant shall faithfully observe and comply with the "Rules and Regulations", a copy of which is attached hereto, marked Exhibit "F", and incorporated herein by this reference ("Rules and Regulations"), and all modifications thereof and additions thereto made from time to time by Landlord. Landlord shall not be responsible to Tenant for the violation or nonperformance by any other tenant or occupant of the Building or the Project of any of said Rules and Regulations.

36.2 Conflict of Laws. This Lease shall be governed by and construed pursuant to the Laws of the State of California (without reference to its conflicts of laws rules or principles).

36.3 Successors and Assigns. Except as otherwise provided in this Lease, all of the covenants, conditions and provisions of this Lease shall be binding upon and inure to the benefit of the parties hereto and their respective heirs, personal representatives, successors and assigns (subject to the restrictions on Tenant's right to assign, sublet or transfer contained in Article 27).

36.4 Professional Fees. If Landlord should bring suit for possession of the Premises, for the recovery of any sum due under this Lease, or because of the breach of any provisions of this Lease, or for any other relief against Tenant hereunder, or in the event of any other litigation between the parties with respect to this Lease, then all reasonable costs and reasonable expenses, including, without limitation, actual professional fees such as appraisers', accountants', and attorneys' fees, incurred by the prevailing party therein shall be paid by the other party, which obligation on the part of the other party shall be deemed to have accrued on the date of the commencement of such action and shall be enforceable whether or not the action is prosecuted to judgment.

36.5 Mortgagee Protection. Tenant shall give Notice to any beneficiary of a deed of trust or mortgage covering the Premises whose address shall have been furnished to Tenant of any default on the part of Landlord under this Lease, and shall offer such beneficiary or mortgagee a reasonable opportunity to cure the default, in no event less than sixty (60) days, including time to obtain possession of the Premises by power of sale or a judicial foreclosure if necessary to effect a cure.

36.6 Definition of Landlord. The term "Landlord", as used in this Lease, so far as covenants or obligations on the part of Landlord are concerned, shall be limited to mean and include only the owner or owners, at the time in question, of the fee title of the Premises or the lessees under any ground lease, if any. In the event of any transfer, assignment or other conveyance or transfers of any such title, the original landlord herein named (and in case of any subsequent transfers or conveyances, the then grantor) shall be automatically freed and relieved from and after the date of such transfer, assignment or conveyance of all liability as respects the performance of any covenants or obligations on the part of Landlord contained in this Lease thereafter to be performed. Without further agreement, the transferee of such title shall be deemed to have assumed and agreed to observe and perform any and all obligations of Landlord hereunder, during its ownership of the Premises. Landlord may transfer its interest in the Premises without the consent of Tenant and such transfer or any subsequent transfer shall not be deemed a violation on Landlord's part of any of the terms and conditions of this Lease.

36.7 Identification of Tenant. If more than one person or entity executes this Lease as Tenant: (a) each of them shall be jointly and severally liable for observing and performing all of the terms, covenants, conditions, provisions and agreements of this Lease to be observed and performed by Tenant, and (b) the term "Tenant" as used in this Lease shall mean and include each of them jointly and severally. The act of or Notice from, or Notice or refund to, or the signature of any one or more of them, with respect to the tenancy of 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 executing this Lease as Tenant with the same force and effect as if each and all of them had so acted, so given or received such Notice or refund, or so signed.

36.8 Force Majeure. Each party shall have no liability whatsoever to the other party on account of any of the following ("Force Majeure"): (a) the inability of such party to fulfill, or any delay in fulfilling, any of its obligations under this Lease by reason of strike, other labor trouble, governmental preemption or priorities or other controls in connection with a national or other public emergency, or shortages of fuel, supplies or labor resulting therefrom, governmental or permitting delays, inclement weather, casualty, pandemic (including, without limitation, the COVID-19 pandemic), earthquake, war, riot, civil commotion, terrorism or any other cause, whether similar or dissimilar to the above, beyond such party's reasonable control (financial condition excepted); or (b) any failure or defect in the supply, quantity, character, or maintenance of electricity, water, intrabuilding network telephone and data cable service, or other service furnished to the Premises by reason of any requirement, act or omission of the public utility or others furnishing the Building with such service, or for any other reason, whether similar or dissimilar to the above, beyond such party's reasonable control. If this Lease specifies a time period for performance of an obligation of such party, that time period shall be extended by the period of any delay in such party's performance caused by any of the events of Force Majeure described above. Notwithstanding the foregoing, nothing in this Section 36.8 shall relieve Tenant from the obligation to pay any Rent or extend the time for payment of any Rent.

36.9 Terms and Headings. The words "Landlord" and "Tenant" as used herein shall include the plural as well as the singular. Words used in any gender include other genders. The Article and Section headings of this Lease are not a part of this Lease and shall have no effect upon the construction or interpretation of any part hereof.

36.10 Examination of Lease. Submission of this instrument for examination or signature by Tenant does not constitute a reservation of or option for lease, and it is not effective as a lease or otherwise until execution by and delivery to both Landlord and Tenant.

36.11 Time. Time is of the essence with respect to the performance of every provision of this Lease in which time is a factor.

36.12 Prior Agreement; Amendments. This Lease contains all of the agreements of the parties hereto with respect to any matter covered or mentioned in this Lease, and no prior agreement or understanding pertaining to any such matter, written or verbal, shall be effective for any purpose. No provisions of this Lease may be amended or added to except by an agreement in writing signed by the parties hereto or their respective successors-in-interest.

36.13 Severability. Any provision of this Lease which shall prove to be invalid, void or illegal shall in no way affect, impair or invalidate any other provision hereof, and such other provisions shall remain in full force and effect.

36.14 Recording. Tenant shall not record this Lease or a short form memorandum hereof without the consent of Landlord (in its sole and absolute discretion), which consent may be conditioned upon Tenant's delivery to Landlord of a fully executed quitclaim releasing Tenant's interest in the Premises, the Project or any portion thereof.

36.15 Modification for Lenders . If, in connection with obtaining construction, interim or permanent financing for the Project the lender shall request reasonable modifications in this Lease as a condition to such financing, Tenant will not unreasonably withhold, delay or condition its consent thereto, provided that such modifications do not (a) materially increase the obligations or costs of Tenant hereunder, (b) materially adversely affect the leasehold interest hereby created or Tenant's rights hereunder, or (c) modify the size, location or access to the Premises.

36.16 Financial Statements. At any time during the Term of this Lease that Tenant's financial statements are not publicly available, Tenant shall, upon ten (10) business days' Notice from Landlord, provide Landlord with its current financial statements and financial statements of the two (2) years prior to the year in which Landlord's Notice

was given (together with, if Tenant's obligations under this Lease are guaranteed, the guarantor's current financial statements and financial statements of the two (2) years prior to the year in which Landlord's Notice was given); provided Tenant shall not be required to provide such financial statements more than once in each consecutive twelve (12) month period during the Term unless (a) Tenant is in default under this Lease, or (b) requested in connection with a proposed sale, transfer, financing or refinancing of the Project or any portion thereof. Such statements shall be prepared in accordance with generally accepted accounting principles and, if such is the normal practice of Tenant, shall be audited by an independent certified public accountant. All financial statements shall be certified as true and correct by Tenant's chief financial officer and Tenant agrees that Landlord may share such financial statements with prospective lenders or purchasers of the Property.

36.17 Quiet Enjoyment. Landlord covenants and agrees with Tenant that, upon Tenant paying the Rent required under this Lease and performing all of the covenants and provisions on Tenant's part to be observed and performed under this Lease, Tenant shall during the Term, peaceably and quietly have, hold and enjoy the Premises in accordance with this Lease without interference by any persons lawfully claiming by or through Landlord. The foregoing covenant is in lieu of any other covenant express or implied.

36.18 Tenant as Corporation, Partnership or Limited Liability Company. If Tenant is a corporation, partnership or limited liability company, Tenant and the persons executing this Lease on behalf of Tenant represent and warrant that it is an entity duly qualified to do business in California and that the individuals executing this Lease on Tenant's behalf are duly authorized to execute and deliver this Lease on its behalf, in the case of a corporation, in accordance with its by-laws and with a duly adopted resolution of the board of directors of Tenant, a copy of which shall be delivered to Landlord upon execution hereof by Tenant, in the case of a partnership, in accordance with the partnership agreement and the most current amendments thereto, if any, copies of which shall be delivered to Landlord upon execution hereof by Tenant, and, in the case of a limited liability company, in accordance with its governing documents and any documents required thereby, copies of which shall be delivered to Landlord upon execution hereof by Tenant, and that this Lease is binding upon Tenant in accordance with its terms.

36.19 CASp Disclosure. For purposes of Section 1938 of the California Civil Code, Landlord hereby discloses to Tenant that the Building Common Areas, Project Common Areas and Premises, as of the date of this Lease, have not been inspected by a Certified Access Specialist (CASp), as that term is defined in California Civil Code Section 55.52. In accordance with subsection (e) of Section 1938 of the California Civil Code, Tenant is further notified as follows:

> A Certified Access Specialist (CASp) can inspect the subject premises and determine whether the subject premises comply with all of the applicable construction-related accessibility standards under state law. Although state law does not require a CASp inspection of the subject premises, the commercial property owner or lessor may not prohibit the lessee or tenant from obtaining a CASp inspection of the subject premises for the occupancy or potential occupancy of the lessee or tenant, if requested by the lessee or tenant. The parties shall mutually agree on the arrangements for the time and manner of the CASp inspection, the payment of the fee for the CASp inspection, and the cost of making any repairs necessary to correct violations of construction-related accessibility standards within the premises.

ARTICLE 37

SIGNAGE

Landlord retains absolute control over the exterior appearance of the Building and the Project and the exterior appearance of the Premises as viewed from the Building Common Areas and Project Common Areas. Tenant will not install, or permit to be installed, any drapes, furnishings, signs, lettering, designs, advertising or any items that will in any way alter the exterior appearance of the Building, the Project or the exterior appearance of the Premises as viewed from the Building Common Areas and Project Common Areas. Any sign, advertising, design, or lettering installed by Tenant shall be considered an Alteration and shall be subject to the provisions of Article 15; provided that Landlord shall have the right to withhold its consent to the same in its sole and absolute discretion. Subject to the foregoing, Landlord shall, at Tenant's sole cost and expense, (i) place Tenant's name on the Building's monument sign, (ii) install

one (1) Building standard tenant suite identification sign adjacent to the door to the Premises, and (iii) place Tenant's name in the Building's main lobby directory, provided that Landlord shall retain absolute control over the appearance and design of such suite identification sign and lobby directory. All signage rights granted to Tenant under this Lease are personal to the original Tenant named herein, and may not be assigned or transferred without Landlord's prior written consent, which consent Landlord may withhold in its sole and absolute discretion.

ARTICLE 38

EXECUTIVE ORDER 13224

Tenant hereby represents and warrants to Landlord that Tenant is not: (a) in violation of any Anti-Terrorism Law (defined below); (b) conducting any business or engaging in any transaction or dealing with any Prohibited Person (defined below), including, without limitation, the making or receiving of any contribution of funds, goods or services to or for the benefit of any Prohibited Person; (c) dealing in, or otherwise engaging in any transaction relating to, any property or interest in property blocked pursuant to Executive Order No. 13224; (d) engaging in or conspiring to engage in any transaction that evades or avoids, or has the purpose of evading or avoiding, or attempts to violate any of the prohibitions set forth in any Anti-Terrorism Law; or (e) a Prohibited Person, nor are any of its partners, members, managers, officers or directors a Prohibited Person. 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, Executive Order No. 13224 and Title 3 of the USA Patriot Act. 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, or Support Terrorism." "Prohibited Person" is defined as: (i) a person or entity that is listed in the Annex to Executive Order No. 13224; (ii) a person or entity with whom Tenant or 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).

ARTICLE 39

WAIVER OF JURY TRIAL

TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, LANDLORD AND TENANT WAIVE THE RIGHT TO A TRIAL BY JURY.

ARTICLE 40

TENANT REPRESENTATIONS

Tenant represents and warrants to Landlord as of the date hereof and continuing thereafter as follows:

(a) The execution and delivery of this Lease by Tenant will not result in a breach of the terms or provisions of, or constitute a default (or a condition that, upon notice or lapse of time, or both, would constitute a default) under Tenant's organizational documents, and will not constitute a violation of any Law applicable to Tenant.

(b) The person executing this Lease on Tenant's behalf is duly authorized to so act; that Tenant is duly organized, is qualified to do business in the jurisdiction in which the Building is located, is in good standing under the Laws of the state of its organization and the Laws of the jurisdiction in which the Building is located, and has the power and authority to enter into this Lease; and that all action required to authorize Tenant and such person to enter into this Lease has been duly taken.

(c) Any financial statements provided by Tenant are true, correct and complete in all material respects and do not omit to state a fact that would be material to Tenant's financial condition. There has been no material adverse change in Tenant's financial condition since Tenant provided such financial statements.

(d) Tenant is in compliance with all applicable anti-money laundering Laws, including, without limitation, the USA Patriot Act, and the Laws administered by the United States Treasury Department's Office of Foreign Assets Control, including, without limitation, Executive Order No. 13224. Tenant is not owned or controlled directly or indirectly by any person or entity, on the SDN List published by the United States Treasury Department's Office of Foreign Assets Control and Tenant is not a person otherwise identified by any Governmental Authority as a person with whom a U.S. Person is prohibited from transacting business. As of the date hereof, a list of such designations and the text of Executive Order No. 13224 are published under the internet website address www.ustreas.gov/offices/enforcement/ofac.

ARTICLE 41

ADDITIONAL PROVISIONS

41.1 Environmental Assessments. Upon Substantial Completion of the Tenant Improvements, Landlord, at its sole cost and expense, shall cause a Phase I environmental assessment regarding the Project to be prepared ("Phase I Assessment") and shall provide a copy of the same to Tenant. The Phase I Assessment shall serve as the "baseline" for determining the environmental condition of the Project upon Tenant's occupancy thereof unless such Phase I Assessment recommends further testing. In addition to the surrender obligations set forth elsewhere in this Lease (including, without limitation, Section 15.2 and Article 31), upon the expiration or earlier termination of this Lease, Tenant, at its sole cost and expense, shall (a) cause a Phase I environmental assessment (or similar non-invasive assessment) of the Project ("Phase I Surrender Assessment") to be performed and deliver the results thereof to Landlord no later than thirty (30) days following such expiration or earlier termination (but in no event shall the Phase I Surrender Assessment be dated more than ten (10) days prior to such expiration or earlier termination); and (b) if and to the extent recommended by the Phase I Surrender Assessment and consented to by Landlord in writing, cause a Phase II environmental assessment (or similar additional assessment) of the Project ("Phase II Surrender Assessment") to be performed and deliver the results thereof to Landlord no later than thirty (30) days following the date of the Phase I Surrender Assessment. In addition, Landlord shall have the right, in its sole and absolute discretion, to hire, or to cause Tenant to hire, an environmental consultant to conduct a physical inspection of the Project ("Environmental Inspection") upon the expiration or earlier termination of this Lease, which inspection shall be at Tenant's sole cost and expense. The Phase I Surrender Assessment and any Phase II Surrender Assessment and/or Environmental Inspection, as the same compare to the Phase I Assessment, shall be used to, among other things, determine the extent of Tenant's compliance (or noncompliance) with Section 8.3 above as of the dates thereof.

41.2 Early Access. Following twenty-four (24) hours' notice to Landlord and upon receipt of written approval by Landlord (which shall not be unreasonably withheld or delayed), Landlord shall permit Tenant and its agents to enter the Premises approximately thirty (30) days prior to the Commencement Date ("Early Access Period") for the sole purpose of installing, at Tenant's sole cost and expense, its furniture, fixtures, equipment and cabling in the Premises; provided, however, that in no event shall such early access, regardless of when provided, extend or otherwise affect the Commencement Date. Any such entry shall be in a manner and upon terms and conditions and at times satisfactory to Landlord's representative. The foregoing license to enter the Premises prior to the Commencement Date is, however, conditioned upon Tenant's contractors and their subcontractors and employees working in harmony and not interfering with the work being performed by Landlord. If at any time such entry shall cause disharmony or interfere with the work being performed by Landlord, this license may be withdrawn by Landlord upon twenty-four (24) hours written notice to Tenant. Tenant shall be liable for any damages caused by Tenant's activities at the Premises. Such license is further conditioned upon the compliance by Tenant's contractors with all requirements imposed by Landlord on third party contractors, including, without limitation, the maintenance by Tenant and its contractors and subcontractors of workers' compensation and public liability and property damage insurance in amounts and with companies and on forms satisfactory to Landlord, with certificates of such insurance being furnished to Landlord prior to proceeding with any such entry. The entry shall be deemed to be under all of the provisions of this Lease except as expressly set forth in this Section 41.2. During the Early Access Period, Tenant shall have no obligation to pay Basic Rent or electricity costs (provided Tenant's electricity usage during such Early Access Period is not excessive). Landlord shall not be liable in any way for any injury, loss or damage which may occur to any such work being performed by Tenant, the same being solely at Tenant's risk. All costs and expenses in connection with or arising out of the performance of any work by Tenant during such early entry shall be borne by Tenant, and all payments therefor shall be made by Tenant promptly as they become due. Tenant shall, at its sole cost and expense, comply with all applicable laws, ordinances, regulations and policies governing its work. Except to the extent arising from the gross negligence or

willful misconduct of Landlord, Tenant shall defend, indemnify and hold Landlord and its members, agents, employees, partners, and their respective employees, partners, officers, directors, agents, representatives, successors and assigns, harmless from and against any and all suits, claims, actions, losses, costs, liabilities or expenses (including reasonable attorneys' fees and claims for workers' compensation) to the extent arising out of or in connection with any and all work during such early entry (including, but not limited to, claims for breach of warranty, personal injury or property damage). Landlord shall have the right, in Landlord's sole and absolute discretion, to settle, compromise, or otherwise dispose of any and all suits, claims, and actions against any of the indemnified parties arising out of or in connection with the work performed by Tenant during any early entry. Tenant shall coordinate such entry with Landlord's building manager and, except as expressly set forth in this Section 41.1, such entry shall be made in compliance with all terms and conditions of this Lease and the Rules and Regulations attached hereto.

41.3 Right of First Refusal. Effective as of the Effective Date, provided that (a) Tenant is not in default under this Lease beyond applicable notice and cure periods and (b) Tenant occupies one hundred percent (100%) of the Premises, then Landlord agrees that prior to leasing Suite 110 in the Building, which consists of approximately 16,585 rentable square feet ("Offer Space"), to a third party for the first time, Landlord shall submit a copy of the first bona fide offer to lease such Offer Space from a third party that Landlord is willing to accept ("Offer") to Tenant. Tenant shall have a one-time right ("ROFR") to elect to lease the entire space identified in the Offer, on terms and conditions identical to those contained in the Offer (except as indicated below), provided that Tenant delivers written notice exercising its ROFR within five (5) business days following delivery of the copy of the Offer from Landlord to Tenant. If Tenant duly and timely exercises the ROFR, Landlord and Tenant shall promptly amend this Lease to include the Offer Space on terms and conditions identical to those contained in the Offer, except that (a) the term of the lease relative to the Offer Space shall be coterminous with the Lease for the Premises, (b) the Tenant's Vehicle Parking Spaces shall be increased on a pro rata basis following delivery of the Offer Space to Tenant, and (c) any concessions in the Offer (e.g., any improvement allowance) shall be equitably reduced to correspond with a reduced amortization period equal to the remaining portion of the existing Term. Once Landlord has delivered an Offer to Tenant pursuant to the above, if for any reason Tenant fails to duly and timely exercise the ROFR, or if Tenant properly exercises such right but thereafter for any reason does not enter into the amendment of the Lease within thirty (30) days after exercise of the ROFR (unless the delay is caused by Landlord), then Landlord shall be free to lease the Offer Space to another tenant (whether pursuant to the Offer described above or upon different terms or at a different time) without any obligation pursuant to this Section 41.3 and the ROFR shall terminate and be of no further force or effect. The ROFR shall be subject to the any superior rights of any existing tenants existing in writing as of the date of this Lease, shall apply during the Initial Term only (and not during any Option Term or other expansion term), shall be personal to the Original Tenant (or any Permitted Transferee) and may not be exercised or assigned, voluntarily or involuntarily, by or to any person or entity other than such Original Tenant or Permitted Transferee and shall not be assignable separate and apart from this Lease. Time is of the essence with respect to the ROFR.

41.4 Termination Option. Tenant shall have a one (1) time option to terminate this Lease ("Termination Option") effective on the last day of the eighty-fourth (84th) full month of the Initial Term ("Termination Date"), provided that (a) Tenant shall give Landlord written notice ("Termination Notice") of its exercise of the Termination Option, if at all, no less than twelve (12) months prior to the Termination Date, (b) Tenant shall not be in default under the terms of this Lease (after the lapse of any applicable notice and cure periods) at the time Tenant delivers the Termination Notice to Landlord or at any time between delivery of the Termination Notice and the Termination Date, (c) concurrently with Tenant's delivery of the Termination Notice to Landlord, Tenant shall pay to Landlord fifty percent (50%) of the Termination Fee (as hereinafter defined), and (d) on or prior to the Termination Date, Tenant shall pay to Landlord the remaining fifty percent (50%) of the Termination Fee. As used herein, "Termination Fee" shall mean a termination fee in the amount of (i) Three Million Eight Hundred Thirty-Nine Thousand Four Hundred Twenty-Six and 10/100 Dollars ($3,839,426.10) (i.e., fifteen (15) months of the Basic Rent payable hereunder as of the Termination Date) plus (ii) fifteen (15) months of Tenant's Percentage of Operating Expenses and Real Property Taxes payable hereunder as of the Termination Date. The Termination Option is personal to the Original Tenant, may be exercised only by the Original Tenant, and may not be transferred in connection with any Transfer or exercised by any Transferee. Time is of the essence with respect to the Termination Option.

[*signatures on following page*]

IN WITNESS WHEREOF, the parties have executed this Lease as of the Effective Date.

LANDLORD:

WATERIDGE PROPERTY OWNER, LP,
a Delaware limited partnership

By: HSRE-BPI I GP, LLC
a Delaware limited liability company, its general partner

By: /s/ Stephen M. Gordon
Name: Stephen M. Gordon
Title: Authorized Signatory

TENANT:

ANAPTYSBIO, INC.,
a Delaware corporation

By: /s/ Eric Loumeau
Name: Eric Loumeau
Its: Interim CFO and General Counsel

EXHIBIT “A-I”

OUTLINE OF PREMISES

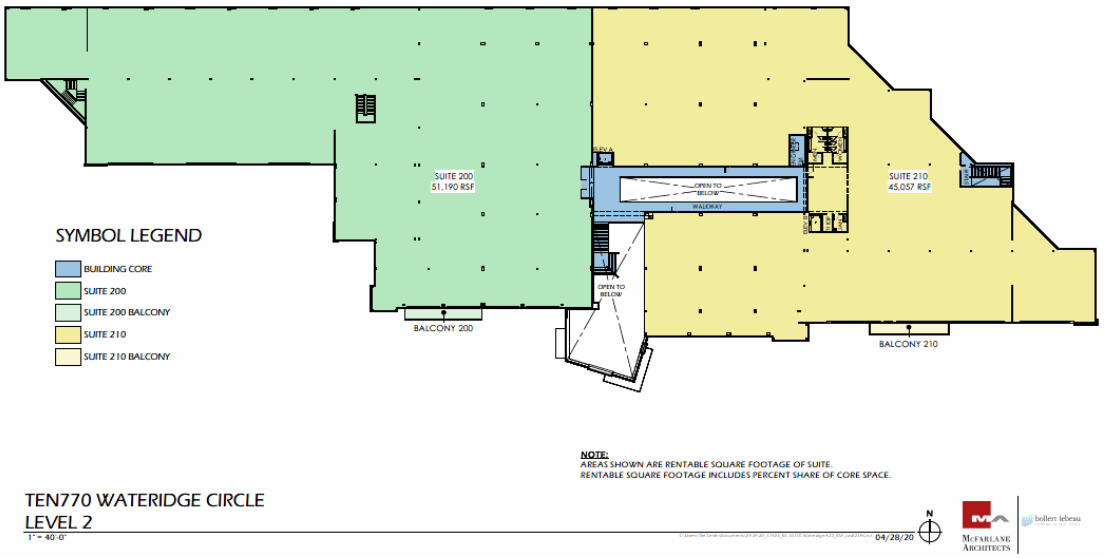


EXHIBIT “A-I”

EXHIBIT “A-II”

PROJECT SITE PLAN

The following site plan is intended only to show the approximate general outline of the Project, which is subject to change in accordance with the Lease. This site plan is not to be scaled and any measurements or distances shown thereon are approximations only.

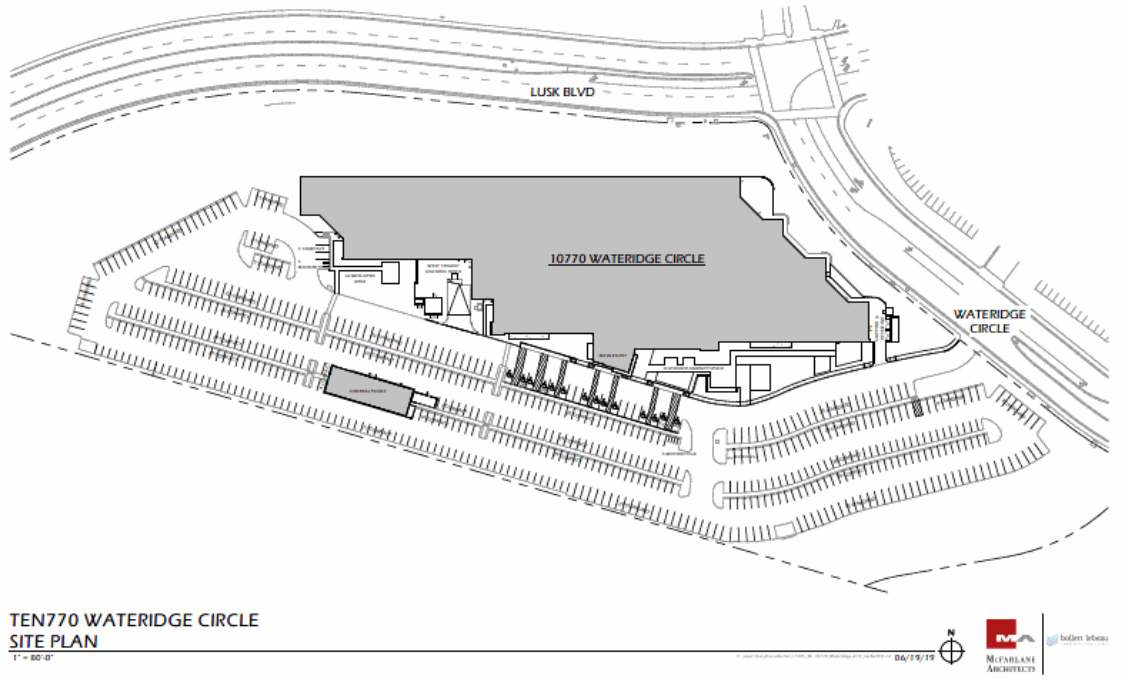


EXHIBIT "B"

WORK LETTER AGREEMENT

THIS WORK LETTER AGREEMENT is entered into as of May 4, 2020, by and between WATERIDGE PROPERTY OWNER, LP, a Delaware limited partnership ("Landlord"), and ANAPTYSBIO, INC., a Delaware corporation ("Tenant").

R E C I T A L S:

A. Concurrently with the execution of this Work Letter Agreement, Landlord and Tenant have entered into a lease ("Lease") covering certain premises ("Premises") more particularly described in the Lease. Except as otherwise defined herein, all capitalized terms shall have the meanings ascribed to them in the Lease.

B. In order to induce Tenant to enter into the Lease (which is hereby incorporated by reference to the extent applicable) and in consideration of the mutual covenants hereinafter contained, Landlord and Tenant hereby agree as follows:

1. **Tenant Improvements**. Reference herein to "Tenant Improvements" shall include all work to be done in the Premises pursuant to the Space Plan and Construction Documents (defined below), including, but not limited to, partitioning, doors, ceilings, floor coverings, wall finishes (including paint and wallcovering), electrical (including lighting; switching; outlets; telephone, but excluding any and all telephone and data wire and cable of any type or kind), plumbing, heating, ventilating and air conditioning, fire protection, cabinets and other millwork. Landlord shall install a shared emergency generator for the Building ("Emergency Generator") and an emergency generator conduit connecting the Emergency Generator to the Premises; provided, however, that Tenant shall be responsible for Tenant's pro-rata share of the cost thereof, which pro-rata share shall be based on the ratio of the capacity of the Emergency Generator which is dedicated to the Premises as the same relates to the total capacity of the Emergency Generator ("Tenant's Emergency Generator Share"), which Tenant's Emergency Generator Share shall be deducted from the Tenant Improvement Allowance. In no event shall the Tenant Improvements include any actions required to cause the Building to be in compliance with applicable laws unless such compliance is required solely as a result of construction of the improvements contemplated by the Construction Documents.

2. **Tenant Improvement Allowance; Excess Costs**. The Tenant Improvements shall be constructed by Landlord at Tenant's sole cost and expense, subject to the Tenant Improvement Allowance. Tenant may elect to use a portion of the Tenant Improvement Allowance not to exceed Five and 00/100 Dollars ($5.00) per Rentable Square Foot of the Premises (i.e., up to $225,135.00) toward the cost of Tenant's cabling in the Premises. In the event that the Tenant Improvement Allowance exceeds the cost of the Tenant Improvements, any remaining portion of the Tenant Improvement Allowance shall accrue to the sole benefit of Landlord, it being agreed that Tenant shall not be entitled to any credit, offset, abatement or payment with respect thereto. Landlord shall be entitled to deduct from the Tenant Improvement Allowance a construction management fee for Landlord's oversight of the Tenant Improvements in an amount equal to three percent (3%) of the total cost of the Tenant Improvements. Any and all amounts incurred by Landlord in connection with the Tenant Improvements in excess of the Tenant Improvement Allowance, and any and all increased costs and expenses incurred by Landlord that arise out of any change requested by Tenant pursuant to Paragraph 7 below or any Tenant Delay (defined below), shall be deemed "Excess Costs." Any and all Excess Costs shall be deemed Rent under the Lease and Tenant shall pay to Landlord such Excess Costs within ten (10) business days after demand therefor, prior to the commencement of the construction of the Tenant Improvements. Tenant's failure to timely pay any Excess Costs shall constitute a Tenant Default under the Lease. The statements of costs submitted to Landlord by Landlord's contractors shall be conclusive for purposes of determining the actual cost of the items described therein. Landlord shall reasonably cooperate with Tenant, if requested by Tenant, to reduce costs of finishes and other non-structural improvements, provided that the quality of the same is commensurate with the quality of other improvements in the Building.

3. **Work Schedule**. Within a reasonable period of time after the mutual execution of the Lease, Landlord shall deliver to Tenant, for Tenant's review and approval, a schedule ("Work Schedule") setting forth a timetable for the planning and completion of the installation of the Tenant Improvements to be constructed in the Premises. The Work Schedule shall set forth each of the various items of work to be done by or approval to be given by Landlord and

Tenant in connection with the completion of the Tenant Improvements. The Work Schedule shall be submitted to Tenant for its approval and, upon approval by both Landlord and Tenant, such Work Schedule shall become the basis for completing the Tenant Improvements. If Tenant fails to provide written approval of the Work Schedule, as it may be modified after discussions between Landlord and Tenant, within five (5) business days after the date the Work Schedule is first delivered to Tenant by Landlord, the Work Schedule shall be deemed approved. All changes to the Work Schedule shall be mutually and reasonably agreed upon, in writing, by Landlord and Tenant.

4. **Space Plan**. Landlord and Tenant have substantially approved the space plan attached to this Work Letter Agreement as Schedule B-1 ("Space Plan") for the installation of Tenant Improvements to be constructed in the Premises by Landlord.

5. **Construction Documents**. Based upon the approved Space Plan, Landlord's architect and/or space planner shall prepare final working drawings and/or construction documents for the Tenant Improvements containing architectural drawings, structural and mechanical, plumbing, fire sprinkler, electrical engineering drawings and any other documents necessary to obtain required permits for the Tenant Improvements ("Construction Documents"). Landlord shall submit the Construction Documents to Tenant for its review and approval. If Tenant fails to approve the Construction Documents within five (5) business days after delivery by Landlord thereof the Construction Documents shall be deemed approved. All changes to the Construction Documents shall be mutually and reasonably agreed upon, in writing, by Landlord and Tenant. Landlord's supervision and/or performance of any work for or on behalf of Tenant or Landlord's approval of the Space Plan and/or Construction Documents and any revisions thereto shall not be deemed to be a representation by Landlord that the Tenant Improvements will be adequate for Tenant's use. Tenant hereby acknowledges and agrees that (i) Landlord makes no representation or warranty with respect to the design of the Tenant Improvements or any portion thereof; (ii) certain design elements of the Tenant Improvements may increase the risk of injury to persons and/or damage to the Premises and Tenant's personal property and equipment contained therein; and (iii) any such injury and/or damage shall be subject to the waiver of liability set forth in Sections 20 and 21 of the Lease.

6. **Cost of Space Plan and Construction Documents**. All costs of preparing and revising the Space Plan and the Construction Documents shall be deducted from the Tenant Improvement Allowance.

7. **Changes in Plan and Construction Documents**. Any changes requested by Tenant in the Construction Documents or other plans and specifications after approval thereof by Tenant shall be subject to Landlord's approval (which approval shall not be unreasonably withheld, conditioned or delayed) and, if approved, shall be prepared at Tenant's sole cost and expense, and any excess costs resulting from such changes shall also be at Tenant's sole cost and expense. Furthermore, Tenant shall be liable for any resulting delays in completing the Tenant Improvements and for any increased cost in completing the Tenant Improvements, if any, resulting from such delays. Any such delays shall be "Tenant Delays" and shall impact the Commencement Date of the Lease as provided in Paragraph 10 below.

8. **Finishes**. Landlord's architect shall provide Tenant with finish options for the Tenant Improvements ("Finish Options"), and Tenant shall select the options it desires to use from such Finish Options within three (3) business days after receipt thereof. If Tenant desires to use finishes different from those provided in the Finish Options, such request shall be subject to Landlord's reasonable approval and any increase in costs resulting therefrom shall be Excess Costs.

9. **Construction of Tenant Improvements**. After the Construction Documents have been prepared and approved, the final pricing has been approved and a building permit for the Tenant Improvements has been issued, Landlord shall cause its contractor to begin installation of the Tenant Improvements in accordance with the Construction Documents. The general contractor shall be either Level 10, C-2 or Bycor; if Landlord proposes a different general contractor, such general contractor shall be subject to Tenant's approval, which shall not be unreasonably withheld or delayed beyond three (3) business days following notice thereof by Landlord. Landlord shall supervise the completion of such work and shall use commercially reasonable efforts to secure substantial completion of the work in accordance with the Work Schedule. The cost of such work shall be paid as provided in Paragraph 2 above. Landlord shall not be liable for any direct or indirect damages as a result of delays in construction beyond Landlord's reasonable control, including, but not limited to, acts of God, inability to secure governmental approvals or permits, governmental restrictions, strikes, availability of materials or labor or delays by Tenant (or its architect or anyone performing services on behalf of Tenant).

EXHIBIT "B"

10. **Substantial Completion.** The Tenant Improvements shall be deemed "Substantially Complete" (and "Substantial Completion" shall be deemed to have occurred) upon the date upon which (i) construction of the Tenant Improvements in the Premises has been substantially completed pursuant to the Construction Documents, with the exception of any minor punch list items (which punch list items shall be approved by Tenant) and any Tenant fixtures, work-stations, built-in furniture, or equipment to be installed by Tenant, (ii) a temporary or permanent certificate of occupancy or other equivalent approval from the local governmental authority has been issued permitting occupancy of the Premises (such as sign off on the building inspection cards or a "safe to occupy" approval) for the Permitted Use (excluding any Tenant-required validation of Tenant's facilities), (iii) Tenant has access to the Premises from the parking facilities and has access and use of the parking facilities, and (iv) all building systems serving the Premises are complete and Landlord is providing service to the Premises in accordance with the Lease. If there shall be a delay in Substantial Completion of the Tenant Improvements as a result of:

(a) Tenant's request for materials, finishes or installations other than those readily available;

(b) Tenant's request to deviate from the Finish Options;

(c) Tenant's changes in the Construction Documents after approval by Tenant;

(d) Tenant's failure to timely perform any obligation or provide any approval required of Tenant hereunder;

(e) Tenant's failure to timely pay any Excess Costs; or

(f) any negligent or willful act or omission of Tenant or any Tenant Party;

(each of the foregoing, a "Tenant Delay"), then the Commencement Date of the Term of this Lease shall be the date that the Tenant Improvements would have been Substantially Complete but for such Tenant Delay, as reasonably determined by Landlord. The Tenant Improvements shall be deemed Substantially Complete notwithstanding the fact that minor details of construction, mechanical adjustments or decorations that do not materially interfere with Tenant's use and enjoyment of the Premises remain to be performed (items normally referred to as "punch list" items).

11. **Assignment of Warranties**. Upon Substantial Completion of the Tenant Improvements, Landlord shall assign to Tenant all warranties which Landlord receives for the Tenant Improvements, to the extent assignable. In the event Tenant notifies Landlord of any defect(s) in the Tenant Improvements during the twelve (12) month period following the Commencement Date, Landlord shall repair such defect(s) at Landlord's sole cost and expense, except to the extent such defects are covered by any warranties assigned to Tenant, in which case Tenant shall look solely to the applicable contractor or subcontractor for the correction of such defects; provided, however, that Landlord shall use commercially reasonable efforts to enforce any such warranties during such twelve (12) month period.

[*signatures on following page*]

EXHIBIT "B"

IN WITNESS WHEREOF, this Work Letter Agreement is executed as of the date first written above.

LANDLORD:

WATERIDGE PROPERTY OWNER, LP,
a Delaware limited partnership

By: HSRE-BPI I GP, LLC
a Delaware limited liability company, its general partner

By: /s/ Stephen M. Gordon
Name: Stephen M. Gordon
Title: Authorized Signatory

TENANT:

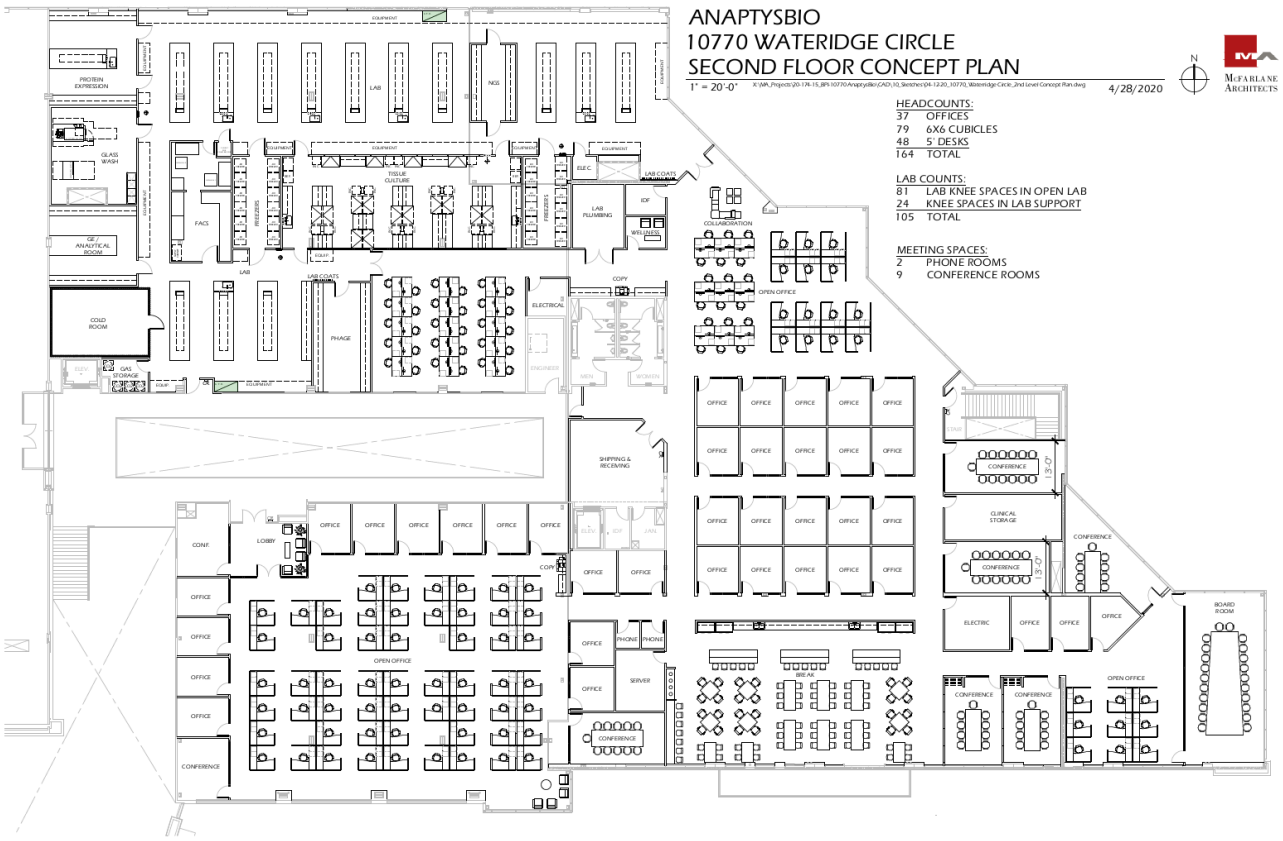
ANAPTYSBIO, INC.,
a Delaware corporation

By: /s/ Eric Loumeau
Name: Eric Loumeau
Its: Interim CFO and General Counsel

EXHIBIT “B”

SCHEDULE "B-1"

SPACE PLAN



ACCEPTED: _____, 2020

TENANT: ANAPTYSBIO, INC., a Delaware corporation

By: /s/ Eric Loumeau

Name: Eric Loumeau

Title: Interim CFO and General Counsel

On conference April 24, 2020, Landlord and Tenant agreed that the most recent requested changes to the Space Plan (not reflected above) will be incorporated into the Space Plan.

EXHIBIT "C"

FORM OF MEMORANDUM OF LEASE TERMS

MEMORANDUM OF LEASE TERMS

To: Date:

Re: Lease Agreement ("Lease") dated _____, 2020, between WATERIDGE PROPERTY OWNER, LP, a Delaware limited partnership, Landlord, and ANAPTYSBIO, INC., a Delaware corporation, Tenant, concerning Suite 210 located at 10770 Wateridge Circle, San Diego, California 92121 ("Premises").

Dear _____:

In accordance with the Lease, we wish to advise and/or confirm as follows (terms with initial capital letters which are not separately defined herein shall have the meanings ascribed to them in the Lease):

1. That the Premises have been accepted herewith by Tenant as being "Substantially Complete" in accordance with the subject Lease and that there is no deficiency in construction.

2. That Tenant has possession of the Premises and acknowledges that under the provisions of the Lease, the Term of said Lease shall commence as of, and the Commencement Date is, _____, and the Expiration Date is _____.

3. That in accordance with the Lease, Rent commenced to accrue on _____. If the Commencement Date of the Lease is other than the first day of the month, the first billing will contain a pro rata adjustment. Each billing thereafter shall be for the full amount of the monthly installment as provided for in the Lease.

4. Rent is due and payable in advance on the first day of each and every month during the Term of Lease. Your Rent checks should be made payable to address set forth in the Lease.

5. The number of Rentable Square Feet within the Premises is _____ square feet.

6. The number of Rentable Square Feet within the Building is _____ square feet.

7. Tenant's Percentage is _____%.

8. Tenant elected to use $_____ of the Additional Allowance. Accordingly, the Basic Rent shall be increased by $_____ per month.

9. Tenant elected to convert $_____ of the Abated Rent Amount to Abated Rent Allowance. Accordingly, the amount of the Abated Rent Amount that will be applied toward Basic Rent is $_____.

10. Based on the Additional Allowance used by Tenant, the Basic Rent shall be as set forth in the following schedule:

Months of Initial Term	Basic Rent per Rentable Square Foot ($/mo)	Monthly Installments of Basic Rent ($/mo)	Annual Basic Rent ($/yr)
1-12			
13-24			
25-36			
37-48			
49-60			
61-72			
73-84			
85-96			
97-108			
109-120			
121-124			

AGREED AND ACCEPTED:

TENANT:

ANAPTYSBIO, INC.,
a Delaware corporation

By:
Name:
Its:
Date:

LANDLORD:

WATERIDGE PROPERTY OWNER, LP,
a Delaware limited partnership

By: HSRE-BPI I GP, LLC
a Delaware limited liability company,
its general partner

By: _____
Name: Stephen M. Gordon
Title: Authorized Signatory
Date:

SAMPLE ONLY
NOT FOR EXECUTION

EXHIBIT “C”

EXHIBIT "D"

LETTER OF CREDIT TERMS

1. Within the period of time set forth in Section 7.2 of this Lease, Tenant shall deliver to Landlord, as collateral for the full performance by Tenant of all of its obligations under this Lease and for all losses and damages Landlord may suffer as a result of any Tenant Default under this Lease, including, but not limited to, any post lease termination damages under Section 1951.2 of the California Civil Code, a standby, irrevocable letter of credit ("Letter of Credit"), on a form acceptable to Landlord in its sole but reasonable discretion and containing the terms required herein, with a face amount in the Letter of Credit Amount designated in Section 1.14 of this Lease, naming Landlord as beneficiary. The Letter of Credit shall be issued by a money-center, solvent and nationally recognized bank, with a branch office in Southern California (unless the Letter of Credit contains a draw-by-fax provision), that will negotiate a letter of credit, and whose deposits are insured by the FDIC (as defined below). The issuing bank shall be acceptable to Landlord in Landlord's reasonable discretion, and shall permit multiple and partial draws on the Letter of Credit. If at any time any of the issuing bank's Fitch Ratings (or other comparable ratings to the extent the Fitch Ratings are no longer available) have been reduced below a "BBB+" rating or there is otherwise a material adverse change in the financial condition of the issuing bank, Tenant shall promptly deliver to Landlord a replacement Letter of Credit, which complies with the provisions of this Lease, from a different issuing bank acceptable to Landlord in Landlord's reasonable discretion. Tenant shall cause the Letter of Credit to be continuously maintained in effect (whether through replacement, renewal or extension) in the Letter of Credit Amount through the date ("Letter of Credit Expiration Date") which is thirty (30) days after the expiration of the Term of this Lease, or any extension thereof. If the Letter of Credit held by Landlord expires earlier than the Letter of Credit Expiration Date (whether by reason of a stated expiration date or a notice of termination or non-renewal given by the issuing bank), Tenant shall deliver a new Letter of Credit or certificate of renewal or extension to Landlord not later than thirty (30) days prior to the expiration date of the Letter of Credit then held by Landlord. Any renewal or replacement Letter of Credit shall comply with all of the provisions of this Exhibit "D-2" and shall remain in effect (whether through replacement, renewal or extension) in the Letter of Credit Amount through the Letter of Credit Expiration Date upon the same terms as the expiring Letter of Credit or such other terms as may be acceptable to Landlord in its sole but reasonable discretion. The term of the Letter of Credit shall be for at least one (1) year and shall contain an "evergreen clause" that prevents the expiration of the Letter of Credit without due notice from the issuer. The "evergreen clause" shall provide for a period of no less than thirty (30) days' notice to Landlord prior to the expiration date or nonrenewal.

2. Landlord shall have the immediate right to draw from the Letter of Credit an amount up to the then-aggregate face amount of the Letter of Credit, in whole or in part, at any time and from time to time upon the occurrence of any of the following events (each of the following being a "Letter of Credit Draw Event"): (a) if such amount is due to Landlord under the terms and conditions of this Lease, beyond applicable notice and cure periods; (b) if Landlord incurs any costs following the expiration or any earlier termination of the Term in connection with its performance of any obligations that Tenant has failed to perform in a timely manner (including, without limitation, under Section 15.2 and Article 31 of this Lease), whether or not a Tenant Default occurs as a result of Tenant's failure to timely perform such obligations; (c) if the Letter of Credit held by Landlord expires (or is set to expire) earlier than the Letter of Credit Expiration Date (whether by reason of a stated expiration date or a notice of termination or non-renewal given by the issuing bank), and Tenant fails to deliver to Landlord, at least fifteen (15) days prior to the expiration date of the Letter of Credit then held by Landlord, a renewal or substitute Letter of Credit that is in effect and that complies with the provisions of this Lease, including the Letter of Credit Amount required under this Lease (such failure in this clause (c) hereinafter being referred to as a "Renewal Failure"); (d) the occurrence of any event described in Section 25.1.7 of this Lease (whether or not a Tenant Default occurs as a result thereof); and/or (e) if: (i) any of the issuing bank's Fitch Ratings (or other comparable ratings to the extent the Fitch Ratings are no longer available) have been reduced below a "BBB+" rating, or (ii) there is otherwise a material adverse change in the financial condition of the issuing bank, and Tenant has failed to provide Landlord with a replacement Letter of Credit that complies with the provisions of this Lease, including the Letter of Credit Amount required under this Lease, within ten (10) business days following Landlord's written demand therefor (with no other notice or cure or grace period being applicable thereto, notwithstanding anything in this Lease to the contrary) (such failure in this clause (e) hereinafter being referred to as an "Issuing Bank Replacement Failure"). No condition or term of this Lease shall be deemed to render the Letter of Credit conditional to justify the issuer of the Letter of Credit in failing to honor a drawing upon such Letter of Credit

in a timely manner. In addition, in the event the issuing bank is placed into receivership or conservatorship by the Federal Deposit Insurance Corporation or any successor or similar entity (as applicable, "FDIC"), and the FDIC does not honor the commitments of such issuing bank, then, effective as of the date such receivership or conservatorship occurs, the Letter of Credit shall be deemed to fail to meet the requirements of this Lease and, within ten (10) business days following Landlord's notice to Tenant of such receivership or conservatorship ("Letter of Credit FDIC Replacement Notice"), Tenant shall replace the Letter of Credit with a substitute letter of credit from a different issuer (which issuer shall be acceptable to Landlord in its reasonable discretion) and that complies in all respects with the requirements of this Lease. If Tenant fails to replace the Letter of Credit with a conforming, substitute letter of credit pursuant to the terms and conditions of this Section 2 as a result of a Renewal Failure or an Issuing Bank Replacement Failure, then, notwithstanding anything in this Lease to the contrary, Landlord shall have the right to declare a Tenant Default under this Lease for which there shall be no notice or grace or cure periods being applicable thereto (other than the aforesaid notice and ten (10) business day period). Tenant shall be responsible for the payment of any and all costs incurred with the review of any replacement Letter of Credit (including, without limitation, Landlord's reasonable attorneys' fees), which replacement is required pursuant to this Section 2 or is otherwise requested by Tenant.

3. Tenant hereby acknowledges and agrees that Landlord is entering into this Lease in material reliance upon the ability of Landlord to draw upon the Letter of Credit upon the occurrence of any Letter of Credit Draw Event. Upon the occurrence of any Letter of Credit Draw Event, Landlord may, but without obligation to do so, and without notice to Tenant, draw upon the Letter of Credit, in part or in whole, to cure any such Letter of Credit Draw Event and/or to compensate Landlord for any and all damages of any kind or nature sustained or which Landlord reasonably estimates that it will sustain resulting from Tenant's Default under this Lease or other Letter of Credit Draw Event, and/or to compensate Landlord for any and all damages arising out of, or incurred in connection with, the termination of this Lease, including, without limitation, those specifically identified in Section 1951.2 of the California Civil Code. The use, application or retention of the Letter of Credit, or any portion thereof, by Landlord shall not prevent Landlord from exercising any other right or remedy provided by this Lease or by any applicable law, it being intended that Landlord shall not first be required to proceed against the Letter of Credit, and such Letter of Credit shall not operate as a limitation on any recovery to which Landlord may otherwise be entitled. Tenant agrees not to interfere in any way with payment to Landlord of the proceeds of the Letter of Credit, either prior to or following a "draw" by Landlord of any portion of the Letter of Credit, regardless of whether any dispute exists between Tenant and Landlord as to Landlord's right to draw upon the Letter of Credit. No condition or term of this Lease shall be deemed to render the Letter of Credit conditional to justify the issuer of the Letter of Credit in failing to honor a drawing upon such Letter of Credit in a timely manner. Tenant agrees and acknowledges that: (a) the Letter of Credit constitutes a separate and independent contract between Landlord and the issuing bank, (b) Tenant is not a third party beneficiary of such contract, (c) Tenant has no property interest whatsoever in the Letter of Credit or the proceeds thereof, and (d) in the event Tenant becomes a debtor under any chapter of the U.S. Bankruptcy Code, Tenant is placed into receivership or conservatorship, and/or there is an event of a receivership, conservatorship or a bankruptcy filing by, or on behalf of, Tenant, neither Tenant, any trustee, nor Tenant's bankruptcy estate shall have any right to restrict or limit Landlord's claim and/or rights to the Letter of Credit and/or the proceeds thereof by application of Section 502(b)(6) of the U.S. Bankruptcy Code or otherwise. If Landlord draws on the Letter of Credit due to a Renewal Failure or an Issuing Bank Replacement Failure and is holding those proceeds of the Letter of Credit before application due to any other Letter of Credit Draw Event ("Letter of Credit Proceeds") and has not elected to terminate this Lease due to Tenant's failure to deliver a replacement letter of credit as required under Section 2 above, then Landlord agrees to return to Tenant the Letter of Credit Proceeds, provided that Tenant is not then in Default under this Lease (other than as a result of Tenant's failure to deliver the replacement letter of credit) concurrently with Tenant's delivery to Landlord of a substitute letter of credit in the Letter of Credit Amount that complies in all respects with the requirements of this Lease (including, in the case of a Letter of Credit Issuing Bank Replacement Failure, a substitute Letter of Credit from a different issuer, which issuer shall be acceptable to Landlord in its reasonable discretion). Nothing contained in the immediately preceding sentence shall imply that Landlord waives any right to declare a Tenant Default under this Lease due to Tenant's failure to provide a replacement letter of credit in accordance with Section 2 above following the occurrence of a Renewal Failure or an Issuing Bank Replacement Failure.

4. Landlord may, at any time and without notice to Tenant and without first obtaining Tenant's consent thereto, transfer all or any portion of its interest in and to the Letter of Credit to another party, person or entity, including Landlord's assignee, successor, transferee or mortgagee and/or to have the Letter of Credit reissued in the name of

EXHIBIT "D"

Landlord's assignee, successor, transferee or mortgagee. If Landlord transfers its interest in the Building and transfers the Letter of Credit (or any proceeds thereof then held by Landlord) in whole or in part to the transferee, Landlord shall, without any further agreement between the parties hereto, thereupon be released by Tenant from all liability therefor. The provisions hereof shall apply to every transfer or assignment of all or any part of the Letter of Credit to a new landlord. In connection with any such transfer of the Letter of Credit by Landlord, Tenant shall execute and submit to the issuer of the Letter of Credit such applications, documents and instruments as may be necessary to effectuate such transfer. Tenant shall be responsible to pay any then-applicable transfer fee in connection with such transfer.

5. Landlord and Tenant acknowledge and agree that in no event or circumstance shall the Letter of Credit or any renewal of it or any proceeds of it be: (a) deemed to be or treated as a "security deposit" within the meaning of California Civil Code Section 1950.7, (b) subject to the terms of California Civil Code Section 1950.7, or (c) intended to serve as a "security deposit" within the meaning of California Civil Code Section 1950.7. Landlord and Tenant: (i) further acknowledge and agree that the Letter of Credit is not intended to serve as a security deposit and California Civil Code Section 1950.7 and any and all other laws, rules, and regulations applicable to security deposits in the commercial context ("Security Deposit Laws") shall have no applicability or relevancy to the Letter of Credit, and (ii) waive any and all rights, duties, and obligations either party may now or in the future have relating to or arising from the Security Deposit Laws.

EXHIBIT "D"

EXHIBIT "E"

FORM OF TENANT ESTOPPEL CERTIFICATE

TENANT ESTOPPEL CERTIFICATE

This Estoppel Certificate is given to [_____, a _____] (together with any successors and assigns, collectively, "Landlord"), by [_____ a _____] ("Tenant"), with the understanding that Landlord, its current or prospective lenders and their respective counsel will rely on this Certificate in connection with the real property known as [_____], located at [_____] ("Property"). Tenant hereby certifies as follows:

1. The undersigned is Tenant under that certain lease dated _____, ____ ("Lease") executed by Landlord or its predecessor in interest, as landlord, and Tenant, as tenant.

2. Pursuant to the Lease, Tenant has leased a portion of the Property consisting of approximately _____ rentable square feet ("Premises").

3. The commencement date of the term of the Lease is _____.

4. The expiration date of the term of the Lease is _____.

5. The monthly basic rent is $_____, payable in advance on the first day of each calendar month.

6. The next rental payment in the amount of $_____ is due on _____, 20__.

7. No rent has been prepaid except for the current month, and Tenant agrees not to pay rent more than one month in advance at any time.

8. The obligation to pay rent began on _____, _____.

9. The annual minimum rent is subject to rental increases as set forth in the Lease, and the last increase covers the period from _____, ____ through _____, _____.

10. Tenant's payment of its share of Operating Expenses and Real Property Taxes is currently based on an annual amount of $_____, which is currently being paid on an estimated basis in advance at the rate of $_____ per month.

11. All rent has been paid through _____, 20__.

12. Tenant has paid a security deposit of $_____ in connection with the Lease.

13. Tenant does not have any right or option to renew or extend the term of the Lease or to expand into any additional space or to terminate the Lease in whole or in part prior to the expiration of the term except as follows: _____.

14. The Lease has been duly executed and delivered by, and is a binding obligation of, Tenant (and Guarantor, if applicable), and the Lease is in full force and effect. The Lease is the entire agreement between Landlord (or any affiliated party) and Tenant (or any affiliated party) pertaining to the Premises. A true, correct and complete copy of the Lease, together with any amendments, modifications and supplements thereto, is attached hereto as Exhibit A, and except as attached hereto, there are no amendments, modifications, supplements, arrangements, side letters or understandings, oral or written, of any sort, modifying, amending, altering, supplementing or changing the terms of the Lease.

15. Tenant has unconditionally accepted the Premises and is satisfied with all the work done by and required of Landlord; Tenant has taken possession and is in occupancy of the Premises and is open for business; rent payments have commenced, and all tenant improvements in the Premises have been completed by Landlord in

accordance with plans and specifications approved by Tenant; and as of the date hereof Tenant is not aware of any defect in the Premises.

16. Except as set forth on Exhibit B attached to this Certificate: Landlord has satisfied all commitments made to induce Tenant to enter into the Lease; there are no offsets or credits against rentals payable under the Lease; no free rent, tenant improvements, contributions or other concessions have been granted to Tenant; Landlord is not reimbursing Tenant or paying Tenant's rent obligations under any other lease, and Tenant has not advanced any funds for or on behalf of Landlord for which Tenant has a right of deduction from, or set off against, future rent payments.

17. Except as set forth on Exhibit B attached to this Certificate, Landlord has no obligations to repair or maintain the Premises.

18. All obligations of Landlord under the Lease have been performed, and no event has occurred and no condition exists that, with the giving of notice or lapse of time or both, would constitute a default by Landlord under the Lease. There are no offsets or defenses that Tenant has against the full enforcement of the Lease by Landlord.

19. Tenant has not assigned, transferred or hypothecated the Lease or any interest therein or subleased all or any portion of the Premises. Tenant (and Guarantor, as applicable) is not insolvent and is able to pay its debts as they mature. Tenant (and Guarantor, as applicable) has not declared bankruptcy or filed a petition seeking to take advantage of any law relating to bankruptcy, insolvency, reorganization, winding-up or composition or adjustment of debts, Tenant has no present intentions of doing so, and no such proceeding has been commenced against Tenant seeking such relief, and Tenant has no knowledge that any such proceeding is threatened.

20. Tenant does not have any right or option to purchase all or any part of the real property of which the Premises constitute a part.

21. Tenant agrees that no future modifications or amendment of the Lease will be enforceable unless the modification or amendment has been consented to in writing by Landlord.

24. Tenant has no notice of any assignment of the Lease by Landlord, or any assignment, hypothecation or pledge of rents accruing under the Lease by Landlord, except in connection with prior mortgage financing obtained by Landlord.

22. Tenant has received no notice by any governmental authority or person claiming a violation of, or requiring compliance with, any applicable federal, state or local law or regulation intended to protect the environment and public health and safety ("Environmental Law"). The Premises are not, and during the term of the Lease have never been used to handle, treat, store, or dispose of oil, petroleum products, hazardous substances in any quantity, hazardous waste, toxic substances, regulated substances or hazardous air pollutants in violation of any Environmental Law.

23. The person executing this Estoppel Certificate is authorized by Tenant to do so and execution hereof is the binding act of Tenant enforceable against Tenant.

Dated: _____, 20__ **TENANT:**

By: _____
Name: _____
Title: _____

Exhibits
A – Complete copy of the Lease, together with any amendments
B – Exceptions to certifications (Note: If no exceptions are noted on Exhibit B, then the word "none" shall be deemed to have been inserted therein)

SAMPLE ONLY
NOT FOR EXECUTION

EXHIBIT "E"

EXHIBIT “F”

RULES AND REGULATIONS

Tenant shall faithfully observe and comply with the following Rules and Regulations. Landlord shall not be responsible to Tenant for the nonperformance of any of said Rules and Regulations by or otherwise with respect to the acts or omissions of any other tenants or occupants of the Project. In the event of any conflict between the Rules and Regulations and the other provisions of this Lease, the latter shall control.

1. Tenant shall not alter any lock or install any new or additional locks or bolts on any doors or windows of the Premises without obtaining Landlord’s prior written consent. Tenant shall bear the cost of any lock changes or repairs required by Tenant. Two keys will be furnished by Landlord for the Premises, and any additional keys required by Tenant must be obtained from Landlord at a reasonable cost to be established by Landlord. Upon the termination of this Lease, Tenant shall restore to Landlord all keys of stores, offices, and toilet rooms, either furnished to, or otherwise procured by, Tenant and in the event of the loss of keys so furnished, Tenant shall pay to Landlord the cost of replacing same or of changing the lock or locks opened by such lost key if Landlord shall deem it necessary to make such changes.

2. All doors opening to public corridors shall be kept closed at all times except for normal ingress and egress to the Premises.

3. Landlord reserves the right to close and keep locked all entrance and exit doors of the Building during such hours as are customary for comparable buildings in San Diego County, California. Tenant, its employees and agents must be sure that the doors to the Building are securely closed and locked when leaving the Premises if it is after the normal hours of business for the Building. Any tenant, its employees, agents or any other persons entering or leaving the Building at any time when it is so locked, or any time when it is considered to be after normal business hours for the Building, may be required to sign the Building register. Access to the Building may be refused unless the person seeking access has proper identification or has a previously arranged pass for access to the Building. Landlord will furnish passes to persons for whom Tenant requests same in writing. Tenant shall be responsible for all persons for whom Tenant requests passes and shall be liable to Landlord for all acts of such persons. Landlord and his agents shall in no case be liable for damages for any error with regard to the admission to or exclusion from the Building of any person. In case of invasion, mob, riot, public excitement, or other commotion, Landlord reserves the right to prevent access to the Building or the Project during the continuance thereof by any means it deems appropriate for the safety and protection of life and property.

4. Landlord shall have the right to reasonably prescribe the weight, size and position of all safes and other heavy property brought into the Building and also the times and manner of moving the same in and out of the Building. Safes and other heavy objects shall, if considered necessary by Landlord, stand on supports of such thickness as is necessary to properly distribute the weight. Landlord will not be responsible for loss of or damage to any such safe or property in any case. Any damage to any part of the Building, its contents, occupants or visitors by moving or maintaining any such safe or other property shall be the sole responsibility and expense of Tenant.

5. The requirements of Tenant will be attended to only upon application at the management office for the Project or at such office location designated by Landlord. Employees of Landlord shall not perform any work or do anything outside their regular duties unless under special instructions from Landlord.

6. No sign, advertisement, notice or handbill shall be exhibited, distributed, painted or affixed by Tenant on any part of the Premises or the Building without the prior written consent of Landlord. Tenant shall not disturb, solicit, peddle, or canvass any occupant of the Project and shall cooperate with Landlord and the agents of Landlord to prevent same.

7. The toilet rooms, urinals, wash bowls and other apparatus shall not be used for any purpose other than that for which they were constructed, and no foreign substance of any kind whatsoever shall be thrown therein. The expense of any breakage, stoppage or damage resulting from the violation of this rule shall be borne by the tenant who, or whose servants, employees, agents, visitors or licensees shall have caused same.

8. Tenant shall not overload the floor of the Premises, nor mark, or drill into the partitions, woodwork or drywall or in any way deface the Premises or any part thereof without Landlord’s prior written consent.

9. Tenant shall provide material safety data sheets for any Hazardous Material used or kept on the Premises.

10. Tenant shall not without the prior written consent of Landlord use any method of heating or air conditioning other than that supplied by Landlord.

11. Tenant shall not permit or allow the Premises to be occupied or used in a manner offensive or objectionable to Landlord or other occupants of the Project by reason of noise or vibrations, or interfere with other tenants or those having business therein, whether by the use of any musical instrument, radio, phonograph, or in any other way. Tenant shall not throw anything out of doors, windows or skylights or down passageways.

12. Tenant shall not bring into or keep within the Project, the Building or the Premises any animals (other than valid service animals), birds, aquariums, or, except in areas designated by Landlord, bicycles or other vehicles.

13. No cooking shall be done or permitted on the Premises, nor shall the Premises be used for the storage of merchandise, for lodging or for any improper, objectionable or immoral purposes. Notwithstanding the foregoing, Underwriters' laboratory-approved equipment and microwave ovens may be used in the Premises for heating food and brewing coffee, tea, hot chocolate and similar beverages for employees and visitors, provided that such use is in accordance with all applicable Laws.

14. Tenant shall not occupy or permit any portion of the Premises to be occupied as an office for a messenger-type operation or dispatch office, public stenographer or typist, or for the manufacture or sale of liquor, narcotics, or tobacco in any form, or as a medical office, or as a barber or manicure shop, or as an employment bureau without the express prior written consent of Landlord. Tenant shall not engage or pay any employees on the Premises except those actually working for such tenant on the Premises nor advertise for laborers giving an address at the Premises.

15. Landlord reserves the right to exclude or expel from the Project any person who, in the judgment of Landlord, is intoxicated or under the influence of liquor or drugs, or who shall in any manner do any act in violation of any of these Rules and Regulations.

16. Tenant, its employees and agents shall not loiter in or on the entrances, corridors, sidewalks, lobbies, courts, halls, stairways, elevators, vestibules or any Building Common Areas or Project Common Areas for the purpose of smoking tobacco products or for any other purpose, nor in any way obstruct such areas, and shall use them only as a means of ingress and egress for the Premises. Tenant shall not store any property in the Common Areas or use the Common Areas for any purpose not approved by Landlord in Landlord's sole discretion.

17. Tenant shall not waste electricity, water or air conditioning provided to the Building Common Areas and shall refrain from attempting to adjust any controls with respect thereto.

18. Tenant shall deposit all of its trash, garbage and Hazardous Materials in receptacles within its Premises or in receptacles designated by Landlord outside of the Premises. Tenant shall not place in any such receptacle any material that cannot be disposed of in the ordinary and customary manner of trash and garbage disposal. Any Hazardous Materials transported through Common Areas shall be held in secondary containment devices provided by Tenant. Tenant shall be responsible, at its sole cost and expense, for Tenant's removal of its trash, garbage from the Premises to designated receptacles outside of the Premises and the removal of Hazardous Materials from the Premises and the Project pursuant to a separate contract maintained by Tenant. If the Premises is or becomes infested with vermin as a result of the use or any misuse or neglect of the Premises by Tenant, its agents, servants, employees, contractors, visitors or licensees, Tenant shall forthwith, at Tenant's expense, cause the Premises to be exterminated from time to time to the satisfaction of Landlord and shall employ such licensed exterminators as shall be approved in writing in advance by Landlord.

19. Tenant shall comply with all orders, requirements and conditions now or hereafter imposed by applicable Laws or by Landlord for the Project ("Waste Regulations") regarding the collection, sorting, separation and recycling of waste products, garbage, refuse and trash generated by Tenant (collectively, "Waste Products"), including (without limitation) the separation of Waste Products into receptacles reasonably approved by Landlord and the removal of such receptacles in accordance with any collection schedules prescribed by Waste Regulations.

EXHIBIT "F"

20. Tenant shall comply with all safety, fire protection and evacuation procedures and regulations established by Landlord or any Governmental Authority.

21. No awnings or other projection shall be attached to the outside walls of the Building without the prior written consent of Landlord, and no curtains, blinds, shades or screens shall be attached to or hung in, or used in connection with, any window or door of the Premises other than Landlord standard drapes. Neither the interior nor exterior of any windows shall be coated or otherwise sunscreened without the prior written consent of Landlord. Tenant shall be responsible for any damage to the window film on the exterior windows of the Premises and shall promptly repair any such damage at Tenant's sole cost and expense.

22. Tenant must comply with reasonable requests by Landlord concerning the informing of their employees of items of importance to Landlord.

23. Tenant must comply with any applicable "**NO-SMOKING**" ordinances. If Tenant is required under the ordinance to adopt a written smoking policy, a copy of said policy shall be on file in the office of the Building.

24. Tenant hereby acknowledges that Landlord shall have no obligation to provide guard service or other security measures for the benefit of the Premises, the Building or the Project. Tenant hereby assumes all responsibility for the protection of Tenant and its agents, employees, contractors, invitees and guests, and the property thereof, from acts of third parties, including keeping doors locked and other means of entry to the Premises closed, whether or not Landlord, at its option, elects to provide security protection for the Project or any portion thereof. Tenant further assumes the risk that any safety and security devices, services and programs which Landlord elects, in its sole discretion, to provide may not be effective, or may malfunction or be circumvented by an unauthorized third party, and Tenant shall, in addition to its other insurance obligations under this Lease, obtain its own insurance coverage to the extent Tenant desires protection against losses related to such occurrences. Tenant shall cooperate in any reasonable safety or security program developed by Landlord or required by Law.

25. Tenant shall not use in any space or in the public halls of the Building, any hand trucks except those equipped with rubber tires and rubber side guards.

26. No auction, liquidation, fire sale, going-out-of-business or bankruptcy sale shall be conducted in the Premises without the prior written consent of Landlord.

27. No tenant shall use or permit the use of any portion of the Premises for living quarters, sleeping apartments or lodging rooms.

28. Tenant shall install and maintain, at Tenant's sole cost and expense, an adequate, visibly marked and properly operational fire extinguisher next to any duplicating or photocopying machines or similar heat producing equipment, which may or may not contain combustible material, in the Premises.

Landlord reserves the right at any time to change or rescind any one or more of these Rules and Regulations, or to make such other and further reasonable Rules and Regulations as in Landlord's judgment may from time to time be necessary for the management, safety, care and cleanliness of the Premises, Building, the Building Common Areas and the Project Common Areas, and for the preservation of good order therein, as well as for the convenience of other occupants and tenants therein. Provided that the Rules and Regulations are applied and enforced in a non-discriminatory manner, Landlord may waive any one or more of these Rules and Regulations for the benefit of any particular tenants, but no such waiver by Landlord shall be construed as a waiver of such Rules and Regulations in favor of any other tenant, nor prevent Landlord from thereafter enforcing any such Rules or Regulations against any or all tenants of the Project. Tenant shall be deemed to have read these Rules and Regulations and to have agreed to abide by them as a condition of its occupancy of the Premises.

EXHIBIT "F"

EXHIBIT "G"

PARKING RULES AND REGULATIONS

The following rules and regulations shall govern the use of the Parking Area of the Project:

1. Except for the gross negligence or willful misconduct of Landlord, Landlord shall not be responsible for any damage to vehicles, injuries to persons, or loss of property, all of which risks are assumed by the party using the Parking Area. All claimed damage, injuries, or loss must be reported, itemized in writing and delivered to the parking management office located within the Project within ten (10) days after any claimed damage, injuries, or loss occurs. Any claim not so made is waived. In any event, (a) the total liability of Landlord, if any, shall be limited to Two Hundred Fifty Dollars ($250.00) for all damages to any vehicle and/or loss of any property, and (b) Landlord shall not be responsible for the loss of use of any vehicle or property.

2. Tenant shall not park, nor permit Tenant's Parking Invitees except visitors to park, in any parking areas designated by Landlord as areas for parking by visitors to the Project; nor shall Tenant and/or Tenant's Parking Invitees park in parking areas designated by Landlord for the exclusive use of tenants or other occupants of the Project. Neither Tenant, nor Tenant's Parking Invitees, shall leave vehicles in the parking areas overnight or as extended term storage or park any vehicles in the parking areas other than automobiles, motorcycles, motor driven or non-motor driven bicycles or four wheeled trucks.

3. Parking stickers or any other device or form of identification supplied by Landlord as a condition of use of the Parking Area shall remain the property of Landlord. Such parking identification device must be displayed as requested and may not be mutilated in any manner. The serial number of the parking identification device may not be obliterated. Devices are not transferable and any device in the possession of an unauthorized holder will be void. Landlord may charge a fee for parking stickers, cards or other parking control device supplied by Landlord.

4. Vehicles must be parked entirely within painted stall lines of a single parking stall.

5. All directional signs and arrows must be observed.

6. The speed limit within all parking areas shall be five (5) miles per hour.

7. Parking is prohibited:

(a) in areas not striped for parking;

(b) in aisles;

(c) where "no parking" signs are posted;

(d) on ramps;

(e) in cross-hatched areas;

(f) in loading areas; and

(g) in such other areas as may be designated by Landlord or Landlord parking operator.

8. Every parker is required to park and lock his own vehicle.

9. Loss or theft of parking identification devices must be reported to Landlord immediately, and a lost or stolen report must be filed by Tenant or user of such parking identification device at the time. Landlord has the right to exclude any car from the Parking Area that does not have an identification device.

10. Any parking identification devices reported lost or stolen found on any unauthorized car will be confiscated and the illegal holder will be subject to prosecution.

11. Washing, waxing, cleaning or servicing of any vehicle in any area not specifically reserved for such purpose is prohibited.

12. The parking operators, managers or attendants are not authorized to make or allow any exceptions to these rules and regulations.

13. Tenant's and Tenant's Parking Invitees' continued right to use any parking spaces in the Parking Area is conditioned upon Tenant, and Tenant's Parking Invitees, abiding by these rules and regulations and those contained in this Lease. Further, if this Lease terminates for any reason whatsoever, Tenant's, and Tenant's Parking Invitees', right to use the parking spaces in the Parking Area shall terminate concurrently therewith.

14. Tenant agrees to sign a parking agreement with Landlord or Landlord's parking operator within five (5) days of request, which agreement shall provide the manner of payment of monthly parking fees, if any, and otherwise be consistent with this Lease and these rules and regulations.

15. Landlord reserves the right to refuse the sale of monthly stickers or other parking identification devices to any tenant or person and/or his agents or representatives who willfully refuse to comply with these rules and regulations or any posted or unposted Laws.

16. Landlord reserves the right to establish and change parking fees (except to the extent that same are specifically fixed pursuant to Section 1.8) and to modify and/or adopt such other reasonable and nondiscriminatory rules and regulations for the Parking Area as it deems necessary for the operation of the Parking Area. Nothing herein shall require Landlord to charge a uniform monthly parking fee for the use of vehicle parking spaces in the Project, it being expressly acknowledged and agreed that parking fees may differ based on any factor deemed sufficient by Landlord, including without limitation the degree of a particular tenant's participation in energy and/or traffic management programs of the type described in Section 8.2(a) of this Lease. Landlord may refuse to permit any person who violates these rules to park in the Parking Area, and any violation of the rules shall subject the car to removal, at such car owner's expense.

17. A third party may own, operate or control the Parking Area, and such party may enforce these Parking Rules and Regulations relating to parking. Tenant will obey any additional rules and regulations governing parking that may be imposed by the parking operator or any other person controlling the Parking Area serving the Project.

18. Tenant will be responsible for the observance of all of the Parking Rules and Regulations by Tenant (including, without limitation, all employees, agents, clients, customers, invitees and guests).

19. Landlord may, from time to time, waive any one or more of these Parking Rules and Regulations for the benefit of Tenant or any other tenant, but no such waiver by Landlord shall be construed as a continuing waiver of such Parking Rules and Regulations in favor of Tenant or any other tenant, nor prevent Landlord from thereafter enforcing any such Parking Rules and Regulations against Tenant or any or all of the tenants of the Project.

20. These Parking Rules and Regulations are in addition to, and shall not be construed to in any way modify or amend, in whole or in part, the other terms, covenants, agreements, and conditions of this Lease. To the extent there is any conflict between any of the Parking Rule and Regulations and any express term or provision otherwise set forth in this Lease, such other express term or provision will be controlling.

EXHIBIT "G"

EXHIBIT “H”

RESERVED

EXHIBIT “H”

INDEX OF DEFINED TERMS

EXHIBIT 31.1

CERTIFICATION OF PERIODIC REPORT UNDER SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Hamza Suria, certify that:

1. I have reviewed this quarterly report on Form 10-Q of AnaptysBio, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 6, 2020

/s/ Hamza Suria

Hamza Suria

Chief Executive Officer

(Principal Executive Officer*)*

EXHIBIT 31.2

CERTIFICATION OF PERIODIC REPORT UNDER SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Eric Loumeau, certify that:

1. I have reviewed this quarterly report on Form 10-Q of AnaptysBio, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 6, 2020

/s/ Eric Loumeau

Eric Loumeau

Interim Chief Financial Officer and General Counsel

(Principal Financial Officer)

EXHIBIT 32.1

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

I, Hamza Suria, Chief Executive Officer of AnaptysBio, Inc. (Company), do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- the Quarterly Report on Form 10-Q of the Company for the quarter ended March 31, 2020 (the "Report"), as filed with the Securities and Exchange Commission, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company for the periods presented therein.

Date: May 6, 2020

/s/ Hamza Suria

Hamza Suria
Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 32.2

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

I, Eric Loumeau, Interim Chief Financial Officer and General Counsel of AnaptysBio, Inc. (Company), do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- the Quarterly Report on Form 10-Q of the Company for the quarter ended March 31, 2020 (the "Report"), as filed with the Securities and Exchange Commission, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company for the periods presented therein.

Date: May 6, 2020

/s/ Eric Loumeau

Eric Loumeau

Interim Chief Financial Officer and General Counsel

(Principal Financial Officer)