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 June 30, 2005

or

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

For the transition period from to

Commission File Number:

000-50679

CORCEPT THERAPEUTICS INCORPORATED

(Exact Name of Corporation as Specified in Its Charter)

Delaware	**77-0487658**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

149 Commonwealth Drive
Menlo Park, CA 94025

(Address of principal executive offices, including zip code)

(650) 327-3270
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes o No ☑

On August 10, 2005 there were 22,703,161 shares of common stock outstanding at a par value $.001 per share.

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CORCEPT THERAPEUTICS INCORPORATED
(A DEVELOPMENT STAGE COMPANY)

CONDENSED BALANCE SHEETS
(In thousands)

	December 31, 2004 (See Note 1)	June 30, 2005 (Unaudited)
Assets		
Current assets:		
Cash and cash equivalents	$ 5,930	$ 2,826
Short-term investments	31,471	29,512
Prepaid expenses and other current assets	838	1,317
Total current assets	38,239	33,655
Long-term investments	9,486	4,347
Property and equipment, net of accumulated depreciation	—	50
Other assets	47	83
Total assets	$ 47,772	$ 38,135
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 550	$ 125
Accrued clinical expenses	655	961
Other accrued liabilities	619	417
Total current liabilities	1,824	1,503
Obligations under capital lease, long-term	—	10
Total liabilities	1,824	1,513
Commitments		
Stockholders' equity:		
Preferred stock	—	—
Common stock	23	23
Additional paid-in capital	101,361	101,006
Notes receivable from stockholders	(184)	(184)
Deferred compensation	(1,718)	(1,022)
Deficit accumulated during the development stage	(53,472)	(63,095)
Accumulated other comprehensive loss	(62)	(106)
Total stockholders' equity	45,948	36,622
Total liabilities and stockholders' equity	$ 47,772	$ 38,135

See accompanying notes.

CORCEPT THERAPEUTICS INCORPORATED
(A DEVELOPMENT STAGE COMPANY)

CONDENSED STATEMENTS OF OPERATIONS
(Unaudited)
(In thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,		Period from inception (May 13, 1998) to June 30, 2005
	2004	2005	2004	2005	
Operating expenses:					
Research and development*	$ 2,569	$ 3,325	$ 4,146	$ 8,038	$ 47,927
General and administrative*	1,125	1,061	2,118	2,134	17,281
Total operating expenses	3,694	4,386	6,264	10,172	65,208
Interest and other income, net	117	282	142	564	2,322
Non-operating expense	(7)	(7)	(13)	(15)	(209)
Net loss	$ (3,584)	$ (4,111)	$ (6,135)	$ (9,623)	$ (63,095)
Basic and diluted net loss per share	$ (0.18)	$ (0.18)	$ (0.43)	$ (0.43)	
Shares used in computing basic and diluted net loss per share	19,778	22,594	14,291	22,585	
*Includes non-cash stock-based compensation of the following:					
Research and development	$ 117	$ (194)	$ 258	$ (120)	$ 3,901
General and administrative	440	213	830	465	4,457
Total non-cash stock-based compensation	$ 557	$ 19	$ 1,088	$ 345	$ 8,358

See accompanying notes.

CORCEPT THERAPEUTICS INCORPORATED
(A DEVELOPMENT STAGE COMPANY)

CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

	Six Months Ended June 30,		Period from inception (May 13, 1998) to June 30, 2005
	2004	2005	
Operating activities			
Net loss	$ (6,135)	$ (9,623)	$ (63,095)
Adjustments to reconcile net loss to net cash used in operations:			
Depreciation	1	—	54
Amortization of deferred compensation, net of reversals	1,055	295	8,052
Expense related to stock issued for services or in conjunction with license agreement	34	50	541
Interest accrued on convertible promissory notes	10	—	104
Changes in operating assets and liabilities:			
Prepaid expenses and other current assets	(713)	(479)	(1,317)
Other assets	(14)	(36)	(83)
Accounts payable	308	(425)	125
Accrued liabilities	78	100	1,382
Net cash used in operating activities	(5,376)	(10,118)	(54,237)
Investing activities			
Purchases of property and equipment	—	(51)	(105)
Purchases of short-term and long-term investments	(19,992)	(13,531)	(132,239)
Maturities of short-term investments	1,505	20,585	98,275
Net cash provided by (used in) investing activities	(18,487)	7,003	(34,069)
Financing activities			
Proceeds from issuance of common stock, net of cash paid for issuance costs	49,025	1	49,101
Proceeds from issuance of convertible preferred stock, net of cash paid for issuance costs	—	—	40,378
Proceeds from issuance of convertible notes payable	—	—	1,543
Proceeds from repayment of stockholder notes	—	—	100
Proceeds from issuance of capital leases, net of short-term portion	—	10	10
Net cash provided by (used in) financing activities	49,025	11	91,132
Net (decrease) increase in cash and cash equivalents	25,162	(3,104)	2,826
Cash and cash equivalents, at beginning of period	10,073	5,930	—
Cash and cash equivalents, at end of period	$ 35,235	$ 2,826	$ 2,826

See accompanying notes.

CORCEPT THERAPEUTICS INCORPORATED
(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONDENSED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Description of Business and Basis of Presentation

Corcept Therapeutics Incorporated (the "Company" or "Corcept") was incorporated in the state of Delaware on May 13, 1998, and its facilities are located in Menlo Park, California. Corcept is a pharmaceutical company engaged in the development of drugs for the treatment of severe psychiatric and neurological diseases.

The Company's primary activities since incorporation have been establishing its offices, recruiting personnel, conducting research and development, performing business and financial planning, raising capital, and overseeing clinical trials. Accordingly, the Company is considered to be in the development stage.

In the course of its development activities, the Company has sustained operating losses and expects such losses to continue for at least the next several years. The Company plans to continue to finance its operations through the sale of its equity and debt securities. The Company's ability to continue as a going concern is dependent upon successful execution of its financing strategy and, ultimately, upon achieving profitable operations.

The accompanying unaudited balance sheet as of June 30, 2005 and statements of operations for the three-month and six-month periods ended June 30, 2005 and 2004 have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three-month and six-month periods ended June 30, 2005 are not necessarily indicative of the results that may be expected for the year ending December 31, 2005 or any other period. These financial statements and notes should be read in conjunction with the financial statements for the year ended December 31, 2004 included in the Company's Form 10-K. The accompanying balance sheet as of December 31, 2004 has been derived from audited financial statements at that date.

Use of Estimates

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

Research and Development

Research and development expenses consist of costs incurred for Company-sponsored research and development activities. These costs include direct expenses (including nonrefundable payments to third parties) and research-related overhead expenses, as well as the cost of funding clinical trials and the contract development of second-generation compounds, and are expensed as incurred. Costs to acquire technologies and materials that are utilized in research and development and that have no alternative future use are expensed when incurred.

Cost accruals for clinical trials are based upon estimates of work completed under service agreements, milestones achieved, patient enrollment and past experience with similar contracts. The Company's estimates of work completed and associated cost accruals include its assessments of information received from third-party contract research organizations and the overall status of clinical trial activities.

Stock-Based Compensation

The Company accounts for stock-based compensation related to employee stock options using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* ("APB 25"), as amended, and has adopted the disclosure-only alternative of Statement of Financial Accounting Standards (SFAS) No. 123, *Accounting for Stock- Based Compensation* ("SFAS 123"), as amended by SFAS No. 148, *Accounting for Stock-Based Compensation – Transition and Disclosure* ("SFAS 148"). Options granted to nonemployees are accounted for in accordance with Emerging Issues Task Force Issue No. 96-18, *Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring or in Conjunction with Selling, Goods or Services* ("EITF 96-18"), and are periodically remeasured as they are earned.

CORCEPT THERAPEUTICS INCORPORATED
(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONDENSED FINANCIAL STATEMENTS, Continued

The information set forth below regarding pro forma net loss prepared in accordance with SFAS 123 has been determined as if the Company had accounted for employee stock options under the fair value method proscribed by SFAS 123. The resulting effect on net loss pursuant to SFAS 123 is not likely to be representative of the effects in future years, due to the inclusion in subsequent years of additional grants and year of vesting.

The Company estimates the fair value of these options at the date of grant in accordance with SFAS 123, which allows non-public companies to use the minimum value option pricing model and requires the use of a model such as the Black-Scholes option pricing model for options granted by public companies. The Company has estimated the fair value of options granted prior to February 10, 2004, the date of filing of the Company's Form S-1, using the minimum value option pricing model and has used the Black-Scholes option pricing model for determining the fair value of options granted on or after that date.

As required under SFAS 123, as amended by SFAS 148, the following pro forma net loss presentation reflects the amortization of the fair value of the stock option grants as expense. For purposes of this disclosure, the fair value of the stock options is amortized to expense over the options' vesting periods using the graded-vesting method.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2005	2004	2005
	(in Thousands, except per share data)			
Net loss—as reported	$(3,584)	$(4,111)	$(6,134)	$ (9,623)
Add back: Amortization of deferred compensation related to stock awards to employees	517	222	1,000	508
Deduct: Stock-based employee compensation expense determined under SFAS 123	(824)	(662)	(1,413)	(1,440)
Pro forma net loss	$(3,891)	$(4,551)	$(6,547)	$(10,555)
Net loss per share				
As reported — basic and diluted	$ (0.18)	$ (0.18)	$ (0.43)	$ (0.43)
Pro forma — basic and diluted	$ (0.20)	$ (0.20)	$ (0.46)	$ (0.47)

Recently Issued Accounting Standards

In December 2004, the Financial Accounting Standards Board ("FASB") adopted Statement of Financial Accounting Standard 123R, "Share-Based Payment ("SFAS 123R.") The newly adopted statement addresses the accounting for transactions in which an enterprise receives employee services in exchange for (a) equity instruments of the enterprise or (b) liabilities that are based on the fair value of the enterprise's equity instruments or that may be settled by the issuance of such equity instruments. SFAS 123R eliminates the ability to account for share-based compensation transactions using APB 25, and generally would require, instead, that such transactions be accounted for using a fair-value based method. In accordance with SFAS 123R, companies will be required to recognize an expense for compensation cost related to share-based payment arrangements with employees, including stock options and employee stock purchase plans. SFAS 123R was originally intended to be effective for interim or annual periods beginning after June 15, 2005. In April 2005, the FASB announced a delay in the effective date. For public companies other than Small Business Issuers, SFAS 123R will now be effective for fiscal years beginning after June 15, 2005.

The Company plans to adopt SFAS 123R as of January 1, 2006 and is in the process of assessing the impact that this statement may have on its future financial condition and results of operations. As a part of that assessment, the Company plans to review the option pricing model that it uses to determine fair value and the assumptions that are used as inputs, including the expected volatility of the price of our stock, projected employee turnover and the expected term of options from the date of grant to the expected date of exercise. To date, in preparing the disclosures presented above in accordance with SFAS 123, the Company has used the full 10 year contractual life of the options as the expected term. Because the Company's stock was not publicly traded until the initial public offering in April 2004, the stock volatility factor used to date as an assumption in calculating the fair value of stock options granted to employees after the filing of the Company's Form S-1 for the SFAS 123 footnote disclosures has been 70%, which the Company believes is a reasonable representation of the stock volatility for newly-public companies in its industry and stage of development. As the Company prepares to adopt SFAS 123R management will be reviewing all assumptions used in the fair value calculation and may determine that changes in these assumption are appropriate.

CORCEPT THERAPEUTICS INCORPORATED
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NOTES TO CONDENSED FINANCIAL STATEMENTS, Continued

2. Acquisition of Fixed Assets under Capital Lease

In June 2005, the Company acquired a piece of office equipment with an estimated market value of $15,000 under a lease that, for accounting purposes, is classified as a capital lease. The lease is payable over a 39-month period at a regular monthly payment of approximately $400. The estimated principal portion of payments within the next year is classified as short-term, with the remaining balance classified as long-term.

3. Commitments

During the quarter ended March 31, 2005, the Company signed amendments to its master agreement with a contract research organization to assist in the conduct of two clinical trials to be performed in Europe, to be conducted over a two-year period. One of these trials commenced in May and the other is expected to commence in the third quarter of 2005. The total contractual commitment for these trials, which is denominated primarily in Euros, is expected to be approximately $7.5 million in U.S. Dollars based on actual costs incurred to date and the remaining contractual commitments converted using the foreign exchange rate as of June 30, 2005. Approximately €4.8 million of the Euro-denominated commitments under these contracts had not been incurred as of June 30, 2005. The costs of these trials may vary depending upon the nature of the services being rendered, as well as the change in the foreign exchange rates at the time such payments become due. The timing of payments for these trials will depend upon various factors including the pace of site selection, patient enrollment and other trial activities. These trials are being conducted under the master agreement with the vendor that provides for termination by the Company with forty-five days' notice.

In April 2005, the Company signed an amendment to the master agreement with another one of its clinical research organizations for the conduct of an additional clinical trial to be performed in the United States, which commenced early in the second quarter of 2005. The total contractual commitment for this trial, to be conducted over a two-year period, is expected to be $1.7 million. The timing of payments for this trial will depend upon various factors including the pace of site selection, patient enrollment and other trial activities. This trial is being conducted under the master agreement with the vendor that provides for termination by the Company with thirty days' notice.

On May 23, 2005, the Company entered into a lease agreement for office space at a cost of approximately $14,250 per month, which is subject to increases each January based on increases in the landlord's operating expenses for the property. The lease is for an initial term of 30 months with a commencement date of July 1, 2005 and provides the Company with an option to extend for an additional year.

4. Comprehensive Loss

Comprehensive loss is comprised of net loss and the change in unrealized gains and losses on available-for-sale securities. The following table presents the components of comprehensive loss for the periods presented. All figures are in thousands.

	Net Loss as reported	Change in Unrealized Gain (Loss)	Comprehensive Net Loss
Three-month periods ended:			
June 30, 2004	$(3,584)	$(33)	$(3,617)
June 30, 2005	$(4,111)	$ 46	$(4,065)
Six-month periods ended:			
June 30, 2004	$(6,135)	$(33)	$(6,168)
June 30, 2005	$(9,623)	$(44)	$(9,667)

CORCEPT THERAPEUTICS INCORPORATED
(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONDENSED FINANCIAL STATEMENTS, Continued

5. Net Loss Per Share

The Company follows the provisions of Statement of Financial Accounting Standards No. 128, "Earnings Per Share." Basic and diluted net loss per share is computed by dividing the net loss by the weighted-average number of common shares outstanding during the period less outstanding shares subject to repurchase. Outstanding shares subject to repurchase are not included in the computation of basic net loss per share until the Company's time-based repurchase rights have lapsed.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2005	2004	2005
	(in Thousands, except per share data)			
Net loss (numerator)	$ (3,584)	$ (4,111)	$ (6,135)	$ (9,623)
Shares used in computing historical basic and diluted net loss per share (denominator)				
Weighted-average common shares outstanding	20,011	22,694	14,672	22,694
Less weighted-average shares subject to repurchase	(233)	(100)	(381)	(109)
Denominator for basic and diluted net loss per share	19,778	22,594	14,291	22,585
Basic and diluted net loss per share applicable to common stockholders	$ (0.18)	$ (0.18)	$ (0.43)	$ (0.43)

The Company has excluded the impact of stock options and shares of common stock subject to repurchase from the calculation of diluted net loss per common share because all such securities are antidilutive for all periods presented. In addition, the Company has excluded the impact of all convertible preferred stock from January 1, 2004 through the conversion of these shares into common stock on April 19, 2004, the effective date of the initial public offering of the Company's common stock, from the calculation of diluted net loss per common share because all such securities are antidilutive for such periods. The total number of shares excluded from the calculations of diluted net loss per share was 2,789,075 and 1,351,101 for the three months ended June 30, 2004 and 2005, respectively. The total number of shares excluded from the calculations of diluted net loss per share was 6,470,022 and 1,360,050 for the six months ended June 30, 2004 and 2005, respectively.

6. Stock-based compensation

During the six months ended June 30, 2005, the Company granted options to purchase a total of 150,000 shares of common stock to employees at a weighted-average exercise price of $4.82, the market price on the date of grant. In June 2005, options were exercised to purchase 9,348 shares of common stock.

During the second quarter of 2005, upon the change in status of an employee who worked in a development function to a consultant, we recorded a reversal of approximately $250,000 of previously reported stock-based compensation expense, which represents the difference between the expense recorded under the graded-vesting method and the expense that would have been recorded based upon the rights to options that vested during the individual's service as an employee. Certain of the options previously granted to this individual will continue to vest as the individual provides consulting services to the Company. The fair value of these remaining options will be charged to expense as they are earned over the remaining vesting period, which is approximately 1.5 years, using the straight-line method.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Information

This Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the "Factors that May Affect Future Results" section of Part I of this Form 10-Q. This Form 10-Q contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended. All statements contained in this Form 10-Q other than statements of historical fact are forward-looking statements. When used in this report or elsewhere by management from time to time, the words "believe," "anticipate," "intend," "plan," "estimate," "expect," and similar expressions indicate forward-looking statements. Such forward-looking statements are based on current expectations, but the absence of these words does not necessarily mean that a statement is not forward-looking. Forward-looking statements made in this Form 10-Q include statements about:

- *the progress of our research, development and clinical programs and timing of the introduction of CORLUX and future product candidates;*
- *estimates of the dates by which we expect to report results of our clinical trials;*
- *our ability to market, commercialize and achieve market acceptance for CORLUX or other future product candidates;*
- *uncertainties associated with obtaining and enforcing patents;*
- *our estimates for future performance; and*
- *our estimates regarding our capital requirements and our needs for additional financing.*

Forward-looking statements are not guarantees of future performance and involve risks and uncertainties. Actual events or results may differ materially from those discussed in the forward-looking statements as a result of various factors. For a more detailed discussion of such forward-looking statements and the potential risks and uncertainties that may impact upon their accuracy, see the "Factors that May Affect Future Results" and "Overview" sections of this Management's Discussion and Analysis of Financial Condition and Results of Operations. These forward-looking statements reflect our view only as of the date of this report. Except as required by law, we undertake no obligations to update any forward looking statements. Accordingly, you should also carefully consider the factors set forth in other reports or documents that we file from time to time with the Securities and Exchange Commission.

OVERVIEW

We are a pharmaceutical company engaged in the development of medications for the treatment of severe psychiatric and neurological diseases. Since our inception in May 1998, we have been developing our lead product, CORLUX®, targeted for the treatment of the psychotic features of psychotic major depression, or PMD, under an exclusive patent license from Stanford University. The United States Food and Drug Administration, or FDA, has granted "fast track" status to evaluate the safety and efficacy of CORLUX for the treatment of the psychotic features of PMD. We have completed the analysis of our first two large, double-blind trials, and, in September and October 2004, we initiated two Phase III clinical trials in the United States to support a planned New Drug Application, or NDA. Both of these trials are covered by Special Protocol Assessments, or SPAs, from the FDA. Additionally, in the second quarter of 2005, we initiated a third Phase III clinical trial in Europe and a clinical study in the United States to evaluate the safety and tolerability of retreatment with CORLUX. We intend to initiate an additional retreatment study in Europe in the third quarter of 2005.

We are also conducting a Phase II clinical study to evaluate the safety and efficacy of CORLUX in improving cognition in patients with mild to moderate Alzheimer's disease. We expect to report results on this trial in the first half of 2006.

Specifically, our activities to date have included:

- product development;
- designing, funding and overseeing clinical trials;
- regulatory affairs; and
- intellectual property prosecution and expansion.

Historically, we have financed our operations and internal growth primarily through private placements of our preferred stock and the public sale of common stock rather than through collaborative or partnership agreements. Therefore, we have no research funding or collaborative payments payable to us. The loan we received from one research institution was converted into common stock on June 30, 2004.

We are in the development stage and have incurred significant losses since our inception because we have not generated any revenue, and do not expect to generate any revenue for the foreseeable future. As of June 30, 2005 we had an accumulated deficit of approximately $63.1 million. Our historical operating losses have resulted principally from our research and development activities, including clinical trial activities for CORLUX, discovery research, non-clinical activities such as toxicology and carcinogenicity studies, manufacturing process development and regulatory activities, as well as general and administrative expenses. We expect to continue to incur net losses over at least the next two years as we complete our CORLUX clinical trials, apply for regulatory approvals, expand development of GR-II antagonists for new indications, acquire and develop treatments in other therapeutic areas, establish sales and marketing capabilities and expand our operations.

Our business is subject to significant risks, including the risks inherent in our research and development efforts, the results of our CORLUX clinical trials, uncertainties associated with obtaining and enforcing patents, our investment in manufacturing set-up, the lengthy and expensive regulatory approval process and competition from other products. Our ability to successfully generate revenues in the foreseeable future is dependent upon our ability, alone or with others, to develop, obtain regulatory approval for, manufacture and market our lead product.

RESULTS OF OPERATIONS

Three and Six Months Ended June 30, 2005 and 2004

Research and development expenses. Research and development expenses include the personnel costs related to our development activities including non-cash stock-based compensation, as well as the costs of pre-clinical studies, clinical trial preparations, enrollment and monitoring expenses, regulatory costs and the costs of manufacturing development.

Research and development expenses increased 29% to $3.3 million for the three months ended June 30, 2005, from $2.6 million for the three months ended June 30, 2004. For the six months ended June 30, 2005, research and development expenses increased 94% to $8.0 million from $4.1 million for the six months ended June 30, 2004. The net increases in expenses between years reflect clinical trial cost increases of $1.5 million and $4.1 million, respectively, for the current quarter and year-to-date periods, primarily related to Phase III clinical trial expenses for PMD. In addition, for both the current quarter and year-to-date period, there was a reduction of approximately $500,000 in expenses for our discovery research program due to the successful conclusion of a program focusing on the discovery of new chemical entities that will be available for future development. During the three months ended June 30, 2005 as compared to the same quarter of 2004, decreases in staffing costs, due primarily to changes in stock-based compensation, and in production and testing of clinical supplies were partially offset by increases in pre-clinical studies and infrastructure costs to support research and development activities. During the six-month period ended June 30, 2005 as compared to the same period of 2004, increases in pre-clinical studies, personnel and infrastructure costs, were partially offset by the decrease in stock-based compensation costs and in production and testing of clinical supplies.

Research and development expenses discussed above for the three- and six-month periods ending June 30, 2005 included stock based compensation charges related to option grants to individuals performing these functions of approximately $60,000 and $130,000, respectively, as compared with charges of approximately $120,000 and $260,000 for the same periods in 2004. In addition, during the second quarter of 2005, upon the change in status of an employee who worked in a development function to a consultant, we recorded a reversal of approximately $250,000 of previously reported stock-based compensation expense, which represents the difference between the expense recorded under the graded-vesting method and the expense that would have been recorded based upon the rights to options that vested during the individual's service as an employee. Approximately $40,000 of non-cash compensation expense related to individuals performing research and development activities is expected to be amortized to expense during the remainder of 2005.

Below is a summary of our research and development expenses by major project (excluding stock based compensation):

	Three Months Ended June 30,		Six Months Ended June 30,	
Project	**2004**	**2005**	**2004**	**2005**
		(in thousands)		
CORLUX for the treatment of the psychotic features of PMD	$1,843	$3,184	$2,517	$7,030
CORLUX for the treatment of mild to moderate Alzheimer's disease	53	235	238	482
Drug discovery research	556	100	1,133	646
Total research and development expense (excluding stock-based compensation)	$2,452	$3,519	$3,888	$8,158

We expect that research and development expenditures will increase substantially during the remainder of 2005 and subsequent years due to the continuation and expansion of clinical trials of CORLUX for PMD and Alzheimer's disease, the initiation of trials of CORLUX for other indications and additional study expenditures for new GR-II antagonists and other pharmaceutical candidates.

Many factors can affect the cost and timing of our trials including inconclusive results requiring additional clinical trials, slow patient enrollment, adverse side effects among patients, insufficient supplies for our clinical trials and real or perceived lack of effectiveness or safety of our trials. In addition, the development of all of our products will be subject to extensive governmental regulation. These factors make it difficult for us to predict the timing and costs of the further development and approval of our products.

General and administrative expenses. General and administrative expenses consist primarily of the costs of administrative personnel and related facility costs along with legal, accounting and other professional fees.

General and administrative expenses were $1.1 million and $2.1 million, respectively, for the three- and six-month periods ended June 30, 2005, unchanged from the levels of the comparable periods in 2004. There were increases of $100,000 and $200,000, respectively, for the three- and six-month periods ended June 30, 2005, as compared to the corresponding periods in 2004 in expenses attributable to staffing and professional fees that were offset by decreases in stock-based compensation.

General and administrative expenses for the three- and six-month periods ended June 30, 2005 included stock-based compensation expense related to option grants to individuals performing these functions of approximately $210,000 and $465,000, respectively, as compared with $440,000 and $830,000 for the same periods in 2004. This decrease was due to the decelerating scale of expense recognition under the graded-vesting method. Approximately $330,000 of non-cash compensation expense related to individuals performing general and administrative activities is expected to be amortized to expense during the remainder of 2005.

We expect that general and administrative expenses will increase during the remainder of 2005 and subsequent years due to additional personnel, higher support costs for our commercialization efforts, costs associated with growth in our market research activities, and expanded operational infrastructure. An increase in general and administrative expenses is also expected to accompany our infrastructure growth associated with our public company reporting activities. These increases will be partially offset during the remainder of 2005 by decreases in non-cash stock-based compensation due to the decelerating scale of amortization of existing deferred compensation under the graded-vesting method.

Interest and other income, net. Interest and other income, net, increased to approximately $280,000 for the three months ended June 30, 2005 and $565,000 for the six months ended June 30, 2005 from $120,000 and $140,000, respectively, for the same periods in 2004. The increases were principally attributable to the investment earnings on higher average cash, cash equivalents, and investments balances during the three- and six-month periods ended June 30, 2005 as compared to the same periods in 2004, due to the investment of net proceeds from our IPO in April 2004 and higher rates of interest in 2005.

Non-operating expense. Non-operating expense was $7,000 and $15,000, respectively, for the three- and six-month periods ended June 30, 2005, compared to $7,000 and $13,000, respectively, for the same periods in 2004. The expense in 2005 represents state tax. The expense in 2004 was primarily interest expense on our convertible note payable to the Institute for the Study of Aging. The note was converted into common stock in June 2004.

Liquidity and Capital Resources

We have incurred operating losses since inception, and at June 30, 2005 we had a deficit accumulated during the development stage of $63.1 million. Since our inception, we have relied primarily on the proceeds from private placements and public offering of our equity securities to fund our operations.

At June 30, 2005, we had a balance in cash, cash equivalents and marketable securities of $36.7 million, compared to $46.9 million at December 31, 2004. Net cash used in operating activities for the six months ended June 30, 2005 was $10.1 million as compared with $5.4 million for the six months ended June 30, 2004. The use of cash in each period was primarily a result of net losses associated with our research and development activities and amounts incurred to develop our administrative infrastructure. The increase in cash used in operating activities was due to the continuation of Phase III clinical trials begun in the second half of 2004 and in early 2005. We expect cash used in operating activities to continue to increase substantially during the remainder of 2005 and later years due to the continuation and expansion of clinical trials, research activities and general and administrative expenses.

We believe that our current cash and investment balances and interest thereon will be sufficient to complete our currently planned clinical trials reflected in the "Overview" section of this Management's Discussion and Analysis of Financial Condition and Results of Operation, to conduct appropriate development studies and to satisfy our other anticipated cash needs for operating expenses through 2006. However, we cannot be certain that additional funding will not be required during this 18-month period and, if

required, will be available on acceptable terms, or at all. Further, any additional equity financing may be dilutive to stockholders, and debt financing, if available, may involve restrictive covenants. If adequate funds are not available, we may be required to delay, reduce the scope of or eliminate one or more of our research or development programs or to obtain funds through collaborations with others that are on unfavorable terms or that may require us to relinquish rights to certain of our technologies or products, including potentially our lead product, that we would otherwise seek to develop on our own.

Contractual Obligations and Commercial Commitments

During the quarter ended March 31, 2005, the Company signed amendments to its master agreement with a contract research organization to assist in the conduct of two clinical trials to be performed in Europe, to be conducted over a two-year period. One of these trials commenced in May and the other is expected to commence in the third quarter of 2005. The total contractual commitment for these trials, which are denominated primarily in Euros, is expected to be approximately $7.5 million based on actual costs incurred to date and the remaining contractual commitments converted using the foreign exchange rate as of June 30, 2005. Approximately €4.8 million of the Euro-denominated commitments under these contracts had not been incurred as of June 30, 2005. The costs of these trials may vary depending upon the nature of the services being rendered, as well as the change in the foreign exchange rates at the time such payments are due. The timing of payments for these trials will depend upon various factors including the pace of site selection, patient enrollment and other trial activities. These trials are being conducted under the master agreement with the vendor that provides for termination by the Company with forty-five days' notice.

In April 2005, the Company signed an amendment to the master agreement with another one of its clinical research organizations for the conduct of an additional clinical trial to be performed in the United States, which commenced early in the second quarter of 2005. The total contractual commitment for this trial, to be conducted over a two year period, is expected to be $1.7 million. The timing of payments for this trial will depend upon various factors including the pace of site selection, patient enrollment and other trial activities. This trial is being conducted under the master agreement with the vendor that provides for termination by the Company with thirty days' notice.

Critical Accounting Estimates

We believe there have been no significant changes in our critical accounting estimates during the three months ended June 30, 2005 as compared to what was previously disclosed in our Form 10-K for the year ended December 31, 2004.

Our financial statements have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities and expenses. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Stock-based compensation. Stock-based compensation arises from the granting of stock options to employees and directors, as well as to non-employees.

Deferred stock-based compensation related to option grants to employees and directors represents the difference between the exercise price of an option and the deemed fair value of our common stock on the date of the grant. Given the absence of an active market for our common stock prior to the time of our initial public offering in April 2004, management was required to estimate the fair value of our common stock based on a variety of company and industry-specific factors for the purpose of measuring the cost of the transaction and properly reflecting it in our financial statements. Since our initial public offering, all stock option grants have been at the closing price for the stock on the Nasdaq Stock Market as of the date of grant. Deferred compensation is included as a reduction of stockholders' equity and is being amortized to expense over the vesting period of the underlying options, generally five years. Our policy is to use the graded-vesting method for recognizing compensation costs for fixed employee awards. We amortize the deferred stock-based compensation of employee options on the graded-vesting method over the vesting periods of the applicable stock options. The graded-vesting method provides for vesting of portions of the overall awards at interim dates and results in greater vesting in earlier years than the straight-line method. Upon termination of employment, the difference between the expense recorded under the graded-vesting method and the expense that would have been recorded based upon the vesting of the related option is required to be reversed upon such termination.

In December 2004, the Financial Accounting Standard Board, or FASB, adopted Statement of Financial Accounting Standard 123R, "Share-Based Payment", or SFAS 123R. The newly adopted statement addresses the accounting for transactions in which an enterprise receives employee services in exchange for (a) equity instruments of the enterprise or (b) liabilities that are based on the fair value of the enterprise's equity instruments or that may be settled by the issuance of such equity instruments. SFAS 123R eliminates the ability to account for share-based compensation transactions using APB 25, and generally would require, instead, that such

transactions be accounted for using a fair-value based method. In accordance with SFAS 123R, companies will be required to recognize an expense for compensation cost related to share-based payment arrangements including stock options and employee stock purchase plans. SFAS 123R was originally intended to be effective for interim or annual periods beginning after June 15, 2005. In April 2005, the FASB announced a delay in the effective date. For public companies other than Small Business Issuers, SFAS 123R will now be effective for fiscal years beginning after June 15, 2005.

We plan to adopt SFAS 123R as of January 1, 2006 and are in the process of assessing the impact that this statement may have on our future financial condition and results of operations. As a part of that assessment, we plan to review the option pricing model that we use to determine fair value and all assumptions that are used as inputs, including the expected volatility of the price of our stock, projected employee turnover and the expected term of options from the date of grant to the expected date of exercise. To date, in preparing the disclosures required under Statement of Financial Standard 123, or SFAS 123, that are contained in the footnotes to our financial statements included in Item 1 of this Form 10-Q and in Item 8 of our Form 10-K for the year ended December 31, 2004, we used the full 10 year contractual life of the options as the expected term. Because our stock was not publicly traded until our initial public offering in April 2004, the stock volatility factor used to date for the SFAS 123 footnote disclosures has been 70%, which we believe is a reasonable representation of the stock volatility for newly-public companies in our industry and stage of development. As we prepare to adopt SFAS 123R, we will review these factors and may determine that a change in these assumptions would be appropriate.

Accrual of Costs for Research and Development Activities. We recorded accruals for estimated costs of research, preclinical and clinical studies and manufacturing development of approximately $700,000 as of December 31, 2004 and $1.1 million as of June 30, 2005. The related costs are a significant component of our research and development expenses. We make significant judgments and estimates in determining the accrual balance in each reporting period. Accrued clinical trial costs are based on estimates of the work completed under the service agreements, milestones achieved, patient enrollment and past experience with similar contracts. Our estimate of the work completed and associated costs to be accrued includes our assessment of the information received from our third-party contract research organizations and the overall status of our clinical trial activities. In the past, we have not experienced any material deviations between accrued clinical trial expenses and actual clinical trial expenses. However, actual services performed, number of patients enrolled and the rate of patient enrollment may vary from our estimates, resulting in adjustments to clinical trial expense in future periods.

Recently Issued Accounting Standards

See discussion above under the caption “Critical Accounting Estimates – Stock-based compensation” regarding the adoptions of SFAS 123R in December 2004.

FACTORS THAT MAY AFFECT FUTURE RESULTS

In addition to other information in this report, the following factors should be considered carefully in evaluating our company. If any of the risks or uncertainties described in this Form 10-Q or in our annual report on Form 10-K for the year ended December 31, 2004 actually occurs, our business, results of operations or financial condition could be materially adversely affected. The risks and uncertainties described in this Form 10-Q are not the only ones facing the company. Additional risks and uncertainties of which we are unaware or currently deem immaterial may also become important factors that may harm our business.

Risks Related to Our Business

We have incurred losses since inception and anticipate that we will incur continued losses for the foreseeable future.

We are a development stage company with no current source of product revenue. We have a limited history of operations and have focused primarily on clinical trials, and if the outcome of our clinical trials supports it, we plan to seek FDA regulatory clearance to market CORLUX for the treatment of the psychotic features of PMD. Historically, we have funded our operations primarily from the sale of our equity securities. We have incurred losses in each year since our inception in 1998. As of June 30, 2005, we had an accumulated deficit of approximately $63.1 million. We do not know when or if we will generate product revenue. We expect our research and development expenses to increase in connection with the planned clinical trials and other development activities for CORLUX and for other product candidates. We expect to incur significant expenses related to the commercialization of CORLUX. As a result, we expect that our losses will increase for the foreseeable future. We are unable to predict the extent of any future losses or whether or when we will become profitable.

We will depend heavily on the success of our lead product, CORLUX, which is still in development. If we are unable to commercialize CORLUX, or experience significant delays in doing so, we may be unable to generate revenues and our stock price may decline.

We have invested a significant portion of our time and financial resources since our inception in the development of CORLUX. We currently do not have any commercial products and we anticipate that for the foreseeable future our ability to generate revenues and achieve profitability will be solely dependent on the successful development, approval and commercialization of CORLUX. We plan to conduct at least two Phase III clinical trials in the United States for CORLUX for the treatment of the psychotic features of PMD before submitting an application for FDA approval. One Phase III trial commenced in September 2004 and another trial began in October 2004. Both of these trials are covered by Special Protocol Assessments from the FDA. Additionally, in the second quarter of 2005, we initiated a third Phase III trial in Europe. While we expect that the initial results of the two U.S.-based trials will be reported before the end of the first half of 2006 and that the initial results of the European trial will be reported before the end of 2006, we cannot assure you that this will occur. Even though we have SPAs covering the U.S.-based Phase III trials, we may decide, or the FDA may require us, to pursue additional clinical trials or other additional studies on CORLUX. If we are unable to successfully conclude our clinical development program and obtain regulatory approval for CORLUX for the treatment of the psychotic features of PMD, we may be unable to generate revenue and our stock price may decline.

Many factors could harm our efforts to develop and commercialize CORLUX, including

- negative, inconclusive or otherwise unfavorable results from our pre-clinical or clinical development programs;
- changes or delays in our clinical development program;
- rapid technological change making CORLUX obsolete;
- increases in the costs of our clinical trials;
- an inability to obtain, or delay in obtaining, regulatory approval for the commercialization of CORLUX for the treatment of the psychotic features of PMD;
- an inability to manufacture CORLUX or the active ingredient in CORLUX in commercial quantities and at an acceptable cost; and
- political concerns relating to other uses of mifepristone that could limit the market acceptance of CORLUX.

Our clinical trials may not demonstrate that CORLUX is safe and effective. If our clinical trials of CORLUX for the treatment of the psychotic features of PMD do not demonstrate safety and efficacy, or if the clinical trials are delayed or terminated, our business will be harmed.

To gain regulatory approval from the FDA to market CORLUX, our recently initiated pivotal clinical trials must demonstrate the safety and efficacy of CORLUX for the treatment of the psychotic features of PMD. Clinical development is a long, expensive and uncertain process and is subject to delays. Favorable results of preclinical studies and initial clinical trials of CORLUX are not necessarily indicative of the results we will obtain in later clinical trials. While we have obtained favorable results in some of our clinical trials, these results have not been sufficient to support an application for FDA approval. The pivotal clinical trials we are currently conducting may not demonstrate that CORLUX is safe or effective.

In addition, data obtained from clinical trials are susceptible to varying interpretations, which could delay, limit or prevent regulatory approval. To obtain marketing approval, we may decide, or the FDA or other regulatory authorities may require us, to pursue additional clinical, pre-clinical or manufacturing studies. These studies could significantly delay the approval and commercialization of CORLUX and would require us to commit significant additional financial resources. Even after we conduct these additional clinical trials, we may not receive regulatory approval to market CORLUX.

Many other factors could delay or result in termination of our clinical trials, including:

- negative or inconclusive results;
- slow patient enrollment;
- patient noncompliance with the protocol;
- adverse medical events or side effects among patients during the clinical trials;
- FDA inspections of our clinical operations; and
- real or perceived lack of effectiveness or safety of CORLUX.

In addition to our clinical trials, we plan to conduct carcinogenicity studies and toxicology tests in support of our planned NDA to market CORLUX for the treatment of the psychotic features of PMD. We cannot assure you that these studies and tests will produce results that support our planned NDA, and these studies and tests may delay commercialization of CORLUX.

We depend on clinical investigators and clinical sites to enroll patients in our clinical trials and other third parties to manage the trials and to perform related data collection and analysis, and, as a result, we may face costs and delays outside of our control.

We rely on clinical investigators and clinical sites to enroll patients and other third parties to manage our trials and to perform related data collection and analysis. However, we may not be able to control the amount and timing of resources that the clinical sites that conduct the clinical testing may devote to our clinical trials. For example, as we reported on August 9, 2005, enrollment in our U.S.-based Phase III trials has been slower than anticipated. There can be no assurance that the steps we are taking to increase the pace of enrollment will be successful. If our clinical investigators and clinical sites fail to enroll a sufficient number of patients in our clinical trials or fail to enroll them on our planned schedule, we will be unable to complete these trials or to complete them as planned, which could delay or prevent us from obtaining regulatory approvals for CORLUX.

We have contracted with Scirex Corporation (Scirex), PPD Development, LP, (PPD), and i3 Research, an Ingenix Company (i3), to monitor clinical site performance and to perform investigator supervision, data collection and analysis in our Phase III clinical trials. In addition, we expect to use approximately 70 clinical sites in our Phase III clinical trials. Approximately 50 sites are currently active and the rest are in the process of being qualified and negotiating contracts to conduct clinical testing. We may not be able to maintain these relationships with Scirex, PPD or i3 or to establish relationships with qualified clinical sites without undue delays or excessive expenditures. Any delay in contracting with qualified clinical sites to conduct our clinical testing may delay the completion of our Phase III clinical trials or the commercialization of CORLUX.

Our agreements with clinical investigators and clinical sites for clinical testing and with Scirex, PPD and i3 for trial management services place substantial responsibilities on these parties, which could result in delays in, or termination of, our Phase III clinical trials if these parties fail to perform as expected. For example, if any of our clinical trial sites fail to comply with FDA-approved good clinical practices, we may be unable to use the data gathered at those sites. If these clinical investigators, clinical sites or other third parties do not carry out their contractual duties or obligations or fail to meet expected deadlines, or if the quality or accuracy of the clinical data they obtain is compromised due to their failure to adhere to our clinical protocols or for other reasons, our Phase III clinical trials may be extended, delayed or terminated, and we may be unable to obtain regulatory approval for, or successfully commercialize, CORLUX.

The contracts for our European trials are denominated in Euros and we bear the currency rate exposure for the cost of these trials.

We have engaged a contract research organization to assist in the conduct of our planned clinical trials in Europe. The costs of these trials will be denominated in Euros, which the vendor will convert into U.S. dollars for invoicing as costs are incurred on a monthly basis. Thus, we bear some currency rate exposure for the costs of these trials. One of these trials commenced in May and the other is expected to commence in the third quarter of 2005. These trials are expected to be conducted over the next two years. The timing of payments for these trials will depend upon various factors including the pace of site selection, patient enrollment, and other trial activities. Both of the European trials discussed here are being conducted under a master agreement that provides for termination by us with forty-five days' notice.

If we are unable to obtain or maintain regulatory approval, we will be limited in our ability to commercialize our products, including CORLUX, and our business will be harmed.

The research, testing, manufacturing, selling and marketing of product candidates are subject to extensive regulation by the FDA and other regulatory authorities in the United States and other countries, which regulations differ from country to country. Obtaining and maintaining regulatory approval typically is an uncertain process, is costly and takes many years. In addition, failure to comply with the FDA and other applicable foreign and U.S. regulatory requirements may subject us to administrative or judicially imposed sanctions. These include warning letters, civil and criminal penalties, injunctions, product seizure or detention, product recalls, total or partial suspension of production, and refusal to approve pending NDAs, or supplements to approved NDAs.

Regulatory approval of an NDA or NDA supplement is never guaranteed. Despite the time, resources and effort expended, failure can occur at any stage. The FDA has substantial discretion in the approval process for human medicines. The FDA can deny, delay or limit approval of a product candidate for many reasons including:

- the FDA may not find that the candidate is safe;
- the FDA may not find data from the clinical or preclinical testing to be sufficient; or
- the FDA may not approve our or our third party manufacturers' processes or facilities.

Future governmental action or changes in FDA policy or personnel may also result in delays or rejection of an NDA in the United States. In addition, because the only currently FDA-approved use of mifepristone is the termination of pregnancy, we expect that the label for CORLUX will include some limitations, including a warning that it should not be used by pregnant women.

If we receive regulatory approval for our product candidates, including CORLUX, we will also be subject to ongoing FDA obligations and continued regulatory oversight and review, such as continued safety reporting requirements; and we may also be subject to additional FDA post-marketing obligations. If we are not able to maintain regulatory compliance, we may not be permitted to market our products.

Any regulatory approvals that we receive for our product candidates may also be subject to limitations on the indicated uses for which the medicine may be marketed or contain requirements for potentially costly post-marketing follow-up studies. In addition, if the FDA approves any of our product candidates, the labeling, packaging, adverse event reporting, storage, advertising, promotion and record-keeping for the medicine will be subject to extensive regulatory requirements. The subsequent discovery of previously unknown problems with the medicine, including adverse events of unanticipated severity or frequency, may result in restrictions on the marketing of the medicine, and could include withdrawal of the medicine from the market.

Failure to obtain regulatory approval in foreign jurisdictions will prevent us from commercializing our products abroad.

We intend to commercialize our products in international markets. Outside the United States, we can commercialize a product only if we receive a marketing authorization and, in some cases, pricing approval, from the appropriate regulatory authorities. This foreign regulatory approval process includes all of the risks associated with the FDA approval process, and, in some cases, additional risks. The approval procedure varies among countries and can involve additional testing, and the time required to obtain approval may differ from that required to obtain FDA approval. We have not taken any actions to obtain foreign approvals. We may not develop our products in the clinic in order to obtain foreign regulatory approvals on a timely basis, if at all.

Approval by the FDA does not ensure approval by regulatory authorities in other countries, and approval by one foreign regulatory authority does not ensure approval by regulatory authorities in other foreign countries or by the FDA. We may not be able to file for regulatory approvals and may not receive necessary approvals to commercialize our products in any market.

The "fast track" designation for the development program of CORLUX for the treatment of the psychotic features of PMD may not lead to a faster development or regulatory review or approval process.

If a human medicine is intended for the treatment of a serious or life-threatening condition and the medicine demonstrates the potential to address unmet medical needs for this condition, the sponsor of an Investigational New Drug Application, or IND, may apply for FDA "fast track" designation for a particular indication. Marketing applications submitted by sponsors of products in fast track development may qualify for expedited FDA review under the policies and procedures offered by the FDA, but the fast track designation does not assure any such qualification. Although we have obtained a fast track designation from the FDA for CORLUX for the treatment of the psychotic features of PMD, we may not experience a faster development process, review or approval compared to applications considered for approval under conventional FDA procedures. In addition, the FDA may withdraw our fast track designation at any time. If we lose our fast track designation, the approval process may be delayed. In addition, our fast track designation does not guarantee that we will qualify for or be able to take advantage of the expedited review procedures and does not increase the likelihood that CORLUX will receive regulatory approval for the treatment of the psychotic features of PMD.

Even if we receive approval for the marketing and sale of CORLUX for the treatment of the psychotic features of PMD, it may never be accepted as a treatment for PMD.

Many factors may affect the market acceptance and commercial success of CORLUX for the treatment of the psychotic features of PMD. Although there is currently no FDA-approved treatment for PMD, there are two treatment approaches currently used by psychiatrists: Electroconvulsive Therapy, or ECT, and combination medicinal therapy. Even if the FDA approves CORLUX for the treatment of the psychotic features of PMD, physicians may not adopt CORLUX. Physicians will recommend the use of CORLUX only if they determine, based on experience, clinical data, side effect profiles and other factors, that it is preferable to other products or treatments then in use. Acceptance of CORLUX among influential practitioners will be essential for market acceptance of CORLUX.

Other factors that may affect the market acceptance and commercial success of CORLUX for the treatment of the psychotic features of PMD include:

- the effectiveness of CORLUX, including any side effects, as compared to alternative treatment methods;
- the product labeling or product insert required by the FDA for CORLUX;
- the cost-effectiveness of CORLUX and the availability of insurance or other third-party reimbursement, in particular Medicare and Medicaid, for patients using CORLUX;
- the timing of market entry of CORLUX relative to competitive products;
- the intentional restriction of distribution of CORLUX to physicians treating the target patient population;
- the extent and success of our sales and marketing efforts;
- the rate of adoption of CORLUX by physicians and by target patient population; and
- negative publicity concerning CORLUX, RU-486 or mifepristone.

The failure of CORLUX to achieve market acceptance would prevent us from generating meaningful product revenue.

Public perception of the active ingredient in CORLUX, mifepristone or RU 486, may limit our ability to market and sell CORLUX.

The active ingredient in CORLUX, mifepristone or RU 486, is used to terminate pregnancy. As a result, mifepristone has been and continues to be the subject of considerable ethical and political debate in the United States and elsewhere. Public perception of mifepristone may limit our ability to engage alternative manufacturers and may limit the commercial acceptance of CORLUX by patients and physicians. In addition, even though we intend to create measures to minimize the likelihood of the prescribing of CORLUX to a pregnant woman, physicians may decline to prescribe CORLUX to a woman simply to avoid altogether any risk of unintentionally terminating a pregnancy.

We have no manufacturing capabilities and we currently depend on third parties who are single source suppliers to manufacture CORLUX. If these suppliers are unable to continue manufacturing CORLUX and we are unable to contract quickly with alternative sources, our business will be harmed.

We currently have no experience in, and we do not own facilities for, manufacturing any products. We have a contract with ScinoPharm Taiwan, Ltd., a manufacturer of the active pharmaceutical ingredient, or API, of mifepristone and a contract with PharmaForm, L.L.C., a tablet manufacturer for CORLUX. PharmaForm is a single source supplier to us for tablet manufacture. Our agreement with PharmaForm is terminable by either party at any time. ScinoPharm is a single source supplier, as well. Although we have identified a potential second API manufacturer, we cannot guarantee that we will enter into an agreement with them to manufacture API on terms acceptable to us. Our agreement with ScinoPharm is terminable by either party at any time. If we are unable, for whatever reason, to obtain the active pharmaceutical ingredient or CORLUX tablets from our contract manufacturers, we may not be able to manufacture in a timely manner, if at all**.**

If our third party manufacturers of CORLUX fail to comply with FDA regulations or otherwise fail to meet our requirements, our product development and commercialization efforts may be delayed.

We depend on third party manufacturers to supply the active pharmaceutical ingredient in CORLUX and to manufacture CORLUX tablets. These suppliers and manufacturers must comply with the FDA's current Good Manufacturing Practices, or cGMP, regulations and guidelines. Our suppliers and manufacturers may encounter difficulties in achieving quality control and quality assurance and may experience shortages of qualified personnel. Their failure to follow cGMP or other regulatory requirements and to document their compliance with cGMP may lead to significant delays in the availability of products for commercial use or clinical

study or the termination or hold on a clinical study, or may delay or prevent filing or approval of marketing applications for CORLUX.

Failure of our third party suppliers and manufacturers or us to comply with applicable regulations could result in sanctions being imposed on us, including fines, injunctions, civil penalties, failure of regulatory authorities to grant marketing approval of our products, delays, suspension or withdrawal of approvals, license revocation, seizures or recalls of products, operating restrictions and criminal prosecutions, any of which could harm our business. If the operations of any current or future supplier or manufacturer were to become unavailable for any reason, commercialization of CORLUX could be delayed and our revenue from product sales could be reduced.

We may use a different third-party manufacturer to produce commercial quantities of CORLUX than we are using in our clinical trials. The FDA may require us to conduct a study to demonstrate that the tablets used in our clinical trials are equivalent to the final commercial product. If we are unable to establish that the tablets are equivalent or if the FDA disagrees with the results of our study, commercial launch of CORLUX would be delayed.

If we or others identify side effects after our products are on the market, we may be required to perform lengthy additional clinical trials, change the labeling of our products or withdraw our products from the market, any of which would hinder or preclude our ability to generate revenues.

If we or others identify side effects after any of our products are on the market:

- regulatory authorities may withdraw their approvals;
- we may be required to reformulate our products, conduct additional clinical trials, make changes in labeling of our products or implement changes to or obtain re-approvals of our manufacturing facilities;
- we may experience a significant drop in the sales of the affected products;
- our reputation in the marketplace may suffer; and
- we may become the target of lawsuits, including class action lawsuits.

Any of these events could harm or prevent sales of the affected products or could increase the costs and expenses of commercializing and marketing these products.

If CORLUX or future product candidates conflict with the patents of others or if we become involved in other intellectual property disputes, we could have to engage in costly litigation or obtain a license and we may be unable to commercialize our products.

Our success depends in part on our ability to obtain and maintain adequate patent protection for the use of CORLUX for the treatment of the psychotic features of PMD and other potential uses of GR-II antagonists. If we do not adequately protect our intellectual property, competitors may be able to use our intellectual property and erode our competitive advantage.

To date, we own two issued U.S. patents and have exclusively licensed three issued U.S. patents, in each case along with a number of corresponding foreign patents or patent applications. We also have ten U.S. method of use patent applications for GR-II antagonists and three composition of matter patent applications covering specific GR-II antagonists. We have applied, and will continue to apply, for patents covering our product candidates as we deem appropriate.

Our patent applications and patents licensed or issued to us may be challenged by third parties and our patent applications may not result in issued patents. For example, a third party had alleged that it also had rights to the technology that led to the patent for the use of GR-II antagonists to treat the psychotic features of PMD. The third party was a prior employer of one of our founders, Dr. Alan Schatzberg and it alleged that the invention of the technology underlying this patent was conceived by Dr. Schatzberg and/or another of its employees while the two were employed by the third party. We contended that the invention was actually conceived by Drs. Schatzberg and Belanoff while they were employed by Stanford University and that the patent was appropriately assigned by them to Stanford University. In October 2004, we announced a resolution of this issue in which we retained our exclusive rights under the patent and which required us to make no additional payments under the license, regardless of the resolution of the impending inventorship dispute. In January 2005, the inventorship issue was resolved in favor of Stanford University.

In addition, Akzo Nobel has filed an observation in our exclusively licensed European patent application with claims directed to PMD, in which Akzo Nobel challenges the claims of that patent application. We have submitted a rebuttal to the European Patent Office that responds to the points raised by Akzo. During prosecution of the U.S. patent for the use of CORLUX to treat the psychotic features of PMD, the U.S. Patent and Trademark Office considered issues similar to those raised by Akzo and the U.S. patent was ultimately granted. We cannot assure you, however, that the European Patent Office will reach the same conclusion. Should Akzo’s

arguments persuade the European Patent Office that the claims should not issue, we will not have the benefit of patent protection in Europe for CORLUX to treat the psychotic features of PMD.

We have exclusively licensed three issued U.S. patents from Stanford University for the use of GR-II antagonists in the treatment of PMD, cocaine-induced psychosis and early dementia, including early Alzheimer's disease. We bear the costs of protecting and defending the rights to these patents. In order to maintain the exclusive license to these patents until their expiration, we are obligated to make milestone and royalty payments to Stanford University. We are currently in compliance with our obligations under these agreements. If we become noncompliant, we may lose the right to commercialize CORLUX for the treatment of PMD and Alzheimer's disease and our business would be materially harmed.

Our presently pending and future patent applications may not issue as patents, and any patent issued to us may be challenged, invalidated, held unenforceable or circumvented. For example, the arguments presented by Akzo Nobel could be raised in the United States either before the U.S. Patent and Trademark Office or in a court of law. Furthermore, the claims in patents which have been issued to us, or which may be issued to us in the future, may not be sufficiently broad to prevent third parties from producing competing products. In addition, the laws of various foreign countries in which we compete may not protect our intellectual property to the same extent as do the laws of the United States. If we fail to obtain adequate patent protection for our proprietary technology, our competitors may produce competing products based on our technology, which would impair our ability to compete.

If a third party were successful in asserting an infringement claim against us, we could be forced to pay damages and prevented from developing, manufacturing or marketing our potential products. We do not have liability insurance for patent infringements. A third party could require us to obtain a license to continue to use their intellectual property, and we may not be able to do so on commercially acceptable terms, or at all. We believe that significant litigation will continue in our industry regarding patent and other intellectual property rights. If we become involved in litigation, it could consume a substantial portion of our resources. Regardless of the merit of any particular claim, defending a lawsuit takes significant time, is expensive and diverts management's attention from other business.

If we are unable to protect our trade secrets and proprietary information, our ability to compete in the market could be diminished.

In addition to patents, we rely on a combination of confidentiality, nondisclosure and other contractual provisions, laws protecting trade secrets and security measures to protect our trade secrets and proprietary information. Nevertheless, these measures may not adequately protect our trade secrets or other proprietary information. If they do not adequately protect our rights, third parties could use our proprietary information, which could diminish our ability to compete in the market. In addition, employees, consultants and others who participate in the development of our products may breach their agreements with us regarding our trade secrets and other proprietary information, and we may not have adequate remedies for the breach. We also realize that our trade secrets may become known through means not currently foreseen. Notwithstanding our efforts to protect our trade secrets and proprietary information, our competitors may independently develop similar or alternative products that are equal or superior to our product candidates without infringing on any of our proprietary information or trade secrets.

Our licensed patent covering the use of mifepristone to treat PMD is a method of use patent rather than a composition of matter patent, which increases the risk that physicians will prescribe another manufacturer's mifepristone for the treatment of PMD rather than CORLUX.

We have an exclusive license from Stanford University to a patent covering the use of GR-II antagonists, including mifepristone, targeted for the treatment of PMD. A method of use patent covers only a specified use of a particular compound, not a particular composition of matter. All of our issued patents and all but three of our 13 U.S. patent applications relate to use patents. Because none of our issued patents covers the composition of mifepristone or any other compound, we cannot prevent others from commercializing mifepristone or any other GR-II antagonist. If others receive approval to manufacture and market mifepristone or any other GR-II antagonist, physicians could prescribe mifepristone or any other GR-II antagonist for PMD patients instead of CORLUX. Although any such "off-label" use would violate our licensed patent, effectively monitoring compliance with our licensed patent may be difficult and costly. In addition, if others develop a treatment for PMD that works through a mechanism which does not involve the GR-II receptor, physicians could prescribe that treatment instead of CORLUX.

If Stanford University were to terminate our CORLUX license due to breach of the license on our part, we would not be able to commercialize CORLUX for the treatment of the psychotic features of PMD.

Our efforts to discover, develop and commercialize new product candidates beyond CORLUX are at a very early stage. If we fail to identify and develop additional uses for GR-II antagonists, we may be unable to market additional products.

To develop additional sources of revenue, we believe that we must identify and develop additional product candidates. We have only recently begun to expand our research and development efforts toward identifying and developing product candidates in addition to CORLUX for the treatment of the psychotic features of PMD. We own or have exclusively licensed issued U.S. patents covering the use of GR-II antagonists to treat PMD, early dementia, mild cognitive impairment, psychosis associated with cocaine addiction and weight gain following treatment with antipsychotic medication, in addition to ten U.S. method of use patent applications covering GR-II antagonists for the treatment of a number of other neurological and psychiatric disorders and three U.S. composition of matter patent applications covering specific GR-II antagonists.

We may not develop product candidates for any of the indications or compounds covered by our patents and patent applications. Typically, there is a high rate of attrition for product candidates in preclinical and clinical trials, so our product development efforts may not lead to commercially viable products. The use of GR-II antagonists may not be effective to treat these conditions or any other indications. In addition, we could discover that the use of GR-II antagonists in these patient populations has unacceptable side effects or is otherwise not safe.

We may elect to enter into collaboration arrangements with respect to one or more of our product candidates. If we do enter into such an arrangement, we would be dependent on a collaborative partner for the success of the product candidates developed under the arrangement. Any future collaborative partner may fail to successfully develop or commercialize a product candidate under a collaborative arrangement.

We only have experience with CORLUX and we may determine that CORLUX is not desirable for uses other than for the treatment of the psychotic features of PMD. In that event, we would have to identify and may need to secure rights to a different GR-II antagonist. Our ongoing discovery research program may fail to generate commercially viable product candidates in spite of the resources we are dedicating to the program. Even if product candidates are identified, we may abandon further development efforts before we reach clinical trials or after expending significant expense and time conducting clinical trials. Moreover, governmental authorities may enact new legislation or regulations that could limit or restrict our development efforts. If we are unable to successfully discover and commercialize new uses for GR-II antagonists, we may be unable to generate sufficient revenue to support our operations.

If we need additional capital sooner than anticipated, it could reduce our ability to compete.

We anticipate that our existing capital resources will be sufficient to enable us to complete the clinical development of CORLUX, for the treatment of the psychotic features of PMD. However, our expectations are based on our currently planned clinical development program for PMD and our current operating plan, which may change as a result of many factors, including:

- the costs and the timing of enrollment and results of our clinical trials;
- changes in the exchange rate between the Euro and the U.S. Dollar;
- the results of our research efforts and clinical trials;
- the timing of the approval by the FDA, if any, to market CORLUX for the treatment of the psychotic features of PMD;
- developments or disputes concerning patents or proprietary rights, including announcements of claims of infringement, interference or litigation against us or our licensors;
- actual or anticipated fluctuations in our operating results;
- changes in our growth rates;
- the timing of commercialization of CORLUX and future product candidates; and
- changes in the reimbursement policies of third-party insurance companies or government agencies.

Consequently, we may need additional funding sooner than anticipated. We currently have no credit facility or committed sources of capital. Our inability to raise capital would harm our business and product development efforts.

In addition, we may choose to raise additional capital due to market conditions or strategic considerations even if we believe we have sufficient funds for our current or future operating plans. To the extent that additional capital is raised through the sale of equity or convertible debt securities, the issuance of these securities could result in dilution to our then-existing stockholders.

We may not be able to pursue all of our product research and development opportunities if we are unable to secure adequate funding for these programs.

The costs required to start or continue many of the programs that our intellectual property allow us to consider for further development are collectively greater that the funds currently available to us. For example, we recently reported positive preclinical results in the prevention of weight loss associated with the use of antipsychotic medications. We also announced in 2004 that we had successfully discovered three series of compounds that are specific GR-II antagonists but, unlike CORLUX, do not block the progesterone receptor. Further development of these programs and others may be delayed or cancelled if we determine that such development may jeopardize our ability to complete the clinical development of CORLUX for the treatment of PMD, as currently planned.

We may have substantial exposure to product liability claims and may not have adequate insurance to cover those claims.

We may be subject to product liability or other claims based on allegations that the use of our products has resulted in adverse effects or that our products are not effective, whether by participants in our clinical trials or by patients using our products. A product liability claim may damage our reputation by raising questions about our products' safety or efficacy and could limit our ability to sell a product by preventing or interfering with product commercialization. In some cases, less common adverse effects of a pharmaceutical product are not known until long after the FDA approves the product for marketing. The active ingredient in CORLUX is used to terminate pregnancy. Therefore, necessary and strict precautions must be taken by clinicians using the medicine in our clinical trials and, if approved by the FDA, physicians prescribing the medicine to women with childbearing potential, to insure that the medicine is not administered to pregnant women. The failure to observe these precautions could result in significant product claims.

We have only limited product liability insurance coverage, with limits customary for a development stage company. We intend to expand our product liability insurance coverage to any products for which we obtain marketing approval. However, this insurance may be prohibitively expensive or may not fully cover our potential liabilities. Our inability to obtain adequate insurance coverage at an acceptable cost could prevent or inhibit the commercialization of our products. Defending a lawsuit could be costly and significantly divert management's attention from conducting our business. If a third party successfully sues us for any injury caused by our products, our liability could exceed our total assets.

We have no sales and marketing staff and will need to develop sales and marketing capabilities to successfully commercialize CORLUX and any future uses of GR-II antagonists.

Our employees have limited experience in marketing or selling pharmaceutical products and we currently have no sales and marketing staff. To achieve commercial success for any approved product, we must either develop a sales and marketing force or enter into arrangements with others to market and sell our products. We currently plan to establish a small, specialty sales force to market and sell CORLUX in the United States for the treatment of the psychotic features of PMD. However, our sales and marketing efforts may not be successful or cost-effective. In the event that the commercial launch of CORLUX is delayed due to FDA requirements or other reasons, we may establish a sales and marketing force too early relative to the launch of CORLUX. This may be expensive, and our investment would be lost if the sales and marketing force could not be retained. If our efforts to develop a sales and marketing force are not successful, cost-effective and timely, we may not achieve profitability.

We will need to increase the size of our organization, and we may experience difficulties in managing growth.

As we expand our research and development efforts and develop a sales and marketing organization, we expect to experience growth, which may strain our operations, product development and other managerial and operating resources. Future growth will impose significant added responsibilities on members of management, including the need to identify, recruit, maintain and integrate additional employees. To date, we have relied on a small management team, including a number of part-time contributors. Our future financial performance and our ability to compete effectively will depend, in part, on our ability to manage any future growth effectively. To that end, we must be able to:

- manage our research and development efforts effectively;
- manage our clinical trials effectively;
- integrate additional management, administrative and sales and marketing personnel;
- expand the size and composition of our management team;
- develop our administrative, accounting and management information systems and controls; and
- hire and train additional qualified personnel.

We may not be able to accomplish these tasks, and our failure to accomplish any of them could harm our business.

If we are unable to obtain acceptable prices or adequate reimbursement for our products from third-party payors, we will be unable to generate significant revenues.

There is significant uncertainty related to the availability of insurance coverage and reimbursement for newly approved medications. The commercial success of our medications in both domestic and international markets is dependent on whether third-party coverage and reimbursement is available for the ordering of our medications by the medical profession for use by their patients. Medicare, Medicaid, health maintenance organizations and other third-party payors are increasingly attempting to contain healthcare costs by limiting both coverage and the level of reimbursement of new medicines, and, as a result, they may not cover or provide adequate payment for our medications. The continuing efforts of government and third-party payors to contain or reduce the costs of health care may limit our revenues. Our dependence on the commercial success of CORLUX alone makes us particularly susceptible to any cost containment or reduction efforts. Accordingly, even if CORLUX or future product candidates are approved for commercial sale, unless government and other third-party payors provide adequate coverage and reimbursement for our products, physicians may not prescribe them. We intend to sell CORLUX directly to hospitals if we receive FDA approval. As a result, we will need to obtain approval from hospital formularies to receive wide-spread third-party reimbursement. If we fail to obtain that approval, we will be unable to generate significant revenues.

In some foreign markets, pricing and profitability of prescription pharmaceuticals are subject to government control. In the United States, we expect that there will continue to be federal and state proposals for similar controls. Also, the trends toward managed health care in the United States and proposed legislation intended to reduce the cost of government insurance programs could significantly influence the purchase of health care services and products and may result in lower prices for our products or the exclusion of our products from reimbursement programs.

We face competition from companies with substantial financial, technical and marketing resources, which could limit our future revenues from the commercialization of CORLUX for the treatment of the psychotic features of PMD.

If approved for commercial use, CORLUX as a treatment for PMD will compete with established treatments, including ECT and combination medicinal therapy.

Combination medicinal therapy consists of the use of antipsychotic and antidepressant medicines, not currently approved for the treatment of PMD. The antipsychotics are prescribed for off-label use by physicians to treat the psychotic features of PMD, which is the clinical target of CORLUX. Antipsychotics include Bristol-Myers Squibb's Abilify, Novartis' Clozaril, Pfizer's Geodon and Navane, Ortho-McNeil's Haldol, Janssen Pharmaceutica's Risperdal, AstraZeneca's Seroquel, GlaxoSmithKline's Stelazine and Thorazine, Mylan's thioridazine, Schering Corporation's Trilafon and Eli Lilly's Zyprexa. CORLUX may not compete effectively with these established treatments. We are aware of one ongoing clinical trial conducted by the pharmaceutical division of Akzo Nobel, for a new medicine for the treatment of PMD. We believe that this new medicine is a GRII antagonist, the commercial use of which would be covered by our patent. As discussed above, Akzo Nobel has filed an observation in our exclusively licensed European patent application with claims directed to PMD, in which Akzo Nobel challenges the claims of that patent application. We are not aware of any public disclosures of any company , including Akzo Nobel, regarding the development of new medicinal products to treat PMD. Our present and potential competitors include major pharmaceutical companies, as well as specialized pharmaceutical firms, universities and public and private research institutions. Moreover, we expect competition to intensify as technical advances are

made. These competitors, either alone or with collaborative parties, may succeed with the development and commercialization of medicinal products that are superior to and more cost-effective than CORLUX. Many of our competitors and related private and public research and academic institutions have greater experience, more financial resources and larger research and development staffs than we do. In addition, many of these competitors, either alone or together with their collaborative partners, have significantly greater experience than we do in developing human medicines, obtaining regulatory approvals, manufacturing and commercializing products.

Accordingly, CORLUX may not be an effective competitor against established treatments and our present or potential competitors may succeed in developing medicinal products that are superior to CORLUX or render CORLUX obsolete or non-competitive. If we are unable to establish CORLUX as a superior and cost-effective treatment for PMD, or any future use, we may be unable to generate the revenues necessary to support our business.

Rapid technological change could make our products obsolete.

Pharmaceutical technologies have undergone rapid and significant change and we expect that they will continue to do so. Any products and processes that we develop may become obsolete or uneconomical before we recover any or all expenses incurred in connection with their development. Rapid technological change could make our products obsolete or uneconomical.

If we lose our key personnel or are unable to attract and retain additional skilled personnel, we may be unable to pursue our product development and commercialization efforts.

We depend substantially on the principal members of our management and scientific staff, including Joseph K. Belanoff, M.D., our Chief Executive Officer, and Robert L. Roe, M.D., our President. We do not have agreements with any of our executive officers that provide for their continued employment with us or employment insurance covering any of our key personnel. Any officer or employee can terminate his or her relationship with us at any time and work for one of our competitors. The loss of these key individuals could result in competitive harm because we could experience delays in our product research, development and commercialization efforts without their expertise.

Our ability to operate successfully and manage our potential future growth depends significantly upon retaining key research, technical, sales, marketing, managerial and financial personnel, and attracting and retaining additional highly qualified personnel in these areas. We face intense competition for such personnel from numerous companies, as well as universities and nonprofit research organizations in the highly competitive northern California business area. Although we believe that we have been successful in attracting and retaining qualified personnel to date, we may not be able to attract and retain sufficient qualified personnel in the future. The inability to attract and retain these personnel could result in delays in the research, development and commercialization of our potential products.

If we acquire other GR-II antagonists or other technologies or potential products, we will incur a variety of costs and may never realize the anticipated benefits of the acquisition.

If appropriate opportunities become available, we may attempt to acquire other GR-II antagonists, particularly GR-II antagonists that do not terminate pregnancy. We may also be able to acquire other technologies or potential products that are complementary to our operating plan. We currently have no commitments, agreements or plans for any acquisitions. The process of acquiring rights to another GR-II antagonist or any other potential product or technology may result in unforeseen difficulties and expenditures and may absorb significant management attention that would otherwise be available for ongoing development of our business. In addition, we may fail to realize the anticipated benefits of any acquired potential product or technology. Future acquisitions could dilute our stockholders' ownership interest in us and could cause us to incur debt, expose us to future liabilities and result in amortization or other expenses related to goodwill and other intangible assets.

The occurrence of a catastrophic disaster or other similar events could cause damage to our or our manufacturers' facilities and equipment, which could require us to cease or curtail operations.

Because our executive offices are located in the San Francisco Bay Area and our current manufacturers are located in earthquake-prone areas, our business is vulnerable to damage from various types of disasters or other similarly disruptive events, including earthquake, fire, flood, power loss and communications failures. In addition, political considerations relating to mifepristone may put us and our manufacturers at increased risk for terrorist attacks, protests or other disruptive events. If any disaster or other similar event were to occur, we may not be able to operate our business and our manufacturers may not be able to produce our products. Our insurance may not be adequate to cover, and our insurance policies may exclude coverage for, our losses resulting from disasters or other business interruptions.

Risks Related to Our Stock

The market price of our common stock may be highly volatile.

We cannot assure you that an active trading market for our common stock will exist at any time. Holders of our common stock may not be able to sell shares quickly or at the market price if trading in our common stock is not active. During the 52-week period ended August 10, 2005, our average daily trading volume has been approximately 50,000 shares and our price has ranged from $8.98 to $3.41. The trading price of our common stock is likely to be highly volatile and could be subject to wide fluctuations in price in response to various factors, many of which are beyond our control, including:

- actual or anticipated timing and results of our clinical trials;
- actual or anticipated regulatory approvals of our products or of competing products;
- changes in laws or regulations applicable to our products or our competitors' products;
- changes in the expected or actual timing of our development programs or our competitors' potential development programs;
- actual or anticipated variations in quarterly operating results;
- announcements of technological innovations by us, our collaborators or our competitors;
- new products or services introduced or announced by us or our competitors;
- changes in financial estimates or recommendations by securities analysts;
- conditions or trends in the biotechnology and pharmaceutical industries;
- changes in the market valuations of similar companies;
- announcements by us or our competitors of significant acquisitions, strategic partnerships, joint ventures or capital commitments;
- additions or departures of key personnel;
- disputes or other developments relating to proprietary rights, including patents, litigation matters and our ability to obtain patent protection for our technologies;
- developments concerning our collaborations;
- trading volume of our common stock; and
- sales of our common stock by us or our stockholders.

In addition, the stock market in general, the Nasdaq Stock Market and the market for technology companies in particular have experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of those companies. Further, there has been particular volatility in the market prices of securities of biotechnology and life sciences companies. These broad market and industry factors may seriously harm the market price of our common stock, regardless of our operating performance. In the past, following periods of volatility in the market, securities class-action litigation has often been instituted against companies. Such litigation, if instituted against us, could result in substantial costs and diversion of management's attention and resources.

Securities analysts may not continue to provide or initiate coverage of our common stock or may issue negative reports, and this may have a negative impact on our common stock's market price.

Securities analysts currently covering our common stock may discontinue, research coverage. Additional securities analysts may elect not to provide research coverage of our common stock. A lack of research coverage may adversely affect our common stock's market price. The trading market for our common stock may be affected in part by the research and reports that industry or financial analysts publish about us or our business. If one or more of the analysts who elects to cover us downgrades our stock, our stock price would likely decline rapidly. If one or more of these analysts ceases coverage of our company, we could lose visibility in the market, which in turn could cause our stock price to decline. In addition, rules mandated by the Sarbanes-Oxley Act of 2002, and a global settlement reached in 2003 between the SEC, other regulatory analysts and a number of investment banks will lead to a number of fundamental changes in how analysts are reviewed and compensated. In particular, many investment banking firms will be required to contract with independent financial analysts for their stock research. It may be difficult for companies such as ours with smaller market capitalizations to attract independent financial analysts that will cover our common stock. This could have a negative effect on our market price.

A sale of a substantial number of shares of our common stock may cause the price of our common stock to decline.

Sales of a substantial number of shares of our common stock in the public market could harm the market price of our common stock. As additional shares of our common stock become available for resale in the public market, the supply of our common stock will increase, which could decrease the price. Following the expiration in October 2004 of lock-up arrangements between our stockholders and the underwriters associated with our initial public offering and subject to applicable volume and other resale restrictions, substantially all of the shares of our common stock are eligible for sale.

Our officers, directors and principal stockholders control a majority of our common stock and will be able to significantly influence corporate actions.

As of August 10, 2005, our officers, directors and principal stockholders control a majority of our common stock. As a result, these stockholders, acting together, will be able to significantly influence all matters requiring approval by our stockholders, including the election of directors and the approval of mergers or other business combination transactions. The interests of this group of stockholders may not always coincide with our interests or the interests of other stockholders and may prevent or delay a change in control. This concentration of ownership may have the effect of delaying or preventing a change in control and might adversely affect the market price of our common stock. In addition, this significant concentration of share ownership may adversely affect the trading price of our common stock because investors often perceive disadvantages to owning stock in companies with controlling stockholders.

We may incur increased costs as a result of recently enacted and proposed changes in laws and regulations.

Recently enacted and proposed changes in the laws and regulations affecting public companies, including the provisions of the Sarbanes-Oxley Act of 2002 and regulations of the SEC and the Nasdaq Stock Market, have and will continue to result in increased costs to us. The new rules could make it more difficult or costly for us to obtain certain types of insurance, including director and officer liability insurance, and we may be forced to accept reduced policy limits and coverage or incur higher costs to obtain the same or similar coverage. The impact of these events could also make it more difficult for us to attract and retain qualified persons to serve on our board of directors, or our board committees, or as executive officers. At present, we cannot predict or estimate the amount of the additional costs related to these new rules and regulations or the timing of such costs.

Because we have been a public company for a short time, we have limited experience complying with public company obligations, including recently enacted changes in securities laws and regulations. Compliance with these requirements will increase our costs and require additional management resources, and we still may fail to comply.

We are a small company with limited resources. Until April 2004, we operated as a private company, not subject to many of the requirements applicable to public companies.

As directed by Section 404 of the Sarbanes-Oxley Act of 2002, the SEC adopted rules requiring public companies to include a report of management on the company's internal controls over financial reporting in their annual reports on Form 10-K. In addition, the independent registered public accounting firm auditing the company's financial statements must attest to and report on management's assessment of the effectiveness of the company's internal controls over financial reporting. This requirement may first apply to our annual report on Form 10-K for our fiscal year ending December 31, 2006. Uncertainty exists regarding our ability to comply with these requirements by applicable deadlines. If we are unable to complete the required assessment as to the adequacy of our internal control reporting or if our independent registered public accounting firm is unable to provide us with an unqualified report as to the effectiveness of our internal controls over financial reporting as the required deadline and future year ends, investors could lose confidence in the reliability of our financial reporting.

Changes in or interpretations of accounting rules and regulations, such as expensing of stock options, could result in unfavorable accounting charges or require us to change our compensation policies.

Accounting methods and policies for business and marketing practices of pharmaceutical companies, including policies regarding expensing employee stock options, are subject to further review, interpretation and guidance from relevant accounting authorities, including the SEC. For example, to date, we have not been required to record stock-based compensation charges if an employee's stock option exercise price equals or exceeds the fair value of our common stock at the date of grant. However, in December 2004, the Financial Accounting Standards Board adopted Financial Accounting Standard 123(R), "Share Based Payment." This statement, which we plan to adopt in the first quarter of 2006, requires the recording of expense for the fair value of stock options granted. As a result, our operating expenses could increase. We rely heavily on stock options to compensate existing employees and attract new employees. Because we will be required to expense stock options on a fair-value basis, we may then choose to reduce our reliance on stock options as a compensation tool. If we reduce our use of stock options, it may be more difficult for us to attract and retain qualified employees. If we did not reduce our reliance on stock options, our reported losses would increase. Although we

believe that our accounting practices are consistent with current accounting pronouncements, changes to or interpretations of accounting methods or policies in the future may require us to reclassify, restate or otherwise change or revise our financial statements.

Anti-takeover provisions in our charter and bylaws and under Delaware law may make an acquisition of us or a change in our management more difficult, even if an acquisition or a management change would be beneficial to our stockholders.

Provisions in our charter and bylaws may delay or prevent an acquisition of us or a change in our management. Some of these provisions divide our board into three classes with only a portion of our directors subject to election at each annual meeting, allow us to issue preferred stock without any vote or further action by the stockholders, require advance notification of stockholder proposals and nominations of candidates for election as directors and prohibit stockholders from acting by written consent. In addition, a supermajority vote of stockholders is required to amend our bylaws. Our bylaws provide that special meetings of the stockholders may be called only by our Chairman, President or the board of directors and that the authorized number of directors may be changed only by resolution of the board of directors. These provisions may prevent or delay a change in our board of directors or our management, which is appointed by our board of directors. In addition, because we are incorporated in Delaware, we are governed by the provisions of Section 203 of the Delaware General Corporation Law. Section 203 may prohibit large stockholders, in particular those owning 15% or more of our outstanding voting stock, from merging or combining with us. These provisions in our charter, bylaws and under Delaware law could reduce the price that investors might be willing to pay for shares of our common stock in the future and result in the market price being lower than it would be without these provisions.

ITEM 3 — QUANTITATIVE AND QUALITATIVE DISCLOSURES

Market Risk

The primary objective of our investment activities is to preserve principal while at the same time maximizing the income we receive from our investments without significantly increasing risk of loss. As of June 30, 2005, our cash and cash equivalents consisted primarily of money market funds maintained at major U.S. financial institutions, and the short-term and long-term investments consist of corporate debt securities and U.S. government obligations. To minimize our exposure to interest rate market risk, we have limited the maturities of our investments to less than two years with an average maturity not to exceed one year. Due to the short-term nature of these instruments, a 1% increase or decrease in market interest rates would not have a material adverse impact on the total value of our portfolio as of June 30, 2005.

Currency Risk

As of December 31, 2004, we had engaged a contract research organization to begin the preparatory work for the initiation of one of our planned clinical trials in Europe and were in discussions with them regarding proposals for a second European clinical trial. The costs of these trials are denominated in Euros, which the vendor will convert into U.S. dollars for invoicing as costs are incurred on a monthly basis. Thus, we bear some currency rate exposure for the costs of these trials. During the first quarter of 2005, we executed amendments to this agreement for the conduct of these trials that included Euro-denominated commitments of approximately 5.9 million Euros, of which 4.8 million Euros had not been expended or accrued as of June 30, 2005. A 1% increase or decrease in the currency rate of exchange between the U.S. Dollar and the Euro would have an impact of approximately $60,000 on the unexpended cost of these trials. One of these trials commenced in May and the other is expected to commence later in the second quarter of 2005. These trials are expected to be conducted over a two-year period. The timing of payments for these trials will depend upon various factors including the pace of site selection, patient enrollment, and other trial activities. Both of the European trials discussed here are being conducted under a master agreement that provides for termination by us with forty-five days' notice.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures. Based on their evaluation as of June 30, 2005, our chief executive officer and chief financial officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended) were sufficiently effective to ensure that the information required to be disclosed by us in this Quarterly Report on Form 10-Q was recorded, processed, summarized and reported within the time periods specified in the SEC's rules and Form 10-Q.

Changes in internal controls. There were no changes in our internal controls over financial reporting during the quarter ended June 30, 2005 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on the effectiveness of controls. Our management, including our chief executive officer and chief financial officer, does not expect that our disclosure controls and procedures or our internal controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. 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 management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected. Accordingly, our disclosure controls and procedures are designed to provide reasonable, not absolute, assurance that the objectives of our disclosure control system are met and, as set forth above, our chief executive officer and chief financial officer have concluded, based on their evaluation, that our disclosure controls and procedures were sufficiently effective as of June 30, 2005 to provide reasonable assurance that the objectives of our disclosure control system were met.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are not currently involved in any material legal proceedings.

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

(d) Proceeds from Sale of Registered Securities.

On April 19, 2004, we completed an initial public offering of 4,500,000 shares of our common stock. The shares of common stock sold in the offering were registered under the Securities Act of 1933, as amended, on a Registration Statement on Form S-1 (the "Registration Statement") (Reg. No. 333-112676) that was declared effective by the SEC on April 14, 2004. The offering commenced on April 14, 2004. After deducting the underwriting discounts and commissions and the estimated offering expenses described above, we received net proceeds from the offering of approximately $49.0 million. During the quarter ended June 30, 2005, approximately $3.6 million of the net proceeds was used for research and development activities and approximately $800,000 was used for general and administrative activities. Between the effective date of the Registration Statement and June 30, 2005, approximately $17.1 million of the net proceeds was used for research and development activities and approximately $3.9 million was used for general and administrative activities. The remaining proceeds from the offering have been placed in temporary investments of marketable securities for future use as needed.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

We held our annual meeting of stockholders on June 14, 2005 to consider and vote on proposals to elect directors to serve for the ensuing year and until their successors are elected and qualified and to ratify the selection by the Audit Committee of the Board of Directors of Ernst & Young, LLP, as independent registered public accounting firm of the Company for its fiscal year ending December 31, 2005.

The total number of shares voted at the annual meeting was 17,990,628. The voting on the two matters is set forth below:

Proposal 1 — Election of officers

The following directors were elected to serve for the ensuing year and until their successors are elected and qualified.

Director:	For	Against	Withheld
G. Leonard Baker, Jr.	17,888,408	—	102,220
Joseph K. Belanoff, M.D.	17,964,888	—	25,740
Joseph C. Cook, Jr.	17,671,558	—	319,070
James A. Harper	17,882,806	—	107,822
David L. Mahoney	17,672,428	—	318,200
Alix Marduel, M.D.	17,888,408	—	102,220
Alan F. Schatzberg, M.D.	17,737,079	—	253,549
David Singer	17,666,956	—	323,672
James N. Wilson	17,662,157	—	328,471

Proposal 2 - Proposal to ratify the selection by the Audit Committee of the Board of Directors of Ernst & Young, LLP, as independent registered public accounting firm of the Company for its fiscal year ending December 31, 2005:

For	17,684,409
Against	305,719
Withheld	500

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

The exhibits listed on the accompanying index to exhibits are filed or incorporated by reference (as stated therein) as part of this Quarterly Report on Form 10-Q.

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.

CORCEPT THERAPEUTICS INCORPORATED

Date: August 11, 2005

/s/ JOSEPH K. BELANOFF

Joseph K. Belanoff, M.D.
Chief Executive Officer

Date: August 11, 2005

/s/ Fred Kurland

Fred Kurland
Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit Index

Exhibit Number	Description of Document
31.1	Certification pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934 of Joseph K. Belanoff, M.D.
31.2	Certification pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934 of Fred Kurland.
32.1	Certification pursuant to 18 U.S.C. Section 1350 of Joseph K. Belanoff, M.D.
32.2	Certification pursuant to 18 U.S.C. Section 1350 of Fred Kurland.
10.14	Office Lease Agreement by and between Corcept Therapeutics Inc. and Exponent Realty, LLC, dated May 23, 2005.

Exhibit 10.14

OFFICE LEASE AGREEMENT

by and between

EXPONENT REALTY, LLC.

a Delaware limited liability company

(“Landlord”)

and

Corcept Therapeutics Incorporated,

a Delaware corporation

(“Tenant”)

For approximately

7,702

rentable square feet

at 149 Commonwealth Drive, Menlo Park, California

(“Premises”)

TABLE OF CONTENTS

OFFICE LEASE AGREEMENT

INFORMATION SHEET

("INFORMATION SHEET")

A. **PARTIES**

1.	Landlord:	EXPONENT REALTY, LLC, a Delaware limited liability company
2.	Tenant:	Corcept Therapeutics Incorporated, a Delaware corporation

B. **EFFECTIVE DATE** May 23, 2005

C. **BASIC LEASE PROVISIONS**

1.	Premises:	
	a. Address:	149 Commonwealth Drive, Suite 1170 Menlo Park, California 94025
	b. Floor:	First Floor
	c Total Building rentable area (approx.):	153,736 square feet
2.	Rentable Area and Load Factor:	7,702 rentable square feet
	a. Useable Area (approx.)	6,697 useable square feet
	b. Load Factor (approx.)	15%
3.	Term:	Thirty (30) months [assuming that the Commencement Date is the Estimated Commencement Date], commencing on the Commencement Date and ending on December 31, 2007, as such term may be extended or sooner terminated as provided in this Lease

4.	Estimated Commencement Date:	July 1, 2005
5.	Tenant's Building Percentage:	Four percent (4%)
6.	Base Rent:	One dollar eighty five ($1.85) per rentable square foot per month full service for the entire lease term (or $14,248.70 monthly) with no annual increases.
7.	Security Deposit:	Fourteen thousand two hundred forty-eight dollars and seventy cents ($14,248.70)
8.	Base Year:	2005 (2005-2006 fiscal year for Real Property Taxes)
9.	Adjustments to monthly Base Rent:	None
10	Broker(s):	Cushman & Wakefield of California, Inc. and The Staubach Company
11	Address for Notices:	
	Landlord:	Exponent Realty, LLC 149 Commonwealth Drive Menlo Park, California 94025 Attn: Director of Corporate Facilities
	Tenant:	From and after the Commencement Date: Corcept Therapeutics Incorporated 149 Commonwealth Drive Menlo Park, California 94025 Attn: Mark Strem
12	TI Allowance:	N/A

OFFICE LEASE AGREEMENT

1. **Parties.** THIS OFFICE LEASE AGREEMENT ("Lease"), effective as of the date ("Effective Date") set forth in section B of the Office Lease Agreement Information Sheet ("Information Sheet"), is entered into by and between Exponent Realty, LLC, a Delaware limited liability company ("Landlord"), and the entity set forth in section A.2. of the Information Sheet ("Tenant").

2. **Premises**. Landlord hereby leases to Tenant, and Tenant hereby leases from Landlord, a portion of that certain Building located in the City of Menlo Park, County of San Mateo, State of California containing the total rentable floor area set forth in section C.2. of the Information Sheet, as more particularly shown on EXHIBIT A ("Premises"), and located at the address, as designated in section C.1. of the Information Sheet, together with a right in common to the Outside Area, as defined in Paragraph 3.K., of the Property, as defined in Paragraph 3.N. Tenant's right to use the Outside Area shall be a right in common with other tenants of the Property and is subject to the reasonable rules and regulations and changes therein from time to time promulgated by Landlord governing the use of the Outside Area. The currently existing such rules and regulations are set forth on EXHIBIT E.

3. **Definitions**. The following initially capitalized terms shall have the following meanings when used in this Lease:

A. **Alterations**. Any alterations, additions or improvements made in, on or about the Building or the Premises after the Commencement Date, including, but not limited to, lighting, heating, ventilating, air conditioning, electrical, telecommunication cabling, partitioning, drapery and carpentry installations.

B. **Building**. That certain building on the Property, commonly known as 149 Commonwealth Drive, Menlo Park, California 94025, containing an aggregate rentable area in the approximate amount set forth in section C.1.c. of the Information Sheet.

C. **CC&R's**. The declaration of covenants, conditions, restrictions and easements contained in that certain Grant Deed dated May 12, 1965 established by David D. Bohannon and Ophelia E. Bohannon and recorded on May 14, 1965 in Book 4953 at page 326 et. seq., of the Official Records of San Mateo County, California, as they may be amended from time to time. Tenant hereby acknowledges that it has received and read a copy of the present CC&R's.

D. **City**. The City of Menlo Park in the State of California.

E. **Commencement Date**. The Commencement Date of this Lease shall be the first day of the Lease Term determined in accordance with Paragraph 4.B.

F. **County**. The County of San Mateo in the State of California.

G. **HVAC**. Heating, ventilating and air conditioning.

H. **Interest Rate.** Interest Rate shall have the meaning set forth in Paragraph 44.

I. **Landlord's Agents**. Landlord's authorized agents, together with any partners and any subsidiary, parent, and affiliate corporations, partnerships, limited liability partnerships or limited liability companies of Landlord, and any directors, officers, shareholders, members, managers, partners and employees of Landlord or of any such agents, partners, or subsidiary, parent or affiliate corporations, partnerships, limited liability partnerships or limited liability companies.

J. **Monthly Rent**. The rent payable pursuant to Paragraph 5.A., as adjusted from time to time pursuant to the terms of this Lease. Such amount includes monthly Base Rent (as defined in section C.6 of the Information Sheet) and the Monthly Operating Expense Reimbursement, as provided in such Paragraph 5.A(ii).

K. **Outside Area**. All areas and facilities within the Property, but outside the Building, provided and designated by Landlord for the general use and convenience of Tenant and other tenants and occupants of the Building, including, without limitation, the parking areas, access and perimeter roads, sidewalks, landscaped areas, service areas, trash disposal facilities, and similar areas and facilities, and the exterior walls and windows of the Building, subject to the reasonable rules and regulations and changes therein from time to time promulgated by Landlord governing the use of the Outside Area. The current rules and regulations are set forth on EXHIBIT E.

L. **Permitted Transferees**. Such term has the meaning given to it in Section 27(i).

M. **Project**. The Property, Building (including the Premises), and Outside Area.

N. **Property**. That certain real property, described in EXHIBIT B upon which is located the Building.

O. **Real Property Taxes**. Any form of assessment, license, fee, rent tax, levy, interest or penalty (unless a result of Tenant's delinquency), or tax (other than net income, estate, succession, inheritance, transfer or franchise taxes), imposed by any authority having the direct or indirect power to tax, or by any city, county, state or federal government or any improvement or other district or division thereof, whether such tax is: (i) determined by the value or area of the Project or any part thereof (or any improvements now or hereafter made to the Project or any portion thereof by Landlord, Tenant or other tenants) or the rent and other sums payable hereunder by Tenant or by other tenants, including, but not limited to, any gross income or excise tax levied by any of the foregoing authorities with respect to receipt of such rent or other sums due under this Lease; (ii) upon any legal or equitable interest of Landlord in the Project or any part thereof; (iii) upon this transaction or any document to which Tenant is a party creating or transferring any interest in the Project; (iv) levied or assessed in lieu of, in substitution for, or in addition to, existing or additional taxes against the Project whether or not now customary or within the contemplation of the parties; (v) assessed for the purpose of constructing or maintaining or reimbursing the cost of construction of any streets, utilities or other public improvements; (vi) surcharged against the parking area; or (vii) levied upon any personal property of Landlord, Tenant or other tenants located on or used exclusively in connection with the operation of the Project. Notwithstanding anything to the contrary contained in this Lease, Real Property Taxes shall not include any of the following tax or assessment expenses: (a) gift taxes of Landlord or any federal, state or local income, sales or transfer tax, (b) penalties and interest, other than those attributable to Tenant's failure to comply timely with its obligations pursuant to this Lease, (c) increases in Real Property Taxes (whether increases result from increased rate, valuation, or both) attributable to additional improvements to the Premises unless constructed for Tenant's primary benefit or for the common benefit of Tenant and other tenants in the Project, and (d) any Real Property Taxes in excess of the amount which would be payable if such tax or assessment expense were paid in installments over the longest possible term.

P. **Rent**. Monthly Rent plus any other amounts payable by Tenant under this Lease, all other such amounts being additional rent hereunder for all purposes.

Q. **Sublet**. Any assignment or transfer of any estate or interest in this Lease; any subletting or parting with or sharing of the occupation, control, or possession of the Premises, or of any part thereof or any right or privilege appurtenant thereto; allowing anyone to conduct business at or from the Premises (whether as concessionaire, franchisee, licensee, permittee, subtenant or otherwise); if Tenant is a corporation, any transfer of the effective voting control of Tenant; if Tenant is a partnership or limited liability company, any transfer of forty percent (40%) or more, in the aggregate, of the interests in either capital or profits of Tenant; any other transfer by

voluntary or involuntary act or by operation of law (including by merger or consolidation); or any attempt to do any of the foregoing.

R. **Subrent**. Any consideration of any kind received, or to be received, by Tenant from a subtenant if such sums are related to Tenant's interest in this Lease or in the Premises, including, but not limited to, bonus money and payments (in excess of fair market value) for Tenant's assets including its trade fixtures, equipment and other personal property, goodwill, general intangibles, and any capital stock or other equity ownership of Tenant or for any services provided by Tenant.

S. **Subtenant**. The person or entity with whom a Sublet agreement is proposed to be or is made.

T. **Tenant Improvements**. Those certain improvements to the Premises to be constructed by Tenant pursuant to EXHIBIT C.

U. **Tenant's Agents**. Tenant's agents, employees, officers, directors, members, partners, contractors, representatives, invitees and licensees.

V. **Tenant's Building Percentage**. The percentage determined by dividing the approximate rentable square footage of the Premises by the approximate total rentable square footage of the Building. Tenant's Building Percentage is currently agreed to be the percentage set forth in section C.5. of the Information Sheet.

W. **Tenant's Personal Property**. Tenant's trade fixtures, furniture, equipment and other personal property in the Premises.

X. **Term**. The term of this Lease set forth in Paragraph 4.A., as it may be sooner terminated under the terms hereof or as it may be extended hereunder pursuant to any options to extend granted herein or by any written amendments to or extensions of this Lease.

4. **Lease Term**.

A. **Term**. The Term shall be the period set forth in section C.3. of the Information Sheet, commencing on the Commencement Date, as defined below, and ending 5:00 p.m. on the last day of such period, unless the Term is extended or sooner terminated, as hereinafter provided.

B. **Commencement Date.** Commencement Date shall be defined to mean the earliest to occur of the following:

(i) the date Tenant commences occupancy of any portion of the Premises for the conduct of its business; or

(ii) the date upon which the Tenant Improvements have been Substantially Completed, as defined in the Tenant Improvements Work Letter attached hereto as EXHIBIT C and incorporated by reference herein ("Work Letter"), but in no event shall the Commencement Date occur prior to July 1, 2005.

If Landlord fails to deliver the Premises to Tenant with the Tenant Improvements Substantially Completed (excluding, however, items 6 and 7 in Section 1 of the Work Letter) by June 30, 2005 for any reason other than due to a Tenant Delay (as defined in the Work Letter), (i) Landlord shall reimburse Tenant for Tenant's holdover rent amount for its current premises in the amount that is above and beyond the existing base rent and expenses required to be paid by Tenant under its current lease until the Commencement Date occurs, and Tenant shall not be obligated to pay any Rent hereunder until the date that Landlord delivers possession of the Premises to Tenant with the Tenant Improvements Substantially Completed (which date shall then be deemed the Commencement Date). No such delay in the Commencement Date shall alter the validity of this Lease or the

obligations of Tenant hereunder. Notwithstanding anything to the contrary contained in this Lease, if Landlord has not delivered the Premises to Tenant in the required condition by August 1, 2005, excluding, however, items 6 and 7 in Section 1 of the Work Letter) Tenant shall have the right to terminate this Lease as of such date, in which case neither party shall have any further rights or obligations under this Lease and Landlord promptly shall refund to Tenant all sums paid by Tenant to Landlord in connection with Tenant's execution of this Lease.

C. **Commencement Date Memorandum**. When the actual Commencement Date is determined, the parties shall execute a Commencement Date Memorandum, in the form attached hereto as EXHIBIT D, setting forth the Commencement Date and Expiration Date.

D. **Early Entry.** Landlord shall permit Tenant to enter upon the Premises from and after the date of full execution of this Lease for the purpose of commencing construction of the Tenant Improvements, in accordance with the provisions of EXHIBIT C, installing its furniture, fixtures and telephone, internet and data communications cabling and wiring or any other purpose, excluding the conduct of its business; provided, however, that Tenant may occupy the Premises for the purpose of conducting its business thereon from June 20, 2005 until the Commencement Date. Such early entry shall be at Tenant's sole risk and subject to all the terms and provisions hereof, except for the payment of Rent which shall commence on the date set forth in Paragraph 4.B. Landlord shall have the right to impose such additional reasonable conditions on Tenant's early entry as Landlord reasonably shall deem appropriate, and shall further have the right to require that Tenant execute an early entry agreement in form reasonably satisfactory to Tenant containing such conditions prior to Tenant's early entry.

E. **Option To Extend.**

(i) Conditions to Exercise of Option. Provided that Tenant is not in Default under this Lease at the time of exercise of the option to extend or at the commencement of the extension term, Tenant shall have the right to extend the Term of this Lease for an additional period of one (1) year ("Extension Term") commencing upon January 1, 2008.

(ii) Notice of Exercise. If Tenant elects to extend this Lease for the Extension Term, Tenant shall deliver written notice ("Exercise Notice") of its exercise to Landlord not earlier than two hundred seventy (270) days prior to the Expiration Date of the initial Term of this Lease and not less than one hundred eighty (180) days prior to the Expiration Date of the initial Term of this Lease. Tenant's failure to deliver the Exercise Notice in a timely manner shall be deemed a waiver of Tenant's rights to extend the Term of this Lease.

(iii) Terms of the Extension Term. The delivery of an Exercise Notice shall constitute an irrevocable election by Tenant to extend the Term of the Lease upon the terms, covenants and conditions set forth herein. The terms, covenants and conditions applicable to the Extension Term shall be the same terms, covenants and conditions of this Lease except that (i) Tenant shall not be entitled to any further option to extend after the Extension Term; (ii) the Monthly Base Rent for the Extension Term shall be adjusted as provided in Paragraph 5.D.; and (iii) no provisions relating to the initial delivery of the Premises to Tenant (including, but not limited to, any TI Allowance provisions) shall be applicable to the Extension Term.

(iv) Extension Option Personal to Original Tenant. The option to extend granted to Tenant pursuant to this Paragraph 4.E. shall not be assignable to any successor or assign of Tenant except for a Permitted Transferee, and shall terminate at the option of Landlord, if, at any time during the initial Term of this Lease, Tenant has subleased all or any portion of the Premises to any other party except for a Permitted Transferee.

5. **Rent**.

Monthly Rent. Upon execution of this Lease by Tenant, Tenant shall prepay the first month's Base Rent. On or before the first day of each calendar month, without prior notice or demand, deduction or offset,

Tenant shall pay Monthly Rent to Landlord, in lawful money of the United States at the Office of the Landlord specified in section C.11. of the Information Sheet, or to such other place or person as Landlord may designate in the manner set forth in Paragraph 31. Monthly Rent shall consist of the sum of the following:

(i) **Base Rent**. Base Rent in the amount specified in section C.6. of the Information Sheet; and

(ii) **Monthly Operating Expense Reimbursement.** Commencing on January 1, 2006, the Monthly Operating Expense Reimbursement ("Monthly Operating Expense Reimbursement") equal to one twelfth (1/12) of Tenant's Property Percentage of the amount by which Landlord's estimate of the Operating Expenses for the relevant calendar year of the Term exceeds the Base Year Operating Expenses, as such terms are defined in Paragraph 15.

A. **Prorations.** If the Commencement Date is not the first (1st) day of a month, or if the termination date is not the last day of a month, a prorated monthly installment based on a thirty (30) day month shall be paid for the fractional month during which this Lease commences or terminates.

B. **Periodic Adjustments.** INTENTIONALLY OMITTED.

C. **Determination of Monthly Base Rent During Extension Term**.

(i) **Extension Term Initial Monthly Base Rent**. The monthly Base Rent during the first year of the Extension Term shall be equal to the greater of (i) ninety five percent (95%) of the "Fair Market Rental Value" of the Premises for the first year of the Extension Term as of the first day of the Extension Term determined as provided herein or (ii) the monthly Base Rent for the last month of the initial Term of the Lease, as adjusted as provided in Paragraph 5.C. of this Lease and section C.9. of the Information Sheet (as so determined pursuant to clause (i) or (ii) above) (the "Extension Term Initial Monthly Base Rent").

(ii) **Fair Market Rental Value**. Fair Market Rental Value as used herein shall mean: 100% of the monthly base rent and other amounts new or renewal tenants (who do not have any below market renewal rights) are then generally agreeing to pay under leases then being executed or renewed for comparable, improved office space in the Highway 101/Menlo Park submarket for office space. In determining the fair market rental value of the Premises during the Extension Term, consideration shall be given to all relevant factors, including, without limitation, such factors as credit-worthiness of the tenant, the duration of the term, any rental or other concessions granted, whether a broker's commission or finder's fee will be paid, responsibility for Operating Expenses. the uses of the Premises permitted under this Lease and the quality, condition, size, design and location of the Premises. Notwithstanding anything to the contrary contained in this Lease, the base year for the Extension Term shall be the calendar year in which the Extension Term commences.

(iii) **Landlord and Tenant to Seek to Agree**. Landlord and Tenant shall have thirty (30) days after Landlord receives the Exercise Notice in which to seek to agree on the Extension Term Initial Monthly Base Rent. If Landlord and Tenant agree on the Extension Term Initial Monthly Base Rent during such thirty (30) day period (or at any time thereafter), they immediately shall execute an amendment to this Lease confirming the Extension Term Initial Monthly Base Rent as so agreed as the monthly Base Rent for the first year of the Extension Term.

(iv) **Selection of Brokers to determine the Extension Term Initial Monthly Base Rent**. If Landlord and Tenant are unable to agree on the Extension Term Initial Monthly Base Rent within the thirty (30) day period, then within ten (10) days after the expiration of the thirty (30) day period, Landlord and Tenant each, at its cost and by giving notice to the other party, shall appoint a licensed commercial real estate broker with at least five (5) years' full-time commercial brokerage experience in the geographical area of the

Project (a "Broker") to evaluate and set the Extension Term Initial Monthly Base Rent. If either Landlord or Tenant does not appoint a Broker within ten (10) days after the other party has given notice of the name of its Broker, the single Broker appointed shall be the sole Broker and shall set the Extension Term Initial Monthly Base Rent. If two (2) Brokers are appointed by Landlord and Tenant as stated in this Paragraph, they shall meet promptly and attempt to set the Extension Term Initial Monthly Base Rent. If the two (2) Brokers are unable to agree within thirty (30) days after the second Broker has been appointed, they shall attempt to select a third Broker meeting the qualifications stated in this Paragraph (with the additional qualification that such third Broker shall have had no prior, current, or presently committed future business or personal relationship with either Landlord or Tenant) within ten (10) days after the last day the two (2) Brokers are given to set the Extension Term Initial Monthly Base Rent; provided, however, if the two Broker's proposed Extension Term Initial Monthly Base Rent figures are ten percent (10%) or less apart, the two figures shall be added together and such total be divided by two to determine the Extension Term Initial Monthly Base Rent. If they are unable to agree on the third Broker, either Landlord or Tenant, by giving ten (10) days' notice to the other party, can apply to the then Presiding Judge of the Superior Court of San Mateo County for the selection of a third Broker who meets the qualifications stated in this Paragraph. Landlord and Tenant each shall bear one-half (1/2) of the cost of appointing the third Broker and of paying the third Broker's fee.

(v) **Value Determined by Three (3) Brokers**. Within thirty (30) days after the selection of the third Broker, a majority of the Brokers shall set the Extension Term Initial Monthly Base Rent. If a majority of the Brokers is unable to set the Extension Term Initial Monthly Base Rent within the stipulated period of time, the three (3) evaluations shall be added together and their total divided by three (3); the resulting quotient shall be the Extension Term Initial Monthly Base Rent for the Premises. If the low evaluation is more than ten percent (10%) lower than the middle evaluation, the low evaluation shall be disregarded; if the high evaluation is more than ten percent (10%) higher than the middle evaluation, the high evaluation shall be disregarded. If only one (1) evaluation is disregarded, the remaining two (2) evaluations shall be added together and their total divided by two (2); the resulting quotient shall be the Extension Term Initial Monthly Base Rent for the Premises. If both the low evaluation and the high evaluation are disregarded as stated in this Paragraph, the middle evaluation shall be the Extension Term Initial Monthly Base Rent for the Premises.

(vi) **Notice to Landlord and Tenant**. After the Extension Term Initial Monthly Rent for the first year of the Extension Term has been set, the Brokers shall notify Landlord and Tenant immediately and Landlord and Tenant shall immediately execute an amendment to this Lease confirming the Extension Term Initial Monthly Rent as so determined as the Monthly Rent for the first year of the Extension.

6. **Late Payment Charges.** TENANT ACKNOWLEDGES THAT LATE PAYMENT BY TENANT TO LANDLORD OF RENT AND OTHER CHARGES PROVIDED FOR UNDER THIS LEASE WILL CAUSE LANDLORD TO INCUR COSTS NOT CONTEMPLATED BY THIS LEASE, THE EXACT AMOUNT OF SUCH COSTS BEING EXTREMELY DIFFICULT OR IMPRACTICABLE TO FIX. THEREFORE, IF ANY INSTALLMENT OF RENT OR ANY OTHER CHARGE DUE FROM TENANT IS NOT RECEIVED BY LANDLORD WITHIN FIVE DAYS FOLLOWING THE DATE OF LANDLORD'S DELIVERY OF WRITTEN NOTICE TO TENANT STATING THAT SUCH AMOUNT WAS NOT RECEIVED ON OR BEFORE THE DATE DUE, TENANT SHALL PAY TO LANDLORD AN ADDITIONAL SUM EQUAL TO FIVE PERCENT (5%) OF THE AMOUNT OVERDUE AS A LATE CHARGE. THE PARTIES AGREE THAT THIS LATE CHARGE REPRESENTS A FAIR AND REASONABLE ESTIMATE OF THE COSTS THAT LANDLORD WILL INCUR BY REASON OF THE LATE PAYMENT BY TENANT. SUCH LATE CHARGE SHALL BE IN ADDITION TO, AND NOT IN LIEU OF, ANY INTEREST THAT MAY ACCRUE ON ANY SUCH OVERDUE AMOUNT PURSUANT TO THE PROVISIONS OF PARAGRAPH 44.

Initials:

/s/ MRG	/s/ FK
Landlord	Tenant

7. **Security Deposit.** By execution hereof, Landlord acknowledges receipt of the sum set forth in section C.7. of the Information Sheet from Tenant, as security for the faithful performance by Tenant of all of the terms and conditions of this Lease to be kept and performed by Tenant during the term hereof ("Security Deposit"). As the Monthly Rent is adjusted under the provisions of this Lease, Tenant shall pay an additional amount to Landlord to maintain the amount of the Security Deposit equal to the then effective Monthly Rent under this Lease. The Security Deposit shall secure Tenant's obligations hereunder to pay rent and all other sums due to Landlord hereunder, to maintain the Premises and repair damages thereto as provided in this Lease, to surrender the Premises to Landlord in clean condition and good repair upon termination of this Lease and timely to discharge Tenant's other obligations hereunder. Landlord may use and commingle the Security Deposit with other funds of Landlord. If Tenant commits a Default hereunder, then Landlord may, but without any obligation so to do, apply that portion of the Security Deposit necessary to cure such Default and to reimburse Landlord for any sums incurred by Landlord as a result of such Default. If Landlord does so apply any portion of the Security Deposit, Tenant, within five (5) days after receipt of written demand by Landlord, shall pay to Landlord a sufficient amount in cash to restore the Security Deposit to its full original amount. On the expiration or earlier termination of this Lease, if Tenant has then fully performed all its obligations hereunder, Landlord shall return the Security Deposit to Tenant not more than thirty (30) days after Tenant has surrendered the Premises to Landlord in the condition required by this Lease. If Landlord, prior to the expiration of the term of this Lease, sells or otherwise transfers Landlord's rights or interest under this Lease, Landlord shall deliver the Security Deposit to the transferee, whereupon, Landlord shall have no further liability to Tenant concerning the Security Deposit. In the event that the Security Deposit is delivered to Landlord in the form of a letter of credit, to the extent permitted under this Lease, Landlord shall be entitled to draw the entire amount of such letter of credit in the event that such letter of credit is not extended for an additional one year period by the issuing bank on or before the date that is thirty (30) days prior to the expiration date thereof. In such event, Landlord shall hold such cash proceeds of the applicable letter of credit as the Security Deposit hereunder.

8. **Holding Over.** If Tenant remains in possession of all or any part of the Premises after the expiration of the Term, with the consent of Landlord, such tenancy shall be from month-to-month only and not a renewal hereof or any extension for any further term, and in such case, Monthly Rent shall be increased to an amount equal to one hundred fifty percent (150%) of the Monthly Rent paid during the last month of the Term and all other sums due hereunder shall be payable in the amount and at the time applicable at the time of expiration and at the time specified in this Lease and such month-to-month tenancy shall be subject to every other term, covenant and agreement of this Lease, excluding any option to extend the Term. In addition, Tenant shall defend, indemnify and hold Landlord, and Landlord's Agents free and harmless from and against any claim, loss, liability, expense or damage, including reasonable attorneys' fees and costs, arising out of Tenant's failure to surrender the Premises at the expiration of the Term, including, without limitation, any such damages resulting from Landlord's inability to honor its commitments to any other tenant for the Premises.

9. **Tenant Improvements.** Landlord and Tenant agree to the terms and procedures for the planning, construction and funding of the construction of the Tenant Improvements as set forth in EXHIBIT C.

10. **Condition of Premises.** By taking possession of the Premises, Tenant shall be deemed to have accepted the Premises in "As Is" condition in good, clean and completed condition and repair, subject to all applicable laws, codes and ordinances. Tenant acknowledges that, except as expressly set forth in this Lease, neither Landlord nor Landlord's Agents have made any representations or warranties as to the suitability or fitness of the Premises or any other part of the Project (including, without limitation, the intrabuilding network cabling) for the conduct of Tenant's business or for any other purpose, nor has Landlord or Landlord's Agents agreed to undertake any Alterations or construct any Tenant Improvements to the Premise except as expressly provided in Exhibit C of this Lease.

11. **Use of the Premises.**

A. **Tenant's Use.** Tenant shall use the Premises solely for general office purposes and shall not use the Premises for any other purpose without obtaining the prior written consent of Landlord, which Landlord may withhold in its sole and absolute discretion. Tenant agrees that the Property is subject and this Lease is subordinate to the CC&R's. Tenant acknowledges that it has read the CC&R's and knows the contents thereof. Throughout the Term, Tenant shall faithfully and timely perform and comply with the CC&R's and any modification or amendments thereof. Tenant shall comply with all duly adopted rules, regulations and restrictions as may be adopted from time to time by any committee established pursuant to the CC&Rs ("Association"). Any periodic or special dues or Outside Area assessments of the Association shall be included within the definition of Operating Expenses pursuant to Paragraph 15.B. and Tenant shall pay Tenant's Property Percentage of such amounts over the Base Year amounts as further set forth in Paragraph 15. Tenant shall defend, indemnify and hold Landlord, and Landlord's Agents free and harmless from and against any claim, loss, liability, expense or damage, including reasonable attorneys' fees and costs, arising out of the actual or asserted failure of Tenant to perform or comply with the CC&R's. Tenant shall not permit or make any use of the Premises which will increase the existing rate of insurance upon the Project, or cause the cancellation of any insurance policy covering the Project, or any part thereof. If any insurance policy covering the Project is canceled as a result of Tenant's or Tenant's Agent's acts or omissions, then Landlord, in addition to such remedies as Landlord may have under this Lease or pursuant to law or equity, shall be entitled to reimbursement from Tenant within ten (10) days after receipt of written demand therefor for the entire amount of any additional amount which must be paid for a new insurance policy.

B. **Compliance.** Tenant shall not use the Project or permit Tenant's Agents to do anything in or about the Project in conflict with any law, statute, zoning restriction, ordinance or governmental law, rule, regulation or requirement of duly constituted public authorities now in force or which may hereafter be in force, or the requirements of the Board of Fire Underwriters or other similar body now or hereafter constituted relating to or affecting the condition, use or occupancy of the Project. If any law, statute, zoning restriction, ordinance or governmental law, rule, regulation or requirement of duly constituted public authorities requires any capital improvement to the Premises or the Building solely as the result of Tenant's particular use of the Premises, then Tenant shall be responsible for the same (or at the election of Landlord, for reimbursing Landlord for the cost of performing the same); provided, however, that if such capital improvement is so required for any reason other than Tenant's particular use of the Premises, then Landlord shall be responsible for the same, at Landlord's sole cost and expense, subject to Landlord's right to include such amounts as Operating Expenses on an amortized basis as provided in Paragraph 15.B. Tenant shall not abandon the Premises; provided, however, that if Tenant vacates the Premises while performing all of Tenant's other obligations under this Lease, such vacation shall not be deemed an abandonment and a Default hereunder. Tenant shall not commit any public or private nuisance or any other act or practice which might or would disturb the quiet enjoyment of any other tenant of Landlord or any occupant of nearby properties. Tenant shall place no loads upon the floors, walls or ceilings in excess of the maximum designed load determined by Landlord or which endanger the structure; nor place any harmful liquids in the drainage systems; nor dump or store waste materials or refuse or allow such to remain outside the Building proper, except in the enclosed trash areas provided. Tenant shall not store or permit to be stored or otherwise placed any material of any nature whatsoever outside the Building. If as a result of any use or change in use of the Premises by Tenant or any Alteration (including, without limitation, the Tenant Improvements) made to the Premises by or on behalf of Tenant, any alterations are required to the Premises, the Building or the Project (including, but not limited to, the Americans with Disabilities Act, and any state or local building, fire or safety codes, ordinances or regulations), Tenant shall be responsible for the same (or at the election of Landlord, for reimbursing Landlord for the cost of performing the same).

C. **Toxic Material.** Tenant, at its sole cost, shall comply with and cause Tenant's Agents to comply with all laws relating to the storage, use and disposal of hazardous, toxic or radioactive matter, including those materials identified in Sections 66680 through 66685 of Title 22 of the California Administrative Code, Division 4, Chapter 30 ("Title 22") as they may be amended from time to time (collectively, "Toxic Materials"). If Tenant or Tenant's Agents desire to store, use or dispose of any Toxic Materials in, on or about the Premises (other than the storage and use of reasonable quantities of customary office supplies), Tenant shall first request and obtain Landlord's approval to such proposed storage, use or disposal in writing, which request must be made at least ten

(10) days prior to the storage, use or disposal thereof in, on or about the Premises. Notwithstanding anything to the contrary contained in this Lease, Tenant shall be permitted to use ordinary office and cleaning products in amounts reasonably necessary for Tenant's permitted use of the Premises ("Permitted Toxic Materials"), and Landlord hereby consents to such use by Tenant. Whether or not Landlord is aware or approves of the storage, use or disposal of any Toxic Material by Tenant or Tenant's Agents, Tenant shall be solely responsible for and shall defend, indemnify and hold Landlord and Landlord's Agents harmless from and against all claims, costs and liabilities, including reasonable attorneys' fees and costs, arising out of or in connection with the storage, use, generation, transportation, disposal or release of Toxic Materials by Tenant or Tenant's Agents, including without limitation, any such claims, costs, damages and liabilities (including reasonable attorneys' fees and costs) arising out of or in connection with any investigation, testing, remediation, removal, clean-up and/or restoration services, work, materials and equipment necessary to return the Premises and any other property of whatever nature to their condition existing prior to the storage, use, generation, transportation, disposal or release of Toxic Materials by Tenant or Tenant's Agents in, on or about the Premises or the Project, and to otherwise satisfactorily investigate and remediate the contamination arising therefrom to the reasonable satisfaction of Landlord and all governmental authorities. If at any time during or after the term of this Lease, as it may be extended, Tenant becomes aware of any injury, investigation, administrative proceeding, or judicial proceeding regarding the storage, use or disposition of any Toxic Materials by Tenant or Tenant's Agents on or about the Premises or the Project, Tenant shall within five (5) days after first learning of such injury, investigation or proceeding give Landlord written notice advising Landlord of same. Tenant acknowledges receipt of a copy of that certain June 1998 Focused Environmental Site Assessment, 149 Commonwealth Drive, Menlo Park, California, dated as of August 16, 1998, prepared by The Gauntlett Group, LLC, together with all attachments thereto ("Site Assessment"), that Landlord previously made available to Tenant, and which Tenant agrees to maintain in confidence. In addition, Landlord utilizes Toxic Materials in the operation of its business. Landlord represents and warrants to Tenant that Landlord uses all such Toxic Materials in compliance with all applicable laws, rules, regulations and ordinances. Landlord shall be solely responsible for, and Tenant hereby is released from, and Landlord shall defend, indemnify and hold Tenant and Tenant's Agents harmless from and against all claims, costs and liabilities, including reasonable attorneys' fees and costs, arising out of or in connection with the storage, use, generation, transportation, disposal or release of Toxic Materials (including, without limitation, the Toxic Materials disclosed in the Site Assessment) by any person other than Tenant or Tenant's Agents, including without limitation, any such claims, costs, damages and liabilities (including reasonable attorneys' fees and costs) arising out of or in connection with any investigation, testing, remediation, removal, clean up and/or restoration services, work, materials and equipment necessary to return the Premises and any other property of whatever nature to their condition existing prior to the storage, use, generation, transportation, disposal or release of Toxic Materials by any person other than Tenant or Tenant's Agents in, on or about the Premises or the Project, and to otherwise satisfactorily investigate and remediate the contamination arising therefrom to the reasonable satisfaction of Tenant and all governmental au thorities. The foregoing indemnities shall survive the expiration or earlier termination of this Lease.

D. **Transportation Systems Management.** Tenant shall comply with the requirements of the City or County mandated parking or transportation systems management ordinances.

E. **Rules and Regulations.** The Rules and Regulations for the Project in effect as of the Effective Date are attached hereto as EXHIBIT E. Landlord reserves the right to adopt or amend the Rules and Regulations from time to time in its reasonable discretion. Tenant agrees that Tenant, its employees and agents and, to the extent Tenant can require the same, its invitees and others over whom Tenant can reasonably be expected to exercise control, shall observe and perform the Rules and Regulations as they may be amended or adopted. A breach of the Rules and Regulations by Tenant or such persons shall constitute a Default under this Lease as if the Rules or Regulations were contained in this Lease as covenants of the Tenant. Tenant acknowledges that Landlord has no obligation to enforce, and shall have no liability for non-enforcement of, the Rules and Regulations. Notwithstanding the foregoing, in the event of any inconsistency between the Rules and Regulations and the provisions of this Lease, the provisions of this Lease shall control, and Landlord shall not enforce the Rules and Regulations in a discriminatory manner.

12. **Quiet Enjoyment.** Landlord covenants that Tenant, upon performing the terms, covenants and conditions of this Lease, shall have quiet and peaceful possession of the Premises as against any person claiming the same by, through or under Landlord.

13. **Alterations.**Landlord hereby consents to Tenant's design and construction of the Tenant Improvements, on the terms and subject to the conditions of Exhibit C. Tenant shall not make or permit any Alterations in, on or about the Premises without the prior written consent of Landlord, and according to plans and specifications approved in writing by Landlord, which consent and approval shall not be unreasonably withheld, conditioned or delayed. Landlord, at its sole option, may, however, require as a condition to the granting of any such consent, where the cost of any Alteration is estimated to be in excess of $15,000.00, that Tenant provide to Landlord, at Tenant's sole cost and expense, a lien and completion bond in an amount equal to one and one-half (1½) times any and all estimated costs of such intended improvements to the Premises, to insure Landlord against any liability for mechanics' and materialmen's liens and to insure completion of the work. Tenant shall, at its sole cost and expense, obtain all necessary permits and governmental inspections and approvals required in connection with any Alterations. All Alterations shall be installed at Tenant's sole expense, in compliance with all applicable laws (including, but not limited to, The Americans With Disabilities Act, and any state or local building, fire or safety codes, ordinances or regulations), the Rules and Regulations and the CC&R's, by a licensed contractor reasonably acceptable to Landlord, shall be done in a good and workmanlike manner conforming in quality and design with the Premises existing as of the Commencement Date, and shall not diminish the value of the Project. In the event that any Alteration made by Tenant necessitates the making of other alterations to the interior or exterior of the Building, the Outside Area or elsewhere within the Project for purposes of complying with applicable laws (including, but not limited to, The Americans With Disabilities Act, and any state or local building, fire or safety codes, ordinances or regulations), Tenant shall undertake such additional alterations at its sole cost and expense or shall, at Landlord's option, reimburse Landlord for the cost and expenses incurred with respect to such additional alterations required for purposes of complying with applicable law as a result of Tenant's Alterations. All Alterations made by Tenant shall be and become the property of Landlord upon installation and shall not be deemed Tenant's Personal Property; provided, however, that Landlord may, at its option, at the time that Landlord grants consent therefor, require that Tenant, at Tenant's expense, prior to the expiration of the Term of this Lease, remove any or all Alterations installed by Tenant and return the Premises to their condition as of the Commencement Date of this Lease, Tenant Improvements and normal wear and tear, acts of God, condemnation, Toxic Materials not stored, used, released or disposed of by Tenant or Tenant's Agents excepted and subject to the provisions of Paragraph 25. Notwithstanding any other provisions of this Lease, Tenant shall be solely responsible for the maintenance and repair of any and all Alterations made by it to the Premises. Tenant shall give Landlord written notice of Tenant's intention to perform any work on the Premises at least twenty (20) days prior to the commencement of such work to enable Landlord to post and record an appropriate Notice of Nonresponsibility or other notice deemed proper before the commencement of any such work.

14. **Surrender of the Premises.** Upon the expiration or earlier termination of the Term, Tenant shall surrender the Premises to Landlord in its condition existing as of the Commencement Date, Tenant Improvements, Alterations that Landlord did not require to have removed as a condition of installation, normal wear and tear, acts of God, Toxic Materials not stored, used, released or disposed of by Tenant or Tenant's Agents and fire or other insured casualty for which Tenant is not otherwise obligated under the provisions of Paragraph 18 to repair excepted, with all interior areas cleaned. Any damage or deterioration of the Premises shall not be deemed ordinary wear and tear if Tenant was responsible to maintain the same under the provisions of Paragraph 18 and if the same could have been prevented by good maintenance practices by Tenant. Except as otherwise stated in this Lease, Tenant shall leave the air lines, power panels, electrical distribution systems, lighting fixtures, air conditioning, window coverings, wall coverings, carpets, wall paneling, ceilings, and plumbing on the Premises and in good operating condition. Tenant shall prior to the expiration or termination of the Term remove from the Premises at Tenant's sole cost all of Tenant's Alterations required to be removed pursuant to Paragraph 13, and all Tenant's Personal Property, including all voice, data, and security wiring installed by Tenant if requested by Landlord, and repair any damage and perform any restoration work caused or necessitated by any such removal. If Tenant fails to remove such Alterations and Tenant's Personal Property, and such failure continues after the termination of this

Lease, Landlord may retain such property and all rights of Tenant with respect to it shall cease, or Landlord may place all or any portion of such property in public storage for Tenant's account. Tenant shall be liable to Landlord for costs of removal of any such Alterations and Tenant's Personal Property and storage and transportation costs of same, and the cost of repairing and restoring the Premises, together with interest at the Interest Rate from the date of expenditure by Landlord until paid.

15. **Operating Expenses**.

A. **Payment by Tenant**. Commencing on January 1, 2006 and continuing thereafter during the Term of this Lease, Tenant shall pay to Landlord, as Rent on a monthly basis as set forth in Paragraph 5.A., one-twelfth (1/12) of Tenant's Property Percentage of the amount by which Landlord's reasonable estimate of the Operating Expenses for each calendar year during the Term (after the Base Year) are reasonably estimated by Landlord to exceed the Operating Expenses incurred by Landlord for the Base Year, as such Base Year is specified in section C.8. of the Information Sheet ("Base Year Operating Expenses").

B. **Operating Expenses**. The term "Operating Expenses" shall mean all expenses, costs and disbursements (but not capital investment items except as otherwise expressly provided below, or specific costs especially billed to and paid by specific tenants) of every kind and nature which Landlord shall pay or become obligated to pay because of or in connection with the ownership, maintenance, repair or operation of the Project and such additional building or Outside Area facilities in subsequent years as may be determined by Landlord to be necessary or appropriate. Operating Expenses shall include, but not be limited to, the following, all of which shall be included in the Base Year:

(i) Wages and salaries of all employees engaged in the operation, maintenance and security of the Project, including taxes, insurance and benefits relating thereto; and the rental cost and overhead of any office and storage space used to provide such services;

(ii) All supplies and materials used in operation, repair and maintenance of the Project;

(iii) Cost of all utilities, including surcharges, for the Project, including the cost of water, sewer, gas, power, heating, lighting, air conditioning and ventilating for the Project;

(iv) Cost of all maintenance and service agreements for the Project and the equipment thereon, including but not limited to, security and energy management services, window cleaning, floor waxing, elevator maintenance, janitorial service, engineers, gardeners, and trash removal services;

(v) Cost of all insurance which Landlord or Landlord's lender deems necessary or appropriate for the Project such as the cost of "All-Risk" property insurance including, at Landlord's option, earthquake and flood coverage, insurance against loss of rents on an "All-Risk" basis, and a lender's loss payable endorsement in favor of any lenders with respect to the Project, and naming Landlord and such lenders as insureds; and casualty and liability insurance applicable to the Building, Property and Outside Area and Landlord's personal property used in connection therewith, naming Landlord and Landlord's Agents as named or additional insureds;

(vi) Cost of repairs and general maintenance (excluding repairs and general maintenance to the extent then paid by proceeds of insurance or other third parties);

(vii) A management fee of no more than three percent (3%) of annual gross rentals generated by the Project (which management may be provided either by Landlord, affiliates of Landlord and/or by third parties) (the "Management Fee"), and with any space in the Project utilized by Landlord deemed to be leased at the rate of Monthly Rent under this Lease (on a rentable square foot basis);

(viii) The costs of any additional services not provided to the Project at the Commencement Date but thereafter provided by Landlord in its management of the Building, Property or Outside Area;

(ix) The cost of only those capital improvements (including interest) made to the Project after the Effective Date that are (i) intended to reduce other Operating Expenses (as to which the amortized cost to be included in Operating Expenses in any year shall be limited to the actual reduction in Operating Expenses during such year as a result thereof or (ii) are required to be made in order to conform to any changes subsequent to the Commencement Date in any applicable laws, ordinances, rules, regulations or orders of any governmental agencies having jurisdiction over the Building or which enhance in any material respect the general appearance or use of the Project or any portion thereof, with the cost of such capital improvements described in clauses (i) and (ii) above being amortized with interest at an annual rate of eight percent (8%) simple over the period Landlord reasonably determines to be the useful life of the capital improvement, consistent with applicable governmental requirements and generally accepted accounting principles consistently applied, with Tenant paying Tenant's Building Percentage of such amortization payment for each month after such improvement is completed until the first to occur of the expiration of the Term or the end of the term over which such costs are required to be amortized.;

(x) Real Property Taxes, as that term is defined in Paragraph 16; and

(xi) Assessments, dues and other amounts payable pursuant to the CC&R's, including any and all assessments and dues of the Association.

The cost of additional or extraordinary services provided to Tenant and not paid or payable by Tenant pursuant to other provisions of this Lease shall be payable by Tenant on a monthly basis.

Operating Expenses shall not include:

(a) the cost of any additional or extraordinary services provided to other tenants of the Building;

(b) costs paid for directly by Tenant;

(c) principal and interest payments on loans secured by deeds of trust recorded against the Project;

(d) real estate sales or leasing brokerage commissions; or

(e) executive salaries of off-site personnel employed by Landlord except for the charge (or pro rata share) of the manager of the Project (which manager's salary is not included within the Management Fee).

(f) attorneys' fees, leasing commissions, costs and disbursements and other expenses incurred in connection with negotiations or disputes with Tenant, other occupants, or prospective tenant or occupants;

(g) renovating or otherwise improving, decorating, painting or redecorating spaces for tenants or other occupants of the Project;

(h) costs incurred due to violations by Landlord or any tenant of the terms and conditions of any lease;

(i) advertising and promotional expenditures;

(j) any fines or penalties incurred due to violations by Landlord of any law or governmental rule or authority;

(k) the cost of any items for which the Landlord is actually reimbursed by condemnation proceeds, insurance carried (or required by this Lease to be carried and not so carried) or by warranty or for which Landlord is otherwise actually compensated;

(l) costs for sculpture, painting or other objects of art;

(m) charitable contributions;

(n) any costs relating to Toxic Materials, asbestos and the like not resulting from actions of Tenant;

(o) costs incurred by Landlord due to the negligence or misconduct of Landlord or its agents, contractors, licensees and employees or the violation by Landlord or any tenants or other occupants of the terms and conditions of any lease of space or other agreements including this Lease.

The Landlord shall not recover under this Section 15 or elsewhere in this Lease any item of cost more than once. In addition, notwithstanding anything to the contrary contained in this Lease, Tenant's Building Share of any deductible for earthquake or flood insurance shall not exceed $10,000.00 per occurrence.

C. **Adjustment**.

(i) **Projected Increases.** Prior to or at any time after the commencement of each calendar year during the Term following the Base Year, Landlord may provide Tenant with notice of Landlord's reasonable estimate of the amount by which the then current year's Operating Expenses are projected, if at all, to exceed the Base Year Operating Expenses (the "Projected Increase in Operating Expenses"). Tenant shall thereafter during such year pay adjusted Monthly Rent which shall include as the Monthly Operating Expense Reimbursement an amount equal to one-twelfth (1/12) of Tenant's Property Percentage multiplied by any Projected Increase in Operating Expenses.

(ii) **Accounting.** Within ninety (90) days (or as soon thereafter as possible) after the close of the Base Year, Landlord shall provide Tenant a statement of the Base Year Operating Expenses. Within ninety (90) days (or as soon thereafter as possible) after the close of each calendar year after the Base Year, Landlord shall provide Tenant a statement of (a) such year's actual Operating Expenses, (b) the Base Year Operating Expenses, (c) the amount, if any, by which the actual Operating Expenses exceed the Base Year Operating Expenses (the "Actual Increase in Operating Expenses"), (d) the amount equating to Tenant's Property Percentage of any Actual Increase in Operating Expenses and (e) the sum of any amounts theretofore paid by Tenant as Monthly Operating Expense Reimbursements pursuant to Paragraph 5.A. with respect to such year. If the amount set forth in clause (d) above exceeds the amount set forth in clause (e) above, Tenant shall pay the amount of such excess to Landlord within fifteen (15) days after receipt of such statement, which obligation shall survive the expiration or earlier termination of its Term of the Lease. If the amount set forth in clause (e) above exceeds the amount set forth in clause (d) above, Landlord shall credit the amount of such excess against the next accruing payment(s) of Monthly Operating Expense Reimbursements or reimburse Tenant for same if this Lease has terminated prior to the date such determination is made. If Tenant disputes the amount of the Actual Increase in Operating Expenses stated in said statement, Tenant may designate, within sixty (60)days after receipt of such statement, an independent certified public accountant to inspect Landlord's records, at Tenant's sole cost. Tenant is not entitled to request that inspection, however, if Tenant is then in Default under this Lease. The accountant shall be a member of a nationally recognized accounting firm and shall not charge a fee based on the amount of the

Actual Increase in Operating Expenses that the accountant is able to save Tenant by the inspection. Such accountant and Tenant shall, at Landlord's option, prior to the occurrence of any such inspection, execute a confidentiality agreement in form reasonably acceptable to the parties thereto in which such accountant and Tenant agree to maintain Landlord's books and records and the results of such inspection in confidence. Tenant shall give reasonable notice to Landlord of the request for inspection, and the inspection shall be conducted in Landlord's offices at a reasonable time or times. If, after that inspection, Tenant still disputes the Actual Increase in Operating Expenses, a certification of the proper amount shall be made, at Tenant's expense, by Landlord's independent certified public accountant. That certification shall be final and conclusive. If any such certification demonstrates that Landlord's statement overstated the amount of the Actual Increase in Operating Expenses, Landlord shall credit or reimburse the amount of Tenant's Property Percentage thereof against the next accruing payment(s) of Monthly Operating Expense Reimbursements or reimburse Tenant for same if this Lease has terminated prior to the date such determination is made. Such reimbursements are Tenant's sole remedy for any error in such statement from Landlord.

(iii) **Proration.** Tenant's liability to pay Tenant's Property Percentage of Operating Expenses in excess of Base Year Operating Expenses shall be prorated on the basis of a 365-day year to account for any fractional portion of a year included at the commencement or expiration of the term of this Lease.

(iv) **Not Fully Occupied.** Notwithstanding any other provision to the contrary, it is agreed that if the Building, in total, is less than ninety-five percent (95%) occupied during all or any portion of any calendar year (including, without limitation, the Base Year), an adjustment shall be made in calculating the Operating Expenses for the Project for such year so that Tenant's Percentage of Operating Expenses in excess of the Base Year Operating Expenses shall be equivalent to the Operating Expenses calculated as though the Building, in total, had been ninety-five percent (95%) occupied during the entirety of such year.

(v) **Survival.** Landlord and Tenant's obligation to pay for or credit any increase or decrease in payments pursuant to this Paragraph shall survive the expiration or termination of the Term of this Lease.

D. **Failure to Pay**. Failure of Tenant to pay any of the charges required to be paid under this Paragraph 15. shall constitute a breach of this Lease and Landlord's remedies shall be as specified in Paragraph 29.B.

16. **Taxes and Assessments.**

A. **Payment by Tenant**. Except as provided for in Paragraph 16.C., Real Property Taxes for the Project shall be included within Operating Expenses pursuant to Paragraph 15.B.

B. **Annual Assessments**. With respect to any taxes or assessments which may be levied against or upon the Project, or which under the laws then in force may be evidenced by improvement or other bonds or may be paid in annual installments, only the amount of such annual installment (with appropriate proration for any partial year) and interest due thereon shall be included within the computation of the annual taxes and assessments levied against the Project.

C. **Taxes Levied Against Tenant's Alterations and Personal Property**. In addition to Tenant's obligation to pay its Property Percentage of Operating Expenses over Base Year Operating Expenses as provided in Paragraphs 15 and 16.A., (i) Tenant shall be responsible for and shall pay to the taxing authority prior to

delinquency to the extent Tenant is billed directly, all Real Property Taxes assessed with respect to or against Tenant, or any Alterations, improvements, fixtures, equipment, facilities, furniture or other Personal Property owned by Tenant or placed, installed or located within, upon or about the Premises by Tenant or at Tenant's direction (collectively "Personal Property Taxes"), and (ii) to the extent any Personal Property Taxes are billed to Landlord and Landlord elects not to include such Personal Property Taxes in Operating Expenses, Tenant shall be responsible for and shall pay to Landlord within ten (10) days after notice from Landlord, the amount of such Personal Property Taxes so billed to Landlord. Tenant shall provide Landlord with evidence of Tenant's payment of the same upon Landlord's request.

D. **Failure to Pay.** Failure of Tenant to pay any of the charges required to be paid under this Paragraph 16 shall constitute a Default, and Landlord's remedies shall be as specified in Paragraph 29.B.

17. **Utilities and Services.**

A. **Services Provided by Landlord.** Landlord shall provide heating, ventilation, air conditioning, security, janitorial service, reasonable amounts of electricity for normal lighting and office machines, water for reasonable and normal drinking and lavatory use, and replacement light bulbs and/or fluorescent tubes and ballasts for standard overhead fixtures. All such costs shall be included in Operating Expenses, pursuant to Paragraph 15.B.

B. **Services Exclusive to Tenant.** Tenant shall pay for all telephone and other utilities and services specially or exclusively supplied and/or metered exclusively to the Tenant, together with any taxes thereon. Any such services that are not separately metered to the Premises shall be included in Operating Expenses, pursuant to Paragraph 15.B.

C. **Hours of Service.** Said services shall be provided during generally accepted business days and hours or such other days or hours as may hereafter be set forth. Utilities shall be provided on a twenty-four hour basis, subject to the provision of this Paragraph 17.

D. **Excess Usage by Tenant.** Tenant shall not have connection to the utilities except by or through existing outlets and shall not install or use machinery or equipment in or about the Premises that uses excess water, lighting or power, or suffer or permit any act that causes extra burden upon the utilities or services, including but not limited to security services, over standard office usage for the Project. Landlord shall require Tenant to reimburse Landlord for any excess expenses or costs that may arise out of a breach of this subparagraph by Tenant. Landlord may, in its sole discretion, install at Tenant's expense supplemental equipment and/or separate metering applicable to Tenant's excess usage or loading.

E. **Interruptions.** There shall be no abatement of Rent and Landlord shall not be liable in any respect whatsoever for the inadequacy, stoppage, interruption or discontinuance of any utility or service due to riot, strike, labor dispute, breakdown, accident, repair or other cause beyond Landlord's reasonable control or in cooperation with governmental request or directions. Notwithstanding anything to the contrary contained in this Lease, if any service provided by Landlord pursuant to this Article 17 is interrupted as a result of the negligence or willful misconduct of Landlord, its agents, employees or contractors, for more than five (5) consecutive business days, Tenant's obligation to pay Rent shall abate from the sixth business day following the interruption until the date that any such service has been restored.

F. **After Hours HVAC.** No additional charge will be levied by Landlord for occasional after hour use of HVAC. Tenant will use bypass switches presently installed. In the event additional HVAC is required for an individual area within the Premises, a separate HVAC unit with check meter will be installed to record usage, at the sole expense of Tenant. Tenant will reimburse Landlord at the rate charged by the utility company for this usage.

G. **Paging.** The paging system is divided into sub-zones whereby Tenant will have the ability to page personnel within the confines of the Premises. In the event of an emergency or building evacuation, Landlord will have the capability to make paging announcements in the Premises. Tenant shall not adjust, alter, or remove any Landlord paging system equipment at any time.

18. **Repair and Maintenance.**

A. **Premises, Building and Outside Area**.

(i) **Maintenance and Repair; Landlord's Obligations.** Landlord shall keep the Project, including the Premises, interior and exterior walls, roof, and common areas and the equipment, whether used exclusively for Tenant or in common with Landlord or other tenants, in good condition and repair; provided, however, Landlord shall not be obligated to paint, repair or replace wall coverings, or to repair or replace any Tenant Improvements, Alterations, or any improvements that are not ordinarily a part of the Building or are above then Building standards. Except as provided in Paragraph 25, there shall be no abatement of Rent or liability of Tenant on account of any injury or interference with Tenant's business with respect to any improvements, alterations or repairs made by Landlord to the Project or any part thereof. Landlord shall be responsible for maintaining and repairing (a) the structural parts of the Building, which structural parts include the foundation, roof and subflooring of the Premises, the basic plumbing, heating, ventilating, air conditioning and electrical systems installed or furnished by Landlord, and (b) the Outside Area, except for any damage to Premises, Building or Outside Area caused by the negligence or willful acts or omissions of Tenant or of Tenant's Agents, or by reason of the failure of Tenant to perform or comply with any terms, conditions or covenants in this Lease, or caused by Alterations made by Tenant or by Tenant's Agents, which shall be Tenant's responsibility. Except as otherwise provided in Paragraph 15.B., all costs of repair and maintenance of the Project shall be included in the Operating Expenses. With the exception of an emergency, Landlord's exercise of its maintenance obligations hereunder shall not unreasonably interfere with Tenant's use of the Premises, and shall not materially increase Tenant's obligations or diminish Tenant's rights hereunder, or interfere with Tenant's parking rights.

(ii) **Janitorial Services.** Landlord shall cause janitorial service to be provided to the Premises five (5) days a week, Sunday through Thursday, and the cost thereof shall be included in Operating Expenses under the provisions of Paragraph 15.B. Coverage will not be provided on holidays observed by Landlord.

(iii) **Tenant's Obligations.** Notwithstanding Landlord's obligation to keep the Premises in good condition and repair, Tenant shall be responsible for payment of the cost thereof to Landlord as additional rent for that portion of the cost of any maintenance and repair of the Premises, or any equipment (wherever located) that serves only Tenant or the Premises, to the extent such cost is attributable to causes beyond normal wear and tear. Tenant shall be responsible for the cost of painting, repairing or replacing wall coverings, and to repair or replace any Tenant Improvements, Alterations and any other Premises improvements that are not ordinarily a part of the Building or that are above then Building standards. Tenant may, at its option, upon reasonable notice, elect to have Landlord, at Tenant's cost, perform such maintenance or repairs which are otherwise Tenant's responsibility hereunder.

(iv) **Notice of Repairs Needed.** Landlord shall not be liable for any failure to make any of the repairs or to perform any maintenance unless the failure shall persist for an unreasonable time after written notice of the need of the repairs or maintenance is given to Landlord by Tenant.

(v) **No Abatement.** 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 or improvements in or to, or maintenance of, any portion of the Project, or any fixtures, appurtenances and equipment therein provided Landlord makes reasonable efforts not to unduly interfere with Tenant's use and enjoyment of the Project, and Landlord's actions pursuant to this Section shall not materially increase Tenant's

obligations or diminish Tenant's rights hereunder, or interfere with Tenant's parking rights, with the exception of an emergency.

B. **Control and Reconfiguration.** Landlord shall at all times have exclusive control of the Building (other than the Premises) and the Outside Area and may at any time temporarily close any part thereof and exclude and restrain anyone from any part thereof, and may change the design configuration or location of the Building or the Outside Area. Without limiting the generality of the foregoing statements, Landlord shall have the right, in Landlord's sole discretion, from time to time, to:

(i) Make changes to the Building interior and exterior and Outside Area, including, without limitation, changes in the location, size, shape, number, and appearance thereof, including but not limited to the lobbies, cafeteria, windows, stairways, air shafts, elevators, escalators, restrooms, driveways, parking spaces, parking areas, loading and unloading areas, entrances and exits, direction of traffic, decorative walls, landscaped areas and walkways; however, Landlord shall at all times provide the parking facilities required by law;

(ii) Temporarily close any of the Outside Area for maintenance so long as reasonable access to the Premises remains available;

(iii) Add additional buildings and improvements to the Outside Area;

(iv) Use the Outside Area while engaged in making additional improvements, repairs or alterations to the Project, or any portion thereof;

(v) Do and perform such other acts and make such other changes in, to or with respect to the Outside Area and Project as Landlord may, in the exercise of sound business judgment, deem to be appropriate; and

(vi) Eliminate any of the additional services set forth on EXHIBIT F, except that Landlord will provide Tenant with ninety (90) days' prior written notice in the event that Landlord intends to eliminate either telephone or security services.

Landlord shall further have the right to enter upon the Premises, as provided in Paragraph 21, for the purpose of installing, maintaining, repairing, adjusting and making connections to any utilities (including but not limited to plumbing, HVAC, electrical, telephone, and cable TV) serving the Premises or other spaces in the Building or for gaining access to the structural portions of the Building and making alterations thereto for the benefit of Tenant, Landlord or other occupants of the Building. No such entry shall be considered a constructive or actual eviction of Tenant, and Landlord shall have no liability to Tenant therefore, provided that Landlord shall use commercially reasonable efforts to minimize interference with Tenant's operations, and Landlord's exercise of the foregoing rights shall not materially increase Tenant's obligations or diminish Tenant's rights hereunder, or interfere with Tenant's parking rights with the exception of an emergency.

C. **Waiver.** Tenant waives the provisions of all laws, statutes or ordinances, including Sections 1932(1), 1932(2), 1933(4), 1941 and 1942 of the California Civil Code and any similar or successor law, which might now or at any time hereafter otherwise afford Tenant any right to make repairs and deduct the expenses of such repairs from the Rent due under this Lease.

D. **Compliance with Governmental Regulations.** Subject to the provisions of Paragraphs 10 and 11, Tenant shall, at its cost comply with, including the making by Tenant of any Alteration to the Premises, all present and future regulations, rules, laws, ordinances, and requirements of all governmental authorities (including, state municipal, county and federal governments and their departments, bureaus, boards and officials) arising from the use or occupancy of, or applicable to, the Project or privileges appurtenant thereto (including, but not limited to, The Americans With Disabilities Act, and any state or local building, fire or safety codes, ordinances or regulations).

E. **Repair Where Tenant at Fault.** If all or part of the Project or the Premises requires repair or becomes damaged or destroyed through any act or omission of Tenant or Tenant's Agents, Landlord may effect the necessary alterations, replacements or repairs at Tenant's cost.

19. **Fixtures**. Tenant shall, at its own expense, provide, install and maintain in good condition all trade fixtures, equipment and other Tenant's Personal Property required in the conduct of its business in the Premises. All fixtures and improvements, other than Tenant's trade fixtures and equipment, which are installed or constructed upon or attached to the Premises by either Landlord or Tenant shall become a part of the realty and belong to Landlord. If Tenant is not then in Default, Tenant may, at the termination of this Lease, or at any other time, remove from the Premises all trade fixtures, equipment and other Tenant's Personal Property not permanently affixed to the Premises. Upon removal, Tenant shall restore the Premises to its original condition at the time of occupancy, Tenant Improvements and normal wear and tear, acts of God, condemnation, Toxic Materials not stored, used, released or disposed of by Tenant or Tenant's Agents and Alterations with respect to which Landlord has not reserved the right to require removal excepted, subject to the provisions of Paragraph 25.

20. **Liens.** Tenant shall keep the Project free from any liens arising out of any work performed, materials furnished or obligations incurred by or on behalf of Tenant and shall defend, indemnify and hold the Project, Landlord and Landlord's Agents free and harmless from and against any lien, claim, cause of action, loss, liability, damage or expense, including reasonable attorneys' fees and costs, in connection with or arising out of any such lien or claim of lien. Tenant shall cause any such lien imposed to be released of record by payment or posting of a proper bond acceptable to Landlord within fifteen (15)days after receipt of written request by Landlord. If Tenant fails to so remove any such lien within the prescribed fifteen (15) day period, then Landlord may do so and Tenant shall reimburse Landlord upon demand. Such reimbursement shall include all sums incurred by Landlord including Landlord's reasonable attorneys' fees, with interest thereon at the Interest Rate.

21. **Landlord's Right to Enter the Premises.** Tenant shall permit Landlord and its Agents to enter the Premises at all reasonable times and upon reasonable prior notice except in the case of emergency to inspect the Premises, to post Notices of Nonresponsibility and similar notices, "For Sale" signs, to show the Premises to interested parties such as prospective lenders and purchasers, to make repairs or alterations to the Premises or the Building and any utility system located therein, to discharge Tenant's obligations hereunder when Tenant has failed to do so within a reasonable time after written notice from Landlord, and at any reasonable time within one hundred eighty (180) days prior to the expiration of the Term, to place upon the Premises ordinary "For Lease" signs and to show the Premises to prospective tenants. The above rights are subject to reasonable security regulations of Tenant, and to the fact that Landlord shall seek to exercise its rights in a manner so as to minimize interference with Tenant's business.

22. **Signs.** Tenant shall not install any signs upon the exterior of the Premises or the Project. At Tenant's expense, Tenant shall have the right to install signage on the wall next to their suite entrance after obtaining Landlord's written consent, which shall not be unreasonably withheld or delayed. Landlord will provide one line on a monument sign, at Landlord's expense.

23. **Insurance.**

A. **Indemnification.** Tenant shall protect, defend, indemnify and hold Landlord and Landlord's Agents free and harmless from and against any and all damage, loss, liability or expense including, without limitation, reasonable attorneys' fees, expert witness fees and legal costs suffered directly or indirectly or by reason of any claim, cause of action, suit or judgment brought by or in favor of any person or persons for damage, loss or expense due to, but not limited to, bodily injury and property damage sustained by such person or persons which arises out of, is occasioned by or in any way attributable to (i) injury or damage occurring upon the Premises, (ii) the use or occupancy of the Project or any part thereof and adjacent areas by the Tenant, (iii) the acts or omissions of the Tenant, its agents or employees or any contractors brought onto the Project by Tenant, except to the extent caused by the active negligence or willful misconduct of Landlord or Landlord's Agents. Landlord and

Tenant agree that the indemnity obligations assumed herein and in other provisions of this Lease shall survive the expiration or earlier termination of the Term of this Lease. In addition, in no event shall any indemnity set forth in this Lease require the indemnifying party to indemnify the other for consequential (i.e., lost profits, lost business opportunity) or punitive damages.

B. **Tenant's Insurance.** Tenant shall maintain in full force and effect at all times during the Term (including any extension(s)), at its own expense, for the protection of Tenant and Landlord, as their interests may appear, policies of insurance issued by a responsible carrier or carriers, reasonably acceptable to Landlord, which afford the following coverages:

(i) Worker's Compensation — In accordance with state law.

(ii) Commercial general liability insurance in an amount not less than Two Million and no/100ths Dollars ($2,000,000.00) combined single limit for both bodily injury and property damage which includes blanket contractual liability, broad form property damage, personal injury, completed operations, and products liability naming Landlord as an additional insured.

(iii) "All Risk" property insurance (including, without limitation, vandalism, malicious mischief, inflation and sprinkler leakage endorsement) on Tenant's Personal Property located on or in the Premises together with any improvement or Alteration which Landlord is not obligated to repair pursuant to Paragraph 25.E. Such insurance shall be in the full amount of the replacement cost, as the same may from time to time increase as a result of inflation or otherwise.

C. **Landlord's Insurance.** During the Term Landlord shall maintain "All Risk" property insurance (including, at Landlord's option, inflation endorsement, sprinkler leakage endorsement, and earthquake and flood coverage) on the Project, excluding coverage of the Tenant Improvements and all Tenant's Personal Property located on or in the Premises, in the amount of full replacement value. At Landlord's option, the coverage shall also include insurance against loss of rents on an "All Risk" basis, including flood, in an amount equal to the Monthly Rent, and any other sums payable under the Lease, for a period of at least twelve (12) months commencing on the date of loss. Such insurance shall name Landlord as a named insured and may at Landlord's option include Landlord's Agents as named insureds and lender's loss payable endorsement(s) in favor of lenders with respect to the Property. Landlord also shall carry comprehensive general liability insurance in amounts carried by prudent owners of commercial/office projects in the geographical area of the Project. The insurance premiums, including the premiums resulting from increases in the valuation of the Project shall be included in Operating Expenses.

D. **Evidence of Insurance.** Tenant shall deliver to Landlord, prior to Tenant's entry onto the Premises, certificates of insurance evidencing the insurance for the coverage specified in Paragraph 23.B., with the limits not less than those specified therein. The certificates of insurance shall include a statement providing that the insurer will endeavor to provide thirty (30) days' prior written notification to Landlord in the event of cancellation, and ten (10) days' notice of cancellation for non-payment of premiums, with respect to any required coverage unless comparable insurance is obtained from another carrier prior to the effective date of cancellation.

E. **Co-Insurer.** If, on account of the failure of Tenant to comply with the foregoing provisions, Landlord is adjudged a co-insurer by its insurance carrier, then, any loss or damage Landlord shall sustain by reason thereof, including reasonable attorneys' fees and costs, shall be borne by Tenant and shall be immediately paid by Tenant upon receipt of a bill therefor and evidence of such loss.

F. **Insurance Requirements.** All insurance shall be in a form reasonably satisfactory to Landlord. All policies required by Paragraph 23.B. shall be carried with companies that have a general policy holder's rating of not less than "A-" and a financial rating of not less than Class "VIII" in the most current edition of *Best's Insurance Reports*. All policies required by Paragraph 23.B. shall provide that the policies shall not be

subject to material alteration or cancellation except after insurer's endeavor to provide thirty (30) days' prior written notice to Landlord, and ten (10) days' notice of cancellation for non-payment of premiums, and they shall be primary as to Landlord. If Tenant fails to procure and maintain the insurance required hereunder, Landlord may, but shall not be required to, order such insurance at Tenant's expense and Tenant shall reimburse Landlord. Such reimbursement shall include all sums incurred by Landlord, including reasonable attorneys' fees, with interest thereon at the Interest Rate.

G. **No Limitation of Liability.** Landlord makes no representation that the limits of liability specified to be carried by Tenant under the terms of this Lease are adequate to protect Tenant or Landlord, and in the event Tenant believes that any such insurance coverage called for under this Lease is insufficient, Tenant shall provide, at its own expense, such additional insurance as Tenant deems adequate.

H. **Landlord's Disclaimer.** Landlord and Landlord's Agents shall not be liable for any loss or damage to persons or property resulting from fire, explosion, falling plaster, glass, tile or sheetrock, steam, gas, electricity, water or rain which may leak from any part of the Project, or from the pipes, appliances or plumbing works therein or from the roof, street or subsurface or whatsoever, unless caused by or due to the gross negligence or willful misconduct of Landlord or Landlord's Agents. Landlord and Landlord's Agents shall not be liable for interference with the light, air, or any latent defect in the Project. In no event whatsoever shall Landlord be liable for losses attributable to interruption of telephone services. Tenant shall give prompt written notice to Landlord in the case of a casualty, accident or repair needed in the Project.

I. **Increased Coverage.** Not more than once during each calendar year during the Term, within thirty (30) days after receipt of written demand, Tenant shall provide Landlord, at Tenant's expense, with such increased amount of existing insurance, and such other insurance as Landlord or Landlord's lender may reasonably require, to afford Landlord and Landlord's lender adequate protection.

24. **Waiver of Subrogation.** Landlord and Tenant each hereby waive all rights of recovery against the other on account of loss and damage occasioned to such waiving party for its property or the property of others under its control to the extent that such loss or damage is insured against under any insurance policies which may be in force at the time of such loss or damage, but only to the extent of insurance proceeds actually received. Tenant and Landlord shall, upon obtaining policies of insurance required hereunder, give notice to the insurance carrier that the foregoing mutual waiver of subrogation is contained in this Lease and Tenant and Landlord shall cause each insurance policy obtained by such party to provide that the insurance company waives all right of recovery by way of subrogation against either Landlord or Tenant in connection with any damage covered by such policy.

25. **Damage or Destruction.**

A. **Partial Damage — Insured.** If the Premises or the Building are damaged by any casualty which is covered or required to be covered under the "All-Risk" insurance carried by Landlord pursuant to Paragraph 23.C., then Landlord shall restore the damage, provided insurance proceeds are available to pay the full cost of restoration (unless proceeds are not available due to Landlord's failure to carry the required insurance, in which case Landlord shall be obligated to pay the cost of restoration) and provided such restoration can be completed within one hundred eighty (180) days after the commencement of the work in the reasonable opinion of Landlord. In such event this Lease shall continue in full force and effect, except that Tenant shall be entitled to a proportionate reduction of Rent while such restoration for which Landlord is obligated hereunder takes place, such proportionate reduction to be based upon the extent to which the damage and restoration efforts interfere with Tenant's use of the Premises.

B. **Partial Damage — Uninsured.** If the Premises or the Building is damaged by a risk not required to be covered by Landlord's insurance, or the available proceeds of insurance are less than the cost of restoration, or if the restoration cannot be completed within one hundred eighty (180) days after the commencement

of work, in the reasonable opinion of Landlord, then Landlord shall have the option either to: (i) repair or restore such damage, this Lease continuing in full force and effect, but the Rent to be proportionately abated as provided in Paragraph 25.A.; or (ii) give notice to Tenant at any time within thirty (30) days after such damage terminating this Lease as of a date to be specified in such notice, which date shall be not less than thirty (30) nor more than sixty (60) days after giving such notice. If notice of termination is given, this Lease shall expire and all interest of Tenant in the Premises shall terminate on the date specified in the notice and the Rent shall be reduced in proportion to the extent, if any, to which the damage interferes with the use of the Premises by Tenant. All insurance proceeds for the Premises shall be payable solely to Landlord, and Tenant shall have no interest in the proceeds.

C. **Total Destruction.** If the Premises or the Building is totally destroyed or the Premises or Building, as the case may be, cannot be restored as required herein under applicable laws and regulations or due to the presence of hazardous factors such as earthquake faults, chemical waste and similar dangers, notwithstanding the availability of insurance proceeds, this Lease shall be terminated effective the date of the damage.

D. **Tenant's Election.** If the Premises are damaged by any casualty, or if any portion of the Outside Area is damaged by a casualty to such an extent that the Premises is no longer useable by Tenant, in Tenant's reasonable opinion, and if, in Landlord's reasonable opinion, such casualty cannot be repaired or restored within one hundred eighty (180) days after commencement of such work, then Tenant may, by written notice delivered to Landlord at any time within thirty (30) days after such damage, terminate this Lease as of the future date specified in such notice, which date shall not be less than thirty (30) nor more than sixty (60) days after the date of Tenant's delivery of such notice. If notice of termination is so given, this Lease shall expire and all interests of Tenant and the Premises shall terminate on the date specified in the notice and the Rent shall be reduced in proportion to the extent, if any, to which the damage interferes with the use of the Premises by Tenant. All insurance proceeds for the Premises (excluding proceeds covering Tenant's Personal Property) shall be payable to Landlord, and Tenant shall have no interest in the proceeds.

E. **Landlord's Obligations.** Landlord shall not be required to insure against or repair any injury or damage by fire or other cause, or to make any restoration or replacement of any paneling, decorations, partitions, railings, floor coverings, office fixtures or other items which are Tenant Improvements, Alterations or Personal Property installed in the Premises by Tenant or at the direct or indirect expense of Tenant. Tenant shall be required at Tenant's sole cost and expense, separately to insure the same and promptly to restore or replace same in the event of damage. Except for any abatement of Rent relating to the plan of restoration of damage for which Landlord is obligated to repair hereunder, Tenant shall have no claim against Landlord for any damage suffered by reason of any such damage, destruction, repair or restoration; nor shall Tenant have the right to terminate this Lease as the result of any statutory provision now or hereafter in effect pertaining to the damage and destruction of the Premises, except as expressly provided herein.

F. **Damage Near End of Term.** Anything herein to the contrary notwithstanding, if more than fifty percent (50%) of the Premises or the Building is destroyed or damaged during the last twelve (12) months of the Term, then either Tenant or Landlord may, at its option, cancel and terminate this Lease as of the date of the occurrence of the damage. If neither such party elects to terminate this Lease, the repair of the damage shall be governed by the other provisions of this Paragraph 25. If this Lease is terminated, Landlord may keep all the insurance proceeds resulting from the damage, except for the proceeds which specifically insured Tenant's Personal Property.

26. **Condemnation.**

A. **Total Taking — Termination.** If title to all of the Premises or so much thereof is taken or appropriated for any public or quasi-public use under any statute or by right of eminent domain so that reconstruction of the Premises will not, in Landlord's and Tenant's mutual opinion, result in the Premises being reasonably suitable for Tenant's continued occupancy for the uses and purposes permitted by this Lease, this Lease

shall terminate as of the date that possession of the Premises or part thereof be taken. A sale by Landlord to any authority having the power of eminent domain, either under threat of condemnation or while condemnation proceedings are pending, shall be deemed a taking under the power of eminent domain for all purposes of this Paragraph.

B. **Partial Taking.** If any part of the Premises or the Building is taken and the remaining part is reasonably suitable for Tenant's continued occupancy for the purposes and uses permitted by this Lease, this Lease shall, as to the part so taken, terminate as of the date that possession of such part of the Premises or Building is taken. If the Premises is so partially taken the Rent and other sums payable hereunder shall be reduced in the same proportion that Tenant's use and occupancy is reduced.

C. **No Apportionment of Award.** No award for any partial or entire taking shall be apportioned. Tenant assigns to Landlord its interest in any award which may be made in such taking or condemnation, together with any and all rights of Tenant arising in or to the same or any part thereof. Nothing contained herein shall be deemed to give Landlord any interest in or require Tenant to assign to Landlord any separate award made to Tenant for the taking of Tenant's Personal Property, for the interruption to Tenant's business, or its moving costs, or the unamortized cost of any Alterations installed and paid for by Tenant, or for the loss of its good will.

D. **Temporary Taking.** No temporary taking of the Premises shall terminate this Lease or give Tenant any right to any abatement of Rent. Any award made to Tenant by reason of such temporary taking shall belong entirely to Tenant and Landlord shall not be entitled to share therein. Each party agrees to execute and deliver to the other all instruments that may be required to effectuate the provisions of this Paragraph.

27. **Assignment and Subletting.**

A. **Landlord's Consent.** Tenant shall not enter into a Sublet without Landlord's prior written consent, which consent shall not be unreasonably withheld, conditioned or delayed. Any attempted or purported Sublet without Landlord's prior written consent shall be void and confer no rights upon any third person and, at Landlord's election, shall terminate this Lease. Each Subtenant shall agree in writing, for the benefit of Landlord, to assume, to be bound by, and to perform and observe the terms, covenants and conditions of this Lease to be performed and observed by Tenant. Every Sublet shall recite that it is and shall be subject and subordinate to the provisions of this Lease, and that the termination of this Lease shall constitute a termination (at the option of the Landlord) of every such Sublet. Notwithstanding anything contained herein, (i) Tenant shall not be released from personal liability for the performance of any of the terms, covenants and conditions of this Lease by reason of Landlord's consent to a Sublet unless Landlord specifically grants such release in writing (it being agreed that Landlord has no obligation to do so), and (ii) the parties agree that it shall be reasonable for Landlord to withhold its consent to any proposed Sublet when the proposed Subtenant is an occupant of the Property or is a third party which is already involved in negotiations with Landlord to lease space in the Project, and in either case Landlord has space available that is reasonably suited for such party's needs. Without limiting the generality of Landlord's discretion in determining whether it is reasonable to withhold consent for any requested Sublet, it shall be deemed reasonable for Landlord to withhold such consent if the proposed Subtenant would use the Premises for any use other than for general office purposes.

B. **Information to be Furnished.** If Tenant desires at any time to Sublet the Premises or any portion thereof, it shall first notify Landlord of its desire to do so and shall submit in writing to Landlord: (i) the name of the proposed Subtenant; (ii) the nature of the proposed Subtenant's business to be carried on in the Premises; (iii) the terms and provisions of the proposed Sublet and a copy of the proposed Sublet form containing a description of the subject premises; and (iv) such financial information, including financial statements, as Landlord may reasonably request concerning the proposed Subtenant. If Tenant requests Landlord's consent to a proposed Sublet, Tenant shall pay to Landlord, whether or not consent is ultimately given, Landlord's reasonable attorneys' fees incurred in connection with such request.

C. **Landlord's Alternatives.** At any time within ten (10) business days after Landlord's receipt of all the information specified in Paragraph 27.B., Landlord may, by written notice to Tenant, elect: (i) to terminate this Lease as it relates to the Premises or, if less than the Premises is the subject of the Sublet, that portion thereof so proposed to be Sublet by Tenant as of the later of (x) the proposed effective date of such Sublet or (y) thirty (30) days after the date Landlord is in receipt of the information specified in Paragraph 27.B.; (ii) to consent to the Sublet by Tenant; or (iii) to refuse its consent to the Sublet. Landlord's failure to deliver such notice of election within such 10-business day period shall be deemed Landlord's consent to such Sublet.

If Landlord consents to the Sublet, Tenant may thereafter enter a valid Sublet of the Premises or portion thereof, upon the terms and conditions and with the proposed Subtenant set forth in the information furnished by Tenant to Landlord pursuant to Paragraph 27.B.; provided, however, that fifty percent (50%) of any excess of (I) the Subrent over (II) (A) the Monthly Rent required to be paid by Tenant hereunder, (B) Tenant's reasonable attorneys' fees and brokerage commissions, in each case, with the total of such amounts under this clause (B) applied on an amortized basis over the term of the Sublet, and (C) and any then unamortized value of the applicable Tenant Improvements, to the extent not reimbursed out of the TI Allowance, applied on an amortized basis over the remainder of the Term, shall be paid to Landlord as and when received by Tenant. As used immediately above, the term "applicable Tenant Improvements" means the Tenant Improvements allocable to the space that is subject to the applicable Sublet, based upon rentable square footage.

D. **Proration.** If a portion of the Premises is Sublet, the pro rata share of the Monthly Rent attributable to such partial area of the Premises shall be determined by Landlord by dividing the Monthly Rent payable by Tenant hereunder by the total rentable square footage of the Premises and multiplying the resulting quotient (the per rentable square foot rent) by the number of rentable square feet of the Premises which are Sublet.

E. **Executed Counterpart.** No Sublet shall be valid nor shall any Subtenant take possession of the Premises until an executed counterpart of the Sublet agreement has been delivered to Landlord.

F. **Surrender of Lease.** 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, terminate all or any existing Sublets, or may, at the option of Landlord, operate as an assignment to it of any or all such Sublets.

G. **No Mortgages.** Tenant shall not pledge, hypothecate or encumber this Lease or Tenant's interest herein or in the Premises in any manner, including without limitation, by means of any mortgage, deed of trust, security interest or assignment for security purposes, and any such attempted pledge, hypothecation or encumbrance shall be void and constitute a Default under this Lease.

H. **Effect of Default.** Notwithstanding any provision of this Paragraph 27 to the contrary, in the event of the occurrence of any uncured Default by Tenant in the performance of any term or condition of this Lease, any right of Tenant at such time to seek to Sublet this Lease pursuant to this Paragraph 27 and any obligations of Landlord to review any proposed Sublet or exercise its rights under Paragraph 27.C. above shall be suspended, and any applicable period for review or action by Landlord shall be tolled, until such Default is fully cured of no force or effect.

I. **Permitted Transfers.** Notwithstanding anything to the contrary contained in this Lease, Tenant, without Landlord's prior written consent, may sublet the Premises or assign this Lease to: (i) a subsidiary, affiliate, division or entity controlling, controlled by or under common control with Tenant; (ii) a successor entity related to Tenant by merger, acquisition, consolidation, nonbankruptcy reorganization or government action; or (iii) a purchaser of substantially all of Tenant's assets (collectively "Permitted Transferees"); provided Tenant enters into such a transaction in good faith and not for the purpose of indirectly entering into a Sublet of this Lease with a person or entity other than a Permitted Transferee through a step transaction or otherwise. Tenant shall not be

required to obtain Landlord's consent thereof, nor shall provisions of Paragraph 27.C. hereof apply; in no event shall such assignment or sublease release Tenant from any liability for the performance of the obligations under this Lease, unless Landlord shall have released Tenant in writing (it being agreed that Landlord has no obligation to do so). Further, the requirements contained in the third and fourth sentences of Paragraph 27.A. shall apply to all such transfers. For purposes of this Lease, a transfer or issuance of Tenant's stock over the New York Stock Exchange, the American Stock Exchange, or NASDAQ or by virtue of a private placement with a venture capital firm or other equity investor wherein such venture capital firm or other equity investor receives stock in Tenant shall not be deemed an assignment, subletting or other transfer of this Lease or the Premises requiring Landlord's consent.

28. **Sale Lease-Back**. Tenant acknowledges that Landlord may, at some time in the future, finance the Property by means of a sale and lease back transaction ("Sale Lease-Back Transaction") in which Landlord would transfer its interest in the Project to a financing party, as buyer, and in which such buyer would lease the Project back to Landlord. Tenant agrees that, in the event of any such Sale Lease-Back Transaction, this Lease shall automatically become subordinate to the leasehold interest created by the lease between such buyer and Landlord (the "Master Lease"). In such event, this Lease shall thereafter be a sublease below the Master Lease. Notwithstanding the automatic effect of such subordination, Tenant agrees to execute any documentation reasonably required by such buying party to evidence such subordination. Notwithstanding the foregoing, any such subordination of this Lease shall be subject to the requirement that such buying entity shall have agreed, in form reasonably acceptable to Tenant, that in the event of any termination of the Master Lease because of the default of Landlord thereunder or because of the consensual agreement of Landlord and such buying party, this Lease shall automatically become a direct lease between such buying party, as landlord, and Tenant, as tenant.

29. **Default.**

A. **Tenant's Default.** A default under this Lease by Tenant shall exist if any of the following events shall occur (as applicable, a "Default"):

(i) If Tenant fails to pay Rent or any other sum required to be paid hereunder within five (5) days after the date of Tenant's receipt of written notice from Landlord that such amount was not received when due; or

(ii) If Tenant fails to perform any term, covenant or condition of this Lease except those requiring the payment of money, and Tenant shall have failed to cure such breach within twenty (20) days after written notice from Landlord; provided, however, that if such failure by its nature cannot reasonably be cured within the twenty (20) day period, then Tenant shall not be in Default if Tenant promptly commences the performance of such cure within the twenty (20) day period and diligently thereafter prosecutes the same to completion; or

(iii) If Tenant shall have abandoned the Premise while in default of any other obligation under this Lease; or

(iv) In the event of a general assignment by Tenant for the benefit of creditors; the filing of any voluntary petition in bankruptcy by Tenant or the filing of an involuntary petition by Tenant's creditors, which involuntary petition remains undischarged for thirty (30) days; the employment of a receiver to take possession of substantially all of Tenant's assets or any part of the Premises, if such receivership remains undissolved for thirty (30) days after creation thereof; the attachment, execution or other judicial seizure of all or substantially all of Tenant's assets or any part of the Premises, if such attachment or other seizure remains undismissed or undischarged for thirty (30) days after the levy thereof; the admission by Tenant in writing of its inability to pay its debts as they become due; the filing by Tenant of a petition seeking any reorganization or arrangement, composition, readjustment, liquidation, dissolution or similar relief under any present or future statute, law or regulation; the filing by Tenant of an answer admitting or failing timely to contest a material allegation of a petition filed against Tenant in any such proceeding; or, if within thirty (30) days after the

commencement of any proceeding against Tenant seeking any reorganization or arrangement, composition, readjustment, liquidation, dissolution or similar relief under any present or future statute, law or regulation, such proceeding shall not have been dismissed; or

(v) The occurrence of any other event specifically stated to be a Default under the provisions of this Lease.

B. **Remedies.** Upon a Default, Landlord shall have the following remedies, in addition to all other rights and remedies provided by law or otherwise provided in this Lease, to which Landlord may resort cumulatively or in the alternative:

(i) Landlord may continue this Lease in full force and effect, and this Lease shall continue in full force and effect as long as Landlord does not terminate this Lease, and Landlord shall have the right to collect Rent when due. During the period Tenant is in Default, Landlord may enter the Premises and relet it, or any part of it, to third parties for Tenant's account, provided that any Rent in excess of the Monthly Rent due hereunder shall be payable to Landlord. Tenant shall be liable immediately to Landlord for all costs Landlord incurs in reletting the Premises or any part thereof, including, without limitation, broker's commissions, expenses of cleaning and redecorating the Premises required by the reletting and like costs. Reletting may be for a period shorter or longer than the remaining Term of this Lease. No act by Landlord other than giving written notice to Tenant shall terminate this Lease.

(ii) Landlord may by written notice terminate Tenant's right to possession of the Premises at any time and relet the Premises or any part thereof. Acts of maintenance, efforts to relet the Premises or the appointment of a receiver on Landlord's initiative to protect Landlord's interest under this Lease shall not constitute a termination of Tenant's right to possession. On termination, Landlord has the right to remove all Tenant's Personal Property and store same at Tenant's cost and to recover from Tenant:

(a) the worth at the time of award of the unpaid Rent which had been earned at the time of termination including interest at the Interest Rate;

(b) the worth at the time of award of the amount by which the unpaid Rent which would have been earned after termination until the time of award exceeds the amount of such rental loss that Tenant proves could have been reasonably avoided, including interest at the Interest Rate;

(c) the worth at the time of award of the amount by which unpaid Rent for the balance of the term after the time of award exceeds the amount of such rental loss for the same period that Tenant proves could be reasonably avoided, discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of award plus one percent (1%);

(d) any other amount necessary to compensate Landlord for all the detriment proximately caused by Tenant's failure to perform its obligations under this Lease or which in the ordinary course of things would be likely to result therefrom, including without limitation the following: (i) all expenses for repairing or restoring the Premises, (ii) all brokers' fees, advertising costs and other expenses of repairing or restoring the Premises, (iii) all expenses in retaking possession of the Premises, and (iv) reasonable attorneys' fees, expert witness fees and court costs; and

(e) as used in subparagraphs (a) through (c) above, the term "time of award" shall mean the date of entry of a judgment or award against Tenant in an action or proceeding arising out of Tenant's breach of this Lease.

Tenant waives redemption or relief from forfeiture under California Code of Civil Procedure Sections 1174 and 1179, or under any other present or future law, in the event Tenant is evicted or Landlord takes possession of the Premises by reason of any Default of Tenant hereunder.

(iii) Landlord may, with or without terminating this Lease, re-enter the Premises and remove all persons and property from the Premises; such property may be removed and stored in a public warehouse or elsewhere at the cost of and for the account of Tenant. No re-entry or taking possession of the Premises by Landlord pursuant to this Paragraph shall be construed as an election to terminate this Lease unless a written notice of such intention is given to Tenant.

C. **Landlord's Default.** Landlord shall not be deemed to be in default in the performance of any obligation required to be performed by it hereunder unless and until it has failed to perform such obligation within twenty (20) days after receipt of written notice by Tenant to Landlord specifying the nature of such default; provided, however, that if the nature of Landlord's obligation is such that more than twenty (20) days are required for its performance, then Landlord shall not be deemed to be in default if it shall commence such performance within such twenty (20) day period and thereafter diligently prosecute the same to completion.

30. **Subordination.** This Lease is and shall automatically be subject and subordinate to all mortgages and deeds of trust (collectively, "Encumbrance") which may now or hereafter affect the Premises, to the CC&R's and to all renewals, modifications, consolidations, replacements and extensions thereof; provided, however, (i) if the holder or holders of any such Encumbrance ("Holder") shall require that this Lease be prior and superior thereto, then upon written notice from Holder to Tenant this Lease shall be automatically prior and superior to the lien of such Encumbrance without regard to the sequence of recordation, and (ii) any such subordination shall be subject to the requirement that such Holder agree not to disturb Tenant's rights under this Lease, so long as Tenant is not in Default under the provisions of this Lease; it shall be a condition of any such subordination that Holder execute a nondisturbance and attornment agreement ("Attornment Agreement"), containing terms and conditions reasonably acceptable to Tenant, incorporating the foregoing provision. Within ten (10) business days after Landlord or Holder's written request, Tenant shall execute any and all documents reasonably requested by Landlord or Holder to further effectuate and evidence such subordination of this Lease to any lien of the Encumbrance or to evidence the Holder's election that this Lease be prior and senior to the Encumbrance. Subject to the obligation of Holder to execute an Attornment Agreement pursuant to the provisions hereof, Tenant hereby attorns and agrees to attorn to the Holder and any person purchasing or otherwise acquiring the Premises at any sale or other proceeding or pursuant to the exercise of any other rights, powers or remedies under such Encumbrance, which obligation to attorn shall survive any foreclosure of any Encumbrance; and Tenant agrees within ten (10) business days after request of Holder or any such other person to execute an Attornment Agreement meeting the conditions set forth above and otherwise recognizing Holder or such other person as Landlord under this Lease and acknowledging that this Lease is and shall remain in full force and effect and binding upon Tenant notwithstanding any foreclosure of such Encumbrance. Tenant acknowledges that, as of the date of this Lease, the Property is subject to the lien of a deed of trust for the benefit of Wells Fargo Bank, National Association ("Wells"). Landlord shall use commercially reasonable efforts to cause Wells to execute an Attornment Agreement with Tenant meeting the conditions set forth above and otherwise in Wells' then existing commercially reasonable form of such document not later than the Commencement Date.

31. **Notices.** Every notice to be given by any party to any other party with respect hereto, shall be in writing and shall not be effective for any purpose unless the same shall be delivered to the addressee personally, by a reputable express delivery service, a recognized overnight air courier service, or United States certified mail, return receipt requested, addressed to the respective parties at the addresses set forth in section C.11. of the Information Sheet, or to such other address as either party may from time to time designate by notice to the other given in accordance with this Paragraph. All notices shall be effective (i) when delivered locally by hand or by a reputable express delivery service (ii) one business day after deposit with a recognized overnight air courier service or (iii) five business days after having been sent by certified mail, return receipt requested.

32. **Attorneys' Fees.** In the event Landlord engages an attorney to pursue the recovery of any Rent owed by Tenant hereunder (whether or not any action or legal proceeding is ultimately filed) or if either party brings any action or legal proceeding for damages for an alleged breach of any provision of this Lease, to recover Rent or other

sums due, to terminate the tenancy of the Premises or to enforce, protect or establish any term, condition or covenant of this Lease or right of either party, the prevailing party shall be entitled to recover as a part of such action or proceedings, or in a separate action brought for that purpose, reasonable attorneys' fees and costs, including expert witness fees (and without regard to whether or not such action or proceedings are pursued to judgment).

33. **Estoppel Certificates.** Tenant shall within ten (10) business days following written request by Landlord:

(i) Execute and deliver to Landlord any documents, including estoppel certificates, in a reasonable form prepared by Landlord (a) certifying the date of commencement of this Lease, (b) certifying that this Lease is unmodified and in full force and effect or, if modified, stating the nature of such modification and certifying that this Lease, as so modified, is in full force and effect, (c) stating the dates to which Rent and any other amounts payable hereunder have been paid and the amount of any unforfeited security deposit then held by Landlord, (d) certifying that no Defaults exist as of such date, or, if there are any Defaults, stating the nature of such Defaults, (e) acknowledging that there are not, to Tenant's knowledge, any uncured defaults on the part of Landlord, or, if there are uncured defaults on the part of the Landlord, stating the nature of such uncured defaults, (f) acknowledging that Tenant does not have any claim or right of offset against Landlord (or if Tenant does have any such claim or right of offset, the nature of such claim or right of offset), and (g) setting forth such other matters as may reasonably be requested by Landlord. Tenant's failure to deliver an estoppel certificate within ten (10) business days after delivery of Landlord's written request therefor 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 now no uncured defaults in Landlord's performance, (c) that no Rent has been paid in advance and no security deposit is held by Landlord, (d) that Tenant has no claims or rights of offset against Landlord, (e) that no Defaults then exist, and (f) that such other matters as were set forth in such estoppel certificate as prepared by Landlord are true and correct; provided further, that such failure shall constitute a breach of this Lease and, subject to the provisions of Section 29.A., Landlord's remedies shall be as specified in Section 29.B.

(ii) Deliver to Landlord the current financial statements of Tenant, and financial statements of the two (2) years prior to the current financial statements year, with an opinion of a certified public accountant, including a balance sheet and profit and loss statement for the most recent prior year, all prepared in accordance with generally accepted accounting principles consistently applied, provided, however, that Landlord shall not request the foregoing more than once during each calendar year of the Term. Landlord agrees to maintain any such statements in confidence other than to disclose them to the applicable lender or potential buyer who has requested them, or as may be required by law.

34. **Transfer of the Project by Landlord.** In the event of any conveyance of the Project or the Building and assignment by Landlord of this Lease, Landlord shall be and is hereby entirely released from all liability under any and all of its covenants and obligations contained in or derived from this Lease occurring or accruing after the date of the conveyance and assignment, and Tenant agrees to attorn to such transferee, except in the event of a Sale Lease-Back Transaction, in which event this Lease will remain in full force and effect as a sublease between Landlord and Tenant as contemplated in Paragraph 28. Notwithstanding anything to the contrary contained in this Lease, Landlord shall not be relieved of its obligations under this Lease unless and until any assignee of or the successor in interest to Landlord's interest in this Lease assumes in writing the obligations of Landlord occurring on and after the effective date of the transfer.

35. **Landlord's Right to Perform Tenant's Covenants.** If Tenant fails to make any payment or perform any other act on its part to be made or performed under this Lease, Landlord after fifteen (15) days' written notice may, but shall not be obligated to, and without waiving or releasing Tenant from any obligation of Tenant under this Lease, make such payment or perform such other act to the extent Landlord may deem desirable, and in connection therewith, pay expenses and employ counsel. All sums so paid by Landlord and all penalties, interest and costs in connection therewith shall be due and payable by Tenant on the next business day after Landlord's

delivery to Tenant of written notice of any such payment by Landlord, together with interest thereon at the Interest Rate from such date to the date of payment by Tenant to Landlord, plus collection costs and reasonable attorneys' fees. Landlord shall have the same rights and remedies for the nonpayment thereof as in the case of Default in the payment of Rent.

36. **Tenant's Remedy.** The obligations of Landlord under this Lease do not and shall not constitute personal obligations of Landlord or any of Landlord's Agents, and Tenant agrees that it shall look solely to the real estate that is the subject of this Lease, and the sales, rental, insurance and condemnation proceeds therefrom, and to no other assets of Landlord or Landlord's Agents for satisfaction of any liability that may now or hereafter arise in respect of this Lease and will not seek recourse against Landlord or Landlord's Agents or any of their personal assets for such satisfaction.

37. **Mortgagee Protection.** If Landlord defaults under this Lease, Tenant shall, if earlier requested by Landlord or any lender with respect to the Project, notify by registered or certified mail to any beneficiary of a deed of trust or mortgagee of a mortgage covering the Premises and offer such beneficiary or mortgagee a reasonable opportunity to cure the default, including time to obtain possession of the Premises by power of sale or a judicial foreclosure, if such should prove necessary to effect a cure.

38. **Brokers.** Landlord and Tenant warrant and represent for the benefit of the other that it has had no dealings with any real estate broker or agent in connection with the negotiation of this Lease, except for the broker(s) specified in section C.10. of the Information Sheet, and that it knows of no real estate broker or agent who is or might be entitled to a commission in connection with this Lease. Landlord shall pay any commission or other compensation owing to such specified broker(s) in section C.10. pursuant to their separate written agreement. Landlord and Tenant agree to defend, indemnify and hold the other and its Agents free and harmless from and against any and all liabilities or expenses, including reasonable attorneys' fees and costs, arising out of or in connection with claims made by any broker or individual not specified in section C.10. of the Information Sheet for commissions or fees resulting from Tenant's execution of this Lease.

39. **Acceptance.** Delivery of this Lease, duly executed by Tenant, constitutes an offer to lease the Premises, and under no circumstances shall such delivery be deemed to create an option or reservation to lease the Premises for the benefit of Tenant. This Lease shall only become effective and binding upon full execution hereof by Landlord and delivery of a signed copy to Tenant.

40. **Recording.** Neither party shall record this Lease nor a short form memorandum thereof.

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

42. **Parking.** Tenant shall have the right to park in the Project's parking facilities in common with Landlord's employees and the other tenants of the Building (except for those parking spaces that have been reserved for Landlord, other tenants of the Project, handicapped parking and certain parking spaces designated for Landlord's company vehicles and contractor vehicles) upon terms and conditions, as may from time to time be reasonably established by Landlord and in accordance with any parking control or monitoring devices from time to time installed or implemented by Landlord. Tenant shall not overburden the parking facilities and shall not use more than four (4) parking space per one thousand (1,000) rentable square feet of the Premises. Tenant also agrees to cooperate with Landlord and other tenants in the use of the parking facilities. Landlord reserves the right, in its discretion, to allocate and assign parking spaces among Tenant and the other tenants or to restrict the use of certain parking spaces for certain tenants and to install or otherwise implement parking control or monitoring devices for the parking facilities. Tenant shall establish and maintain during the Term hereof a program to encourage maximum use of public transportation by personnel of Tenant employed on the Premises, including without

limitation, the distribution to such employees of written materials explaining the convenience and availability of public transportation facilities adjacent or proximate to the Building, staggering working hours of employees, and encouraging use of such facilities, all at Tenant's sole reasonable cost and expense. Tenant agrees to comply with any lawful regulation or ordinance of the City of Menlo Park or the County of San Mateo respecting transportation management in those jurisdictions, related to the conduct of Tenant's business within the Premises.

43. **Use of Property Name Prohibited.** Tenant shall not employ the term "149 Commonwealth Drive" in the name or title of its business or occupation without Landlord's prior written consent.

44. **Interest.** Any Rent or other amount not paid by Tenant to Landlord within five (5) days after the date otherwise due hereunder shall bear interest at the lesser of (i) the rate of eight percent (8%) per annum or (ii) the maximum rate permitted by applicable law (with such rate of interest sometimes referred to herein as the "Interest Rate") from the date due until paid.

45. **Quitclaim.**

Upon any termination of this Lease, Tenant, at Landlord's request, shall execute, have acknowledged and deliver to Landlord a quitclaim deed for all Tenant's interest in the Project.

46. **Security.**

A. **Landlord Reservations.** Landlord shall have the following rights:

(i) To change the name, address or title of the Project or Building upon not less than ninety (90) days prior written notice;

(ii) To, at Tenant's expense, provide and install Building standard graphics on the door of the Premises and such portions of the Outside Area as Landlord shall reasonably deem appropriate;

(iii) To permit any tenant the exclusive right to conduct any business as long as such exclusive right does not conflict with any rights expressly given to Tenant herein;

(iv) To place such signs, notices or displays as Landlord reasonably deems necessary or advisable upon the roof, exterior of the Building or the Project or on pole signs in the Outside Area.

B. **Tenant Prohibitions.** Tenant shall not:

(i) Use a representation (photographic or otherwise) of the Building or the Project or their name(s) in connection with Tenant's business; or

(ii) Permit anyone to go upon the roof of the Building.

C. **Security Regulations.**

(i) **Security Access Badges.** One active badge, and only one, will be issued to each employee, agent, consultant, contractor, or vendor of Tenant at any given time. All lost or stolen badges must be reported immediately (and, in any event, prior to 5:00 p.m., Pacific Time, on the day lost or stolen) to Landlord to be canceled by Landlord's Security Administrator. Tenant shall inform Landlord immediately (and, in any event, prior to 5:00 p.m., Pacific Time, on the day of such termination) upon Tenant's termination of any employee of Tenant, so that Landlord may cause such employee's badge to be canceled by Landlord's Security Administrator.

(ii) **Security Guard Tours.** Periodic, routine tours of the space occupied by Tenant will be conducted by Landlord's Security Guard Contractor from 4:30 p.m. to 8:30 a.m. during normal work days and 24 hours a day on Saturdays, Sundays and holidays observed by Landlord. The purpose of these tours will be to observe and address abnormal conditions such as, but not limited to: (a) unlocked exterior and interior doors, (b)

extreme temperature conditions, (c) unattended coffee pots in the 'on' position, and (d) unbadged persons on the premises,

(iii) **Emergency Contact List.** Tenant agrees to provide a current "emergency contact list" for Landlord's Security Department in the event of an emergency in the space occupied by Tenant.

(iv) **Miscellaneous Security.** Tenant agrees to assist Landlord in maintaining security for the entire Project. This includes but is not limited to: (a) ensuring that all employees, consultants, contractors, vendors, and agents are appropriately badged and/or escorted, (b) returning badges of terminated employees to Landlord's Security Administrator to be deleted from the security badge system, (c) notifying Landlord's Security Administrator immediately of lost or missing badges, (d) ensuring that security access badges are only used by those authorized persons to whom they are issued and that badges are not loaned to anyone under any circumstances, and (e) instructing all Tenant's Agents to maintain in confidence any sensitive information overheard from any employees or representatives of Landlord or any other tenant in the Building while in the Outside Area. Tenant acknowledges and agrees that the security services provided herein are not a guaranty against criminal activity and that Landlord assumes no liability in the event of any breach of such security measures.

(v) **Costs of Services**. All costs of services provided by Landlord under this Paragraph 46 shall be included in Operating Expenses under Paragraph 15.B.

47. **Right of First Refusal.**

At anytime during the first eighteen months of the initial Lease Term, if Landlord receives a bona fide offer for the lease of all or any portion of the approximately 2,928 rentable square feet space located adjacent to the Premises as shown in Exhibit A-1 (the "Right of First Refusal Space") which Landlord is willing to accept, Landlord will give Tenant the right of first refusal to lease the entire Right of First Refusal Space at the rental rate and the terms and conditions of the bona fide offer. The right of first refusal will be extended by Landlord giving Tenant written notice of the particular offer received by Landlord, together with a summary of the offer, requiring Tenant to accept the offer and to sign an appropriate amendment to this Lease subjecting the Right of First Refusal Space to this Lease at the rental rate and the terms set forth in the offer, within three (3) business days after the delivery of such notice to Tenant. If Tenant does not deliver to Landlord Tenant's Acceptance Notice within the applicable 3-business day period, Landlord shall have the right to lease such space to any person(s) other than Tenant on any terms Landlord desires and without offering or further offering such space to Tenant, and Tenant shall have no further right of first refusal to lease such space pursuant to this Paragraph 47. Any Right of First Refusal Space leased by Tenant will be added to the Premises as of the date provided in the offer, and the rent will be adjusted to reflect the rent to be paid in accordance with the offer. Tenant agrees to execute amendments to this Lease to reflect additions to the Premises resulting from the exercise of the right of first refusal. Tenant's lease of any Right of First Refusal Space pursuant to this right of first refusal will be on all the terms and conditions set forth in this Lease except to the extent such terms are inconsistent with the terms and conditions of the offer, in which case the terms and conditions of the offer shall be effective. This right of first refusal to lease the Right of First Refusal Space is personal to Tenant or any Permitted Transferee, and is not transferable. Notwithstanding the foregoing, Tenant shall not have the right of first refusal under this Paragraph 47 if Tenant is in Default under this Lease at the time such space becomes available (and Landlord shall have no obligation to deliver to Tenant any Landlord's Notice).

48. **Ownership of Furniture and Fixtures.**

All furniture, cubicles, telephones and other items supplied to Tenant by Landlord during the term of this Lease shall remain the property of the Landlord at the end of the Lease and shall be returned in good condition, normal wear and tear, acts of God and casualty damage excepted.

49. **General.**

A. **Captions.** The captions and headings used in this Lease are for the purpose of convenience only and shall not be construed to limit or extend the meaning of any part of this Lease.

B. **Executed Copy.** Any fully executed copy of this Lease shall be deemed an original for all purposes.

C. **Time.** Time is of the essence for the performance and observance of each term, covenant and condition of this Lease.

D. **Severability.** If one or more of the provisions contained herein, except for the payment of Rent, is for any reason held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality, or unenforceability shall not affect any other provision of this Lease, but this Lease shall be construed as if such invalid, illegal or unenforceable provision had not been contained herein.

E. **Choice of Law.** This Lease shall be construed and enforced in accordance with the laws of the State of California. The language in all parts of this Lease shall in all cases be construed as a whole according to its fair meaning and not strictly for or against either Landlord or Tenant.

F. **Interpretation.** When the context of this Lease requires, the neuter gender includes the masculine, the feminine, a partnership or corporation or joint venture, and the singular includes the plural. The term "including" shall be deemed to mean "including, but not by way of limitation" and the term "or" has the inclusive meaning represented by the term "and/or."

G. **No Effect of Remeasurement**. The statements of rentable square footage set forth in this Lease are for the convenience of the parties, and no adjustment shall be made to rental amounts, load factors or Tenant's Property Percentage if such square footage is later shown to be inaccurate.

H. **Binding Effect.** The covenants and agreement contained in this Lease shall be binding on the parties hereto and on their respective successors and assigns to the extent this Lease is assignable.

I. **Waiver.** The waiver by Landlord or Tenant of any breach of any term, covenant or condition of this Lease shall not be deemed to be a waiver of such provision or any subsequent breach of the same or any other term, covenant or condition of this Lease. The subsequent acceptance of Rent hereunder by Landlord shall not be deemed to be a waiver of any preceding breach at the time of acceptance of such payment. No term, covenant or condition of this Lease shall be deemed to have been waived by Landlord or Tenant unless the waiver is in writing signed by Landlord or Tenant, as applicable.

J. **Entire Agreement.** This Lease, including the Information Sheet, is the entire agreement between the parties, and there are no agreements or representations between the parties except as expressed herein. Except as otherwise provided herein, no subsequent change or addition to this Lease shall be binding unless in writing and signed by the parties hereto.

K. **Authority.** If Tenant is an entity, each individual executing this Lease on behalf of such entity, represents and warrants that he or she is duly authorized to execute and deliver this Lease on behalf of the entity in accordance with its governing documents, and that this Lease is binding upon the entity in accordance with its terms. Landlord, at its option, may require a copy of such written authorization to enter this Lease. The failure of Tenant to deliver the same to Landlord within fifteen (15) days of Landlord's request therefor shall be deemed a Default under this Lease.

L. **Exhibits.** All exhibits, amendments, riders and addenda attached hereto are hereby incorporated herein and made a part hereof.

M. Receptionist. During the Term, Landlord shall provide receptionist services for the express purposes of greeting, signing, and announcing visitors only in the lobby of the Building during normal business hours.

N. **Counterparts**. This Lease may be executed in counterparts, each of which shall be an original, but all counterparts shall constitute one (1) instrument.

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THIS LEASE, executed as of the date(s) set forth below, is effective as of the Effective Date set forth in section B of the Information Sheet.

Dated May 23, 2005

TENANT:

Corcept Therapeutics Incorporated, a Delaware corporation

By: /s/ Fred Kurland

Its: Chief Financial Officer

Dated May 23, 2005

LANDLORD:

EXPONENT REALTY, LLC,
a Delaware limited liability company

By: Exponent, Inc., a Delaware corporation, sole member and manager

By: /s/ Michael R. Gaulke
Michael R. Gaulke, President and Chief Executive Officer

EXHIBIT A
PREMISES

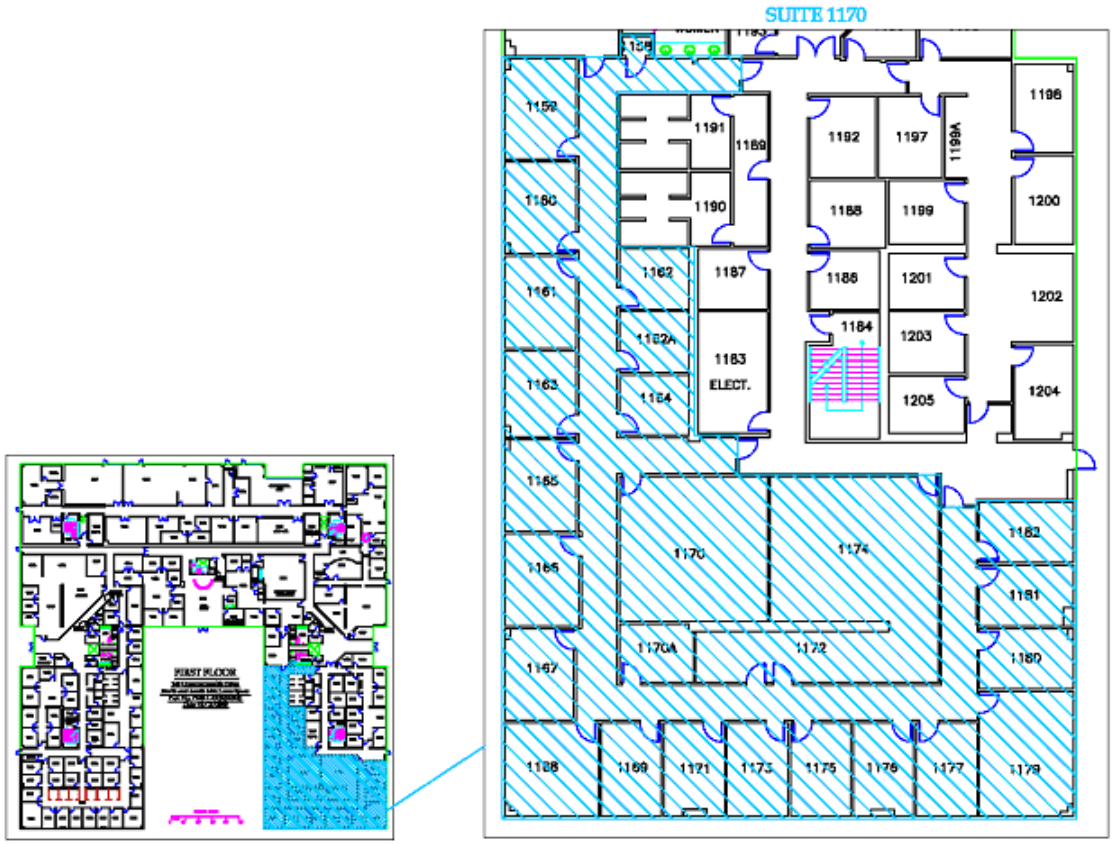

EXHIBIT A-1
RIGHT OF FIRST REFUSAL SPACE

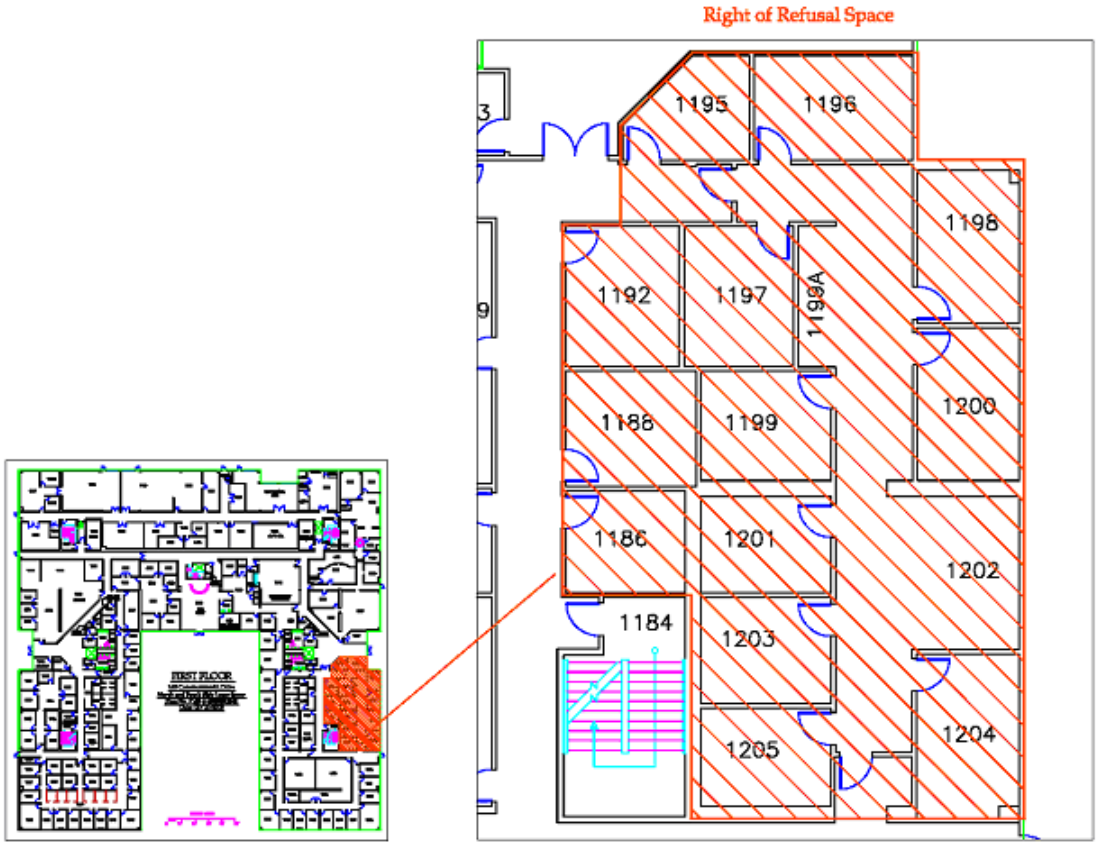

EXHIBIT B

PROPERTY

That certain land, together with all improvements thereon and all appurtenances thereto located in the City of Menlo Park, County of San Mateo, State of California, described as follows:

PARCEL ONE:

PARCEL "A", AS DESIGNATED ON THAT CERTAIN MAP ENTITLED, "PARCEL MAP, RESUBDIVISION OF PARCEL 1 (VOL. 27 P.M., PG. 39) AND PARCEL ONE (VOL. 33 P.M., PGS. 45 & 46) BOHANNON INDUSTRIAL PARK, MENLO PARK, SAN MATEO COUNTY, CALIFORNIA", WHICH MAP WAS FILED FEBRUARY 28, 1986, IN VOLUME 57 OF PARCEL MAPS, AT PAGES 13 AND 14 IN THE OFFICE OF THE RECORDER OF THE COUNTY OF SAN MATEO.

PARCEL TWO:

AN EASEMENT FOR THE CONSTRUCTION, MAINTENANCE AND REPAIR OF A STORM SEWER OVER A 10 – FOOT WIDE STRIP LYING EQUALLY ON BOTH SIDES OF THE FOLLOWING DESCRIBED CENTERLINE:

BEGINNING AT A POINT ON THE NORTHWESTERLY LINE OF PARCEL "B", AS SAID PARCEL IS DESIGNATED ON THAT CERTAIN MAP ENTITLED, "PARCEL MAP, RESUBDIVISION OF PARCEL 1 (VOL. 27 P.M., PG. 39) AND PARCEL ONE (VOL. 33 P.M., PGS. 45 & 46) BOHANNON INDUSTRIAL PARK, MENLO PARK, SAN MATEO COUNTY, CALIFORNIA", WHICH MAP WAS FILED FEBRUARY 28, 1986, IN VOLUME 57 OF PARCEL MAPS, AT PAGES 13 AND 14, IN THE OFFICE OF THE RECORDER OF THE COUNTY OF SAN MATEO, SAID POINT OF BEGINNING BEARING SOUTH 36º 17' 50" WEST 46.00 FEET FROM THE NORTHERLY CORNER OF SAID PARCEL "B"; THENCE FROM SAID POINT OF BEGINNING SOUTH 78º 45' EAST 89.00 FEET; THENCE NORTH 1º 48' 12" WEST 25.27 FEET TO A POINT ON THE NORTHEASTERLY LINE OF SAID PARCEL "B" AND THE TERMINUS OF SAID EASEMENT, SAID POINT BEARING SOUTH 63º 47' EAST 66.06 FEET FROM THE NORTHERLY CORNER OF SAID PARCEL "B".

SAID EASEMENT SO GRANTED IS TO BE APPURTENANT TO AND FOR THE BENEFIT AND USE OF THE LANDS OF THE GRANTEE AND ANY SUBSEQUENT SUBDIVISIONS THEREOF.

ASSESSOR'S PARCEL NO. 055-243-230 JOINT PLANT NO. 055-024-000-73A

EXHIBIT C
TENANT IMPROVEMENTS

WORK LETTER

Landlord and Tenant agree as follows:

1. SCOPE OF WORK — At Landlord's sole cost and expense, Landlord will complete the following tenant improvements ("Tenant Improvements" or "Tenant Improvement Work"):

1. Install new carpet in the Premises. Tenant will have the ability to select color/grade from Landlord's standard carpet selections.
2. Paint the Premises in a mutually acceptable satin color finish.
   3. Close off wall in room 1174.
4. Close off hallway door leading into Exponent occupied space adjacent to room 1159, by use of double cylinder deadbolt.
5. Install badge access readers at the Tenant's three (3) internal entry doors into the Premises.
6. Install vertical side light windows for each office.
7. Install clerestory windows on the east wall of room 1174, if building codes permit, and on the east and north wall of room 1170.

Tenant acknowledges that items #6 and 7 above have a long lead-time and may not be installed by June 30, 2005, and Tenant further agree that this does not constitute a Landlord delay.

(b) Completion of the Tenant Improvement. All necessary construction shall be commenced promptly and shall be substantially completed in accordance with the Scope of Work described above, provided, however, that the time for substantial completion shall be extended for additional periods of time equal to the time lost by Landlord or Landlord's contractors, subcontractors or suppliers due to Tenant Delays, strikes or other labor troubles, governmental restrictions and limitations, scarcity, unavailability or delays in obtaining fuel, labor or material, war or other national emergency, accidents, floods or defective materials, fire damage or other casualties, weather conditions or any cause similar or dissimilar to the foregoing beyond the reasonable control of Landlord or Landlord's contractors, subcontractors, or suppliers.

2. Tenant Delays.

Each of the following shall constitute a “Tenant Delay” (collectively, “Tenant Delays”):

(a) Tenant’s failure to furnish approvals or requests for modification within three (3) business days after receipt from Landlord.

(b) Delays in furnishing materials, services, supplies, labor or components caused by the Tenant or Tenant’s preferred vendor.

(c) Delays caused by the performance of any work or activity in the Premises by Tenant or any of its employees, agents, or contractors.

3. Performance of Tenant Improvements.

Landlord shall supervise, oversee, schedule and coordinate the construction of the Tenant Improvements by Landlord’s contractor. Landlord may (a) make substitutions of material or components of equivalent grade and quality when and if any specified material or component shall not be readily or reasonably available, and (b) make changes to the work necessitated by conditions met in the course of construction, provided that if any change noted in (a) or (b) above is material and substantial in nature, then Tenant’s approval of such change shall first be obtained (which approval shall not be unreasonably withheld or delayed.

4. Landlord’s Contractor.

(a) The Tenant Improvement Work is to be performed by a licensed contractor selected by Landlord.

(b) With respect to the Tenant Improvements, the term “Substantial Completion” or “Substantially Complete” shall mean the date when the following has occurred: the Tenant Improvements have been completed to the state that will allow Tenant to use the Premises for its intended purposes, without material interference to or impairment of Tenant’s business activities by reason of any item of work remaining to be done to effect full completion of the Tenant Improvements.

5. Estimated Commencement Date. Landlord shall make commercially reasonable efforts to cause the Substantial Completion of the Tenant Improvements by June 20, 2005. Tenant agrees to work in good faith with Landlord to cause Substantial Completion of the Tenant Improvement Work by July 1, 2005, excluding, however, items 6 and 7 in Section 1 of the Work Letter.

6. Tenant, at Tenant’s sole cost and expense, shall be allowed to install, PRIOR TO THE SUBSTANTIAL COMPLETION DATE, any and all data, telecommunications, and security systems including all wiring, so long as the installation does not delay or unreasonably interfere with Landlord’s contractors. All work done by

Tenant shall be performed by Landlord's contractor or contractors approved by Landlord, which approval shall not be unreasonably withheld, conditioned or delayed. Tenant may install Tenant's furniture and fixtures prior to the Commencement Date so long as Tenant does not unreasonably interfere with Landlord's contractors. Tenant and Tenant's contractors must provide certificate of insurance prior to first entry to Premises.

7. The Tenant Improvements shall be constructed in accordance with the Approved Plans and Specifications attached hereto as Exhibit C-1, subject to any changes as may be agreed to by Landlord and Tenant, and in compliance with all applicable law, in a good and workmanlike manner, free of defects and using materials and equipment of good quality. Tenant shall have the right to enter the Premises and inspect the construction of the Tenant Improvements. prior to the Commencement Date, Tenant shall have the right to submit a written "punch list" to Landlord, setting forth any defective item of construction, and Landlord shall promptly cause such items to be corrected. Notwithstanding anything to the contrary contained herein or in the Lease, Tenant's acceptance of the Premises or the submission of a "punch list" with respect to the Tenant Improvements shall not be deemed a waiver of Tenant's right to have defects in the Tenant Improvements repaired at no cost to Tenant. Tenant shall give notice to Landlord whenever any such defect becomes reasonably apparent, and Landlord shall repair such defect as soon as practicable.

EXHIBIT C-1
APPROVED PLANS AND SPECIFICATIONS

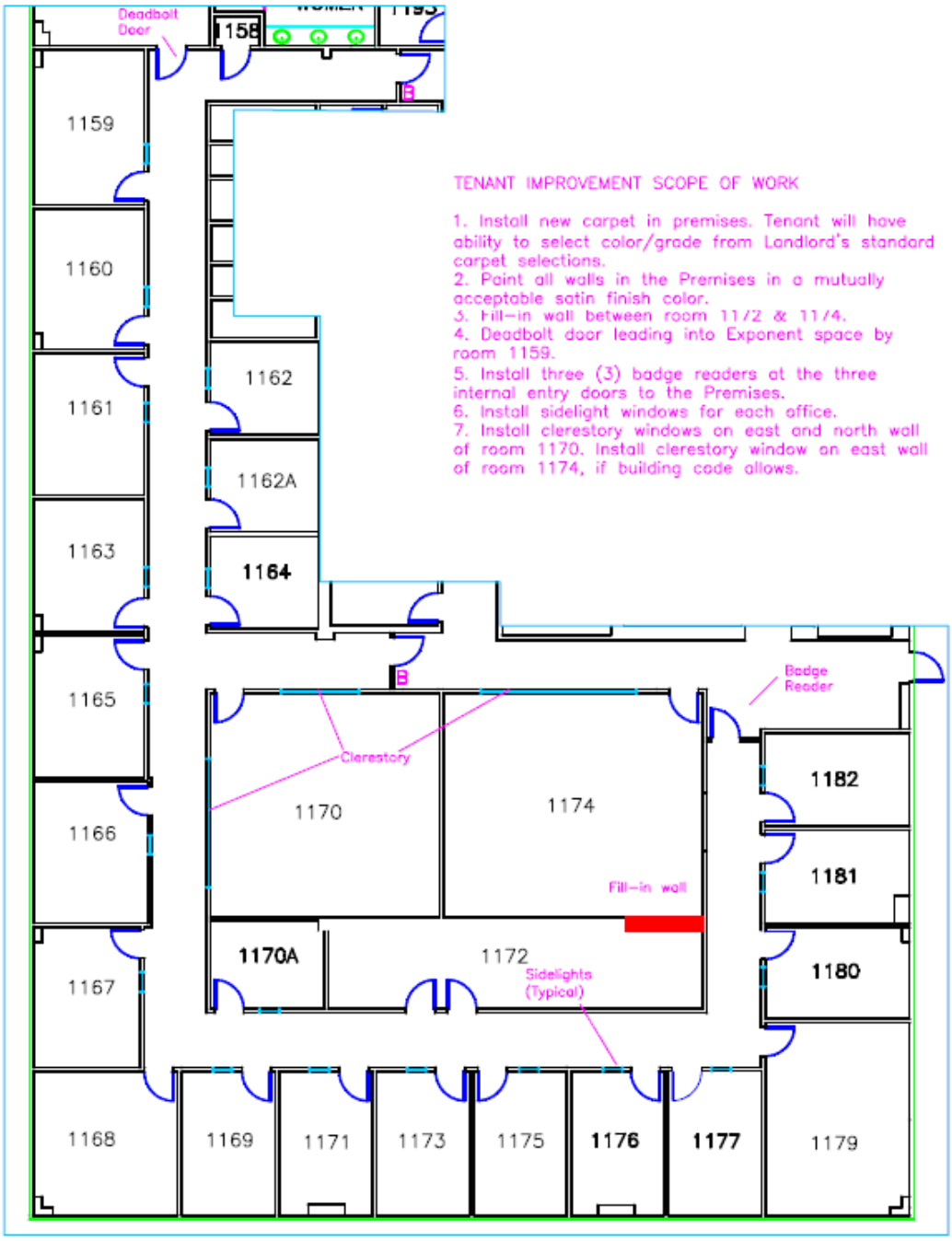

EXHIBIT D

COMMENCEMENT DATE MEMORANDUM

LANDLORD: EXPONENT REALTY, LLC, a Delaware limited liability company

TENANT: Corcept Therapeutics Incorporated, a Delaware corporation

LEASE DATE: _____

PREMISES: 149 Commonwealth Drive, Suite 1170,
Menlo Park, California 94025

Pursuant to Paragraph 4.C. of the above-referenced Lease, the Commencement Date is hereby established as ___and the Expiration Date is established as ___.

LANDLORD:

EXPONENT REALTY, LLC,
a Delaware limited liability company

By: Exponent, Inc., a Delaware corporation, its sole member and manager

By: _____
Michael R. Gaulke, President and Chief Executive Officer

TENANT:

Corcept Therapeutics Incorporated,
a Delaware corporation

By: _____

_____

Its: _____

EXHIBIT E

RULES AND REGULATIONS

1. No sign, placard, advertisement, name or notice shall be installed or displayed on any part of the outside or the inside of the Building without the prior written consent of Landlord. Landlord shall have the right to remove, at Tenant's expense and without notice, any sign installed or displayed in violation of this rule. All approved signs or lettering on doors and walls shall be printed, painted, affixed or inscribed at the expense of Tenant by a person chosen by Landlord.

2. Except as consented to in writing by Landlord or in accordance with Building standard improvements, no draperies, curtains, blinds, shades, screens or other devices shall be hung at or used in connection with any window or exterior door or doors of the Premises. No awning shall be permitted on any part of the Premises. Tenant shall not place anything against or near glass partitions, doors or windows, which may appear unsightly from outside the Premises.

3. Tenant shall not obstruct any sidewalks, halls, lobbies, passages, exits, entrances, elevators or stairways of the Building. No tenant and no employee or invitee of any tenant shall go upon the roof of the Building or make any roof or terrace penetrations. Tenant shall not allow anything to be placed on the outside terraces or balconies without the prior written consent of Landlord.

4. All cleaning and janitorial services for the Building shall be provided exclusively through Landlord, and, except with the written consent of Landlord, no person or persons other than those approved by Landlord shall be employed by Tenant or permitted to enter the Building for the purpose of cleaning. Tenant shall not cause any unnecessary labor by carelessness or indifference to the good order and cleanliness of the Premises. Landlord shall not in any way be responsible to any Tenant for any loss of property on the Premises, however occurring, or for any damage to any Tenant's property by the janitor or any other employee or person.

5. Landlord will furnish Tenant, free of charge, with one (1) key to all existing locks on interior doors in the Premises. Landlord will impose a reasonable charge per Landlord's published price list for all additional keys, new locksets, and any other locksmithing services. Tenant shall not make or have made additional keys without Landlord's prior written consent, and Tenant shall not alter any lock or install a new additional lock or bolt on any door of its Premises without Landlord's prior written consent. Tenant shall deliver to Landlord, upon the termination of its tenancy, the keys to all locks for doors on the Premises, and in the event of loss of any keys furnished by Landlord, shall pay Landlord therefor.

6. If Tenant requires telegraphic, telephonic, burglar alarm or similar services, it shall first obtain, and comply with, Landlord's instructions for their installation.

7. The elevators shall be available for use by all tenants in the Building, subject to reasonable scheduling as Landlord in its discretion shall deem appropriate. No equipment, materials, furniture, packages, supplies, merchandise or other property will be received in the Building or carried in the elevators except between the hours, and in the manner and in the elevators as may be designated by Landlord.

8. Tenant shall not place a load upon any floor of the Premises which exceeds the maximum load per square foot which the floor was designed to carry and which is allowed by law. Tenant's business machines and mechanical equipment which cause noise or vibration which may be transmitted to the structure of the Building or to any space therein, and which is objectionable to Landlord or to any tenants in the Building, shall be placed and maintained by Tenant, at Tenant's expense, on vibration eliminators or other devices sufficient to eliminate noise or vibration.

9. Tenant shall not use or keep on the Premises any toxic or hazardous materials or any kerosene, gasoline or inflammable or combustible fluid or material other than those limited quantities necessary for the operation or maintenance of office equipment. Tenant shall not use or permit to be used in the Premises any foul or noxious gas or substance, or permit or allow the Premises to be occupied or used in a manner offensive or objectionable to Landlord or other occupants of the Building by reason of noise, odors or vibrations.

10. No animal, except service and assistance dogs when in the company of their master, may be brought into or kept in the Building.

11. Tenant shall not use any method of heating or air-conditioning other than that supplied by Landlord, unless Tenant receives the prior written consent of Landlord.

12. Tenant shall cooperate fully with Landlord to assure the most effective operation of the Building's heating and air-conditioning and to comply with any governmental energy-saving rules, laws or regulations of which Tenant has actual notice.

13. Landlord reserves the right, exercisable without notice and without liability to Tenant, to change the name and street address of the Building.

14. Landlord reserves the right to exclude any person from the Building between the hours of 6 p.m. and 7 a.m. the following day, or any other hours as may be established from time to time by Landlord, and on Saturdays, Sundays and legal holidays, unless that person is known to the person or employee in charge of the Building and has a pass or is properly identified. Tenant shall be responsible for all persons for whom it requests passes and shall be liable to Landlord for all acts

of those persons. Landlord shall not be liable for damages for any error in admitting or excluding any person from the Building. Landlord reserves the right to prevent access to the Building by closing the doors or by other appropriate action in case of invasion, mob, riot, public excitement or other commotion. Notwithstanding anything to the contrary contained in the Lease or these Rules and Regulations, Tenant shall have access to the Premises twenty-four hours per day, seven days per week.

15. Tenant shall close and lock the doors of its Premises, shut off all water faucets or other water apparatus and turn off all lights and other equipment which is not required to be continuously run. Tenant shall be responsible for any damage or injuries sustained by other tenants or occupants of the Building or Landlord for noncompliance with this Rule.

16. The toilet rooms, toilets, urinals, showers, 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 placed therein. The expense of any breakage, stoppage or damage resulting from any violation of this rule shall be borne by the tenant who, or whose employees or invitees, shall have caused it.

17. Tenant shall not install any radio or television antenna, loudspeaker or other device on the roof or exterior walls of the Building. Tenant shall not interfere with radio or television broadcasting or reception from or in the Building or elsewhere.

18. Tenant shall not cut or bore holes for wires in the partitions, woodwork or plaster of the Premises. Tenant shall not affix any floor covering to the floor of the Premises in any manner except as approved by Landlord. Tenant shall repair, or be responsible for the cost of repair of any damage resulting from noncompliance with this Rule.

19. Tenant shall not install, maintain or operate upon the Premises any vending machine without the prior written consent of Landlord.

20. Canvassing, soliciting and distributing handbills or any other written material and peddling in the Building are prohibited, and each tenant shall cooperate to prevent these activities.

21. Landlord reserves the right to exclude or expel from the Building any person who, in Landlord’s judgment, is intoxicated or under the influence of liquor or drugs or who is in violation of any of the Rules and Regulations of the Building.

22. Tenant shall store all its trash and garbage within its Premises. Tenant shall not place in any trash box or receptacle any material which cannot be disposed of in the ordinary and customary manner of trash and garbage disposal within the

Building. All garbage and refuse disposal shall be made in accordance with directions issued from time to time by Landlord.

23. Use by Tenant of Underwriters' Laboratory approved equipment for brewing coffee, tea, hot chocolate and similar beverages and microwaving food shall be permitted, provided that the equipment and use is in accordance with all applicable federal, state, county and city laws, codes, ordinances, rules and regulations.

24. Tenant shall not use the name of the Building in connection with or in promoting or advertising the business of Tenant, except as Tenant's address, without the written consent of Landlord.

25. Tenant shall comply with all safety, fire protection and evacuation procedures and regulations established by Landlord or any governmental agency. Tenant shall be responsible for any increased insurance premiums attributable to Tenant's use of the Premises, Building or Property.

26. Tenant assumes any and all responsibility for protecting its Premises from theft and robbery, which responsibility includes keeping doors locked and other means of entry to the Premises closed.

27. Tenant shall not use the Premises, or permit anything to be done on, in or about the Premises, which may result in an increase to Landlord in the cost of insurance maintained by Landlord on the Project.

28. Tenant's requests for assistance will be attended to only upon appropriate application to Landlord. Employees of Landlord shall not perform any work or do anything outside of their regular duties unless under special instructions from Landlord, and no employee of Landlord will admit any person (Tenant or otherwise) to any office without specific instructions from Landlord.

29. Tenant shall comply with all parking monitoring controls or devices from time to time installed or otherwise implemented by Landlord. Tenant shall not park its vehicles in any parking areas designated by Landlord as areas for parking by visitors to the Building or other reserved parking spaces. Tenant shall not leave vehicles in the Building parking areas overnight without the prior written consent of Landlord's manager for the Property, nor park any vehicles in the Building parking areas other than automobiles, motorcycles, motor driven or non-motor driven bicycles or four-wheeled trucks. Tenant, its agents, employees and invitees shall not park any one (1) vehicle in more than one (1) parking space.

30. The scheduling and manner of all Tenant move-ins and move-outs shall be subject to the discretion and approval of Landlord. Landlord shall have the right to approve or disapprove the movers or moving company employed by Tenant, and Tenant shall cause the movers to use only the entry doors and elevators designated by Landlord. If Tenant's movers damage the elevator or any other part of the

Property, Tenant shall pay to Landlord the amounts required to repair the damage. Tenant shall maintain effective security control at all access points to and from the Building to ensure that moving personnel entering and leaving the Building do not commit theft.

31. Landlord may waive any one or more of these Rules and Regulations for the benefit of Tenant or any other tenant, but no waiver by Landlord shall be construed as a waiver of the Rules and Regulations in favor of Tenant or any other tenant, nor prevent Landlord from thereafter enforcing the Rules and Regulations against any or all of the tenants of the Building.

32. These 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 terms, covenants, agreements and conditions of any lease of premises in the Building.

33. Landlord reserves the right to make other reasonable Rules and Regulations as, in its judgment, may from time to time be needed for safety and security, for care and cleanliness of the Building and for the preservation of good order therein. Tenant agrees to abide by all Rules and Regulations hereinabove stated and any additional rules and regulations which are adopted.

34. Tenant shall be responsible for the observance of all of the foregoing rules by Tenant’s employees, agents, clients, customers, invitees and guests.

35. Where Landlord’s consent is required by these Rules and Regulations, Landlord’s consent shall not be unreasonable withheld or delayed. Notwithstanding anything to the contrary contained in the Lease or herein, Tenant shall not be required to comply with any rule or regulation unless the same applies non-discriminatorily to all occupants of the Project, and does not unreasonably interfere with Tenant’s use of the Premises or Tenant’s parking rights.

EXHIBIT F

Building Location: 149 Commonwealth Drive

ADDITIONAL SERVICES:

At the request of Tenant, Landlord may provide additional services such as, but not limited to, shipping/receiving services, mail services, furniture moves, moving and miscellaneous facilities services.

These services will be provided at a mutually agreed upon price and may be canceled by either party with thirty (30) days written notice.

CAFETERIA:

Tenant may use Landlord's cafeteria with the following understandings:

- Tenant employees will use a predetermined route to access the Landlord's cafeteria. This route will be agreed upon mutually by Tenant and Landlord.
- Catering is available through Landlord's cafeteria at the published prices at the time of service.
- In the event Tenant requires additional services and/or different methods of billing, it will be reviewed and mutually agreed upon by Tenant and Landlord prior to implementation.

KITCHENS/COFFEE STATIONS:

Tenant will be allowed to utilize the kitchens, coffee and first aid stations located adjacent to their space at a cost of $7.50 per employee, full time consultant or contractor per month.

CONFERENCE ROOMS:

Tenant will have the option to use Landlord's Silicon Valley (#1146), Bellevue (#2029) and Boston (#2026) conference rooms. Usage is based upon a first come first serve basis at no additional charge to Tenant. Reservations will not be accepted more than seven (7) days in advance of the date requested and will not be accepted for periods of more than eight (8) consecutive hours without prior approval of Landlord.

COPY CENTER:

Tenant will have the option to use the Landlord Copy Center and withdraw supplies at Landlord's published prices at the time of service.

FURNITURE:

Additional furniture is available for rent to Tenant by Landlord at the monthly pricing listed below. All furniture rented to Tenant by Landlord will remain the property of Landlord at the end of the Lease Period and will be accepted in as-is condition by Landlord at no additional charge to Tenant.

desks	$25.00 each/per month
bookcases	$10.00 each/per month
side chairs	$15.00 each/per month
desk chairs	$20.00 each/per month
standard file cabinets	$10.00 each/per month
tables	$10.00 each/per month
modular furniture	$75.00 per workstation/per month

Additional miscellaneous furniture may be available for rental at a mutually agreed upon price.

Tenant may purchase new furniture from Landlord's supplier at Landlord's cost plus five percent (5%) mark-up.

PIRL/VCOM:

Tenant will have the option to use the Landlord's PIRL and VCOM services at Landlord's commercial rates in effect at the time of service.

OFFICE NAME TAGS:

Office name tags, if required, will be the responsibility and at the expense of Tenant.

SECURITY:

Security Access Badges: Landlord will issue one (1) security access badge to each employee of Tenant at no charge. If any badges issued to Tenant employees are not returned upon separation from Tenant, Tenant will be charged $15.00 per badge for each badge that is not returned.

Locks: The locks on corridor doors in the leased space occupied by Tenant will be re-keyed initially by Landlord at no charge. One key for each door will be provided to Tenant at no charge. Thereafter, all re-keying of locks, making of

keys, and any additional locksets required and not already in existence will be invoiced monthly to Tenant at Landlord’s published price in effect at the time of service. All locksets must be keyed to Landlord master key system and Tenant shall not change, alter, or modify any key or locksets at anytime without Landlord’s prior approval.

ANNUAL REVIEW OF PRICING:

The pricing, charges and/or mark-up applied to services provided to Tenant by Landlord will be reviewed annually to determine if Landlord’s costs of providing the aforementioned services have increased. In the event said costs have increased, the percent of increase will be passed along to Tenant.

Exhibit 31.1

CERTIFICATION

I, Joseph K. Belanoff, M.D., certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the period ended June 30, 2005 of Corcept Therapeutics Incorporated;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) 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) [Paragraph omitted pursuant to SEC Release 33-8238];

   (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 officers 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 function):

   (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.

/s/ JOSEPH K. BELANOFF

Joseph K. Belanoff, M.D.
Chief Executive Officer
August 11, 2005

Exhibit 31.2

CERTIFICATION

I, Fred Kurland, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the period ended June 30, 2005 of Corcept Therapeutics Incorporated;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) 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) [Paragraph omitted pursuant to SEC Release 33-8238];

   (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

   (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 controls over financial reporting.

/s/ Fred Kurland

Fred Kurland
Chief Financial Officer
August 11, 2005

Exhibit 32.1

Corcept Therapeutics Incorporated

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

In connection with the Quarterly Report of Corcept Therapeutics Incorporated (the "Company") on Form 10-Q for the quarter ended June 30, 2005, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Joseph K. Belanoff, M.D., Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ JOSEPH K. BELANOFF

Joseph K. Belanoff, M.D.
Chief Executive Officer
August 11, 2005

Exhibit 32.2

Corcept Therapeutics Incorporated

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

In connection with the Quarterly Report of Corcept Therapeutics Incorporated (the "Company") on Form 10-Q for the quarter ended June 30, 2005, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Fred Kurland, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Fred Kurland

Fred Kurland
Chief Financial Officer
August 11, 2005