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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2011

OR

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

For the transition period from _____ to _____

Commission file number: 001-34637

ANTHERA PHARMACEUTICALS, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**20-1852016**
(State or Other Jurisdiction of Incorporation or Organization)	*(I.R.S. Employer Identification No.)*
25801 Industrial Boulevard, Suite B **Hayward, California**	**94545**
(Address of Principal Executive Offices)	*(Zip Code)*

(510) 856-5600
(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☐

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

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

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

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

As of May 4, 2011, the number of outstanding shares of the registrant's common stock, par value $0.001 per share, was 32,974,267.

ANTHERA PHARMACEUTICALS, INC.

FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2011

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PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ANTHERA PHARMACEUTICALS, INC
(A Development Stage Company)

CONDENSED BALANCE SHEETS
(unaudited)

	March 31, 2011	December 31, 2010
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 66,557,789	$ 40,029,972
Short term investments	11,982,185	23,350,922
Prepaid expenses and other current assets	1,231,693	1,864,883
Total current assets	79,771,667	65,245,777
Property and equipment — net	1,325,478	17,285
Debt issuance costs	348,230	—
TOTAL	$ 81,445,375	$ 65,263,062
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
CURRENT LIABILITIES:		
Accounts payable	$ 7,664,486	$ 3,791,693
Accrued clinical studies	8,159,476	3,136,786
Accrued liabilities	475,473	467,817
Accrued payroll and related costs	471,276	609,086
Total current liabilities	16,770,711	8,005,382
Notes payable — net of discount	23,719,801	—
Total liabilities	40,490,512	8,005,382
Commitments and Contingencies		
Stockholders' equity (deficit)		
Preferred stock, $0.001 par value, 5,000,000 shares authorized, 0 shares issued and outstanding as of March 31, 2011 and December 31, 2010	—	—
Common stock, $0.001 par value, 95,000,000 shares authorized; 32,909,914 and 32,853,032 shares issued and outstanding as of March 31, 2011 and December 31, 2010, respectively	32,909	32,853
Additional paid-in capital	164,839,927	162,919,216
Accumulated comprehensive income (loss)	291,499	(50,622)
Deficit accumulated the during the development stage	(124,209,472)	(105,643,767)
Total stockholders' equity	40,954,863	57,257,680
TOTAL	$ 81,445,375	$ 65,263,062

See accompanying notes to condensed financial statements.

ANTHERA PHARMACEUTICALS, INC.
(A Development Stage Company)

CONDENSED STATEMENTS OF OPERATIONS
(unaudited)

	Three Months Ended March 31,		Cumulative Period from September 9, 2004 (Date of Inception) to March 31, 2011
	2011	2010	
OPERATING EXPENSES:			
Research and development	$ 16,316,758	$ 5,241,814	$ 97,097,481
General and administrative	2,339,882	1,224,110	18,558,298
Total operating expenses	18,656,640	6,465,924	115,655,779
LOSS FROM OPERATIONS	(18,656,640)	(6,465,924)	(115,655,779)
OTHER INCOME (EXPENSE):			
Other expense and interest income, net	90,935	(841,377)	(448,658)
Mark-to-market adjustment of warrant liability	—	(3,796,491)	(3,796,491)
Beneficial conversion features	—	—	(4,308,544)
Total other income (expense)	90,935	(4,637,868)	(8,553,693)
NET LOSS	$(18,565,705)	$(11,103,792)	$(124,209,472)
Net loss per share — basic and diluted	$ (0.56)	$ (0.83)	
Weighted-average number of shares used in per share calculation — basic and diluted	32,895,152	13,344,231	

See accompanying notes to condensed financial statements.

ANTHERA PHARMACEUTICALS, INC.
(A Development Stage Company)

CONDENSED STATEMENTS OF CASH FLOWS
(unaudited)

	Three Months Ended March 31,		September 9, 2004 (Date of Inception) to March 31,
	2011	2010	2011
CASH FLOW FROM OPERATING ACTIVITIES:			
Net loss	$(18,565,705)	$(11,103,792)	$(124,209,472)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation	4,556	3,270	94,164
Amortization of premium/(discount) on short-term investments	74,061	—	45,929
Realized loss on short-term investments	—	—	8,682
Realized gain from disposal of property and equipment	—	—	(214)
Stock-based compensation expense	587,698	52,616	1,924,852
Issuance of common stock for consulting service	—	—	41,366
Issuance of preferred and common stock for service and license fee	—	3,500,000	5,750,000
Issuance of preferred stock in lieu of interest payment	—	173,194	330,575
Beneficial conversion feature	—	—	4,308,544
Amortization of discount on convertible promissory notes	—	540,993	677,715
Amortization of discount on term loan	15,095	—	15,095
Amortization of debt issuance costs	2,788	227,955	310,387
Mark-to-market adjustment on warrant liability	—	3,796,491	3,795,776
Changes in assets and liabilities:			
Prepaid expenses and other assets	633,190	(339,427)	(1,231,695)
Accounts payable	2,566,210	(103,890)	6,615,264
Accrued clinical studies	5,022,690	(242,336)	8,159,476
Accrued liabilities	(56,626)	(34,662)	404,343
Accrued payroll and related costs	(137,810)	25,922	471,276
Net cash used in operating activities	(9,853,853)	(3,503,666)	(92,487,937)
INVESTING ACTIVITIES:			
Property and equipment purchases	—	(5,746)	(107,079)
Proceeds from disposal of property and equipment	—	—	400
Purchase of short-term investments	(1,996,000)	—	(41,745,256)
Proceeds from sale of short-term investments	13,318,014	—	29,850,146
Restricted cash	—	—	—
Net cash provided by (used in) investing activities	11,322,014	(5,746)	(12,001,789)
FINANCING ACTIVITIES:			
Proceeds from issuance of convertible notes	—	—	26,560,000
Proceeds from issuance of term loan	25,000,000	—	25,000,000
Payment of debt issuance costs	(291,500)	(2,572)	(599,099)
Net proceeds from issuance of preferred stock	—	—	32,210,278
Payment of financing costs for initial public and private offering	(13,818)	(850,416)	(3,533,957)
Proceeds from issuance of common stock	—	57,202,972	90,789,015
Proceeds from issuance of common stock pursuant to employee stock purchase plan	—	—	81,226
Proceeds from exercise of stock options	50,192	17,653	390,236
Net cash provided by financing activities	24,744,874	56,367,637	170,897,699
Effect of exchange rate changes on cash	314,782	—	149,816
NET INCREASE IN CASH AND CASH EQUIVALENTS	26,527,817	52,858,225	66,557,789
CASH AND CASH EQUIVALENTS — Beginning of period	40,029,972	3,803,384	—
CASH AND CASH EQUIVALENTS — End of period	$ 66,557,789	$ 56,661,609	$ 66,557,789
SUPPLEMENTAL CASH DISCLOSURES OF CASH FLOW INFORMATION:			
Interest paid	$ —	$ —	$ 15,229
Taxes paid	$ —	$ 10,136	$ 52,746
NONCASH INVESTING AND FINANCING ACTIVITIES:			
Conversion of convertible promissory notes and accrued interest into common stock, Series A-2 convertible preferred stock and Series B-2 convertible preferred stock	$ —	$ 13,709,918	$ 27,200,493
Beneficial conversion feature	$ —	$ —	$ 4,308,544
Unamortized debt discount charged to equity in conjunction with conversion of promissory notes into common stock	$ —	$ 185,833	$ 185,883
Reclassification of warrant and derivative liabilities to additional paid-in capital	$ —	$ 406,130	$ 406,130
Issuance costs charged to equity	$ —	$ 3,021,966	$ 3,564,932
Accrued and deferred financing and debt issuance costs	$ 78,700	$ 982,504	$ 78,700
Liability accrued for equipment purchases	$ 1,312,748	$ —	$ 1,312,748

See accompanying notes to condensed financial statements.

ANTHERA PHARMACEUTICALS, INC.
(A Development Stage Company)

NOTES TO THE CONDENSED FINANCIAL STATEMENTS
(UNAUDITED)

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization

Anthera Pharmaceuticals, Inc. (the "Company" or "Anthera") was incorporated on September 9, 2004 in the state of Delaware. During 2006, the Company opened its headquarters in San Mateo, California, and subsequently moved to Hayward, California. Anthera is a biopharmaceutical company focused on developing and commercializing therapeutics to treat serious diseases associated with inflammation, including cardiovascular and autoimmune diseases. Two of the Company's primary product candidates, varespladib and A-001, are inhibitors of the family of human enzymes known as secretory phospholipase A2, or sPLA2. The Company's other primary product candidate, A-623, targets elevated levels of B-cell activating factor, or BAFF. The Company's activities since inception have consisted principally of acquiring product and technology rights, raising capital, and performing research and development. Accordingly, the Company is considered to be in the development stage as of March 31, 2011. Successful completion of the Company's development programs and, ultimately, the attainment of profitable operations are dependent on future events, including, among other things, its ability to access potential markets; secure financing; develop a customer base; attract, retain and motivate qualified personnel; generate revenues; and develop strategic alliances. Although management believes that the Company will be able to successfully fund its operations, there can be no assurance that the Company will be able to do so or that the Company will ever operate profitably.

From September 9, 2004 (Date of Inception) through March 31, 2010, the Company had an accumulated a deficit of $124.2 million. During the three months ended March 31, 2011, the Company incurred a net loss of $18.6 million and had negative cash flows from operations of $9.9 million. The Company expects to continue to incur substantial losses and negative cash flows over the next several years during its clinical development phase. To fully execute its business plan, the Company will need to complete certain research and development activities and clinical studies. Further, the Company's product candidates will require regulatory approval prior to commercialization. These activities may span many years and require substantial expenditures to complete and may ultimately be unsuccessful. Any delays in completing these activities could adversely impact the Company. The Company plans to meet its capital requirements primarily through issuances of equity securities, debt financing, and in the longer term, revenue from product sales. Failure to generate revenue or raise additional capital would adversely affect the Company's ability to achieve its intended business objectives.

Basis of Presentation

The accompanying unaudited condensed financial statements have been prepared in conformity with accounting principles generally accepted in the United States ("U. S. GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not contain all of the information and footnotes required for complete financial statements. In the opinion of management, the accompanying unaudited condensed financial statements reflect all adjustments, which include only normal recurring adjustments necessary to present fairly the Company's interim consolidated financial information. The results for the three months ended March 31, 2011 are not necessarily indicative of the results to be expected for the year ending December 31, 2011 or for any other period. The condensed balance sheet as of December 31, 2010 has been derived from the audited financial statements as of that date but it does not include all of the information and notes required by U.S. GAAP. The accompanying unaudited condensed financial statements and notes thereto should be read in conjunction with the audited financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2010, filed with the Securities and Exchange Commission ("SEC") on March 7, 2011.

Significant Accounting Policies

There have been no changes in our significant accounting policies for the three month period ended March 31, 2011, as compared to the significant accounting policies described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2010.

Use of Estimates

The preparation of these financial statements in conformity with U.S. GAAP requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, expenses, and related disclosures. On an ongoing basis, management evaluates its estimates, including critical accounting policies or estimates related to clinical trial accruals, our tax provision and stock-based compensation. The Company bases its estimates on historical experience and on various other market specific and other relevant

assumptions that it believes 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 significantly from these estimates.

2. NET LOSS PER SHARE

Basic net loss attributable to common stockholders per share is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding during the period. Shares issued during the period and shares reacquired during the period are weighted for the portion of the period that they were outstanding. The computation of diluted net loss per share is similar to the computation of basic net loss per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the dilutive potential common shares had been issued. In addition, in computing the dilutive effect of convertible securities, the numerator is adjusted to add back any convertible preferred dividends and the after-tax amount of interest recognized in the period associated with any convertible debt. The numerator also is adjusted for any other changes in income or loss that would result from the assumed conversion of those potential common shares, such as profit-sharing expenses. Diluted net loss per share is identical to basic net loss per share since common equivalent shares are excluded from the calculation, as their effect is anti-dilutive.

The following table summarizes the Company's calculation of net loss per common share for the three months ended March 31, 2011 and 2010:

	Three Months Ended March 31,	
	2011	2010
Net loss per share		
Net loss	$(18,565,705)	$(11,103,792)
Weighted-average common shares outstanding	32,917,289	13,357,149
Less: Weighted-average shares subject to repurchase	(22,137)	(12,918)
Total basic and diluted net loss per share	32,895,152	13,344,231
Basic and diluted net loss per share	$ (0.56)	$ (0.83)

The following table shows weighted-average historical dilutive common share equivalents outstanding for the three months ended March 31, 2011 and 2010, which are not included in the above calculation, as the effect of their inclusion is anti-dilutive during each period.

	Three Months Ended March 31,	
	2011	2010
Options to purchase common stock	940,430	1,102,614
Common stock subject to repurchase	22,137	12,918
Warrants to purchase common stock	4,582,136(2)	493,268(1)
Restricted stock units	302,200	—
	5,844,903	1,608,800

(1) The warrants were exercised upon the closing of the Company's initial public offering ("IPO") in March 2010.

(2) Consists of 357,136 warrants which carry a contractual term of five years and terminate upon the earlier of i) five years from the date of issuance, which will be July 17, 2014 or September 9, 2014, and ii) upon certain corporate transactions; 4,200,000 warrants which carry a contractual term of five years expiring September 24, 2015 and 25,000 warrants which carry a contractual term of seven years expiring March 25, 2018. Each of the warrants contains a customary net issuance feature, which allows the warrant holder to pay the exercise price of the warrant by forfeiting a portion of the executed warrant shares with a value equal to the aggregate exercise price.

3. CASH EQUIVALENTS AND INVESTMENTS

At March 31, 2011 and December 31, 2010, the amortized cost and estimated fair value of investments is set forth in the following tables:

	March 31, 2011		
	Amortized Cost	Gross Unrealized Losses	Estimated Fair Value
Cash	$ 44,860,866	$ —	$ 44,860,866
Money market funds	16,514,928	—	16,514,928
Certificates of deposit	11,989,000	(6,815)	11,982,185
Investments in foreign sovereign debt	5,186,304	(4,309)	5,181,995
Total	78,551,098	(11,124)	78,539,974
Less amounts classified as cash and cash equivalents	(66,562,098)	4,309	(66,557,789)
Total	$ 11,989,000	$ (6,815)	$ 11,982,185

	December 31, 2010		
	Amortized Cost	Gross Unrealized Losses	Estimated Fair Value
Cash	$ 15,499,182	$ —	$ 15,499,182
Money market funds	19,467,096	—	19,467,096
Certificates of deposit	14,478,000	(6,765)	14,471,235
Corporate bonds	4,010,563	(83)	4,010,480
Investments in foreign sovereign debt	10,017,010	(84,109)	9,932,901
Total	63,471,851	(90,957)	63,380,894
Less amounts classified as cash and cash equivalents	(40,045,129)	15,157	(40,029,972)
Total	$ 23,426,722	$ (75,800)	$ 23,350,922

4. FAIR VALUE OF INSTRUMENTS

Pursuant to the accounting guidance for fair value measurement and its subsequent updates, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date. The accounting guidance establishes a hierarchy for inputs used in measuring fair value that minimizes the use of unobservable inputs by requiring the use of observable market data when available. Observable inputs are inputs that market participants would use in pricing the asset or liability based on active market data. Unobservable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on the best information available in the circumstances.

The fair value hierarchy is broken down into the three input levels summarized below:

- *Level 1* — Valuations are based on quoted prices in active markets for identical assets or liabilities, and readily accessible by us at the reporting date. Examples of assets and liabilities utilizing Level 1 inputs are certain money market funds, U.S. Treasuries and trading securities with quoted prices on active markets.
- *Level 2* — Valuations based on inputs other than the quoted prices in active markets that are observable either directly or indirectly in active markets. Examples of assets and liabilities utilizing Level 2 inputs are U.S. government agency bonds, corporate bonds, commercial paper, certificates of deposit and over-the-counter derivatives.
- *Level 3* — Valuations based on unobservable inputs in which there is little or no market data, which require us to develop our own assumptions. Examples of assets and liabilities utilizing Level 3 inputs are cost method investments, auction rate securities (ARS) and the Primary Fund.

The following tables present the Company's fair value hierarchy for all its financial assets (including those in cash and cash equivalents), by major security type measured at fair value on a recurring basis as of March 31, 2011 and December 31, 2010:

	March 31, 2011			
	Estimated Fair Value	Level 1	Level 2	Level 3
Money market funds	$16,514,928	$16,514,928	$ —	$ —
Certificates of deposit	11,982,185	—	11,982,185	—
Investments in foreign sovereign debt	5,181,995	—	5,181,995	—
Total	$33,679,108	$16,514,928	$17,164,180	$ —

	December 31, 2010			
	Estimated Fair Value	Level 1	Level 2	Level 3
Money market funds	$19,467,096	$19,467,096	$ —	$ —
Certificates of deposit	14,471,235	—	14,471,235	—
Corporate bonds	4,010,480	—	4,010,480	—
Investments in foreign sovereign debt	9,932,901	—	9,932,901	—
Total	$47,881,712	$19,467,096	$28,414,616	$ —

The Company did not have any non-financial assets or non-financial liabilities that were required to be measured at fair value as of March 31, 2011 and December 31, 2010.

5. PROPERTY AND EQUIPMENT

Property and equipment are comprised of the following:

	March 31, 2011	December 31, 2010
Computers and software	$ 77,318	$ 77,318
Office equipment and furniture	16,730	16,730
Leasehold improvements	10,802	10,802
Construction in progress	1,312,749	—
Total property and equipment	1,417,599	104,850
Less accumulated depreciation	(92,121)	(87,565)
Property and equipment, net	$1,325,478	$ 17,285

6. COMMITMENTS AND CONTINGENCIES

In July 2006, the Company entered into a license agreement with Shionogi & Co., Ltd. and Eli Lilly and Company, or Eli Lilly, to develop and commercialize certain sPLA2 inhibitors for the treatment of inflammatory diseases. The agreement granted the Company commercialization rights to Shionogi & Co., Ltd.'s and Eli Lilly's sPLA2 inhibitors, including varespladib and A-001. Under the terms of the agreement, the Company's license is worldwide, with the exception of Japan where Shionogi & Co., Ltd. has retained rights. Pursuant to this license agreement, the Company paid Shionogi & Co., Ltd. and Eli Lilly a one-time license initiation fee of $250,000 in the aggregate. Additionally, in consideration for the licensed technology, the Company issued an aggregate of 257,744 shares of Series A-2 convertible preferred stock at $5.14 per share and an aggregate of 127,297 shares of Series B-1 convertible preferred stock at $7.28 per share with a total aggregate value of $2.3 million to Shionogi & Co., Ltd. and Eli Lilly. As there is no future alternative use for the technology, the Company recorded the initiation and license fees in research and development expenses during 2006. In March 2010, the Company paid $1.75 million each to Eli Lilly and Shionogi & Co., Ltd. in the form of the Company's common stock upon the commencement of the Company's Phase 3 VISTA-16 study of varespladib.

The Company is obligated to make additional milestone payments of up to $97.5 million upon the achievement of certain development and regulatory milestones. The Company is also obligated to pay tiered royalties, which increase as a percentage from the mid-single digits to the low double digits as net sales increase, on future net sales of products that are developed and approved as defined by this collaboration. The Company's obligation to pay royalties with respect to each licensed product in each country will expire upon the later of (a) 10 years following the date of the first commercial sale of such licensed product in such country and (b) the first date on which generic version(s) of the applicable licensed product achieve a total market share, in the aggregate, of 25% or more of the total unit sales of wholesalers to pharmacies of licensed product and all generic versions combined in the applicable country.

On December 18, 2007, the Company entered into with Amgen, Inc. ("Amgen"), a worldwide, exclusive license agreement, or the Amgen Agreement, to develop and commercialize A-623 for the treatment of systemic lupus erythematosus ("lupus"). Under the terms of the Amgen Agreement, the Company paid a nonrefundable, upfront license fee of $6.0 million. As there is no future alternative use for the technology, the Company expensed the license fee in research and development expenses during 2007.

Under the terms of the Amgen Agreement, the Company is obligated to make additional milestone payments to Amgen of up to $33.0 million upon the achievement of certain development and regulatory milestones. The Company is also obligated to pay tiered royalties on future net sales of products, ranging from the high single digits to the low double digits, which are developed and approved as defined by this collaboration. The Company's royalty obligations as to a particular licensed product will be payable, on a country-by-country and licensed product-by-licensed product basis, for the longer of (a) the date of expiration of the last to expire valid claim within the licensed patents that covers the manufacture, use or sale, offer to sell, or import of such licensed product by the Company or a sublicense in such country or (b) 10 years after the first commercial sale of the applicable licensed product in the applicable country. There were no outstanding obligations due to Amgen as of March 31, 2011.

7. COMPREHENSIVE LOSS

Comprehensive loss is comprised of net loss and certain changes in equity that are excluded from net loss. Components of comprehensive loss include unrealized gains on available-for-sale securities, and unrealized gains related to foreign currency transactions. The components of comprehensive loss are as follows:

	Three Months Ended March 31,	
	2011	2010
Net loss	$(18,565,705)	$(11,103,792)
Unrealized gain on available-for-sale securities	1,268	—
Foreign currency translation adjustments	340,852	—
Comprehensive loss	$(18,223,585)	$(11,103,792)

8. DEBT FINANCING

Term Loan Agreement

Hercules Technology Growth Capital

In March 2011, the Company entered into a Loan and Security Agreement ("Loan Agreement") with Hercules Technology Growth Capital, Inc. and Hercules Technology II, L.P. (together, "Hercules"). Under the terms of the Loan Agreement, the Company borrowed $25.0 million at an interest rate of the higher of (i) 10.55% or (ii) 7.30% plus the prime rate as reported in the Wall Street Journal, and issued to Hercules a secured term promissory note evidencing the loan. The loan is secured by the Company's assets, excluding intellectual property. The Company will make interest only payments for the initial 12 months, which will be extended an additional three months if (a) positive biomarker analysis results are obtained from VISTA-16 Phase III FDA Clinical Trial on or before July 31, 2011, and (b) full enrollment of the PEARL-SC Phase 2b FDA Clinical Trial is obtained on or before March 31, 2012. The Company obtained positive biomarker analysis results on April 18, 2011. Thereafter, the loan will be repaid in 30 equal monthly installments of approximately $952,000, at the initial interest rate. The Company will also be obligated to pay an end of the term charge of $937,500, which will be expensed over the term of the Loan Agreement using the effective interest rate.

The Loan Agreement limits both the seniority and amount of future debt the Company may incur. The Company may be required to prepay the loan in the event of a change in control. In conjunction with the loan, the Company issued a seven-year warrant to purchase 321,429 shares of the Company's common stock at an exercise price of $6.00 per share. The warrant is immediately exercisable and expires March 2018. The Company estimated the fair value of this warrant using the Black-Scholes option valuation model with the following assumptions: expected term of seven years, a risk-free interest rate of 2.87%, expected volatility of 63% and 0% expected dividend yield.

The Company applied the relative fair value method, described in ASC 470-20-30-1, to allocate the $25.0 million proceeds received under the Loan Agreement between the loan and warrant. The initial carrying amount assigned to the loan was $23.7 million and was recorded as the Notes payable — net of discount on the Company's balance sheets. The fair value allocated to the warrant of $1.3 million was recorded as an increase to additional paid-in capital in the Company's balance sheets. The resulting $1.3 million discount from the $25.0 million par value of the loan will be amortized as an additional interest expense over the term of the loan using the effective interest rate method. At March 31, 2011, this warrant remained outstanding and exercisable.

In connection with the Loan Agreement, the Company incurred note issuance costs of approximately $370,200, which are recorded as long-term assets on the Company's balance sheet. The note issuance costs are being amortized to interest expense over the term of the Loan Agreement using the effective interest rate method.

9. STOCKHOLDER'S EQUITY

Option Plans

At March 31, 2011, the Company had the following plans that give rise to share-based compensation: (i) two stock option plans, the 2005 Equity and Incentive Plan (the "2005 Plan"), and the 2010 Stock Option and Incentive Plan (the "2010 Plan"), and (ii) the 2010 Employee Stock Purchase Plan. The terms of awards granted during the three months ended March 31, 2011 and the methods for determining grant-date fair value of the awards were consistent with those described in the financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2010.

On January 1, 2011, in accordance with the 2010 Plan annual increase provisions, the authorized shares in the 2010 Plan increased by 1,315,214.

The following table summarizes stock option activity under the Company's share-based compensation plans for the three months ended March 31, 2011:

	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life in Years	Aggregate Intrinsic Value
Balance at December 31, 2010	1,275,991	$ 1.26	7.07	$4,700,543
Granted	988,000	$ 5.03		
Exercised	(35,747)	$ 1.40		
Cancelled	(13,313)	$ 2.72		
Balance at March 31, 2011	2,214,931	$ 2.93	8.02	$8,471,231
Vested at March 31, 2011	1,080,275	$ 1.08	6.50	$6,141,662
Vested and expected to vest at March 31, 2011	2,214,931	$ 2.93	8.02	$8,471,231

The intrinsic value of stock options represents the difference between the exercise price of stock options and the market price of our stock on that day for all in-the-money options. Additional information related to our stock options is summarized below:

	Three Months Ended March 31,		Period from September 9, 2004 (Date of Inception) to March 31,
	2011	2010	2011
Intrinsic value of options exercised	$ 151,680	$ 126,868	$ 979,879
Proceeds received from the exercise of stock options	$ 50,192	$ 17,653	$ 395,343
Grant date fair value of options vested	$ 130,465	$ 36,683	$ 953,099

As of March 31, 2011 there were 400,916 shares available for future issuance under the 2010 Plan.

Restricted Stock Units

The Company grants restricted stock unit awards under its 2010 Plan, as determined by the Company's compensation committee, which are issued upon vesting. The restricted stock units granted represent a right to receive shares of common stock at a future date determined in accordance with the participant's award agreement. An exercise price and monetary payment are not required for receipt of restricted stock units or the shares issued in settlement of the award. Instead, consideration is furnished in the form of the participant's services to the Company. Substantially all of the restricted stock units vest over four years.

The following table summarizes activity related to our restricted stock units:

	Shares	Weighted-Average Grant Date Fair Value
Outstanding at December 31, 2010	302,500	$ 5.13
Restricted stock units granted	10,000	$ 4.88
Restricted stock units released	(10,000)	$ 4.88
Restricted stock units forfeitures and cancellations	(4,500)	$ 4.84
Outstanding at March 31, 2011	298,000	$ 5.13

2010 Employee Stock Purchase Plan

Effective July 2010, under the 2010 Employee Stock Purchase Plan (the "ESPP"), eligible employees of the Company may authorize the Company to deduct amounts from their compensation, which amounts are used to enable the employees to purchase shares of the Company's common stock. The Company initially reserved 100,000 shares of common stock for issuance thereunder plus on January 1, 2011 and each January 1 thereafter, the number of shares of stock reserved and available for issuance under the Plan shall be cumulatively increased by the lesser of (i) one percent (1%) of the number of shares of common stock issued and outstanding on the immediately preceding December 31 or (ii) 250,000 shares of common stock. On January 1, 2011, in accordance with the ESPP's annual increase provisions, the authorized shares in the ESPP increased by 250,000.

The purchase price per share is 85% of the fair market value of the common stock as of the first date or the ending date of the applicable semi-annual purchase period, whichever is less. Purchases are generally made on the last trading day of each June and December. As of March 31, 2011, the Company received $27,723 in contributions for the ESPP. There were no shares issued under the ESPP during the three month period ended March 31, 2011. As of March 31, 2011, 325,084 shares were available for future purchase under the ESPP.

Stock-Based Compensation

The employee stock-based compensation expense was determined using the Black-Scholes option pricing model. Option pricing models require the input of subjective assumptions and these assumptions can vary over time.

The estimated grant date fair values of the employee stock options and stock purchase rights were calculated using the Black-Scholes option-pricing model with assumptions as follows:

Stock Option Plans

	Three Months Ended March 31,		Period from September 9, 2004 (Date of Inception) to March 31,
	2011	2010	2011
Expected Volatility	63%	89%	74%
Dividend Yield	0%	0%	0%
Risk-Free Interest Rate	2.37%	3.02%	3.41%
Expected Term (years)	6.25	6.25	6.25

ESPP

	Three Months ended March 31, 2011	Period from September 9, 2004 (Date of Inception) to March 31, 2011
Expected Volatility	54%	64%
Dividend Yield	0%	0%
Risk-Free Interest Rate	0.16%	0.16%
Expected Term (years)	0.5	0.5

Restricted Stock Units

Compensation cost for these awards is based on the closing price of the Company's common stock on the date of grant and recognized as compensation expense on a straight-line basis over the requisite service period.

Stock-Compensation Summary

Compensation cost for stock options granted to employees is based on the grant-date fair value and is recognized over the vesting period of the applicable option on a straight-line basis. The estimated per share weighted-average fair value of stock options granted to employees during the three months ended March 31, 2011 and 2010 and for the period from September 4, 2004 (Date of Inception) to March 31, 2011 was $3.02, $5.30 and $1.31 respectively.

Total stock-based compensation expense for equity awards granted to employees and non-employees recognized was as follows:

	Three Months Ended March 31,		Period from September 9, 2004 (Date of Inception) to March 31, 2011
	2011	2010	
Research and development	$ 235,890	$ 20,231	$ 678,391
General and administrative	351,808	32,385	1,246,461
Total employee stock-based compensation	$ 587,698	$ 52,616	$ 1,924,852

As of March 31, 2011, there was $3.1 million of unrecognized compensation expense related to options. The unrecognized compensation expense will be amortized on a straight-line basis over a weighted-average remaining period of 3.35 years. As of March 31, 2011, the unrecognized compensation cost related to restricted stock unit awards was $1.2 million which will be amortized on a straight-line basis over 2.48 years.

Nonemployee Stock-Based Compensation

In connection with share based awards granted to consultants, the Company recorded $48,800 (relating to restricted stock awards), $4,204, and $215,144 for nonemployee stock-based compensation during the three months ended March 31, 2011 and 2010 and for the period from September 9, 2004 (Date of Inception) to March 31, 2011, respectively. These amounts were based upon the fair value of the vested portion of the grants. Amounts expensed during the remaining vesting period will be determined based on the fair value at the time of vesting.

10. RELATED PARTY TRANSACTIONS

The Company engaged an outside service provider whose chief executive officer is a founder of the Company and spouse of an officer of the Company, for clinical management services. In consideration for the services rendered, the Company paid the following fees:

	Three Months Ended March 31,		Period from September 9, 2004 (Date of Inception) to March 31,
	2011	2010	2011
Project management fees	$ 620,727	$ 38,274	$1,285,918

As of March 31, 2011, the Company had $828,935 payable to this organization for services performed during the period compared to $519,386 payable as of December 31, 2010. We anticipate this relationship to continue for the foreseeable future.

11. SUBSEQUENT EVENTS

In April 2011, the Company signed an extension and amendment to our lease agreement for our operating facility. The lease commences August 2011 and will end September 2014. Total future minimum lease payments over the life of the lease are $517,905.

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

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), which are subject to the "safe harbor" created by those sections. Forward-looking statements are based on our management's beliefs and assumptions and on information currently available to our management. All statements other than statements of historical factors are "forward-looking statements" for purposes of theses provisions. In some cases you can identify forward-looking statements by terms such as "may," "will," "should," "could," "would," "expect," "plan," "anticipate," "believe," "estimate," "project," "predict," and "potential," and similar expressions intended to identify forward-looking statements. Such forward-looking statements are subject to risks, uncertainties and other important factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified below, and those discussed in the section titled "Risk Factors" in this report. Furthermore, such forward-looking statements speak only as of the date of this report. Except as required by law, we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements.

Overview

We are a biopharmaceutical company focused on developing and commercializing products to treat serious diseases associated with inflammation, including cardiovascular and autoimmune diseases. We currently have one Phase 3 clinical program, varespladib, and two Phase 2 clinical programs, A-623 and A-001. Two of our product candidates, varespladib and A-001, are designed to inhibit a novel enzyme target known as secretory phospholipase A2, or sPLA2. Elevated levels of sPLA2 have been implicated in a variety of acute inflammatory conditions, including acute coronary syndrome and acute chest syndrome associated with sickle cell disease, as well as in chronic diseases, including stable coronary artery disease. In addition, our Phase 2 product candidate, A-623, targets elevated levels of B-cell activating factor, or BAFF, which has been associated with a variety of B-cell mediated autoimmune diseases, including systemic lupus erythematosus, or lupus, lupus nephritis, rheumatoid arthritis, multiple sclerosis, Sjögren's Syndrome, Graves' Disease and others.

We were incorporated and commenced operations in September 2004. Since our inception, we have generated significant losses. As of March 31, 2011, we had an accumulated deficit of approximately $124.2 million. As of the date of this filing, we have never generated any revenue and have generated only interest income from cash and cash equivalents and short-term investments. We expect to incur substantial and increasing losses for at least the next several years as we pursue the development and commercialization of our product candidates.

To date, we have funded our operations through equity offerings, private placements of convertible debt and debt financings, raising net proceeds of approximately $170.4 million. We will need substantial additional financing to continue to develop our product candidates, obtain regulatory approvals and to fund operating expenses, which we will seek to raise through public or private equity or debt financings, collaborative or other arrangements with third parties or through other sources of financing. We cannot assure you that such funds will be available on terms favorable to us, if at all. In addition to the normal risks associated with development-stage companies, we may never successfully complete development of any of our product candidates, obtain adequate patent protection for our technology, obtain necessary government regulatory approval for our product candidates or achieve commercial viability for any approved product candidates. In addition, we may not be profitable even if we succeed in commercializing any of our product candidates.

Revenue

To date, we have not generated any revenue. We do not expect to generate revenue unless or until we obtain regulatory approval of, and commercialize, our product candidates or in- license additional products that generate revenue. We intend to seek to generate revenue from a combination of product sales, up-front fees and milestone payments in connection with collaborative or strategic relationships and royalties resulting from the licensing of the commercial rights to our intellectual property. We expect that any revenue we generate will fluctuate from quarter to quarter as a result of the nature, timing and amount of milestone payments we may receive upon the sale of our products, to the extent any are successfully commercialized, as well as any revenue we may receive from our collaborative or strategic relationships.

Research and Development Expenses

Since our inception, we have focused our activities on our product candidate development programs. We expense research and development costs as they are incurred. Research and development expenses consist of personnel costs, including salaries, benefits and stock-based compensation, clinical studies performed by contract research organizations, or CROs, materials and supplies, licenses and fees and overhead allocations consisting of various administrative and facilities-related costs. Research and development activities are also separated into three main categories: licensing, clinical development and pharmaceutical development. Licensing costs consist primarily of fees paid pursuant to license agreements. Historically, our clinical development costs have included costs for preclinical and clinical studies. We expect to incur substantial clinical development costs for our Phase 3 clinical study named VISTA- 16 for varespladib and for our Phase 2b clinical study named PEARL-SC for A-623, as well as for the development of our other product candidates. Pharmaceutical development costs consist of expenses incurred relating to clinical studies and product formulation and manufacturing.

We expense both internal and external research and development costs as incurred. We are developing our product candidates in parallel, and we typically use our employee and infrastructure resources across several projects. Thus, some of our research and development costs are not attributable to an individually named project, but rather are allocated across our clinical stage programs. These unallocated costs include salaries, stock-based compensation charges and related “fringe benefit” costs for our employees (such as workers compensation and health insurance premiums), consulting fees and travel.

The following table shows our total research and development expenses for the three months ended March 31, 2011 and 2010 and for the period from September 9, 2004 (Date of Inception) through March 31, 2011:

	Three Months Ended March 31,		For the Period September 9, 2004 (Date of Inception) to March 31, 2011
	2011	2010	
Allocated costs:			
A-001	$ 24,255	$ 91,729	$ 6,532,613(1)
Varespladib	9,323,210	4,252,849(2)	56,413,723(1)(2)(4)
A-623	5,680,193	304,950	17,650,085(3)(5)
Unallocated costs	1,289,100	592,286	16,501,060
Total development	$ 16,316,758	$ 5,241,814	$ 97,097,481

(1) Includes Qualifying Therapeutic Discovery Project Credit under Section 48D of approximately $244,000.

(2) Includes milestone payments of $3.5 million pursuant to amendments to the license agreements with each of Eli Lilly and Shionogi & Co. Ltd., which were paid in the form of shares of common stock.

(3) Includes Qualifying Therapeutic Discovery Project Credit under Section 48D of approximately $488,000.

(4) Includes license fees of $4.0 million pursuant to a license agreement with each of Eli Lilly and Shionogi & Co. Ltd., which were paid in cash and shares of preferred stock in 2006.

(5) Includes a one-time license initiation fee of $6.0 million pursuant to a license agreement with Amgen.

We expect our research and development expenses to increase significantly as we continue to develop our product candidates. We began enrollment of patients in the VISTA-16 study of varespladib for the treatment of patients experiencing acute coronary syndrome in June 2010. We also initiated the PEARL-SC study of A-623 in July 2010. We intend to fund our clinical studies with existing cash and proceeds from potential future debt and equity offerings.

We expect that a large percentage of our research and development expenses in the future will be incurred in support of our current and future clinical development programs. These expenditures are subject to numerous uncertainties in timing and cost to completion. As we obtain results from clinical studies, we may elect to discontinue or delay clinical studies for certain product candidates or programs in order to focus our resources on more promising product candidates or programs. Completion of clinical studies may take several years or more, but the length of time generally varies according to the type, complexity, novelty and intended use of a product candidate. The cost of clinical studies may vary significantly over the life of a program as a result of differences arising during clinical development, including:

- the number of sites included in the studies;
- the length of time required to enroll suitable patient subjects;
- the number of patients that participate in the studies;
- the number of doses that patients receive;
- the drop-out or discontinuation rates of patients; and
- the duration of patient follow-up.

Our expenses related to clinical studies are based on estimates of the services received and efforts expended pursuant to contracts with multiple research institutions and clinical research organizations that conduct and manage clinical studies on our behalf. The financial terms of these agreements are subject to negotiation and vary from contract to contract and may result in uneven payment flows. Generally, these agreements set forth the scope of work to be performed at a fixed fee or unit price. Payments under the contracts depend on factors such as the successful enrollment of patients or the completion of clinical study milestones. Expenses related to clinical studies generally are accrued based on contracted amounts and the achievement of milestones such as number of patients enrolled. If timelines or contracts are modified based upon changes to the clinical study design or scope of work to be performed, we modify our estimates of accrued expenses accordingly on a prospective basis.

None of our product candidates has received U.S. Food and Drug Administration, or FDA, or foreign regulatory marketing approval. In order to grant marketing approval, the FDA or foreign regulatory agencies must conclude that clinical data establishes the safety and efficacy of our product candidates and that the manufacturing facilities, processes and controls are adequate. Despite our efforts, our product candidates may not offer therapeutic or other improvement over existing, comparable drugs, be proven safe and effective in clinical studies, or meet applicable regulatory standards.

As a result of the uncertainties discussed above, we are unable to determine the duration and completion costs of our development projects or when and to what extent we will receive cash inflows from the commercialization and sale of an approved product candidate, if ever.

General and Administrative Expenses

General and administrative expenses consist primarily of compensation for employees in executive and operational functions, including clinical, chemical manufacturing, regulatory, finance and business development. Other significant costs include professional fees for legal services, including legal services associated with obtaining and maintaining patents. We will continue to incur significant general and administrative expenses as a public company, including costs for insurance, costs related to the hiring of additional personnel, payment to outside consultants, lawyers and accountants and complying with the corporate governance, internal controls and similar requirements applicable to public companies.

Critical Accounting Policies and Estimates

Our management's discussion and analysis of our financial condition and results of operations is based on our financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities and expenses. On an ongoing basis, we evaluate these estimates and judgments, including those described below. We base our estimates on our historical experience and on various other assumptions that we believe to be reasonable under the circumstances. These estimates and assumptions form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results and experiences may differ materially from these estimates.

While our significant accounting policies are more fully described in the notes to the financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2010, we believe that the following accounting policies are the most critical to aid you in fully understanding and evaluating our reported financial results and affect the more significant judgments and estimates that we use in the preparation of our financial statements.

Accrued Clinical Expenses

We make estimates of our accrued expenses as of each balance sheet date in our financial statements based on facts and circumstances known to us at that time. This process involves reviewing open contracts and purchase orders, communicating with our applicable personnel to identify services that have been performed on our behalf and estimating the level of service performed and the associated cost incurred for the service when we have not yet been invoiced or otherwise notified of actual cost. The majority of our service providers invoice us at least monthly in arrears for services performed. We periodically confirm the accuracy of our estimates with the service providers and make adjustments if necessary. Examples of estimated accrued clinical expenses include:

- fees paid to CROs in connection with clinical studies;
- fees paid to investigative sites in connection with clinical studies;
- fees paid to contract manufacturers in connection with the production of clinical study materials; and
- fees paid to vendors in connection with the preclinical development activities.

We base our expenses related to clinical studies on our estimates of the services received and efforts expended pursuant to contracts with multiple research institutions and CROs that conduct and manage clinical studies on our behalf. The financial terms of these agreements are subject to negotiation, vary from contract to contract and may result in uneven payment flows. Payments under some of these contracts depend on factors such as the successful enrollment of patients and the completion of clinical study milestones. In accruing service fees, we estimate the time period over which services will be performed and the level of effort to be expended in each period. If the actual timing of the performance of services or the level of effort varies from our estimate, we adjust the accrual accordingly. If we do not identify costs that we have begun to incur or if we underestimate or overestimate the level of services performed or the costs of these services, our actual expenses could differ from our estimates.

Stock-Based Compensation

Compensation costs related to all equity instruments are recognized at the grant-date fair value of the awards. Additionally, we are required to include an estimate of the number of awards that will be forfeited in calculating compensation costs, which are recognized over the requisite service period of the awards on a straight-line basis. We account for stock-based compensation using the Black-Scholes option pricing model to estimate the fair value of each option grant on the date of grant. Black-Scholes option pricing model requires the input of highly subjective assumptions, including the expected stock price volatility, expected term, and forfeiture rate. Any changes in these highly subjective assumptions significantly impact stock-based compensation expense.

Fair Value Measurements and Impairments

All of our available-for-sale investments are subject to periodic impairment review. Investments are considered to be impaired when a decline in fair value is judged to be other-than-temporary. This determination requires significant judgment. For publicly traded investments, impairment is determined based upon the specific facts and circumstances present at the time, including factors such as current economic and market conditions, the credit rating of the security's issuer, the length of time an investment's fair value has been below our carrying value, and our ability and intent to hold investments to maturity or for a period of time sufficient to allow for any anticipated recovery in fair value. If an investment's decline in fair value, caused by factors other than changes in interest rates, is deemed to be other-than-temporary, we reduce its carrying value to its estimated fair value, as determined based on quoted market prices, liquidation values or other metrics.

Pursuant to the accounting guidance for fair value measurement and its subsequent updates, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date. The accounting guidance establishes a hierarchy for inputs used in measuring fair value that minimizes the use of unobservable inputs by requiring the use of observable market data when available. Observable inputs are inputs that market participants would use in pricing the asset or liability based on active market data. Unobservable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on the best information available in the circumstances.

The fair value hierarchy is broken down into the three input levels summarized below:

- *Level 1* — Valuations are based on quoted prices in active markets for identical assets or liabilities, and readily accessible by us at the reporting date. Examples of assets and liabilities utilizing Level 1 inputs are certain money market funds, U.S. Treasuries and trading securities with quoted prices on active markets.
- *Level 2* — Valuations based on inputs other than the quoted prices in active markets that are observable either directly or indirectly in active markets. Examples of assets and liabilities utilizing Level 2 inputs are U.S. government agency bonds, corporate bonds, commercial paper, certificates of deposit and over-the-counter derivatives.
- *Level 3* — Valuations based on unobservable inputs in which there is little or no market data, which require us to develop our own assumptions. Examples of assets and liabilities utilizing Level 3 inputs are cost method investments, auction rate securities (ARS) and the Primary Fund.

We measure our available-for-sale securities at fair value on a recurring basis. Available-for-sale securities include U.S. Treasury securities, U.S. government agency bonds, corporate bonds, commercial paper, money market funds and certificates of deposit. Where possible, we utilize quoted market prices to measure and such items are classified as Level 1 in the hierarchy. When quoted market prices for identical assets are unavailable, varying valuation techniques are used. Such assets are classified as Level 2 or Level 3 in the hierarchy. We classify items in Level 2 if investments are valued using observable inputs to quoted market prices, benchmark yields, reported trades, broker/dealer quotes or alternative pricing sources with reasonable levels of price transparency. We classify items in Level 3 if investments are valued using a pricing model, based on unobservable inputs in the market or that require us to develop our own assumptions. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment.

We are also exposed to market risk relating to our available-for-sale investments due to uncertainties in the credit and capital markets. The fair value of our investments may change significantly due to events and conditions in the credit and capital markets. These securities/issuers could be subject to review for possible downgrade. Any downgrade in these credit ratings may result in an additional decline in the estimated fair value of our investments. We monitor and evaluate the accounting for our investment portfolio on a quarterly basis for additional other-than-temporary impairment charges.

We actively review current investment ratings, company specific events, and general economic conditions in managing our investments and determining whether there is a significant decline in fair value that is other-than-temporary. As of March 31, 2011, our short-term in marketable securities have been classified as "available-for-sale" and are carried at fair value. Available-for-sale investments with original maturities of greater than three months at the date of purchases are classified as short-term investments as these investments generally consist of marketable securities that are intended to be available to meet current cash requirements.

Recognized gains and losses on available for sale investments during the three months ended March 31, 2011 and 2010 were not material. Management determines the appropriate classification of investments at the time of purchase and reevaluates the classification at each reporting date.

Results of Operations

Comparison of the three months ended March 31, 2011 and 2010

Research and development expenses. Research and development expenses consist of personnel costs for employees in clinical, chemical manufacturing and regulatory functions, clinical studies performed by CROs, pharmaceutical development costs including product formulation and manufacturing, preclinical costs, license fees and overhead allocations consisting of various administrative and facilities-related costs.

Change in research and development expenses from the three months ended March 31, 2010 to 2011 (in millions):

	2011	2010	$ Change	% Change
Research and development expense	$16.3	$5.2	$ 11.1	213%

The increase in research and development expenses from 2010 to 2011 was primarily attributable to increased patient enrollment, CRO and manufacturing cost related to the launch of our Phase 3 clinical study of varespladib and Phase 2 clinical study of A-623, as well as increased headcount to support these clinical studies.

General and administrative expenses. General and administrative expenses consist of personnel costs for employees in executive, business development and operational functions, professional service fees including corporate legal fees, accountant fees and overhead allocations consisting of various administrative and facilities-related costs.

Change in general and administrative expenses from the three months ended March 31, 2010 to 2011 (in millions):

	2011	2010	$ Change	% Change
General and administrative expense	$2.3	$1.2	$ 1.1	92%

The increase in general and administrative expenses from 2010 to 2011 was primarily attributable to increased headcount and professional services incurred in connection with our financial audit and other costs associated with operating as a public company.

Other expense and interest income, net. Other expense for the three months ended March 31, 2010 consists of primarily non-cash charge related to the amortization of discounts, mark-to-market adjustment relating to warrants and embedded derivative associated with our convertible promissory notes issued in July and September of 2009, which were converted into shares of our common stock upon the closing of our IPO in March 2010. Other expense for the three months ended March 31, 2011 consists primarily of interest expense, amortization of note discount and note issuance costs, and an end of term charge associated with our note issued under a Loan and Security Agreement with Hercules in March 2011. Interest income consists of interest earned on our cash, cash equivalents and short-term investments.

Change in other expense and interest income, net, from the three months ended March 31, 2010 to 2011 (in millions):

	2011	2010	$ Change	% Change
Other expense and interest income, net	$0.1	$(0.8)	$ 0.9	113%
Mark-to-market adjustment of warrant liability	—	(3.8)	$ (3.8)	100%

The decrease in other expense and interest income, net, from 2011 to 2010 was primarily attributable to a non-cash charge of $4.5 million recorded for the amortization of discounts on our convertible promissory notes and the mark-to-market adjustment relating to warrants and embedded derivative connected to these convertible promissory notes in 2010. The balance was offset by an increase in interest income from 2010 to 2011 attributable to higher cash and investment balances in 2011, resulting from proceeds received from our private placement in September 2010 and the debt financing with Hercules in March 2011.

Liquidity and Capital Resources

To date, we have funded our operations primarily through private placements of preferred stock and common stock, convertible and nonconvertible debt and our IPO. As of March 31, 2011, we had received net proceeds of approximately $119.5 million from the sale of equity securities, approximately $26.2 million from the issuance of convertible promissory notes, and approximately $24.7 million from issuance of note payable. As of March 31, 2011, we had cash, cash equivalents and short-term investments of approximately $78.5 million.

Cash, cash equivalents and investments consist of the following:

	March 31, 2011	December 31, 2010
Cash and cash equivalents	$ 66,557,789	$ 40,029,972
Short-term investments	11,982,185	23,350,922
Total	$ 78,539,974	$ 63,380,894

Our principal liquidity requirements are primarily to meet our working capital needs, support ongoing business activities, research and development, and our capital expenditure needs.

In March 2011, we filed a shelf registration statement with the Securities and Exchange Commission ("SEC") under which we may issue up to $75.0 million in shares of common stock, preferred stock, debt securities and/or warrants. As of March 31, 2011, no securities have been issued.

Cash Flows

Three months ended March 31, 2011

For the three months ended March 31, 2011, we incurred a net loss of approximately $18.6 million.

Net cash used in operating activities was approximately $9.9 million. The net loss is higher than cash used in operating activities by $8.7 million. The primary drivers for the difference include increase of $5.0 million in clinical trial accruals which is based upon our estimated clinical trial performance to date, increase in other operating liabilities of $3.0 million, and adjustments for non-cash charges such as stock-based compensation of approximately $588,000.

Net cash provided by investing activities was approximately $11.3 million and was primarily driven by the maturities of short-term investments during the period.

Net cash provided by financing activities was approximately $24.7 million and consisted primarily of proceeds of $25 million received from the issuance of note payable with Hercules.

Three Months Ended March 31, 2010

For the three months ended March 31, 2010, we incurred a net loss of approximately $11.1 million.

Net cash used in operating activities was approximately $3.5 million. The net loss is higher than cash used in operating activities by $7.6 million. The primary drivers for the difference are the issuance of $3.5 million worth of common stock in lieu of cash milestone payments due to Eli Lilly and Shionogi & Co., Ltd., and mark-to-market adjustments relating to warrant and derivative liability of $3.8 million.

Net cash provided by financing activities was approximately $56.3 million and consisted primarily of proceeds of $57.2 million received from the issuance of common stock at our IPO.

Contractual Obligations and Commitments

The Company has lease obligations consisting of operating lease in connection with a sublease for our operating facility that commenced in October 2008 and expires July 2011 (which was subsequently extended through September 2014 in April 2011), for approximately 7,800 square feet of office space, and office equipment leases that commenced in October 2007 and will expire in June 2013.

On March 25, 2011, the Company entered into a Loan and Security Agreement ("Loan Agreement") with Hercules Technology Growth Capital, Inc. and Hercules Technology II, L.P. (together, "Hercules"). Under the terms of the Loan Agreement, the Company borrowed $25.0 million at an interest rate of the higher of (i) 10.55% or (ii) 7.30% plus the prime rate as reported in the Wall Street Journal, and issued to Hercules a secured term promissory note evidencing the loan. The loan is secured by the Company's assets, excluding intellectual property. The Company will make interest only payments for the initial 12 months, which will be extended an additional three months if (a) positive biomarker analysis results are obtained from VISTA-16 Phase III FDA Clinical Trial on or

before July 31, 2011, and (b) full enrollment of the PEARL-SC Phase 2b FDA Clinical Trial is obtained on or before March 31, 2012. The Company obtained positive biomarker analysis results on April 18, 2011. Thereafter, the loan will be repaid in 30 equal monthly installments of approximately $952,000, at the initial interest rate. The Company will also be obligated to pay an end of the term charge of $937,500, which will be expensed over the term of the Loan Agreement using the effective interest rate.

The following table summarizes our estimated scheduled future minimum contractual obligations and commitments as of March 31, 2011:

	Payments Due by Period				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	After 5 Years
Operating lease obligations	$ 30,402	$ 26,502	$ 3,900	$ —	$ —
Loan Agreement	$32,061,628	$2,505,625	$29,556,003	$ —	$ —
Total	$32,092,030	$2,532,127	$29,559,903	$ —	$ —

The above amounts exclude potential payments to be made under our license agreements to our licensors that are based on the progress of our product candidates in development, as these payments are not determinable. Under our license agreement with Eli Lilly and Shionogi & Co., Ltd. to develop and commercialize certain sPLA2 inhibitors, we are obligated to make additional milestone payments upon the achievement of certain development, regulatory, and commercial objectives. We are also obligated to pay royalties on future net sales of products that are developed and approved as defined by this collaboration. Our obligation to pay royalties with respect to each licensed product in each country will expire upon the later of (a) 10 years following the date of the first commercial sale of such licensed product in such country, and (b) the first date on which generic version(s) of the applicable licensed product achieve a total market share, in the aggregate, of 25% or more of the total unit sales of wholesalers to pharmacies of licensed product and all generic versions combined in the applicable country.

Also excluded from the table above is the lease extension for the Company's facility and potential milestone payments on the development of A-623. Under our license agreement with Amgen to develop and commercialize A-623, we are obligated to make additional milestone payments upon the achievement of certain development, regulatory, and commercial objectives. We are also obligated to pay royalties on future net sales of products that are developed and approved as defined by this collaboration. Our royalty obligations as to a particular licensed product will be payable, on a country-by-country and licensed product-by-licensed product basis, for the longer of (a) the date of expiration of the last to expire valid claim within the licensed patents that covers the manufacture, use or sale, offer to sell, or import of such licensed product by us or a sublicensee in such country, or (b) 10 years after the first commercial sale of the applicable licensed product in the applicable country.

Funding Requirements

We expect to incur substantial expenses and generate significant operating losses as we continue to advance our product candidates into preclinical studies and clinical studies and as we:

- continue clinical development of varespladib;
- continue clinical development of A-623;
- hire additional clinical, scientific and management personnel; and
- implement new operational, financial and management information systems.

Our future capital uses and requirements depend on numerous forward-looking factors. These factors include the following:

- the progress of preclinical development and clinical studies of our product candidates;
- the time and costs involved in obtaining regulatory approvals;
- delays that may be caused by evolving requirements of regulatory agencies;
- the costs involved in filing and prosecuting patent applications and enforcing or defending patent claims;

- our ability to establish, enforce and maintain selected strategic alliances; and
- the acquisition of technologies, product candidates and other business opportunities that require financial commitments.

To date, we have not generated any revenue. We do not expect to generate commercial product revenue unless or until we obtain regulatory approval of, and commercialize, our product candidates. We expect our continuing operating losses to result in increases in cash used in operations over the next several years. Our future capital requirements will depend on a number of factors including the progress and results of our clinical studies, the costs, timing and outcome of regulatory review of our product candidates, our revenue, if any, from successful development and commercialization of our product candidates, the costs of commercialization activities, the scope, progress, results and costs of preclinical development, laboratory testing and clinical studies for other product candidates, the emergence of competing therapies and other market developments, the costs of preparing, filing and prosecuting patent applications and maintaining, enforcing and defending intellectual property rights, the extent to which we acquire or invest in other product candidates and technologies, and our ability to establish collaborations and obtain milestone, royalty or other payments from any collaborators.

We expect our existing resources as of the date of this report, to be sufficient to fund our planned operations, including our continued product candidate development, for at least the next 12 months. However, we may require significant additional funds earlier than we currently expect to conduct additional or extended clinical studies and seek regulatory approval of our product candidates. Because of the numerous risks and uncertainties associated with the development and commercialization of our product candidates, we are unable to estimate the amounts of increased capital outlays and operating expenditures associated with our current and anticipated clinical studies.

Additional funding may not be available to us on acceptable terms or at all. In addition, the terms of any financing may adversely affect the holdings or the rights of our stockholders. For example, if we raise additional funds by issuing equity securities or by selling debt securities, if convertible, further dilution to our existing stockholders may result. To the extent our capital resources are insufficient to meet our future capital requirements, we will need to finance our future cash needs through public or private equity offerings, collaboration agreements, debt financings or licensing arrangements.

If adequate funds are not available, we may be required to terminate, significantly modify or delay our development programs, reduce our planned commercialization efforts, or obtain funds through collaborators that may require us to relinquish rights to our technologies or product candidates that we might otherwise seek to develop or commercialize independently. We may elect to raise additional funds even before we need them if the conditions for raising capital are favorable.

Off-Balance Sheet Arrangements

We do not currently have, nor have we ever had, any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. In addition, we do not engage in trading activities involving non-exchange traded contracts.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our primary exposure to market risk is interest income sensitivity, which is affected by changes in the general level of U.S. interest rates. We are exposed to market risk related to fluctuations in interest rates, market prices, and foreign currency exchange rates. However, since a majority of our investments are in short-term certificates of deposit, FDIC-insured corporate bonds and money market funds, we do not believe we are subject to any material market risk exposure. As of March 31, 2011, we did not have any material derivative financial instruments. The fair value of our marketable securities, including those included in cash equivalents and short-term investments, was $33.7 million as of March 31, 2011.

Our investment policy is to limit credit exposure through diversification and investment in highly rated securities. We actively review, along with our investment advisors, current investment ratings, company specific events and general economic conditions in managing our investments and in determining whether there is a significant decline in fair value that is other-than-temporary. We will monitor and evaluate the accounting for our investment portfolio on a quarterly basis for additional other-than-temporary impairment charges.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our chief executive and financial officers, evaluated the effectiveness of our disclosures controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of March 31, 2011. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate, to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of March 31, 2011, our principal executive officer and principal financial officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting during the quarter ended March 31, 2011 identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, we may be involved in routine legal proceedings, as well as demands, claims and threatened litigation, which arise in the normal course of our business.

We believe there is no litigation pending that could, individually or in the aggregate, have a material adverse effect on our results of operations or financial condition.

ITEM 1A. RISK FACTORS

You should carefully consider the risks described below, together with the other information contained in this Quarterly Report on Form 10-Q, including the financial statements and the related notes that appear in this report. We believe the risks described below are the risks that are material to us as of the date of this report. If any of the following risks occur, our business, financial condition, results of operations and future growth prospects would like be materially and adversely affected. In these circumstances, the market price of our common stock could decline, and you may lose all or part of your investment.

Risks Related to Our Financial Condition and Capital Requirements

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

We are a development stage company with only six years of operating history. We have focused primarily on developing our three product candidates, varespladib, A-623 and varespladib sodium (A-001). We have financed our operations exclusively through equity offerings, private placements of convertible debt, and debt financings and we have incurred losses in each year since our inception in September 2004. Our net losses were approximately $8.7 million in 2006, $25.7 million in 2007, $18.1 million in 2008, $12.2 million in 2009, and $40.4 million in 2010 and $18.6 million for the three months ended March 31, 2011. As of March 31, 2011, we had an accumulated deficit of approximately $124.2 million. Substantially all of our losses resulted from costs incurred in connection with our product development programs and from general and administrative costs associated with our operations.

We expect to incur additional losses over the next several years, and these losses may increase if we cannot generate revenues. Our historical losses, combined with expected future losses, have had and will continue to have an adverse effect on our stockholders' equity and working capital. We expect our development expenses, as well as our clinical product manufacturing expenses, to increase in connection with our pivotal Phase 3 clinical study named VISTA-16 for varespladib, our Phase 2b clinical study named PEARL-SC for A-623 and other clinical studies related to the development of A-623. In addition, we will incur additional costs of operating as a

public company and, if we obtain regulatory approval for any of our product candidates, we may incur significant sales, marketing, in-licensing and outsourced manufacturing expenses as well as continued product development expenses. As a result, we expect to continue to incur significant and increasing losses for the foreseeable future.

We have never generated any revenue and may never be profitable.

Our ability to generate revenue and achieve profitability depends on our ability, alone or with collaborators, to successfully complete the development of our product candidates, conduct preclinical tests in animals and clinical studies in human beings, obtain the necessary regulatory approvals for our product candidates and commercialize any approved products. We have not generated any revenue from our development-stage product candidates, and we do not know when, or if, we will generate any revenue. The commercial success of our development-stage product candidates will depend on a number of factors, including, but not limited to, our ability to:

- obtain favorable results for and advance the development of our lead product candidate, varespladib, for the treatment of acute coronary syndrome, including successfully launching and completing the VISTA-16 study;
- obtain favorable results for and advance the development of our product candidate A-623 for the treatment of B-cell mediated autoimmune diseases, including successfully launching and completing PEARL-SC or other clinical studies in patients with systemic lupus erythematosus, or lupus, or other indications related to the development of A-623;
- obtain favorable results for and advance the development of our product candidate A-001 for the prevention of acute chest syndrome associated with sickle cell disease, including completing a multi-center Phase 2 clinical study;
- successfully execute our planned preclinical studies in animals and clinical studies in human beings for our other product candidates;
- obtain regulatory approval for varespladib, A-623, A-001 and our other product candidates;
- if regulatory approvals are obtained, begin the commercial manufacturing of our product candidates with our third-party manufacturers;
- launch commercial sales and effectively market our product candidates, either independently or in strategic collaborations with third parties; and
- achieve broad market acceptance of our product candidates in the medical community and with third-party payors.

All of our product candidates are subject to the risks of failure inherent in the development of therapeutics based on new technologies. Currently, we have three product candidates in clinical development: varespladib, A-623 and A-001. These product candidates could fail in clinical studies if we are unable to demonstrate that they are effective or if they cause unacceptable adverse effects in the patients we treat. Failure of our product candidates in clinical studies would have a material adverse effect on our ability to generate revenue or become profitable. If we are not successful in achieving regulatory approval for our product candidates or are significantly delayed in doing so, our business will be materially harmed.

Additionally, all of our other product candidates are in preclinical development. Our drug discovery efforts may not produce any other viable or marketable product candidates. We do not expect any of our potential product candidates to be commercially available until at least 2013.

Even if our product candidates are approved for commercial sale, the approved product candidate may not gain market acceptance or achieve commercial success. Physicians, patients, payors or the medical community in general may be unwilling to accept, utilize or recommend any of our products. We would anticipate incurring significant costs associated with commercializing any approved product. Even if we are able to generate product sales, which we cannot guarantee, we may not achieve profitability soon thereafter, if ever. If we are unable to generate product revenues, we will not become profitable and may be unable to continue operations without additional funding.

We will need substantial additional capital in the future to fund our operations. If additional capital is not available, we will have to delay, reduce or cease operations.

We will need to raise substantial additional capital to fund our operations and to develop our product candidates. Our future capital requirements could be substantial and will depend on many factors including:

- the rate of progress of our Phase 3 clinical study named VISTA-16 study for varespladib and our Phase 2b clinical study named PEARL-SC or other studies for A-623;
- the scope, size, rate of progress, results and costs of our preclinical studies, clinical studies and other development activities for one or more of our other product candidates;
- manufacturing campaign of A-623 clinical matters, including formulation development and enhancement;
- non-clinical activities that we may pursue parallel to clinical trials for each clinical compound;
- the cost, timing and outcomes of regulatory proceedings;
- payments received under any strategic collaborations;
- the filing, prosecution and enforcement of patent claims;
- the costs associated with commercializing our product candidates if they receive regulatory approval, including the cost and timing of developing sales and marketing capabilities, or entering into strategic collaboration with others relating to the commercialization of our product candidates; and
- revenues received from approved products, if any, in the future.

As of the date of this report, we anticipate that our existing cash, cash equivalents and short-term investments, will enable us to maintain our currently planned operations through at least the next 12 months. Changing circumstances may cause us to consume capital significantly faster than we currently anticipate. Additional financing may not be available when we need it or may not be available on terms that are favorable to us. If adequate funds are not available to us on a timely basis, or at all, we may be required to:

- terminate, reduce or delay preclinical studies, clinical studies or other development activities for one or more of our product candidates; or
- terminate, reduce or delay our (i) establishment of sales and marketing capabilities, (ii) pursuit of strategic collaborations with others relating to the sales, marketing and commercialization of our product candidates or (iii) other activities that may be necessary to commercialize our product candidates, if approved for sale.

The timing of the milestone and royalty payments we are required to make to each of Eli Lilly and Company, Shionogi & Co., Ltd. and Amgen Inc. is uncertain and could adversely affect our cash flows and results of operations.

In July 2006, we entered into a license agreement with Eli Lilly and Company, or Eli Lilly, and Shionogi & Co., Ltd. to develop and commercialize certain secretory phospholipase A2, or sPLA2, inhibitors for the treatment of cardiovascular disease and other diseases. Pursuant to our license agreement with them, we have an obligation to pay to each of Eli Lilly and Shionogi & Co., Ltd. significant milestone and royalty payments based upon how we develop and commercialize certain sPLA2 inhibitors, including varespladib and A-001, and our achievement of certain significant corporate, clinical and financial events. For varespladib, we are required to pay up to $32.0 million upon achievement of certain approval and post-approval sales milestones. For A-001, we are required to pay up to $3.0 million upon achievement of certain clinical development milestones and up to $25.0 million upon achievement of certain approval and post-approval sales milestones. For other product formulations that we are not currently developing, we would be required to pay up to $2.0 million upon achievement of certain clinical development milestones and up to $35.5 million upon achievement of certain approval and post-approval sales milestones.

In addition, in December 2007, we entered into a license agreement with Amgen Inc., or Amgen, pursuant to which we obtained an exclusive worldwide license to certain technology and compounds relating to A-623. Pursuant to our license agreement with Amgen, we are required to make various milestone payments upon our achievement of certain development, regulatory and commercial objectives for any A-623 formulation. We are required to pay up to $10.0 million upon achievement of certain pre-approval clinical

development milestones and up to $23.0 million upon achievement of certain post-approval milestones. We are also required to make tiered quarterly royalty payments on net sales, which increase as a percentage from the high single digits to the low double digits as net sales increase. The timing of our achievement of these events and corresponding milestone payments becoming due to Eli Lilly, Shionogi & Co., Ltd. and Amgen is subject to factors relating to the clinical and regulatory development and commercialization of certain sPLA2 inhibitors or A-623, as applicable, many of which are beyond our control. We may become obligated to make a milestone payment during a period in which we do not have the cash on hand to make such payment, which could require us to delay our clinical studies, curtail our operations, scale back our commercialization and marketing efforts, seek funds to meet these obligations at terms unfavorable to us or default on our license agreements, which could result in license termination.

Our limited operating history makes it difficult to evaluate our business and prospects.

We were incorporated in September 2004. Our operations to date have been limited to organizing and staffing our company, acquiring product and technology rights, conducting product development activities for our primary product candidates, varespladib, A-623 and A-001, and performing research and development. We have not yet demonstrated an ability to obtain regulatory approval for or commercialize a product candidate. Consequently, any predictions about our future performance may not be as accurate as they could be if we had a history of successfully developing and commercializing pharmaceutical products.

Risks Associated with Development and Commercialization of Our Product Candidates

We depend substantially on the success of our three primary product candidates, varespladib, A-623 and A-001, which are still under clinical development. We cannot assure you that these product candidates or any of our other product candidates will receive regulatory approval or be successfully commercialized.

To date, we have not obtained marketing approval for, or marketed, distributed or sold any product candidates. The success of our business depends primarily upon our ability to develop and commercialize our three primary product candidates successfully. Our lead product candidate is varespladib, which has completed its Phase 2 clinical studies and for which we have received (i) an agreement from the U.S. Food and Drug Administration, or FDA, on a Special Protocol Assessment, or SPA, for the VISTA-16 Phase 3 study protocol, and (ii) scientific advice from the European Medicines Agency on our European development strategy for varespladib. We initiated the VISTA-16 study for varespladib in June 2010.

Our next product candidate is A-623, which has completed several Phase 1 clinical studies and recently began enrollment for our Phase 2b clinical study. In July 2010, we received clearance from the FDA to begin recruitment of lupus patients into the PEARL-SC Phase 2b clinical study. In November 2010, we placed a voluntary hold on the PEARL-SC study due to problems found with vials. Patient enrollment in the study was temporarily suspended and dosing was discontinued in patients who were enrolled in the study while we conducted an analysis of the problem. We resolved the issues found with the vials in December 2010. After analysis, simulation and consultation with industry experts, we determined that shipping on dry ice was the root cause of the issue. Shipping logistics were modified and we reinitiated enrollment in PEARL-SC and dosing in January 2011. We have received no reports of patient-related side effects or problems with drug administration that could be attributed to the vial problem.

Our third product candidate, varespladib sodium (A-001), is an intravenously administered inhibitor of sPLA2. We have completed a Phase 2 clinical study for the prevention of acute chest syndrome associated with sickle cell disease. A pre-specified interim review of our Phase 2 clinical study results by a Data Safety Monitoring Board, or DSMB, indicated A-001, at a certain dose, reduced sPLA2 activity by more than 80% from baseline within 48 hours. Furthermore, the incidence of acute chest syndrome appeared to be related to the level of sPLA2 activity.

Our product candidates are prone to the risks of failure inherent in drug development. Before obtaining regulatory approvals for the commercial sale of any product candidate for a target indication, we must demonstrate with substantial evidence gathered in preclinical and well-controlled clinical studies, and, with respect to approval in the United States, to the satisfaction of the FDA and, with respect to approval in other countries, similar regulatory authorities in those countries, that the product candidate is safe and effective for use for that target indication and that the manufacturing facilities, processes and controls are adequate. Despite our efforts, our product candidates may not:

- offer therapeutic or other improvement over existing, comparable therapeutics;
- be proven safe and effective in clinical studies;

- meet applicable regulatory standards;
- be capable of being produced in sufficient quantities at acceptable costs;
- be successfully commercialized; or
- obtain favorable reimbursement.

We are not permitted to market our varespladib and A-001 product candidates in the United States until we receive approval of a new drug application, or NDA, or with respect to our A-623 product candidate, approval of a biologics license application, or BLA, from the FDA, or in any foreign countries until we receive the requisite approval from such countries. We have not submitted an NDA or BLA or received marketing approval for any of our product candidates.

Preclinical testing and clinical studies are long, expensive and uncertain processes. We may spend several years completing our testing for any particular product candidate, and failure can occur at any stage. Negative or inconclusive results or adverse medical events during a clinical study could also cause the FDA or us to terminate a clinical study or require that we repeat it or conduct additional clinical studies. Additionally, data obtained from a clinical study are susceptible to varying interpretations and the FDA or other regulatory authorities may interpret the results of our clinical studies less favorably than we do. The FDA and equivalent foreign regulatory agencies have substantial discretion in the approval process and may decide that our data are insufficient to support a marketing application and require additional preclinical, clinical or other studies.

Any termination or suspension of, or delays in the commencement or completion of, clinical testing of our product candidates could result in increased costs to us, delay or limit our ability to generate revenue and adversely affect our commercial prospects.

Delays in the commencement or completion of clinical testing could significantly affect our product development costs. We do not know whether planned clinical studies will begin on time or be completed on schedule, if at all. The commencement and completion of clinical studies can be delayed for a number of reasons, including delays related to:

- obtaining regulatory approval to commence a clinical study or complying with conditions imposed by a regulatory authority regarding the scope or design of a clinical study;
- reaching agreement on acceptable terms with prospective clinical research organizations, or CROs, and study sites, the terms of which can be subject to extensive negotiation and may vary significantly among different CROs and study sites;
- manufacturing, including manufacturing sufficient quantities of a product candidate or other materials for use in clinical studies;
- obtaining institutional review board, or IRB, approval or the approval of other reviewing entities to conduct a clinical study at a prospective site;
- recruiting and enrolling patients to participate in clinical studies for a variety of reasons, including size of patient population, nature of clinical study protocol, the availability of approved effective treatments for the relevant disease and competition from other clinical study programs for similar indications;
- severe or unexpected drug-related adverse effects experienced by patients in a clinical study; and
- retaining patients who have initiated a clinical study, but may withdraw due to treatment protocol, adverse effects from the therapy, lack of efficacy from the treatment, personal issues or who are lost to further follow-up.

Clinical studies may also be delayed, suspended or terminated as a result of ambiguous or negative interim results, or results that are inconsistent with earlier results. For example, while an independent statistician has completed an analysis of various biomarkers of cardiovascular risk and determined that treatment with once-daily varespladib met the pre-specified criteria for the VISTA-16 study to proceed, an independent DSMB reviewing the clinical data from the VISTA-16 study may recommend the clinical study discontinue based on safety and tolerability. In addition, a clinical study may be suspended or terminated by us, the FDA, the IRB or other reviewing entity overseeing the clinical study at issue, any of our clinical study sites with respect to that site, or other regulatory authorities due to a number of factors, including:

- failure to conduct the clinical study in accordance with regulatory requirements or our clinical protocols;
- inspection of the clinical study operations or study sites by the FDA or other regulatory authorities resulting in the imposition of a clinical hold;

- unforeseen safety issues or any determination that a clinical study presents unacceptable health risks; and
- lack of adequate funding to continue the clinical study, including the incurrence of unforeseen costs due to enrollment delays, requirements to conduct additional clinical studies and increased expenses associated with the services of our CROs and other third parties.

Product development costs to us and our collaborators will increase if we have delays in testing or approval of our product candidates or if we need to perform more or larger clinical studies than planned. For example, we may need to increase our sample size for our VISTA-16 study for varespladib if the overall major adverse cardiovascular event, or MACE, rate is lower than expected. We typically rely on third-party clinical investigators at medical institutions and health care facilities to conduct our clinical studies and, as a result, we may face additional delaying factors outside our control.

Additionally, changes in regulatory requirements and policies may occur and we may need to amend clinical study protocols to reflect these changes. Amendments may require us to resubmit our clinical study protocols to IRBs for reexamination, which may impact the costs, timing or successful completion of a clinical study. If we experience delays in completion of, or if we, the FDA or other regulatory authorities, the IRB or other reviewing entities, or any of our clinical study sites suspend or terminate any of our clinical studies, the commercial prospects for our product candidates may be harmed and our ability to generate product revenues will be delayed. In addition, many of the factors that cause, or lead to, termination or suspension of, or a delay in the commencement or completion of, clinical studies may also ultimately lead to the denial of regulatory approval of a product candidate. Also, if one or more clinical studies are delayed, our competitors may be able to bring products to market before we do, and the commercial viability of our product candidates could be significantly reduced.

The results of biomarker assays in earlier clinical studies in varespladib are not necessarily predictive of future results, and therefore the results of biomarker assays in the VISTA-16 study may not be similar to those observed previously.

Success in our Phase 2 clinical studies in lowering low-density lipoprotein cholesterol, or LDL-C, C-reactive protein, or CRP, sPLA2 and interleukin-6, or IL-6, during treatment with varespladib does not ensure that later clinical studies, such as our VISTA-16 study, will demonstrate similar reductions in these biomarkers. Each of these biomarkers has been associated with an increased risk for secondary MACE following an acute coronary syndrome. Our inability to demonstrate similar biomarker effects in our VISTA-16 study may reduce our ability to achieve our primary endpoint to reduce MACE and to achieve regulatory approval of varespladib. Recently, an independent statistician completed an analysis of various biomarkers of cardiovascular risk and determined that treatment with once-daily varespladib met the pre-specified criteria for the study to proceed. The analysis required patients on varespladib to demonstrate pre-defined treatment effects versus placebo at relevant time points on a collection of biomarkers including: secretory phospholipase A2 (sPLA2), low density lipoprotein cholesterol (LDL-C), C-reactive protein (CRP), interleukin-6 (IL-6), and a composite responder endpoint defined as patients achieving LDL-C less than 70 mg/dL and CRP below 1.0 mg/L. Despite these interim results on biomarkers from VISTA-16, those results do not necessarily equate with reductions in MACE.

Because the results of preclinical testing or earlier clinical studies are not necessarily predictive of future results, varespladib, A-623, A-001 or any other product candidate we advance into clinical studies may not have favorable results in later clinical studies or receive regulatory approval.

Success in preclinical testing and early clinical studies does not ensure that later clinical studies will generate adequate data to demonstrate the efficacy and safety of an investigational drug or biologic. A number of companies in the pharmaceutical and biotechnology industries, including those with greater resources and experience, have suffered significant setbacks in Phase 3 clinical studies, even after seeing promising results in earlier clinical studies. Despite the results reported in earlier clinical studies for our product candidates, including varespladib, A-623 and A-001, we do not know whether any Phase 3 or other clinical studies we may conduct will demonstrate adequate efficacy and safety to result in regulatory approval to market any of our product candidates. If later stage clinical studies do not produce favorable results, our ability to achieve regulatory approval for any of our product candidates may be adversely impacted. Even if we believe that our product candidates have performed satisfactorily in preclinical testing and clinical studies, we may nonetheless fail to obtain FDA approval for our product candidates.

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

We are party to an agreement with Eli Lilly and Shionogi & Co., Ltd. containing exclusive, worldwide licenses, except for Japan, of the composition of matter, methods of making and methods of use for certain sPLA2 inhibitors. We are also party to an agreement with Amgen containing exclusive, worldwide licenses of the composition of matter and methods of use for A-623. These agreements require us to make timely milestone and royalty payments, provide regular information, maintain the confidentiality of and indemnify Eli Lilly, Shionogi & Co., Ltd. and Amgen under the terms of the agreements.

If we fail to meet these obligations, our licensors may terminate our exclusive licenses and may be able to re-obtain licensed technology and aspects of any intellectual property controlled by us that relate to the licensed technology that originated from the licensors. Our licensors could effectively take control of the development and commercialization of varespladib, A-623 and A-001 after an uncured, material breach of our license agreements by us or if we voluntarily terminate the agreements. While we would expect to exercise all rights and remedies available to us, including seeking to cure any breach by us, and otherwise seek to preserve our rights under the patents licensed to us, we may not be able to do so in a timely manner, at an acceptable cost or at all. Any uncured, material breach under the licenses could result in our loss of exclusive rights and may lead to a complete termination of our product development and any commercialization efforts for varespladib, A-623 or A-001.

Our industry is subject to intense competition. If we are unable to compete effectively, our product candidates may be rendered non-competitive or obsolete.

The pharmaceutical industry is highly competitive and subject to rapid and significant technological change. Our potential competitors include large pharmaceutical and more established biotechnology companies, specialty pharmaceutical and generic drug companies, academic institutions, government agencies and other public and private research organizations that conduct research, seek patent protection and establish collaborative arrangements for research, development, manufacturing and commercialization. All of these competitors currently engage in, have engaged in or may engage in the future in the development, manufacturing, marketing and commercialization of pharmaceuticals and biotechnologies, some of which may compete with our present or future product candidates. It is possible that any of these competitors could develop technologies or products that would render our product candidates obsolete or non-competitive, which could adversely affect our revenue potential. Key competitive factors affecting the commercial success of our product candidates are likely to be efficacy, safety profile, reliability, convenience of dosing, price and reimbursement.

The market for inflammatory disease therapeutics is especially large and competitive. All of the sPLA2 inhibitor compounds we are currently developing, if approved, will face intense competition, either as monotherapies or in combination therapies. We are aware of other companies with products in development that are being tested for anti-inflammatory benefits in patients with acute coronary syndrome, such as Via Pharmaceuticals, Inc. and its 5-lipoxygenase, or 5-LO, inhibitor, which has been evaluated in Phase 2 clinical studies; and GlaxoSmithKline plc and its product candidate, darapladib, which is a lipoprotein associated phospholipase A2, or Lp-PLA2, inhibitor currently being evaluated in Phase 3 clinical studies. Although there are no sPLA2 inhibitor compounds currently approved by the FDA for the treatment of acute chest syndrome associated with sickle cell disease, Droxia, or hydroxyurea, is approved for the prevention of vaso-occlusive crisis, or VOC, in sickle cell disease and thus could reduce the pool of patients with VOC at risk for acute chest syndrome. For lupus, Human Genome Sciences, Inc.'s and GlaxoSmithKline plc's BAFF antagonist monoclonal antibody, Benlysta, was recently approved by the FDA for treatment of lupus. Further, we are aware of companies with other products in development that are being tested for potential treatment of lupus, ZymoGenetics, Inc. and Merck Serono S.A., whose dual BAFF/APRIL antagonist fusion protein, Atacicept, is in a Phase 3 clinical study for lupus; and Immunomedics, Inc. and UCB S.A., who recently reported favorable results for their CD-22 antagonist humanized antibody, epratuzumab, which completed a Phase 2b clinical study in lupus and has begun a Phase 3 study, and Eli Lilly's anti-BLYS monoclonal antibody, LY2127399, which has begun two Phase 3 studies.

Many of our potential competitors have substantially greater financial, technical and human resources than we do and significantly greater experience in the discovery and development of drug candidates, obtaining FDA and other regulatory approvals of products and the commercialization of those products. Accordingly, our competitors may be more successful than we may be in obtaining FDA approval for drugs and achieving widespread market acceptance. Our competitors' drugs may be more effective, have fewer adverse effects, be less expensive to develop and manufacture or be more effectively marketed and sold than any product candidate we may commercialize and may render our product candidates obsolete or non-competitive before we can recover the expenses of developing and commercializing any of our product candidates. We anticipate that we will face intense and increasing competition as new drugs enter the market and advanced technologies become available. These entities may also establish collaborative or licensing relationships with our competitors. Finally, the development of new treatment methods for the diseases we are targeting could render our drugs non-competitive or obsolete. All of these factors could adversely affect our business.

Our product candidates may cause undesirable adverse effects or have other properties that could delay or prevent their regulatory approval or limit the commercial profile of any approved label.

Undesirable adverse effects caused by our product candidates could cause us, IRBs or other reviewing entities, clinical study sites, or regulatory authorities to interrupt, delay or halt clinical studies and could result in the denial of regulatory approval by the FDA or other regulatory authorities. Phase 2 clinical studies conducted by us with our product candidates have generated differences in adverse effects and serious adverse events. The most common adverse effects seen with any of our product candidates versus placebo include diarrhea, headache, nausea and increases in alanine aminotransferase, which is an enzyme that indicates liver cell injury. The most common serious adverse events seen with any of our product candidates include death, VOC and congestive heart failure. While none of these serious adverse events were considered related to the administration of our product candidates by the clinical investigators, if serious adverse events that are considered related to our product candidates are observed in any Phase 3 clinical studies, our ability to obtain regulatory approval for our product candidates may be adversely impacted. Further, if any of our product candidates receives marketing approval and we or others later discover, after approval and use in an increasing number of patients, that our products could have adverse effect profiles that limit their usefulness or require their withdrawal (whether or not the therapies showed the adverse effect profile in Phase 1 through Phase 3 clinical studies), a number of potentially significant negative consequences could result, including:

- regulatory authorities may withdraw their approval of the product;
- regulatory authorities may require the addition of labeling statements, such as warnings or contraindications;
- we may be required to change the way the product is administered, conduct additional clinical studies or change the labeling of the product;
- we could be sued and held liable for harm caused to patients; and
- our reputation may suffer.

Any of these events could prevent us from achieving or maintaining market acceptance of the affected product candidate and could substantially increase the costs of commercializing our product candidates.

After the completion of our clinical studies, we cannot predict whether or when we will obtain regulatory approval to commercialize our product candidates and we cannot, therefore, predict the timing of any future revenue from these product candidates.

Even if we project positive clinical results and file for regulatory approval, we cannot commercialize any of our product candidates until the appropriate regulatory authorities have reviewed and approved the applications for such product candidates. We cannot assure you that the regulatory agencies will complete their review processes in a timely manner or that we will obtain regulatory approval for any product candidate we develop. Satisfaction of regulatory requirements typically takes many years, is dependent upon the type, complexity and novelty of the product and requires the expenditure of substantial resources. In addition, we may experience delays or rejections based upon additional government regulation from future legislation or administrative action or changes in FDA policy during the period of product development, clinical studies and FDA regulatory review.

Our agreement with the FDA on a SPA for our VISTA-16 study of varespladib for the potential treatment of acute coronary syndrome does not guarantee any particular outcome from regulatory review of the study or the product candidate.

The FDA's SPA process creates a written agreement between the sponsoring company and the FDA regarding clinical study design and other clinical study issues that can be used to support approval of a product candidate. The SPA is intended to provide assurance that if the agreed upon clinical study protocols are followed and the clinical study endpoints are achieved, the data may serve as the primary basis for an efficacy claim in support of an NDA. However, the SPA agreement is not a guarantee of an approval of a product or any permissible claims about the product. In particular, the SPA is not binding on the FDA if public health concerns unrecognized at the time of the SPA agreement is entered into become evident, other new scientific concerns regarding product safety or efficacy arise or if the sponsor company fails to comply with the agreed upon clinical study protocols. Although we have an agreement with the FDA on an SPA for our VISTA-16 clinical study of varespladib for the potential short-term (16-week) treatment of acute coronary syndrome, we do not know how the FDA will interpret the commitments under our agreed upon SPA, how it will interpret the data and results or whether it will approve our varespladib product candidate for the short-term (16-week) treatment of acute coronary

syndrome. Regardless of our SPA agreement, we cannot guarantee any particular outcome from regulatory review of our VISTA-16 study.

Even if our product candidates receive regulatory approval, they may still face future development and regulatory difficulties.

Even if U.S. regulatory approval is obtained, the FDA may still impose significant restrictions on a product's indicated uses or marketing or impose ongoing requirements for potentially costly post-approval studies or post-market surveillance. For example, the label ultimately approved for varespladib, if any, may include restrictions on use. Further, the FDA has indicated that long-term safety data on varespladib may need to be obtained as a post-market requirement. Our product candidates will also be subject to ongoing FDA requirements governing the labeling, packaging, storage, distribution, safety surveillance, advertising, promotion, recordkeeping and reporting of safety and other post-market information. In addition, manufacturers of drug products and their facilities are subject to continual review and periodic inspections by the FDA and other regulatory authorities for compliance with current good manufacturing practices, or cGMP, regulations. If we or a regulatory agency discovers previously unknown problems with a product, such as adverse events of unanticipated severity or frequency, or problems with the facility where the product is manufactured, a regulatory agency may impose restrictions on that product, the manufacturing facility or us, including requiring recall or withdrawal of the product from the market or suspension of manufacturing. If we, our product candidates or the manufacturing facilities for our product candidates fail to comply with applicable regulatory requirements, a regulatory agency may:

- issue warning letters or untitled letters;
- seek an injunction or impose civil or criminal penalties or monetary fines;
- suspend or withdraw regulatory approval;
- suspend any ongoing clinical studies;
- refuse to approve pending applications or supplements to applications filed by us;
- suspend or impose restrictions on operations, including costly new manufacturing requirements; or
- seize or detain products, refuse to permit the import or export of products, or require us to initiate a product recall.

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

New legal and regulatory requirements could make it more difficult for us to obtain approvals for our product candidates and could limit or make more burdensome our ability to commercialize any approved products.

New federal legislation or regulatory requirements could affect the requirements for obtaining regulatory approvals of our product candidates or otherwise limit our ability to commercialize any approved products or subject our products to more rigorous post-approval requirements. For example, the FDA Amendments Act of 2007, or FDAAA, granted the FDA new authority to impose post-approval clinical study requirements, require safety-related changes to product labeling and require the adoption of risk management plans, referred to in the legislation as risk evaluation and mitigation strategies, or REMS. The REMS may include requirements for special labeling or medication guides for patients, special communication plans to health care professionals, and restrictions on distribution and use. Pursuant to the FDAAA, if the FDA makes the requisite findings, it might require that a new product be used only by physicians with specified specialized training, only in specified designated health care settings, or only in conjunction with special patient testing and monitoring. The legislation also included the following: requirements for providing the public information on ongoing clinical studies through a clinical study registry and for disclosing clinical study results to the public through such registry; renewed requirements for conducting clinical studies to generate information on the use of products in pediatric patients; and substantial new penalties, for example, for false or misleading consumer advertisements. Other proposals have been made to impose additional requirements on drug approvals, further expand post-approval requirements, and restrict sales and promotional activities. The new legislation, and the additional proposals if enacted, may make it more difficult or burdensome for us to obtain approval of our product candidates, any approvals we receive may be more restrictive or be subject to onerous post-approval requirements, our ability to successfully commercialize approved products may be hindered and our business may be harmed as a result.

If any of our product candidates for which we receive regulatory approval does not achieve broad market acceptance, the revenue that we generate from its sales, if any, will be limited.

The commercial success of our product candidates for which we obtain marketing approval from the FDA or other regulatory authorities will depend upon the acceptance of these products by the medical community, including physicians, patients and health care payors. The degree of market acceptance of any of our approved products will depend on a number of factors, including:

- demonstration of clinical safety and efficacy compared to other products;
- the relative convenience, ease of administration and acceptance by physicians and payors of varespladib in the treatment of acute coronary syndrome, A-623 in the treatment of lupus and A-001 in the prevention of acute chest syndrome associated with sickle cell disease;
- the prevalence and severity of any adverse effects;
- limitations or warnings contained in a product's FDA-approved labeling;
- availability of alternative treatments, including, in the case of varespladib, a number of competitive products being studied for anti-inflammatory benefits in patients with acute coronary syndrome or expected to be commercially launched in the near future;
- pricing and cost-effectiveness;
- the effectiveness of our or any future collaborators' sales and marketing strategies;
- our ability to obtain and maintain sufficient third-party coverage or reimbursement from government health care programs, including Medicare and Medicaid; and
- the willingness of patients to pay out-of-pocket in the absence of third-party coverage.

If our product candidates are approved but do not achieve an adequate level of acceptance by physicians, health care payors and patients, we may not generate sufficient revenue from these products, and we may not become or remain profitable. In addition, our efforts to educate the medical community and third-party payors on the benefits of our product candidates may require significant resources and may never be successful.

Our future success depends on our ability to retain our chief executive officer and other key executives and to attract, retain and motivate qualified personnel.

We are highly dependent on Mr. Paul F. Truex, our President and Chief Executive Officer, Dr. Colin Hislop, our Senior Vice President and Chief Medical Officer and the other principal members of our executive team. The loss of the services of any of these persons might impede the achievement of our research, development and commercialization objectives. Recruiting and retaining qualified scientific personnel and possibly sales and marketing personnel will also be critical to our success. We may not be able to attract and retain these personnel on acceptable terms given the competition among numerous pharmaceutical and biotechnology companies for similar personnel. We also experience competition for the hiring of scientific personnel from universities and research institutions. Failure to succeed in clinical studies may make it more challenging to recruit and retain qualified scientific personnel. In addition, we rely on consultants and advisors, including scientific and clinical advisors, to assist us in formulating our research and development and commercialization strategy. Our consultants and advisors may be employed by employers other than us and may have commitments under consulting or advisory contracts with other entities that may limit their availability to us.

Recently enacted and future legislation or regulatory reform of the health care system in the United States and foreign jurisdictions may affect our ability to sell our products profitably.

Our ability to commercialize our future products successfully, alone or with collaborators, will depend in part on the extent to which reimbursement for the products will be available from government and health administration authorities, private health insurers and other third-party payors. The continuing efforts of the U.S. and foreign governments, insurance companies, managed care organizations and other payors of health care services to contain or reduce health care costs may adversely affect our ability to set prices for our products which we believe are fair, and our ability to generate revenues and achieve and maintain profitability.

Specifically, in both the United States and some foreign jurisdictions, there have been a number of legislative and regulatory proposals to change the health care system in ways that could affect our ability to sell our products profitably. In March 2010, President Obama signed into law the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act, or collectively, the Health Care Reform Law, a sweeping law intended to broaden access to health insurance, reduce or constrain the growth of healthcare spending, enhance remedies against fraud and abuse, add new transparency requirements for healthcare and health insurance industries, impose new taxes and fees on the health industry and impose additional health policy reforms.

We will not know the full effects of the Health Care Reform Law until applicable federal and state agencies issue regulations or guidance under the new law. Although it is too early to determine the effect of the Health Care Reform Law, the new law appears likely to continue the pressure on pharmaceutical pricing, especially under the Medicare program, and also may increase our regulatory burdens and operating costs. We expect further federal and state proposals and health care reforms to continue to be proposed by legislators, which could limit the prices that can be charged for the products we develop and may limit our commercial opportunity.

Also in the United States, the Medicare Prescription Drug, Improvement, and Modernization Act of 2003, also called the Medicare Modernization Act, or MMA, changed the way Medicare covers and pays for pharmaceutical products. The legislation expanded Medicare coverage for drug purchases by the elderly and introduced a new reimbursement methodology based on average sales prices for drugs. In addition, this legislation authorized Medicare Part D prescription drug plans to use formularies where they can limit the number of drugs that will be covered in any therapeutic class. As a result of this legislation and the expansion of federal coverage of drug products, we expect that there will be additional pressure to contain and reduce costs. These cost reduction initiatives and other provisions of this legislation could decrease the coverage and price that we receive for any approved products and could seriously harm our business. While the MMA applies only to drug benefits for Medicare beneficiaries, private payors often follow Medicare coverage policy and payment limitations in setting their own reimbursement rates, and any reduction in reimbursement that results from the MMA may result in a similar reduction in payments from private payors.

The continuing efforts of government and other third-party payors to contain or reduce the costs of health care through various means may limit our commercial opportunity. It will be time-consuming and expensive for us to go through the process of seeking reimbursement from Medicare and private payors. Our products may not be considered cost-effective, and government and third-party private health insurance coverage and reimbursement may not be available to patients for any of our future products or sufficient to allow us to sell our products on a competitive and profitable basis. Our results of operations could be adversely affected by the MMA, the Health Care Reform Law, and additional prescription drug coverage legislation, by the possible effect of this legislation on amounts that private insurers will pay and by other health care reforms that may be enacted or adopted in the future. In addition, increasing emphasis on managed care in the United States will continue to put pressure on the pricing of pharmaceutical products. Cost control initiatives could decrease the price that we or any potential collaborators could receive for any of our future products and could adversely affect our profitability.

In some foreign countries, including major markets in the European Union and Japan, the pricing of prescription pharmaceuticals is subject to governmental control. In these countries, pricing negotiations with governmental authorities can take six to 12 months or longer after the receipt of regulatory marketing approval for a product. To obtain reimbursement or pricing approval in some countries, we may be required to conduct a clinical study that compares the cost-effectiveness of our product candidates to other available therapies. Such pharmacoeconomic studies can be costly and the results uncertain. Our business could be harmed if reimbursement of our products is unavailable or limited in scope or amount or if pricing is set at unsatisfactory levels.

We face potential product liability exposure, and, if successful claims are brought against us, we may incur substantial liability.

The use of our product candidates in clinical studies and the sale of any products for which we obtain marketing approval expose us to the risk of product liability claims. Product liability claims might be brought against us by consumers, health care providers, pharmaceutical companies or others selling or otherwise coming into contact with our products. If we cannot successfully defend ourselves against product liability claims, we could incur substantial liabilities. In addition, regardless of merit or eventual outcome, product liability claims may result in:

- impairment of our business reputation;
- withdrawal of clinical study participants;
- costs of related litigation;

- distraction of management's attention from our primary business;
- substantial monetary awards to patients or other claimants;
- the inability to commercialize our product candidates; and
- decreased demand for our product candidates, if approved for commercial sale.

Our product liability insurance coverage for our clinical studies may not be sufficient to reimburse us for all expenses or losses we may suffer. Moreover, insurance coverage is becoming increasingly expensive, and, in the future, we may not be able to maintain insurance coverage at a reasonable cost or in sufficient amounts to protect us against losses due to liability. If and when we obtain marketing approval for any of our product candidates, we intend to expand our insurance coverage to include the sale of commercial products; however, we may be unable to obtain this product liability insurance on commercially reasonable terms. On occasion, large judgments have been awarded in class action lawsuits based on drugs that had unanticipated adverse effects. A successful product liability claim or series of claims brought against us could cause our stock price to decline and, if judgments exceed our insurance coverage, could decrease our cash and adversely affect our business.

If we use hazardous and biological materials in a manner that causes injury or violates applicable law, we may be liable for damages.

Our research and development activities involve the controlled use of potentially hazardous substances, including toxic chemical and biological materials. We could be held liable for any contamination, injury or other damages resulting from these hazardous substances. In addition, our operations produce hazardous waste products. While third parties are responsible for disposal of our hazardous waste, we could be liable under environmental laws for any required cleanup of sites at which our waste is disposed. Federal, state, foreign and local laws and regulations govern the use, manufacture, storage, handling and disposal of these hazardous materials. If we fail to comply with these laws and regulations at any time, or if they change, we may be subject to criminal sanctions and substantial civil liabilities, which may harm our business. Even if we continue to comply with all applicable laws and regulations regarding hazardous materials, we cannot eliminate the risk of accidental contamination or discharge and our resultant liability for any injuries or other damages caused by these accidents.

We rely on third parties to conduct, supervise and monitor our clinical studies, and those third parties may perform in an unsatisfactory manner, such as by failing to meet established deadlines for the completion of these clinical studies, or may harm our business if they suffer a catastrophic event.

We rely on third parties such as CROs, medical institutions and clinical investigators to enroll qualified patients and conduct, supervise and monitor our clinical studies. Our reliance on these third parties for clinical development activities reduces our control over these activities. Our reliance on these third parties, however, does not relieve us of our regulatory responsibilities, including ensuring that our clinical studies are conducted in accordance with good clinical practices, or GCP, and the investigational plan and protocols contained in the relevant regulatory application, such as the investigational new drug application, or IND. In addition, the CROs with whom we contract may not complete activities on schedule, or may not conduct our preclinical studies or clinical studies in accordance with regulatory requirements or our clinical study design. If these third parties do not successfully carry out their contractual duties or meet expected deadlines, our efforts to obtain regulatory approvals for, and to commercialize, our product candidates may be delayed or prevented. In addition, if a catastrophe such as an earthquake, fire, flood or power loss should affect one of the third parties on which we rely, our business prospects could be harmed. For example, if a central laboratory holding all of our clinical study samples were to suffer a catastrophic loss of their facility, we would lose all of our samples and would have to repeat our studies.

Any failure by our third-party manufacturers on which we rely to produce our preclinical and clinical drug supplies and on which we intend to rely to produce commercial supplies of any approved product candidates may delay or impair our ability to commercialize our product candidates.

We have relied upon a small number of third-party manufacturers and active pharmaceutical ingredient formulators for the manufacture of our material for preclinical and clinical testing purposes and intend to continue to do so in the future. We also expect to rely upon third parties to produce materials required for the commercial production of our product candidates if we succeed in obtaining necessary regulatory approvals. If we are unable to arrange for third-party manufacturing sources, or to do so on commercially reasonable terms, we may not be able to complete development of our product candidates or market them.

Reliance on third-party manufacturers entails risks to which we would not be subject if we manufactured product candidates ourselves, including reliance on the third party for regulatory compliance and quality assurance, the possibility of breach of the manufacturing agreement by the third party because of factors beyond our control (including a failure to synthesize and manufacture our product candidates in accordance with our product specifications) and the possibility of termination or nonrenewal of the agreement by the third party, based on its own business priorities, at a time that is costly or damaging to us. In addition, the FDA and other regulatory authorities require that our product candidates be manufactured according to cGMP and similar foreign standards. Any failure by our third-party manufacturers to comply with cGMP or failure to scale up manufacturing processes, including any failure to deliver sufficient quantities of product candidates in a timely manner, could lead to a delay in, or failure to obtain, regulatory approval of any of our product candidates. In addition, such failure could be the basis for action by the FDA to withdraw approvals for product candidates previously granted to us and for other regulatory action, including recall or seizure, total or partial suspension of production or injunction.

As part of our discussions to reactivate our US IND for A-623, we received a request from the FDA for additional information regarding the characterization and qualification of the already manufactured vials of A-623 and plans for any future manufactured vials of A-623 that we intend to use in clinical studies. In response to this request, we provided the FDA additional analytical data regarding all lots of previously manufactured A-623 to be utilized in the current PEARL-SC clinical study. In addition, since new vials of A-623 will be manufactured at a new facility by our partner Merck Biomanufacturing Network (recently acquired by Fujifilm), we submitted a comparability plan to the FDA on March 4, 2011 to establish appropriate comparability and specifications requirements of newly manufactured vials of A-623 to be included in any future clinical studies. We have had no comments to date. Should the FDA not agree with our comparability protocol proposal or if we are unable to agree on the specifications for future A-623 manufacturing, further clinical development of A-623 beyond the PEARL-SC clinical study would be substantially delayed and we would incur substantial additional expense.

We rely on our manufacturers to purchase from third-party suppliers the materials necessary to produce our product candidates for our clinical studies. There are a small number of suppliers for certain capital equipment and raw materials that we use to manufacture our drugs. Such suppliers may not sell these raw materials to our manufacturers at the times we need them or on commercially reasonable terms. We do not have any control over the process or timing of the acquisition of these raw materials by our manufacturers. Moreover, we currently do not have any agreements for the commercial production of these raw materials. Although we generally do not begin a clinical study unless we believe we have a sufficient supply of a product candidate to complete the clinical study, any significant delay in the supply of a product candidate or the raw material components thereof for an ongoing clinical study due to the need to replace a third-party manufacturer could considerably delay completion of our clinical studies, product testing and potential regulatory approval of our product candidates. If our manufacturers or we are unable to purchase these raw materials after regulatory approval has been obtained for our product candidates, the commercial launch of our product candidates would be delayed or there would be a shortage in supply of such product candidates, which would impair our ability to generate revenues from the sale of our product candidates.

Because of the complex nature of our compounds, our manufacturers may not be able to manufacture our compounds at a cost or in quantities or in a timely manner necessary to make commercially successful products. If we successfully commercialize any of our drugs, we may be required to establish large-scale commercial manufacturing capabilities. In addition, as our drug development pipeline increases and matures, we will have a greater need for clinical study and commercial manufacturing capacity. We have no experience manufacturing pharmaceutical products on a commercial scale and some of these suppliers will need to increase their scale of production to meet our projected needs for commercial manufacturing, the satisfaction of which on a timely basis may not be met.

If we are unable to establish sales and marketing capabilities or enter into agreements with third parties to market and sell our product candidates, we may be unable to generate any revenue.

We do not currently have an organization for the sales, marketing and distribution of pharmaceutical products and the cost of establishing and maintaining such an organization may exceed the cost-effectiveness of doing so. In order to market any products that may be approved by the FDA, we must build our sales, marketing, managerial and other non-technical capabilities or make arrangements with third parties to perform these services. If we are unable to establish adequate sales, marketing and distribution capabilities, whether independently or with third parties, we may not be able to generate product revenue and may not become profitable. We will be competing with many companies that currently have extensive and well-funded marketing and sales operations. Without an internal team or the support of a third party to perform marketing and sales functions, we may be unable to compete successfully against these more established companies.

Guidelines and recommendations published by various organizations may adversely affect the use of any products for which we may receive regulatory approval.

Government agencies issue regulations and guidelines directly applicable to us and to our product candidates. In addition, professional societies, practice management groups, private health or science foundations and organizations involved in various diseases from time to time publish guidelines or recommendations to the medical and patient communities. These various sorts of recommendations may relate to such matters as product usage and use of related or competing therapies. For example, organizations like the American Heart Association have made recommendations about therapies in the cardiovascular therapeutics market. Changes to these recommendations or other guidelines advocating alternative therapies could result in decreased use of any products for which we may receive regulatory approval, which may adversely affect our results of operations.

Risks Related to Our Intellectual Property

If our or our licensors' patent positions do not adequately protect our product candidates or any future products, others could compete with us more directly, which would harm our business.

As of the date of this report, we hold a total of four pending U.S. non-provisional patent applications, two pending U.S. provisional patent applications and two pending Patent Cooperation Treaty, or PCT, patent applications. Another PCT application has entered the national phase in the European Patent Office, the Eurasian Patent Organization and 17 other countries. We have also entered into exclusive license agreements for certain composition of matter, method of use and method of making patents and patent applications for certain of our development compounds. These license agreements encompass (i) 13 U.S. patents, one pending U.S. non-provisional patent application, five European, or EP, patents, one pending EP patent application, 20 non-EP foreign patents and three pending non-EP foreign patent applications relating to varespladib and A-001; (ii) more than 30 U.S. patents, one pending U.S. non-provisional patent application, five EP patents, one pending EP patent application, 10 issued non-EP foreign patents and one pending non-EP foreign patent applications relating to other sPLA2 inhibiting compounds including A-003; and (iii) two U.S. patents, one pending U.S. non-provisional patent application, one EP patent, two pending EP patent applications, eleven non-EP foreign patents and 13 non-EP foreign patent applications relating to A-623. Our commercial success will depend in part on our and our licensors' ability to obtain additional patents and protect our existing patent positions, particularly those patents for which we have secured exclusive rights, as well as our ability to maintain adequate protection of other intellectual property for our technologies, product candidates and any future products in the United States and other countries. If we or our licensors do not adequately protect our intellectual property, competitors may be able to use our technologies and erode or negate any competitive advantage we may have, which could materially harm our business, negatively affect our position in the marketplace, limit our ability to commercialize our product candidates and delay or render impossible our achievement of profitability. The laws of some foreign countries do not protect our proprietary rights to the same extent as the laws of the United States, and we may encounter significant problems in protecting our proprietary rights in these countries.

The patent positions of biotechnology and pharmaceutical companies, including our patent position, involve complex legal and factual questions, and, therefore, validity and enforceability cannot be predicted with certainty. Patents may be challenged, deemed unenforceable, invalidated or circumvented. We and our licensors will be able to protect our proprietary rights from unauthorized use by third parties only to the extent that our proprietary technologies, product candidates and any future products are covered by valid and enforceable patents or are effectively maintained as trade secrets.

The degree of future protection for our proprietary rights is uncertain, and we cannot ensure that:

- we or our licensors were the first to make the inventions covered by each of our pending patent applications;
- we or our licensors were the first to file patent applications for these inventions;
- others will not independently develop similar or alternative technologies or duplicate any of our technologies;
- any of our or our licensors' pending patent applications will result in issued patents;
- any of our or our licensors' patents will be valid or enforceable;
- any patents issued to us or our licensors and collaborators will provide a basis for commercially viable products, will provide us with any competitive advantages or will not be challenged by third parties;
- we will develop additional proprietary technologies or product candidates that are patentable; or

- the patents of others will not have an adverse effect on our business.

We may be unable to adequately prevent disclosure of trade secrets and other proprietary information.

We rely on trade secrets to protect our proprietary know-how and technological advances, especially where we do not believe patent protection is appropriate or obtainable. However, trade secrets are difficult to protect. We rely in part on confidentiality agreements with our employees, consultants, outside scientific collaborators, sponsored researchers and other advisors to protect our trade secrets and other proprietary information. These agreements may not effectively prevent disclosure of confidential information and may not provide an adequate remedy in the event of unauthorized disclosure of confidential information. In addition, others may independently discover our trade secrets and proprietary information. Costly and time-consuming litigation could be necessary to enforce and determine the scope of our proprietary rights. Failure to obtain or maintain trade secret protection could enable competitors to use our proprietary information to develop products that compete with our products or cause additional, material adverse effects upon our competitive business position.

We license patent rights from third-party owners. If we, or such owners, do not properly maintain or enforce the patents underlying such licenses, our competitive position and business prospects will be harmed.

We have obtained exclusive, worldwide licenses, except for Japan, of the composition of matter, methods of making and methods of use for certain sPLA2 compounds from Eli Lilly and Shionogi & Co., Ltd. In addition, we are party to a license agreement with Amgen that provides exclusive and worldwide rights to develop and commercialize A-623, a novel BAFF inhibitor, as well as non-exclusive rights to certain technology relating to peptibody compositions and formulations. We may enter into additional licenses to third-party intellectual property in the future.

We depend in part on our licensors to protect the proprietary rights covering our in-licensed sPLA2 compounds and A-623, respectively. Our licensors are responsible for maintaining certain issued patents and prosecuting certain patent applications. We have limited, if any, control over the amount or timing of resources that our licensors devote on our behalf or the priority they place on maintaining these patent rights and prosecuting these patent applications to our advantage. Our licensors may also be notified of alleged infringement and be sued for infringement of third-party patents or other proprietary rights. We may have limited, if any, control or involvement over the defense of these claims, and our licensors could be subject to injunctions and temporary or permanent exclusionary orders in the United States or other countries. Our licensors are not obligated to defend or assist in our defense against third-party claims of infringement. We have limited, if any, control over the amount or timing of resources, if any, that our licensors devote on our behalf or the priority they place on defense of such third-party claims of infringement.

Our success will depend in part on the ability of us or our licensors to obtain, maintain and enforce patent protection for their intellectual property, in particular, those patents to which we have secured exclusive rights. We or our licensors may not successfully prosecute the patent applications which we have licensed. Even if patents issue in respect of these patent applications, we or our licensors may fail to maintain these patents, may determine not to pursue litigation against other companies that are infringing these patents or may pursue such litigation less aggressively than we would. Without protection for the intellectual property we license, other companies might be able to offer substantially identical products for sale, which could adversely affect our competitive business position and harm our business prospects.

If we do not obtain protection under the Hatch-Waxman Act and similar foreign legislation to extend our licensed patent terms and to obtain market exclusivity for our product candidates, our business will be materially harmed.

The United States Drug Price Competition and Patent Term Restoration Act of 1984, more commonly known as the "Hatch-Waxman Act," provides for an extension of patent term for drug compounds for a period of up to five years to compensate for time spent in the regulatory approval process. Assuming we gain a five-year patent term extension for each of our current product candidates in clinical development, and that we continue to have rights under our license agreements with respect to these product candidates, we would have exclusive rights to varespladib's U.S. "new chemical entity" patent (the primary patent covering the compound as a new composition of matter) until 2019 and to A-623's U.S. new chemical entity patent until 2027. In Europe, similar legislative enactments allow patent terms in the European Union to be extended for up to five years through the grant of a Supplementary Protection Certificate. Assuming we gain such a five-year extension for each of our current product candidates in clinical development, and that we continue to have rights under our license agreements with respect to these product candidates, we would have exclusive rights to varespladib's European new chemical entity patents until 2020 and to A-623's European new chemical entity patents until 2027. In addition, since varespladib has not been previously approved in the United States, varespladib could be eligible for up to five years of New Chemical Entity, or NCE, exclusivity from the FDA. NCE exclusivity would prevent the FDA

from approving any generic competitor following NDA approval independent of the patent status of varespladib. Further, since A-623 has not been previously approved, A-623 could be eligible for 12 years of data exclusivity from the FDA. During the data exclusivity period, competitors are barred from relying on the innovator biologic's safety and efficacy data to gain approval. Similarly, the European Union provides that companies who receive regulatory approval for a new small molecule compound or biologic will have a 10-year period of data exclusivity for that compound or biologic (with the possibility of a further one-year extension) in most EU countries, beginning on the date of such European regulatory approval, regardless of when the European new chemical entity patent covering such compound expires. A generic version of the approved drug may not be marketed or sold during such market exclusivity period. However, there is no assurance that we will receive the extensions of our patents or other exclusive rights available under the Hatch-Waxman Act or similar foreign legislation. If we fail to receive such Hatch-Waxman extensions or marketing exclusivity rights or if we receive extensions that are materially shorter than expected, our ability to prevent competitors from manufacturing, marketing and selling generic versions of our products will be materially harmed.

Our current patent positions and license portfolio may not include all patent rights needed for the full development and commercialization of our product candidates. We cannot be sure that patent rights we may need in the future will be available for license to us on commercially reasonable terms, or at all.

We typically develop our product candidates using compounds for which we have in-licensed and original composition of matter patents and patents that claim the activities and methods for such compounds' production and use to the extent known at that time. As we learn more about the mechanisms of action and new methods of manufacture and use of these product candidates, we may file additional patent applications for these new inventions or we may need to ask our licensors to file them. We may also need to license additional patent rights or other rights on compounds, treatment methods or manufacturing processes because we learn that we need such rights during the continuing development of our product candidates.

Although our in-licensed and original patents may prevent others from making, using or selling similar products, they do not ensure that we will not infringe the patent rights of third parties. We may not be aware of all patents or patent applications that may impact our ability to make, use or sell any of our product candidates or proposed product candidates. For example, because we sometimes identify the mechanism of action or molecular target of a given product candidate after identifying its composition of matter and therapeutic use, we may not be aware until the mechanism or target is further elucidated that a third party has an issued or pending patent claiming biological activities or targets that may cover our product candidate. U.S. patent applications filed after November 29, 2000 are confidential in the U.S. Patent and Trademark Office for the first 18 months after such applications' earliest priority date, and patent offices in non-U.S. countries often publish patent applications for the first time six months or more after filing. Furthermore, we may not be aware of published or granted conflicting patent rights. Any conflicts resulting from patent applications and patents of others could significantly reduce the coverage of our patents and limit our ability to obtain meaningful patent protection. If others obtain patents with conflicting claims, we may need to obtain licenses to these patents or to develop or obtain alternative technology.

We may not be able to obtain any licenses or other rights to patents, technology or know-how from third parties necessary to conduct our business as described in this report and such licenses, if available at all, may not be available on commercially reasonable terms. Any failure to obtain such licenses could delay or prevent us from developing or commercializing our drug candidates or proposed product candidates, which would harm our business. Litigation or patent interference proceedings may be necessarily brought against third parties, as discussed below, to enforce any of our patents or other proprietary rights or to determine the scope and validity or enforceability of the proprietary rights of such third parties.

Litigation regarding patents, patent applications and other proprietary rights may be expensive and time consuming. If we are involved in such litigation, it could cause delays in bringing product candidates to market and harm our ability to operate.

Our commercial success will depend in part on our ability to manufacture, use, sell and offer to sell our product candidates and proposed product candidates without infringing patents or other proprietary rights of third parties. Although we are not currently aware of any litigation or other proceedings or third-party claims of intellectual property infringement related to our product candidates, the pharmaceutical industry is characterized by extensive litigation regarding patents and other intellectual property rights. Other parties may obtain patents in the future and allege that the use of our technologies infringes these patent claims or that we are employing their proprietary technology without authorization. Likewise, third parties may challenge or infringe upon our or our licensors' existing or future patents.

Proceedings involving our patents or patent applications or those of others could result in adverse decisions regarding the patentability of our inventions relating to our product candidates or the enforceability, validity or scope of protection offered by our patents relating to our product candidates.

Even if we are successful in these proceedings, we may incur substantial costs and divert management time and attention in pursuing these proceedings. If we are unable to avoid infringing the patent rights of others, we may be required to seek a license, defend an infringement action or challenge the validity of the patents in court. Patent litigation is costly and time-consuming. We may not have sufficient resources to bring these actions to a successful conclusion. In addition, if we do not obtain a license, develop or obtain non-infringing technology, fail to defend an infringement action successfully or have our patents declared invalid, we may incur substantial monetary damages; encounter significant delays in bringing our product candidates to market; or be precluded from participating in the manufacture, use or sale of our product candidates or methods of treatment requiring licenses.

Risks Related to the Securities Markets and Investment in Our Common Stock

Market volatility may affect our stock price and the value of your investment.

The market price for our common stock has been, and is likely to continue to be, volatile. In addition, the market price of our common stock may fluctuate significantly in response to a number of factors, most of which we cannot predict or control, including:

- plans for, progress in and results from clinical studies for varespladib, A-623, A-001 and our other product candidates;
- announcements of new products, services or technologies, commercial relationships, acquisitions or other events by us or our competitors;
- developments concerning proprietary rights, including those pertaining to patents held by Eli Lilly and Shionogi & Co., Ltd. concerning our sPLA2 inhibitors and Amgen concerning A-623;
- failure of any of our product candidates, if approved, to achieve commercial success;
- fluctuations in stock market prices and trading volumes of securities of similar companies;
- general market conditions and overall fluctuations in U.S. equity markets;
- variations in our operating results, or the operating results of our competitors;
- changes in our financial guidance or securities analysts' estimates of our financial performance;
- changes in accounting principles;
- sales of large blocks of our common stock, including sales by our executive officers, directors and significant stockholders;
- additions or departures of any of our key personnel;
- announcements related to litigation;
- changing legal or regulatory developments in the United States and other countries; and
- discussion of us or our stock price by the financial press and in online investor communities.

Although our common stock is listed for trading on the NASDAQ Global Market, our securities have been relatively thinly traded. Investor trading patterns could serve to exacerbate the volatility of the price of the stock. Accordingly, it may be difficult to sell shares of common stock quickly without significantly depressing the value of the stock. Unless we are successful in developing continued investor interest in our stock, sales of our stock could result in major fluctuations in the price of the stock. In addition, the stock market in general, and The NASDAQ Global Market in particular, have experienced substantial price and volume volatility that is often seemingly unrelated to the operating performance of particular companies. These broad market fluctuations may cause the trading price of our common stock to decline. In the past, securities class action litigation has often been brought against a company after a period of volatility in the market price of its common stock. We may become involved in this type of litigation in the future. Any securities litigation claims brought against us could result in substantial expenses and the diversion of our management's attention from our business.

Because a small number of our existing stockholders own a majority of our voting stock, your ability to influence corporate matters will be limited.

Our executive officers, directors and greater than 5% stockholders, in the aggregate, own approximately 75% of our outstanding common stock. As a result, such persons, acting together, will have the ability to control our management and affairs and substantially

all matters submitted to our stockholders for approval, including the election and removal of directors and approval of any significant transaction. These persons will also have the ability to control our management and business affairs. This concentration of ownership may have the effect of delaying, deferring or preventing a change in control, impeding a merger, consolidation, takeover or other business combination involving us, or discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control of our business, even if such a transaction would benefit other stockholders.

Future sales of our common stock may cause our stock price to decline.

As of March 31, 2011, there were 32,926,100 shares of our common stock outstanding. In addition, as of March 31, 2011, we had outstanding options to purchase shares of our common stock and restricted stock units of 2,512,931 that, if exercised or released, will result in these additional shares becoming available for sale. A large portion of these shares and outstanding equity awards are held by a small number of persons and investment funds. Sales by these stockholders or option holders of a substantial number of shares could significantly reduce the market price of our common stock. Moreover, certain holders of shares of common stock will have rights, subject to some conditions, to require us to file registration statements covering the shares they currently hold, or to include these shares in registration statements that we may file for ourselves or other stockholders.

We have registered all common stock that we may issue under our Amended and Restated 2010 Stock Option and Incentive Plan (the "2010 Plan") and our Employee Stock Purchase Plan (the "ESPP"). As of March 31, 2011, an aggregate of 1,778,261 shares of our common stock has been reserved for future issuance under the 2010 Plan, plus any shares reserved and unissued under our 2005 Equity Incentive Plan, and an aggregate of 350,000 shares has been reserved for future issuance under our ESPP. These shares can be freely sold in the public market upon issuance. If a large number of these shares are sold in the public market, the sales could reduce the trading price of our common stock.

In addition, we have filed a universal shelf registration statement with the SEC on Form S-3 (File No. 333-172637) on March 7, 2011, which was declared effective on March 11, 2011, for the proposed offering from time to time of up to $75.0 million of our securities, including common stock, preferred stock, debt securities and/or warrants. We may issue securities in the future pursuant to the shelf registration statement based on market conditions or other circumstances.

We may need to raise additional capital to fund our operations, which may cause dilution to our existing stockholders, restrict our operations or require us to relinquish rights.

We may seek additional capital through a combination of private and public equity offerings, debt financings and collaboration, strategic and licensing arrangements. To the extent that we raise additional capital through the sale of equity or convertible debt securities, your ownership interest may be diluted, and the terms may include liquidation or other preferences that adversely affect your rights as a stockholder. Debt financing, if available, may involve agreements that include covenants limiting or restricting our ability to take specific actions such as incurring debt, making capital expenditures or declaring dividends. If we raise additional funds through collaboration, strategic alliance and licensing arrangements with third parties, we may have to relinquish valuable rights to our technologies or product candidates or grant licenses on terms that are not favorable to us.

Operating as a public company increases our expenses and administrative burden.

As a public company, we incur significant legal, accounting and other expenses that we did not incur as a private company. In addition, our administrative staff will be required to perform additional tasks. For example, the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, as well as rules subsequently implemented by the SEC and The NASDAQ Global Market, impose various requirements on public companies, including establishment and maintenance of effective disclosure and financial controls and changes in corporate governance practices. We must also bear all of the internal and external costs of preparing and distributing periodic public reports in compliance with our obligations under the securities laws.

In particular, the Sarbanes-Oxley Act requires, among other things, that we maintain effective internal control over financial reporting and disclosure controls and procedures. Commencing in 2011, we must perform system and process evaluation and testing of our internal control over financial reporting to allow management and our independent registered public accounting firm to report on the effectiveness of our internal control over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act. Our compliance with Section 404 will require that we incur substantial accounting expense and expend significant management time on compliance-related issues. Moreover, if we are not able to comply with the requirements of Section 404 in a timely manner, our stock price could decline, and we could face sanctions, delisting or investigations by The NASDAQ Global Market, or other material adverse effects on our business, reputation, results of operations, financial condition or liquidity.

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

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

Anti-takeover provisions in our charter documents and under Delaware law could make an acquisition of us, which may be beneficial to our stockholders, more difficult and may prevent attempts by our stockholders to replace or remove our current management.

Provisions in our amended and restated certificate of incorporation and amended and restated bylaws may delay or prevent an acquisition of us or a change in our management. These provisions include:

- a classified and staggered board of directors whose members can only be dismissed for cause;
- the prohibition on actions by written consent of our stockholders;
- the limitation on who may call a special meeting of stockholders;
- the establishment of advance notice requirements for nominations for election to our board of directors or for proposing matters that can be acted upon at stockholder meetings;
- the ability of our board of directors to issue preferred stock without stockholder approval, which would increase the number of outstanding shares and could thwart a takeover attempt; and
- the requirement of at least 75% of the outstanding common stock to amend any of the foregoing provisions.

In addition, because we are incorporated in Delaware, we are governed by the provisions of Section 203 of the Delaware General Corporation Law, which limits the ability of stockholders owning in excess of 15% of our outstanding voting stock to merge or combine with us. Although we believe these provisions collectively provide for an opportunity to obtain greater value for stockholders by requiring potential acquirors to negotiate with our board of directors, they would apply even if an offer rejected by our board were considered beneficial by some stockholders. In addition, these provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace members of our board of directors, which is responsible for appointing the members of our management.

Our ability to use our net operating loss carryforwards may be subject to limitation and may result in increased future tax liability to us.

Generally, a change of more than 50% in the ownership of a corporation's stock, by value, over a three-year period constitutes an ownership change for U.S. federal income tax purposes. An ownership change may limit a company's ability to use its net operating loss carryforwards attributable to the period prior to such change. We have not performed a detailed analysis to determine whether an ownership change under Section 382 of the Internal Revenue Code has occurred after each of our previous private placements of preferred stock and convertible debt, or our previous issuances of common stock, which if sufficient, taking into account prior or future shifts in our ownership over a three-year period, could cause us to undergo an ownership change. As a result, if we earn net taxable income, our ability to use our pre-change net operating loss carryforwards to offset U.S. federal taxable income may become subject to limitations, which could potentially result in increased future tax liability to us.

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

Previously reported in a Current Report on Form 8-K.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. (REMOVED AND RESERVED)

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

The following exhibits are filed as part of this report:

3.1	Fifth Amended and Restated Certificate of Incorporation (filed as Exhibit 3.6 to the registrant's Registration Statement on Form S-1/A (File No. 333-161930) filed with the SEC on February 3, 2010, and incorporated herein by reference).
3.2	Amended and Restated Bylaws (filed as Exhibit 3.7 to the registrant's Registration Statement on Form S-1/A (File No. 333-161930) filed with the SEC on February 3, 2010, and incorporated herein by reference).
10.1	Second Addendum to Sublease by and between the Company and Millipore Corporation, as a successor in interest to Guava Technologies, dated as of January 12, 2011 (filed as Exhibit 10.41 to the registrant's Annual Report on Form 10-K filed with the SEC on March 7, 2011, and incorporated herein by reference).
10.2	Loan and Security Agreement dated March 25, 2011, by and between the Company, Hercules Technology II, L.P. and Hercules Technology Growth Capital, Inc., (filed as Exhibit 10.1 to the registrant's Current Report on Form 8-K filed with the SEC on March 29, 2011, and incorporated herein by reference).
10.3	Form of Warrant Agreement dated March 25, 2011 (filed as Exhibit 10.2 to registrant's Current Report on Form 8-K filed with the SEC on March 29, 2011, and incorporated herein by reference).
10.4	Lease by and between the Company and MEPT Mount Eden LLC, dated as of May 4, 2011.
31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended.
31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended.
32.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. Section 1350, as adopted pursuant Section 906 of the Sarbanes-Oxley Act of 2002.

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.

ANTHERA PHARMACEUTICALS, INC.

May 13, 2011

By: /s/ Paul F. Truex
Paul F. Truex
President and Chief Executive Officer

May 13, 2011

By: /s/ Christopher P. Lowe
Christopher P. Lowe
Chief Financial Officer

EXHIBIT 10.4

LEASE

THIS LEASE (this "Lease") is made as of May 4, 2011, by and between

"Landlord" MEPT Mount Eden LLC, a Delaware limited liability company

and

"Tenant" Anthera Pharmaceuticals, a Delaware corporation

SECTION 1: BASIC TERMS AND DEFINITIONS

Project: Mt. Eden Business Park.

Building: The building at 25801 Industrial Blvd., Hayward, CA, commonly known as Building A and located on the real estate legally described on Exhibit A ("the Land").

Premises: The portion of the Building designated as Suite 200 and depicted on the plan attached as Exhibit B.

Rentable Area of Premises: 14,034 rentable square feet, measured in accordance with ANSI/BOMA Z65.1-1996.

Rentable Area of Building: 42,855 rentable square feet, measured in accordance with ANSI/BOMA Z65.1-1996.

Tenant's Pro Rata Share: Thirty-Two and Seventy-Five Hundredths Percent (32.75%) which is the Rentable Area of Premises divided by the Rentable Area of the Building.

Commencement Date: August 1, 2011.

Lease Term: Subject to the early termination right contained in Section 2.5 below, commencing on the Commencement Date and ending on the last day of that calendar month which is thirty-eight (38) months after the Commencement Date.

Base Rent: The monthly amount of Base Rent and the portion of the Lease Term during which such monthly amount of Base Rent is payable shall be determined from the following table:

(**Premises: 14,034 RSF**)

Applicable Portion of Lease Term		Rate Per/Rentable	Monthly Base	
Beginning first day of	Ending last day of	Sq. Ft./Month	Rent Installment	Annual Base Rent
Month 1	Month 2	$ 0.00(1)	$ 0.00(1)	$ 0.00(1)
Month 3	Month 12	$ 0.99NNN	$13,893.66	$166,723.92
Month 13	Month 24	$1.0197NNN	$14,310.47	$171,725.64
Month 25	Month 36	$1.0503NNN	$14,739.78	$176,877.36
Month 37	Month 38	$1.0818NNN	$15,181.97	$182,183.64

(1) The Base Rent for the first two (2) months of the Lease Term shall be abated and shall become immediately due and payable if at any time during the initial Lease Term, there is an Event of Default by Tenant as described in Section 5.1.1 below. Tenant shall remain responsible for Operating Costs Reimbursements during such period.

Operating Costs Reimbursements Estimate for 2011: Zero and 27/100 Dollars ($0.27) per month.

Prepaid Rent: Thirteen Thousand Eight Hundred Ninety-Three and 66/100 Dollars ($13,893.66).

Security Deposit: Thirteen Thousand Eight Hundred Ninety-Three and 66/100 Dollars ($13,893.66).

Parking: Three and one-half (3.5) non-reserved parking stalls per 1,000 rentable square feet of the Premises for a total of approximately forty-nine (49) parking stalls, at no additional charge. In addition, Tenant shall have the use of up to five (5) visitor parking stalls located throughout the Project during the Lease Term and any extensions thereof.

Manager: Simeon Commercial Properties, or its replacement as specified by written notice from Landlord to Tenant.

Tenant Improvement Allowance: Seventeen and 50/100 Dollars ($17.50) per rentable square foot of the Premises, to be used as described in Paragraph 2.7 below.

Brokers: Simeon Commercial Properties, a licensed broker, represents Landlord in this transaction. Jones Lang LaSalle, a licensed broker, represents Tenant in this transaction.

SECTION 2: PREMISES AND TERM

2.1 **Lease of Premises**. Landlord leases the Premises to Tenant, and Tenant leases the Premises from Landlord, on the terms and conditions set forth in this Lease.

2.2 **Rentable Areas**. The Rentable Areas of the Premises and the Building as specified in Section 1 are final, conclusive and controlling for all purposes. A portion of the Building common areas is included in the Rentable Area of the Premises.

2.3 **Lease Term**. The Lease Term shall be for the period stated in the definition of that term, unless earlier terminated as provided in this Lease.

2.4 **Renewal Option**.

2.4.1 Tenant shall have the option to renew this Lease for one (1) additional extension term of three (3) years. Such renewal option must be exercised, if at all, by written notice given by Tenant to Landlord not later than six (6) months and not more than twelve (12) months prior to expiration of the Lease Term. Timely delivery of notice of exercise of this renewal option shall act to automatically extend the Lease Term for three years upon the same terms and conditions as this Lease, except for the amount of Base Rent, which shall be calculated pursuant to this Section and confirmed by a subsequent document executed by Landlord and Tenant. Notwithstanding the foregoing, this renewal option shall be null and void and Tenant shall have no right to renew this Lease if (i) on the date Tenant exercises such renewal option or as of the date immediately preceding the commencement date of the renewal period, Tenant is in default beyond applicable notice and cure periods of any of its obligations under this Lease; and (ii) at no time prior to the expiration of the initial Lease Term shall there have been any assignment or subletting of the Premises that shall remain in effect after the expiration of the initial Lease Term, except for Permitted Transfers (as defined below).

2.4.2 If Tenant exercises this renewal option, then during the renewal period the Base Rent payable by Tenant shall be the then Fair Market Rent for the Premises. For purposes of this paragraph, the term "Fair Market Rent" shall mean the rental rate for comparable space for a renewal term with an existing tenant, situated in comparable office and light warehouse buildings in comparable business parks in the Hayward, California market area, taking into account tenant improvement packages and any other customary concessions for renewals with existing tenants. Fair Market Rent shall include the periodic rental increases, if any, that would be included for space leased for the renewal period. The Fair Market Rent shall be negotiated by Landlord and Tenant within the sixty (60) calendar day period commencing upon Landlord's receipt of Tenant's notice exercising the renewal option.

2.4.3 If the parties cannot agree on the Fair Market Rent within the sixty (60) day period after the date of Tenant's notice to Landlord, Landlord shall, no more than fifteen (15) calendar days thereafter, select an independent M.A.I. real estate appraiser (certified in the State of California) with at least ten (10) years experience in the Hayward, California commercial real estate market, who shall prepare a written appraisal of the Fair Market Rent using the assumptions described in this paragraph. The appraisal report shall be completed and delivered to Tenant and Landlord within fifteen (15) calendar days from the date Landlord selects the appraiser. Such appraiser's determination of Fair Market Rent shall be determinative unless Tenant disputes it as provided in the next sentence. If Tenant disputes such appraisal, Tenant shall within ten (10) calendar days following delivery of the appraisal report, deliver to Landlord written notice (a) that Tenant disputes such appraisal report, and (b) of the identity of the appraiser selected by Tenant meeting the qualifications set forth in this paragraph. The appraiser selected by Tenant shall submit his appraisal report of the Fair Market Rent using the assumptions described in this paragraph within fifteen (15) calendar days following the delivery of Tenant's notice to

Landlord disputing the initial appraisal. If the two appraisals are within five percent (5%) of each other (based on the higher number), the Fair Market Rent shall be the higher of the two appraisals. If not, then within ten (10) calendar days after the delivery of the second appraisal, the two appraisers shall appoint a third appraiser meeting the qualifications set forth in this Section, and the third appraiser shall deliver his decision within ten (10) calendar days following his selection and acceptance of the appraisal assignment. If the two appraisers fail to select a third qualified appraiser, the third appraiser shall be appointed by the then presiding judge of the county where the Premises are located upon application by either party. The third appraiser shall be limited in authority to selecting, in his opinion, which of the two earlier appraisal determinations best reflects the Fair Market Rent under the assumptions set forth in this paragraph. The third appraiser must choose one of the two earlier appraisals, and, upon doing so, the third appraiser's determination shall be the controlling determination of the Fair Market Rent. Each party shall pay the costs and fees of the appraiser it selected; if a third appraiser is selected, the party whose appraisal is not selected to be the Fair Market Rent by said third appraiser shall pay all of said appraiser's costs and fees.

2.5 **Termination Option**. Tenant shall have the one-time right to terminate this Lease ("Termination Right") as of the last day of the twenty-fourth (24th) month of the Lease Term (the "Termination Date") by providing Landlord with not less than nine (9) months' prior written notice. As a condition to the effectiveness of the Termination Right, Tenant must satisfy all of the following requirements, satisfaction of which shall mean that the Lease will terminate on the Termination Date with the same force and effect as if such date were the date originally established in this Lease for the expiration of the Lease Term:

2.5.1 As of the date that Tenant notifies Landlord of Tenant's exercise of this Termination Right and as of the Termination Date, there shall be no monetary Event of Default (beyond the expiration of all applicable notice and cure periods) by Tenant under this Lease and there shall have occurred no act or omission which, with the passage of time or giving of notice, or both, would become an Event of Default by Tenant under the Lease;

2.5.2 [Intentionally omitted];

2.5.3 At the time Tenant gives written notice to Landlord as provided for in subpart 2.5.1 above, Tenant shall have paid Landlord a termination fee, equal to the unamortized portions of the Tenant Improvement Allowance and leasing commissions, which shall be amortized over the Lease Term at an annual interest rate of 8%, and repayment of the initial two (2) months of abated rent. The amount of the Tenant Improvement Allowance shall be set forth in a written notice from Landlord to Tenant, as soon as the amount is determined; and

2.5.4 Upon termination of the Lease pursuant to this paragraph, Tenant shall surrender and vacate the Premises to Landlord as provided for in this Lease. All rights and obligations of Landlord and Tenant, unless expressly stated herein to survive the expiration or earlier termination of this Lease, shall cease to exist as of the Termination Date.

2.6 **Physical Condition of Premises**.

2.6.1 Tenant (a) accepts the Premises, the Building and the Project in its current **AS IS** condition, and (b) acknowledges that Tenant is not relying on any representations or warranties by any person regarding the Premises or the Building except as specifically set forth in this Lease.

2.6.2 Landlord represents and warrants to Tenant that, (a) as of the Commencement Date and for the first twelve (12) months of the Lease Term, all Building systems shall be operational and in good condition and repair; (b) to Landlord's actual knowledge, as of the date of this Lease the Building and the Premises are in material compliance with all applicable Governmental Requirements; (c) Landlord is the fee owner of the Building; and (d) as of the date of this Lease, Landlord has no actual knowledge of any material defects in the Premises or the Building which would unreasonably interfere with Tenant's use and enjoyment of the Premises for the Permitted Use. In the event of any breach of any of Landlord's warranties in this Section 2.6.2, Landlord shall promptly rectify the same at its sole cost and expense.

2.7 **Tenant Improvement Allowance**.

2.7.1 Landlord shall provide a Tenant Improvement Allowance of Seventeen and 50/100 Dollars ($17.50) per rentable square feet for the Premises. The Tenant Improvement Allowance shall be applied to the hard and soft construction costs incurred by Tenant, including but not limited to, architectural services, cabling, furniture, electrical, signage, Tenant's construction management fees and any security system associated with the Premises and may used by Tenant to offset moving costs. If the sum of Tenant's actual hard and soft costs associated with the Tenant improvements to the Premises is less than the Tenant Improvement Allowance, then up to Five and No/100 Dollars ($5.00) per rentable

square foot (such amount being the difference between the $17.50/RSF allowance and the amount actually expended per rentable square feet) shall be applied as a credit against the Base Rent and Operating Costs Reimbursements due immediately after the eighteenth (18th) month of the Lease Term.

2.7.2 At Tenant's option, Landlord shall pay all or any portion of the Tenant Improvement Allowance directly to third parties, including but not limited to, contractors, architects and other consultants, based on billing invoices approved in advance in writing by Tenant.

2.8 **Construction of Tenant Improvements**.

2.8.1 Tenant shall retain a licensed architect of its choice, subject to Landlord's prior written approval, to prepare the Plans and Specifications for the Tenant Improvements. The Plans and Specifications shall be subject to Landlord's approval, which approval shall not be unreasonably delayed, provided that such Plans and Specifications comply with the requirements of this paragraph.

2.8.2 Within one hundred eighty (180) days following the date of execution of the Lease by Tenant, Tenant shall cause its architect to furnish to Landlord for Landlord's approval space plans sufficient to convey the architectural design of the Premises, including, without limitation, the location of doors, partitions, electrical and telephone outlets, plumbing fixtures, heavy floor loads and other special requirements (collectively, the "Space Plan"). If required by Landlord, Tenant's architect shall consult with Landlord's engineer in preparing the Space Plan, and incorporate such engineer's requirements into the Space Plan. If Landlord fails to disapprove the Space Plan within the ten (10) day period following its receipt of the Space Plan, the Space Plan shall be deemed approved. If Landlord shall disapprove of any portion of the Space Plan within such ten (10) day period, Landlord shall advise Tenant of the reasons therefor and shall notify Tenant of the revisions to the Space Plan that are reasonably required by Landlord for the purpose of obtaining approval. Tenant shall within seven (7) days submit to Landlord, for Landlord's approval, a redesign of the Space Plan, incorporating the revisions required by Landlord or proposing alternatives for Landlord's consideration, which shall be undertaken pursuant to the process set forth above.

2.8.3 Tenant shall cause its architect to prepare from Tenant's approved Space Plan, complete Plans and Specifications within one hundred twenty (120) days after Landlord approves the Space Plan. The Plans and Specifications shall (a) be compatible with the Building shell and with the design, construction and equipment of the Building; (b) comply with all Governmental Requirements; (c) comply with all applicable insurance regulations; and (d) be consistent with the approved Space Plan. Tenant shall submit the Plans and Specifications for Landlord's Approval in the same manner and timeframe as provided in Subparagraph 2.8.2 above for approval by Landlord of Tenant's Space Plan.

2.8.4 Tenant shall complete the Tenant Improvements in accordance with the approved Plans and Specifications and all applicable Governmental Requirements and in accordance with the provisions of Paragraph 5.8 ("Work Performance and Responsible Contracting"). Tenant shall provide an exhibit depicting the intended Tenant Improvements to be attached as an exhibit to this Lease. Landlord shall review and manage the construction of the Tenant Improvements for a construction management fee of one and fifty percent (1.5%) of actual hard construction costs.

2.8.5 If Landlord requires performance or payment bonds, they shall be provided at Landlord's sole cost and expense, and shall not be funded from the Tenant Improvement Allowance.

2.8.6 All Tenant Improvements, regardless of which party constructed or paid for them, shall become the property of Landlord and shall remain upon and be surrendered with the Premises on the expiration or earlier termination of this Lease. Tenant shall not be responsible for any restoration (or removal) of its initial Tenant Improvements completed in accordance with the provisions of this Section 2.8 at the expiration of the Lease Term other than its Telecommunication Facilities (as defined in Section 4.1.2).

2.9 **Commencement Date**. The Commencement Date shall be August 1, 2011. Tenant agrees to sign a Commencement Date Memorandum in the form of Exhibit E, when prepared by Landlord.

2.10 **Use and Conduct of Business**.

2.10.1 The Premises are to be used only for general business office and research and development uses (the "Permitted Uses"). Tenant shall, at its own cost and expense, obtain and maintain any and all licenses, permits, and approvals necessary or appropriate for its particular use, occupation and operation of the Premises for the Permitted Uses.

2.10.2 No act shall be done in or about the Premises that is unlawful or that will increase the existing rate of insurance on the Land or Building. Tenant shall not commit or allow to be committed or exist: (a) any waste upon the Premises, (b) any public or private nuisance, or (c) any act or condition

which disturbs the quiet enjoyment of any other tenant in the Building, or materially and unreasonably interferes in any way with the business of Landlord or any other tenant in the Building.

2.11 **Compliance with Governmental Requirements and Rules and Regulations**. Subject to Section 4.2 below, Tenant shall comply with all Governmental Requirements relating to its particular use, occupancy and operation of the Premises and shall observe such reasonable rules and regulations as may be adopted and published by Landlord from time to time. Notwithstanding anything to the contrary in this Lease, Tenant shall not be responsible for compliance with any Governmental Requirements where such compliance would require capital expenditures, or is not related specifically to Tenant's use and occupancy of the Premises. For example, if any Governmental Agency should require the Building or Premises to be structurally strengthened against earthquake, or should require the removal of asbestos from the Premises and such measures are imposed as a general requirement applicable to all tenants rather than as a condition to Tenant's specific use or occupancy of the Premises, such work shall be performed by Landlord and the cost thereof shall be an Operating Costs to the extent provided in Section R1.4 of Rider 1 hereto. Current Rules and Regulations are attached to this Lease as Exhibit C. "Governmental Requirements" are any and all statutes, ordinances, codes, laws, rules, regulations, orders and directives of any Governmental Agency as now or later amended, promulgated or issued and all current or future final orders, judgments or decrees of any court with jurisdiction interpreting or enforcing any of the foregoing. A "Governmental Agency" is the United States of America, the state in which the Land is located, any county, city, district, municipality or other governmental subdivision, court or agency or quasi-governmental agency with jurisdiction and any board, agency or authority associated with any such governmental entity.

2.12 **Green Agency Ratings**. The Building may become certified under a Green Agency Rating (as hereinafter defined) or operated pursuant to Landlord's sustainable building practices, as the same may be in effect or modified from time to time. Landlord's sustainability practices address, without limitation, whole building operations and maintenance issues including chemical use, indoor air quality, energy efficiency, water efficiency, recycling programs, exterior maintenance programs, and systems upgrades to meet green building energy, water, indoor air quality, and lighting performance standards. Tenant will use good faith, commercially reasonable efforts not to use or operate the Premises in a manner that will cause the Premises not to conform with Landlord's sustainability practices or the certification of the Building by a Green Agency Rating; provided, however, Tenant may endeavor, at no cost or expense to Tenant, to follow such practices. Landlord reserves the right to change electricity providers for the Building at any time and to purchase green or renewable energy. To the extent commercially reasonable, all construction, maintenance and repairs made by Tenant shall comply with Landlord's sustainability practices and with the minimum standards and specifications as outlined by the Green Agency Rating in addition to all Governmental Requirements. Tenant shall use proven energy and carbon reduction measures, including energy efficient bulbs in task lighting; use of lighting controls; daylighting measures to avoid overlighting interior spaces; closing shades on the south side of the Building to avoid over-heating the space; turning off lights and equipment at the end of the work day; and purchasing Energy Star qualified equipment, including but not limited to lighting, office equipment, kitchen equipment, vending and ice machines; and purchasing products certified by the U.S. EPA's WaterSense program. As used herein, "Green Agency Rating" means any one or more of the following ratings, as the same may be in effect or amended or supplemented from time to time: the U.S. EPA's Energy Star rating and/or Design to Earn Energy Star, the Green Building Initiative's Green Globes for Continual Improvement of Existing Buildings (Green Globes-CIEB), the U.S. Green Building Council's Leadership in Energy and Environmental Design (LEED) rating system, LEED EBOM (existing buildings operations and maintenance) and any applicable substitute third party or government mandated rating systems

2.13 **Relocation**. Intentionally omitted.

2.14 **Holdover**. Base Rent shall increase on the expiration or termination of this Lease to an amount equal to one hundred fifty percent (150%) of the Base Rent prevailing immediately prior to the expiration or termination (a) if and for so long as Landlord has authorized Tenant to holdover or (b) if Tenant wrongfully refuses to relinquish possession of the Premises upon such expiration or termination. The increase in Base Rent under clause (b) of the preceding sentence is an agreed increase in Base Rent, is not liquidated damages and shall not limit the right of Landlord to recover direct and consequential damages for the Tenant's violation of this paragraph or to exercise other rights and remedies provided under applicable law for Tenant's wrongful refusal to surrender possession.

SECTION 3: BASE RENT, OPERATING COSTS REIMBURSEMENTS AND OTHER SUMS PAYABLE UNDER LEASE

3.1 **Payment of Rental**. Tenant agrees to pay Base Rent, Operating Costs Reimbursements (defined in Rider 1) and any other sum payable under this Lease to Landlord when due without demand, deduction, credit, adjustment or offset of any kind. All such payments shall be in lawful money of the United States and shall be paid to Landlord or to Manager or to such other place as Landlord may from time to time designate in writing.

3.2 **Base Rent**. On execution of this Lease, Tenant shall pay to Landlord the amount specified in the definition of Prepaid Rent for the month specified in the definition of that term. Monthly installments of Base Rent shall be paid, without demand and in advance, on or before the first day of each calendar month during the Lease Term. The monthly Base Rent installment for any partial month at the beginning or end of the Lease Term shall be prorated. Subject to abatement, Base Rent for any partial month at the beginning of the Lease Term shall be paid by Tenant on the Commencement Date.

3.3 **Security Deposit**. All sums payable under this Lease (including Base Rent and Operating Costs Reimbursements) shall be considered Rent and all rights and remedies available pursuant to law for non-payment of rent shall apply. Tenant has deposited with Landlord or Manager the sum set forth in the blank opposite the words "Security Deposit" in Section 1 of this Lease (the "Security Deposit") to secure Tenant's performance of this Lease. If Tenant defaults in any payment or performance due under this Lease, Landlord, in its absolute discretion and without prejudice in its other rights or remedies, may apply the Security Deposit, in whole or in part, to the payment of sums due from Tenant as a result of such default. If such application cures the default, Tenant shall within ten (10) days from demand, deposit with Landlord the sum necessary to restore the Security Deposit to the specified amount. If Tenant has fully performed under this Lease, the remainder of the Security Deposit shall be repaid to Tenant, without interest, within thirty (30) days after the expiration of this Lease, such obligation of Landlord surviving the expiration or earlier termination of this Lease. If the Land and the Building are sold or transferred by Landlord, Tenant shall look solely to the successor Landlord for the return of the remainder of the Security Deposit, provided Landlord has turned over or credited the amount of the Security Deposit to such successor landlord.

3.4 **Operating Costs Reimbursements**. The definition "Operating Costs Reimbursements" and the provisions of this Lease applicable to Operating Costs Reimbursements are set forth in Rider 1.

3.5 **Late Charge**. If Tenant fails to make any payment of Base Rent, or other amount when due under this Lease, a late charge is immediately due and payable by Tenant equal to five percent (5%) of the amount of any such payment but Landlord will waive the late charge for the first such failure occurring during any calendar year during the Lease Term. Landlord and Tenant agree that this charge compensates Landlord for the administrative costs caused by the late payment.

3.6 **Default Rate**. Any Base Rent, Operating Costs Reimbursements or other sum payable under this Lease which is not paid when due shall bear interest at a rate equal to the lesser of: (a) the published prime or reference rate then in effect at a national banking institution designated by Landlord (the "Prime Rate"), plus two (2) percentage points, or (b) the maximum rate of interest per annum permitted by applicable law (the "Default Rate").

SECTION 4: SERVICES AND REPAIR

4.1 **Utilities and Services**.

4.1.1 Tenant shall contract directly for all utilities and services to the Premises, including the following: (a) electricity and gas; (b) heating, ventilation and air-conditioning services ("HVAC"); (c) hot and cold domestic water, wastewater and sewage service at the points now existing in the Premises or as specified for initial Tenant Improvements (where applicable); (d) Telecommunication services; (e) cleaning and janitorial service; and (f) refuse/trash removal. Tenant shall select the company or companies providing such utility and other services described in this subparagraph.

4.1.2 Landlord will provide only a suitable connection for usual and customary voice telephone and internet services at the designated locations in the Building. All connection, installation, usage charges, maintenance and repair charges for such telephone service shall be Tenant's responsibility. Installation of Telecommunication Facilities beyond those specified as Landlord's responsibility under the first sentence shall be the responsibility of Tenant except to the extent the Initial Tenant Improvements

include Telecommunication Facilities. "Telecommunication Facilities" are defined as equipment, apparatus, installations, facilities and other materials utilized for the purposes of electronic communication, whether wireless or wired, including cable, switches, conduit, sleeves and wiring. Tenant shall be required to remove all Telecommunication Facilities, at Tenant's expense, on the expiration or earlier termination of the Lease in accordance with paragraph 5.3 ("Removal of Property").

4.1.3 Tenant acknowledges that space on the Building rooftop and in Building risers, equipment rooms and equipment closets is limited. Unless otherwise required by law, neither Tenant nor a provider of telecommunication services to Tenant shall be entitled to locate or install Telecommunication Facilities in, on or about the Building without first obtaining Landlord's advance, written consent (given in its reasonable discretion).

4.1.4 Landlord shall in no case be liable or in any way be responsible for damages (including consequential damages) or the loss to Tenant of utilities or other services arising from the failure of, diminution of or interruption of any kind to the Premises, unless (a) such interruption in, deprivation of or reduction of any such service was caused by the gross negligence or willful misconduct of Landlord, its agents or contractors or by the uncured breach of this Lease by Landlord, and (b) any such claims are not covered by the business interruption insurance required of Tenant by this Lease. To the extent that Landlord bears any responsibility for the foregoing, Landlord's responsibility and Tenant's remedy shall be limited to an abatement in Base Rent for the period beginning with (a) the day which is three (3) consecutive days after the date on which Tenant delivers notice to Landlord of such interruption, deprivation or reduction and of the fact that Tenant is being deprived of all reasonable use of the Premises and ending on (b) the date such interruption, deprivation or reduction which is Landlord's responsibility is no longer causing Tenant to be deprived of all reasonable use of the Premises.

4.2 **Maintenance and Repair by Landlord**. Subject to the paragraph 5.5 ("Damage or Destruction") and paragraph 5.6 ("Condemnation"), Landlord shall maintain the roof, roof membrane, load-bearing and exterior walls and structural elements of the Building, public and common areas of the Building, plate glass and the Building systems in good order and condition subject to reasonable use and wear. The costs of such maintenance and repair are Operating Costs as defined in subparagraph R1.4.1 of Rider 1. Landlord, at its sole cost, shall also be responsible on an ongoing basis during the Lease Term for any necessary improvements to the Building shell to comply with building code, the Americans With Disabilities Act of 1990 ("ADA"), and seismic requirements, provided such ADA compliance is not triggered by Tenant's Alterations during the Lease Term. These code compliance costs shall not be allocated as Operating Costs of the Building or passed through to Tenant. In addition, Landlord, at its sole cost and not as an Operating Cost, shall be responsible for the demising and separate metering of all utilities and building systems.

4.3 **Maintenance and Repair by Tenant**. Except as specified to be Landlord's responsibility under paragraph 4.1 ("Utilities and Services") and paragraph 4.2 ("Maintenance and Repair by Landlord"), and except for reasonable wear and tear, casualty and condemnation, Tenant shall keep the Premises in good condition and repair. Notwithstanding the foregoing, in the event that Tenant would be required by this Section to make a repair or replacement that would be considered a "capital improvement" as determined in accordance with generally accepted accounting principles, Landlord shall make such repair or replacement and charge Tenant, as an Operating Cost, the cost thereof, provided that the cost of such repair or replacement shall be amortized over its useful life and only the amortized portion of such cost shall be included in Operating Costs on a monthly basis. Tenant shall be responsible for replacing light bulbs and ballasts within the Premises. Tenant shall enter into all contracts for all repairs and services related to operating the Premises. (See Paragraph 4.1 for additional responsibilities by Tenant.) Tenant agrees to notify Landlord immediately if water or moisture conditions from any source (including leaks) are discovered and to allow Landlord to evaluate and make recommendations and/or take appropriate corrective action.

4.4 **Common Areas/Security**. The common areas of the Building and the Project shall be under Landlord's sole management and control. Landlord has no duty or obligation to provide any security services in, on or around the Premises, Land, Building or Project, and Tenant recognizes that security services, if any, provided by Landlord will be for the sole benefit of Landlord and the protection of Landlord's property.

4.5. **Signage**. Tenant, at its sole cost and expense, shall have the right to the maximum building top signage on the Premises and to Building, entry, and monument/directional signage in accordance with

Landlord's signage criteria without additional rental charges. All such signage shall be subject to the reasonable approval of Landlord and any required Governmental Agencies.

SECTION 5: OCCUPANCY PROVISIONS

5.1 **Tenant Alterations**. Tenant shall not make or permit to be made any alterations, additions, improvements or installations in or to the Premises (including Telecommunication Facilities), or place signs or other displays visible from outside the Premises (individually and collectively "Tenant Alterations"), without first obtaining the consent of Landlord which may be withheld in Landlord's reasonable discretion. If Landlord fails to respond to Tenant's request within fifteen (15) days after the receipt of Tenant's request, Tenant shall give Landlord a second notice. Landlord's failure to respond to Tenant's second notice within ten (10) days after the receipt of Tenant's request shall be deemed to be Landlord's approval of the proposed Tenant Alterations. Notwithstanding the foregoing, Tenant, without Landlord's prior written consent, but with prior notice thereto, shall be permitted to make non-structural Tenant Alterations to the Building, provided that (a) Tenant shall deliver to Landlord in writing approximately thirty (30) days prior to commencement of the Tenant Alterations a general description of the Tenant Alterations Tenant intends to make, (b) the cost of such Tenant Alteration does not exceed Twenty-Five Thousand and No/100 Dollars ($25,000.00) individually, (c) Tenant shall notify Landlord in writing within thirty (30) days of completion of the Tenant Alteration and deliver to Landlord a set of the plans and specifications therefor, either "as-built" or marked to show construction changes made, and (d) Tenant shall, upon Landlord's request made within ten (10) days after the notice referred to in clause (c), remove the Tenant Alteration at the termination of the Lease and restore the Premises to their condition prior to such Tenant Alteration. Tenant shall deliver to Landlord complete plans and specifications for any proposed Tenant Alterations and, if consent by Landlord is given, all such work shall be performed at Tenant's expense by Landlord or, with Landlord's consent, by Tenant. Tenant shall be authorized to perform Tenant Alterations only to the extent and under such terms and conditions as Landlord, in its absolute discretion, shall specify which, in all events, shall include compliance with paragraph 5.8 ("Work Performance and Responsible Contracting"). All Tenant Alterations performed by Tenant shall be (1) completed in accordance with the plans and specifications approved by Landlord; (2) completed in accordance with all Governmental Requirements; (3) carried out promptly in a good and workmanlike manner; (4) of all new materials; and (5) free of defects in materials and workmanship.

5.2 **Surrender of Possession**. Tenant shall, at the expiration or earlier termination of this Lease, surrender and deliver the Premises to Landlord (a) in as good condition as when received by Tenant from Landlord or as later improved, reasonable use and wear, casualty and condemnation excepted, and (b) free from any tenancy or occupancy by any person.

5.3 **Removal of Property**. Upon the expiration or earlier termination of this Lease, Tenant may remove its personal property, office supplies and office furniture and equipment if (a) such items are readily moveable and are not attached to the Premises; (b) such removal is completed prior to the expiration or earlier termination of this Lease; and (c) Tenant immediately repairs all damage caused by or resulting from such removal. All Tenant Alterations shall become the property of Landlord and shall remain upon and be surrendered with the Premises, unless Landlord requires their removal at the time Landlord grants consent to the construction of such Tenant Alterations. In no event shall Tenant have any obligation to remove the initial Tenant Improvements (other than Telecommunication Facilities) at the expiration of the Lease as required by Section 2.8 above. If removal is required, Tenant shall, at its sole cost and expense, remove all (or such portion as Landlord shall designate) of the Tenant Alterations, repair any damages resulting from such removal and return the Premises to the same condition as existed prior to such Tenant Alterations.

5.4 **Building Hours/Access**. Tenant shall have access to the Building seven (7) days per week, twenty-four (24) hours per day, fifty-two (52) weeks a year. Tenant shall permit Landlord and Landlord's Affiliates (defined in paragraph 6.1) to enter into the Premises at any time on reasonable prior written notice (no less than forty-eight (48) hours prior to such entry, except in case of emergency in which case no notice shall be required) for the purposes of inspection or for the purpose of repairing, altering or improving the Premises or the Building. When reasonably necessary, Landlord may temporarily close Building or Land entrances, Building doors or other facilities, but Landlord shall use good faith efforts to minimize disruption to Tenant's business and shall, in all cases, provide continued access to the Premises. Landlord shall have the right on reasonable notice to enter the Premises during the last nine

(9) months of the Lease Term for the purpose of showing the Premises to prospective tenants and to erect on the Premises a suitable sign indicating the Premises are available.

5.5 **Damage or Destruction**.

5.5.1 If the Premises are damaged by fire, earthquake or other casualty ("Casualty"), Tenant shall give immediate written notice to Landlord. If Landlord estimates that the damage can be repaired to meet Tenant's business needs within one hundred eighty (180) days after Landlord is notified by Tenant of such damage and if there are sufficient insurance proceeds available to repair such damage (net of any deductible), then Landlord shall proceed with reasonable diligence to restore the Premises to substantially the condition which existed prior to the damage and this Lease shall not terminate. If neither circumstance described in the previous sentence exists, Landlord may elect, in its absolute discretion, to either: (a) terminate this Lease or (b) restore the Premises to substantially the condition which existed prior to the damage and this Lease will continue. Notice of Landlord's election shall be delivered to Tenant within sixty (60) days after the date Landlord receives written notice of the damage. Failure to deliver notice within the specified period shall be treated as election not to restore. Tenant agrees to look to the provider of Tenant's insurance for coverage for the loss of Tenant's use of the Premises and any other related losses or damages incurred by Tenant during any reconstruction period following a Casualty.

5.5.2 If the Building is damaged by Casualty and more than fifty percent (50%) of the Building is rendered untenantable, without regard to whether the Premises are affected by such damage, Landlord may, in its absolute discretion, elect to terminate this Lease by notice in writing to Tenant within thirty (30) days after the date Landlord receives written notice of the damage. Such notice shall be effective twenty (20) days after delivery to Tenant unless a later date is set forth in Landlord's notice.

5.5.3 Notwithstanding any provision to the contrary contained herein, (i) if Tenant's use of the Premises is substantially impaired for a period of more than one hundred eighty (180) days after the date of Casualty, or during the last six (6) months of the Lease Term, then both Landlord and Tenant shall have the right to terminate this Lease by written notice to the other party at any time thereafter until Tenant's use of the Premises is substantially restored, and (ii) if this Lease is terminated by either Landlord or Tenant due to a Casualty, then Tenant shall not be required to pay for any insurance deductibles relating to such Casualty as part of Landlord's insurance cost or otherwise.

5.6 **Condemnation**. If more than fifty percent (50%) of the Premises, or such portions of the Building as may be required for the Tenant's reasonable use of the Premises, are taken by eminent domain or by conveyance in lieu thereof, this Lease shall automatically terminate as of the date the physical taking occurs, and all Base Rent, Operating Costs Reimbursements and other sums payable under this Lease shall be paid to that date. In the case of a taking of a part of the Premises or a portion of the Building not required for the Tenant's reasonable use of the Premises, this Lease shall continue in full force and effect and the Base Rent shall be equitably reduced based on the proportion by which the floor area of the Premises is reduced, such reduction in Base Rent to be effective as of the date the physical taking occurs. Operating Costs Reimbursements payments may be redetermined as equitable under the circumstances. Landlord reserves all rights to damages or awards for any taking by eminent domain relating to the Premises, Building, Land and the unexpired term of this Lease. Tenant assigns to Landlord any right Tenant may have to such damages or award and Tenant shall make no claim against Landlord for damages for termination of its leasehold interest or interference with Tenant's business. Tenant shall have the right, however, to claim and recover from the condemning authority compensation for any loss to which Tenant may be entitled for Tenant's moving expenses or other relocation costs if they are awarded separately to Tenant in the eminent domain proceedings and are not claimed by Tenant to be a part of the damages recoverable by Landlord.

5.7 **Liens**. Tenant shall have no authority, express or implied, to create or place any lien or encumbrance of any kind or nature whatsoever upon the interest of Landlord or Tenant in the Premises or to charge the rentals payable under this Lease for any Claims in favor of any person dealing with Tenant, including those who may furnish materials or perform labor for any construction or repairs. If any such lien or encumbrance is filed or recorded, Tenant shall cause it to be released or otherwise removed within five (5) days by a means or method approved by Landlord.

5.8 **Work Performance and Responsible Contracting**.

5.8.1 Tenant acknowledges and agrees that all alterations, additions, improvements, repairs and installations made to or on the Premises (including any Initial Improvements and any Tenant Alterations) shall be performed subject to contractual requirements applicable for the entire duration of

the contract that the prime contractor and each and every subcontractor of every tier shall (a) be a party to or bound by a collective bargaining agreement applicable to the geographic area in which the Land is located, applicable to the trade or trades in which the work under the contract is to be performed and entered with one or more labor organizations affiliated with the Building and Construction Trades Department of the AFL-CIO or with an independent, nationally recognized labor organization or one of its affiliated locals, and (b) solely employ members of such labor organizations to perform work within their respective jurisdictions. The previous sentence shall apply whether it is Landlord or Tenant performing or contracting for any such alterations, additions, improvements or installations. Waivers or exceptions to the requirement in this sentence may be given only in writing by Landlord. Landlord hereby approves Skyline Construction as the general contractor.

5.8.2 In addition to the requirements of the previous subparagraph, Tenant shall use commercially reasonable efforts to contract for services to be performed in or about the Premises with companies which are a "Responsible Contractor". A "Responsible Contractor" is defined as a contractor or subcontractor who pays workers a fair wage and Fair Benefits as evidenced by payroll and employee records and who complies with a service-disabled veteran business policy. "Fair Benefits" are defined as including employer-paid family health care coverage, pension benefits, and apprenticeship programs.

5.9 **Estoppel Certificate**. On Landlord's written request within ten (10) business days of such request, Tenant shall timely complete, sign and deliver a certificate to an addressee designated by Landlord stating (a) the material terms of this Lease, (b) whether any default currently exists under the Lease, and (c) such other information as may reasonably be requested.

5.10 **Utility Bills**. In order to assist Landlord in monitoring the energy efficiency of the Building, on Landlord's request, Tenant shall timely deliver to Landlord a copy of Tenant's utility bills for the Premises and such other information related to Tenant's use of utilities as may reasonably be requested.

5.11 **Modification for Lender**. If, in connection with obtaining construction, interim or permanent financing for the Building or Land, Landlord's lender, if any, shall request reasonable modifications to this Lease as a condition to such financing, Tenant will not unreasonably withhold or delay its consent to such modifications; provided that, such modifications do not increase the obligations of Tenant under this Lease or materially adversely affect Tenant's rights under this Lease.

5.12 **Hazardous Substances**.

5.12.1 Landlord represents to Tenant that as of the execution date of this Lease, Landlord is not aware of any Hazardous Substances prohibited by applicable Governmental Requirements located in, on, or about the Premises, Building or the Project. Neither Tenant nor any of Tenant's Affiliates shall store, place, generate, manufacture, refine, handle, or locate on, in, under or around the Land or Building any asbestos, PCBs, petroleum or petroleum-based chemicals or substances, urea formaldehyde or any chemical, material, element, compound, solution, mixture, substance or other matter of any kind whatsoever which is now or later defined, classified, listed, designated or regulated as hazardous, toxic or radioactive by any Governmental Agency ("Hazardous Substance"), except for storage, handling and use of reasonable quantities and types of cleaning fluids, a generator with petroleum storage, office supplies and substances necessary for Tenant's drug research and development business in the Premises in the ordinary course and the prudent conduct of Tenant's business in the Premises and in accordance with applicable law. Tenant agrees that (a) the storage, handling and use of such permitted Hazardous Substances must at all times conform to all Governmental Requirements and to applicable fire, safety and insurance requirements; (b) the types and quantities of permitted Hazardous Substances which are stored in the Premises must be reasonable and appropriate to the nature and size of Tenant's operation in the Premises and reasonable and appropriate for a first-class building of the same or similar use and in the same market area as the Building; and (c) no Hazardous Substance shall be spilled or disposed of on, in, under or around the Land or Building or otherwise discharged from the Premises or any area adjacent to the Land or Building. In no event will Tenant be permitted to store, handle or use on, in, under or around the Premises any Hazardous Substance which will increase the rate of fire or extended coverage insurance on the Land or Building, unless: (1) such Hazardous Substance and the expected rate increase have been specifically disclosed in writing to Landlord; (2) Tenant has agreed in writing to pay any rate increase related to each such Hazardous Substance; and (3) Landlord has approved in writing each such Hazardous Substance, which approval shall be subject to Landlord's discretion.

5.12.2 Tenant shall indemnify, defend and hold harmless Landlord and Landlord's Agents from and against any and all Claims arising out of any breach of any provision of this paragraph, which expenses shall also include laboratory testing fees, personal injury claims, clean-up costs and

environmental consultants' fees; provided, the foregoing shall not apply to the extent of the gross negligence or willful misconduct of Landlord, its agents, or contractors or the uncured breach of this Lease by Landlord. Tenant agrees that Landlord may be irreparably harmed by Tenant's breach of this paragraph and that a specific performance action may appropriately be brought by Landlord; provided that, Landlord's election to bring or not bring any such specific performance action shall in no way limit, waive, impair or hinder Landlord's other remedies against Tenant.

5.12.3 As of the execution date of this Lease, Tenant represents and warrants to Landlord that, except as otherwise disclosed by Tenant to Landlord, Tenant has no intent to bring any Hazardous Substances on, in or under the Premises except for the type and quantities authorized in Section 5.12.1.

5.13 **Access Laws**.

5.13.1 Landlord represents and warrants to Tenant that, as of the Commencement Date, to Landlord's actual knowledge, the Premises shall be in material compliance with the ADA (including the Americans with Disabilities Act Accessibility Guidelines for Buildings and Facilities) and all other Governmental Requirements relating to the foregoing (collectively, "Access Laws").

5.13.2 Tenant agrees to notify Landlord immediately if Tenant receives notification or otherwise becomes aware of: (a) any condition or situation on, in, under or around the Land or Building which may constitute a violation of any Access Laws or (b) any threatened or actual lien, action or notice that the Land or Building is not in compliance with any Access Laws. If Tenant is responsible for such condition, situation, lien, action or notice under this paragraph, Tenant's notice to Landlord shall include a statement as to the actions Tenant proposes to take in response to such condition, situation, lien, action or notice.

5.13.3 Tenant shall not alter or permit any assignee or subtenant or any other person to alter the Premises in any manner which would violate any Access Laws or increase Landlord's responsibilities for compliance with Access Laws, without the prior approval of the Landlord, which shall not be unreasonably withheld provided that such Tenant Alteration complies with the provisions of Section 5.1 above and Tenant causes compliance with Access Laws. In connection with any such approval, Landlord may require a certificate of compliance with Access Laws from an architect, engineer or other person acceptable to Landlord. Tenant agrees to pay the reasonable fees incurred by such architect, engineer or other third party in connection with the issuance of such certificate of compliance. Landlord's consent to any proposed Tenant Alteration shall (a) not relieve Tenant of its obligations or indemnities contained in this paragraph or this Lease or (b) be construed as a warranty that such proposed alteration complies with any Access Law.

5.13.4 Tenant shall be solely responsible for all costs and expenses relating to or incurred in connection with bringing the Premises, the Building, or the common areas of the Building into compliance with Access Laws, if and to the extent such noncompliance arises out of or relates to: (1) Tenant's specific use of the Premises, including the hiring of employees; (2) any Tenant Alterations to the Premises; or (3) any Tenant Improvements constructed in the Premises at the request of Tenant.

5.13.5 Landlord shall be responsible for all costs and expenses relating to or incurred in connection with bringing the common areas of the Building into compliance with Access Laws, unless such costs and expenses are Tenant's responsibility as provided in the preceding subparagraph.

5.13.6 Tenant agrees to indemnify, defend and hold harmless Landlord and Landlord's Affiliates from and against any and all claims arising out of or relating to any failure of Tenant or Tenant's Affiliates to comply with Tenant's obligations under this paragraph.

5.13.7 Subject to Section 4.2 above, the provisions of this paragraph shall supersede any other provisions in this Lease regarding Access Laws, to the extent inconsistent with the provisions of any other paragraphs.

5.14 **Subordination**. Tenant subordinates this Lease and all rights of Tenant under this Lease to any mortgage, deed of trust, ground lease or vendor's lien, or similar instrument which may from time to time be placed upon the Premises (and all renewals, modifications, replacements and extensions of such encumbrances), and each such mortgage, deed of trust, ground lease or lien or other instrument shall be superior to and prior to this Lease. Notwithstanding the foregoing, the holder or beneficiary of such mortgage, deed of trust, ground lease, vendor's lien or similar instrument shall have the right to subordinate or cause to be subordinated any such mortgage, deed of trust, ground lease, vendor's lien or similar instrument to this Lease or to execute a non-disturbance agreement in favor of Tenant on the standard form utilized by such lender or ground lessor. At the request of Landlord, the holder of such mortgage or deed of trust or any ground lessor, Tenant shall execute, acknowledge and deliver promptly in recordable form any customary instrument or subordination agreement that Landlord or such holder

may request, provided that the agreement contains a commercially reasonable non-disturbance and attornment agreement and does not materially increase Tenant's obligations or decrease its rights under this Lease. Tenant further covenants and agrees that if the lender or ground lessor acquires the Premises as a purchaser at any foreclosure sale or otherwise, Tenant shall recognize and attorn to such party as landlord under this Lease, and shall make all payments required hereunder to such new landlord without deduction or set-off and, upon the request of such purchaser or other successor, execute, deliver and acknowledge documents confirming such attornment. Tenant waives the provisions of any law or regulation, now or hereafter in effect, which may give or purport to give Tenant any right to terminate or otherwise adversely affect this Lease or the obligations of Tenant hereunder in the event that any such foreclosure or termination or other proceeding is prosecuted or completed.

SECTION 6: INSURANCE AND INDEMNIFICATION

6.1 **Indemnification**. Tenant shall indemnify, defend and hold harmless Landlord, Landlord's Affiliates and the Manager from and against any and all Claims made against such persons, arising solely out of (a) the possession, use or occupancy of the Premises or the business conducted in the Premises, (b) any act, omission or actionable neglect of Tenant or Tenant's Affiliates, or (c) any breach or default under this Lease by Tenant or by any Tenant's Affiliates. Tenant's obligations under the previous sentence shall not apply to the extent the Claim arises from intentional misconduct by or actionable neglect of Landlord or Landlord's Affiliates or uncured breach of this Lease by Landlord. "Landlord's Affiliates" are (i) the trustee of and, the investment advisor to the Landlord and (ii) employees of the foregoing. "Tenant's Affiliates" are all officers, partners, contractors, employees and invitees of Tenant. "Claims" is an individual and collective reference to any and all claims, demands, damages, injuries, losses, liens, liabilities, penalties, fines, lawsuits, actions, and other proceedings and expenses (including attorneys' fees and expenses incurred in connection with the proceeding, whether at trial or on appeal).

6.2 **Tenant Insurance**.

6.2.1 Tenant shall, throughout the Lease Term, at its own expense, keep and maintain in full force and effect each and every one of the following policies, each of which shall be endorsed as needed to provide that the insurance afforded by these policies is primary and that all insurance carried by Landlord is strictly excess and secondary and shall not contribute with Tenant's liability insurance:

(a) A policy of commercial general liability insurance, including a contractual liability endorsement covering Tenant's obligations under the paragraph captioned "Indemnification", insuring against claims of bodily injury and death or property damage or loss with a combined single limit at the Commencement Date of this Lease of not less than Two Million Dollars ($2,000,000.00) per occurrence and location. Tenant shall include Landlord, Manager, Landlord's investment advisor, and at Landlord's request, Landlord's mortgage lender(s) as additional insureds. The limit shall be reasonably increased during the Lease Term at Landlord's request.

(b) "Special Form" property insurance (which is commonly called "all risk") covering Initial Tenant Improvements, Tenant Alterations, and any and all furniture, fixtures, equipment, inventory, improvements and other property in or about the Premises which is not owned by Landlord, for the then, entire current replacement cost of such property.

(c) Business interruption insurance in an amount sufficient to cover costs, damages, lost income, expenses, Base Rent, Operating Costs Reimbursements and all other sums payable under this Lease, should any or all of the Premises not be usable for a period of up to twelve (12) months.

(d) A policy of worker's compensation insurance if and as required by applicable law and employer's liability insurance with limits of no less than One Million and No/100 Dollars ($1,000,000.00).

(e) In the event Tenant acquires company automobiles, a policy of comprehensive automobile liability insurance, including loading and unloading, and covering owned and hired vehicles with limits of no less than One Million Dollars ($1,000,000.00) per occurrence.

6.2.2 All insurance policies required under this paragraph shall be with companies having a rating according to Best's Insurance Key Rating Guide for Property — Casualties of no less than A- Class VIII. Each policy shall provide that it is not subject to cancellation, lapse or reduction in coverage except after thirty (30) days' written notice to Landlord. Tenant shall deliver to Landlord, prior to the Commencement Date and, from time to time thereafter, certificates evidencing the existence and amounts of all such policies and, on Landlord's request, copies of such insurance policies. There shall be

no deductible amount applicable with respect to the insurance policy requirements in part (a) of the previous subparagraph unless approved in advance by Landlord. Deductibles under policies procured under the requirements of clause (b) of subparagraph 6.2.1 must be reasonable and customary. There shall be no self-insured retention with respect to the requirements in either part (a) or (b) of the previous subparagraph unless approved in advance by Landlord.

6.2.3 If Tenant fails to acquire or maintain any insurance or provide evidence of insurance required by this paragraph, Landlord may, but shall not be required to, obtain such insurance or evidence and the costs associated with obtaining such insurance or evidence shall be payable by Tenant to Landlord on demand.

6.3 **Landlord's Insurance**. Landlord shall, throughout the Lease Term, keep and maintain in full force and effect:

(a) Commercial general liability insurance, insuring against claims of bodily injury and death or property damage or loss with a combined single limit at the Commencement Date of not less than One Million Dollars ($1,000,000.00) per occurrence and Two Million Dollars ($2,000,000.00) general aggregate, which policy shall be payable on an "occurrence" rather than a "claims made" basis.

(b) "Special Form" property insurance (which is commonly called "all risk") covering the Building and Landlord's personal property, if any, located on the Land for the then, current replacement value of such property.

(c) Landlord may, but shall not be required to, maintain other types of insurance as Landlord deems appropriate, including property insurance coverage for earthquakes and floods in such amounts as Landlord deems appropriate.

6.4 **Waiver of Subrogation**. Notwithstanding anything in this Lease to the contrary, Landlord and Tenant each waive and release the other from any and all Claims or any loss or damage that may occur to the Land, Building, Premises, or personal property located on or in the described Premises, by reason of Casualty, but only to the extent of deductibles specified in the insurance policies plus the insurance proceeds paid to such party under its policies of insurance or, if it fails to maintain the required policies, the insurance proceeds that would have been paid to such party if it had maintained such policies.

SECTION 7: ASSIGNMENT AND SUBLETTING

7.1 **Assignment and Subletting by Tenant**. Except for Permitted Transfers, Tenant shall not have the right, directly or indirectly (by change of control or otherwise) to assign, transfer, mortgage or encumber this Lease in whole or in part, nor sublet the whole or any part of the Premises, nor allow the occupancy of all or any part of the Premises by another, without first obtaining Landlord's consent, which consent may not be unreasonably withheld or delayed. Neither Landlord's demand for Recapture under paragraph 7.2 ("Recapture") or Landlord's conditioning of its consent under paragraph 7.3 ("Landlord Share of Revenue Surplus") shall be deemed unreasonable. No sublease or assignment , including one to which Landlord has consented, shall release Tenant from its obligations under this Lease.

7.2 **Recapture**. Landlord shall have the right to recapture all or the applicable portion of the Premises proposed to be assigned or sublet by giving written notice of Landlord's intention to exercise such right within fifteen (15) days after delivery of Tenant's request that Landlord consent to assignment or subletting ("Recapture"). The Recapture shall be effective on the earlier of (a) the date Tenant proposed to assign or sublet or (b) the last day of a calendar month which is at least sixty (60) days after delivery of Tenant's request that Landlord's consent to the assignment or subletting. On the effective date of the Recapture, this Lease shall be terminated as to the Premises or the portion of the Premises subject to the Recapture. Notwithstanding the first sentence of this subparagraph, Landlord shall have no right to Recapture the Premises or applicable portion thereof if: (a) Tenant's proposed assignment or sublet is a Permitted Transfer or to an affiliate or wholly-owned subsidiary or is to a reorganized entity under which no change in ownership has occurred, or (b) Tenant's proposed assignment or sublet, together with any previous assignments and/or sublets in effect as of the date of Tenant's request, encompass in the aggregate net rentable area equal to or less than fifty percent (50%) of the total net rentable area of Premises.

7.3 **Landlord Share of Revenue Surplus**. Landlord may elect to condition its consent to an assignment or subletting on this paragraph. If Landlord so gives conditional consent, Tenant shall pay to Landlord if, as and when received by Tenant, fifty percent (50%) of the consideration received by Tenant for the assignment or subletting (after deduction of leasing commissions, attorneys' fees, tenant

improvement allowances, and other reasonable costs of assignment or subletting) to the extent that consideration exceeds Tenant's obligations under this Lease for the same portion of the Lease Term. If the sublet is for other than the entirety of the Premises, Tenant's obligation under this Lease shall be prorated based on the area subleased as compared to the Rentable Area of the Premises.

7.4 **Permitted Transfers**. Notwithstanding anything to the contrary in subparagraph 7.1, but subject to the other provisions of this paragraph, Tenant may assign this Lease or sublet the Premises or any portion thereof (a "Permitted Transfer"), without Landlord's consent: (a) to any partnership, corporation or other entity which controls, is controlled by, or is under common control with Tenant (control being defined for such purposes as ownership of 50% or more of all of the voting stock of a corporation or 50% or more of the voting legal or equitable interest in any other business entity, and the power to direct the management and operations of the relevant entity) (an "Affiliate") or (b) to any partnership, corporation or other entity resulting from a merger or consolidation with Tenant or which acquires all or substantially all of Tenant's assets (through a transfer of assets or equity interests in Tenant) as a going concern and such assets include substantial assets other than this Lease (a "Successor"); or (c) to any entity engaged in a joint venture with Tenant, provided that, (i) Landlord receives at least ten (10) days' prior written notice of the assignment or subletting, in which Tenant shall expressly confirm that Tenant remains primarily liable (together with the assignee in the event of an assignment) for all of the obligations of Tenant under this Lease, (ii) in the case of a subletting or assignment to an Affiliate, the Affiliate remains an Affiliate for the duration of the subletting or the balance of the term in the event of an assignment,, (iii) Landlord receives a fully executed coy of the assignment or sublease agreement between Tenant and the Affiliate or Successor at least ten (10) days prior to the effective date of such assignment or sublease, in which the Affiliate or Successor, as the case may be, assumes (in the event of an assignment) all of Tenant's obligations under the Lease, and agrees (in the event of a sublease) that such subtenant will, at Landlord's election, attorn directly to Landlord in the event that this Lease is terminated for any reason, and (iv) in the case of an assignment, the essential purpose of such assignment is to transfer an active, ongoing business with substantial assets in addition to this Lease, and, in the case of an assignment or sublease, the transaction is for legitimate business purposes unrelated to this Lease and the transaction is not a subterfuge by Tenant to avoid its obligations under this Lease or the restrictions on assignment and subletting contained herein. In addition, a sale or transfer of the capital stock of Tenant shall be deemed a Permitted Transfer if (1) such sale or transfer occurs in connection with any bona fide financing or capitalization for the benefit of Tenant, or (2) Tenant is or becomes a publicly traded corporation. Landlord shall no right to any sums or other economic consideration resulting from any Permitted Transfer. Additionally, any rights that are personal to Tenant shall also accrue to any Permitted Transferee.

7.5 **Assignment by Landlord**. Landlord shall have the right to transfer and assign, in whole or in part, its rights and obligations under this Lease and in any and all of the Land or Building. If Landlord sells or transfers any or all of the Building, Landlord and Landlord's Affiliates shall, upon consummation of such transfer be released automatically from any liability under this Lease for obligations to be performed or observed after the date of the transfer. After the effective date of the transfer, Tenant must look solely to Landlord's successor-in-interest.

SECTION 8: DEFAULT AND REMEDIES

8.1 **Events of Default**.

8.1.1 The occurrence of any one or more of the following events shall constitute a material default and breach of this Lease by Tenant ("Event of Default"):

(a) vacation or abandonment of all or any portion of the Premises without continued payment when due of Base Rent and Operating Costs Reimbursements and other sums due under this Lease;

(b) failure by Tenant to make any payment of Base Rent, Operating Costs Reimbursements or any other sum payable by Tenant under this Lease within three (3) days after its due date, or, in the case of the first such failure during a calendar year of the Lease Term, within three (3) days after written notice to Tenant of such failure;

(c) failure by Tenant to observe or perform any covenant or condition of this Lease, other than the making of Base Rent, Operating Costs Reimbursements and other payments, where such failure continues for a period of twenty (20) days after written notice from Landlord; provided, however,

that if the nature of Tenant's obligation is such that more than the specified period required for performance, then Tenant shall not be in default if Tenant commences performance within such period and thereafter diligently prosecutes it to completion;

(d) the failure of Tenant to surrender possession of the Premises at the expiration or earlier termination of this Lease in the condition required by this Lease;

(e) (1) the making by Tenant of any general assignment or general arrangement for the benefit of creditors; (2) the filing by or against Tenant of a petition in bankruptcy, including reorganization or arrangement, unless, in the case of a petition filed against Tenant, it is dismissed within sixty (60) days; (3) the appointment of a trustee or receiver to take possession of substantially all of Tenant's assets located in the Premises or of Tenant's interest in this Lease; (4) any execution, levy, attachment or other process of law against any property of Tenant or Tenant's interest in this Lease, unless it is dismissed within sixty (60) days; (5) adjudication that Tenant is bankrupt; (6) the making by Tenant of a transfer in fraud of creditors; or (7) the failure of Tenant to generally pay its debts as they become due;

(f) any information furnished by or on behalf of Tenant to Landlord in connection with this Lease is determined to have been materially false, or misleading and Tenant knew of same; or

(g) if a letter of credit is required under the Credit Enhancement Rider to this Lease, a failure of the Tenant to deliver that letter of credit within the time period specified.

8.1.2 If a petition in bankruptcy is filed by or against Tenant, and if this Lease is treated as an "unexpired lease" under applicable bankruptcy law, then Tenant shall neither attempt nor cause any trustee to attempt to extend the time period specified by the Bankruptcy Act for the assumption or rejection of this Lease.

8.2 **Remedies**.

8.2.1 If any Event of Default occurs, Landlord may at any time after such occurrence, with or without notice or demand except as stated in this paragraph, and without limiting Landlord in the exercise of any other right or remedy which Landlord may have by reason of such Event of Default, exercise the rights and remedies, either singularly or in combination, specified or described in the subparagraphs of this paragraph.

8.2.2 Landlord may terminate this Lease and all rights of Tenant under this Lease, either immediately or at some later date, by giving Tenant written notice that this Lease is terminated. If Landlord so terminates this Lease, then Landlord may recover from Tenant the sum of:

(a) the unpaid Base Rent, Operating Costs Reimbursements and all other sums payable under this Lease which have been earned up to and including the date of termination; plus

(b) interest at the Default Rate on the sum stated in clause (a); plus

(c) the amount by which (i) the unpaid Base Rent, Operating Costs Reimbursements and all other sums payable under this Lease which would have been earned after termination until the time of award exceeds (ii) the amount of such rental loss, if any, as Tenant affirmatively proves could have been reasonably avoided during such time period, together with interest on such resulting difference at the Default Rate; plus

(d) the amount by which (i) the aggregate of the unpaid Base Rent, Operating Costs Reimbursements and all other sums payable under this Lease for the balance of the Lease Term after the time of award exceeds (ii) the amount of such rental loss, if any, as Tenant affirmatively proves could be reasonably avoided, with such resulting difference being discounted to present value at the time of the award at the Prime Rate in existence at such time; plus

(e) any other amount necessary to compensate Landlord for the detriment proximately caused by Tenant's failure to perform Tenant's obligations under this Lease or which, in the ordinary course of things, would be likely to result from such failure, including, leasing commissions, tenant improvement costs, renovation costs and advertising costs.

8.2.3 Landlord shall also have the right, with or without terminating this Lease, to re-enter the Premises and remove all persons and property from the Premises. Landlord may cause property so removed from the Premises to be stored in a public warehouse or elsewhere at the expense, for the account of, and at the risk of Tenant.

8.2.4 Landlord shall also have the right, without terminating this Lease, to accelerate and recover from Tenant the sum of all unpaid Base Rent, Operating Costs Reimbursements and all other sums payable under the then remaining term of the Lease, discounting such amount to present value at the Prime Rate.

8.2.5 If Tenant vacates, abandons or surrenders the Premises without Landlord's consent, or if Landlord re-enters the Premises as provided in subparagraph 8.2.3 or takes possession of the Premises pursuant to legal or notice proceedings, then, if Landlord does not elect to terminate this Lease, Landlord may, from time to time, without terminating this Lease, either (a) recover all Base Rent, Operating Costs Reimbursements and all other sums payable under this Lease as they become due or (b) relet the Premises or any part of the Premises on behalf of Tenant for such term or terms, at such rent or rents and pursuant to such other provisions as Landlord, in its sole discretion, may deem advisable, all with the right, at Tenant's cost, to make alterations and repairs to the Premises and recover any deficiency from Tenant as set forth in subparagraph 8.2.6.

8.2.6 If Landlord relets the Premises without terminating this Lease, Landlord shall apply the revenue from such reletting to Landlord's costs and Tenant's obligations in such order as Landlord deems appropriate. Should revenue from letting during any month be less than the sum of the Base Rent, Operating Costs Reimbursements and other sums payable under this Lease and Landlord's expenditures for the Premises during such month, Tenant shall be obligated to pay such deficiency to Landlord as and when such deficiency arises.

8.3 **Right to Perform**. If Tenant shall fail to pay any sum of money, other than Base Rent or Operating Costs Reimbursements, required to be paid by it under this Lease or shall fail to perform any other act on its part to be performed under this Lease, and such failure shall continue for ten (10) days after written notice of such failure by Landlord, Landlord may, but shall not be obligated to, and without waiving or releasing Tenant from any obligations, make such payment or perform such other act on Tenant's part to be made or performed as provided in this Lease. Landlord shall have all rights and remedies for recovery of any sum or for the cost of such performance as specified in this Lease.

8.4 **Landlord's Default**. Landlord shall not be in default under this Lease unless Landlord fails to perform obligations required of Landlord within thirty (30) days after written notice is delivered by Tenant to Landlord specifying the obligation which Landlord has failed to perform; provided, however, that if the nature of Landlord's obligation is such that more than the specified period required for performance, then Landlord shall not be in default if Landlord commences performance within such period and thereafter diligently prosecutes it to completion. Tenant waives the benefit of any laws granting it the right to perform Landlord's obligation, a lien upon the property of Landlord or upon rent due Landlord, or the right to terminate this Lease or withhold rent.

8.5 **Limitation on Recourse**. Liability with respect to the entry and performance of this Lease by or on behalf of Landlord or any other obligation of Landlord, however it may arise, shall be asserted and enforced only against Landlord's estate and equity interest in the Building and proceeds therefrom and from insurance. Neither Landlord nor any of Landlord's Affiliates shall have any personal liability in the event of any Claim against any of them arising out of or in connection with this Lease, the relationship of Landlord and Tenant or Tenant's use of the Premises. Any and all personal liability, if any, beyond that which may be asserted under this paragraph, is expressly waived and released by Tenant and by all persons claiming by, through or under Tenant.

SECTION 9: MISCELLANEOUS PROVISIONS

9.1 **Notices**. All notices, demands, consents, approvals, statements and communications required or permitted under this Lease shall be in writing and shall be addressed to a party at the addresses set forth opposite that party's signature, or to such other address as either party may specify by written notice, given in accordance with this paragraph. Unless otherwise specified opposite Tenant's signature, Tenant's notice address shall be changed to the address of the Premises after the Commencement Date. All such communications shall be transmitted by personal delivery, reputable express or courier service, or United States Postal Service, postage prepaid. All such communications shall be deemed delivered and effective on the earlier of (a) the date received or refused for delivery, or (b) three (3) calendar days after having been deposited in the United States Postal Service, postage prepaid.

9.2 **Attorney's Fees and Expenses**. In the event that (a) either party requires the services of an attorney in connection with enforcing the terms of this Lease, (b) suit is brought for the enforcement of this Lease or the exercise of rights and remedies afforded by this Lease or under law, or (c) proceedings are held in bankruptcy, then the substantially prevailing party shall be entitled to a reasonable sum for attorney's and paralegal's fees, expenses and court costs, including those relating to any appeal.

9.3 **Successors; Joint and Several Liability**. All of the covenants and conditions contained in this Lease shall apply to and be binding upon Landlord and Tenant and their respective heirs, executors, administrators, permitted successors and permitted assigns. In the event that more than one person or organization is included in the term "Tenant", then each such person or organization shall be jointly and severally liable for all obligations of Tenant under this Lease.

9.4 **Choice of Law**. This Lease shall be construed and governed by the laws of the state in which the Land is located.

9.5 **Offer to Lease**. The submission of this Lease in a draft form to Tenant or its broker or other agent does not constitute an offer to Tenant to lease the Premises. This Lease shall have no force or effect until it is executed and delivered by both Tenant and Landlord.

9.6 **Force Majeure**. In the event that either party shall be delayed, hindered in or prevented from the performance of any act or obligation required under this Lease by reason of acts of God, strikes, lockouts, labor troubles or disputes, inability to procure or shortage of materials or labor, failure of power or utilities, delay in transportation, fire, vandalism, accident, flood, severe weather, other casualty, Governmental Requirements (including mandated changes in the Plans and Specifications or the Tenant Improvements resulting from changes in pertinent Governmental Requirements or interpretations thereof), riot, insurrection, civil commotion, sabotage, explosion, war, natural or local emergency, acts or omissions of others, including the other party, or other reasons of a similar or dissimilar nature not solely the fault of, or under the exclusive control of, Landlord, then performance of such act or obligation (other than Tenant's rental obligations under this Lease) shall be excused for the period of the delay and the period for the performance of any such act or obligation shall be extended for the period equivalent to the period of such delay.

9.7 **Interpretation**. Headings or captions shall in no way define, limit or otherwise affect the construction or interpretation of this Lease. Whenever a provision of this Lease uses the terms "include" or "including", that term shall not be limiting but shall be construed as illustrative. This Lease shall be given a fair and reasonable interpretation of the words contained in it without any weight being given to whether a provision was drafted by one party or its counsel. Unless otherwise specified, whenever this Lease requires a consent or approval, the decision shall be reached in good faith discretion of the party entitled to give such consent or approval.

9.8 **Prior Agreement and Amendments**. This Lease contains all of the agreements of the parties to this Lease with respect to any matter covered or mentioned in this Lease. No prior agreement, understanding or statement pertaining to any such matter shall be effective for any purpose. No provision of this Lease may be amended or added to except by an agreement in writing signed by the parties to this Lease.

9.9 **Time of Essence**. Time is of the essence with respect to the performance of this Lease.

9.10 **Survival of Obligations**. Notwithstanding anything contained in this Lease to the contrary or the expiration or earlier termination of this Lease, any and all obligations of either party accruing prior to the expiration or termination of this Lease shall survive the expiration or earlier termination of this Lease, and either party shall promptly perform all such obligations whether or not this Lease has expired or terminated.

9.11 **Landlord's Authorized Agents**. Notwithstanding anything contained in the Lease to the contrary, including the definition of Landlord's Agents, MEPT Edgemoor REIT LLC (the manager of Landlord) and Bentall Kennedy (U.S.) Limited Partnership (the authorized signatory of MEPT Edgemoor REIT LLC) are the only entities authorized to amend, renew or terminate this Lease, to compromise any of Landlord's claims under this Lease or to bind Landlord in any manner with respect to this Lease. Neither the Manager nor any leasing agent or broker shall be considered an authorized agent of Landlord for such purposes.

9.12 **Tenant Certification**. Tenant certifies that it is not acting, directly or indirectly, for or on behalf of any person, group, entity, or nation named as a terrorist, "Specially Designated National and Blocked Person", or other banned or blocked person, group, entity, nation, or transaction pursuant to any law, order, rule or regulation that is enforced or administered by the Office of Foreign Assets Control. Tenant is not entering this Lease, directly or indirectly on behalf of, or instigating or facilitating this Lease, directly or indirectly on behalf of, any such person, group, entity or nation.

ADDITIONAL DEFINED TERMS CROSS REFERENCE TABLE

ADA	Paragraph 4.2 (“Maintenance and Repair by Landlord”)
Affiliate	Paragraph 7.4 (“Permitted Transfers”)
Casualty	Subparagraph 5.5.1
Claims	Paragraph 6.1 (“Indemnification”)
Fair Benefits	Subparagraph 5.8.2
Governmental Agency	Paragraph 2.11 (“Compliance with Governmental Requirements and Rules and Regulations”)
Governmental Requirements	Paragraph 2.11 (“Compliance with Governmental Requirements and Rules and Regulations”)
HVAC	Subparagraph 4.1.1
Land	Definition of Building and also Exhibit A
Landlord’s Affiliates	Paragraph 6.1 (“Indemnification”)
Permitted Transfer	Paragraph 7.4 (“Permitted Transfers”)
Permitted Uses	Subparagraph 2.10.1
Recapture	Paragraph 7.2 (“Recapture”)
Responsible Contractor	Subparagraph 5.8.2
Successor	Paragraph 7.4 (“Permitted Transfers”)
Telecommunication Facilities	Subparagraph 4.1.2
Tenant Affiliates	Paragraph 6.1 (“Indemnification”)
Tenant Alterations	Paragraph 5.1 (“Tenant Alterations”)

LISTING OF EXHIBITS

Exhibit A Legal Description of the Land
Exhibit B Drawing Showing Location and Configuration of the Premises
Exhibit C Rules and Regulations
Exhibit D Commencement Date Memorandum Form

LISTING OF RIDERS

Rider 1: Operating Costs Reimbursements

This Lease has been executed the day and year set forth on the first page of this Lease

Designated Address for Landlord:

MEPT Mount Eden LLC
c/o Bentall Kennedy (U.S.) Limited Partnership
Attn: Dir. of Asset Management — MEPT
1215 Fourth Avenue, Suite 2400
Seattle, WA 98161
Facsimile: 206-682-4769

and to:

MEPT Mount Eden LLC
c/o Bentall Kennedy (U.S.) Limited Partnership
Attn: Dir. of Asset Management — MEPT
7315 Wisconsin Ave., Ste. 350 West
Bethesda, MD 20814
Facsimile: 301-656-9339

and to:

MEPT Mount Eden LLC
c/o NewTower Trust Company
Attn: President/MEPT or Patrick O. Mayberry
3 Bethesda Metro Center, Suite 1600
Bethesda, MD 20814
Facsimile: 240-235-9961

Designated Address for Tenant:

Anthera Pharmaceuticals
Attn: _____
_____
_____
Facsimile: _____

LANDLORD:

MEPT Mount Eden LLC, a Delaware limited liability company

By: MEPT Edgemoor REIT LLC, a Delaware limited liability company, its sole member

By: Bentall Kennedy (U.S.) Limited Partnership, its Authorized Signatory

By: Bentall Kennedy (U.S.) G.P. LLC, its General Partner

By: /s/ Michael R. McCormick
Name: Michael R. McCormick
Its: Senior Vice President
5-4-11

TENANT:

Anthera Pharmaceuticals, a Delaware corporation

By: /s/ Chris Lowe
Name: Chris Lowe
Its: CBO

EXHIBIT A to Lease

LEGAL DESCRIPTION OF LAND

Ex. A

1

EXHIBIT A

REAL PROPERTY SITUATED IN THE STATE OF CALIFORNIA, COUNTY OF ALAMEDA, CITY OF HAYWARD MORE PARTICULARLY DESCRIBED AS FOLLOWS:

ALL THAT PORTION OF THOSE CERTAIN PARCELS OF LAND DESCRIBED IN THE GRANT DEEDS FROM JENJIURO SHIBATA TO MT. EDEN NURSERY COMPANY RECORDED ON DECEMBER 10, 1990, RECORDERS SERIES NO. 111089 AND PEARL CRYER ET. AL. TO MT. EDEN NURSERY COMPANY RECORDED ON DECEMBER 14, 1965 IN REEL 1701 AT IMAGE 977 AND WILLIAM ZENKLUSEN TO MT. EDEN NURSERY COMPANY, RECORDED ON JUNE 29, 1967, IN REEL 1990, AT IMAGE 740 AND FROM PETER BEDFORD ET UX TO MOUNT EDEN NURSERY COMPANY ON AUGUST 17, 1976 IN REEL 4488 AT IMAGE 15 OFFICIAL RECORDS OF SAID COUNTY MORE PARTICULARLY DESCRIBED AS FOLLOWS:

COMMENCING AT A CONCRETE STREET MONUMENT IN INDUSTRIAL BOULEVARD ALSO KNOWN AS COUNTY ROAD NO. 8085, SAID MONUMENT BEING SHOWN ON THAT CERTAIN MAP ENTITLED PARCEL MAP NO. 2144, FILED IN THE OFFICE OF THE RECORDER OF SAID COUNTY ON JULY 7, 1977 IN BOOK 97 OF PARCEL MAPS AT PAGE 93 AS MARKING A POINT OF CURVATURE OF SAID INDUSTRIAL BOULEVARD, SAID MONUMENT ALSO BEING AT THE NORTHERN TERMINUS OF THAT COURSE SHOWN AS “N 49°51’51” W 426.13’ MON-MON”;

THENCE FROM SAID POINT OF COMMENCEMENT SOUTH 50°15’27” WEST 34.00 FEET TO THE SOUTHWESTERN LINE OF SAID INDUSTRIAL BOULEVARD;

THENCE ALONG SAID LINE ALONG THE ARC OF A NON-TANGENT 1246.00 FOOT RADIUS CURVE TO THE LEFT, FROM WHICH THE CENTER OF SAID CURVE BEARS NORTH 50°15’05” EAST, THROUGH A CENTRAL ANGLE OF 1°12’23” AN ARC DISTANCE OF 26.23 FEET TO THE MOST NORTHERN CORNER OF SAID CERTAIN PARCEL OF LAND (RE: 4488 IM 15) SAID CORNER BEING THE POINT OF BEGINNING OF THIS DESCRIPTION;

THENCE CONTINUING ALONG SAID LINE SAID LINE ALSO BEING THE NORTHEASTERN LINE OF SAID CERTAIN PARCEL OF LAND (RE: 4448 IM 15) ALONG THE ARC OF SAID 1246.00 FOOT RADIUS CURVE, THROUGH A CENTRAL ANGLE OF 6°50’34” AN ARC DISTANCE OF 148.81 FEET TO THE NORTHERN LINE OF SAID CERTAIN PARCEL OF LAND (SERIES NO. 111089), SAID LINE ALSO BEING THE NORTHERN LINE OF THAT CERTAIN GRANT OF RIGHT OF WAY FROM MT. EDEN NURSERY COMPANY TO ALAMEDA COUNTY RECORDED ON MARCH 23, 1961 IN REEL 289 AT IMAGE 322 OFFICIAL RECORDS OF SAID COUNTY;

THENCE LEAVING SAID SOUTHWESTERN LINE AND ALONG THE NORTHERN, WESTERN AND SOUTHWESTERN LINES OF SAID GRANT OF RIGHT OF WAY (RE:289 IM 322) THE FOLLOWING THREE (3) COURSES:

1) SOUTH 89°34’38” WEST 145.79 FEET;
2) ALONG THE ARC OF A NON-TANGENT 1154.00 FOOT RADIUS CURVE TO THE LEFT, FROM WHICH POINT THE CENTER OF SAID CURVE BEARS NORTH 36°47’47” EAST, THROUGH A CENTRAL ANGLE OF 6°12’03” AN ARC DISTANCE OF 124.89 FEET;
3) SOUTH 2°57’32” EAST 109.72 FEET TO THE NORTHWESTERN CORNER OF SAID CERTAIN PARCEL OF LAND (RE: 1701 IM 977) SAID CORNER ALSO BEING ON SAID SOUTHEASTERN LINE OF INDUSTRIAL BOULEVARD;

THENCE ALONG SAID SOUTHEASTERN LINE OF INDUSTRIAL BOULEVARD, SAID LINE ALSO BEING THE NORTH EASTERN LINES OF SAID CERTAIN PARCELS OF LAND (RE: 1701 IM 977) AND (RE: 1990 IM 740) SOUTH 59°59'47" EAST 62.47 FEET TO A POINT OF CURVATURE;

THENCE ALONG THE ARC OF A TANGENT 1154.00 FOOT RADIUS CURVE TO THE RIGHT THROUGH A CENTRAL ANGLE OF 14°55'36" AN ARC DISTANCE OF 300.58 FEET;

THENCE LEAVING SAID LINE SOUTH 54°24'12" WEST 394.84 FEET;

THENCE SOUTH 35°35'48" EAST 354.97 FEET TO THE NORTHERN RIGHT OF WAY LINE OF WEST JACKSON FREEWAY;

THENCE ALONG SAID LINE THE FOLLOWING FOUR (4) COURSES:

1. ALONG THE ARC OF A NON-TANGENT 250.02 FOOT RADIUS CURVE TO THE LEFT, FROM WHICH POINT THE CENTER OF SAID CURVE BEARS NORTH 67°44'10" WEST, THROUGH A CENTRAL ANGLE OF 16°51'45" AN ARC DISTANCE OF 73.58 FEET;
2. SOUTH 5°23'35" WEST 157.55 FEET;
3. ALONG THE ARC OF A TANGENT 180.01 FOOT RADIUS CURVE TO THE RIGHT, THROUGH A CENTRAL ANGLE OF 31°12'44" AN ARC DISTANCE OF 98.06 FEET;
4. SOUTH 63°52'14" WEST 453.49 FEET TO THE NORTHWESTERN RIGHT OF WAY LINE OF THE SOUTHERN PACIFIC RAILROAD;

THENCE ALONG SAID NORTHWESTERN LINE, ALONG THE ARC OF A NON-TANGENT 5700.00 FOOT RADIUS CURVE TO THE RIGHT, THROUGH A CENTRAL ANGLE OF 0°30'52" AN ARC DISTANCE OF 51.18 FEET;

THENCE NORTH 35°35'48" WEST 1173.48 FEET TO THE NORTHERN LINE OF SAID CERTAIN PARCEL OF LAND;

THENCE ALONG SAID LINE AND THE WESTERLY PROLONGATION THEREOF NORTH 845.77 FEET TO THE POINT OF BEGINNING AND CONTAINING 1,098,286 SQUARE FEET OF LAND MORE OR LESS.

EXHIBIT B to Lease

DRAWING SHOWING LOCATION AND CONFIGURATION OF THE PREMISES

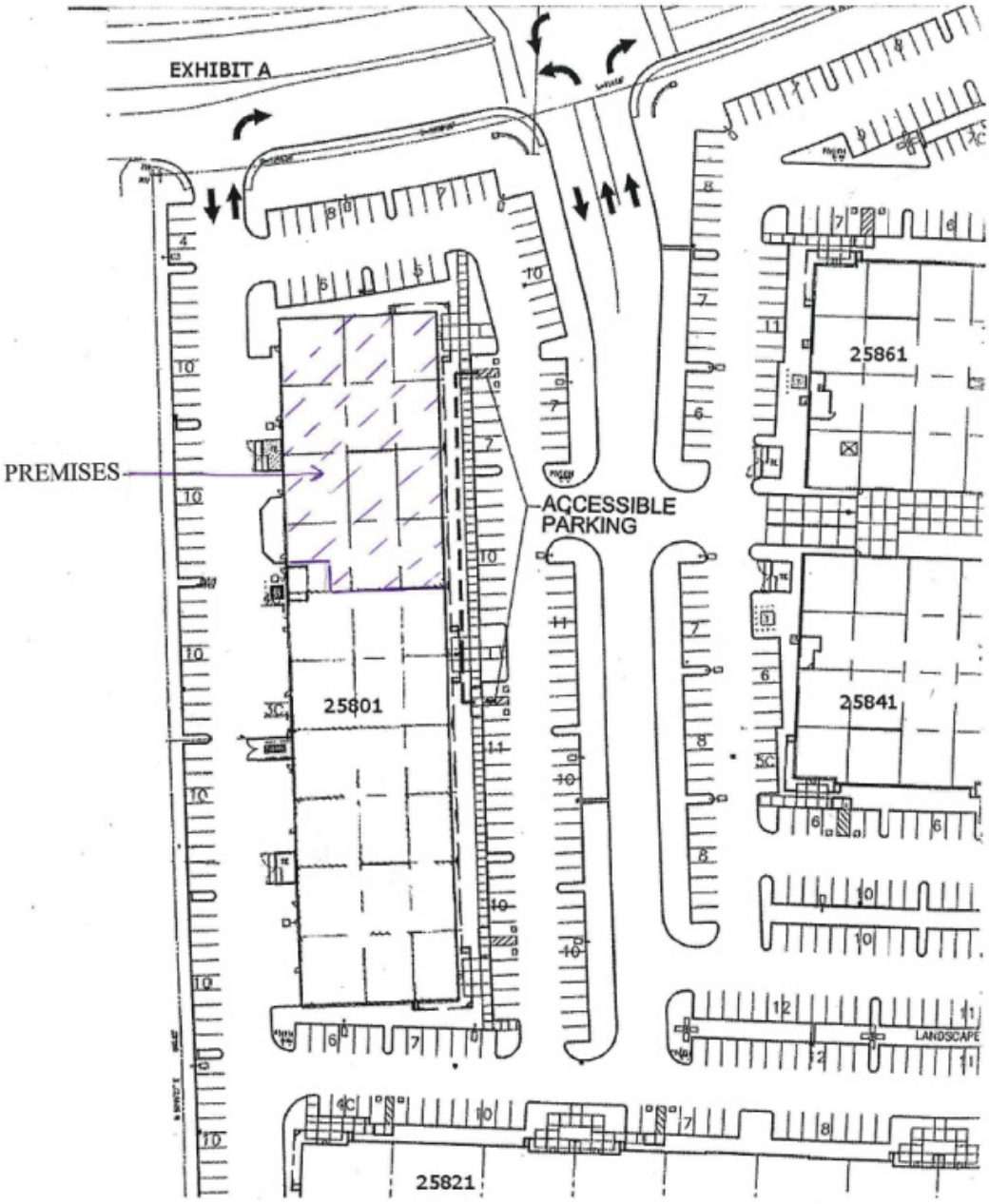
EXHIBIT A
PREMISES
ACCESSIBLE PARKING
25801
25821
25841
25861
LANDSCAPE

EXHIBIT C to Lease

RULES AND REGULATIONS

Notwithstanding anything to the contrary contained in this Exhibit, if any rule or regulation is in conflict with any term, covenant or condition of this Lease, this Lease shall prevail. In addition, no such rule or regulation, or any subsequent amendment thereto adopted by Landlord, shall in any way alter, reduce or adversely affect any of Tenant's rights or enlarge Tenant's obligations under this Lease. Following a written request from Tenant, Landlord shall use commercially reasonable efforts to enforce the rules and regulations against other tenants of the Building.

1. No sign, placard, picture, advertisement, name or notice shall be installed or displayed on any part of the outside or inside of the Building or Land without the prior written consent of the Landlord or as otherwise expressly provided in the Lease. 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. If Landlord objects in writing to any curtains, blinds, shades, screens or hanging plants or other similar objects attached to or used in connection with any window or door of the Premises, Tenant shall immediately discontinue such use. No awning shall be permitted on any part of the Premises. Tenant shall not place anything against or near glass partitions or doors or windows which may appear unsightly from outside the Premises.

3. Tenant shall not obstruct any sidewalk, halls, passages, exits, entrances, elevators, escalators, or stairways of the Building. The halls, passages, exits, entrances, elevators, escalators and stairways are not open to the general public. Landlord shall in all cases retain the right to control and prevent access to such areas of all persons whose presence in the judgment of Landlord would be prejudicial to the safety, character, reputation and interest of the Land, Building and the Building's tenants; provided that, nothing in this Lease contained shall be construed to prevent such access to persons with whom any Tenant normally deals in the ordinary course of its business, unless such persons are engaged in illegal activities. Tenant shall not go upon the roof of the Building.

4. The directory of the Building, if any, will be provided exclusively for the display of the name and location of tenants only, and Landlord reserves the right to exclude any other names therefrom.

5. Landlord will furnish Tenant, free of charge, two (2) keys to each door lock in the Premises. Landlord may make a reasonable charge for any additional keys. Tenant shall not make or have made additional keys, 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 approval. Tenant, upon the termination of its tenancy, shall deliver to Landlord the keys of all doors which have been furnished to Tenant, and in the event of loss of any keys so furnished, shall pay Landlord therefor.

6 The Building shall be accessible seven (7) days a week, twenty-four (24) hours per day.

7. If Tenant requires Telecommunication Services, computer circuits, burglar alarm or similar services or other utility services, it shall first obtain Landlord's approval of the construction or installation of such services. Application for such services shall be made in accordance with the procedure prescribed by Landlord in Section 5.1 of the Lease.

8. Tenant shall not place a load upon any floor of the Premises which exceeds the load per square foot which such floor was designed to carry and which is allowed by Governmental Requirements. Landlord shall have the right to prescribe the weight, size and position of all equipment, materials, furniture or other property brought into the Building. Heavy objects shall, if considered necessary by Landlord, stand on such platforms as determined by Landlord to be necessary to properly distribute the weight. Business machines and mechanical equipment belonging to Tenant, which cause noise or vibration that may be transmitted to the structure of the Building or to any space in the Building or to any other tenant 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. The persons employed to move such equipment in or out of the Building must be reasonably acceptable to Landlord. Landlord will not be responsible for loss of, or damage to, any such equipment or other property from any cause, and all

damage done to the Building by maintaining or moving such equipment or other property shall be repaired at the expense of Tenant.

9. Tenant shall not use or keep in the Premises any kerosene, gasoline or inflammable or combustible fluid or material other than those limited quantities permitted by the Lease. 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 nor shall Tenant bring into or keep in or about the Premises any birds or animals.

10. Tenant shall not use any method of heating or air-conditioning other than that supplied by Landlord.

11. Tenant shall not waste any utility provided by Landlord and agrees to 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.

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

13. Landlord reserves the right to exclude from the Building between the hours of 6 p.m. and 7 a.m. the following day, or such other hours as may be established from time to time by Landlord, and on Sundays and legal holidays, any person 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 such persons. Landlord shall not be liable for damages for any error with regard to the admission to or exclusion from the Building of any person. Landlord reserves the right to prevent access to the Building in case of invasion, mob, riot, public excitement or other commotion by closing the doors or by other appropriate action.

14. Tenant shall close and lock the doors of its Premises and entirely shut off all water faucets or other water apparatus, and electricity, gas or air outlets before Tenant and its employees leave the Premises. Tenant shall be responsible for any damage or injuries sustained by other tenants or occupants of the Building or by Landlord for noncompliance with this rule.

15. Tenant shall not obtain for use on the Premises ice, drinking water, food, beverage, towel or other similar services, except at such hours and under such regulations as may be fixed by Landlord.

16. The toilet rooms, toilets, urinals, wash bowls and other apparatus shall not be used for any purpose other than that for which they were constructed and no foreign substance of any kind whatsoever shall be deposited in them. Subject to available insurance, the expenses of any breakage, stoppage or damage resulting from the violation of this rule shall be borne by Tenant if it or its employees or invitees shall have caused it.

17. Tenant shall not sell, or permit the sale at retail, of newspapers, magazines, periodicals, theater tickets or any other goods or merchandise to the general public in or on the Premises. Tenant shall not make any room-to-room solicitation of business from other tenants in the Building. Tenant shall not use the Premises for any business or activity other than that specifically provided for in the Lease.

18. 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. Other than the usual and customary cellular telephones, and computer wifi. Tenant shall not install or utilize any wireless Telecommunication Facilities, including antenna and satellite receiver dishes within the Premises or on, in, or about the Building without first obtaining Landlord's prior written consent and Landlord at its option may require the entry of a supplemental agreement with respect to such construction or installation. Tenant shall comply with all instructions for installation and shall pay or shall cause to be paid the entire cost of such installations. Application for such facilities shall be made in the same manner and shall be subject to the same requirements as specified for Telecommunication Services and Telecommunication Facilities in the paragraph of the Lease entitled "Utilities". Supplemental rules and regulations may be promulgated by Landlord specifying the form of and information to be included with the application and establishing procedures, regulations and controls with respect to the installation and use of such wireless Telecommunication Facilities.

19. Landlord reserves the right to direct electricians as to where and how telephone and telegraph wires are to be introduced to the Premises. Tenant shall not cut or bore holes for wires. Tenant shall not affix any floor covering to the floor of the Premises in any manner except as approved by Landlord. Tenant shall repair any damage resulting from noncompliance with this rule.

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

21. Canvassing, soliciting and distribution of handbills or any other written material, and peddling in the Building or Land are prohibited, and Tenant shall cooperate to prevent the same.

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

23. Tenant shall store all of its trash and garbage within the 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. All garbage and refuse disposal shall be made in accordance with directions issued from time to time by Landlord.

24. The Premises shall not be used for lodging or any improper or immoral or objectionable purpose. No cooking shall be done or permitted by Tenant, except that use by Tenant of Underwriters' Laboratory approved equipment for brewing coffee, tea, hot chocolate and similar beverages and a microwave for heating food shall be permitted; provided that, such equipment and its use is in accordance with all Governmental Requirements.

25. Tenant shall not use in the Premises or in the public halls of the Building any hand truck except those equipped with rubber tires and side guards or such other material-handling equipment as Landlord may approve. Tenant shall not bring any other vehicles of any kind into the Building.

26. Without the prior written consent of Landlord, 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.

27. Tenant shall comply with all safety, fire protection and evacuation procedures and regulations established by Landlord or any governmental agency.

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

29. The requirements of Tenant will be attended to only upon appropriate application to the Manager of the Building by an authorized individual. Employees of Landlord are not required to perform any work or do anything outside of their regular duties unless under special instructions from Landlord, and no employee of Landlord is required to admit Tenant to any space other than the Premises without specific instructions from Landlord.

30. Tenant shall not park its vehicles in any parking areas designated by Landlord as areas for parking by visitors to the Building or Land. Tenant shall not leave vehicles in the parking areas overnight nor park any vehicles in the Building parking areas other than automobiles, motorcycles, motor driven or nonmotor driven bicycles or four-wheeled trucks.

31. Landlord may waive on a non-discriminatory basis any one or more of these Rules and Regulations for the benefit of Tenant or any other tenant, but no such waiver by Landlord shall be construed as a waiver of such Rules and Regulations in favor of any other person, nor prevent Landlord from thereafter revoking such waiver and enforcing any such 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 covenants and conditions of any lease of premises in the Building. If any provision of these Rules and Regulations conflicts with any provision of the Lease, the terms of the Lease shall prevail.

33. Landlord reserves the right to make such other and reasonable Rules and Regulations as, in its judgment, may from time to time be needed for safety and security, the care and cleanliness of the Building and Land, the preservation of good order in the Building and the maintenance or enhancement of the value of the Building as a rental property. Tenant agrees to abide by all the Rules and Regulations stated in this exhibit and any additional rules and regulations which are so made by Landlord.

34. Tenant shall be responsible for the observance of all of the foregoing rules by Tenant and Tenant's Agents.

EXHIBIT D to Lease

COMMENCEMENT DATE MEMORANDUM FORM

MEPT Mount Eden LLC, a Delaware limited liability company, as Landlord, and Anthera Pharmaceuticals, a Delaware corporation, as Tenant, executed that Lease dated as of _____, 2011 (the "Lease").

The Lease contemplates that this document shall be delivered and executed as set forth in the paragraph entitled "Lease Memorandum". This Lease Memorandum shall become part of the Lease.

Landlord and Tenant agree as follows:

1. The Commencement Date of the Lease is _____.

2. The end of the Lease Term and the date on which this Lease will expire is _____.

3. The Lease is in full force and effect as of the date of this Lease Memorandum. By execution of this Lease Memorandum, Tenant confirms that as of the date of the Lease Memorandum (a) Tenant has no claims against Landlord and (b) Landlord has fulfilled all of its obligations under the Lease required to be fulfilled by Landlord as of the date hereof.

4. Tenant's Pro Rata Share is _____ percent (_____%).

Dated: _____

LANDLORD:

MEPT Mount Eden LLC, a Delaware limited liability company

By: MEPT Edgemoor REIT LLC, a Delaware limited liability company, its sole member

By: Bentall Kennedy (U.S.) Limited Partnership, its Authorized Signatory

By: Bentall Kennedy (U.S.) G.P. LLC, its General Partner

By: _____
Name: _____
Its: _____

Dated: _____

TENANT:

Anthera Pharmaceuticals, a Delaware corporation

By: _____
Name: _____
Its: _____

Rider 1

Operating Costs Reimbursements

R1.1 Operating Costs Reimbursements Payments. Tenant agrees to pay, in addition to Base Rent, sums computed and payable in accordance with this Rider ("Operating Costs Reimbursements"). As the context requires, the term "Operating Costs Reimbursements" shall include the Operating Costs Reimbursements Estimate payments.

R1.2 Operating Costs Reimbursements Estimate Payments. Landlord shall prepare and furnish to Tenant an estimate of the Operating Costs Reimbursements computed in accordance with paragraphs R1.3 through R1.6 ("Operating Costs Reimbursements Estimate") (a) on about the Commencement Date, (b) in advance of the beginning of each calendar year during the Lease Term and (c) from time to time during the Lease Term. Tenant shall pay one-twelfth ($1/12^{th}$) of the current Operating Costs Reimbursements Estimate in advance on or before the first day of each calendar month of the Lease Term. If the applicable blank on the first page of this Lease is filled in, the amount in it shall be the Operating Cost Reimbursement Estimate as of the Commencement Date.

R1.3 Computation of Operating Costs Reimbursements. The Operating Costs Reimbursements shall equal the product of (a) Tenant's Pro Rata Share multiplied by (b) the difference between Operating Costs minus the Operating Cost Base Amount. These capitalized terms are defined later in paragraph 1.4 of this Rider. The determination and computation of the Operating Costs Reimbursements shall be made by Landlord. After the close of each calendar year, Landlord shall deliver to Tenant a written statement setting forth the Operating Costs Reimbursements payable for the preceding calendar year. If the Operating Costs Reimbursements exceed the Operating Costs Reimbursements Estimate paid by Tenant, Tenant shall pay the amount of such excess to Landlord with twenty (20) days after delivery of such statement to Tenant. If such statement shows the Operating Costs Reimbursements to be less than the Operating Costs Reimbursements Estimate paid by Tenant, then the amount of such overpayment shall be paid by Landlord to Tenant within twenty (20) days following the date of such statement or, at Landlord's option, shall be credited toward future installment(s) of Operating Costs Reimbursements Estimate.

R1.4 Definitions.

R1.4.1 Operating Costs. Subject to Section R1.4.3 below, all costs and expenses paid or incurred by Landlord for maintaining, operating, owning and repairing any or all of the Land, Building, Premises, related improvements and the personal property used in conjunction with such Land, Building, Premises and related improvements. Without limiting the generality of the previous sentence, a few of the categories of costs and expense intended to be included in Operating Costs are (a) Taxes as defined later in this paragraph; (b) premiums and other obligations associated with Landlord's insurance program; (c) property management fees with respect to this Lease not to exceed two percent (2.0%) of the Base Rent; (d) amortization of capital improvements installed or constructed other than in connection with the original construction of this Building and (e) other costs or expense which are customarily accounted for as an expense of ownership or operation. See Paragraph 4.2 ("Maintenance and Repair by Landlord") for the treatment of code compliance costs. If less than ninety-five percent (95%) of the Building is occupied by tenants during the calendar year, then Operating Costs which vary based on occupancy shall include all additional costs and expenses that Landlord reasonably determines would have been incurred had ninety-five percent (95%) occupancy prevailed during the calendar year.

R1.4.2 Taxes. "Taxes" means all ad valorem taxes and governmental and private assessments which are levied, assessed, imposed or become due and payable with respect to the Land and the Building and associated improvements. Notwithstanding the foregoing, "Taxes" shall not include:

(i) any franchise, estate, gift, inheritance, net income, or excess profits tax imposed upon Landlord ,or a penalty fee imposed as a result of Landlord's failure to pay Taxes when due; and

(ii) any increases in real property taxes and/or assessments that result from "new construction" or a "change of ownership" of the Building, or the Land (and for purposes hereof, "new

construction" or a "change of ownership" shall have the same meaning as in Part 0.5 of Division 1 of the California Revenue and Taxation Code or any amendments or successor statutes to those sections.

R1.4.3 Exclusions to Operating Costs. Notwithstanding the foregoing provisions of this Rider, the following are specifically excluded from the definition of Operating Costs and Tenant shall have no obligation to pay directly or reimburse Landlord for all or any portion of the following except to the extent any of the following are caused by the actions or inactions of Tenant, or result from the failure of Tenant to comply with the terms of this Lease:

(i) costs incurred because Landlord actually violated the terms and conditions of this Lease or any other lease for premises within the Building, if any;

(ii) legal and auditing fees (other than those fees reasonably incurred in connection with the maintenance and operation of all or any portion the Building), leasing commissions, advertising expenses, and other costs incurred in connection with the original leasing of the Property or future re-leasing of any portion of the Building;

(iii) depreciation of the Building or any other improvements situated within the Project;

(iv) any items for which Landlord is actually reimbursed by insurance or by direct reimbursement by Tenant or any other party;

(v) costs of repairs or other work necessitated by fire, windstorm or other casualty (excluding any deductibles) and/or costs of repair or other work necessitated by the exercise of the right of eminent domain to the extent insurance proceeds or a condemnation award, as applicable, is actually received by Landlord for such purposes;

(vi) any interest or payments on any financing for the Building, interest and penalties incurred as a result of Landlord's late payment of any invoice and any bad debt loss, rent loss or reserves for same;

(vii) overhead and profit increment paid to Landlord or to subsidiaries or affiliates of Landlord for goods and/or services to the extent the same exceeds the costs of such by unaffiliated third parties on a competitive basis; or any costs included in Operating Costs representing an amount paid to a person, firm, corporation or other entity related to Landlord which is in excess of the amount which would have been paid in the absence of such relationship;

(viii) any payments under a ground lease or master lease;

(ix) costs of correcting any building code or other violations which were violations prior to the Commencement Date; and

(x) costs incurred in the investigation and/or remediation of Hazardous Materials which either existed on the Land prior to the Commencement Date or were brought onto the Property by Landlord, its agents, employee or contractors.

Additionally, to the extent any of the foregoing items described above constitute capital repairs or replacements under generally accepted accounting principles, consistently applied, then only the amortizing portion of such capital repairs or replacements shall constitute Operating Costs; such amortization shall be over the useful life of the applicable repair or replacement, and shall employ an interest rate equal to the sum of that rate quoted by Wells Fargo Bank, N.T. & S.A. from time to time as its prime rate, plus two percent (2%).

R1.5 Audit Rights. Landlord shall maintain records concerning estimated and actual Operating Costs Reimbursements to the Premises for no less than twelve (12) months following the period covered by the statement or statements furnished Tenant, after which time Landlord may dispose of such records. Provided that Tenant is not then in default of its obligation to pay Base Rent, Operating Costs Reimbursements or other payments required to be made by it under this Lease and provided that Tenant is not otherwise in default under this Lease, Tenant may, at Tenant's sole cost and expense, cause a Qualified Person (defined below) to inspect Landlord's records. Such inspection, if any, shall be conducted no more than once each year, during Landlord's normal business hours within ninety (90) calendar days after receipt of Landlord's written statement of Operating Costs Reimbursements allocable to the Premises for the previous year, upon first furnishing Landlord at least twenty (20) calendar days prior written notice. Any errors disclosed by the review shall be promptly corrected by Landlord; provided,

however, that if Landlord disagrees with any such claimed errors, Landlord shall have the right to cause another review to be made by an auditor of Landlord's choice. In the event the results of the review of records (taking into account, if applicable, the results of any additional review caused by Landlord) reveal that Tenant has overpaid obligations for a preceding period, the amount of such overpayment shall be credited against Tenant's subsequent installment of Base Rent, Operating Costs Reimbursements or other payments due to Landlord under the Lease. In the event that such results show that Tenant has underpaid its obligations for a preceding period, the amount of such underpayment shall be paid by Tenant to Landlord with the next succeeding installment obligation of estimated Operating Costs Reimbursements allocable to the Premises. If the actual Operating Costs Reimbursements allocable to the Premises for any given year were improperly computed and if the actual Operating Costs Reimbursements allocable to the Premises are overstated by more than 5%, Landlord shall reimburse Tenant for the cost of its audit. For purposes of this subparagraph, the term "Qualified Person" means an accountant or other person experienced in accounting for income and expenses of office projects, who is engaged solely by Tenant on terms which do not entail any compensation based or measured in any way upon any savings in Operating Costs Reimbursements or reduction in Operating Costs Reimbursements allocable to the Premises achieved through the inspection process described in this subparagraph.

R1.6 End of Term. If this Lease shall terminate on a day other than the last day of a calendar year, (a) Landlord shall estimate the Operating Costs Reimbursements for such partial year predicated on the most recent reliable information available to Landlord; (b) the amount determined under clause (a) of this sentence shall be prorated by multiplying such amount by a fraction, the numerator of which is the number of days within the Lease Term in such year and the denominator of which is 360; (c) if the clause (b) amount exceeds the Operating Costs Reimbursements Estimate paid by Tenant for the last year in the Lease Term, then Tenant shall pay the excess to Landlord within ten (10) days after Landlord's delivery to Tenant of a statement for such excess; and (d) if the Operating Costs Reimbursements Estimate paid by Tenant for the last year in the Lease Term exceeds the clause (b) amount, then Landlord shall refund to Tenant the excess within such ten (10) day period if Tenant is not then in default of any of its obligations under this Lease.

R1.7 Taxes Based on Rent. If a rental tax, gross receipts tax or sales tax on rent is imposed on Landlord, Tenant shall, as Operating Costs Reimbursements, pay or reimburse Landlord, an amount equal to all such taxes computed on the Base Rent and Operating Costs Reimbursements payable under this Lease. If such taxes are payable other than at monthly intervals, Tenant shall pay one-twelfth ($1/12^{th}$) of the annual tax amount with each installment of Base Rent.

Exhibit 31.1

Certification of President and Chief Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Paul F. Truex, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Anthera Pharmaceuticals, Inc.;

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

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

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) 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) 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

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

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

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 13, 2011

/s/ Paul F. Truex
Paul F. Truex
President and Chief Executive Officer

Exhibit 31.2

Certification of Chief Financial Officer and Vice President of Administration
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Christopher P. Lowe, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Anthera Pharmaceuticals, Inc.;

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

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

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) 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) 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

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

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

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 13, 2011

/s/ Christopher P. Lowe
Christopher P. Lowe
Chief Financial Officer

Exhibit 32.1

Certification Pursuant to
Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. Section 1350

I, Paul F. Truex, certify, pursuant to the requirement set forth in Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Anthera Pharmaceuticals, Inc. on Form 10-Q for the quarter ending March 31, 2011 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Anthera Pharmaceuticals, Inc.

By: /s/ Paul F. Truex
Name: Paul F. Truex
Title: President and Chief Executive Officer

Date: May 13, 2011

Exhibit 32.2

Certification Pursuant to
Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. Section 1350

I, Christopher P. Lowe, certify, pursuant to the requirement set forth in Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Anthera Pharmaceuticals, Inc. on Form 10-Q for the quarter ending March 31, 2011 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Anthera Pharmaceuticals, Inc.

By: /s/ Christopher P. Lowe
Name: Christopher P. Lowe
Title: Chief Financial Officer

Date: May 13, 2011