UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the quarterly period ended September 30, 2000

or,

[ ] TRANSITION REPORTS PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the transition period from ---------- to ----------

COMMISSION FILE NUMBER: 0-23556

INHALE THERAPEUTIC SYSTEMS, INC.
(Exact name of registrant as specified in its charter)

DELAWARE	94-3134940
(State of other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

150 INDUSTRIAL ROAD
SAN CARLOS, CALIFORNIA 94070
(Address of principal executive offices)

650-631-3100
(Registrant's telephone number, including area code)

NOT APPLICABLE
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required 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. [X] Yes [ ] No

APPLICABLE ONLY TO CORPORATE ISSUERS

The number of outstanding shares of the registrant's Common Stock, $0.0001 par value, was 45,243,210 as of October 31, 2000.

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PART I: FINANCIAL INFORMATION

Item 1.

INHALE THERAPEUTIC SYSTEMS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS)

	SEPTEMBER 30, 2000 (UNAUDITED)	DECEMBER 31, 1999 *
ASSETS		
Current assets:		
Cash and cash equivalents	$93,095	$ 33,430
Short-term investments	187,819	104,755
Accounts receivable	1,942	1,756
Other current assets	5,788	7,377
Total current assets	288,644	147,318
Property and equipment, net	101,472	63,852
Equity Investment in Alliance Pharmaceutical Corp.	16,314	6,328
Deposits and other assets	13,895	9,308
	$420,325	$226,806
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$17,158	$ 20,268
Deferred revenue	4,361	4,811
Total current liabilities	21,519	25,079
Tenant improvement loan	4,867	4,895
Convertible subordinated debentures	237,760	108,450
Accrued rent	2,010	1,753
Stockholders' equity:		
Common stock	4	3
Capital in excess of par value	296,734	181,153
Deferred compensation	(2,081)	(1,530)
Accumulated other comprehensive loss	11,772	1,469
Accumulated deficit	(152,260)	(94,466)
Total stockholders' equity	154,169	86,629
	$420,325	$226,806

SEE ACCOMPANYING NOTES.

(*)The balance sheet at December 31, 1999 has been derived from the audited financial statements at that date which are included in the Company's Form 10-K/A for the year ended December 31, 1999 as filed with the Securities and Exchange Commission. This balance sheet does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

INHALE THERAPEUTIC SYSTEMS, INC.

CONDENSED CONSLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT PER SHARE INFORMATION)
(UNAUDITED)

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2000	1999	2000	1999
Contract research revenue	$ 14,061	$ 10,628	$ 38,483	$ 28,285
Operating costs and expenses:				
Research and development	26,933	16,084	74,797	43,413
General and administrative	3,066	2,177	9,696	5,374
Purchased in-process research and development			2,292	
Total operating costs and expenses	29,999	18,261	86,785	48,787
Loss from operations	(15,938)	(7,633)	(48,302)	(20,502)
Other income	752	-	752	-
Interest income/(expense), net	1,971	588	(10,244)	2,228
Net loss	$ (13,215)	$ (7,045)	$ (57,794)	$ (18,274)
Basic and diluted net loss per share	$ (0.31)	$ (0.21)	$ (1.42)	$ (0.54)
Shares used in computing basic and diluted net loss per common share	42,266	34,000	40,742	33,920

SEE ACCOMPANYING NOTES.

INHALE THERAPEUTIC SYSTEMS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS
(IN THOUSANDS)
(UNAUDITED)

	NINE MONTHS ENDED SEPTEMBER 30,	
	2000	1999
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash used in operations	$ (32,656)	$ (15,358)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sale of short-term investments, net of purchases and maturities	(83,033)	18,836
Purchases of property and equipment	(43,035)	(10,398)
Other investing activities	(193)	-
Net cash provided by investing activities	(126,261)	8,438
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments of equipment financing obligations	(28)	(46)
Payments of debt conversion incentives	(17,182)	-
Issuance of convertible debt, net of issuance costs	222,439	-
Issuance of common stock, net of issuance costs	13,353	1,334
Net cash provided by financing activities	218,582	1,288
Net increase/(decrease) in cash and cash equivalents	59,665	(5,632)
Cash and cash equivalents at beginning of period	33,430	24,916
Cash and cash equivalents at end of period	$ 93,095	$ 19,284
SUPPLEMENTAL DISCLOSURE OF NON-CASH FINANCING ACTIVITIES:		
Common stock issued upon conversion of convertible subordinated debentures, net	$ 97,220	$ -

SEE ACCOMPANYING NOTES.

INHALE THERAPEUTIC SYSTEMS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2000
(UNAUDITED)

1. ORGANIZATION AND BASIS OF PRESENTATION

Inhale Therapeutic Systems, Inc. ("Inhale" or the "Company") was incorporated in the State of California in July 1990 and reincorporated in the State of Delaware in July 1998. During 2000, Inhale created two wholly-owned subsidiaries: Inhale Therapeutic Systems Deutschland GmbH, incorporated in the Federal Republic of Germany; and Inhale Therapeutic Systems UK Limited, incorporated in the United Kingdom. The consolidated financial statements of Inhale include the accounts of the Company and its wholly-owned subsidiaries. All significant inter-company balances and transactions have been eliminated. Since inception, Inhale has been engaged in the development of systems for the pulmonary delivery of macromolecule drug therapies for systemic and local lung applications.

The Company's Board of Directors approved a two-for-one split which was effected as a 100% common stock divided on August 22, 2000 for stockholders of record as of August 1, 2000. The stockholders also increased the number of authorized shares of common stock to 300,000,000 at the Annual Meeting of the stockholders. All share and per share amounts in these condensed consolidated financial statements have been retroactively restated.

The accompanying unaudited condensed consolidated financial statements of Inhale have been prepared by management in accordance with generally accepted accounting principles for interim financial information and the instructions for Form 10-Q and Article 10 of Regulation S-X. The condensed consolidated balance sheet as of September 30, 2000, the condensed consolidated statements of operations for the three and nine month periods ended September 30, 2000 and 1999, and the condensed consolidated statements of cash flows for the nine month periods ended September 30, 2000 and 1999 are unaudited but have been prepared by Inhale to include all adjustments (consisting only of normal recurring adjustments) which Inhale considers necessary for a fair presentation of the financial position at such dates and the operating results and cash flows for those periods. Although Inhale believes that the disclosures in these financial statements are adequate to make the information presented not misleading, certain information normally included in financial statements and related footnotes prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). The accompanying financial statements should be read in conjunction with the financial statements and notes thereto included in Inhale's Amended Annual Report on Form 10-K/A for the year ended December 31, 1999 as filed with the SEC.

Results for any interim period presented are not necessarily indicative of results for any other interim period or for the entire year.

2. RECENT PRONOUNCEMENTS

In July 1999, the Financial Accounting Standards Board, or FASB, announced the delay of the effective date of Statement of Financial Accounting Standards No. 133 ("FAS 133") "Accounting for Derivative Instruments and Hedging Activities," for one year, to the first quarter of 2001. Also, in June 2000, the FASB issued Statement of Financial Accounts Standards Board No. 138 ("FAS 138") "Accounting for Certain Derivative Instruments and Certain Hedging Activities." FAS 133, as amended by FAS 138, is intended to be comprehensive guidance on accounting for derivatives and hedging activities. It requires companies to recognize all derivatives as either assets or liabilities on the balance sheet and measure those instruments at fair value. Gains or losses resulting from changes in the values of those derivatives would be accounted for on either the Balance Sheet or on the Statement of Operations depending on the use of the derivatives and whether it qualifies for hedge accounting under FAS 133 and 138. Because of the Company's minimal use of derivatives, the Company does not anticipate that the adoption of FAS 133 and 138 will not effect earnings or the financial position of the Company.

In June 2000, the SEC delayed the implementation date of the Staff Accounting Bulletin No. 101. ("SAB 101"), "Revenue Recognition in Financial Statements," until no later than the fourth quarter of 2000. On October 12, 2000, the SEC staff issued its Frequently Asked Questions ("FAQ") document on SAB 101. SAB 101 and the FAQ document provides guidance on applying generally accepted principles to revenue recognition issues in financial statements and also provides guidance on disclosure, both in footnotes and the Management's Discussion and Analysis, registrants should make regarding their revenue recognition policies and impact of events and trends on revenues. The Company will adopt SAB 101 as required in the fourth quarter of 2000, with the effective date of January 1, 2000. However, the Company does not expect that SAB 101 will have significant effect on earnings.

3. COMPREHENSIVE GAIN

Other comprehensive gain or loss consists primarily of unrealized gains or losses on available-for-sale securities. For the nine-month period ended September 30, 2000, Inhale recorded unrealized gains of approximately $10.3 million, consisting primarily of gains relating to its investment in Alliance Pharmaceutical Corp. ("Alliance"). Inhale owns approximately 2% of the outstanding common shares of Alliance and records its investment in accordance with Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities".

4. REVENUE RECOGNITION

Contract revenue from collaborative research agreements is recorded when earned and as the related costs are incurred. Payments received which are related to future performance are deferred and recognized as revenue when earned over future performance periods. In accordance with contract terms, up-front and progress payments from collaborative research agreements are considered to be payments to support continued research and development activities under the agreements. In accordance with the Company's revenue recognition policy, these payments are included in deferred revenue and are recognized as the related research and development expenditures are incurred.

Contract research revenue from one partner represented 68% of Inhale's revenue in the nine month period ended September 30, 2000 and 74% of Inhale's revenue in the comparable period in 1999. Costs of contract research revenue approximate such revenue and are included in operating costs and expenses.

5. NET LOSS PER SHARE

Basic and diluted net loss per share is computed in accordance with Statement of Financial Accounting Standards No. 128, "Earnings Per Share. Accordingly, the weighted average number of common shares outstanding are used while common stock equivalent shares for stock options and warrants are not included in the per share calculations as the effect of their inclusion would be antidilutive.

6. LONG-TERM DEBT

In February 2000, Inhale received approximately $222.4 million in net proceeds from the issuance of $230.0 million aggregate principal amount of convertible subordinated notes to certain qualified institutional buyers pursuant to an exemption under the Securities Act of 1933, as amended. Interest on the notes accrues at a rate of 5.0% per year, subject to adjustment in certain circumstances. The notes will mature in 2007 and are convertible into shares of Inhale's common stock at a conversion price of $38.355 per share, subject to adjustment in certain circumstances. The notes are redeemable in part or in total at any time before February 8, 2003 at $1,000 per $1,000 principal amount plus a provisional redemption exchange premium of $137.93 per $1,000 principal amount, plus accrued and unpaid interest, if any, to the redemption date, if the closing price of Inhale's common stock has exceeded 150% of the conversion price then in effect for at least 20 trading days within a period of 30 consecutive trading days. The Company also can redeem some or all of the notes at any time after February 8, 2003 at certain redemption prices dependent on the date of redemption. Interest is payable semi-annually on August 8 and February 8. The notes are unsecured subordinated obligations, which rank junior in right of payment to all of the Company's existing and future senior debt. In October 2000, Inhale entered into privately negotiated agreements with certain holders of its outstanding 5.0% convertible subordinated notes due 2007 providing for the conversion of their notes into common stock in exchange for a cash payment. To date, the Company has secured agreements that provide for the conversion of $168.6 million aggregate principal amount of outstanding notes into approximately 4.4 million shares of common stock for cash payments of approximately $25.5 million. Such amounts will be reflected as a charge to interest expense in the fourth quarter 2000.

Also beginning in February 2000, Inhale entered into privately negotiated agreements with certain holders of its outstanding 6.75% convertible subordinated debentures sold in October and November 1999, providing for the conversion into Inhale common stock of approximately $100.7 million aggregate principal amount of the outstanding debentures. In exchange for an aggregate exchange premium of approximately $17.2 million, $100.7 million of convertible debentures was converted into approximately 6.3 million shares of Inhale common stock. Inhale will no longer have interest payment obligations on the convertible subordinated debentures or notes that were converted. The exchange premium of $17.2 million is included in interest expense for the nine months ended September 30, 2000.

At September 30, 2000, an aggregate of approximately $237.8 million principal amount of these convertible debt instruments remained on the balance sheet. Costs relating to the issuances of the notes are recorded as long-term assets and are being amortized over the term of the debt.

7. ACQUIRED IN-PROCESS RESEARCH AND DEVELOPMENT

In the second quarter, the Company recorded a $2.3 million charge for acquired in-process research and development ("IPR&D") costs. The acquisition was recorded as a purchase and a portion of the purchase price was allocated to IPR&D, which under current accounting rules is immediately expensed. At the date of the acquisition, the in-process technology had no alternative future use and did not qualify for capitalization.

8. SUBSEQUENT EVENTS

In October 2000, the Company entered into a build-to-suit lease transaction in which the Company sold, transferred and contributed its land and construction in progress in San Carlos to a special purpose entity for a 49% limited partnership interest and additional consideration valued at approximately $14.4 million. This additional consideration consists of approximately $10.2 million in cash, a promissory note in the principal amount of $3.0 million and a right to receive an additional $1.2 million as reimbursement for the previously incurred completed construction costs. The present value of the total lease obligation approximates $46.2 million and will be incrementally recorded as a liability. The Company has an option to buy out the special purpose entity or increase its ownership percentage at various times during the lease period. As a result of the Company's continuing involvement in the special purpose entity, the assets and related financing obligations will continue to be recorded in the Company's consolidated financial statements.

In October 2000, Inhale received approximately $222.7 million in net proceeds from the issuance of $230 million aggregate principal amount of convertible subordinated notes to certain qualified institutional buyers pursuant to an exemption under the Securities Act of 1933, as amended. Interest on the notes accrues at a rate of 3.5% per year, subject to adjustment in certain circumstances. The notes will mature in 2007 and are convertible into shares of Inhale's common stock at a conversion price of $50.46 per share, subject to adjustment under certain circumstances. The notes are redeemable in part or in total at any time before October 17, 2003 at $1,000 per $1,000 principal amount plus a provisional redemption exchange premium, payable in cash or shares of common stock, of $105.00 per $1,000 principal amount, plus accrued and unpaid interest, if any, to the redemption date, if the closing price of Inhale's common stock has exceeded 150% of the conversion price than in effect for at least 20 trading days within a period of 30 consecutive trading days. The notes are also redeemable in part or in total at any time after October 17, 2003 at certain redemption prices dependent upon the date of redemption if the closing price of Inhale's common stock has exceeded 120% of the conversion price than in effect for at least 20 trading days within a period of 30 consecutive trading days. Interest is payable semi-annually on April 17 and October 17. The notes are unsecured obligations, which rank junior in right of payment to all of the Company's existing and future senior debt.

Also, in October 2000, Inhale entered into privately negotiated agreements with certain holders of its outstanding 5.0% convertible subordinated notes due 2007 and sold in February 2000 providing for the conversion of their notes into common stock in exchange for a cash payment. To date, the Company has secured agreements that provide for the conversion of $168.6 million aggregate principal amount of these outstanding 5% convertible subordinated notes into approximately 4.4 million shares of common stock for cash payments of approximately $25.5 million. Such amounts will be reflected as a charge to interest expense in the fourth quarter 2000.

ITEM 2.

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

This Management's Discussion and Analysis of Financial Condition and Results of Operations for the three and nine months ended September 30, 2000 and 1999 should be read in conjunction with the Management's Discussion and Analysis of Financial Condition and Results of Operations included in Inhale's Amended Annual Report on Form 10-K/A for the year ended December 31, 1999. The following discussion contains forward-looking statements that involve risk and uncertainties. Inhale's actual results could differ materially from those discussed here. Factors that could cause or contribute to such differences include, but are not limited to, those discussed herein under the heading "Risk Factors" as well as those discussed in Inhale's Amended Annual Report on Form 10-K/A for the year ended December 31, 1999.

Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis only as of the date hereof. Inhale undertakes no obligation to publicly release the results of any revision to these forward-looking statements which may be made to reflect events or circumstances occurring after the date hereof or to reflect the occurrence of unanticipated events.

OVERVIEW

Since its inception in July 1990, Inhale has been engaged in the development of a pulmonary system for the delivery of macromolecules and other drugs for systemic and local lung applications. Inhale has been unprofitable since inception and expects to incur significant and increasing additional operating losses over the next several years primarily due to increasing research and development expenditures and expansion of late stage clinical and early stage commercial manufacturing facilities. To date, Inhale has not sold any commercial products and does not anticipate receiving revenue from product sales or royalties in the near future. For the period from inception through September 30, 2000, Inhale incurred a cumulative net loss of approximately $152.3 million. The sources of working capital have been equity and debt financings, financings of equipment acquisitions and tenant improvements, interest earned on investments of cash, and revenues from short-term research and feasibility agreements and development contracts.

Inhale has generally been compensated for research and development expenses during initial feasibility work performed under collaborative arrangements. Partners that enter into collaborative agreements will typically pay for some or all research and development expenses and make additional payments to Inhale as Inhale achieves certain key milestones. Inhale expects to receive royalties from its partners based on their revenues received from product sales, and to receive revenue from the manufacturing of powders and the supply of devices. In certain cases, Inhale may enter into collaborative agreements under which Inhale's partners would manufacture or package powders or supply inhalation devices, thereby potentially limiting one or more sources of revenue for Inhale. To achieve and sustain profitable operations, Inhale, alone or with others, must successfully develop, obtain regulatory approval for, manufacture, introduce, market and sell products utilizing its pulmonary drug delivery system. There can be no assurance that Inhale can generate sufficient product or contract research revenue to become profitable or to sustain profitability.

RESULTS OF OPERATIONS

Revenues for the three months ended September 30, 2000 were $14.1 million compared to $10.6 million for the three months ended September 30, 1999, an increase of 32%. Revenues for the nine months ended September 30, 2000 were $38.5 million compared to $28.3 million for the nine months ended September 30, 1999, an increase of 36%. The increase in revenue for both the three and nine month periods ended September 30, 2000 as compared to September 30, 1999 was primarily due to the expansion of Inhale's existing collaborative agreement with Pfizer, Inc. and includes activities associated with the manufacture of Phase III clinical supplies. Revenue for the three and nine months ended September 30, 2000 and 1999 was comprised of reimbursed research and development expenses as well as the amortization of the pro-rata portion of up-front signing and progress payments received from Inhale's collaborative partners. Recognition of up-front signing and progress payments is based on actual efforts expended. Costs of contract research revenue approximate such revenue and are included in research and development expenses. Contract revenues are expected to fluctuate from year to year, and future contract revenues cannot be predicted accurately. The level of

contract revenues depends in part upon future success in obtaining new collaborative agreements, timely completion of feasibility studies, the continuation of existing collaborations and achievement of milestone under current and future agreements.

Research and development expenses increased to $26.9 million for the three months ended September 30, 2000 from $16.1 million for the three months ended September 30, 1999, an increase of 67%. Research and development expenses increased to $74.8 million for the nine months ended September 30, 2000 from $43.4 million for the nine months ended September 30, 1999, an increase of 72%. The increase for the three and nine month periods ended September 30, 2000 as compared to September 30, 1999 was due to increased spending related to the scale-up of technologies for current partnered projects, the continuing development of the Company's global manufacturing capabilities in order to support Phase III inhaleable insulin clinical trials and commercial production, increased investment in internally funded R&D projects for next-generation products and non-cash compensation charges associated with non-employee stock options. Inhale expects research, development and process development spending to increase over the next few years as Inhale continues to expand its development efforts under collaborative agreements and scales up its commercial manufacturing facility.

In the second quarter of 2000 the Company recorded a $2.3 million charge for acquired IPR&D costs. The acquisition was recorded as a purchase and a portion of the purchase price was allocated to IPR&D, which under current accounting rules is immediately expensed. At the date of the acquisition, the in-process technology had no alternative future use and did not qualify for capitalization.

General and administrative expenses increased to $3.1 million for the three months ended September 30, 2000 from $2.2 million for the three months ended September 30, 1999, an increase of 41%. General and administrative expenses increased to $9.7 million for the nine months ended September 30, 2000 from $5.4 million for the nine months ended September 30, 1999, an increase of 80%. The increase for the three and nine month periods ended September 30, 2000 as compared to September 30, 1999 was due to a non-cash compensation charge associated with the accounting for non-employee stock options and costs associated with supporting Inhale's increased manufacturing and development efforts, including administrative staffing, business development activities and marketing activities. General and administrative expenses are expected to continue to increase over the next few years as Inhale expands its operations

Net interest was $2.0 million of income for the three months ended September 30, 2000 compared to $0.6 million of income for the three months ended September 30, 1999, an increase of 235%. This increase was the result of the Company's higher cash and investment balances, including the proceeds of its issuances of convertible subordinated debentures in October 1999 and convertible subordinated notes in February 2000. Net interest was $10.2 million of expense for the nine months ended September 30, 2000 compared to $2.2 million of income for the nine months ended September 30, 1999. The nine months ended September 30, 2000 includes interest expense of $20.8 million, of which approximately $17.2 million relates to the payment of a conversion premium to holders of the Company's 6.75% convertible subordinated debentures due 2006 to convert $100.7 million aggregate principal amount of outstanding debentures into approximately 6.3 million shares of Inhale's common stock.

LIQUIDITY AND CAPITAL RESOURCES

Inhale has financed its operations primarily through public and private placements of its debt and equity securities, financing of equipment acquisitions and tenant improvements, interest income earned on its investments of cash and revenues from development contracts and short-term research and feasibility agreements. At September 30, 2000, Inhale had cash, cash equivalents and short-term investments of approximately $280.9 million.

Inhale's operations used cash of $32.7 million for the nine months ended September 30, 2000, compared to $15.4 million for the nine months ended September 30, 1999. The decrease in cash was primarily due to payment of $17.2 million conversion premium to holders of the Company's October 2006 convertible subordinated debentures, compared to the same period in 1999.

Inhale purchased property and equipment of approximately $43.0 million during the nine months ended September 30, 2000, compared to $10.4 million for the corresponding period in 1999. The increase in purchased property and equipment reflects the Company's investment in commercial manufacturing facilities, including device manufacturing at third-party contract manufacturers, and expansion of its San Carlos powder processing facilities.

Net cash provided by financing activities was the result of the Company receiving approximately $222.4 million in net proceeds from the issuance of $230.0 million aggregate principal amount of convertible subordinated notes in February 2000. In addition, in February 2000, the Company entered into privately negotiated agreements with certain holders of its outstanding 6.75% convertible subordinated debentures sold in October and November 1999, providing for the conversion into Inhale common stock of approximately $100.7 million aggregate principal amount of the outstanding convertible subordinated debentures. In exchange for an aggregate exchange premium of approximately $17.2 million, $100.7 million of convertible subordinated debentures were converted into approximately 6.3 million shares of Inhale common stock.

In October 2000, Inhale received approximately $222.7 million in net proceeds from the issuance of $230 million aggregate principal amount of convertible subordinated notes to certain qualified institutional buyers pursuant to an exemption under the Securities Act of 1933, as amended. Interest on the notes accrues at a rate of 3.5% per year, subject to adjustment in certain circumstances. The notes will mature in 2007 and are convertible into shares of Inhale's common stock at a conversion price of $50.46 per share, subject to adjustment under certain circumstances. The notes are redeemable in part or in total at any time before October 17, 2003 at $1,000 per $1,000 principal amount plus a provisional redemption exchange premium, payable in cash or shares of common stock, of $105.00 per $1,000 principal amount, plus accrued and unpaid interest, if any, to the redemption date, if the closing price of Inhale's common stock has exceeded 150% of the conversion price than in effect for at least 20 trading days within a period of 30 consecutive trading days. The notes are also redeemable in part or in total at any time after October 17, 2003 at certain redemption prices dependent upon the date of redemption if the closing price of Inhale's common stock has exceeded 120% of the conversion price than in effect for at least 20 trading days within a period of 30 consecutive trading days. Interest is payable semi-annually on April 17 and October 17. The notes are unsecured obligations, which rank junior in right of payment to all of the Company's existing and future senior debt.

Also, in October 2000, Inhale entered into privately negotiated agreements with certain holders of its outstanding 5.0% convertible subordinated notes due 2007 and sold in February 2000 providing for the conversion of their notes into common stock in exchange for a cash payment. To date, the Company has secured agreements that provide for the conversion of $168.6 million aggregate principal amount of these outstanding 5% convertible subordinated notes into approximately 4.4 million shares of common stock for cash payments of approximately $25.5 million. Such amounts will be reflected as a charge to interest expense in the fourth quarter 2000.

In October 2000, the Company entered into a build-to-suit lease transaction in which the Company sold, transferred and contributed its land and construction in progress in San Carlos to a special purpose entity for a 49% limited partnership interest and additional consideration valued at approximately $14.4 million. This additional consideration consists of approximately $10.2 million in cash, a promissory note in the principal amount of $3.0 million and a right to receive an additional $1.2 million as reimbursement for the previously incurred completed construction costs. The present value of the total lease obligation approximates $46.2 million and will be incrementally recorded as a liability. The Company has an option to buy out the special purpose entity or increase its ownership percentage at various times during the lease period. As a result of the Company's continuing involvement in the special purpose entity, the assets and related financing obligations will continue to be recorded in the Company's consolidated financial statements.

Inhale expects its cash requirements to continue to grow at an accelerated rate due to expected increases in costs associated with further research and development of its technologies, development of drug formulations, process development for the manufacture and filling of powders and devices, marketing and general and administrative costs. These expenses include, but are not limited to, increases in personnel and personnel related costs, purchases of capital equipment, investments in technologies, inhalation device prototype construction and facilities expansion. Inhale's planned facilities expansion includes the completion of its commercial manufacturing facility and the scale-up of device manufacturing with its third-party contract manufacturers.

Given its current cash requirements, Inhale believes that it will have sufficient cash to meet its operating expense requirements for at least the next 36 months. However, the Company plans to continue to invest heavily in its growth and the need for cash will be dependent upon the timing of these investments. Inhale's capital needs will depend on many factors, including continued scientific progress in its research and development arrangements, progress with pre-clinical and clinical trials, the time and costs involved in obtaining regulatory approvals, the costs of developing and the rate of scale-up of Inhale's powder processing and packaging technologies, the timing and cost of its late stage clinical and early commercial production facility, the costs involved in preparing, filing, prosecuting, maintaining and enforcing patent claims, the need to acquire licenses to new technologies and the status of competitive products. To satisfy its long-term needs, Inhale intends to seek additional funding, as necessary, from corporate partners and from the sale of securities. There can be no assurance that additional funds, if and when

required, will be available to Inhale on favorable terms, if at all.

RISK FACTORS

THE FOLLOWING RISK FACTORS SHOULD BE READ CAREFULLY IN CONNECTION WITH EVALUATING INHALE'S BUSINESS. ANY OF THE FOLLOWING RISKS COULD MATERIALLY ADVERSELY AFFECT INHALE'S BUSINESS AND OPERATING RESULTS OR FINANCIAL CONDITION.

WE DO NOT KNOW IF OUR DEEP LUNG DRUG DELIVERY SYSTEM IS COMMERCIALLY FEASIBLE.

We are in an early stage of development. There is a risk that our deep lung drug delivery technology will not be commercially feasible. Even if our deep lung delivery technology is commercially feasible, it may not be commercially accepted across a range of large and small molecule drugs. We have tested eight deep lung delivery formulations in humans, but many of our potential formulations have not been tested in humans.

Many of the underlying drug compounds contained in our deep lung formulations have been tested in humans by other companies using alternative delivery routes. Our potential products require extensive research, development and pre-clinical (animal) and clinical (human) testing. Our potential products also may involve lengthy regulatory review before they can be sold. We do not know if and cannot assure you that, any of our potential products will prove to be safe and effective or meet regulatory standards. There is a risk that any of our potential products will not be able to be produced in commercial quantities at acceptable cost or marketed successfully. Our failure to achieve commercial feasibility, demonstrate safety, achieve clinical efficacy, obtain regulatory approval or, together with partners, successfully market products will negatively impact our revenues and results of operations.

WE DO NOT KNOW IF OUR DEEP LUNG DRUG DELIVERY SYSTEM IS EFFICIENT.

We may not be able to achieve the total system efficiency needed to be competitive with alternative routes of delivery. Total system efficiency is determined by the amount of drug loss during manufacture, in the delivery device, in reaching the site of absorption, and during absorption from that site into the bloodstream. Deep lung bioavailability is the percentage of a drug that is absorbed into the bloodstream when that drug is delivered directly to the lungs as compared to when the drug is delivered by injection. Bioavailability is the initial screen for whether deep lung delivery of any systemic drug is commercially feasible. We would not consider a drug to be a good candidate for development and commercialization if its drug loss is excessive at any one stage or cumulatively in the manufacturing and delivery process or if its deep lung bioavailability is too low.

WE DO NOT KNOW IF OUR DEEP LUNG DRUG FORMULATIONS ARE STABLE.

We may not be able to identify and produce powdered versions of drugs that retain the physical and chemical properties needed to work with our delivery device. Formulation stability is the physical and chemical stability of the drug over time and under various storage, shipping and usage conditions. Formulation stability will vary with each deep lung formulation and the type and amount of ingredients that are used in the formulation. Problems with powdered drug stability would negatively impact our ability to develop and market our potential products or obtain regulatory approval.

WE DO NOT KNOW IF OUR DEEP LUNG DRUG DELIVERY SYSTEM IS SAFE.

We may not be able to prove potential products to be safe. Our products require lengthy laboratory, animal and human testing. Most of our products are in preclinical testing or the early stage of human testing. If we find that any product is not safe, we will not be able to commercialize the product. The safety of our deep lung formulations will vary with each drug and the ingredients used in its formulation.

WE DO NOT KNOW IF OUR DEEP LUNG DRUG DELIVERY SYSTEM PROVIDES CONSISTENT DOSES OF MEDICINE.

We may not be able to provide reproducible dosages of stable formulations sufficient to achieve clinical or commercial success. Reproducible dosing is the ability to deliver a consistent and predictable amount of drug into the bloodstream over time both for a single patient and across patient groups. Reproducible dosing requires the development of:

- an inhalation device that consistently delivers predictable amounts of dry powder formulations to the deep lung;

- accurate unit dose packaging of dry powder formulations; and

- moisture resistant packaging.

We may not be able to develop reproducible dosing of any potential product. The failure to do so means that we would not consider it a good candidate for development and commercialization.

WE DEPEND ON PARTNERS FOR REGULATORY APPROVALS AND COMMERCIALIZATION OF OUR PRODUCTS.

Because we are in the business of developing technology for delivering drugs to the lungs and licensing this technology to companies that make and sell drugs, we do not have the people and other resources to do the following things:

- make bulk drugs to be used as medicines;

- design and carry out large scale clinical studies;

- prepare and file documents necessary to obtain government approval to sell a given drug product; and

- market and sell our products when and if they are approved.

When we sign a collaborative development agreement or license agreement to develop a product with a drug company, the drug company agrees to do some or all of the things described above. If our partner fails to do any of these things, we cannot complete the development of the product.

WE MAY NOT OBTAIN REGULATORY APPROVAL FOR OUR PRODUCTS ON A TIMELY BASIS, OR AT ALL.

There is a risk that we will not obtain regulatory approval for our products on a timely basis, or at all. Our products must undergo rigorous animal and human testing and an extensive review process mandated by the United States Food and Drug Administration ("FDA") and equivalent foreign authorities. This process generally takes a number of years and requires the expenditure of substantial resources, although the time required for completing such testing and obtaining such approvals is uncertain. We have not submitted any of our products to the FDA for marketing approval. We have no experience obtaining such regulatory approval.

In addition, we may encounter delays or rejections based upon changes in FDA policies, including policies relating to good manufacturing practice compliance during the period of product development. We may encounter similar delays in other countries.

Even if regulatory approval of a product is granted, the approval may limit the indicated uses for which we may market our product. In addition, our marketed product, our manufacturing facilities and Inhale, as the manufacturer, will be subject to continual review and periodic inspections. Later discovery from such review and inspection of previously unknown problems may result in restrictions on our product or on us, including withdrawal of our product from the market. The failure to obtain timely regulatory approval of our products, any product marketing limitations or a product withdrawal would negatively impact our revenues and results of operations.

WE DO NOT KNOW IF OUR TECHNOLOGIES CAN BE INTEGRATED SUCCESSFULLY TO BRING PRODUCTS TO MARKET.

We may not be able to integrate all of the relevant technologies to provide a deep lung drug delivery system. Our integrated approach to systems development relies upon several different but related technologies:

- dry powder formulations;

- dry powder processing technology;

- dry powder packaging technology; and

- a deep lung delivery device.

At the same time we must:

- establish collaborations with partners;

- perform laboratory and clinical testing of potential products; and

- scale-up our manufacturing processes.

We must accomplish all of these steps without delaying any aspect of technology development. Any delay in one component of product or business development could delay our ability to develop, obtain approval of or market therapeutic products using our deep lung delivery technology.

WE MAY NOT BE ABLE TO MANUFACTURE OUR PRODUCTS IN COMMERCIAL QUANTITIES.

POWDER PROCESSING. We have no experience manufacturing products for commercial purposes. We have only performed powder processing on the small scale needed for testing formulations and for early stage and larger clinical trials. We may encounter manufacturing and control problems as we attempt to scale-up powder processing facilities. We may not be able to achieve such scale-up in a timely manner or at a commercially reasonable cost, if at all. Our failure to solve any of these problems could delay or prevent late stage clinical testing and commercialization of our products and could negatively impact our revenues and results of operations.

To date, we have relied on one particular method of powder processing. There is a risk that this technology will not work with all drugs or that the cost of drug production will preclude the commercial viability of certain drugs. Additionally, there is a risk that any alternative powder processing methods we may pursue will not be commercially practical for aerosol drugs or that we will not have, or be able to acquire the rights to use, such alternative methods.

POWDER PACKAGING. Our fine particle powders and small quantity packaging require special handling. We have designed and qualified automated filling equipment for small and moderate quantity packaging of fine powders. We face significant technical challenges in scaling-up an automated filling system that can handle the small dose and particle sizes of our powders in commercial quantities. There is a risk that we will not be able to scale-up our automated filling equipment in a timely manner or at commercially reasonable costs. Any failure or delay in such scale-up would delay product development or bar commercialization of our products and would negatively impact our revenues and results of operations.

INHALATION DEVICE. We face many technical challenges in further developing our inhalation device to work with a broad range of drugs, to produce such a device in sufficient quantities and to adapt the device to different powder formulations. There is a risk that we will not successfully achieve any of these things. Our failure to overcome any of these challenges would negatively impact our revenues and results of operations.

For late stage clinical trials and initial commercial production, we intend to use one or more contract manufacturers to produce our drug delivery device. There is a risk that we will not be able to enter into or maintain arrangements with potential contract manufacturers or effectively scale-up production of our drug delivery devices through contract manufacturers that we identify. Our failure to do so would negatively impact our revenues and results of operations.

WE DEPEND ON SOLE OR EXCLUSIVE SUPPLIERS FOR OUR INHALATION DEVICE AND BULK DRUGS.

We plan to subcontract the manufacture of our pulmonary delivery device before commercial production of our first product. We have identified contract manufacturers that we believe have the technical capabilities and production capacity to manufacture our devices and which can meet the requirements of good manufacturing practices. We cannot be assured that we will be able to obtain and maintain satisfactory contract manufacturing on commercially acceptable terms, if at all. Our dependence on third parties for the manufacture of our inhalation device may negatively impact our cost of goods and our ability to develop and commercialize products on a timely and competitive basis.

We obtain the bulk drugs we use to formulate and manufacture the dry powders for our deep lung delivery system from sole or exclusive sources of supply. For example, with respect to our source of bulk insulin, we have entered into a collaborative agreement with Pfizer, Inc., which has, in turn, entered into an agreement with Aventis S.A. to manufacture biosynthetic recombinant insulin. Under the terms of their agreement, Pfizer and Aventis agreed to construct a jointly owned manufacturing plant in Frankfurt, Germany. Until its completion, Pfizer will provide us with insulin from Aventis's existing plant. If our sole or exclusive source suppliers fail to provide bulk drugs in sufficient quantities when required, our revenues and results of operations will be negatively impacted.

WE DO NOT KNOW IF THE MARKET WILL ACCEPT OUR DEEP LUNG DRUG DELIVERY SYSTEM.

The commercial success of our potential products depends upon market acceptance by health care providers, third-party payors like health insurance companies and Medicare, and patients. Our products under development use a new method of drug delivery and there is a risk that our potential products will not be accepted by the market. Market acceptance will depend on many factors, including:

- the safety and efficacy results of our clinical trials;
- favorable regulatory approval and product labeling;
- the frequency of product use;
- the availability of third-party reimbursement;
- the availability of alternative technologies; and
- the price of our products relative to alternative technologies.

There is a risk that health care providers, patients or third-party payors will not accept our deep lung drug delivery system. If the market does not accept our potential products, our revenues and results of operations would be significantly and negatively impacted.

IF OUR PRODUCTS ARE NOT COST EFFECTIVE, GOVERNMENT AND PRIVATE INSURANCE PLANS MAY NOT PAY FOR OUR PRODUCTS.

In both domestic and foreign markets, sales of our products under development will depend in part upon the availability of reimbursement from third-party payors, such as government health administration authorities, managed care providers, private health insurers and other organizations. In addition, such third-party payors are increasingly challenging the price and cost effectiveness of medical products and services. Significant uncertainty exists as to the reimbursement status of newly approved health care products. Legislation and regulations affecting the pricing of pharmaceuticals may change before our proposed products are approved for marketing. Adoption of such legislation and regulations could further limit reimbursement for medical products. A government or third-party payor decision to not provide adequate coverage and reimbursements for our products would limit market acceptance of such products.

WE EXPECT TO CONTINUE TO LOSE MONEY FOR THE NEXT SEVERAL YEARS.

We have never been profitable and, through September 30, 2000, we have an accumulated deficit of approximately $152.3 million. We expect to continue to incur substantial and increasing losses over at least the next several years as we expand our research and development efforts, testing activities and manufacturing operations, and as we further expand our late stage clinical and early commercial production facility. All of our potential products are in research or in the early stages of development except for our insulin collaboration. We have generated no revenues from approved product sales. Our revenues to date have consisted primarily of payments under short-term research and feasibility agreements and development contracts. To achieve and sustain profitable operations, we must, alone or with others, successfully develop, obtain regulatory approval for, manufacture, introduce, market and sell products using our deep lung drug delivery system. There is a risk that we will not generate sufficient product or contract research revenue to become profitable or to sustain profitability.

WE MAY NEED TO RAISE ADDITIONAL CAPITAL THAT MAY NOT BE AVAILABLE.

We anticipate that our existing capital resources will enable us to maintain currently planned operations through at least the next 36 months. However, this expectation is based on our current operating plan, which is expected to change as a result of many factors, and we may need additional funding sooner than anticipated. In addition, we may choose to raise additional capital due to market conditions or strategic considerations, even if we believe we have sufficient funds for our current or future operating plans. To the extent that additional capital is raised through the sale of equity or convertible debt securities, the issuance of such securities could result in dilution to our stockholders.

We have no credit facility or other committed sources of capital. To the extent operating and capital resources are insufficient to meet future requirements, we will have to raise additional funds to continue the development and commercialization of our technologies. Such funds may not be available on favorable terms, or at all. In particular, our substantial

leverage may limit our ability to obtain additional financing. If adequate funds are not available on reasonable terms, we may be required to curtail operations significantly or to obtain funds by entering into financing, supply or collaboration agreements on unattractive terms. Our inability to raise capital could negatively impact our business.

IF WE FAIL TO MANAGE OUR GROWTH EFFECTIVELY, OUR BUSINESS MAY SUFFER.

Our ability to commercialize our products, achieve our expansion objectives, manage our growth effectively and satisfy our commitments under our collaboration agreements depends on a variety of factors. Key factors include our ability to develop products internally, enter into strategic partnerships with collaborators, attract and retain skilled employees and effectively expand our internal organization to accommodate anticipated growth including integration of any potential businesses that we may acquire. If we are unable to manage growth effectively, there could be a material adverse effect on our business, financial condition and results of operations.

OUR PATENTS MAY NOT PROTECT OUR PRODUCTS AND OUR PRODUCTS MAY INFRINGE ON THIRD-PARTY PATENT RIGHTS.

We have filed patent applications covering certain aspects of our device, powder processing technology, and powder formulations and deep lung route of delivery for certain molecules, and we plan to file additional patent applications. We currently have 93 issued U.S. and foreign patents that cover certain aspects of our technology and we have a number of patent applications pending. There is a risk that many of the patents applied for will not issue, or that any patents that issue or have issued will not be valid and enforceable. Enforcing our patent rights would be time consuming and costly.

Our access or our partners' access to the drugs to be formulated will affect our ability to develop and commercialize our technology. Many drugs, including powder formulations of certain drugs that are presently under development by us, are subject to issued and pending U.S. and foreign patents that may be owned by our competitors. We know that there are issued patents and pending patent applications relating to the deep lung delivery of large molecule drugs, including several for which we are developing deep lung delivery formulations. This situation is highly complex, and the ability of any one company, including Inhale, to commercialize a particular drug is unpredictable.

We intend generally to rely on the ability of our partners to provide access to the drugs that are to be formulated by us for deep lung delivery. There is a risk that our partners will not be able to provide access to such drug candidates. Even if such access is provided, there is a risk that our partners or we will be accused of, or determined to be, infringing a third-party's patent rights and will be prohibited from working with the drug or be found liable for damages that may not be subject to indemnification. Any such restriction on access to drug candidates or liability for damages would negatively impact our revenues and results of operations.

OUR COMPETITORS MAY DEVELOP AND SELL BETTER DRUG DELIVERY SYSTEMS.

We are aware of other companies engaged in developing and commercializing drug delivery systems, including pulmonary and enhanced injectable and other drug delivery systems. Many of these companies have greater research and development capabilities, experience, manufacturing, marketing, financial and managerial resources than we do and represent significant competition for us. Acquisitions of or collaborations with competing drug delivery companies by large pharmaceutical companies could enhance our competitors' financial, marketing and other resources. Accordingly, our competitors may succeed in developing competing technologies, obtaining regulatory approval for products or gaining market acceptance before us. Developments by others could make our products or technologies uncompetitive or obsolete. Our competitors may introduce products or processes competitive with or superior to ours.

INVESTORS SHOULD BE AWARE OF INDUSTRY-WIDE RISKS.

In addition to the risks associated specifically with Inhale described above, investors should also be aware of general risks associated with drug development and the pharmaceutical industry. These include, but are not limited to:

- changes in and compliance with government regulations;

- handling of hazardous materials;

- hiring and retaining qualified people; and

- insuring against product liability claims.

WE EXPECT OUR STOCK PRICE TO REMAIN VOLATILE.

Our stock price is volatile. In the twelve-month period ending September 30, 2000, based on closing prices on the Nasdaq National Market, our stock price ranged from $13.25 to $63.31. We expect it to remain volatile. A variety of factors may have a significant effect on the market price of our common stock, including:

- fluctuations in our operating results;
- announcements of technological innovations or new therapeutic products;
- announcement or termination of collaborative relationships by Inhale or our competitors;
- governmental regulation;
- clinical trial results or product development delays;
- developments in patent or other proprietary rights;
- public concern as to the safety of drug formulations developed by Inhale or others; and
- general market conditions.

Any litigation brought against us as a result of this volatility could result in substantial costs and a diversion of our management's attention and resources, which could negatively impact our financial condition, revenues and results of operations.

OUR SUBSTANTIAL INDEBTEDNESS MAY RESULT IN FUTURE LIQUIDITY PROBLEMS

As of September 30, 2000, we had approximately $242.6 million in long-term debt and in October 2000, in connection with our build-to-suit lease transaction, we incurred an additional incremental lease liability, the present value of which approximates $46.2 million. In addition, the October 2000 issuance of the 3.5% convertible subordinated notes due 2007, increased our long-term debt by approximately $230.0 million. This increased indebtedness has and will continue to impact us by:

- significantly increasing our interest expense and related debt service costs;
- making it more difficult to obtain additional financing; and
- constraining our ability to react quickly in an unfavorable economic climate.

Currently, we are not generating sufficient cash flow to satisfy the annual debt service payments that are required under the terms of our outstanding convertible subordinated debentures and notes. This may require us to use a portion of the proceeds from the sales of these securities to pay interest or borrow additional funds or sell additional equity to meet our debt service obligations. If we are unable to satisfy our debt service requirements, substantial liquidity problems could result, which would negatively impact our future prospects.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's exposure to market risk is principally limited to its cash equivalents and investments that have maturities of less than one year. The Company maintains a non-trading investment portfolio of investment grade, liquid debt securities that limits the amount of credit exposure to any one issue, issuer or type of instrument. The securities in the Company's investment portfolio are not leveraged, are classified as available-for-sale and are therefore subject to interest rate risk. The Company currently does not hedge interest rate exposure.

PART II: OTHER INFORMATION

Item 1. Legal Proceedings - Not Applicable

Item 2. Changes in Securities and Use of Proceeds.

(c) On September 15, 2000, in connection with the build-to-suit lease transaction described under "Management's Discussion and Analysis of Financial Condition and Result of Operations - Liquidity and Capital Resources," Inhale granted warrants representing the right to purchase up to an aggregate of 10,000 shares of its common stock to the remaining partners of the limited partnership in which Inhale acquired an interest in connection with such transaction. The warrants, are exercisable under certain circumstances, in the event that Inhale exercises its option to purchase the partnership interests held by the entities receiving the warrants. The warrants and the shares of Inhale's common stock issued upon exercise of these warrants were sold in a private placement exempt from registration under Rule 506 of Regulation D promulgated under the Securities Act of 1933, as amended (the "Act"). No underwriters were involved in this offering and commission or remuneration was paid in connection with the sale of these securities. The acquirers respectively indicated their intent to acquire the securities for investment only and not with a view to distribution and appropriate legends are affixed to the warrants issued in the transaction. The entities acquiring the warrants were each sophisticated and deemed to be an "accredited investor" as that term is defined under Rule 501 of Regulation D promulgated under the Act with access to adequate information about the Company.

Item 3. Defaults upon Senior Securities - None

Item 4. Submission of Matters to a Vote of Security Holders - None

Item 5. Other Information

Effective August 22, 2000, Mark J. Gabrielson resigned from the Board of Directors.
Effective August 22, 2000, the remaining members of the Board of Directors elected Roy A. Whitfield as a member of the Board to fill the vacancy

Item 6. Exhibits and Reports on Form 8-K

(a) The following exhibits are filed herewith or incorporated by reference:

EXHIBIT	EXHIBIT TITLE
4.15	Specimen Warrants to Purchase Shares of Common Stock
10.19	The Company's 2000 Equity Incentive Plan
10.20	Company's Stock Option Agreement issued in accordance with the Company's 2000 Equity Incentive Plan.
10.21	Contribution Agreement for 201 Industrial Road Project made and entered into as of September 14, 2000 by and among the Company, Inhale 201 Industrial Road, L.P., a California limited partnership and Bernardo Property Advisors, Inc., a California corporation.
10.22	Agreement of Limited Partnership of Inhale 201 Industrial Road, L.P., a California limited partnership made and entered into September 14, 2000, by and among SCIMED PROP III, Inc., a California corporation, as general partner, 201 Industrial

	Partnership, a California general partnership, as limited partner, and the Company, as limited partner.
10.23	Build-To-Suit Lease made and entered into as of September 14, 2000 by and between Inhale 201 Industrial Road, L.P., a California limited partnership, as Landlord, and the Company, as Tenant.
10.24	Amendment to Lease dated October 3, 2000 by and between Inhale 201 Industrial Road, L.P., a California limited partnership, as Landlord, and the Company, as Tenant.
10.25	Parking Lease Agreement entered into as of September 14, 2000 by and between Inhale 201 Industrial Road, L.P., a California limited partnership, as Landlord, and the Company, as Tenant.
27.1	Financial Data Schedule

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b) Reports on Form 8-K.

On September 6, 2000, the Company filed a Report on Form 8-K to announce its re-initiation with Eli Lilly and Company ("Lilly") of the development and License Agreement of an inhaled formulation of Forteo-TM-recombinant parathyroid hormone (PTH). In this Report on Form 8-K the Company also announced that Lilly has decided to discontinue work on an unspecified inhaleable protein product that was in pre-clinical development with the Company

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.

INHALE THERAPEUTIC SYSTEMS, INC.

DATE: NOVEMBER 14, 2000

BY: /s/ Ajit S. Gill

Ajit S. Gill
Chief Executive Officer, President and Director
(Duly Authorized Officer)

BY: /s/ Brigid A. Makes

Brigid A. Makes
Chief Financial Officer and
Vice President Finance and Administration

Exhibit 4.15

NO. CW-____

THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE BEEN ACQUIRED FOR INVESTMENT AND HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT') OR ANY STATE SECURITIES LAWS. SUCH SECURITIES MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED, ASSIGNED, PLEDGED OR HYPOTHECATED UNLESS AND UNTIL REGISTERED UNDER THE ACT OR UNLESS THE COMPANY HAS RECEIVED AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY AND ITS COUNSEL THAT SUCH REGISTRATION IS NOT REQUIRED.

WARRANT TO PURCHASE UP TO _____ SHARES
OF COMMON STOCK OF
INHALE THERAPEUTIC SYSTEMS, INC.

This certifies that _____, or its assigns (the "Holder"), for value received, is entitled to purchase from INHALE THERAPEUTIC SYSTEMS, INC. a Delaware corporation located at 150 Industrial Road, San Carlos CA 94070 (the "Company"), a number of shares of fully paid and nonassessable shares of the Company's Common Stock ("Common Stock") as determined in accordance with Section 1 hereof, not to exceed _____ shares (the "Maximum Shares"), for cash at a price equal to $_____ (the "Stock Purchase Price") at such times as determined in accordance with Section 2 hereof and, with respect to any Vested Shares (as defined herein) prior to the earlier of (i) the closing (after the Exercise Date (as defined herein) with respect to such Vested Shares) of (A) a sale of substantially all of the assets of the Company; (B) a merger or consolidation in which the Company is not the surviving corporation (other than a merger or consolidation in which shareholders immediately before the merger or consolidation have, immediately after the merger or consolidation, greater stock voting power); (C) a reverse merger in which the Company is the surviving corporation but the shares of the Company's common stock outstanding immediately preceding the merger are converted by virtue of the merger into other property, whether in the form of securities, cash or otherwise (other than a reverse merger in which stockholders immediately before the merger have, immediately after the merger, greater stock voting power); or (D) any transaction or series of related transactions in which in excess of 50% of the Company's voting power is transferred (a "Change of Control") or (ii) six (6) years from such Exercise Date, such earlier day being referred to herein as the "Expiration Date," upon surrender to the Company at its principal office (or at such other location as the Company may advise the Holder in writing) of this Warrant properly endorsed with the Form of Subscription attached hereto duly filled in and signed and upon payment in cash or by check of the aggregate Stock Purchase Price for the number of shares for which this Warrant is being exercised determined in accordance with the provisions hereof.

Capitalized terms used herein and not defined shall have the meaning set forth in the Agreement of Limited Partnership of Inhale 201 Industrial Road, L.P. (the "Partnership Agreement"). This Warrant is subject to the following terms and conditions:

1. VESTED SHARES. At any given time, this Warrant shall be exercisable for only such number of shares of Common Stock that are "Vested Shares." At any time during the term of this Warrant, the number of Vested Shares shall be determined by the following equation:

V = (P*M) - E

Where V = the number of Vested Shares;

P = the total percentage of the Holder's (or Holder's successor in interests) Limited Partnership interests which have been purchased pursuant to the exercise of the Option under the Warrant Payment Alternative set forth in Section 20 of the Partnership Agreement;

M = the Maximum Shares (as adjusted pursuant to Section 6 hereof); and

E = the number of shares previously issued upon exercise of this Warrant (or any predecessor Warrant), including any additional shares canceled as a result of any exercise pursuant to Section 3 hereof, (as adjusted for stock dividends, combinations, splits and recapitalizations and the like with respect to such shares).

For purposes of example only, attached as Exhibit A hereto are hypothetical examples of the calculation of Vested Shares.

2. EXERCISE DATE. This Warrant is exercisable at the option of the holder of record hereof, at any time or from time to time after the Exercise Date with respect to the Vested Shares being acquired and prior to the Expiration Date with respect to such Vested Shares for all or any part of the Vested Shares (but not for a fraction of a share) which may be purchased hereunder. The Exercise Date with respect to any shares issuable pursuant to this Warrant shall be the date which such shares shall initially become Vested Shares. To the extent this Warrant is exercised in part, the Holder shall be deemed to have acquired those Vested Shares with the earliest Exercise Date first (provided such exercise is prior to the Expiration Date with respect to such Vested Shares).

3. NET ISSUE EXERCISE. Notwithstanding any provisions herein to the contrary, if the fair market value of one share of the Company's Common Stock is greater than the Stock Purchase Price (at the date of calculation as set forth below), in lieu of exercising this Warrant for cash, the Holder may elect to receive shares equal to the value (as determined below) of this Warrant (or the portion thereof being canceled) by surrender of this Warrant at the principal office of the Company together with the properly endorsed Form of Subscription and notice of

such election in which event the Company shall issue to the Holder a number of shares of Common Stock computed using the following formula:

$$X = \frac{Y(A-B)}{A}$$

Where X = the number of shares of Common Stock to be issued to the Holder

Y = the number of shares of Common Stock purchasable under the Warrant or, if only a portion of the Warrant is being exercised, the portion of the Warrant being canceled (at the date of such calculation)

A = the fair market value of one share of the Company's Common Stock (at the date of such calculation)

B = Stock Purchase Price (as adjusted to the date of such calculation)

For purposes of the above calculation, fair market value of one share of Common Stock shall be the average closing price of the Company's Common Stock for the ten trading days preceding the date of exercise.

4. EXERCISE; ISSUANCE OF CERTIFICATES; PAYMENT FOR SHARES. The Company agrees that the shares of Common Stock purchased under this Warrant shall be and are deemed to be issued to the Holder hereof as the record owner of such shares as of the close of business on the date on which this Warrant shall have been surrendered, properly endorsed, the completed, executed Form of Subscription delivered and payment made for such shares. Certificates for the shares of Common Stock so purchased, together with any other securities or property to which the Holder hereof is entitled upon such exercise, shall be delivered to the Holder hereof by the Company at the Company's expense within a reasonable time after the rights represented by this Warrant have been so exercised. In case of a purchase of less than all the shares which may be purchased under this Warrant, the Company shall cancel this Warrant and execute and deliver a new Warrant or Warrants of like tenor for the balance of the shares purchasable under the Warrant surrendered upon such purchase to the Holder hereof within a reasonable time. Each stock certificate so delivered shall be in such denominations of Common Stock as may be requested by the Holder hereof and shall be registered in the name of such Holder.

5. SHARES TO BE FULLY PAID; RESERVATION OF SHARES. The Company covenants and agrees that all shares of Common Stock which may be issued upon the exercise of the rights represented by this Warrant will, upon issuance, be duly authorized, validly issued, fully paid and nonassessable and free from all preemptive rights of any shareholder and free of all taxes, liens and charges with respect to the issue thereof. The Company further covenants and agrees that, during the period within which the rights represented by this Warrant may be exercised, the Company will at all times have authorized and reserved, for the purpose of issue or

transfer upon exercise of the subscription rights evidenced by this Warrant, a sufficient number of shares of authorized but unissued Common Stock, or other securities and property, when and as required to provide for the exercise of the rights represented by this Warrant. The Company will take all such action as may be necessary to assure that such shares of Common Stock may be issued as provided herein without violation of any applicable law or regulation, or of any requirements of any domestic securities exchange upon which the Common Stock may be listed; provided, however, that the Company shall not be required to effect a registration under Federal or State securities laws with respect to such exercise. The Company will not take any action which would result in any adjustment of the Stock Purchase Price (as set forth in Section 6 hereof) if the total number of shares of Common Stock issuable after such action upon exercise of all outstanding warrants, together with all shares of Common Stock then outstanding and all shares of Common Stock then issuable upon exercise of all options and upon the conversion of all convertible securities then outstanding, would exceed the total number of shares of Common Stock then authorized by the Company's Restated Certificate of Incorporation.

6. ADJUSTMENT OF STOCK PURCHASE PRICE AND NUMBER OF SHARES. The Stock Purchase Price and the number of shares purchasable upon the exercise of this Warrant shall be subject to adjustment from time to time upon the occurrence of certain events described in this Section 6. Upon each adjustment of the Stock Purchase Price, the Holder of this Warrant shall thereafter be entitled to purchase, at the Stock Purchase Price resulting from such adjustment, the number of shares obtained by multiplying the Stock Purchase Price in effect immediately prior to such adjustment by the number of shares purchasable pursuant hereto immediately prior to such adjustment, and dividing the product thereof by the Stock Purchase Price resulting from such adjustment.

6.1 SUBDIVISION OR COMBINATION OF COMMON STOCK. In case the Company shall at any time subdivide its outstanding shares of Common Stock into a greater number of shares, the Stock Purchase Price in effect immediately prior to such subdivision shall be proportionately reduced, and conversely, in case the outstanding shares of Common Stock of the Company shall be combined into a smaller number of shares, the Stock Purchase Price in effect immediately prior to such combination shall be proportionately increased.

6.2 DIVIDENDS IN COMMON STOCK, OTHER STOCK, PROPERTY, RECLASSIFICATION. If at any time or from time to time the holders of Common Stock (or any shares of stock or other securities at the time receivable upon the exercise of this Warrant) shall have received or become entitled to receive, without payment therefor,

(A) Common Stock or any shares of stock or other securities which are at any time directly or indirectly convertible into or exchangeable for Common Stock, or any rights or options to subscribe for, purchase or otherwise acquire any of the foregoing by way of dividend or other distribution,

(B) any cash paid or payable otherwise than as a cash dividend, or

(C) Common Stock or additional stock or other securities or property (including cash) by way of spinoff, split-up, reclassification, combination of shares or similar corporate rearrangement, (other than shares of Common Stock issued as a stock split or adjustments in respect of which shall be covered by the terms of Section 6.1 above), then and in each such case, the Holder hereof shall, upon the exercise of this Warrant, be entitled to receive, in addition to the number of shares of Common Stock receivable thereupon, and without payment of any additional consideration therefor, the amount of stock and other securities and property (including cash in the cases referred to in clause (b) above and this clause (c)) which such Holder would hold on the date of such exercise had he been the holder of record of such Common Stock as of the date on which holders of Common Stock received or became entitled to receive such shares or all other additional stock and other securities and property.

6.3 REORGANIZATION, RECLASSIFICATION, CONSOLIDATION, MERGER OR SALE. If any recapitalization, reclassification or reorganization of the capital stock of the Company, or any consolidation or merger of the Company with another corporation, or sale of all or substantially all of the Company's assets or other transaction (other than a Change in Control which occurs after the Exercise Date) shall be effected in such a way that holders of Common Stock shall be entitled to receive stock, securities, or other assets or property (an "Organic Change"), then, as a condition of such Organic Change, lawful and adequate provisions shall be made by the Company whereby the Holder hereof shall thereafter have the right to purchase and receive (in lieu of the shares of the Common Stock of the Company immediately theretofore purchasable and receivable upon the exercise of the rights represented hereby) such shares of stock, securities or other assets or property as may be issued or payable with respect to or in exchange for a number of outstanding shares of such Common Stock equal to the number of shares of such stock immediately theretofore purchasable and receivable upon the exercise of the rights represented hereby. In the event of any Organic Change, appropriate provision shall be made by the Company with respect to the rights and interests of the Holder of this Warrant to the end that the provisions hereof (including, without limitation, provisions for adjustments of the Stock Purchase Price and of the number of shares purchasable and receivable upon the exercise of this Warrant) shall thereafter be applicable, in relation to any shares of stock, securities or assets thereafter deliverable upon the exercise hereof.

6.4 CERTAIN EVENTS. If any change in the outstanding Common Stock of the Company or any other event occurs as to which the other provisions of this Section 6 are not strictly applicable or if strictly applicable would not fairly protect the purchase rights of the Holder of the Warrant in accordance with such provisions, then the Board of Directors of the Company shall make an adjustment in the number and class of shares available under the Warrant, the Stock Purchase Price or the application of such provisions, so as to protect such purchase rights as aforesaid. The adjustment shall be such as will give the Holder of the Warrant upon exercise for the same aggregate Stock Purchase Price the total number, class and kind of shares as the Holder would have owned had the Warrant been exercised prior to the event and had the Holder continued to hold such shares until after the event requiring adjustment.

6.5 NOTICES OF CHANGE. The Company shall give written notice to the Holder at least 10 business days prior to the date on which a Change of Control or Organic Change shall take place.

7. REPRESENTATIONS AND WARRANTIES OF THE HOLDER

7.1 PURCHASE FOR OWN ACCOUNT. Holder represents that it is acquiring the Warrant and the Common Stock issuable upon exercise of the Warrant (collectively, the "SECURITIES") solely for its own account and beneficial interest for investment and not for sale or with a view to distribution of the Securities or any part thereof, has no present intention of selling (in connection with a distribution or otherwise), granting any participation in, or otherwise distributing the same, and does not presently have reason to anticipate a change in such intention.

7.2 INFORMATION AND SOPHISTICATION. Holder acknowledges that it has received all the information it has requested from the Company and it considers necessary or appropriate for deciding whether to acquire the Securities. Holder represents that it has had an opportunity to ask questions and receive answers from the Company regarding the terms and conditions of the offering of the Securities and to obtain any additional information necessary to verify the accuracy of the information given the Holder. Holder further represents that it has such knowledge and experience in financial and business matters that it is capable of evaluating the merits and risk of this investment.

7.3 ABILITY TO BEAR ECONOMIC RISK. Holder acknowledges that investment in the Securities involves a high degree of risk, and represents that it is able, without materially impairing its financial condition, to hold the Securities for an indefinite period of time and to suffer a complete loss of its investment.

7.4 FURTHER LIMITATIONS ON DISPOSITION. Without in any way limiting the representations set forth above, Holder further agrees not to make any disposition of all or any portion of the Securities unless and until:

(A) There is then in effect a Registration Statement under the Act covering such proposed disposition and such disposition is made in accordance with such Registration Statement; or

(B) Holder shall have notified the Company of the proposed disposition and shall have furnished the Company with a detailed statement of the circumstances surrounding the proposed disposition, and if reasonably requested by the Company, Holder shall have furnished the Company with an opinion of counsel, reasonably satisfactory to the Company, that such disposition will not require registration under the Act or any applicable state securities laws.

(C) Notwithstanding the provisions of paragraphs (a) and (b) above, no such registration statement or opinion of counsel shall be necessary for a transfer by gift, will or

intestate succession to any spouse or lineal descendants or ancestors, if all transferees agree in writing to be subject to the terms hereof to the same extent as if they were Holder hereunder.

(D) Each certificate representing Securities shall (unless otherwise permitted by the provisions of the Agreement) be stamped or otherwise imprinted with a legend substantially similar to the following (in addition to any legend required under applicable state securities laws):

THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT") OR ANY STATE SECURITIES LAWS. SUCH SECURITIES MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED, ASSIGNED, PLEDGED OR HYPOTHECATED UNLESS AND UNTIL REGISTERED UNDER THE ACT OR UNLESS THE COMPANY HAS RECEIVED AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY AND ITS COUNSEL THAT SUCH REGISTRATION IS NOT REQUIRED.

(E) The Company shall be obligated to reissue promptly unlegended certificates at the request of any Holder if the Holder shall have obtained an opinion of counsel (which counsel may be counsel to the Company) reasonably acceptable to the Company to the effect that the Securities proposed to be disposed of may lawfully be so disposed of without registration, qualification or legend. The Company shall pay the reasonable fees and expenses of such counsel in rendering such opinion, not to exceed $5,000.

7.5 ACCREDITED INVESTOR STATUS. Holder is an "ACCREDITED INVESTOR" as such term is defined in Rule 501 of Regulation D promulgated under the Act.

7.6 FURTHER ASSURANCES. Holder agrees and covenants that at any time and from time to time it will promptly execute and deliver to the Company such further instruments and documents and take such further action as the Company may reasonably require in order to carry out the full intent and purpose of this Agreement.

8. ISSUE TAX. The issuance of certificates for shares of Common Stock upon the exercise of the Warrant shall be made without charge to the Holder of the Warrant for any issue tax (other than any applicable income taxes) in respect thereof; provided, however, that the Company shall not be required to pay any tax which may be payable in respect of any transfer involved in the issuance and delivery of any certificate in a name other than that of the then Holder of the Warrant being exercised.

9. CLOSING OF BOOKS. The Company will at no time close its transfer books against the transfer of any warrant or of any shares of Common Stock issued or issuable upon the exercise of any warrant in any manner which interferes with the timely exercise of this Warrant.

10. NO VOTING OR DIVIDEND RIGHTS; LIMITATION OF LIABILITY. Nothing contained in this Warrant shall be construed as conferring upon the Holder hereof the right to vote or to consent or to receive notice as a shareholder of the Company or any other matters or any rights whatsoever as a shareholder of the Company. No dividends or interest shall be payable or accrued in respect of this Warrant or the interest represented hereby or the shares purchasable hereunder until, and only to the extent that, this Warrant shall have been exercised. No provisions hereof, in the absence of affirmative action by the Holder to purchase shares of Common Stock, and no mere enumeration herein of the rights or privileges of the holder hereof, shall give rise to any liability of such Holder for the Stock Purchase Price or as a shareholder of the Company, whether such liability is asserted by the Company or by its creditors.

11. MARKET STAND-OFF AGREEMENT. Holder shall not sell, dispose of, transfer, make any short sale of, grant any option for the purchase of, or enter into any hedging or similar transaction with the same economic effect as a sale, any Common Stock or other securities of the Company held by Holder, (the "Restricted Securities"), for a period of time specified by the managing underwriter (not to exceed one hundred eighty (180) days) following the effective date of a registration statement of the Company filed under the Act. Holder agrees to execute and deliver such other agreements as may be reasonably requested by the Company and/or the managing underwriter which are consistent with the foregoing or which are necessary to give further effect thereto. In order to enforce the foregoing covenant, the Company may impose stop-transfer instructions with respect to Holder's Restricted Securities until the end of such period.

12. WARRANTS TRANSFERABLE. Subject to compliance with applicable federal and state securities laws, this Warrant and all rights hereunder are transferable, in whole or in part, without charge to the holder hereof (except for transfer taxes), upon surrender of this Warrant properly endorsed. Each taker and holder of this Warrant, by taking or holding the same, consents and agrees that this Warrant, when endorsed in blank, shall be deemed negotiable, and that the holder hereof, when this Warrant shall have been so endorsed, may be treated by the Company, at the Company's option, and all other persons dealing with this Warrant as the absolute owner hereof for any purpose and as the person entitled to exercise the rights represented by this Warrant, or to the transfer hereof on the books of the Company any notice to the contrary notwithstanding; but until such transfer on such books, the Company may treat the registered owner hereof as the owner for all purposes.

13. RIGHTS AND OBLIGATIONS SURVIVE EXERCISE OF WARRANT. The rights and obligations of the Company, of the holder of this Warrant and of the holder of shares of Common Stock issued upon exercise of this Warrant, shall survive the exercise of this Warrant.

14. MODIFICATION AND WAIVER. This Warrant and any provision hereof may be changed, waived, discharged or terminated only by an instrument in writing signed by the party against which enforcement of the same is sought.

15. NOTICES. Any notice, request or other document required or permitted to be given or delivered to the holder hereof or the Company shall be delivered or shall be sent by certified mail, postage prepaid, to each such holder at its address as shown on the books of the Company or to the Company at the address indicated therefor in the first paragraph of this Warrant or such other address as either may from time to time provide to the other.

16. BINDING EFFECT ON SUCCESSORS. To the extent then exercisable, this Warrant shall be binding upon any corporation succeeding the Company by merger, consolidation or acquisition of all or substantially all of the Company's assets. All of the obligations of the Company relating to the Common Stock issuable upon the exercise of this Warrant shall survive the exercise and termination of this Warrant. All of the covenants and agreements of the Company shall inure to the benefit of the successors and assigns of the holder hereof.

17. DESCRIPTIVE HEADINGS AND GOVERNING LAW. The description headings of the several sections and paragraphs of this Warrant are inserted for convenience only and do not constitute a part of this Warrant. This Warrant shall be construed and enforced in accordance with, and the rights of the parties shall be governed by, the laws of the State of California.

18. LOST WARRANTS. The Company represents and warrants to the Holder hereof that upon receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction, or mutilation of this Warrant and, in the case of any such loss, theft or destruction, upon receipt of an indemnity reasonably satisfactory to the Company, or in the case of any such mutilation upon surrender and cancellation of such Warrant, the Company, at its expense, will make and deliver a new Warrant, of like tenor, in lieu of the lost, stolen, destroyed or mutilated Warrant.

19. FRACTIONAL SHARES. No fractional shares shall be issued upon exercise of this Warrant. The Company shall, in lieu of issuing any fractional share, pay the holder entitled to such fraction a sum in cash equal to such fraction multiplied by the then effective Stock Purchase Price.

20. EXCHANGE ACT REPORTING. The Company covenants that it shall file any reports required to be filed by it under the Securities Exchange Act of 1934 and that it shall take such further action as any Holder may reasonably request, all to the extent required from time to time to enable Holder to sell Common Stock without registration under the Act within the limitations of the exemption provided by Rule 144 promulgated under the Act. Upon the request of any Holder, the Company shall deliver to such Holder, so long as Holder owns any of the Securities, a written statement as to whether it has complied with such requirements.

[THIS SPACE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the Company and Holder have caused this Warrant to be duly executed by their officers, thereunto duly authorized this _____ day of September, 2000.

INHALE THERAPEUTIC SYSTEMS, INC.
a Delaware corporation

By:_____

Title:_____

ATTEST:

_____
Secretary

AGREED AND ACCEPTED

_____

By: _____

Title:_____

SUBSCRIPTION FORM

Date: _____, 20___

Inhale Therapeutic Systems, Inc.
150 Industrial Way
San Carlos, CA 94070

Attn: President

Ladies and Gentlemen:

/_/ The undersigned hereby elects to exercise the warrant issued to it by Inhale Therapeutic Systems, Inc. (the "Company") and dated September _____, 2000 Warrant No. CW-___ (the "Warrant") and to purchase thereunder _____ shares of the Common Stock of the Company (the "Shares") at a purchase price of _____ Dollars ($_____) per Share or an aggregate purchase price of _____ Dollars ($_____) (the "Purchase Price").

Pursuant to the terms of the Warrant the undersigned has delivered the Stock Purchase Price herewith in full in cash or by certified check or wire transfer.

/_/ The undersigned hereby elects to convert _____ percent (____%) of the value of the Warrant pursuant to the provisions of Section 3 of the Warrant.

Very truly yours,

_____

By:_____

Title:_____

EXHIBIT A

VESTED SHARES CALCULATION SCENARIOS

ASSUMPTION: 10,000 SHARE WARRANT

SCENARIO 1

Step 1: Inhale purchases 10% of LP interests and LP elects the Warrant Payment Alternative

Step 2: Inhale subsequently purchases another 30% of the LP interests and LP elects the Warrant Payment Alternative

RESULT:

After Step 1, the number of Vested Shares equals 1,000 shares

V = (P*M) - E
1000 = (.10*10,000)-0

(note E=0 as no shares have been issued upon exercise of Warrant)

After Step 2, the number of Vested Shares equals 4,000 shares

V = (P*M) - E
4000 = (.40*10,000)-0

(note E remains 0 as no shares have been issued upon exercise of Warrant)

SCENARIO 2

Step 1: Inhale purchases 10% of LP interests and LP elects the Warrant Payment Alternative

Step 2: LP exercises Warrant for 50% of the then Vested Shares

Step 3: Inhale subsequently purchases another 30% of the LP interests and LP elects the Warrant Payment Alternative

RESULT:

After Step 1, the number of Vested Shares equals 1,000 shares

V = (P*M) - E
1000 = (.10*10,000)-0

(note E=0 as no shares have been issued upon exercise of Warrant)

After Step 2, the number of Vested Shares equals 500 shares

V = (P*M) - E
500 = (.10*10,000)-500

(note E=500 as 500 shares have been issued upon exercise of Warrant)

After Step 3, the number of Vested Shares equals 3,500 shares

V = (P*M) - E
3,500 = (.40*10,000)-500

(note E=500 as 500 shares have been issued upon exercise of Warrant)

SCENARIO 3

ADDITIONAL ASSUMPTIONS:
$50.00 EXERCISE PRICE

$100.00 AVERAGE CLOSING PRICE FOR 10 DAYS PRECEDING EXERCISE

Step 1: Inhale purchases 10% of LP interests and LP elects the Warrant Payment Alternative

Step 2: LP exercises Warrant for 50% of the then Vested Shares via Net Issue Election

Step 3: Inhale subsequently purchases another 30% of the LP interests and LP elects the Warrant Payment Alternative

RESULT:

After Step 1, the number of Vested Shares equals 1,000 shares

V = (P*M) - E
1000 = (.10*10,000)-0

(note E=0 as no shares have been issued upon exercise of Warrant)

Upon Exercise of Warrant (Step 2), LP is issued 250 shares

$$X = \frac{Y (A-B)}{A}$$

$$250 = \frac{500 * (100-50)}{100}$$

(note that as result of Net Issue Election, 250 shares are cancelled)

After Step 2, the number of Vested Shares equals 500 shares

V = (P*M) - E 500 = (.10*10,000)-500

(note E=500 as 500 shares have been issued (including cancelled shares) upon exercise of Warrant)

After Step 3, the number of Vested Shares equals 3,500 shares

V = (P*M) - E
3,500 = (.40*10,000)-500

(note E=500 as 500 shares have been issued (including cancelled shares) upon exercise of Warrant)

NO. CW-____

THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE BEEN ACQUIRED FOR INVESTMENT AND HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT') OR ANY STATE SECURITIES LAWS. SUCH SECURITIES MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED, ASSIGNED, PLEDGED OR HYPOTHECATED UNLESS AND UNTIL REGISTERED UNDER THE ACT OR UNLESS THE COMPANY HAS RECEIVED AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY AND ITS COUNSEL THAT SUCH REGISTRATION IS NOT REQUIRED.

WARRANT TO PURCHASE UP TO ___ SHARES
OF COMMON STOCK OF
INHALE THERAPEUTIC SYSTEMS, INC.

This certifies that _____,or its assigns (the "Holder"), for value received, is entitled to purchase from INHALE THERAPEUTIC SYSTEMS, INC. a Delaware corporation located at 150 Industrial Road, San Carlos CA 94070 (the "Company"), a number of shares of fully paid and nonassessable shares of the Company's Common Stock ("Common Stock") as determined in accordance with Section 1 hereof, not to exceed ___ shares (the "Maximum Shares"), for cash at a price equal to $_____ (the "Stock Purchase Price") at such times as determined in accordance with Section 2 hereof and, with respect to any Vested Shares (as defined herein) prior to the earlier of (i) the closing (after the Exercise Date (as defined herein) with respect to such Vested Shares) of (A) a sale of substantially all of the assets of the Company; (B) a merger or consolidation in which the Company is not the surviving corporation (other than a merger or consolidation in which shareholders immediately before the merger or consolidation have, immediately after the merger or consolidation, greater stock voting power); (C) a reverse merger in which the Company is the surviving corporation but the shares of the Company's common stock outstanding immediately preceding the merger are converted by virtue of the merger into other property, whether in the form of securities, cash or otherwise (other than a reverse merger in which stockholders immediately before the merger have, immediately after the merger, greater stock voting power); or (D) any transaction or series of related transactions in which in excess of 50% of the Company's voting power is transferred (a "Change of Control") or (ii) six (6) years from such Exercise Date, such earlier day being referred to herein as the "Expiration Date," upon surrender to the Company at its principal office (or at such other location as the Company may advise the Holder in writing) of this Warrant properly endorsed with the Form of Subscription attached hereto duly filled in and signed and upon payment in cash or by check of the aggregate Stock Purchase Price for the number of shares for which this Warrant is being exercised determined in accordance with the provisions hereof.

Capitalized terms used herein and not defined shall have the meaning set forth in the Agreement of Limited Partnership of Inhale 201 Industrial Road, L.P. (the "Partnership Agreement"). This Warrant is subject to the following terms and conditions:

1. VESTED SHARES. At any given time, this Warrant shall be exercisable for only such number of shares of Common Stock that are "Vested Shares." At any time during the term of this Warrant, the number of Vested Shares shall be determined by the following equation:

V = (P*M) - E

Where V = the number of Vested Shares;

P = the total percentage of the Holder's (or Holder's successor in interests) General Partnership interests which have been purchased pursuant to the exercise of the Option under the Warrant Payment Alternative set forth in Section 20 of the Partnership Agreement;

M = the Maximum Shares (as adjusted pursuant to Section 6 hereof); and

E = the number of shares previously issued upon exercise of this Warrant (or any predecessor Warrant), including any additional shares canceled as a result of any exercise pursuant to Section 3 hereof, (as adjusted for stock dividends, combinations, splits and recapitalizations and the like with respect to such shares).

For purposes of example only, attached as Exhibit A hereto are hypothetical examples of the calculation of Vested Shares.

2. EXERCISE DATE. This Warrant is exercisable at the option of the holder of record hereof, at any time or from time to time after the Exercise Date with respect to the Vested Shares being acquired and prior to the Expiration Date with respect to such Vested Shares for all or any part of the Vested Shares (but not for a fraction of a share) which may be purchased hereunder. The Exercise Date with respect to any shares issuable pursuant to this Warrant shall be the date which such shares shall initially become Vested Shares. To the extent this Warrant is exercised in part, the Holder shall be deemed to have acquired those Vested Shares with the earliest Exercise Date first (provided such exercise is prior to the Expiration Date with respect to such Vested Shares).

3. NET ISSUE EXERCISE. Notwithstanding any provisions herein to the contrary, if the fair market value of one share of the Company's Common Stock is greater than the Stock Purchase Price (at the date of calculation as set forth below), in lieu of exercising this Warrant for cash, the Holder may elect to receive shares equal to the value (as determined below) of this Warrant (or the portion thereof being canceled) by surrender of this Warrant at the principal office of the Company together with the properly endorsed Form of Subscription and notice of

such election in which event the Company shall issue to the Holder a number of shares of Common Stock computed using the following formula:

$$X = \frac{Y\,(A-B)}{A}$$

Where X = the number of shares of Common Stock to be issued to the Holder

Y = the number of shares of Common Stock purchasable under the Warrant or, if only a portion of the Warrant is being exercised, the portion of the Warrant being canceled (at the date of such calculation)

A = the fair market value of one share of the Company's Common Stock (at the date of such calculation)

B = Stock Purchase Price (as adjusted to the date of such calculation)

For purposes of the above calculation, fair market value of one share of Common Stock shall be the average closing price of the Company's Common Stock for the ten trading days preceding the date of exercise.

4. EXERCISE; ISSUANCE OF CERTIFICATES; PAYMENT FOR SHARES. The Company agrees that the shares of Common Stock purchased under this Warrant shall be and are deemed to be issued to the Holder hereof as the record owner of such shares as of the close of business on the date on which this Warrant shall have been surrendered, properly endorsed, the completed, executed Form of Subscription delivered and payment made for such shares. Certificates for the shares of Common Stock so purchased, together with any other securities or property to which the Holder hereof is entitled upon such exercise, shall be delivered to the Holder hereof by the Company at the Company's expense within a reasonable time after the rights represented by this Warrant have been so exercised. In case of a purchase of less than all the shares which may be purchased under this Warrant, the Company shall cancel this Warrant and execute and deliver a new Warrant or Warrants of like tenor for the balance of the shares purchasable under the Warrant surrendered upon such purchase to the Holder hereof within a reasonable time. Each stock certificate so delivered shall be in such denominations of Common Stock as may be requested by the Holder hereof and shall be registered in the name of such Holder.

5. SHARES TO BE FULLY PAID; RESERVATION OF SHARES. The Company covenants and agrees that all shares of Common Stock which may be issued upon the exercise of the rights represented by this Warrant will, upon issuance, be duly authorized, validly issued, fully paid and nonassessable and free from all preemptive rights of any shareholder and free of all taxes, liens and charges with respect to the issue thereof. The Company further covenants and agrees that, during the period within which the rights represented by this Warrant may be exercised, the Company will at all times have authorized and reserved, for the purpose of issue or transfer upon

exercise of the subscription rights evidenced by this Warrant, a sufficient number of shares of authorized but unissued Common Stock, or other securities and property, when and as required to provide for the exercise of the rights represented by this Warrant. The Company will take all such action as may be necessary to assure that such shares of Common Stock may be issued as provided herein without violation of any applicable law or regulation, or of any requirements of any domestic securities exchange upon which the Common Stock may be listed; provided, however, that the Company shall not be required to effect a registration under Federal or State securities laws with respect to such exercise. The Company will not take any action which would result in any adjustment of the Stock Purchase Price (as set forth in Section 6 hereof) if the total number of shares of Common Stock issuable after such action upon exercise of all outstanding warrants, together with all shares of Common Stock then outstanding and all shares of Common Stock then issuable upon exercise of all options and upon the conversion of all convertible securities then outstanding, would exceed the total number of shares of Common Stock then authorized by the Company's Restated Certificate of Incorporation.

6. ADJUSTMENT OF STOCK PURCHASE PRICE AND NUMBER OF SHARES. The Stock Purchase Price and the number of shares purchasable upon the exercise of this Warrant shall be subject to adjustment from time to time upon the occurrence of certain events described in this Section 6. Upon each adjustment of the Stock Purchase Price, the Holder of this Warrant shall thereafter be entitled to purchase, at the Stock Purchase Price resulting from such adjustment, the number of shares obtained by multiplying the Stock Purchase Price in effect immediately prior to such adjustment by the number of shares purchasable pursuant hereto immediately prior to such adjustment, and dividing the product thereof by the Stock Purchase Price resulting from such adjustment.

6.1 SUBDIVISION OR COMBINATION OF COMMON STOCK. In case the Company shall at any time subdivide its outstanding shares of Common Stock into a greater number of shares, the Stock Purchase Price in effect immediately prior to such subdivision shall be proportionately reduced, and conversely, in case the outstanding shares of Common Stock of the Company shall be combined into a smaller number of shares, the Stock Purchase Price in effect immediately prior to such combination shall be proportionately increased.

6.2 DIVIDENDS IN COMMON STOCK, OTHER STOCK, PROPERTY, RECLASSIFICATION. If at any time or from time to time the holders of Common Stock (or any shares of stock or other securities at the time receivable upon the exercise of this Warrant) shall have received or become entitled to receive, without payment therefor,

(A) Common Stock or any shares of stock or other securities which are at any time directly or indirectly convertible into or exchangeable for Common Stock, or any rights or options to subscribe for, purchase or otherwise acquire any of the foregoing by way of dividend or other distribution,

(B) any cash paid or payable otherwise than as a cash dividend, or

(C) Common Stock or additional stock or other securities or property (including cash) by way of spinoff, split-up, reclassification, combination of shares or similar corporate rearrangement, (other than shares of Common Stock issued as a stock split or adjustments in respect of which shall be covered by the terms of Section 6.1 above), then and in each such case, the Holder hereof shall, upon the exercise of this Warrant, be entitled to receive, in addition to the number of shares of Common Stock receivable thereupon, and without payment of any additional consideration therefor, the amount of stock and other securities and property (including cash in the cases referred to in clause (b) above and this clause (c)) which such Holder would hold on the date of such exercise had he been the holder of record of such Common Stock as of the date on which holders of Common Stock received or became entitled to receive such shares or all other additional stock and other securities and property.

6.3 REORGANIZATION, RECLASSIFICATION, CONSOLIDATION, MERGER OR SALE. If any recapitalization, reclassification or reorganization of the capital stock of the Company, or any consolidation or merger of the Company with another corporation, or sale of all or substantially all of the Company's assets or other transaction (other than a Change in Control which occurs after the Exercise Date) shall be effected in such a way that holders of Common Stock shall be entitled to receive stock, securities, or other assets or property (an "Organic Change"), then, as a condition of such Organic Change, lawful and adequate provisions shall be made by the Company whereby the Holder hereof shall thereafter have the right to purchase and receive (in lieu of the shares of the Common Stock of the Company immediately theretofore purchasable and receivable upon the exercise of the rights represented hereby) such shares of stock, securities or other assets or property as may be issued or payable with respect to or in exchange for a number of outstanding shares of such Common Stock equal to the number of shares of such stock immediately theretofore purchasable and receivable upon the exercise of the rights represented hereby. In the event of any Organic Change, appropriate provision shall be made by the Company with respect to the rights and interests of the Holder of this Warrant to the end that the provisions hereof (including, without limitation, provisions for adjustments of the Stock Purchase Price and of the number of shares purchasable and receivable upon the exercise of this Warrant) shall thereafter be applicable, in relation to any shares of stock, securities or assets thereafter deliverable upon the exercise hereof.

6.4 CERTAIN EVENTS. If any change in the outstanding Common Stock of the Company or any other event occurs as to which the other provisions of this Section 6 are not strictly applicable or if strictly applicable would not fairly protect the purchase rights of the Holder of the Warrant in accordance with such provisions, then the Board of Directors of the Company shall make an adjustment in the number and class of shares available under the Warrant, the Stock Purchase Price or the application of such provisions, so as to protect such purchase rights as aforesaid. The adjustment shall be such as will give the Holder of the Warrant upon exercise for the same aggregate Stock Purchase Price the total number, class and kind of shares as the Holder would have owned had the Warrant been exercised prior to the event and had the Holder continued to hold such shares until after the event requiring adjustment.

6.5 NOTICES OF CHANGE. The Company shall give written notice to the Holder at least 10 business days prior to the date on which a Change of Control or Organic Change shall take place.

7. REPRESENTATIONS AND WARRANTIES OF THE HOLDER

7.1 PURCHASE FOR OWN ACCOUNT. Holder represents that it is acquiring the Warrant and the Common Stock issuable upon exercise of the Warrant (collectively, the "SECURITIES") solely for its own account and beneficial interest for investment and not for sale or with a view to distribution of the Securities or any part thereof, has no present intention of selling (in connection with a distribution or otherwise), granting any participation in, or otherwise distributing the same, and does not presently have reason to anticipate a change in such intention.

7.2 INFORMATION AND SOPHISTICATION. Holder acknowledges that it has received all the information it has requested from the Company and it considers necessary or appropriate for deciding whether to acquire the Securities. Holder represents that it has had an opportunity to ask questions and receive answers from the Company regarding the terms and conditions of the offering of the Securities and to obtain any additional information necessary to verify the accuracy of the information given the Holder. Holder further represents that it has such knowledge and experience in financial and business matters that it is capable of evaluating the merits and risk of this investment.

7.3 ABILITY TO BEAR ECONOMIC RISK. Holder acknowledges that investment in the Securities involves a high degree of risk, and represents that it is able, without materially impairing its financial condition, to hold the Securities for an indefinite period of time and to suffer a complete loss of its investment.

7.4 FURTHER LIMITATIONS ON DISPOSITION. Without in any way limiting the representations set forth above, Holder further agrees not to make any disposition of all or any portion of the Securities unless and until:

(A) There is then in effect a Registration Statement under the Act covering such proposed disposition and such disposition is made in accordance with such Registration Statement; or

(B) Holder shall have notified the Company of the proposed disposition and shall have furnished the Company with a detailed statement of the circumstances surrounding the proposed disposition, and if reasonably requested by the Company, Holder shall have furnished the Company with an opinion of counsel, reasonably satisfactory to the Company, that such disposition will not require registration under the Act or any applicable state securities laws.

(C) Notwithstanding the provisions of paragraphs (a) and (b) above, no such registration statement or opinion of counsel shall be necessary for a transfer by gift, will or

intestate succession to any spouse or lineal descendants or ancestors, if all transferees agree in writing to be subject to the terms hereof to the same extent as if they were Holder hereunder.

(D) Each certificate representing Securities shall (unless otherwise permitted by the provisions of the Agreement) be stamped or otherwise imprinted with a legend substantially similar to the following (in addition to any legend required under applicable state securities laws):

THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT") OR ANY STATE SECURITIES LAWS. SUCH SECURITIES MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED, ASSIGNED, PLEDGED OR HYPOTHECATED UNLESS AND UNTIL REGISTERED UNDER THE ACT OR UNLESS THE COMPANY HAS RECEIVED AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY AND ITS COUNSEL THAT SUCH REGISTRATION IS NOT REQUIRED.

(E) The Company shall be obligated to reissue promptly unlegended certificates at the request of any Holder if the Holder shall have obtained an opinion of counsel (which counsel may be counsel to the Company) reasonably acceptable to the Company to the effect that the Securities proposed to be disposed of may lawfully be so disposed of without registration, qualification or legend. The Company shall pay the reasonable fees and expenses of such counsel in rendering such opinion, not to exceed $5,000.

7.5 ACCREDITED INVESTOR STATUS. Holder is an "ACCREDITED INVESTOR" as such term is defined in Rule 501 of Regulation D promulgated under the Act.

7.6 FURTHER ASSURANCES. Holder agrees and covenants that at any time and from time to time it will promptly execute and deliver to the Company such further instruments and documents and take such further action as the Company may reasonably require in order to carry out the full intent and purpose of this Agreement.

8. ISSUE TAX. The issuance of certificates for shares of Common Stock upon the exercise of the Warrant shall be made without charge to the Holder of the Warrant for any issue tax (other than any applicable income taxes) in respect thereof; provided, however, that the Company shall not be required to pay any tax which may be payable in respect of any transfer involved in the issuance and delivery of any certificate in a name other than that of the then Holder of the Warrant being exercised.

9. CLOSING OF BOOKS. The Company will at no time close its transfer books against the transfer of any warrant or of any shares of Common Stock issued or issuable upon the exercise of any warrant in any manner which interferes with the timely exercise of this Warrant.

10. NO VOTING OR DIVIDEND RIGHTS; LIMITATION OF LIABILITY. Nothing contained in this Warrant shall be construed as conferring upon the Holder hereof the right to vote or to consent or to receive notice as a shareholder of the Company or any other matters or any rights whatsoever as a shareholder of the Company. No dividends or interest shall be payable or accrued in respect of this Warrant or the interest represented hereby or the shares purchasable hereunder until, and only to the extent that, this Warrant shall have been exercised. No provisions hereof, in the absence of affirmative action by the Holder to purchase shares of Common Stock, and no mere enumeration herein of the rights or privileges of the holder hereof, shall give rise to any liability of such Holder for the Stock Purchase Price or as a shareholder of the Company, whether such liability is asserted by the Company or by its creditors.

11. MARKET STAND-OFF AGREEMENT. Holder shall not sell, dispose of, transfer, make any short sale of, grant any option for the purchase of, or enter into any hedging or similar transaction with the same economic effect as a sale, any Common Stock or other securities of the Company held by Holder, (the "Restricted Securities"), for a period of time specified by the managing underwriter (not to exceed one hundred eighty (180) days) following the effective date of a registration statement of the Company filed under the Act. Holder agrees to execute and deliver such other agreements as may be reasonably requested by the Company and/or the managing underwriter which are consistent with the foregoing or which are necessary to give further effect thereto. In order to enforce the foregoing covenant, the Company may impose stop-transfer instructions with respect to Holder's Restricted Securities until the end of such period.

12. WARRANTS TRANSFERABLE. Subject to compliance with applicable federal and state securities laws, this Warrant and all rights hereunder are transferable, in whole or in part, without charge to the holder hereof (except for transfer taxes), upon surrender of this Warrant properly endorsed. Each taker and holder of this Warrant, by taking or holding the same, consents and agrees that this Warrant, when endorsed in blank, shall be deemed negotiable, and that the holder hereof, when this Warrant shall have been so endorsed, may be treated by the Company, at the Company's option, and all other persons dealing with this Warrant as the absolute owner hereof for any purpose and as the person entitled to exercise the rights represented by this Warrant, or to the transfer hereof on the books of the Company any notice to the contrary notwithstanding; but until such transfer on such books, the Company may treat the registered owner hereof as the owner for all purposes.

13. RIGHTS AND OBLIGATIONS SURVIVE EXERCISE OF WARRANT. The rights and obligations of the Company, of the holder of this Warrant and of the holder of shares of Common Stock issued upon exercise of this Warrant, shall survive the exercise of this Warrant.

14. MODIFICATION AND WAIVER. This Warrant and any provision hereof may be changed, waived, discharged or terminated only by an instrument in writing signed by the party against which enforcement of the same is sought.

15. NOTICES. Any notice, request or other document required or permitted to be given or delivered to the holder hereof or the Company shall be delivered or shall be sent by certified mail, postage prepaid, to each such holder at its address as shown on the books of the Company or to the Company at the address indicated therefor in the first paragraph of this Warrant or such other address as either may from time to time provide to the other.

16. BINDING EFFECT ON SUCCESSORS. To the extent then exercisable, this Warrant shall be binding upon any corporation succeeding the Company by merger, consolidation or acquisition of all or substantially all of the Company's assets. All of the obligations of the Company relating to the Common Stock issuable upon the exercise of this Warrant shall survive the exercise and termination of this Warrant. All of the covenants and agreements of the Company shall inure to the benefit of the successors and assigns of the holder hereof.

17. DESCRIPTIVE HEADINGS AND GOVERNING LAW. The description headings of the several sections and paragraphs of this Warrant are inserted for convenience only and do not constitute a part of this Warrant. This Warrant shall be construed and enforced in accordance with, and the rights of the parties shall be governed by, the laws of the State of California.

18. LOST WARRANTS. The Company represents and warrants to the Holder hereof that upon receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction, or mutilation of this Warrant and, in the case of any such loss, theft or destruction, upon receipt of an indemnity reasonably satisfactory to the Company, or in the case of any such mutilation upon surrender and cancellation of such Warrant, the Company, at its expense, will make and deliver a new Warrant, of like tenor, in lieu of the lost, stolen, destroyed or mutilated Warrant.

19. FRACTIONAL SHARES. No fractional shares shall be issued upon exercise of this Warrant. The Company shall, in lieu of issuing any fractional share, pay the holder entitled to such fraction a sum in cash equal to such fraction multiplied by the then effective Stock Purchase Price.

20. EXCHANGE ACT REPORTING. The Company covenants that it shall file any reports required to be filed by it under the Securities Exchange Act of 1934 and that it shall take such further action as any Holder may reasonably request, all to the extent required from time to time to enable Holder to sell Common Stock without registration under the Act within the limitations of the exemption provided by Rule 144 promulgated under the Act. Upon the request of any Holder, the Company shall deliver to such Holder, so long as Holder owns any of the Securities, a written statement as to whether it has complied with such requirements.

[THIS SPACE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the Company and Holder have caused this Warrant to be duly executed by their officers, thereunto duly authorized this _____ day of September, 2000.

INHALE THERAPEUTIC SYSTEMS, INC.
a Delaware corporation

By:_____

Title:_____

ATTEST:

_____
Secretary

AGREED AND ACCEPTED

_____

By:_____

Title:_____

SUBSCRIPTION FORM

Date: _____, 20___

Inhale Therapeutic Systems, Inc.
150 Industrial Way
San Carlos, CA 94070

Attn: President

Ladies and Gentlemen:

/_/ The undersigned hereby elects to exercise the warrant issued to it by Inhale Therapeutic Systems, Inc. (the "Company") and dated September _____, 2000 Warrant No. CW-___ (the "Warrant") and to purchase thereunder _____ shares of the Common Stock of the Company (the "Shares") at a purchase price of _____ Dollars ($_____) per Share or an aggregate purchase price of _____ Dollars ($_____) (the "Purchase Price").

Pursuant to the terms of the Warrant the undersigned has delivered the Stock Purchase Price herewith in full in cash or by certified check or wire transfer.

/_/ The undersigned hereby elects to convert _____ percent (____%) of the value of the Warrant pursuant to the provisions of Section 3 of the Warrant.

Very truly yours,

_____

By:_____

Title:_____

EXHIBIT A

VESTED SHARES CALCULATION SCENARIOS

ASSUMPTION: 1,000 SHARE WARRANT

SCENARIO 1

Step 1: Inhale purchases 10% of GP interests and GP elects the Warrant Payment Alternative

Step 2: Inhale subsequently purchases another 30% of the GP interests and GP elects the Warrant Payment Alternative

RESULT:

After Step 1, the number of Vested Shares equals 100 shares

V = (P*M) - E
100 = (.10*1,000)-0

(note E=0 as no shares have been issued upon exercise of Warrant)

After Step 2, the number of Vested Shares equals 400 shares

V = (P*M) - E
400 = (.40*1,000)-0

(note E remains 0 as no shares have been issued upon exercise of Warrant)

SCENARIO 2

Step 1: Inhale purchases 10% of GP interests and GP elects the Warrant Payment Alternative

Step 2: GP exercises Warrant for 50% of the then Vested Shares

Step 3: Inhale subsequently purchases another 30% of the GP interests and GP elects the Warrant Payment Alternative

RESULT:

After Step 1, the number of Vested Shares equals 100 shares

V = (P*M) - E
100 = (.10*1,000)-0

(note E=0 as no shares have been issued upon exercise of Warrant)

After Step 2, the number of Vested Shares equals 50 shares

V = (P*M) - E
50 = (.10*1,000)-50

(note E=50 as 50 shares have been issued upon exercise of Warrant)

After Step 3, the number of Vested Shares equals 350 shares

V = (P*M) - E
350 = (.40*1,000)-50

(note E=50 as 50 shares have been issued upon exercise of Warrant)

SCENARIO 3

ADDITIONAL ASSUMPTIONS:
$50.00 EXERCISE PRICE

$100.00 AVERAGE CLOSING PRICE FOR 10 DAYS PRECEDING EXERCISE

Step 1: Inhale purchases 10% of GP interests and GP elects the Warrant Payment Alternative

Step 2: GP exercises Warrant for 50% of the then Vested Shares via Net Issue Election

Step 3: Inhale subsequently purchases another 30% of the GP interests and GP elects the Warrant Payment Alternative

RESULT:

After Step 1, the number of Vested Shares equals 100 shares

$$V = (P*M) - E$$
$$100 = (.10*1,000)-0$$

(note E=0 as no shares have been issued upon exercise of Warrant)

Upon Exercise of Warrant (Step 2), GP is issued 25 shares

$$X = \frac{Y (A-B)}{A}$$

$$25 = \frac{50 * (100-50)}{100}$$

(note that as result of Net Issue Election, 25 shares are cancelled)

After Step 2, the number of Vested Shares equals 50 shares

$$V = (P*M) - E$$
$$50 = (.10*1,000)-50$$

(note E=50 as 50 shares have been issued (including cancelled shares) upon exercise of Warrant)

After Step 3, the number of Vested Shares equals 350 shares

$$V = (P*M) - E$$
$$350 = (.40*1,000)-50$$

(note E=50 as 50 shares have been issued (including cancelled shares) upon exercise of Warrant)

INHALE THERAPEUTIC SYSTEMS, INC.

2000 EQUITY INCENTIVE PLAN

ADOPTED FEBRUARY 10, 1994
APPROVED BY SHAREHOLDERS FEBRUARY 18, 1994
AMENDED MARCH 27, 1996
AMENDED AND RESTATED BY BOARD APRIL 24, 1998
APPROVED BY SHAREHOLDERS JUNE 23, 1998
AMENDED AND RESTATED BY BOARD APRIL 19, 2000
APPROVED BY SHAREHOLDERS JUNE 6, 2000

TERMINATION DATE: FEBRUARY 9, 2010

1. PURPOSES.

(a) AMENDMENT AND RESTATEMENT. The 1994 Equity Incentive Plan initially was adopted on February 10, 1994 and amended and restated on April 24, 1998 (the "1994 Plan"). The 1994 Plan hereby is amended and restated in its entirety, effective upon adoption by the Board, and renamed the "2000 Equity Incentive Plan." The terms of the Plan shall apply to all Stock Awards granted pursuant to the Initial Plan.

(b) ELIGIBLE STOCK AWARD RECIPIENTS. The persons eligible to receive Stock Awards are the Employees, Directors and Consultants of the Company and its Affiliates.

(c) AVAILABLE STOCK AWARDS. The purpose of the Plan is to provide a means by which eligible recipients of Stock Awards may be given an opportunity to benefit from increases in value of the Common Stock through the granting of the following Stock Awards: (i) Incentive Stock Options, (ii) Nonstatutory Stock Options, (iii) stock bonuses and (iv) rights to acquire restricted stock.

(d) GENERAL PURPOSE. The Company, by means of the Plan, seeks to retain the services of the group of persons eligible to receive Stock Awards, to secure and retain the services of new members of this group and to provide incentives for such persons to exert maximum efforts for the success of the Company and its Affiliates.

2. DEFINITIONS.

(a) "AFFILIATE" means any parent corporation or subsidiary corporation of the Company, whether now or hereafter existing, as those terms are defined in Sections 424(e) and (f), respectively, of the Code.

(b) "BOARD" means the Board of Directors of the Company.

(c) "CODE" means the Internal Revenue Code of 1986, as amended.

(d) "COMMITTEE" means a Committee appointed by the Board in accordance with subsection 3(c).

(e) "COMMON STOCK" means the common stock of the Company.

(f) "COMPANY" means Inhale Therapeutic Systems, Inc., a Delaware corporation (formerly Inhale Therapeutic Systems, a California corporation).

(g) "CONSULTANT" means any person, including an advisor, (1) engaged by the Company or an Affiliate to render consulting or advisory services and who is compensated for such services or (2) who is a member of the Board of Directors of an Affiliate. However, the term "Consultant" shall not include either Directors of the Company who are not compensated by the Company for their services as Directors or Directors of the Company who are merely paid a director's fee by the Company for their services as Directors.

(h) "CONTINUOUS SERVICE" means that the Participant's service with the Company or an Affiliate, whether as an Employee, Director or Consultant, is not interrupted or terminated. The Participant's Continuous Service shall not be deemed to have terminated merely because of a change in the capacity in which the Participant renders service to the Company or an Affiliate as an Employee, Consultant or Director or a change in the entity for which the Participant renders such service, provided that there is no interruption or termination of the Participant's Continuous Service. For example, a change in status from an Employee of the Company to a Consultant of an Affiliate or a Director of the Company will not constitute an interruption of Continuous Service. The Board or the chief executive officer of the Company, in that party's sole discretion, may determine whether Continuous Service shall be considered interrupted in the case of any leave of absence approved by that party, including sick leave, military leave or any other personal leave.

(i) "COVERED EMPLOYEE" means the chief executive officer and the four (4) other highest compensated officers of the Company for whom total compensation is required to be reported to stockholders under the Exchange Act, as determined for purposes of Section 162(m) of the Code.

(j) "DIRECTOR" means a member of the Board of Directors of the Company.

(k) "DISABILITY" means the permanent and total disability of a person within the meaning of Section 22(e)(3) of the Code.

(l) "EMPLOYEE" means any person employed by the Company or an Affiliate. Mere service as a Director or payment of a director's fee by the Company or an Affiliate shall not be sufficient to constitute "employment" by the Company or an Affiliate.

(m) "EXCHANGE ACT" means the Securities Exchange Act of 1934, as amended.

(n) "FAIR MARKET VALUE" means, as of any date, the value of the Common Stock determined as follows:

(i) If the Common Stock is listed on any established stock exchange or traded on the Nasdaq National Market System or the Nasdaq SmallCap Market, the Fair Market Value of a share of Common Stock shall be the closing sales price for such stock (or the closing bid, if no sales were reported) as quoted on such exchange or market (or the exchange or market with the greatest volume of trading in the Common Stock) on the last market trading day prior to the day of determination, as reported in The Wall Street Journal or such other source as the Board deems reliable.

(ii) In the absence of such markets for the Common Stock, the Fair Market Value shall be determined in good faith by the Board.

(o) "INCENTIVE STOCK OPTION" means an Option intended to qualify as an incentive stock option within the meaning of Section 422 of the Code and the regulations promulgated thereunder.

(p) "NON-EMPLOYEE DIRECTOR" means a Director of the Company who either (i) is not a current Employee or Officer of the Company or its parent or a subsidiary, does not receive compensation (directly or indirectly) from the Company or its parent or a subsidiary for services rendered as a consultant or in any capacity other than as a Director (except for an amount as to which disclosure would not be required under Item 404(a) of Regulation S-K promulgated pursuant to the Securities Act ("Regulation S-K")), does not possess an interest in any other transaction as to which disclosure would be required under Item 404(a) of Regulation S-K and is not engaged in a business relationship as to which disclosure would be required under Item 404(b) of Regulation S-K; or (ii) is otherwise considered a "non-employee director" for purposes of Rule 16b-3.

(q) "NONSTATUTORY STOCK OPTION" means an Option not intended to qualify as an Incentive Stock Option.

(r) "OFFICER" means a person who is an officer of the Company within the meaning of Section 16 of the Exchange Act and the rules and regulations promulgated thereunder.

(s) "OPTION" means an Incentive Stock Option or a Nonstatutory Stock Option granted pursuant to the Plan.

(t) "OPTION AGREEMENT" means a written agreement between the Company and an Optionholder evidencing the terms and conditions of an individual Option grant. Each Option Agreement shall be subject to the terms and conditions of the Plan.

(u) "OPTIONHOLDER" OR "OPTIONEE" means a person to whom an Option is granted pursuant to the Plan or, if applicable, such other person who holds an outstanding Option.

(v) "OUTSIDE DIRECTOR" means a Director of the Company who either (i) is not a current employee of the Company or an "affiliated corporation" (within the meaning of Treasury Regulations promulgated under Section 162(m) of the Code), is not a former employee of the Company or an "affiliated corporation" receiving compensation for prior services (other than

benefits under a tax qualified pension plan), was not an officer of the Company or an "affiliated corporation" at any time and is not currently receiving direct or indirect remuneration from the Company or an "affiliated corporation" for services in any capacity other than as a Director or (ii) is otherwise considered an "outside director" for purposes of Section 162(m) of the Code.

(w) "PARTICIPANT" means a person to whom a Stock Award is granted pursuant to the Plan or, if applicable, such other person who holds an outstanding Stock Award.

(x) "PLAN" means this Inhale Therapeutic Systems 2000 Equity Incentive Plan.

(y) "RULE 16b-3" means Rule 16b-3 promulgated under the Exchange Act or any successor to Rule 16b-3, as in effect from time to time.

(z) "SECURITIES ACT" means the Securities Act of 1933, as amended.

(aa) "STOCK AWARD" means any right granted under the Plan, including an Option, a stock bonus and a right to acquire restricted stock.

(bb) "STOCK AWARD AGREEMENT" means a written agreement between the Company and a holder of a Stock Award evidencing the terms and conditions of an individual Stock Award grant. Each Stock Award Agreement shall be subject to the terms and conditions of the Plan.

(cc) "TEN PERCENT STOCKHOLDER" means a person who owns (or is deemed to own pursuant to Section 424(d) of the Code) stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or of any of its Affiliates.

3. ADMINISTRATION.

(a) ADMINISTRATION BY BOARD. The Board will administer the Plan unless and until the Board delegates administration to a Committee, as provided in subsection 3(c).

(b) POWERS OF BOARD. The Board shall have the power, subject to, and within the limitations of, the express provisions of the Plan:

(i) To determine from time to time which of the persons eligible under the Plan shall be granted Stock Awards; when and how each Stock Award shall be granted; what type or combination of types of Stock Award shall be granted; the provisions of each Stock Award granted (which need not be identical), including the time or times when a person shall be permitted to receive stock pursuant to a Stock Award; and the number of shares with respect to which a Stock Award shall be granted to each such person.

(ii) To construe and interpret the Plan and Stock Awards granted under it, and to establish, amend and revoke rules and regulations for its administration. The Board, in the exercise of this power, may correct any defect, omission or inconsistency in the Plan or in any Stock Award Agreement, in a manner and to the extent it shall deem necessary or expedient to make the Plan fully effective.

(iii) To amend the Plan or a Stock Award as provided in Section 12.

(iv) Generally, to exercise such powers and to perform such acts as the Board deems necessary or expedient to promote the best interests of the Company which are not in conflict with the provisions of the Plan.

(c) DELEGATION TO COMMITTEE.

(i) GENERAL. The Board may delegate administration of the Plan to a Committee or Committees of one (1) or more members of the Board, and the term "Committee" shall apply to any person or persons to whom such authority has been delegated. If administration is delegated to a Committee, the Committee shall have, in connection with the administration of the Plan, the powers theretofore possessed by the Board, including the power to delegate to a subcommittee any of the administrative powers the Committee is authorized to exercise (and references in this Plan to the Board shall thereafter be to the Committee or subcommittee), subject, however, to such resolutions, not inconsistent with the provisions of the Plan, as may be adopted from time to time by the Board. The Board may abolish the Committee at any time and revest in the Board the administration of the Plan.

(ii) COMMITTEE COMPOSITION WHEN COMMON STOCK IS PUBLICLY TRADED. At such time as the Common Stock is publicly traded, in the discretion of the Board, a Committee may consist solely of two or more Outside Directors, in accordance with Section 162(m) of the Code, and/or solely of two or more Non-Employee Directors, in accordance with Rule 16b-3. Within the scope of such authority, the Board or the Committee may (i) delegate to a committee of one or more members of the Board who are not Outside Directors, the authority to grant Stock Awards to eligible persons who are either (a) not then Covered Employees and are not expected to be Covered Employees at the time of recognition of income resulting from such Stock Award or (b) not persons with respect to whom the Company wishes to comply with Section 162(m) of the Code and/or (ii) delegate to a committee of one or more members of the Board who are not Non-Employee Directors the authority to grant Stock Awards to eligible persons who are not then subject to Section 16 of the Exchange Act.

(d) EFFECT OF BOARD'S DECISION. All determinations, interpretations and constructions made by the Board in good faith shall not be subject to review by any person and shall be final, binding and conclusive on all persons.

4. SHARES SUBJECT TO THE PLAN.

(a) SHARE RESERVE. Subject to the provisions of Section 11 relating to adjustments upon changes in stock, the stock that may be issued pursuant to Stock Awards shall not exceed in the aggregate Five Million One Hundred Seventy-five Thousand (5,175,000) shares of Common Stock.

(b) REVERSION OF SHARES TO THE SHARE RESERVE. If any Stock Award shall for any reason expire or otherwise terminate, in whole or in part, without having been exercised in full (or vested in the case of Restricted Stock), the stock not acquired under such Stock Award shall

revert to and again become available for issuance under the Plan. If any unvested Common Stock acquired pursuant to a Stock Award is repurchased by the Company, the unvested stock repurchased by the Company shall revert to and again become available for issuance under the Plan for all Stock Awards other than Incentive Stock Options.

(c) SOURCE OF SHARES. The stock subject to the Plan may be unissued shares or reacquired shares, bought on the market or otherwise.

5. ELIGIBILITY.

(a) ELIGIBILITY FOR SPECIFIC STOCK AWARDS. Incentive Stock Options may be granted only to Employees. Stock Awards other than Incentive Stock Options may be granted to Employees, Directors and Consultants.

(b) TEN PERCENT STOCKHOLDERS. No Ten Percent Stockholder shall be eligible for the grant of an Incentive Stock Option unless the exercise price of such Option is at least one hundred ten percent (110%) of the Fair Market Value of the Common Stock at the date of grant and the Option is not exercisable after the expiration of five (5) years from the date of grant.

(c) SECTION 162(m) LIMITATION. Subject to the provisions of Section 11 relating to adjustments upon changes in stock, no employee shall be eligible to be granted Options covering more than four hundred thousand (400,000) shares of the Common Stock during any calendar year.

(d) CONSULTANTS. A Consultant shall not be eligible for the grant of a Stock Award if, at the time of grant, a Form S-8 Registration Statement under the Securities Act ("Form S-8") is not available to register either the offer or the sale of the Company's securities to such Consultant because of the nature of the services that the Consultant is providing to the Company, or because the Consultant is not a natural person, or as otherwise provided by the rules governing the use of Form S-8, unless the Company determines both (i) that such grant (A) shall be registered in another manner under the Securities Act (E.G., on a Form S-3 Registration Statement) or (B) does not require registration under the Securities Act in order to comply with the requirements of the Securities Act, if applicable, and (ii) that such grant complies with the securities laws of all other relevant jurisdictions.(1)

6. OPTION PROVISIONS.

Each Option shall be in such form and shall contain such terms and conditions as the Board shall deem appropriate. All Options shall be separately designated Incentive Stock Options or Nonstatutory Stock Options at the time of grant, and a separate certificate or certificates will be issued for shares purchased on exercise of each type of Option. The provisions of separate Options need not be identical, but each Option shall include (through

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(1) Form S-8 generally is available to consultants and advisors only if (i) they are natural persons; (ii) they provide bona fide services to the issuer, its parents, its majority-owned subsidiaries or majority-owned subsidiaries of the issuer's parent; and (iii) the services are not in connection with the offer or sale of securities in a capital-raising transaction, and do not directly or indirectly promote or maintain a market for the issuer's securities.

incorporation of provisions hereof by reference in the Option or otherwise) the substance of each of the following provisions:

(a) TERM. Subject to the provisions of subsection 5(b) regarding Ten Percent Stockholders, no Incentive Stock Option shall be exercisable after the expiration of ten (10) years from the date it was granted.

(b) EXERCISE PRICE OF AN INCENTIVE STOCK OPTION. Subject to the provisions of subsection 5(b) regarding Ten Percent Stockholders, the exercise price of each Incentive Stock Option shall be not less than one hundred percent (100%) of the Fair Market Value of the stock subject to the Option on the date the Option is granted. Notwithstanding the foregoing, an Incentive Stock Option may be granted with an exercise price lower than that set forth in the preceding sentence if such Option is granted pursuant to an assumption or substitution for another option in a manner satisfying the provisions of Section 424(a) of the Code.

(c) EXERCISE PRICE OF A NONSTATUTORY STOCK OPTION. The exercise price of each Nonstatutory Stock Option shall be not less than eighty-five percent (85%) of the Fair Market Value of the stock subject to the Option on the date the Option is granted. Notwithstanding the foregoing, a Nonstatutory Stock Option may be granted with an exercise price lower than that set forth in the preceding sentence if such Option is granted pursuant to an assumption or substitution for another option in a manner satisfying the provisions of Section 424(a) of the Code.

(d) CONSIDERATION.

(i) The purchase price of stock acquired pursuant to an Option shall be paid, to the extent permitted by applicable statutes and regulations, either (A) in cash at the time the Option is exercised or (B) at the discretion of the Board at the time of the grant of the Option (or subsequently in the case of a Nonstatutory Stock Option) by delivery to the Company of other Common Stock, according to a deferred payment or other similar arrangement (which may include, without limiting the generality of the foregoing, the use of other Common Stock) with the Participant or in any other form of legal consideration that may be acceptable to the Board; provided, however, that at any time that the Company is incorporated in Delaware, payment of the Common Stock's "par value," as defined in the Delaware General Corporation Law, shall not be made by deferred payment.

(ii) Unless otherwise specifically provided in the Option, the purchase price of Common Stock acquired pursuant to an Option that is paid by delivery to the Company of other Common Stock acquired, directly or indirectly from the Company, shall be paid only by shares of the Common Stock of the Company that have been held for more than six (6) months (or such longer or shorter period of time required to avoid a charge to earnings for financial accounting purposes).

(iii) In the case of any deferred payment arrangement, interest shall be compounded at least annually and shall be charged at the minimum rate of interest necessary to

avoid the treatment as interest, under any applicable provisions of the Code, of any amounts other than amounts stated to be interest under the deferred payment arrangement.

(e) TRANSFERABILITY OF AN INCENTIVE STOCK OPTION. An Incentive Stock Option shall not be transferable except by will or by the laws of descent and distribution and shall be exercisable during the lifetime of the Optionholder only by the Optionholder. Notwithstanding the foregoing provisions of this subsection 6(e), the Optionholder may, by delivering written notice to the Company, in a form satisfactory to the Company, designate a third party who, in the event of the death of the Optionholder, shall thereafter be entitled to exercise the Option.

(f) TRANSFERABILITY OF A NONSTATUTORY STOCK OPTION. A Nonstatutory Stock Option shall be transferable to the extent provided in the Option Agreement. If the Nonstatutory Stock Option does not provide for transferability, then the Nonstatutory Stock Option shall not be transferable except by will or by the laws of descent and distribution and shall be exercisable during the lifetime of the Optionholder only by the Optionholder. Notwithstanding the foregoing provisions of this subsection 6(f), the Optionholder may, by delivering written notice to the Company, in a form satisfactory to the Company, designate a third party who, in the event of the death of the Optionholder, shall thereafter be entitled to exercise the Option.

(g) VESTING GENERALLY. The total number of shares of Common Stock subject to an Option may, but need not, vest and therefore become exercisable in periodic installments which may, but need not, be equal. The Option may be subject to such other terms and conditions on the time or times when it may be exercised (which may be based on performance or other criteria) as the Board may deem appropriate. The vesting provisions of individual Options may vary. The provisions of this subsection 6(g) are subject to any Option provisions governing the minimum number of shares as to which an Option may be exercised.

(h) TERMINATION OF CONTINUOUS SERVICE. In the event an Optionholder's Continuous Service terminates (other than upon the Optionholder's death or Disability), the Optionholder may exercise his or her Option (to the extent that the Optionholder was entitled to exercise it as of the date of termination) but only within such period of time ending on the earlier of (i) the date three (3) months following the termination of the Optionholder's Continuous Service (or such longer or shorter period specified in the Option Agreement), or (ii) the expiration of the term of the Option as set forth in the Option Agreement. If, after termination, the Optionholder does not exercise his or her Option within the time specified in the Option Agreement, the Option shall terminate.

(i) EXTENSION OF TERMINATION DATE. An Optionholder's Option Agreement may also provide that if the exercise of the Option following the termination of the Optionholder's Continuous Service (other than upon the Optionholder's death or Disability) would be prohibited at any time solely because the issuance of shares would violate the registration requirements under the Securities Act, then the Option shall terminate on the earlier of (i) the expiration of the term of the Option set forth in subsection 6(a) or (ii) the expiration of a period of three (3) months (or such longer or shorter period specified in the Option Agreement) after the termination of the Optionholder's Continuous Service during which the exercise of the Option would not be in violation of such registration requirements.

(j) DISABILITY OF OPTIONHOLDER. In the event an Optionholder's Continuous Service terminates as a result of the Optionholder's Disability, the Optionholder may exercise his or her Option (to the extent that the Optionholder was entitled to exercise it as of the date of termination), but only within such period of time ending on the earlier of (i) the date twelve (12) months following such termination (or such longer or shorter period specified in the Option Agreement) or (ii) the expiration of the term of the Option as set forth in the Option Agreement. If, after termination, the Optionholder does not exercise his or her Option within the time specified herein, the Option shall terminate.

(k) DEATH OF OPTIONHOLDER. In the event an Optionholder's Continuous Service terminates as a result of the Optionholder's death, then, subject to any restrictions in the Option Agreement, the Option shall become fully vested and exercisable as of the date of termination. In the event (i) an Optionholder's Continuous Service terminates as a result of the Optionholder's death or (ii) the Optionholder dies within the period (if any) specified in the Option Agreement after the termination of the Optionholder's Continuous Service for a reason other than death, then the Option may be exercised (to the extent the Optionholder was entitled to exercise the Option as of the date of death) by the Optionholder's estate, by a person who acquired the right to exercise the Option by bequest or inheritance or by a person designated to exercise the Option upon the Optionholder's death pursuant to subsection 6(e) or 6(f), but only within the period ending on the earlier of (1) the date eighteen (18) months following the date of death (or such longer or shorter period specified in the Option Agreement) or (2) the expiration of the term of such Option as set forth in the Option Agreement. If, after death, the Option is not exercised within the time specified herein, the Option shall terminate.

(l) EARLY EXERCISE. The Option may, but need not, include a provision whereby the Optionholder may elect at any time before the Optionholder's Continuous Service terminates to exercise the Option as to any part or all of the shares subject to the Option prior to the full vesting of the Option. Any unvested shares so purchased may be subject to an unvested share repurchase option in favor of the Company or to any other restriction the Board determines to be appropriate.

7. PROVISIONS OF STOCK AWARDS OTHER THAN OPTIONS.

(a) STOCK BONUS AWARDS. Each stock bonus agreement shall be in such form and shall contain such terms and conditions as the Board shall deem appropriate. The terms and conditions of stock bonus agreements may change from time to time, and the terms and conditions of separate stock bonus agreements need not be identical, but each stock bonus agreement shall include (through incorporation of provisions hereof by reference in the agreement or otherwise) the substance of each of the following provisions:

(b) CONSIDERATION. A stock bonus shall be awarded in consideration for past services actually rendered to the Company for its benefit.

(c) VESTING. Shares of Common Stock awarded under the stock bonus agreement may, but need not, be subject to a share repurchase option in favor of the Company in accordance with a vesting schedule to be determined by the Board.

(d) TERMINATION OF PARTICIPANT'S CONTINUOUS SERVICE. In the event a Participant's Continuous Service terminates, the Company may reacquire any or all of the shares of Common Stock held by the Participant that have not vested as of the date of termination under the terms of the stock bonus agreement; provided, however, that in the event a Participant's Continuous Service terminates as a result of the Participant's death, then, subject to any restrictions in the stock bonus agreement, the shares acquired pursuant to the stock bonus agreement shall become fully vested as of the date of termination.

(e) TRANSFERABILITY. Rights to acquire shares under the stock bonus agreement shall be transferable by the Participant only upon such terms and conditions as are set forth in the stock bonus agreement, as the Board shall determine in its discretion, so long as stock awarded under the stock bonus agreement remains subject to the terms of the stock bonus agreement.

(f) RESTRICTED STOCK AWARDS. Each restricted stock purchase agreement shall be in such form and shall contain such terms and conditions as the Board shall deem appropriate. The terms and conditions of the restricted stock purchase agreements may change from time to time, and the terms and conditions of separate restricted stock purchase agreements need not be identical, but each restricted stock purchase agreement shall include (through incorporation of provisions hereof by reference in the agreement or otherwise) the substance of each of the following provisions:

(g) PURCHASE PRICE. The purchase price under each restricted stock purchase agreement shall be such amount as the Board shall determine and designate in such restricted stock purchase agreement. The purchase price shall not be less than eighty-five percent (85%) of the stock's Fair Market Value on the date such award is made or at the time the purchase is consummated.

(h) CONSIDERATION. The purchase price of stock acquired pursuant to the restricted stock purchase agreement shall be paid either: (i) in cash at the time of purchase; (ii) at the discretion of the Board, according to a deferred payment or other similar arrangement with the Participant; or (iii) in any other form of legal consideration that may be acceptable to the Board in its discretion; provided, however, that at any time that the Company is incorporated in Delaware, payment of the Common Stock's "par value," as defined in the Delaware General Corporation Law, shall not be made by deferred payment.

(i) VESTING. Shares of Common Stock acquired under the restricted stock purchase agreement may, but need not, be subject to a share repurchase option in favor of the Company in accordance with a vesting schedule to be determined by the Board.

(j) TERMINATION OF PARTICIPANT'S CONTINUOUS SERVICE. In the event a Participant's Continuous Service terminates, the Company may repurchase or otherwise reacquire any or all of the shares of Common Stock held by the Participant that have not vested as of the date of termination under the terms of the restricted stock purchase agreement; provided, however, that in the event a Participant's Continuous Service terminates as a result of the Participant's death, then, subject to any restrictions in the restricted stock purchase agreement, the shares acquired

pursuant to the restricted stock purchase agreement shall become fully vested as of the date of termination.

(k) TRANSFERABILITY. Rights to acquire shares under the restricted stock purchase agreement shall be transferable by the Participant only upon such terms and conditions as are set forth in the restricted stock purchase agreement, as the Board shall determine in its discretion, so long as stock awarded under the restricted stock purchase agreement remains subject to the terms of the restricted stock purchase agreement.

8. COVENANTS OF THE COMPANY.

(a) AVAILABILITY OF SHARES. During the terms of the Stock Awards, the Company shall keep available at all times the number of shares of Common Stock required to satisfy such Stock Awards.

(b) SECURITIES LAW COMPLIANCE. The Company shall seek to obtain from each regulatory commission or agency having jurisdiction over the Plan such authority as may be required to grant Stock Awards and to issue and sell shares of Common Stock upon exercise of the Stock Awards; provided, however, that this undertaking shall not require the Company to register under the Securities Act the Plan, any Stock Award or any stock issued or issuable pursuant to any such Stock Award. If, after reasonable efforts, the Company is unable to obtain from any such regulatory commission or agency the authority which counsel for the Company deems necessary for the lawful issuance and sale of stock under the Plan, the Company shall be relieved from any liability for failure to issue and sell stock upon exercise of such Stock Awards unless and until such authority is obtained.

9. USE OF PROCEEDS FROM STOCK.

Proceeds from the sale of stock pursuant to Stock Awards shall constitute general funds of the Company.

10. MISCELLANEOUS.

(a) ACCELERATION OF EXERCISABILITY AND VESTING. The Board shall have the power to accelerate the time at which a Stock Award may first be exercised or the time during which a Stock Award or any part thereof will vest in accordance with the Plan, notwithstanding the provisions in the Stock Award stating the time at which it may first be exercised or the time during which it will vest.

(b) STOCKHOLDER RIGHTS. No Participant shall be deemed to be the holder of, or to have any of the rights of a holder with respect to, any shares subject to such Stock Award unless and until such Participant has satisfied all requirements for exercise of the Stock Award pursuant to its terms.

(c) NO EMPLOYMENT OR OTHER SERVICE RIGHTS. Nothing in the Plan or any instrument executed or Stock Award granted pursuant thereto shall confer upon any Participant or other

holder of Stock Awards any right to continue to serve the Company or an Affiliate in the capacity in effect at the time the Stock Award was granted or shall affect the right of the Company or an Affiliate to terminate (i) the employment of an Employee with or without notice and with or without cause, (ii) the service of a Consultant pursuant to the terms of such Consultant's agreement with the Company or an Affiliate or (iii) the service of a Director pursuant to the Bylaws of the Company or an Affiliate, and any applicable provisions of the corporate law of the state in which the Company or the Affiliate is incorporated, as the case may be.

(d) INCENTIVE STOCK OPTION $100,000 LIMITATION. To the extent that the aggregate Fair Market Value (determined at the time of grant) of stock with respect to which Incentive Stock Options are exercisable for the first time by any Optionholder during any calendar year (under all plans of the Company and its Affiliates) exceeds one hundred thousand dollars ($100,000), the Options or portions thereof which exceed such limit (according to the order in which they were granted) shall be treated as Nonstatutory Stock Options.

(e) INVESTMENT ASSURANCES. The Company may require a Participant, as a condition of exercising or acquiring stock under any Stock Award, (i) to give written assurances satisfactory to the Company as to the Participant's knowledge and experience in financial and business matters and/or to employ a purchaser representative reasonably satisfactory to the Company who is knowledgeable and experienced in financial and business matters and that he or she is capable of evaluating, alone or together with the purchaser representative, the merits and risks of exercising the Stock Award; and (ii) to give written assurances satisfactory to the Company stating that the Participant is acquiring the stock subject to the Stock Award for the Participant's own account and not with any present intention of selling or otherwise distributing the stock. The foregoing requirements, and any assurances given pursuant to such requirements, shall be inoperative if (iii) the issuance of the shares upon the exercise or acquisition of stock under the Stock Award has been registered under a then currently effective registration statement under the Securities Act or (iv) as to any particular requirement, a determination is made by counsel for the Company that such requirement need not be met in the circumstances under the then applicable securities laws. The Company may, upon advice of counsel to the Company, place legends on stock certificates issued under the Plan as such counsel deems necessary or appropriate in order to comply with applicable securities laws, including, but not limited to, legends restricting the transfer of the stock.

(f) WITHHOLDING OBLIGATIONS. To the extent provided by the terms of a Stock Award Agreement, the Participant may satisfy any federal, state or local tax withholding obligation relating to the exercise or acquisition of stock under a Stock Award by any of the following means (in addition to the Company's right to withhold from any compensation paid to the Participant by the Company) or by a combination of such means: (i) tendering a cash payment; (ii) authorizing the Company to withhold shares from the shares of the Common Stock otherwise issuable to the Participant as a result of the exercise or acquisition of stock under the Stock Award, provided, however, that no shares of Common Stock are withheld with a value exceeding the minimum amount of tax required to be withheld by law; or (iii) delivering to the Company owned and unencumbered shares of the Common Stock.

11. ADJUSTMENTS UPON CHANGES IN STOCK.

(a) CAPITALIZATION ADJUSTMENTS. If any change is made in the stock subject to the Plan, or subject to any Stock Award, without the receipt of consideration by the Company (through merger, consolidation, reorganization, recapitalization, reincorporation, stock dividend, dividend in property other than cash, stock split, liquidating dividend, combination of shares, exchange of shares, change in corporate structure or other transaction not involving the receipt of consideration by the Company), the Plan will be appropriately adjusted in the class(es) and maximum number of securities subject to the Plan pursuant to subsection 4(a) and the maximum number of securities subject to award to any person pursuant to subsection 5(c), and the outstanding Stock Awards will be appropriately adjusted in the class(es) and number of securities and price per share of stock subject to such outstanding Stock Awards. Such adjustments shall be made by the Board, the determination of which shall be final, binding and conclusive. (The conversion of any convertible securities of the Company shall not be treated as a transaction "without receipt of consideration" by the Company.)

(b) DISSOLUTION OR LIQUIDATION. In the event of a dissolution or liquidation of the Company, then such Stock Awards shall be terminated if not exercised (if applicable) prior to such event.

(c) CORPORATE TRANSACTION. In the event of (1) a sale, lease or other disposition of all or substantially all of the assets of the Company, (2) a merger or consolidation in which the Company is not the surviving corporation or (3) a reverse merger in which the Company is the surviving corporation but the shares of Common Stock outstanding immediately preceding the merger are converted by virtue of the merger into other property, whether in the form of securities, cash or otherwise (a "Corporate Transaction"), then any surviving corporation or acquiring corporation shall assume any Stock Awards outstanding under the Plan or shall substitute similar stock awards (including an award to acquire the same consideration paid to the stockholders in the Corporate Transaction) for those outstanding under the Plan. In the event any surviving corporation or acquiring corporation refuses to assume such Stock Awards or to substitute similar stock awards for those outstanding under the Plan, then with respect to Stock Awards held by Participants whose Continuous Service has not terminated, the vesting of such Stock Awards (and, if applicable, the time during which such Stock Awards may be exercised) shall be accelerated in full, and the Stock Awards shall terminate if not exercised (if applicable) at or prior to such Corporate Transaction. With respect to any other Stock Awards outstanding under the Plan, such Stock Awards shall terminate if not exercised (if applicable) prior to such Corporate Transaction.

(d) SECURITIES ACQUISITION. In the event of an acquisition by any person, entity or group within the meaning of Section 13(d) or 14(d) of the Exchange Act, or any comparable successor provisions (excluding any employee benefit plan, or related trust, sponsored or maintained by the Company or an Affiliate) of the beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act, or comparable successor rule) of securities of the Company representing at least fifty percent (50%) of the combined voting power entitled to vote in the election of Directors and provided that such acquisition is not a result of, and does not

constitute, a Corporate Transaction described in subsection 11(c) hereof, then with respect to Stock Awards held by Participants whose Continuous Service has not terminated, the vesting of such Stock Awards (and, if applicable, the time during which such Stock Awards may be exercised) shall be accelerated in full.

12. AMENDMENT OF THE PLAN AND STOCK AWARDS.

(a) AMENDMENT OF PLAN. The Board at any time, and from time to time, may amend the Plan. However, except as provided in Section 11 relating to adjustments upon changes in stock, no amendment shall be effective unless approved by the stockholders of the Company to the extent stockholder approval is necessary to satisfy the requirements of Section 422 of the Code, Rule 16b-3 or any Nasdaq or securities exchange listing requirements.

(b) STOCKHOLDER APPROVAL. The Board may, in its sole discretion, submit any other amendment to the Plan for stockholder approval, including, but not limited to, amendments to the Plan intended to satisfy the requirements of Section 162(m) of the Code and the regulations thereunder regarding the exclusion of performance-based compensation from the limit on corporate deductibility of compensation paid to certain executive officers.

(c) CONTEMPLATED AMENDMENTS. It is expressly contemplated that the Board may amend the Plan in any respect the Board deems necessary or advisable to provide eligible Employees with the maximum benefits provided or to be provided under the provisions of the Code and the regulations promulgated thereunder relating to Incentive Stock Options and/or to bring the Plan and/or Incentive Stock Options granted under it into compliance therewith.

(d) NO IMPAIRMENT OF RIGHTS. Rights under any Stock Award granted before amendment of the Plan shall not be impaired by any amendment of the Plan unless (i) the Company requests the consent of the Participant and (ii) the Participant consents in writing.

(e) AMENDMENT OF STOCK AWARDS. The Board at any time, and from time to time, may amend the terms of any one or more Stock Awards; provided, however, that the rights under any Stock Award shall not be impaired by any such amendment unless (i) the Company requests the consent of the Participant and (ii) the Participant consents in writing.

13. TERMINATION OR SUSPENSION OF THE PLAN.

(a) PLAN TERM. The Board may suspend or terminate the Plan at any time. Unless sooner terminated, the Plan shall terminate on February 9, 2010. No Stock Awards may be granted under the Plan while the Plan is suspended or after it is terminated.

(b) NO IMPAIRMENT OF RIGHTS. Rights and obligations under any Stock Award granted while the Plan is in effect shall not be impaired by suspension or termination of the Plan, except with the written consent of the Participant.

14. EFFECTIVE DATE OF PLAN.

The Plan shall become effective upon adoption by the Board, but no Stock Award shall be exercised (or, in the case of a stock bonus, shall be granted) unless and until the Plan has been approved by the stockholders of the Company, which approval shall be within twelve (12) months before or after the date the Plan is adopted by the Board.

15. CHOICE OF LAW.

The law of the State of Delaware shall govern all questions concerning the construction, validity and interpretation of this Plan, without regard to such state's conflict of laws rules.

INHALE THERAPEUTIC SYSTEMS, INC.
2000 EQUITY INCENTIVE PLAN

STOCK OPTION AGREEMENT

Pursuant to the Stock Option Notice ("Option Notice") and this Stock Option Agreement, Inhale Therapeutic Systems, Inc. (the "Company") has granted you an option under its 2000 Equity Incentive Plan (the "Plan") to purchase the number of shares of the Company's Common Stock indicated in the Option Notice at the exercise price indicated in the Option Notice. Defined terms not explicitly defined in this Stock Option Agreement but defined in the Plan shall have the same definitions as in the Plan.

The details of your option are as follows:

1. VESTING. Subject to the limitations contained herein, your option will vest as provided in the Option Notice, provided that vesting will cease upon the termination of your Continuous Service.

2. NUMBER OF SHARES AND EXERCISE PRICE. The number of shares subject to your option and your exercise price per share referenced in the Option Notice may be adjusted from time to time for capitalization adjustments, as provided in the Plan.

3. METHOD OF PAYMENT. Payment of the exercise price is due in full upon exercise of all or any part of your option. You may elect to make payment of the exercise price in one or more of the following forms:

(a) In cash or by check;

(b) In the Company's sole discretion at the time your option is exercised and provided that at the time of exercise the Common Stock is publicly traded and quoted regularly in THE WALL STREET JOURNAL, pursuant to a program developed under Regulation T as promulgated by the Federal Reserve Board which, prior to the issuance of Common Stock, results in either the receipt of cash (or check) by the Company or the receipt of irrevocable instructions to pay the aggregate exercise price to the Company from the sales proceeds; or

(c) Provided that at the time of exercise the Common Stock is publicly traded and quoted regularly in THE WALL STREET JOURNAL, by delivery of already-owned shares of Common Stock, held for the period required to avoid a charge to the Company's reported earnings (generally six months) or were not acquired, directly or indirectly from the Company, owned free and clear of any liens, claims, encumbrances or security interests, and valued at its Fair Market Value on the date of exercise. "Delivery" for these purposes, in the sole discretion of the Company at the time your option is exercised, shall include delivery to the Company of your attestation of ownership of such shares of Common Stock in a form approved by the Company. Notwithstanding the foregoing, your option may not be exercised by tender to the Company of Common Stock to the extent such tender would constitute a violation of the

provisions of any law, regulation or agreement restricting the redemption of the Company's stock.

4. SECURITIES LAW COMPLIANCE. Notwithstanding anything to the contrary contained herein, your option may not be exercised unless the shares issuable upon exercise of your option are then registered under the Securities Act or, if such shares are not then so registered, the Company has determined that such exercise and issuance would be exempt from the registration requirements of the Securities Act. The exercise of your option must also comply with other applicable laws and regulations governing the option, and the option may not be exercised if the Company determines that the exercise would not be in material compliance with such laws and regulations.

5. TERM. The term of your option commences on the Grant Date and expires upon the EARLIEST of the following:

(a) three (3) months after the termination of your Continuous Service for any reason other than death or Disability, provided that if during any part of such three (3)-month period the option is not exercisable solely because of the condition set forth in paragraph 6, the option shall not expire until the earlier of the Expiration Date indicated on the Option Notice or until it shall have been exercisable for an aggregate period of three (3) months after the termination of your Continuous Service;

(b) twelve (12) months after the termination of your Continuous Service due to Disability;

(c) eighteen (18) months after your death if you die either during your Continuous Service or within three (3) months after your Continuous Service terminates;

(d) the Expiration Date indicated in the Option Notice; or

(e) the tenth (10th) anniversary of the Grant Date.

Note, if your option is an incentive stock option, to obtain the federal income tax advantages associated with an "incentive stock option," the Code requires that at all times beginning on the date of grant of your option and ending on the day three (3) months before the date of your option's exercise, you must be an employee of the Company or an Affiliate, except in the event of your death or Disability. The Company has provided for extended exercisability of your option under certain circumstances for your benefit but cannot guarantee that your option will necessarily be treated as an "incentive stock option" if you continue to provide services to the Company or an Affiliate as a Consultant or Director after your employment terminates or if you otherwise exercise your option more than three (3) months after the date your employment terminates.

6. EXERCISE.

(a) You may exercise the vested portion of your option during its term by delivering a Notice of Exercise (in a form designated by the Company) together with the exercise price to the Secretary of the Company, or to such other person as the Company may designate, during regular business hours, together with such additional documents as the Company may then require.

(b) By exercising your option you agree that, as a condition to any exercise of your option, the Company may require you to enter an arrangement providing for the payment by you to the Company of any tax withholding obligation of the Company arising by reason of (1) the exercise of your option, (2) the lapse of any substantial risk of forfeiture to which the shares are subject at the time of exercise, or (3) the disposition of shares acquired upon such exercise.

(c) If your option is an incentive stock option, by exercising your option you agree that you will notify the Company in writing within fifteen (15) days after the date of any disposition of any of the shares of the Common Stock issued upon exercise of your option that occurs within two (2) years after the date of your option grant or within one (1) year after such shares of Common Stock are transferred upon exercise of your option.

7. TRANSFERABILITY. Your option is not transferable, except by will or by the laws of descent and distribution, and is exercisable during your life only by you. Notwithstanding the foregoing, by delivering written notice to the Company, in a form satisfactory to the Company, you may designate a third party who, in the event of your death, shall thereafter be entitled to exercise your option.

8. OPTION NOT A SERVICE CONTRACT. Your option is not an employment or service contract, and nothing in your option shall be deemed to create in any way whatsoever any obligation on your part to continue in the employ of the Company or an Affiliate, or of the Company or an Affiliate to continue your employment. In addition, nothing in your option shall obligate the Company or an Affiliate, their respective shareholders, Boards of Directors, Officers or Employees to continue any relationship that you might have as a Consultant for the Company or an Affiliate.

9. WITHHOLDING OBLIGATIONS.

(a) At the time your option is exercised, in whole or in part, or at any time thereafter as requested by the Company, you hereby authorize withholding from payroll and any other amounts payable to you, and otherwise agree to make adequate provision for (including by means of a "cashless exercise" pursuant to a program developed under Regulation T as promulgated by the Federal Reserve Board to the extent permitted by the Company), any sums required to satisfy the federal, state, local and foreign tax withholding obligations of the Company or an Affiliate, if any, which arise in connection with your option.

(b) Upon your request and subject to approval by the Company, in its sole discretion, and compliance with any applicable conditions or restrictions of law, the Company

may withhold from fully vested shares of Common Stock otherwise issuable to you upon the exercise of your option a number of whole shares having a Fair Market Value, determined by the Company as of the date of exercise, not in excess of the minimum amount of tax required to be withheld by law. Shares shall be withheld solely from fully vested shares of Common Stock determined as of the date of exercise of your option that are otherwise issuable to you upon such exercise. Any adverse consequences to you arising in connection with such share withholding procedure shall be your sole responsibility.

(c) Your option is not exercisable unless the tax withholding obligations of the Company and/or any Affiliate are satisfied. Accordingly, you may not be able to exercise your option when desired even though your option is vested, and the Company shall have no obligation to issue a certificate for such shares or release such shares from any escrow provided for herein.

10. NOTICES. Any notices provided for in your option or the Plan shall be given in writing and shall be deemed effectively given upon receipt or, in the case of notices delivered by the Company to you, five (5) days after deposit in the United States mail, postage prepaid, addressed to you at the last address you provided to the Company.

11. GOVERNING PLAN DOCUMENT. Your option is subject to all the provisions of the Plan, the provisions of which are hereby made a part of your option, and is further subject to all interpretations, amendments, rules and regulations which may from time to time be promulgated and adopted pursuant to the Plan. In the event of any conflict between the provisions of your option and those of the Plan, the provisions of the Plan shall control.

CONTRIBUTION AGREEMENT

BY AND AMONG

INHALE THERAPEUTIC SYSTEMS INC.
A DELAWARE CORPORATION,

INHALE 201 INDUSTRIAL ROAD, L.P.
A CALIFORNIA LIMITED PARTNERSHIP

AND

BERNARDO PROPERTY ADVISORS, INC.
A CALIFORNIA CORPORATION

SEPTEMBER __, 2000

PROJECT:

201 INDUSTRIAL ROAD
SAN CARLOS, CALIFORNIA

AGREEMENT FOR THE CONTRIBUTION
OF THE
201 INDUSTRIAL ROAD PROJECT
SAN CARLOS, CALIFORNIA

THIS AGREEMENT FOR THE CONTRIBUTION OF 201 INDUSTRIAL ROAD PROJECT (this "AGREEMENT") is made and entered into as September __, 2000 by and among INHALE THERAPEUTIC SYSTEMS INC., a Delaware corporation ("CONTRIBUTOR"), INHALE 201 INDUSTRIAL ROAD, L.P., a California limited partnership ("PARTNERSHIP") and BERNARDO PROPERTY ADVISORS, INC., a California corporation ("BPA").

RECITALS

A. Contributor owns certain real property currently partially improved with a building being constructed thereon, situated at 201 Industrial Road, San Carlos, California, legally described on Exhibit A attached hereto (the "REAL PROPERTY"). Contributor also owns certain contract rights, plans, drawings, specifications and reports used in connection with the ownership and improvement of the Real Property and construction of the Project (defined below), including without limitation Contributor's interest in and rights under the Construction Contracts (the "INTANGIBLE PROPERTY"). The Real Property and the Intangible Property are sometimes referred to collectively herein as the "PROPERTY."

B. Pursuant to this Agreement, Contributor shall contribute the Property to Partnership and Partnership shall grant a 49.0% limited partnership interest in Partnership to Contributor.

C. On the Closing Date, Partnership, as "Landlord," and Contributor as "Tenant" shall enter into a Build-to-Suit Lease Agreement in the form attached hereto as Exhibit B (the "LEASE"). Pursuant to the Lease and the plans, specifications, and other documents contemplated by the Lease or otherwise incorporated into the Lease (collectively with the Lease, the "LEASE DOCUMENTS"), Partnership will construct and/or complete certain improvements on the Real Property, including (i) two connected four-story buildings containing an aggregate of approximately 390,000 square feet, consisting of approximately 171,965 square feet of rentable area and two lower stories primarily of parking for the foregoing buildings as well as for adjacent property currently leased and occupied by Contributor located at 150 Industrial Road; (ii) site improvements; and (iii) certain other improvements, all as set forth in the Lease Documents (collectively, the "PROJECT").

D. Partnership now desires to accept from Contributor and Contributor desires to contribute to Partnership, the Property, on and subject to the terms and conditions contained in this Agreement.

AGREEMENT

NOW, THEREFORE, Partnership and Contributor do hereby agree as follows:

ARTICLE I

BASIC DEFINITIONS

Unless the context otherwise specifies or requires for the purpose of this Agreement, all words and phrases having their initial letters capitalized herein shall have the meanings set forth below:

ASSIGNMENT OF INTANGIBLE PROPERTY. The term "Assignment of Intangible Property" shall have the meaning assigned to such term in Section 6.1(a)(iii) of this Agreement.

BROKER. The term "Broker" shall mean BT Commercial (represented by Gregg Domanico).

CALIFORNIA CERTIFICATE. The term "California Certificate" shall have the meaning assigned to such term in Section 6.1(a)(v) of this Agreement.

CLOSING DATE. The term "Closing Date" shall mean a date as soon as possible and mutually agreeable to Partnership and Contributor for the close of escrow, but in no event shall the close of escrow with respect to the contribution of the Property be later than September __, 2000.

CONSTRUCTION CONTRACTS. The term "Construction Contracts" shall refer collectively to the following contracts, entered into by Contributor and to be assigned to Partnership on the Closing Date: (a) Dowler-Gruman Architects contract dated March 16, 1999, (b) Dowler-Gruman Architects contract dated July 18, 2000, (c) South Bay Construction contract dated August 24, 1999, and (d) Rudolph & Sletten contract dated March 14, 2000.

CONSTRUCTION COSTS. The term "Construction Costs" shall have the meaning assigned to such term in Section 2.2 of this Agreement.

CONSTRUCTION FINANCING. The term "Construction Financing" shall refer to the loan or loans to be secured by deed(s) of trust on the Real Property in the approximate aggregate amount of $51,500,000 to be obtained by Partnership in order to construct the Project.

CONTRACT PERIOD. The term "Contract Period" shall mean the period from the date of this Agreement through and including the Closing Date.

CONTRIBUTOR'S INITIAL CAPITAL ACCOUNT. The term "Contributor's Initial Capital Account" shall have the meaning assigned to such term in Section 2.2.

DEED. The term "Deed" shall have the meaning assigned to such term in Section 6.1(a)(i) of this Agreement.

DEPOSIT. The term "Deposit" shall have the meaning assigned to such term in Article V of this Agreement.

FIRPTA CERTIFICATE. The term "FIRPTA Certificate" shall have the meaning assigned to such term in Section 6.1(a)(vi) of this Agreement.

HAZARDOUS SUBSTANCE. The term "Hazardous Substance" shall have the meaning set forth in Section 25359.7 of the California Health and Safety Code.

INTANGIBLE PROPERTY. The term "Intangible Property" shall have the meaning assigned to such term in Recital A of this Agreement.

LEASE. The term "Lease" shall have the meaning assigned to such term in Recital C of this Agreement.

LEASE DOCUMENTS. The term "Lease Documents" shall have the meaning assigned to such term in Recital C of this Agreement.

LIMITATION PERIOD. The term "Limitation Period" shall have the meaning assigned to such term in Section 4.4(a) of this Agreement.

MEMORANDUM OF LEASE. The term "Memorandum of Lease" shall have the meaning assigned to such term in Section 6.1(a)(ii) of this Agreement.

MEMORANDUM OF PARKING LEASE. The term "Memorandum of Parking Lease" shall have the meaning assigned to such term in Section 6.1(a)(iv) of this Agreement.

OWNER'S POLICY. The term "Owner's Policy" shall have the meaning assigned to such term in Section 3.1(a)(i) of this Agreement.

PARKING LEASE. The term "Parking Lease" shall have the meaning assigned to such term in Section 6.1(a)(iv) of this Agreement.

PERMITTED EXCEPTIONS. The term "Permitted Exceptions" shall have the meaning assigned to such term in Section 2.4 of this Agreement.

PROJECT. The term "Project" shall have the meaning assigned to such term in Recital C of this Agreement.

PROPERTY. The term "Property" shall mean the Real Property and the Intangible Property collectively.

REAL ESTATE COMPENSATION. The term "Real Estate Compensation" shall have the meaning assigned to such term in Section 7.2 of this Agreement.

REAL PROPERTY. The term "Real Property" shall have the meaning assigned to such term in Recital A.

TITLE COMPANY. The term "Title Company" shall mean Chicago Title Company, 189 El Camino Real, San Carlos, California 94070.

ARTICLE II

CONTRIBUTION

SECTION 2.1 CONTRIBUTION AND ACCEPTANCE. Contributor agrees to contribute the Property to Partnership, and Partnership agrees to accept the Property upon and subject to all of the terms, covenants and conditions set forth in this Agreement.

SECTION 2.2 CONTRIBUTOR'S INITIAL CAPITAL ACCOUNT; REIMBURSEMENT OF CONSTRUCTION COSTS. In consideration for its contribution of the Property to Partnership, Contributor will receive a 49.0% limited partnership interest in Partnership with an initial capital account of Twelve Million Dollars ($12,000,000) ("CONTRIBUTOR'S INITIAL CAPITAL ACCOUNT"). In addition, Contributor shall be reimbursed by Partnership in the amount of all costs and expenses incurred or paid for by Contributor up through the Closing Date in connection with the planning, permitting and construction of the building currently being constructed on the Real Property, or the Project, including, without limitation, both hard and soft costs and off-site and on-site improvements to the Real Property ("CONSTRUCTION COSTS") through the escrow described in Section 6.1 below. A schedule of Construction Costs as of the date hereof is set forth on Schedule 2.2, attached hereto and incorporated herein. A revised and updated Schedule 2.2 shall be prepared and substituted for the Schedule 2.2 currently attached hereto prior to Closing.

SECTION 2.3 PARTNERSHIP'S REVIEW AND CONTRIBUTOR'S DISCLAIMER.

(a) Heretofore, Partnership has made a complete review and inspection of the physical, legal, economic and environmental condition of the Property and the Real Property, including, without limitation, the status of the construction currently taking place on the Real Property, any leases and contracts affecting the Property or the Real Property, books and records maintained by Contributor or its agents relating to the Property or the Real Property, boundary and other survey-related issues relating to the Property or the Real Property, pest control matters, soil condition, asbestos, PCB, hazardous waste, toxic substance or other environmental matters, compliance with building, health, safety, land use and zoning laws, regulations and orders, plans and specifications, structural, life safety, HVAC and other building system and engineering characteristics, traffic patterns and all other information pertaining to the Property or the Real Property. Partnership acknowledges (i) that Partnership has entered into this Agreement with the intention of making and relying upon its own investigation of the physical, environmental, economic and legal condition of the Property, and (ii) that Partnership is not relying upon any representations and warranties, other than those specifically set forth in Section 4.1 below, made by Contributor or anyone acting or claiming to act on Contributor's behalf concerning the Property. Partnership further acknowledges that it has not received from Contributor and in any event is not relying on any accounting, tax, legal, architectural, engineering, property management or other advice with respect to this transaction, and is relying solely upon the advice of its own accounting, tax, legal, architectural, engineering, property management and other advisors. Partnership specifically undertakes and assumes all risks associated with all matters disclosed by Contributor to Partnership in writing. Subject to the provisions of Section 4.1 of this Agreement, Partnership shall accept the Property in its "AS-IS" condition on the Closing

Date and assumes the risk that adverse physical, environmental, economic or legal conditions may not have been revealed by its investigation.

(b) BPA shall indemnify, defend and hold Contributor harmless from all loss, cost, and expense resulting from any entry or inspections performed by BPA, its agents, contractors or representatives (exclusive of the financial effects of the discovery, if any, of the presence of any Hazardous Substances), which obligation shall survive, for a period of three hundred and sixty five (365) days following Partnership's acquisition of the Real Property or termination of this Agreement.

SECTION 2.4 PERMITTED TITLE EXCEPTIONS. Partnership has obtained and reviewed the condition of title to the Real Property and agrees that, for purposes of this Agreement, the following shall be deemed "PERMITTED EXCEPTIONS": those matters listed on Schedule B to that certain preliminary title report issued by Title Company dated as of August 2, 2000 under its number 112977-WEW. Notwithstanding anything to the contrary in this Agreement, Contributor agrees that it shall cause to be removed (i) any exceptions reflecting monetary obligations incurred by Contributor, with the understanding that nothing in this sentence shall be deemed to relieve Partnership from reimbursing Contributor for the Construction Costs that are a part of the Contributor's Initial Capital Account, pursuant to Section 2.2, above and (ii) monetary encumbrances not created by Contributor, but which, in the aggregate, require $200,000 or less to remove.

ARTICLE III

CONDITIONS PRECEDENT

SECTION 3.1 CONDITIONS.

(a) Notwithstanding anything in this Agreement to the contrary, Partnership's obligation to accept the Property shall be subject to and contingent upon the satisfaction of the following conditions precedent on or before the Closing Date, any or all of which may be waived by Partnership in its sole discretion:

(i) The willingness of Title Company to issue its American Land Title Association extended coverage Owner's Policy of Title Insurance [1992 Form] (the "Owner's Policy"), insuring Partnership in the amount of $60,000,000 that title to the Real Property is vested of record in Partnership on the Closing Date, subject only to the standard printed conditions and exceptions of such policy and to the Permitted Exceptions;

(ii) Contributor's execution and delivery of the Lease on the Closing Date;

(iii) All of the representations and warranties of Contributor contained in this Agreement shall be true and correct in all material respects as of the Closing Date;

(iv) The physical condition of the Real Property shall be in as good a condition substantially on the Closing Date as on the date of this Agreement, construction progress, reasonable wear and tear excepted;

(v) No proceeding shall have been commenced against Contributor under the federal Bankruptcy Code or any state law for relief of debtors;

(vi) Partnership shall have obtained the Construction Financing on rates and terms acceptable to Partnership and Contributor, in their reasonable discretion; the Title Company shall be prepared to issue any title policy required by the lender under the Construction Financing ("Lender"), including any endorsements to said policy; and funding under the Construction Financing shall close simultaneously with the Closing.

(b) Notwithstanding anything in this Agreement to the contrary, Contributor's obligation to transfer the Property shall be subject to and contingent upon the satisfaction of the following conditions precedent on or before the Closing Date, any or all of which may be waived by Contributor in its sole discretion:

(i) The satisfaction or Partnership's written waiver of the condition set forth in Section 3.1 (a)(i) above;

(ii) Partnership's execution and delivery of the Lease on the Closing Date;

(iii) All of the representations and warranties of Partnership contained in this Agreement shall be true and correct in all material respects as of the Closing Date; and

(iv) Partnership shall have obtained the Construction Financing on rates and terms acceptable to Partnership and Contributor, in their reasonable discretion; the Title Company shall be prepared to issue any title policy required by the Lender, including any endorsements to said policy; and funding under the Construction Financing shall close simultaneously with the Closing.

SECTION 3.2 FAILURE OR WAIVER OF CONDITIONS PRECEDENT. In the event any of the conditions set forth in Section 3.1 are not fulfilled or waived, the party benefited by such condition may, by written notice to the other party, terminate this Agreement, whereupon all rights and obligations hereunder of each party shall be at an end. In the event this Agreement is terminated as a result of the failure of any condition set forth in Section 3.1, Contributor shall return the full amount of the Deposit to Partnership. In any event, Partnership's consent to the close of escrow pursuant to this Agreement shall waive any remaining unfulfilled conditions.

ARTICLE IV

COVENANTS, WARRANTIES AND REPRESENTATIONS

SECTION 4.1 CONTRIBUTOR'S WARRANTIES AND REPRESENTATIONS. Contributor hereby makes the following representations and warranties to Partnership as of the date of this Agreement; provided that each of such representations and warranties shall be deemed to be modified by any contrary or qualifying information contained in any reports, schedules or other informational materials delivered to Partnership on or before the date of this Agreement:

(a) Contributor has, and as of the Closing shall have, full power and lawful authority to enter into and carry out the terms and provisions of this Agreement and to execute and deliver all documents which are contemplated by this Agreement, and all actions of Contributor necessary to confer such power and authority upon the persons executing this Agreement (and all documents which are contemplated by this Agreement) on behalf of Contributor have been taken;

(b) To Contributor's knowledge, Contributor has received, no written notice from any governmental authorities that eminent domain proceedings for the condemnation of the Real Property are pending;

(c) To Contributor's knowledge, Contributor has received no written notice of any threatened or pending litigation, arbitration, unsatisfied orders or judgments, governmental investigations or proceedings against Contributor or affecting the Real Property which would materially affect the Real Property or Contributor's capacity to perform under its Agreement;

(d) Contributor is not a "foreign person" within the meaning of Section 1445(f)(3) of the Internal Revenue Code; and

(e) To Contributor's knowledge, Contributor has received no written notice from any governmental authority that the Real Property or any of the improvements located on the Real Property are presently in violation of any applicable building codes, zoning or land use laws, or other law, order, ordinance, rule or regulation affecting the Real Property.

(f) No proceedings under any federal or state bankruptcy or insolvency laws have been commenced by or against Contributor which have not been terminated; no general assignment for the benefit of creditors has been made by Contributor; and no trustee or receiver of Contributor's property has been appointed.

(g) To Contributor's knowledge, Contributor has not received any written notice or information regarding the Real Property's failure to comply with or violation of any restrictive easements or covenants affecting the Real Property.

(h) There are no leases affecting the Real Property other than as contemplated hereby;

(i) To Contributor's knowledge (i) there has not been any release of any Hazardous Substance on or beneath the Real Property in violation of any applicable law, and (ii) Contributor has received no written notice of any violation of claimed violation of any law, rule, or regulation relating to Hazardous Substances;

(j) To Contributor's knowledge, title to the Real Property is not subject to any liens or encumbrances (including mechanics' liens) including, without limitation, liens or claims for delinquent taxes, and security agreements and pledges, except for those exceptions to title shown in the preliminary title report or the other Permitted Exceptions;

(k) Except for the Construction Contracts or agreements terminable at will without penalty or premium or as specified in this Agreement (including, without limitation, the

Permitted Exceptions), Contributor has not entered into any agreements or understandings concerning the Real Property by which Partnership would be bound following the Closing Date;

(l) To Contributor's knowledge, there are no taxes, assessments (special, general or otherwise) or bonds of any nature assessed against the Real Property, or any portion thereof, except as disclosed in the preliminary title report for the Real Property;

(m) To Contributor's knowledge, all utilities for servicing the Real Property are on site and paid current;

(n) To Contributor's knowledge, there are no existing, proposed, or contemplated plans to widen, modify or realign any street or highway which affects the size of, use of, or set-backs on the Real Property except as disclosed in writing to Partnership;

(o) Each Construction Contract constitutes a true, correct and complete copy of such Construction Contract. There are no material commitments or agreements affecting the Real Property which would survive Closing which have not been disclosed by Contributor to Partnership in writing;

(p) To Contributor's knowledge, Contributor is not in default of Contributor's obligations or liabilities pertaining to the Real Property or the Construction Contracts, nor, to Contributor's knowledge, are there facts, circumstances, conditions or events which, after notice or lapse of time, would constitute a default. Contributor has not received notice or information that any party to any of the Construction Contracts considers a breach or default to have occurred;

(q) The schedule of Construction Costs listed on Schedule 2.2 attached hereto is true, correct and complete;

(r) To Contributor's knowledge, all storm water flowing from the Real Property drains either into a public drainage system through easements or permitted locations for the benefit of the Real Property, except as disclosed in writing to Partnership;

(s) To Contributor's knowledge, there are no conditions which would materially and adversely affect the Real Property or any part thereof or Partnership's intended use and development thereof.

As used herein, the term "CONTRIBUTOR'S KNOWLEDGE" or words of similar effect shall mean the current actual, subjective knowledge of Sharron Reiss-Miller. Neither Sharron Reiss-Miller nor any party other than Contributor shall bear responsibility for any breach of representation. Contributor, however, represents and warrants that Sharron Reiss-Miller is the individual with principal administrative and oversight responsibility for the Real Property.

SECTION 4.2 CONTRIBUTOR'S COVENANTS. Contributor hereby covenants and agrees as follows:

(a) During the Contract Period, Contributor shall comply with its obligations under the Construction Contracts and shall ensure that the Real Property is operated and

maintained in a manner consistent with current practices and maintain reasonable and customary levels and coverages of insurance and Contributor shall not create or acquiesce in the creation of liens or exceptions to title other than the Permitted Exceptions or voluntarily take any action to render any of the representations or warranties of Contributor set forth in Section 4.1 materially incorrect.

(b) During the Contract Period Contributor shall (i) remove the Real Property from the market, and (ii) cease and refrain from any and all negotiations with any other parties relating to any disposition of the Real Property;

(c) Except as referred to in Recital C and in accordance with the Construction Contracts, Contributor shall not take any actions with respect to modifying the proposed development of the Real Property, including, without limitation, applying for, pursuing, accepting or obtaining any permits, approvals or other development entitlements from any governmental or other regulatory entities or finalizing or entering into any agreements relating thereto without the prior written consent of Partnership (which consent may be granted or withheld in Partnership's reasonable discretion);

(d) Contributor shall not enter into, extend, renew or replace any existing Construction Contract in respect of the Real Property other than a contract for the construction of tenant improvements without the prior written consent of Partnership (which consent may be withheld in Partnership's reasonable discretion), unless the same shall be cancelable without penalty or premium, upon not more than thirty (30) days' notice from the owner of the Real Property and Contributor shall immediately notify Partnership of any such extension, renewal or replacement.

(e) Contributor shall promptly notify Partnership of any change in any condition with respect to the Real Property or any portion thereof or of any event or circumstance of which Contributor becomes aware subsequent to the date of this Agreement which (a) materially and adversely affects the Real Property or any portion thereof or the use or operation of the Real Property or any portion thereof, (b) makes any representation or warranty of Contributor to Partnership under this Agreement untrue or misleading, or (c) makes any covenant or agreement of Contributor under this Agreement incapable or less likely of being performed. It is expressly understood that Contributor's obligation to provide information to Partnership under this Section 4.2 shall in no way relieve Contributor of any liability for a breach by Contributor of any of its representations, warranties, covenants or agreements under this Agreement.

SECTION 4.3 PARTNERSHIP'S WARRANTIES AND REPRESENTATIONS. Partnership hereby represents and warrants to Contributor that (a) Partnership has and as of the Closing Date shall have, full power and lawful authority to enter into and carry out the terms and conditions of this Agreement and to execute and deliver all documents which are contemplated by this Agreement, (b) all actions necessary to confer such power and authority upon the persons executing this Agreement and all documents which are contemplated by this Agreement to be executed on behalf of Partnership or its assignee have been taken, and (c) Partnership has received no written notice of any threatened or pending litigation which would materially affect Partnership's capacity to perform under this Agreement.

SECTION 4.4 LIMITATIONS.

(a) The parties agree that (i) Contributor's representations and warranties set forth in Sections 4.1(a) and 4.1(d) and 4.1(f) shall survive Contributor's Contribution of the Real Property, (ii) all other warranties and representations of Contributor contained in this Agreement shall survive Contributor's contribution of the Real Property only for a period of 365 days after the Closing Date (the "LIMITATION PERIOD"), (ii) Contributor's aggregate liability for claims arising out of such representations and warranties shall not exceed $50,000 and (iii) Partnership shall provide actual written notice to Contributor of any breach of such warranties or representations and shall allow Contributor 30 days within which to cure such breach, or, if such breach cannot reasonably be cured within 30 days, an additional reasonable time period, so long as such cure has been commenced within such 30 days and diligently pursued. If Contributor fails to cure such breach after actual written notice and within such cure period, Partnership's sole remedy shall be an action at law for damages as a consequence thereof, which must be commenced, if at all, within the Limitation Period (except with respect to a breach of the Sections 4.1(a), (d) or (f)); provided, however, that if within the Limitation Period Partnership gives Contributor written notice of such a breach and Contributor commences to cure and thereafter terminates such cure effort, Partnership shall have an additional 30 days from the date of such termination within which to commence an action at law for damages as a consequence of Contributor's failure to cure. The Limitation Period referred to herein shall apply to known as well as unknown breaches of such warranties or representations.

(b) Notwithstanding any contrary provision of this Agreement, if Contributor becomes aware during the Contract Period of any matters which make any of its representations or warranties untrue, Contributor shall promptly disclose such matters to Partnership in writing. In the event that Contributor so discloses any matters which make any of Contributor's representations or warranties untrue in any material respect or in the event that Partnership otherwise becomes aware during the Contract Period of any matters which make any of Contributor's representations or warranties untrue in any material respect, Contributor shall bear no liability for such matters (provided that Contributor has not breached an express covenant set forth in this Agreement), but Partnership shall have the right to elect in writing on or before the Closing Date, (i) to waive such matters and complete the acquisition of the Real Property in accordance with the terms of this Agreement, or (ii) to terminate this Agreement. Partnership's election to consummate the acquisition of the Real Property at Closing shall constitute Partnership's conclusive agreement to accept or waive any such matters discovered by or disclosed to Partnership prior to the Closing.

SECTION 4.5 INDEMNIFICATIONS. Subject to the foregoing limitations and the provisions of Sections 6.3, 6.4 and 7.12:

(a) Contributor shall indemnify and defend Partnership and each of the Partners of Partnership (excluding Contributor) against and hold Partnership harmless from any and all claims, liabilities, losses, damages, costs and expenses, including, without limitation, all reasonable attorneys' fees, asserted against or suffered by Partnership resulting from (i) any breach by Contributor of this Agreement, (ii) the untruth, inaccuracy or breach of any of the representations and warranties made by Contributor pursuant to this Agreement, and (iii) any

liability or obligation arising in connection with Contributor's use of the Real Property on or before the Closing Date.

(b) BPA shall indemnify and defend Contributor against and hold Contributor harmless from any and all claims, liabilities, losses, damages, costs and expenses, including, without limitation, all reasonable attorneys fees, asserted against or suffered by Contributor resulting from (i) any breach by BPA or Partnership caused by BPA of this Agreement, (ii) the untruth, inaccuracy or breach of any of the representations or warranties made by Partnership and caused by BPA pursuant to this Agreement, and (iii) except as otherwise provided in the Lease Documents and/or the Agreement of Limited Partnership of Inhale 201 Industrial Road, L.P. (the "Partnership Agreement"), any liability or obligation arising in connection with the Real Property accruing following the Closing Date.

ARTICLE V

DEPOSIT

Within two (2) business days following the execution of this Agreement by Partnership, Contributor and BPA, BPA shall deliver to Title Company, for deposit into the escrow described in Section 6.1 below, the sum of Ten Thousand Dollars ($10,000) (the "DEPOSIT"). In the event that this transaction is consummated as contemplated by this Agreement, then the entire amount of the Deposit, together with any interest accrued thereon, shall be credited against the Construction Costs payable to Contributor by Partnership. The entire amount of the Deposit, together with any interest accrued thereon, shall be returned immediately to BPA: (i) in the event of the failure of any of the conditions precedent set forth in Section 3.1(a) above; or (ii) in the event that (a) the conditions precedent set forth in Section 3.1(b) shall have been satisfied or waived (unless with respect to Sections 3.1(b) (iii) or (iv), satisfaction of any such conditions precedent was prevented by Contributor), (b) Partnership and BPA shall have performed fully or tendered performance of its obligations hereunder and (c) Contributor shall be unable or fail to perform its obligations, under this Agreement. Contributor reserves all rights and remedies available to it at law or in equity in the event of a default by Partnership or BPA in its obligations under this Agreement.

ARTICLE VI

ESCROW AND CLOSING

SECTION 6.1 ESCROW ARRANGEMENTS. An escrow for the contribution and payment of Construction Costs contemplated by this Agreement has been opened by Partnership and Contributor with Title Company. Promptly following the full execution of this Agreement, Contributor and Partnership shall each deliver escrow instructions to Title Company consistent with this Article VI, and the parties shall deposit in escrow the funds and documents described below.

(a) Contributor shall deposit (or cause to be deposited):

(i) a duly executed and acknowledged grant deed in favor of Partnership from Contributor with respect to the Real Property in the form attached to this Agreement as Exhibit D (the "DEED")

(ii) duly executed and acknowledged counterparts of the Lease and a Memorandum of Lease in the form attached to this Agreement as Exhibit E (the "MEMORANDUM OF LEASE");

(iii) a duly executed counterpart of an assignment and assumption of Contributor's interest in the Intangible Property in the form attached to this Agreement as Exhibit F (the "ASSIGNMENT OF INTANGIBLE PROPERTY");

(iv) a duly executed and acknowledged counterpart of a Memorandum of Parking Lease in the form attached to this Agreement as Exhibit G-1 (the "MEMORANDUM OF PARKING LEASE"), and a Parking Lease in the form attached to this Agreement as Exhibit G-2 (the "PARKING LEASE");

(v) a certificate from Contributor certifying the information required by Sections 18662 of the California Revenue and Taxation Code and the regulations issued thereunder to establish that the transaction contemplated by this Agreement is exempt from the tax withholding requirements of such provisions (the "CALIFORNIA CERTIFICATE"); and

(vi) a certificate from Contributor certifying the information required by Section 1445 of the Internal Revenue Code and the regulations issued thereunder to establish, for the purposes of avoiding Partnership's tax withholding obligations, that Contributor is not a "foreign person" as defined in Internal Revenue Code Section 1445(f)(3) (the "FIRPTA CERTIFICATE");

(vii) such evidence as the Title Company may reasonably require as to the authority of the person or persons executing documents on behalf of Contributor;

(viii) such affidavits as may be customarily and reasonably required by the Title Company, in a form reasonably acceptable to Contributor;

(ix) a closing statement acceptable to Contributor;

(x) such additional documents as shall be reasonably required to consummate the transaction contemplated by this Agreement.

(b) Partnership shall deposit:

(i) immediately available funds sufficient to pay Construction Costs to Contributor, plus sufficient additional cash to pay Partnership's share of all escrow costs and closing expenses;

(ii) a duly executed and acknowledged counterpart of the Memorandum of Parking Lease and a duly executed counterpart of the Parking Lease;

(iii) the duly executed and, where applicable, acknowledged counterparts of the Lease, the Memorandum of Lease and the Assignment of Intangible Property;

(iv) such evidence as the Title Company may reasonably require as to the authority of the person or persons executing documents on behalf of Partnership;

(v) such affidavits as may be customarily and reasonably required by the Title Company, in a form reasonably accepted to Partnership;

(vi) a closing statement acceptable to Partnership;

(vii) such additional documents as shall be reasonably required to consummate the transaction contemplated by this Agreement.

SECTION 6.2 CLOSING. Title Company shall close escrow on the Closing Date by:

(a) recording the Deed, the Memorandum of Parking Lease and the Memorandum of Lease, in that order, in the Official Records of San Mateo County, California;

(b) causing Title Company to issue (i) the Owner's Policy to Partnership and (ii) the lender's title policy to Lender;

(c) delivering to Partnership the FIRPTA Certificate, the California Certificate, the counterparts executed by Contributor of the Lease, Parking Lease and Assignment of Intangible Property, and conformed copies of all recorded documents; and

(d) delivering to Contributor the counterparts executed by Partnership of the Lease, Parking Lease and Assignment of Intangible Property, conformed copies of all recorded documents, and funds in the amount of the Construction Costs, as adjusted for credits, prorations and closing costs in accordance with this Article VI.

SECTION 6.3 PRORATIONS.

(a) Real estate taxes and assessments constituting a lien and allocable to the payment period that includes the Closing Date, personal property taxes, if any, rental income and all other items of income, if any, and expense with respect to the Property shall be prorated between Contributor and Partnership as of the Closing Date. Income and expenses shall be prorated on the basis of a 30-day month and on the basis of the accrual method of accounting. All such items attributable to the period through and including the Closing Date shall be credited to Contributor; all such items attributable to the period following the Closing Date shall be credited to Partnership subject to Contributor's obligation to pay such items in accordance with the Lease Documents.

(b) Partnership and Contributor shall cooperate to produce prior to the Closing Date a schedule of prorations to be made on and after the Closing Date as complete and accurate as reasonably possible. All prorations which can be liquidated accurately or reasonably estimated as of the Closing Date shall be made in escrow on the Closing Date. All other prorations, and adjustments to initial estimated prorations, shall be made by the parties with due

diligence and cooperation within 30 days following the Closing Date, or such later time as may be required to obtain necessary information for proration, by cashier's check or wire transfer of immediately available funds to the party yielding a net credit from such prorations from the other party.

SECTION 6.4 OTHER CLOSING COSTS.

(a) Partnership shall pay (i) fifty percent (50%) of any escrow fees or costs charged by or reimbursable to Title Company, (ii) the title insurance premium for any Lender's Policy requested by any lender to Partnership, including costs of endorsements, extended coverage and related survey costs, (iii) fifty percent (50%) of the title insurance premium of the Owner's Policy including costs of endorsements and extended coverage, (iv) any loan fees and costs associated with any loan obtained by Partnership, and (v) the commission to Broker pursuant to Section 7.2

(b) BPA shall pay all fees and expenses of its legal counsel and other third party consultants engaged by or on behalf of BPA in connection with this transaction.

(c) Contributor shall pay (i) any county documentary transfer or transaction taxes or fees due on the transfer of the Real Property, (ii) any city documentary transfer or transaction taxes or fees due on the transfer of the Real Property, (iii) any prepayment fees or penalties, if any, to pay off existing mortgages affecting the Real Property, (iv) all fees and expenses of its legal counsel and other third party consultants engaged by or on behalf of Contributor in connection with this transaction, (v) fifty percent (50%) of the title insurance premium of the Owner's Policy including costs of endorsements and extended coverage, and (vi) fifty percent (50%) of any escrow fees charged by or reimbursable to Title Company.

(d) Any costs and expenses of closing that are not expressly identified in subparagraph (a), (b) or (c) above shall be allocated between the parties in accordance with prevailing custom in San Mateo County.

SECTION 6.5 FURTHER DOCUMENTATION. At or following the close of escrow, Partnership and Contributor each shall execute any certificate or other instruments required by law or local custom or otherwise reasonably requested by the other party to effect the transaction contemplated by this Agreement.

ARTICLE VII

MISCELLANEOUS

SECTION 7.1 DAMAGE OR DESTRUCTION. Any risk of loss to the Real Property shall be borne by Contributor until the Closing Date. If prior to the Closing Date there are instituted any proceedings or any such proceedings are threatened, whether judicial, administrative, or otherwise which relate to the taking of any material portion of the Real Property by eminent domain or the Real Property is destroyed or materially damaged in whole or in part, Partnership shall have the right to terminate this Agreement by giving Contributor written notice within ten (10) business days after it has received written notice of such eminent domain proceedings or destruction of the Real Property. Upon any termination pursuant to this Section 7.1, the parties

shall proceed as if this Agreement had been terminated by a failure of a condition precedent pursuant to Section 3.2 hereof. If Partnership does not terminate this Agreement, then on the Closing Date, Contributor shall assign to Partnership all of its right, title and interest in any proceeds or award arising out of such taking or destruction.

SECTION 7.2 BROKERAGE COMMISSIONS AND FINDER'S FEES. Except with respect to the Broker, each party to this Agreement warrants to the other that no person or entity can properly claim a right to a real estate commission, real estate finder's fee, real estate acquisition fee or other real estate brokerage-type compensation (collectively, "REAL ESTATE COMPENSATION") based upon the acts of that party with respect to the transaction contemplated by this Agreement. Each party hereby agrees to indemnify and defend the other against and to hold the other harmless from any and all loss, cost, liability or expense (including but not limited to attorneys' fees and returned commissions) resulting from any claim for Real Estate Compensation by any person or entity based upon such acts. Partnership shall pay the Broker pursuant to a separate written agreement between Partnership and the BT Commercial, pursuant to which Partnership has agreed to pay Three Hundred Sixty Thousand Dollars ($360,000) to BT Commercial.

SECTION 7.3 SUCCESSORS AND ASSIGNS. Partnership may not assign any of Partnership's rights or duties hereunder without the prior written consent of Contributor, which consent may be withheld in Contributor's sole and absolute discretion. Subject to the limitations on assignment expressed in this Section 7.3, this Agreement shall be binding upon, and inure to the benefit of, Partnership and Contributor and their respective successors and assigns.

SECTION 7.4 NOTICES. Any notice required or permitted to be given under this Agreement shall be in writing and (i) personally delivered, (ii) sent by United States mail, registered or certified mail, postage prepaid, return receipt requested, (iii) sent by Federal Express or other reputable overnight courier service, or (iv) transmitted by facsimile with a hard copy sent within one (1) business day by any of the foregoing means, and in all cases addressed as follows:

TO PARTNERSHIP:	INHALE 201 INDUSTRIAL ROAD, L.P. c/o Bernardo Property Advisors 11440 West Bernardo Court, Suite 208 San Diego, CA 92127 Attention: Alan D. Gold Fax No. (858) 485-9843 Phone No. (858) 485-9840
with copies to:	David J. Dorne, Esq. SELTZER CAPLAN McMAHON VITEK 750 B Street, Suite 2100 San Diego, California 92101 Fax No. (619) 685-3100 Phone No. (619) 685-3003

TO CONTRIBUTOR:	INHALE THERAPEUTIC SYSTEMS, INC. 150 Industrial Road San Carlos, California 94070 Attn: Sharron Reiss-Miller, Vice President Fax No. (650) 631-3150 Phone No. (650) 631-3100
	INHALE THERAPEUTIC SYSTEMS, INC. 150 Industrial Road San Carlos, California 94070 Attn: Robert A. Donnally, Esq. Fax No. (650) 631-3150 Phone No. (650) 631-3100
with copies to:	COOLEY GODWARD LLP One Maritime Plaza 20th Floor San Francisco, California 94111 Attn: Anna B. Pope, Esq. Fax No. (415) 951-3699 Phone No. (415) 693-2000
TO BPA:	BERNARDO PROPERTY ADVISORS 11440 West Bernardo Court, Suite 208 San Diego, CA 92127 Attention: Alan D. Gold Fax No. (858) 485-9843 Phone No. (858) 485-9840

Any such notice shall be deemed delivered as follows: (a) if personally delivered, the date of delivery to the address of the person to receive such notice; (b) if sent by "next business day" Federal Express or other reputable overnight courier service, the next business day after being sent; or (c) if sent by facsimile transmission, the date transmitted to the person to receive such notice if sent by 5:00 p.m. Pacific Time and the next business day if sent after 5:00 p.m. Pacific Time, provided in either case that there is evidence of such transmission printed by the sending machine. Any notice sent by facsimile transmission must be confirmed by personally delivering or mailing a copy of the notice sent by facsimile transmission. Any party may change its address for notice by written notice given to the other at least three (3) business days before the effective date of such change in the manner provided in this Section.

SECTION 7.5 TIME. Time is of the essence of every provision contained in this Agreement.

SECTION 7.6 POSSESSION. The rights of possession of the Real Property (subject to the Lease) shall be delivered to Partnership on the Closing Date.

SECTION 7.7 INCORPORATION BY REFERENCE. All of the exhibits and attachments attached to this Agreement or referred to herein and all documents in the nature of such exhibits, when executed, are by this reference incorporated in and made a part of this Agreement.

SECTION 7.8 NO DEDUCTIONS OR OFF-SETS. Partnership acknowledges that the Construction Costs to be paid to Contributor pursuant to this Agreement is a net amount and shall not be subject to any off-sets or deductions, except as provided under Section 6.3, above.

SECTION 7.9 ATTORNEYS' FEES. If Partnership, Contributor or BPA bring any suit or other proceeding with respect to the subject matter or the enforcement of this Agreement, the prevailing party (as determined by the court, agency or other authority before which such suit or proceeding is commenced), in addition to such other relief as may be awarded, shall be entitled to recover all costs and expenses including, without limitation, reasonable attorneys' and paralegals' fees and expenses, incurred by such prevailing party. The foregoing includes, without limitation, attorneys' fees, expenses and costs of investigation incurred in appellate proceedings, costs incurred in collection of any award(s), judgment or other relief, costs incurred in establishing the right to indemnification, or in any action or participation in, or in connection with, any case or proceeding under Chapter 7, 11 or 13 of the Bankruptcy Code, 11 United States Code Section 101 et seq., or any successor statutes.

SECTION 7.10 CONSTRUCTION. The parties acknowledge that each party and its counsel have reviewed and revised this Agreement and that the normal rule of construction to the effect that any ambiguities are to be resolved against the drafting party shall not be employed in the interpretation of this Agreement or any amendments or exhibits hereto. If any provision of this Agreement shall be determined to be illegal or unenforceable, such determination shall not affect any other provisions of this Agreement and all such other provisions shall remain in full force and effect.

SECTION 7.11 GOVERNING LAW. This Agreement shall be construed and interpreted in accordance with and shall be governed and enforced in all respects according to the laws of the State of California, excluding conflicts of laws principals which would cause the application of the laws of another jurisdiction.

SECTION 7.12 DAMAGES. Partnership agrees that any liability of Contributor under any claim brought by Partnership prior to the Closing Date pursuant to this Agreement, shall be limited as set forth in Section 4.4 above, and shall be limited solely to Contributor's interest in the Property, and no other assets of Contributor shall be subject to levy or execution. With respect to any such claim brought by Partnership following the Closing Date, any liability of Contributor shall be limited to Contributor's assets in an amount equal to the amount set forth in Section 4.4 above. Nothing contained in this Agreement shall be construed to limit the parties' rights against one another (i) as Tenant and Landlord under the Lease, or (ii) as partners under the Partnership Agreement. In no event shall Partnership seek satisfaction for any such obligation from any of Contributor's shareholders, officers, directors, trustees, beneficiaries, employees, agents, legal representatives, successors or assigns, nor shall any such person or entity have any personal liability for any such obligations of Contributor.

SECTION 7.13 CONFIDENTIALITY. Each party (the "RECEIVING PARTY") hereby acknowledges and agrees that all information regarding the other party's business, assets and financial condition received which is not in the public domain ("CONFIDENTIAL INFORMATION") is to be kept strictly confidential. Accordingly, except as may be required by law or court order, or except to the extent expressly permitted in a writing signed by the party owning the Confidential Information, the Receiving Party shall not, without the prior written consent of the other party, release, publish or otherwise distribute (and shall not authorize or permit any other person or entity to release, publish or otherwise distribute) any Confidential Information other than to the Receiving Party's prospective lenders and legal and financial advisors, each of whom shall agree to hold such information strictly confidential as if such persons were bound by the provisions of this Section.

SECTION 7.14 COUNTERPARTS. This Agreement may be executed in one or more counterparts and each such counterpart shall be deemed to be an original; all counterparts so executed shall constitute one instrument and shall be binding on all of the parties to this Agreement notwithstanding that all of the parties are not signatory to the same counterpart.

SECTION 7.15 ENTIRE AGREEMENT. This Agreement, together with the Lease Documents and the Partnership Agreement and the schedules, attachments, and exhibits attached hereto, incorporates all agreements, warranties, representations and understandings between the parties to the Agreement with respect to the subject matter hereof and constitutes the entire agreement of Contributor and Partnership with respect to the acquisition of the Property by Partnership from Contributor. Any prior or other contemporaneous correspondence, memoranda, understandings, offers, negotiations and agreements, oral or written, relating to the acquisition of the Property by Partnership from Contributor are merged herein and replaced in total by this Agreement and the exhibits hereto and shall be of no further force or effect. This Agreement may not be modified or amended except in a writing signed by Contributor, BPA and Partnership.

SECTION 7.16 NO WAIVER. No waiver of any of the provisions of this Agreement shall be deemed, or shall constitute, a waiver of any other provision, whether or not similar, nor shall any waiver constitute a continuing waiver, nor shall a waiver in any instance constitute a waiver in any subsequent instance. No waiver shall be binding unless executed in writing by the party making the waiver.

SECTION 7.17 FURTHER ACTS. Each party, at the request of the other, shall execute, acknowledge or have notarized (if appropriate) and deliver in a timely manner such additional documents, and do such other additional acts, also in a timely manner, as may be reasonably required in order to accomplish the intent and purposes of this Agreement.

SECTION 7.18 NO INTENT TO BENEFIT THIRD PARTIES. The parties do not intend by any provision of this Agreement to confer any right, remedy or benefit upon any third party, and no third party shall be entitled to enforce, or otherwise shall acquire any right, remedy or benefit by reason of, any provision of this Agreement.

SECTION 7.19 PERFORMANCE DUE ON DAY OTHER THAN BUSINESS DAY. If the time period for the performance of any act called for under this Agreement expires on a Saturday, Sunday or any other day on which banking institutions in the State of California are authorized or obligated

by law or executive order to close (a "HOLIDAY"), the act in question may be performed on the next succeeding day that is not a Saturday, Sunday or Holiday.

SECTION 7.20 NO JOINT VENTURE. Nothing set forth in this Agreement shall be construed to create a partnership or joint venture among BPA, Partnership and Contributor. Nothing contained in this Agreement shall be deemed to make either party the agent or representative of the other.

SECTION 7.21 VENUE. Each of the parties hereto consents to the jurisdiction of any court in the County of San Mateo, California for any action arising out of matters related to this Agreement. Each of the parties hereto waives the right to commence an action in connection with this Agreement in any court outside of such County.

IN WITNESS WHEREOF, Contributor and Partnership have executed this Agreement as of the day and year first written above.

CONTRIBUTOR: INHALE THERAPEUTIC SYSTEMS INC.,
a Delaware corporation

By: ----------
Name: ----------
Title: ----------

By: ----------
Name: ----------
Title: ----------

PARTNERSHIP: INHALE 201 INDUSTRIAL ROAD, L.P.

By: SciMed Prop III, Inc., a California corporation,
its General Partner

By: ----------
Alan D. Gold
President

By: ----------
Gary A. Kreitzer
Executive Vice President

BPA BERNARDO PROPERTY ADVISORS, INC.

By: ----------
Alan D. Gold
President

By: ----------
Gary A. Kreitzer
Executive Vice President

TABLE OF CONTENTS

TABLE OF CONTENTS
(CONTINUED)

EXHIBIT A

Property Legal Description

All that certain real property in the State of California, County of San Mateo, City of San Carlos more particularly described as follows:

ALL LANDS LYING WITHIN THE EXTERIOR BOUNDARIES OF THAT MAP ENTITLED "REVERSION TO ACREAGE OF THE LANDS OF ARNDT ELECTRONICS LYING WITHIN THE COUNTY OF SAN MATEO, BEING PARCELS 1,2,3 AND 4 AS SHOWN ON THAT CERTAIN PARCEL MAP FILED IN VOLUME 51 OF PARCEL MAPS AT PAGE 71 RECORDS OF SAN MATEO," FILED IN THE OFFICE OF THE COUNTY RECORDER OF SAN MATEO COUNTY, STATE OF CALIFORNIA, ON OCTOBER 6, 1986 IN VOLUME 58 OF PARCEL MAPS AT PAGE 13.

ASSESSOR'S PARCEL NOS.	046-020-370	JOINT PLAN NOS.	046-002-020-22A
	046-020-380		046-002-020-22-01A
			046-002-020-22-02A
			046-002-020-22-03A
			046-002-020-23A
			046-002-020-23-01A

EXHIBIT B
TO
CONTRIBUTION AGREEMENT

FORM OF LEASE

[For text of document refer to EXHIBIT 10.23 to the Company's Quarterly Report on Form 10-Q for the Quarter Ended September 30, 2000]

EXHIBIT C

[INTENTIONALLY DELETED]

Assessor's Parcel No.

RECORDING REQUESTED BY
AND WHEN RECORDED RETURN TO:

MAIL TAX STATEMENTS TO:

Inhale Therapeutic Systems
150 Industrial Road
San Carlos, CA 94070

- ---

The undersigned grantor declares:

Documentary transfer tax is:

( ) computed on full value of property conveyed, or
( ) computed on full value less value of liens and encumbrances.

- ---

GRANT DEED

FOR VALUABLE CONSIDERATION, the receipt and sufficiency of which are hereby acknowledged, INHALE THERAPEUTIC SYSTEMS INC., a Delaware corporation, HEREBY GRANTS to INHALE 201 INDUSTRIAL ROAD L.P., a California limited partnership, all that real property in San Mateo County, California, described as follows:

SEE EXHIBIT "A" ATTACHED HERETO AND BY THIS REFERENCE INCORPORATED HEREIN.

This conveyance is made subject to all liens and encumbrances of record.

GRANTOR: INHALE THERAPEUTIC SYSTEMS INC.,
a Delaware corporation

By: _____
Name:
Title:

Date: _____ ____, 2000

MAIL TAX STATEMENTS AS DIRECTED ABOVE

STATE OF CALIFORNIA)
) ss.
COUNTY OF _____)

On _____, before me, _____,

Personally appeared _____ (name of witness),

/ / personally known to me

-or-

/ / proved to me on the basis of satisfactory evidence to be the person whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity, and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

WITNESS my hand and official seal.

_____
Signature of Notary

CAPACITY CLAIMED BY SIGNER
Though statute does not require the Notary to fill in the data below, doing so may prove invaluable to persons relying on the document.

'' Individual
'' Corporate Officer(s)
'' _____

'' Partner(s) '' Limited
'' General
'' Attorney-in-Fact
'' Trustee(s)
'' Guardian/Conservator
'' Other:____
_____

SIGNER IS REPRESENTING:
Name of person(s) or entity(ies)
_____

_____

This certificate must be attached to the document described at right:

Title or Type of Document: _____
Number of Pages: _____ Date of Document: _____
Signer other than named above: _____

EXHIBIT A

Property Legal Description

All that certain real property in the State of California, County of San Mateo, City of San Carlos more particularly described as follows:

ALL LANDS LYING WITHIN THE EXTERIOR BOUNDARIES OF THAT MAP ENTITLED "REVERSION TO ACREAGE OF THE LANDS OF ARNDT ELECTRONICS LYING WITHIN THE COUNTY OF SAN MATEO, BEING PARCELS 1,2,3 AND 4 AS SHOWN ON THAT CERTAIN PARCEL MAP FILED IN VOLUME 51 OF PARCEL MAPS AT PAGE 71 RECORDS OF SAN MATEO," FILED IN THE OFFICE OF THE COUNTY RECORDER OF SAN MATEO COUNTY, STATE OF CALIFORNIA, ON OCTOBER 6, 1986 IN VOLUME 58 OF PARCEL MAPS AT PAGE 13.

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	046-020-380		046-002-020-22-01A
			046-002-020-22-02A
			046-002-020-22-03A
			046-002-020-23A
			046-002-020-23-01A

EXHIBIT E

RECORDING REQUESTED BY
AND WHEN RECORDED, MAIL TO

Cooley Godward LLP
One Maritime Plaza, 20th Floor
San Francisco, CA 94111
Attn: Anna B. Pope, Esq.

MEMORANDUM OF LEASE

THIS MEMORANDUM OF LEASE (this "Memorandum") is made and entered into this _____ day of September 2000, by and between INHALE 201 INDUSTRIAL ROAD L.P., a California limited partnership, whose present address is c/o Bernardo Property Advisors, 11440 West Bernardo Court, Suite 208, San Diego, CA 92127 ("Landlord") and INHALE THERAPEUTIC SYSTEMS INC., a Delaware corporation ("Tenant"), whose present address is 150 Industrial Road, San Carlos, CA 94070, with reference to the following facts:

A. Landlord is the owner of that certain real property located in the City of San Carlos, County of San Mateo, State of California, more particularly described in Exhibit "A" attached hereto (the "Property").

B. Landlord desires to lease the Property to Tenant, and Tenant desires to lease the Property from Landlord, all subject to the terms and provisions of this Memorandum.

NOW, THEREFORE, the parties hereto hereby agree as follows:

1. Lease of the Property. Landlord hereby leases the Property to Tenant, and Tenant hereby leases the Property from Landlord for a term of _____(__) years commencing on _____ and terminating on _____, all subject to and on terms and conditions more fully set forth in that certain Lease executed by and between Landlord and Tenant and dated September __, 2000 (the "Lease"). The Lease is incorporated herein by this reference. Should any party require any information concerning the Lease, they should contact the Landlord and Tenant at the above-referenced addresses.

IN WITNESS WHEREOF, the parties hereto have executed this Memorandum on the day and year first above written.

TENANT:	LANDLORD:
INHALE THERAPEUTIC SYSTEMS INC.	INHALE 201 INDUSTRIAL ROAD L.P.
By: _____	By: _____
Name: _____	Name: _____
Title: _____	Title: _____
By: _____	By: _____
Name: _____	Name: _____
Title: _____	Title: _____

GRANTOR: INHALE THERAPEUTIC SYSTEMS INC.,
a Delaware corporation

By: _____
Name:
Title:

Date: _____ ____, 2000

MAIL TAX STATEMENTS AS DIRECTED ABOVE

STATE OF CALIFORNIA)
) ss.
COUNTY OF _____)

On _____, before me, _____,

Personally appeared _____ (name of witness),

/ / personally known to me

-or-

/ / proved to me on the basis of satisfactory evidence to be the person whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity, and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

WITNESS my hand and official seal.

_____
Signature of Notary

CAPACITY CLAIMED BY SIGNER
Though statute does not require the Notary to fill in the data below, doing so may prove invaluable to persons relying on the document.

'' Individual
'' Corporate Officer(s)
'' _____

'' Partner(s) '' Limited
'' General
'' Attorney-in-Fact
'' Trustee(s)
'' Guardian/Conservator
'' Other:____
_____

SIGNER IS REPRESENTING:
Name of person(s) or entity(ies)
_____

_____

This certificate must be attached to the document described at right:

Title or Type of Document: _____
Number of Pages: _____ Date of Document: _____
Signer other than named above: _____

STATE OF CALIFORNIA)
) ss.
COUNTY OF _____)

On _____, before me, _____,

Personally appeared _____ (name of witness),

/ / personally known to me

-or-

/ / proved to me on the basis of satisfactory evidence to be the person whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity, and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

WITNESS my hand and official seal.

_____
Signature of Notary

CAPACITY CLAIMED BY SIGNER
Though statute does not require the Notary to fill in the data below, doing so may prove invaluable to persons relying on the document.

'' Individual
'' Corporate Officer(s)
'' _____

'' Partner(s) '' Limited
'' General
'' Attorney-in-Fact
'' Trustee(s)
'' Guardian/Conservator
'' Other:____
_____

SIGNER IS REPRESENTING:
Name of person(s) or entity(ies)
_____

_____

This certificate must be attached to the document described at right:

Title or Type of Document: _____
Number of Pages: _____ Date of Document: _____
Signer other than named above: _____

EXHIBIT F

ASSIGNMENT OF INTANGIBLE PROPERTY

FOR VALUABLE CONSIDERATION, the receipt and sufficiency of which are hereby expressly acknowledged, INHALE THERAPEUTIC SYSTEMS INC., a Delaware corporation ("Assignor"), hereby assigns, transfers and conveys to INHALE 201 INDUSTRIAL ROAD L.P., a California limited partnership ("Assignee"), all of Assignor's right, title and interest in and to the Intangible Property (including, without limitation, Contributor's interest in the Construction Contracts), as defined in that certain Contribution Agreement for the contribution of 201 Industrial Road, San Carlos, California dated September __, 2000 (the "Agreement"), entered into by and between Assignor, as "Contributor," and Assignee, as "Partnership."

In accordance with the Agreement, Assignee hereby assumes all obligations of the owner of the Intangible Property arising on or after the date of this Assignment (collectively, the "Assigned Obligations"), and Assignee agrees to indemnify and defend Assignor against, to hold Assignor harmless from, and to reimburse Assignor for, any and all loss, cost, liability and expense (including attorneys', fees) arising out of or relating to any breach or alleged breach of the Assigned Obligations occurring (or alleged to have occurred) on or after the date of this Assignment. Assignor agrees to indemnify and defend Assignee against, to hold Assignee harmless from, and to reimburse Assignee for, any and all loss, cost, liability and expense (including attorneys', fees) arising out of or relating to any breach or alleged breach of the Assigned Obligations occurring (or alleged to have occurred) prior to the date of this Assignment.

IN WITNESS WHEREOF, Assignor and Assignee have executed this Assignment Intangible Property as of September __, 2000.

ASSIGNOR: INHALE THERAPEUTIC SYSTEMS INC., a Delaware corporation

By: _____
Name:
Title:

ASSIGNEE: INHALE 201 INDUSTRIAL ROAD L.P., a California limited partnership

By: _____
Its:

RECORDING REQUESTED BY
AND WHEN RECORDED, MAIL TO

Cooley Godward LLP
One Maritime Plaza, 20th Floor
San Francisco, CA 94111
Attn: Anna B. Pope, Esq.

MEMORANDUM OF PARKING LEASE

THIS MEMORANDUM OF PARKING LEASE (this "Memorandum") is made and entered into effective September __, 2000, by and between INHALE 201 INDUSTRIAL ROAD L.P. a California limited partnership, whose present address is c/o Bernardo Property Advisors, Inc., 11440 West Bernardo Court, Suite 208, San Diego, California 92127 ("Landlord") and INHALE THERAPEUTIC SYSTEMS INC., a Delaware corporation ("Tenant"), whose present address is 150 Industrial Road, San Carlos, CA 94070, for the benefit of each other and the City of San Carlos, a municipal corporation (the "City") and with reference to the following facts:

RECITALS

A. Landlord is the owner of fee title to that certain real property commonly known as 201 Industrial Road, San Carlos, California, more particularly described on the attached Exhibit A (referred to herein as "201 Industrial Road");

B. TMT Associates, LLC, a California limited liability company ("TMT") is the owner of fee title to that certain real property commonly known as 150 Industrial Road, San Carlos California, more particularly described on the attached Exhibit B (referred to herein as "150 Industrial Road");

C. Tenant leases 201 Industrial Road from Landlord pursuant to a Build-to-Suit Lease dated as of September ___, 2000 (as amended from time to time, the "Inhale 201 Lease"), and leases 150 Industrial Road from TMT pursuant to a lease dated October 1996 (as amended from time to time, the "Inhale 150 Lease").

D. In the event that Tenant elects to expand its facility at 150 Industrial Road ("Inhale's Proposed Expansion"), the City will require additional parking of up to 190 parking spaces be provided, and pursuant to the City's Ordinance Number 1257, adopted April 12, 1999, one way in which such additional parking can be provided is through the leasing of the required spaces on 201 Industrial Road for Tenant's use in connection with its use of its facility at 150 Industrial Road.

AGREEMENT

NOW, THEREFORE, subject to and on terms and conditions more fully set forth in that certain Parking Lease executed by and between Landlord and Tenant and dated as of September ____, 2000 (the "Parking Lease"), which is hereby incorporated herein by this reference, the parties hereto hereby agree as follows:

1. PREMISES. Landlord hereby leases to Tenant one hundred and ninety (190) parking spaces located in the area described in Exhibit C attached hereto and made a part hereof (the "Inhale Parking Area"), for the sole purpose of parking vehicles by employees and invitees of Tenant. Landlord reserves the right to reconfigure and/or relocate the location of the Inhale Parking Area at 201 Industrial Road.

2. TERM. The term shall commence on the date hereof and shall terminate on the date Tenant, or its successor or assignee, ceases to operate its business at 150 Industrial Road, San Carlos, California.

3. FURTHER INFORMATION. Should any party require any information concerning the Parking Lease, such party should contact the Landlord and Tenant at the above-referenced addresses.

IN WITNESS WHEREOF, the parties hereto have executed this Memorandum on the day and year first above written.

TENANT:	LANDLORD:
INHALE THERAPEUTIC SYSTEMS INC.	INHALE 201 INDUSTRIAL ROAD L.P.
	BY: SciMed Prop III, its General Partner
By: _____	By: _____
Name: _____	Name: _____
Title: _____	Title: _____
By: _____	By: _____
Name: _____	Name: _____
Title: _____	Title: _____

STATE OF CALIFORNIA)
) ss.
COUNTY OF _____)

On _____, before me, _____,

Personally appeared _____ (name of witness),

/ / personally known to me

-or-

/ / proved to me on the basis of satisfactory evidence to be the person whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity, and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

WITNESS my hand and official seal.

_____
Signature of Notary

CAPACITY CLAIMED BY SIGNER
Though statute does not require the Notary to fill in the data below, doing so may prove invaluable to persons relying on the document.

'' Individual
'' Corporate Officer(s)
'' _____

'' Partner(s) '' Limited
'' General
'' Attorney-in-Fact
'' Trustee(s)
'' Guardian/Conservator
'' Other:____
_____

SIGNER IS REPRESENTING:
Name of person(s) or entity(ies)
_____

_____

This certificate must be attached to the document described at right:

Title or Type of Document: _____
Number of Pages: _____ Date of Document: _____
Signer other than named above: _____

STATE OF CALIFORNIA)
) ss.
COUNTY OF _____)

On _____, before me, _____,

Personally appeared _____ (name of witness),

/ / personally known to me

-or-

/ / proved to me on the basis of satisfactory evidence to be the person whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity, and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

WITNESS my hand and official seal.

_____
Signature of Notary

CAPACITY CLAIMED BY SIGNER
Though statute does not require the Notary to fill in the data below, doing so may prove invaluable to persons relying on the document.

'' Individual
'' Corporate Officer(s)
'' _____

'' Partner(s) '' Limited
'' General
'' Attorney-in-Fact
'' Trustee(s)
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'' Other:____
_____

SIGNER IS REPRESENTING:
Name of person(s) or entity(ies)
_____

_____

This certificate must be attached to the document described at right:

Title or Type of Document: _____
Number of Pages: _____ Date of Document: _____
Signer other than named above: _____

EXHIBIT A

Property Legal Description

All that certain real property in the State of California, County of San Mateo, City of San Carlos more particularly described as follows:

ALL LANDS LYING WITHIN THE EXTERIOR BOUNDARIES OF THAT MAP ENTITLED "REVERSION TO ACREAGE OF THE LANDS OF ARNDT ELECTRONICS LYING WITHIN THE COUNTY OF SAN MATEO, BEING PARCELS 1,2,3 AND 4 AS SHOWN ON THAT CERTAIN PARCEL MAP FILED IN VOLUME 51 OF PARCEL MAPS AT PAGE 71 RECORDS OF SAN MATEO," FILED IN THE OFFICE OF THE COUNTY RECORDER OF SAN MATEO COUNTY, STATE OF CALIFORNIA, ON OCTOBER 6, 1986 IN VOLUME 58 OF PARCEL MAPS AT PAGE 13.

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	046-020-380		046-002-020-22-01A
			046-002-020-22-02A
			046-002-020-22-03A
			046-002-020-23A
			046-002-020-23-01A

EXHIBIT B

[For the text of this document refer to Exhibit C of EXHIBIT 10.25
to the Company's Quarterly Report on Form 10-Q for the period
Ended September 30, 2000]

EXHIBIT G-2
TO
CONTRIBUTION AGREEMENT

FORM OF PARKING LEASE

[For the text of this document refer to EXHIBIT 10.25 to the Company's Quarterly Report on Form 10-Q for the period Ended September 30, 2000]

EXHIBIT H

ASSIGNMENT

This Assignment dated as of September __, 2000 (the "ASSIGNMENT"), is entered into by and between INHALE THERAPEUTIC SYSTEMS, INC., a Delaware corporation ("ASSIGNOR") and INHALE 201 INDUSTRIAL ROAD, L.P., a California limited partnership ("ASSIGNEE").

RECITALS:

A. Assignor is a party to certain agreements executed in connection with that certain real property commonly known as 201 Industrial Road, San Carlos, California (the "PROPERTY") as more fully described in EXHIBIT A attached hereto, which agreements are described in Schedule 1 attached hereto (the "AGREEMENTS"); and

B. Assignor desires to assign its rights and delegate its duties in the Agreements to Assignee, and Assignee desires to accept the assignment and delegation thereof.

AGREEMENT:

NOW, THEREFORE, in consideration of the promises and conditions contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

1. Effective as of the Effective Date (as defined below): (i) Assignor hereby assigns to Assignee all of its right, title and interest in and to the Agreements, and (ii) Assignee does hereby accept this assignment and, for the benefit of Assignor, expressly assumes and agrees to hereafter perform all of the terms, covenants, conditions and obligations of Assignor under the Agreements.

2. Assignor hereby agrees to indemnify Assignee against and hold Assignee harmless from any and all cost, liability, loss, damage or expense, including, without limitation, attorneys' fees, arising out of or relating to events occurring prior to the Effective Date (as defined below) and arising out of Assignor's obligations under the Agreements.

3. Assignee hereby agrees to indemnify Assignor against and hold Assignor harmless from any and all cost, liability, loss, damage or expense, including, without limitation, attorneys' fees, arising out of or relating to events occurring after the Effective Date and arising out of Assignee's obligations under the Agreements.

4. In the event of any litigation arising out of this Assignment, the non-prevailing party shall pay the prevailing party's costs and expenses of such litigation, including, without limitation, attorneys' fees.

5. This Assignment shall be binding on and inure to the benefit of the parties hereto, their heirs, executors, administrators, successors in interest and assigns.

6. This Assignment shall be governed by and construed in accordance with the laws of the State of California.

7. This Assignment may be signed in two or more counterparts. When at least one such counterpart has been signed by each party, this Assignment shall be deemed to have been fully executed, each counterpart shall be deemed to be an original, and all counterparts shall be deemed to be one and the same agreement.

8. For purposes of this Assignment, the "EFFECTIVE DATE" shall be the date of recordation of the Deed, as defined in that certain Contribution Agreement, dated as of September __, 2000 between Assignor and Assignee.

IN WITNESS WHEREOF, Assignor and Assignee have executed this Assignment the day and year first above written.

ASSIGNOR:	ASSIGNEE:
INHALE THERAPEUTIC SYSTEMS, INC., a Delaware corporation.	INHALE 201 INDUSTRIAL ROAD, L.P. a California limited partnership By Scimed Prop III, a California corporation General Partner
By: _____	By: _____
Name: _____	Name: _____
Title: _____	Title: _____
By: _____	By: _____
Name: _____	Name: _____
Title: _____	Title: _____

SCHEDULE 1
AGREEMENTS

1. Building 4, Phase 1 A Two Story Research & Development Laboratory Office Shell Improvements (dated as of March 16, 1999) between Inhale Therapeutic Systems, Inc. and Dowler Gruman Architects

2. Building 4, Phase 1 A Core Improvements (dated as of July 18, 2000) between Inhale Therapeutic Systems, Inc. and Dowler Gruman Architects

3. Building 4, Phase 1, Shell and Core (base agreement, general conditions and supplementary general conditions) dated as of August 19, 1999 between Inhale Therapeutic Systems, Inc. and South Bay Construction, Inc.

4. Building 4, Phase A, Interior Core Improvements (base agreement, general conditions and supplementary general conditions) dated as of March 14, 2000 between Inhale Therapeutic Systems, Inc. and Rudolph & Sletten, Inc.

SCHEDULE 2.2

CONSTRUCTION COSTS

SCHEDULE 2.2 - REIMBURSEMENT OF CONSTRUCTION COSTS THROUGH ESCROW

CATEGORY	VENDOR	DESCRIPTION	AMOUNT	TOTAL
SITEWORK	South Bay Construction	Phase 1 - Draws 1-8	Included Below	
BUILDING & PARKING	South Bay Construction	Phase 1 - Draws 1-8	$8,490,593.09	$ 8,490,593.09
	South Bay Change Order		$1,109,308.13	$ 1,109,308.13
TENANT IMPROVEMENTS				
Phase 1A	Enslow Consulting	Phase 1 TI - Consulting	32,199.31	2,897,045.21
	Dowler-Gruman	Phase 1A TI - Architecture	248,595.89	
	Dowler-Gruman	Phase 1A TI - Architecture	17,748.01	
	Rudolph and Sletten	Phase 1A TI - General Contr.	2,598,502.00	
Phase 1B	Dowler-Gruman	Phase 1B TI - Architecture	4,595.00	10,210.00
	Dowler-Gruman	Phase 1B TI - Architecture	5,615.00	
SOFT COSTS				
Architecture/Eng/Cons	Dowler-Gruman	Architects	902,958.21	1,175,317.90
	Geomatrix	Geotechnical	93,623.52	
	Smith-Emery	Consulting	38,238.35	
	Enslow Consulting	Consulting	135,323.38	
	Various	Consulting	5,174.44	
TOTAL CONSTRUCTION COSTS PAID				13,682,474.32
LESS: LOAN CREDIT				(3,000,000.00)
LESS: TENANT CONTRIBUTION FOR SHELL COST				(479,387.00)
	NET REIMBURSEMENT TO INHALE THROUGH ESCROW			$10,203,087.32

AGREEMENT OF LIMITED PARTNERSHIP

OF

INHALE 201 INDUSTRIAL ROAD, L.P.

Dated as of: September ___, 2000

This AGREEMENT OF LIMITED PARTNERSHIP ("Agreement") of INHALE 201 INDUSTRIAL ROAD, L.P., a California limited partnership ("Partnership"), is made and entered into dated _____, 2000, by and among SCIMED PROP III, Inc., a California corporation, as general partner (the "General Partner"), 201 INDUSTRIAL PARTNERSHIP, a California general partnership, as limited partner (the "201 Limited Partner"), and INHALE THERAPEUTIC SYSTEMS, INC., a Delaware corporation, as limited partner (the "ITS Limited Partner"). The General Partner, the 201 Limited Partner and the ITS Limited Partner are hereinafter sometimes referred collectively as the "Partners" and individually as a "Partner".

A. The ITS Limited Partner owns certain real property situated at 201 Industrial Road, San Carlos, California 94070, legally described on Exhibit A attached hereto (the "Property").

B. The Partners desire to enter into this Agreement to form the Partnership to acquire the Property from the ITS Limited Partner pursuant to a Contribution Agreement dated September ___, 2000 (the "Contribution Agreement").

C. The Partnership, as "Landlord," and the ITS Limited Partner, as "Tenant," intend to enter into a Lease Agreement (the "Lease"). Pursuant to the Lease and the plans, specifications, and other documents required by the Lease or otherwise incorporated into the Lease (collectively with the Lease, the "Lease Documents"), the Partnership will improve the Property with: (i) two connected four-story buildings containing an aggregate of approximately 171,965 square feet of rentable area, of which the two lower stories will consist of parking for the foregoing buildings as well as for adjacent property currently leased and occupied by Contributor located at 150 Industrial Road; (ii) site improvements; and (iii) certain other improvements, all as set forth in the Lease Documents (collectively, the "Project").

NOW, THEREFORE, in consideration of the mutual covenants and agreements hereinafter set forth, the parties hereto, intending to be legally bound, hereby agree as follows:

Section 1. FORMATION, PARTNERS AND NAME.

(a) The Partners hereby form a limited partnership pursuant to the provisions of the Revised Uniform Limited Partnership Act as in effect in the State of California (the "Act"), for the limited purpose set forth in Section 2 hereof. The Partners shall consist of SCIMED PROP III, Inc., a California corporation, as General Partner, 201 INDUSTRIAL PARTNERSHIP, a California general partnership, as Limited Partner, and Inhale Therapeutic Systems, Inc. as Limited Partner. The business and affairs of the Partnership shall be conducted under the name INHALE 201 Industrial Road, L.P., or such other name as the Partners shall hereafter adopt by written agreement.

(b) Upon or prior to the execution of the Agreement, the General Partner shall execute and file a Certificate of Limited Partnership and other such applications, certificates and documents as are required for the formation and continuation of a limited partnership to engage in the activities contemplated by Section 2 hereof under the name set forth in Section 1(a), and the General Partner

shall further obtain such business licenses, certificates of qualification and other evidences of authority as may be necessary or appropriate to the achievement of the purpose set forth in Section 2.

Section 2. PARTNERSHIP PURPOSES.

The purpose of the Partnership is to acquire (pursuant to the Contribution Agreement), hold, construct, mortgage, operate, sell, lease (pursuant to the Lease and the Lease Documents) and/or convey the Property and any other activities as may be incidental thereto.

The Partnership shall engage in no other business without the consent of the Partners.

Section 3. TERM OF PARTNERSHIP.

The term of the Partnership shall continue until dissolved pursuant to the terms of Section 15 hereof.

Section 4. PRINCIPAL PLACE OF BUSINESS; REGISTERED OFFICE.

The principal place of business and the registered office of the Partnership are at the offices of the General Partner, at 11440 W. Bernardo Court, Suite 208, San Diego, California 92127 or at such other location as the General Partner shall determine. The General Partner shall promptly notify each Limited Partner of any such change of office.

Section 5. MANAGEMENT.

(a) THE GENERAL PARTNER. Subject to the approval rights of the ITS Limited Partner set forth in Section 5(d) below, the Partnership shall be managed by the General Partner. Unless otherwise set forth herein, all decisions relating to the business and affairs of the Partnership shall be made, and all action proposed to be taken by or on behalf of the Partnership shall be taken, by the General Partner. All such decisions or actions made or taken by the General Partner thereunder shall be binding upon the Partnership. Except as otherwise provided herein, all approvals, consents, or ratifications of such action taken by the General Partner required herein may be prospective or retroactive.

(b) SPECIFIC POWER AND AUTHORITY OF THE GENERAL PARTNER. Subject to the approval rights of the ITS Limited Partner set forth in Section 5(d) below, the power and authority of the General Partner to make all decisions with respect to the business and affairs of the Partnership as it may deem reasonably necessary or appropriate, and on fair market terms and conditions, to enable the Partnership to carry out its purposes shall include, without limitation, the full and complete power and authority as set forth below:

(i) to borrow money for and on behalf of the Partnership upon such terms and conditions as the Partners deem necessary or appropriate to consummate any interim or

permanent financing with respect to the initial acquisition and construction of improvements on the Property;

(ii) to convey, mortgage, pledge, hypothecate, for and on behalf of the Partnership and upon fair market terms and conditions, all or any part of the Property or other assets of the Partnership in connection with any refinancing of the Property;

(iii) to execute and to deliver for and on behalf of the Partnership any promissory notes, deeds of trust, mortgages, security agreements, financing statements, leases, assignments of leases, or other instruments required or advisable in connection with any such loans, conveyances, mortgages, pledges, or hypothecations;

(iv) to acquire the Property, pursuant to the Contribution Agreement, and such tangible and intangible personal property as may be necessary or desirable to carry on the business of the Partnership and to sell, lease, exchange or otherwise dispose of such property;

(v) to lease the Property on fair market terms, and collect all rentals and all other income accruing to the Partnership, and to pay all acquisition and construction or development costs and expenses of operation, whether capital or otherwise; the Partners agree that the Lease is on fair market terms taking into account all of the circumstances relating to the Lease, including this Agreement, the Contribution Agreement, and the Lease Documents, and the Partners further agree that the rent payable by the ITS Limited Partner under the Lease shall not be determinative of what fair market rent would be for any other tenant of the Property;

(vi) to prepare, or have prepared, and file all tax returns for the Partnership (but not the tax return or other reports of the individual Partners or of their respective heirs, representatives, executors or assigns, in their individual capacities) and make all tax elections for the Partnership, including any election under Section 709 of the Internal Revenue Code of 1986, as amended (the "Code"), to amortize certain organizational expenditures incurred by the Partnership over a period of not less than 60 months, and an election under Code Section 754, provided, however, that the Partner or Partners requesting that the Partnership make such election under Code Section 754 shall reimburse the Partnership for any additional costs incurred by the Partnership in making the election for and on behalf of the Partnership;

(vii) to institute, prosecute, defend and settle, any legal, arbitration or administrative actions or proceedings on behalf or against the Partnership;

(viii) to maintain and operate the assets of the Partnership or any part or parts thereof in a prudent manner including, but not limited to, carrying customary insurance coverages in commercially reasonable amounts;

(ix) to employ, terminate the employment of, supervise and compensate such person, firms or corporations for and in connection with the business of the Partnership and the acquisition, development, improvement, operation, maintenance, management, leasing, financing, refinancing, sale, exchange or other disposition of any assets of the Partnership or any interest in any of such assets as the General Partner, in its sole discretion, may deem necessary or desirable (provided that any such arrangements shall be reasonable and in the best interests of the Partnership and shall be entered into and completed on arms' length terms);

(x) to pay any debts and other obligations of the Partnership, including amounts due under permanent financing of improvements and other loans to the Partnership and cost of operation and maintenance of the assets of the Partnership;

(xi) to pay all taxes, assessments, rents and other impositions applicable to the assets of the Partnership and undertake when appropriate any action or proceeding seeking to reduce such taxes, assessments, rents or other impositions;

(xii) to deposit or invest all monies received by the General Partner for or on behalf of the Partnership as it shall deem appropriate and to disburse all funds on deposit and liquidate such investment on behalf of the Partnership in such amounts and at such times as the same are required in connection with the ownership, maintenance, operation, improvement, construction and development of the assets of the Partnership;

(xiii) after the expiration of the Option Period described in Section 20 below, to sell or otherwise transfer all or substantially all of the Property upon such terms and conditions as the General Partner deems necessary or appropriate in its sole discretion;

(xiv) to act as the tax matters partner for the Partnership (within the meaning of Code Section 6231); and

(xv) to perform other obligations provided elsewhere in the Agreement to be performed by the General Partner.

(c) EVIDENCE OF AUTHORITY OF GENERAL PARTNER. Except as limited by specific provisions of this Agreement or by applicable law, the signed statement of the General Partner, reciting that it has authority to undertake and act or has the necessary votes or consents of the Partners to take any such act, when delivered to any third party, shall be all the evidence such third party shall need concerning the capacity of the General Partner, and any such third party shall be entitled to rely upon such statement and shall not be required to inquire further as to any of the facts contained in such statement, said facts being deemed to be true insofar as such third party is concerned. Such statement shall not, however, have any effect between the Partners unless the action in question was in fact authorized pursuant to this Agreement.

(d) LIMITED PARTNER. The Limited Partners shall have no right or authority to act for or to bind the Partnership and shall not participate in the general conduct or control of the Partnership's affairs. Notwithstanding the foregoing, however, the ITS Limited Partner shall have certain consent or approval rights as provided in this Agreement including but not limited to those as provided in this Subsection 5(d). Whenever this Agreement provides for consents or approvals by the ITS Limited Partner, such consents and approvals shall be obtained in writing and, unless a different standard is otherwise specified, such consents and approvals shall not be unreasonably withheld or delayed. In addition to other such consent and approval rights as provided in this Agreement, The ITS Limited Partner shall have the following approval rights under this Section 5(d):

(i) The ITS Limited Partner's approval of the following matters shall not be unreasonably withheld or delayed:

(a) any material change or amendment to, or termination or cancellation of this Agreement, (other than this Subsection 5(d), or any of the instruments or agreements which grant the Partnership any material rights with respect to the Property or any portion thereof (excluding, however, any management agreement or leases for the Property), or which materially restricts the use thereof, or the approval of or consent to any material matter under any such instruments or agreements;

(b) any material expenditure not provided for in the budget agreed to from time to time by the Partners (the "Budget"); and any changes to the Budget;

(c) any borrowing that is: (i) secured by the property which together with all other loans secured by the property has an outstanding principal balance at any time of less than or equal to $53,000,000, or (ii) for Property capital improvement purposes less than $500,000; or (iii) to be used to repair or restore the Base Building Work or Common Areas under the Lease, to the extent such borrowing is less than or equal to the ten percent (10%) of the replacement cost amount the Partnership, acting as Landlord, is obligated to provide under the Lease, Section 15, Casualty and Taking, Subsections 15.1(b) (ii) or 15.2((b) (i);

(d) the initiation, prosecution, defense, or settlement of any legal, arbitration or administrative action or proceeding on any claim (including claims made by or against tenants but excluding any claims by or against ITS Limited Partner, its successors or assigns) by or against the Partnership; or

(e) the engagement of counsel to represent the Partnership provided that it shall not be unreasonable to withhold consent if such counsel does not have substantial experience and expertise in partnership and real estate matters as well as the particular subject matter of the engagement.

(f) any environmental matters requiring remediation exceeding $50,000.

(ii) The ITS Limited Partner's approval of the following matters shall be at the sole and absolute discretion of the ITS Limited Partner:

(a) a sale, exchange or other transfer of the Property or any portion thereof during the Option Period;

(b) the admission of any new Partner to the Partnership;

(c) any borrowing that is: (i) secured by the Property which together with all other loans secured by the property has an outstanding principal balance at any time of more than $53,000,000, or (ii) not on market terms, or (iii) for Property capital improvement purposes more than $500,000; or (iv) to be used to repair or restore the Base Building Work or Common Areas under the Lease, to the extent such borrowing is in excess of the ten percent(10%) of the replacement cost amount the Partnership, acting as Landlord, is obligated to provide under the Lease, Section 15, Casualty and Taking, Subsections 15.1(b) (ii) or 15.2((b) (i);

(d) filing any petition, or consenting to the appointment of a trustee or receiver or any judgment or order, under federal bankruptcy laws;

(e) any material change or amendment to this Subsection 5(d).

The consent of ITS Limited Partner shall not be required for: (i) expenditures funded by the Reserve Account (as defined in Section 7.6 of the Lease); (ii) environmental remediation expenditures not exceeding $50,000, or if the remediation is due to the acts or omissions of ITS Limited Partner, its successors, assigns, contractors, employees or invitees; (iii) the initiation of any claims by the Partnership against the ITS Limited Partnership, its successors or assigns, or (iv) the engagement of legal counsel in connection with a dispute among the Partners. In addition and notwithstanding any other provision in this Subsection 5(d), the General Partner shall have the right, without any approval from the ITS Limited Partner, but subject to its fiduciary duties to act in the best interests of all Partners, to cause the Partnership to obtain a takeout loan to refinance the Partnership's construction financing for the Property so long as the new loan has a principal balance of not more than $51,500,000 and provided the General Partner gives the ITS Limited Partner written notice of the principal terms of the loan at least 20 business days prior to the Partnership's incurring any obligation with respect to the loan. The ITS Limited Partner hereby designates Brigid Makes as its authorized representative for purposes of exercising the ITS Limited Partner's approval rights set forth in this Section 5(d). The ITS Limited Partner agrees to provide the General Partner with immediate written notice should it wish to authorize additional or alternative authorized representatives for this purpose.

(e) SPECIFIED CONSENT. Any consent or approval by a Limited Partner under this Agreement, including approvals from the ITS Limited Partner under Section 5(d), must be obtained in writing and, unless otherwise specified may be granted or withheld by such Limited Partner in its reasonable discretion. Such consent or approval shall not be unreasonably withheld or delayed.

Section 6. CAPITAL.

(a) INITIAL CAPITAL CONTRIBUTIONS. On or prior to the date hereof, each Partner has or will contribute to the capital of the Partnership ("Initial Capital Contribution") the sum set forth opposite each Partner's name below:

General Partner - $400,000 cash

201 Limited Partner - $500,000 cash

ITS Limited Partner - $12,000,000 (in the form of contributing the Property to the Partnership pursuant to the Contribution Agreement)

(b) PERCENTAGE INTEREST. The percentage interest in the Partnership ("Percentage Interests") shall be as follows:

(i) The Percentage Interest of the ITS Limited Partner shall be forty-nine percent (49%).

(ii) The Percentage Interest of the 201 Limited Partner shall be fifty percent (50%).

(iii) The Percentage Included of the General Partner shall be one percent (1%).

(c) PREFERRED RETURN. Notwithstanding anything in Section 6(b) to the contrary, ITS Limited Partner shall receive a preferred return in connection with its tenancy under that certain Build-to-Suit Lease at the Property (the "Lease") with the Partnership. In connection with its leasing of the space known as Phase 2A (as defined in the Lease), ITS Limited Partner shall receive a maximum preferred return ("Monthly Maximum Preferred Return") to be adjusted as described below. The Monthly Maximum Preferred Return is calculated by (i) multiplying the total amount of the Tenant Improvement Allowance (as defined in the Lease) allocated to Phase 2A, by (ii) an interest rate of ten and one-half percent (10.5%) per annum, (iii) the product of which is divided by twelve (12). Deducted from the Maximum Preferred Return is an amount equal to the prior month's actual interest expense incurred by the Partnership on the Phase 2A Tenant Improvement Allowance. The resulting difference is the "Actual Preferred Return" which shall be paid by the Partnership to ITS Limited Partner in monthly installments commencing with the first day of the month after the Phase 2A Rent Commencement Date. Payment of the Actual Preferred Return shall be payable only from Operating Cash Flow after the payment of all Partnership debt service and shall not be paid or accrue beyond a twelve (12) month period of payment. In the event ITS

Limited Partner exercises the Phase 2B Expansion Option as provided in Section 1.2(i) of the Lease, ITS Limited Partner shall receive an Actual Preferred Return based upon the Phase 2B leased space. The ITS Limited Partner shall not be entitled to any Actual Preferred Return by reason of exercising the Phase 2B Expansion Option under Section 1.2(ii) of the Lease. The Actual Preferred Return for the Phase 2B space shall be calculated and paid in the same manner as described above for the Phase 2A space for a period up to twelve (12) months while the construction lender remains in place. If the lender or subsequent permanent lender shall fund the Tenant Improvement Allowance into an interest bearing escrow account, with interest accruing to Landlord, any accrued interest shall be paid pursuant to the escrow account agreement to ITS Limited Partner as the actual Preferred Return for Phase 2B. Attached as Exhibit D is an illustration of the calculation of the Actual Preferred Return for Phase 2A and Phase 2B.

(d) ADDITIONAL CAPITAL CONTRIBUTIONS. No Partner shall have any obligation to contribute any additional sum to the capital of the Partnership other than its Initial Capital Contribution. If the General Partner determines that additional funds are necessary for Partnership purposes, it shall use its best efforts to borrow such funds on fair market terms on behalf of the Partnership from third parties. If the Partnership is unable to borrow needed funds from third parties, the General Partner shall have the right (but not the obligation) to loan such funds to the Partnership, which sum, together with the interest thereon in at a rate equal to one percent (1%) greater than the General Partner's cost of borrowing (provided said borrowing is made on terms which are reasonable, in the best interests of the Partnership and are on terms no less favorable than those the Partnership would have distributed in an arm's length transaction with a bona fide third party), shall be paid out of available operating Cash Flow from the Partnership before any distributions to the Partners. The Partners agree that ITS' Capital Account shall be increased by any unreimbursed costs related to the construction of the Phase I shell of the Project. Notwithstanding any provisions of this Agreement, the ITS Limited Partner hereby commits to make an unsecured loan to the Partnership in an amount of up to $3,000,000 in the form of the Promissory Note attached hereto as Exhibit G (the "ITS Loan"). The ITS Loan will require interest payments at ten and one-half percent (annual percentage rate 10.5%) (the "Interest Payments"). The Partnership shall commence monthly Interest Payments to the ITS Limited Partner at such time as there is sufficient Operating Cash Flow as defined in Section 8 to permit such Interest Payments. The Partnership shall pay the ITS Limited Partner the principal of the ITS Loan at such time as the Construction Financing, as defined in that certain Contribution Agreement By and Between the ITS Partner and the Partnership, dated as of the date of this Agreement ("Construction Financing"), is refinanced. The ITS Loan shall not be considered to be a capital contribution to the Partnership.

(e) NO INTEREST, ETC. No Partner shall be entitled to (i) receive interest or other compensation on or with respect to its capital contributions or withdraw any part of its capital contributions or receive any distribution, except as provided in Sections 8 and 16 hereof, or (ii) demand or receive any property from the Partnership other than cash.

(f) ESTABLISHMENT OF CAPITAL ACCOUNTS. A Capital Account shall be established and maintained for each Partner as provided in Section 2 of Exhibit B, attached hereto and incorporated herein by reference.

Section 7. ALLOCATION OF PROFITS AND LOSSES.

(a) ALLOCATION. Profits and losses shall be allocated as provided in Section 3 of Exhibit B, attached hereto and incorporated herein by reference.

(b) DEFICIT IN CAPITAL ACCOUNT. No Partner shall be required to restore any deficit balance in its Capital Account to the Partnership except as required by Section 16 of this Agreement.

Section 8. DISTRIBUTIONS.

(a) DEFINITIONS. For purposes of this Section 8 and the Agreement, the following terms shall have the respective meanings set forth below:

OPERATING CASH FLOW: Shall mean as to any fiscal year or portion thereof, Operating Revenues less Partnership Expenses and a reserve (to the extent funded during such fiscal year or portion thereof) in the amount of the Budget, the amount of which is determined by the Partners for working capital, payment of future known or reasonably foreseeable expenditures, obligations, or liabilities of the Partnership, and repairs, replacements, and improvements to any Partnership assets after taking into account reserves established under the Lease or in any other lease of the Property.

OPERATING REVENUES: Shall mean as to any fiscal year or portion thereof, the total cash receipts of the Partnership, plus any amounts released from previously established reserves, less Capital Transaction Proceeds, Capital Contributions, any property unpaid advance rentals in connection with the leasing of any Partnership assets (which shall be Operating Revenues when applied), and any unforfeited security deposits of tenants of any Partnership assets.

PARTNERSHIP EXPENSES: Shall mean as to any fiscal year or portion thereof, all expenditures, expenses and charges related to the management and operation of the Partnership and the conduct of its business and affairs and the ownership, leasing, operation, improvement, construction, development, maintenance and upkeep of any of its assets.

EXTRAORDINARY CASH FLOW: Shall mean as to any fiscal year or portion thereof, Capital Transaction Proceeds less any expenses, costs, or liabilities incurred by the Partnership in obtaining any such Capital Transaction Proceeds or in effecting any

such Capital Transaction, and an amount set aside or committed by the Partnership for repair, improvement and replacement to or of any Partnership assets.

CAPITAL TRANSACTION PROCEEDS: Shall mean (except for the proceeds of any Construction Financing necessary or used for the construction of the Project and any permanent financing of the Property necessary or used for the payoff of any outstanding financing and any other Partnership debt), the cash proceeds (including any as a result of the sale, exchange, condemnation or similar eminent domain taking or disposition in lieu thereof, destruction by casualty, financing, refinancing, or other disposition) of any Partnership assets.

UNREPAID CAPITAL CONTRIBUTIONS: Shall mean an amount equal to that portion of the General Partner's or Limited Partner's total Capital Contributions that has not been repaid through a distribution pursuant to Section 8(c)(i).

CAPITAL ACCOUNT: Shall mean as defined in Section 2 of Exhibit B of this Agreement.

(b) DISTRIBUTIONS OF OPERATING CASH FLOW: As soon as practicable but in any event within thirty (30) days after the end of each calendar quarter and except as provided in Section 16 of this Agreement, the General Partner shall distribute Operating Cash Flow in the following order of priority:

(i) the Actual Preferred Return to ITS Limited Partner, if any;

(ii) to the Partners in proportion to their respective Percentage Interests.

(c) DISTRIBUTIONS OF EXTRAORDINARY CASH FLOW. As soon as practicable but in any event within thirty (30) days after receipt by the Partnership of Capital Transaction Proceeds, but subject to Section 16, the General Partner shall distribute Extraordinary Cash Flow in the following order of priority:

(i) to the Partners until their respective Unrepaid Capital Contributions shall have been paid pro rata in proportion to such Unrepaid Capital Contributions; and,

(ii) thereafter, to the Partners in proportion to their respective Percentage Interests.

Section 9. ADMISSION OF ADDITIONAL LIMITED PARTNERS.

The General Partner shall not have the right to admit any person to the Partnership as a partner (general or limited) without the consent of ITS Limited Partner. Such consent shall be within the ITS Limited Partner's sole and absolute discretion.

Section 10. ACTIONS AND COMPENSATION OF PARTNERS.

(a) Except as set forth in this Section 10, no Partner shall receive or be entitled to any compensation or reimbursement for its services to or expenses incurred in connection with the Partnership.

(b) To compensate the General Partner for its services in connection with the development, leasing and management of the Property and the Partnership, the Partnership shall pay the General Partner a monthly management fee in the amount of $1,000.00 to be increased annually by three percent (3%) on the anniversary of the date of this Agreement.

(c) Nothing in this Agreement shall be deemed to restrict in any way the freedom of any Partner or any person, firm or corporation affiliated with any Partner to conduct or engage in any business or activity whatsoever, for its own account and without regard to the business of the Partnership, including, without limitation, acquiring, developing, promoting, leasing, selling, or exploiting real property and functioning as a real estate broker, agent or consultant, regardless of the location of the real estate involved in such business or activity; and neither the Partnership nor any Partner shall have any rights in or to, or any right to an accounting for, any income or profit derived by any other Partner or its affiliate(s) from such business activity. In this regard, the Partners specifically acknowledge that the General Partner, 201 Limited Partner and certain affiliates of the General Partner presently engage in businesses that are or maybe directly competitive with the business of the Partnership.

Section 11. TRANSACTIONS WITH AFFILIATES.

(a) The General Partner is authorized to enter into agreements on behalf of the Partnership with other persons or entities affiliated with the General Partner, or the Limited Partners, provided that any such agreement is made on terms which are reasonable and in the best interests of the Partnership and the terms of such agreement are no less favorable than those which the Partnership would have obtained in an arm's length transaction with a bona fide third party.

(b) Subject to the other provisions hereof, the fact that a Partner is directly or indirectly interested in, affiliated or connected with any persons, firm or corporation shall not prevent the Partnership from employing or retaining any such person, firm or corporation to render or perform a service or from purchasing merchandise or property from any such person, firm or corporation, and neither the Partnership nor any Partner, as such, shall have any rights in or to any income or profit derived by any such person, firm or corporation as a result of such employment, retainer or purchase.

Section 12. BOOKS, RECORDS AND FINANCIAL REPORTS.

(a) The Partnership shall maintain or cause to be maintained at its principal place of business full and accurate books of the Partnership showing all receipts, expenditures, assets, liabilities, profits and losses, and shall maintain all other records necessary for recording the

Partnership's business and affairs. The books of the Partnership shall be kept on the method of accounting used for federal income tax purposes. Such books and records shall be open to the inspection of each Partner or the duly authorized representatives of such Partner upon reasonable notice at reasonable times during normal business hours.

(b) The General Partner shall make all elections required or permitted to be made by the Partnership under the Internal Revenue Code pertaining to the method of depreciation and deductibility of costs and expenses for the purposes of determining the Partnership's distributable income and losses as well as for federal income tax reporting purposes.

(c) The fiscal year of the Partnership shall be the calendar year.

(d) Within sixty (60) days following the last day of each of the first three fiscal quarters, the General Partner, at the expense of the Partnership, shall cause to be prepared and furnished to the Partners financial statements of the Partnership, including a balance sheet and related statements of income and cash flows, prepared on the method of accounting used for federal income tax purposes.

(e) The General Partner, at the expense of the Partnership, within sixty (60) days following the last day of each fiscal year, shall furnish to the Partners financial statements, including a balance sheet and related statements of income, and cash flows, certified by an officer of General Partner stating that said financial statements are prepared in accordance with generally accepted accounting principles and that said financial statements fairly present the Partnership's assets, liabilities and financial condition and the results of its operations as of the date thereof and for the period covered thereby. Limited Partners shall have the right to conduct, at their own expense, an annual audit of General Partner's records.

(f) There shall be delivered to each Partner as soon as practicable and in any event within ninety (90) days after the close of each fiscal year, a copy of the Federal Partnership Return of Income (Form 1065) or other tax return filed by the Partnership.

The Partnership shall also furnish to each Partner such other reports of the Partnership operations and conditions as may reasonably be requested by a Partner.

Section 13. RESTRICTIONS ON TRANSFER OF GENERAL PARTNER'S INTEREST.

(a) IN GENERAL. The General Partner may not sell, assign or encumber all or any portion of its interest in the Partnership or withdraw as General Partner or voluntarily dissolve or liquidate the Partnership, without the prior written consent of the Limited Partners, which may be granted or withheld in their sole and absolute discretion during the Option Period and which thereafter shall not be unreasonably withheld. In no event shall General Partner, without the prior consent of the Limited Partners, to be given in their sole discretion, be allowed to dilute the Limited Partners' Percentage Interest in the Partnership (as to equity or cash flow) by way of a transfer of General Partner's interest in the Partnership. Notwithstanding the foregoing, the General Partner shall have

the right to encumber its interest and the interests of the Limited Partners in the Partnership in connection with the initial construction financing at the Property.

(b) ALLOCATIONS WITH RESPECT TO TRANSFERRED INTERESTS. Upon transfer of all or any portion of the General Partner's interest in accordance with this Section 13 during a Partnership taxable year and the admission of a new general partner or general partners, the items of Partnership income, gain, loss or deduction allocable to the General Partner's interest during the year shall be shared among the persons who were general partners during the year in any manner consistent with the requirements of Code Section 706(d) that the general partner or general partners having the obligation to file the Partnership's federal income tax return for such year under Section 12 shall determine, provided, however, that portion of the gain or loss from the sale or the taxable disposition of a Partnership capital asset that is allocable to the general partner's interest in the Partnership shall be allocated to the person or persons who held that interest on the day such gain or loss was recognized by the Partnership. General Partner shall provide an opinion of counsel, in the form and substance satisfactory to counsel for both Partnership and Limited Partner, that neither the offering nor assignment of the General Partner's interest in the Partnership violates any provision of any federal or state securities or comparable law, and that such transfer will not cause the termination of the Partnership for federal income tax purposes nor limit or reduce Limited Partner's cash flow, extraordinary or otherwise, Unrepaid Capital Contributions, if any, or cash proceeds, if any. The General Partner shall be responsible for all expenses relating to the transfer of any portion of the General Partner's interest in the Partnership.

(c) The transferee of General Partner's interest shall execute a statement in a form and substance reasonably satisfactory to the Partnership that it is acquiring such interest for its own account for investment, and not with a view to distribution thereof.

(d) General Partner shall execute such other documents or instruments as the Partnership may reasonably require in order to effectuate such assignment of such interest in the Partnership.

(e) If the Limited Partners consent to such assignment or transfer, they shall cooperate with the General Partner and execute such reasonable documents and take such other action as may be necessary or appropriate to effectuate the proposed transfer or assignment.

(f) Any purported assignment or transfer not in compliance with this Section 13 shall be void unless consented to in writing by the Limited Partners.

(g) In the event that the General Partner shall propose to assign or transfer its interest in the Partnership to any other person or entity, such General Partner shall notify the Limited Partners, referring to this Section 13, setting forth the price and other material terms and conditions of the proposed assignment or transfer and offering to sell such interest to the Limited Partners for the same, and upon the same terms and conditions as in the proposed assignment or transfer, and requesting the Limited Partners' consent to such assignment or transfer in accordance with this Section 13. The Limited Partners, upon such notification, shall within thirty (30) days of receipt of

such notice, (i) agree to purchase the General Partner's interest in the Partnership for the same purchase price and upon other terms and conditions no less favorable than those contained in the notice of proposed assignment or transfer, (ii) grant its approval to such proposed assignment or transfer, or (iii) decline to purchase the General Partner's interest and decline to consent to such proposed assignment or transfer. If the Limited Partners fail to respond within such thirty (30) day period, the Limited Partners will be deemed to have made an election pursuant to clause (ii) above.

Section 14. DEATH, LEGAL INCOMPETENCY OR BANKRUPTCY OF A LIMITED PARTNER.

(a) IN GENERAL. The death, legal incompetency or bankruptcy of a Limited Partner shall not dissolve or terminate the Partnership. In the event the deceased, incompetent or bankrupt Limited Partner's interest in the Partnership passes to a successor or successors in interest, such interest shall succeed to the deceased, incompetent or bankrupt Limited Partner's entire interest in the Partnership and shall, subject to the following sentence, become limited partners of the Partnership with the same Percentage Interest in the Partnership, the same rights in and to all distributions made by the Partnership, in liquidation or otherwise, and with the same share of the Partnership's taxable income and losses as the deceased, incompetent or bankrupt Limited Partner had with respect to its interest in the Partnership. In the event a successor or successors in interest of the Limited Partner are admitted to the Partnership as limited partners hereunder, such successor or successors shall execute and deliver to the Partnership all documents that may be necessary or appropriate, in the opinion of counsel for the Partnership, to reflect their admission to the Partnership as limited partners and their agreement to be bound by the terms and conditions of this Agreement, and shall pay all reasonable expenses connected with such substitution.

(b) ALLOCATIONS WITH RESPECT TO TRANSFERRED INTERESTS. Upon the effective transfer by a Limited Partner of all or any portion of its interest in the Partnership during a Partnership taxable year, the items of Partnership income, gain, loss or deduction allocable to such interest shall be shared among the various holders of such interest during the year as follows: (i) by assigning (in any manner that the General Partner may select that is permissible under Code Section 706(d) an appropriate portion of each such item to each day in the period to which it is attributable and (ii) by allocating the portion assigned to any such day among the holders in proportion to the interest held by each at the close of such day. For purposes of the preceding sentence, gain or loss from the sale or other taxable disposition of a Partnership capital asset shall be assigned to the day on which such gain or loss was recognized by the Partnership.

Section 15. DISSOLUTION EVENTS.

The Partnership shall be dissolved in the manner provided in Section 16 hereof upon the happening of any of the following events:

(a) The agreement of the General and Limited Partners to dissolve the Partnership;

(b) The disposition by the Partnership of all of its assets and property;

(c) The entry of a final judgment, order or decree of a court of competent jurisdiction adjudicating the Partnership to be bankrupt, and the expiration without appeal of the period, if any, allowed by applicable law in which to appeal therefrom;

(d) The making of any general assignment for the benefit of creditors by the General Partner;

(e) The filing of a voluntary petition in bankruptcy or a voluntary petition for an arrangement or reorganization under the Federal Bankruptcy Act by the General Partner;

(f) The appointment of a receiver or trustee for all or substantially all of the General Partner's property or assets if not removed within sixty (60) days;

(g) The liquidation or dissolution of the General Partner; or

(h) After December 31, 2050, upon one year's advance written notice by the General Partner or the ITS Partner.

Section 16. WINDING UP, LIQUIDATION AND DISSOLUTION.

Upon the dissolution of the Partnership under Section 15 of this Agreement, liquidation and winding up shall be carried out in accordance with the following provisions:

(a) Upon dissolution of the Partnership the business of the Partnership shall continue, if necessary, for the sole purpose of winding up its affairs; provided that the process of winding up may include completion of such work as the General Partner shall consider appropriate. The rights and obligations of the General Partner with respect to management of the Partnership as set forth in Section 5 shall continue during the period of such winding up, except that if the General Partner shall have become incapacitated from exercising the management powers set forth in Section 5 due to the occurrence of a dissolution event involving the General Partner as described in Section 15 hereof, said management powers shall pass to the person or persons selected by the 201 Limited Partner.

(b) The assets of the Partnership shall, consistent with Section 16(a), be liquidated as promptly as possible so as to permit distributions in cash, but such liquidation shall be made in an orderly manner so as to avoid undue losses attendant upon liquidation.

(c) The Partners hereby agree that, notwithstanding the provisions of the Act and any other laws, the proceeds of liquidation and all other assets of the Partnership shall be applied and distributed in the following order of priority:

(i) in payment of the expenses of liquidation;

(ii) in payment of debts of the Partnership to creditors other than the Partners;

(iii) in payment of debts of the Partnership to Partners who are also creditors;

(iv) to establish reserves deemed reasonable for the ultimate discharge of contingent, unliquidated or unforeseen liabilities or obligations of the Partnership;

(v) to those Partners having positive Capital Account balances in proportion to such positive balances until such balances equal zero; and

(vi) to the Partners in proportion to their respective Percentage Interest in the Partnership.

The intent and purpose of this Section 16(c) is to modify the priorities of distribution set forth in the Act to reflect the understanding and agreement of the Partners.

Such distributions shall be made by the end of the Partnership year in which the liquidation occurs (or, if later, within ninety (90) days after the date of such liquidation).

(d) In the event that complete liquidation of the assets of the Partnership within the period of time prescribed for distributions in Section 16(c) proves impractical, assets of the partnership other than cash may be distributed to the Partners in kind but, without limitation, only after all cash and cash-equivalents received by the Partnership in a liquidating sale pursuant to this Section have first been distributed. Any asset distributed in kind pursuant to this subparagraph (d) shall be distributed to the Partners, valued at fair market value, in accordance with their Capital Accounts as determined after (i) application of Section 7 of this Agreement; (ii) reduction for distributions of cash and cash equivalents pursuant to Section 16(b); and (iii) the adjustments to reflect the amount of income, gain, or loss which the Partnership would have recognized if such assets had been sold.

(e) If the General Partner deems it necessary to provide for payments of known or contingent or unforeseen liabilities of the Partnership after the expiration of the time period prescribed for distributions in Section 16(c), then the General Partner may arrange for such payments out of the assets of the Partnership in any manner that does not violate the requirements of Treas. Reg. Section 1.704-l(b)(2)(ii)(b)(2).

(f) In connection with the termination of the Partnership, the Partnership's accountants shall prepare and furnish to each Partner a statement setting forth the assets and liabilities for the Partnership as of the date of complete liquidation.

(g) Upon dissolution of the Partnership, the General Partner shall contribute to the Partnership an amount of money equal to the deficit balance, if any, in its Capital Account. Any contributions required under this subparagraph (g) shall be made no later than a date that will permit such contributions to be distributed among the Partners in accordance with the provisions of this Section 16 within the time period provided for such distribution in Section 16(c).

Section 17. RESTRICTIONS ON TRANSFER OF LIMITED PARTNER'S INTEREST.

(a) CONDITIONS TO TRANSFER. Except in connection with a Permitted Transfer, the Limited Partners may not assign all or any portion of its interest in the Partnership without the prior written consent of the General Partner, not to be unreasonably withheld. In no event shall the consent of the General Partner be given unless such assignee has:

(i) accepted and adopted, in form satisfactory to the General Partner, all terms and provisions of this Agreement as the same may have been amended;

(ii) executed a power of attorney substantially identical to that contained in Section 19;

(iii) provided an opinion of counsel, in form and substance satisfactory to counsel for the Partnership, that neither the offering nor assignment of the Limited Partner's interest in the Partnership violates any provision of any federal or state securities or comparable law, and that such transfer will not cause the termination of the Partnership for federal income tax purposes;

(iv) executed a statement in form and substance satisfactory to the General Partner that it is acquiring such interest for its own account for investment, and not with a view to distribution thereof;

(v) executed such other documents or instruments as the General Partner may reasonably require in order to effectuate such assignment of such interest in the Partnership; and

(vi) paid to the Partnership such reasonable expenses as may be incurred in connection with such assignment.

Upon such consent to transfer by the General Partner, but not otherwise, such assignee shall, with respect to the interest in the Partnership so assigned, be admitted to the Partnership and become a substituted limited partner therein. If the General Partner consents to such assignment or transfer, it shall cooperate with the Limited Partner and execute such deeds and other documents and take such other action as may be necessary or appropriate to effectuate the proposed transfer or assignment. Any purported assignment not in compliance with this Section 17 shall be void unless consented to in writing by the General Partner.

(b) NOTICE AND GENERAL PARTNER'S RIGHT OF FIRST REFUSAL. In the event that a Limited Partner shall propose to assign or transfer its interest in the Partnership to any other person or entity, but not in the event of a Limited Partner's assignment or transfer to an Affiliate as defined below, such Limited Partner shall notify the General Partner, referring to this Section 17(b), setting forth the price and other material terms and conditions of the proposed assignment or transfer and offering to sell such interest to the General Partner for the same purchase price, and upon the same

terms and conditions as in the proposed assignment or transfer, or alternatively, requesting the General Partner's consent to such assignment or transfer in accordance with paragraph (a) of this Section 17. The General Partner, upon such notification, shall within (30) days of receipt of such notice, either (i) purchase the Limited Partner's interest in the Partnership for the same purchase price and upon other terms and conditions no less favorable than those contained in the notice of proposed assignment or transfer, or (ii) grant its approval to such proposed assignment or transfer or (iii) withhold its approval to such proposed assignment or transfer, subject to the terms of Section 17(a) above. If the General Partner fails to respond within such thirty (30) day period, the General Partner will be deemed to have consented to such proposed assignment or transfer.

(c) PERMITTED TRANSFERS. Notwithstanding the foregoing and subject to Section 17(d) below, (i) any bona fide financing or capitalization, including a public offering of the common stock of a Limited Partner shall not be deemed to be an assignment hereunder, and (ii) the Limited Partners shall have the right to assign their respective interests in the Partnership, or any portion thereof, without General Partner's consent to any affiliate of the Limited Partner, or to any entity which results from a merger, reorganization or consolidation of a Limited Partner, or to any entity which acquires substantially all of the stock or assets of a Limited Partner as a going concern (hereinafter each a "Permitted Transfer"). For purposes of the preceding sentence, an "Affiliate" of a Limited Partner shall mean any entity in which the Limited Partner owns at least a twenty-five percent (25%) equity interest, any entity which owns at least a twenty-five (25%) equity interest in the Limited Partner and/or any entity which is related to the Limited Partner by a chain of ownership interests involving at least twenty-five percent (25%) equity interest at each level in the chain. The General Partner shall have no right to exercise its rights of first refusal in connection with, and shall have no right to any sums or other economic consideration resulting from, any Permitted Transfer. The transferee under such Permitted Transfer shall be and remain subject to all of the terms and provisions of this Agreement.

(d) LENDER'S APPROVAL. Any transfer of the Limited Partners' interest in the Partnership, including any Permitted Transfer, shall be subject to any restrictions on transfer imposed by any loan agreement with any lender to the Partnership.

Section 18. LIABILITIES.

(a) No Partner shall be liable to any other Partner or to the Partnership for any damages except where such damages are caused by bad faith, willful misconduct or gross negligence of a Partner. The Partnership shall indemnify and hold harmless each Partner from any damage incurred by said Partner by reason of any act or omission performed or omitted by said Partner for or on behalf of the Partnership except for damages caused by bad faith, willful misconduct or gross negligence.

(b) No stockholder, partner, affiliate or controlling person of a Partner shall have any liability whatsoever to any person for any liability of the Partnership or any Partner.

(c) Except as otherwise provided in this Agreement, the Limited Partners shall not be liable for the debts, liabilities, contracts or other obligations of the Partnership. The Limited Partners shall be liable to the extent of its capital interests in the Partnership, but shall not be required to lend any funds to the Partnership.

Section 19. EXECUTION OF ADDITIONAL DOCUMENTS.

Upon request of the General Partner, the Limited Partners shall promptly execute all certificates and other documents necessary or desirable for the General Partner to accomplish all such filing, recording, publication and other acts as it determines may be appropriate to comply with (i) the requirements for the formation, operating, amendment or dissolution, as the case may be, of a limited partnership under the laws of the State of California, and (ii) similar requirements of applicable law in all other jurisdictions where the Partnership proposes to conduct business.

Section 20. OPTION TO PURCHASE BY ITS LIMITED PARTNER.

(a) At anytime thirty-six (36) months after the date of this Agreement and before the last fifteen (15) months of the Lease term as from time to time extended ("Option Period"), ITS Limited Partner shall have the right to purchase all or part of the Limited Partnership interest(s) of the other Partner(s) in the Partnership ("Option"). ITS Limited Partner shall exercise the Option by giving written notice to each of the Partners specifying the percentage Limited Partnership interest to be purchased, the purchase price and the date of purchase which date shall be not sooner than sixty (60) days, and not later than ninety (90) days after the date the notice is given to the Partners. The Option may be exercised by ITS Limited Partner one or more times during the Option Period provided, however, that under each exercise at least ten percent (10%) of each Partner's limited partnership interest in the Partnership is purchased and that the same percentage of each Partner's total limited partnership interest is purchased from each Partner. Should ITS Limited Partner purchase, at any time, all the limited partnership interest(s) held by the 201 Limited Partner, it shall, concurrent with such purchase, purchase the entire Partnership interest held by the General Partner, Inc. on the same terms as those set forth in this Section 20 for the acquisition of limited partnership interests, and the General Partner shall sell its Partnership interest to the ITS Limited Partner on such terms. Notwithstanding any other provisions of this Agreement, the ITS Limited Partner shall under no circumstances exercise its Option under this Section 20 prior to that date upon which the Construction Financing has been fully repaid.

(b) The purchase price for the Partnership interest shall be calculated by adding the base rent from the Lease and all other leases and sources of revenue generated by the Property scheduled for the consecutive twelve (12) month period commencing ninety (90) days from the date the Option notice is given (for premises at the Property not leased, rental revenue shall be based upon projected fair market rental rates for the subject twelve month period for office and laboratory research and development space in the area that the Property is located), the sum of which is divided by the Capitalization Rate, less (i) Partnership debt, unsecured or secured by the Partnership assets, less (ii) the Unrepaid Capital Contribution of the Partners, multiplied by (iii) the percentage interest to be purchased by ITS Limited Partner, allocated (iv) among the selling

Partners in accordance with their Percentage Interests. The foregoing capitalization rates shall be subject to adjustment as provided in Section 20(h) below. In addition, for each percentage of Partnership interest acquired, ITS Limited Partner shall pay to the selling Partners an equal percentage of the selling Partners' Unpaid Capital Contribution. For purposes of example only, attached as Exhibit E hereto is a hypothetical example of the calculation of the purchase price for the Partnership interest. If the Partners are unable to agree on the fair market rental value of any unleased space, then within twenty (20) days after receipt of the exercise notice, each party, at its cost and by giving notice to the other party, shall appoint a real estate appraiser with at least five (5) years experience appraising similar commercial properties in the County in which the Property is located to appraise and set the Fair Market Rental for the unleased premises for the subject twelve (12) month period. If either party fails to appoint an appraiser within the allotted time, the single appraiser appointed by the other party shall be the sole appraiser. If an appraiser is appointed by each party and the two appraisers so appointed are unable to agree upon a Fair Market Rental within thirty (30) days after the appointment of the second, the two appraisers shall appoint a third similarly qualified appraiser within ten (10) days after expiration of such 30-day period; if they are unable to agree upon a third appraiser, then either party may, upon not less than five (5) days notice to the other party, apply to the Presiding Judge of the Superior Court of the County in which the Property is located for the appointment of a third qualified appraiser. Each party shall bear its own legal fees in connection with appointment of the third appraiser and shall bear one-half of any other costs of appointment of the third appraiser and of such third appraiser's fee. The third appraiser, however selected, shall be a person who has not previously acted for either party in any capacity. Within thirty (30) days after the appointment of the third appraiser, the third appraiser shall set the Fair Market Rental for said twelve month period by selecting the appraised value determined by the first two appraisers which is closest to his own determination, and shall so notify the parties, which determination shall be binding on the parties and shall be enforceable in any further proceedings relating to this exercise of the purchase rights. For purposes of this Section 20(b), the "FAIR MARKET RENTAL" of the unleased premises shall be determined with reference to the then projected market rental rates for properties in the City of San Carlos with interior improvements and common area improvements comparable to those then existing in the unleased premises. For purposes of this Agreement, "Capitalization Rate" shall be ten and one-half percent (10.5%) if the Option is exercised prior to the end of the fifth year after the date of this Agreement and ten and three-quarters percent (10.75%) if the Option is exercised following the end of the fifth year after the date of this Agreement; PROVIDED HOWEVER, if the 201 Limited Partner elects the "Warrant Payment Alternative" (as described in subsection (h) hereof), the Capitalization Rate shall be ten and three-quarters percent (10.75%) if the Option is exercised prior to the end of the fifth year after the date of this Agreement and eleven percent (11.00%) if the Option is exercised following the end of the fifth year after the date of this Agreement.

(c) The closing of the purchase and sale contemplated by this Section 20 shall occur at the principal place of business of the Partnership (or at such other place selected by the Partners) at the time and on the date set forth in the exercise notice. At the closing, the Partners shall execute and deliver all such assignments of partnership interests and other documents and take such further

action as shall be necessary or appropriate to consummate the purchase and sale. The purchase price shall be paid by certified or bank check or by wire transfer of immediately available funds.

(d) If any Partner which is the selling party fails to perform its obligations contained in Section 20, ITS Limited Partner may, in addition to its other remedies set forth in this Agreement (but subject to the limitation on liability contained in Section 18) enforce its rights under Section 20 by action for specific performance.

(e) All expenses in connection with the purchase and sale contemplated by this Section 20 shall be paid by ITS Limited Partner, except that each Partner shall pay its own legal fees.

(f) In the event ITS Limited Partner purchases the entire interest of the Partners, in lieu of purchasing the interest of the selling party in the Partnership, ITS Limited Partner may elect to cause the Partnership to convey and transfer the assets of the Partnership to ITS Limited Partner or its designee provided that ITS Limited Partner (i) pays all transfer taxes, recording fees, title insurance, escrow fees and other costs in connection with such conveyance and transfer, and (ii) such conveyances and transfers shall not cause adverse tax or other adverse financial consequences to the selling Partners.

(g) The exercise of the purchase rights granted under this Section 20 shall be subject to the approval of any lender of the Partnership. The General Partner agrees to use commercially reasonable efforts to obtain the pre-approval of ITS Limited Partner as a permitted assignee from any permanent financing lender at the Property.

(h) In connection with the Option, the ITS Limited Partner shall issue to the General Partner and the 201 Limited Partner, in proportion to their respective interests in the Partnership, warrants ("Warrants") in the unregistered common stock of the ITS Limited Partner ("Shares") entitling the General Partner and the 201 Limited Partner to purchase a combined total of ten thousand (10,000) Shares at a price equal to the closing price of the Shares on the day preceding the date the Partnership acquires title to Property. On or prior to the date three (3) days prior to the closing date of the purchase and sale of any limited partnership interest pursuant to the Option, the 201 Limited Partner shall provide written notice to the ITS Limited Partner of its election of the "Warrant Payment Alternative." In the event such election is made, the Capitalization Rate with respect to the Partnership interests acquired upon such exercise of the Option shall be adjusted as set forth in subsection (b) hereof and a percentage of the Warrants equal to the percentage of the Partnership interests acquired pursuant to the exercise of the Option shall become exercisable upon the closing and sale of the limited partnership interests pursuant to such exercise of the Option. To the extent any proportion of the Warrants become exercisable as a result of the 201 Limited Partner's election of the Warrant Payment Alternative, such proportion of the Warrant shall expire upon the earlier of (i) the date six (6) years from the date of the closing and sale of the purchase of the limited partnership interests pursuant to such exercise of the Option or (ii) a change of control of the ITS Limited Partner (as defined in the Warrant). In the event that the 201 Limited Partner does not provide notice of its election of the Warrant Payment Alternative as set forth above, the 201 Limited Partner shall be deemed not to have elected the Warrant Payment

Alternative. Nothing contained in the Section shall be construed as requiring the selling Partners to exercise any or all of their rights under the Warrants. The Warrants shall be in the form attached hereto as Exhibit F. Notwithstanding anything to the contrary set forth herein, the terms and conditions of the Warrant shall be governed by the terms thereof.

Section 21. EXECUTION OF DOCUMENTS.

Subject to the terms hereof, each Partner shall execute and deliver any and all other instruments and documents and do such other acts as may be necessary and appropriate to advance the business and achieve the goals of the Partnership.

Section 22. SUCCESSORS AND ASSIGNS.

Except as otherwise set forth in this Agreement, the terms, covenants and agreements herein contained shall inure to the benefit of and be binding upon the successors and assigns of the parties hereto.

Section 23. NOTICE.

Any notice or communication required or referred to herein shall be in writing and transmitted by personal delivery or by registered or certified mail, postage prepaid, or by Federal Express or other nationally recognized overnight courier service, addressed to such Partner at the address set forth below or to such other address as such Partner may hereafter designate to the other Partners in accordance herewith.

If to General Partner:	SciMed Prop III, Inc. c/o Bernardo Property Advisors, Inc. 11440 W. Bernardo Court, Suite 208 San Diego, CA 92127
If to the 201 Limited Partner:	201 Industrial Partnership c/o Bernardo Property Advisors, Inc. 11440 W. Bernardo Court, Suite 208 San Diego, California 92127
With a Copy to:	Seltzer Caplan McMahon Vitek 2100 Symphony Towers 750 B Street, Suit San Diego, CA 92101 Attention: David Dorne, Esq.

If to the ITS Limited Partner: Inhale Therapeutic Systems, Inc.
150 Industrial Road
San Carlos, California 94070
Attention: Brigid Makes

With a Copy to: Inhale Therapeutic Systems, Inc.
150 Industrial Road
San Carlos, California 94070
Attention: Sharron Reiss-Miller

With a Copy to: 150 Industrial Road
San Carlos, California 94070
Attention: Robert A. Donnally, Esq.

With a Copy to: Cooley Godward, LLP
One Maritime Plaza, 20th Floor
San Francisco, CA 94111-3580
Attention: Anna B. Pope. Esq.

Any notice shall be deemed to have been given on the day next following the day of such deliver, mailing or deposit with a courier service.

Section 24. REPRESENTATION AND WARRANTY.

Each party hereby represents and warrants that this Agreement has been duly authorized by all requisite action on the part of such party and is a legal, valid and binding obligation of such party.

Section 25. GOVERNING LAW.

This Agreement shall be governed by and construed in accordance with the laws of the State of California.

Section 26. ENTIRE AGREEMENT.

This Agreement (including the exhibits and schedules hereto) contains the entire understanding between the parties and supersedes any prior written or oral agreements or understandings between them with respect to the within subject matter. This Agreement may be amended or modified only by an instrument in writing signed by the party against whom the provisions of the amendment or modification are asserted.

Section 27. CAPTIONS.

Section titles contained in this Agreement are inserted only for reference and in no way define, limit, extend or describe the scope or intent of any provision of this Agreement.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first written above.

GENERAL PARTNER

SciMed Prop III, Inc.,
a California corporation

By: ----------
Title: ----------
Date: ----------
By: ----------
Title: ----------
Date: ----------

201 LIMITED PARTNER

201 Industrial Partnership,
a California general partnership

By: ----------
Title: ----------
Date: ----------
By: ----------
Title: ----------
Date: ----------

ITS LIMITED PARTNER

INHALE THERAPEUTIC SYSTEMS, INC.
a Delaware corporation

By: ----------
Title: ----------
Date: ----------
By: ----------
Title: ----------
Date: ----------

EXHIBIT A

Property Legal Description

All that certain real property in the State of California, County of San Mateo, City of San Carlos more particularly described as follows:

ALL LANDS LYING WITHIN THE EXTERIOR BOUNDARIES OF THAT MAP ENTITLED "REVERSION TO ACREAGE OF THE LANDS OF ARNDT ELECTRONICS LYING WITHIN THE COUNTY OF SAN MATEO, BEING PARCELS 1,2,3 AND 4 AS SHOWN ON THAT CERTAIN PARCEL MAP FILED IN VOLUME 51 OF PARCEL MAPS AT PAGE 71 RECORDS OF SAN MATEO," FILED IN THE OFFICE OF THE COUNTY RECORDER OF SAN MATEO COUNTY, STATE OF CALIFORNIA, ON OCTOBER 6, 1986 IN VOLUME 58 OF PARCEL MAPS AT PAGE 13.

ASSESSOR'S PARCEL NOS.	046-020-370	JOINT PLAN NOS.	046-002-020-22A
	046-020-380		046-002-020-22-01A
			046-002-020-22-02A
			046-002-020-22-03A
			046-002-020-23A
			046-002-020-23-01A

EXHIBIT B
Allocation of Profits, Losses and
Other Items Among the Partners of
Inhale 201 Industrial Road, L.P.

1. DEFINITIONS. As used in the Agreement and in this Exhibit B, the following terms shall have the following meanings:

1.1 "ADJUSTED CAPITAL ACCOUNT DEFICIT" means, with respect to any Partner, the deficit balance, if any, in such Partner's Capital Account as of the end of the relevant Calendar Year, after giving effect to the following adjustments:

(i) Credit to such Capital Account any amounts which such Partner is deemed to be obligated to restore pursuant to the penultimate sentences in Sections 1.704-2(g)(1) and 1.704-2(i)(5) of the Regulations; and

(ii) Debit to such Capital Account the items described in Sections 1.704-1(b)(2)(ii)(d)(4), 1.704-1(b)(2)(ii)(d)(5) and 1.704-1(b)(2)(ii)(d)(6) of the Regulations.

The foregoing definition of Adjusted Capital Account Deficit is intended to comply with the provisions of Section 1.704-1(b)(2)(ii)(d) of the Regulations and shall be interpreted consistently therewith.

1.2 "CALENDAR YEAR" means (i) the period commencing on the formation of the Partnership and ending on December 31, 2000, (ii) any subsequent twelve (12) month period commencing on January 1 and ending on December 31, (iii) any portion of the period described in clauses (i) or (ii) for which the Partnership is required to allocate Profits, Losses, and other items of Partnership income, gain, loss or deduction pursuant to SECTION 3 hereof, or (iv) the period commencing on the immediately preceding January 1 and ending on the date on which all property is distributed to the Partners pursuant to SECTION 16 of the Agreement.

1.3 "DEPRECIATION" means, for each Calendar Year, an amount equal to the depreciation, amortization, or other cost recovery deduction allowable with respect to an asset for such Calendar Year, except that if the Gross Asset Value of an asset differs from its adjusted basis for federal income tax purposes at the beginning of such Calendar Year, Depreciation shall be an amount which bears the same ratio to such beginning Gross Asset Value as the federal income tax depreciation, amortization, or other cost recovery deduction for such Calendar Year bears to such beginning adjusted tax basis; PROVIDED, HOWEVER, that if the adjusted basis for federal income tax purposes of an asset at the beginning of such Calendar Year is zero, Depreciation shall be determined with reference to such beginning Gross Asset Value using any reasonable method selected by the Partners.

1.4 "GROSS ASSET VALUE" means with respect to any asset, the asset's adjusted basis for federal income tax purposes, except as follows:

(i) The initial Gross Asset Value of any asset contributed by a Partner to the Partnership shall be the gross fair market value of such asset, as determined by the Partners;

(ii) The Gross Asset Values of all Partnership assets shall be adjusted to equal their respective gross fair market values (taking Code Section 7701(g) into account), as determined by the Partners as of the following times: (A) the acquisition of an interest in the Partnership by any new or existing Partner in exchange for more than a DE MINIMIS Capital Contribution; (B) the distribution by the Partnership to a Partner of more than a DE MINIMIS amount of Partnership property as consideration for all or a portion of the Partner's interest in the Partnership; and (C) the liquidation of the Partnership within the meaning of Regulations Section 1.704-1(b)(2)(ii)(g); PROVIDED that an adjustment described in clauses (A) and (B) of this paragraph shall be made only if the Partners reasonably determine that such adjustment is necessary to reflect the relative economic interests of the Partners in the Partnership;

(iii) The Gross Asset Value of any item of Partnership assets distributed to any Partner shall be adjusted to equal the gross fair market value (taking Code Section 7701(g) into account) of such asset on the date of distribution, as determined by the Partners; and

(iv) The Gross Asset Values of Partnership assets shall be increased (or decreased) to reflect any adjustments to the adjusted basis of such assets pursuant to Code Section 734(b) or Code Section 743(b), but only to the extent that such adjustments are taken into account in determining Capital Accounts pursuant to Regulations Section 1.704-1(b)(2)(iv)(m) and subparagraph (vi) of the definition of "Profits" and "Losses" or SECTION 3.3(c) hereof; PROVIDED, HOWEVER, that Gross Asset Values shall not be adjusted pursuant to this subparagraph (iv) to the extent that an adjustment pursuant to subparagraph (ii) is required in connection with a transaction that would otherwise result in an adjustment pursuant to this subparagraph (iv).

If the Gross Asset Value of an asset has been determined or adjusted pursuant to subparagraph (ii) or (iv), such Gross Asset Value shall thereafter be adjusted by the Depreciation taken into account with respect to such asset, for purposes of computing Profits and Losses.

1.5 "NONRECOURSE DEDUCTIONS" has the meaning set forth in Section 1.704-2(b)(1) of the Regulations.

1.6 "NONRECOURSE LIABILITY" has the meaning set forth in Section 1.704-2(b)(3) of the Regulations.

1.7 "PARTNERSHIP MINIMUM GAIN" has the same meaning as the term "partnership minimum gain" set forth in Sections 1.704-2(b)(2) and 1.704-2(d) of the Regulations.

1.8 "PARTNER NONRECOURSE DEBT" has the same meaning as the term "partner nonrecourse debt" in Section 1.704-2(b)(4) of the Regulations.

1.9 "PARTNER NONRECOURSE DEBT MINIMUM GAIN" means an amount, with respect to each Partner Nonrecourse Debt, equal to the Partnership Minimum Gain that would result if such Partner Nonrecourse Debt were treated as a Nonrecourse Liability, determined in accordance with Section 1.704-2(i)(3) of the Regulations.

1.10 "PARTNER NONRECOURSE DEDUCTIONS" has the same meaning as the term "partner nonrecourse deductions" in Sections 1.704-2(i)(1) and 1.704-2(i)(2) of the Regulations.

1.11 "PROFITS" and "LOSSES" mean, for each Calendar Year, an amount equal to the Partnership's taxable income or loss for such Calendar Year, determined in accordance with Code Section 703(a) (for this purpose, all items of income, gain, loss, or deduction required to be stated separately pursuant to Code Section 703(a)(1) shall be included in taxable income or loss), with the following adjustments (without duplication):

(i) Any income of the Partnership that is exempt from federal income tax and not otherwise taken into account in computing Profits or Losses pursuant to this definition of "Profits" and "Losses" shall be added to such taxable income or loss;

(ii) Any expenditures of the Partnership described in Code Section 705(a)(2)(B) or treated as Code Section 705(a)(2)(B) expenditures pursuant to Regulations Section 1.704-1(b)(2)(iv)(i), and not otherwise taken into account in computing Profits or Losses pursuant to this definition of "Profits" and "Losses" shall be subtracted from such taxable income or loss;

(iii) In the event the Gross Asset Value of any Partnership asset is adjusted pursuant to subparagraphs (ii) or (iii) of the definition of Gross Asset Value, the amount of such adjustment shall be treated as an item of gain (if the adjustment increases the Gross Asset Value of the asset) or an item of loss (if the adjustment decreases the Gross Asset Value of the asset) from the disposition of such asset and shall be taken into account for purposes of computing Profits or Losses;

(iv) Gain or loss resulting from any disposition of property with respect to which gain or loss is recognized for federal income tax purposes shall be computed by reference to the Gross Asset Value of the property disposed of, notwithstanding that the adjusted tax basis of such property differs from its Gross Asset Value;

(v) In lieu of the depreciation, amortization, and other cost recovery deductions taken into account in computing such taxable income or loss, there shall be taken into account Depreciation for such Calendar Year, computed in accordance with the definition of Depreciation;

(vi) To the extent an adjustment to the adjusted tax basis of any Partnership asset pursuant to Code Section 734(b) is required, pursuant to Regulations Section 1.704-(b)(2)(iv)(m)(4), to be taken into account in determining Capital Accounts as a result of a distribution other than in liquidation of a Partner's interest in the Partnership, the amount of such adjustment shall be treated as an item of gain (if the adjustment increases the basis of the asset) or loss (if the adjustment decreases such basis) from the disposition of such asset and shall be taken into account for purposes of computing Profits or Losses; and

(vii) Notwithstanding any other provision of this definition, any items which are specially allocated pursuant to SECTION 3.3 or SECTION 3.4 hereof shall not be taken into account in computing Profits or Losses.

The amounts of the items of Partnership income, gain, loss or deduction available to be specially allocated pursuant to SECTIONS 3.3 AND 3.4 hereof shall be determined by applying rules analogous to those set forth in subparagraphs (i) through (vi) above.

2. CAPITAL ACCOUNTS.

2.1 INITIAL CAPITAL ACCOUNTS. The initial capital accounts for each Partner ("CAPITAL ACCOUNT") shall be as follows:

PARTNER	INITIAL CAPITAL ACCOUNT BALANCE
General Partner	$ 400,000
201 Limited Partner	$ 500,000
ITS Limited Partner	$12,000,000

2.2 MAINTENANCE OF CAPITAL ACCOUNTS. The Capital Accounts shall be maintained for each Partner in accordance with the following provisions:

(i) To each Partner's Capital Account there shall be credited (A) such Partner's Capital Contributions, (B) such Partner's distributive share of Profits and any items in the nature of income or gain that are specially allocated pursuant to SECTION 3.3 or SECTION 3.4 hereof, and (C) the amount of any Partnership liabilities that are assumed by such Partner or that are secured by any property distributed to such Partner. The principal amount of a promissory note that is not readily traded on an established securities market and that is contributed to the Partnership by the maker of the note (or a Partner related to the maker of the note, within the meaning of Regulations Section 1.704-1(b)(2)(ii)(c)) shall not be included in the Capital Account of any Partner until the Partnership makes a taxable disposition of the note or until (and to the extent) principal payments are made on the note, all in accordance with Regulations Section 1.704-1(b)(2)(iv)(d)(2);

(ii) To each Partner's Capital Account there shall be debited (A) the amount of money and the Gross Asset Value of any property distributed to such Partner pursuant to any provision of this Agreement, (B) such Partner's distributive share of Losses and any items in the nature of expenses or losses that are specially allocated pursuant to SECTION 3.3 or SECTION 3.4 hereof, and (C) the amount of any liabilities of such Partner that are assumed by the Partnership or that are secured by any property contributed by such Partner to the Partnership;

(iii) In the event an interest in the Partnership is transferred in accordance with the terms of this Agreement, the transferee shall succeed to the Capital Account of the transferor to the extent it relates to the transferred interest; and

(iv) In determining the amount of any liability for purposes of subparagraphs (i) and (ii) above there shall be taken into account Code Section 752(c) and any other applicable provisions of the Code and Regulations.

The foregoing provisions and the other provisions of this Agreement relating to the maintenance of Capital Accounts are intended to comply with Regulations Section 1.704-1(b), and shall be interpreted and applied in a manner consistent with such Regulations. In the event the Partners shall determine that it is prudent to modify the manner in which the Capital Accounts, or any debits or credits thereto (including, without limitation, debits or credits relating to liabilities which are secured by contributed or distributed property or which are assumed by the Partnership or any Partners), are computed in order to comply with such Regulations, the Partners may make such modification, PROVIDED that it is not likely to have a material effect on the amounts distributed to any person pursuant to SECTION 16 of the Agreement upon the dissolution of the Partnership. The Partners also shall (i) make any adjustments that are necessary or appropriate to maintain equality between the Capital Accounts of the Partners and the amount of capital reflected on the Partnership's balance sheet, as computed for book purposes, in accordance with Regulations Section 1.704-1(b)(2)(iv)(g), and (ii) make any appropriate modifications in the event unanticipated events might otherwise cause this Agreement not to comply with Regulations Section 1.704-1(b).

3. ALLOCATION OF PROFITS AND LOSSES/ SPECIAL ALLOCATIONS.

3.1 PROFITS. After giving effect to the special allocations set forth in SECTIONS 3.3 AND 3.4, Profits for any Calendar Year shall be allocated to the Partners as follows:

(a) First, one hundred percent (100%) to the General Partner in an amount equal to the excess, if any, of (i) the cumulative Losses allocated to the General Partner pursuant to SECTION 3.2(d) hereof for all prior Calendar Years, over (ii) the cumulative Profits allocated to the General Partner pursuant to this SECTION 3.1(a) for all prior Calendar Years;

(b) Second, to all Partners in an amount equal to the excess, if any, of (i) the cumulative Losses allocated to all Partners under Section 3.2(c) for all prior Calendar Years, over (ii) the cumulative Profits allocated to all Partners under this Section 3.1(b) for all prior Calendar Years.

(c) Third, to the ITS Limited Partner in an amount equal to the excess, if any, of (i) the cumulative Actual Preferred Return paid to the ITS Limited Partner under Section 6(c) of the Agreement for all prior Calendar Years, over (ii) the cumulative Profits allocated the ITS Limited Partner pursuant to this Section 3.1(c) for all prior Calendar Years; and

(d) The balance, if any, in proportion to the Percentage Interests of the Partners.

3.2 LOSSES. After giving effect to the special allocations set forth in SECTIONS 3.3 AND 3.4 and subject to SECTION 3.5, Losses for any Calendar Year shall be allocated to the Partners as follows:

(a) First, in proportion to the Percentage Interests of the Partners in an amount equal to the excess, if any, of (i) the cumulative Profits allocated to the Partners pursuant to SECTION 3.1(d) hereof for all prior Calendar Years, over (ii) the cumulative Losses allocated to the Partners pursuant to this SECTION 3.2(a) for all prior Calendar Years; and

(b) Second, to the ITS Limited Partner in an amount equal to the excess, if any, of (i) the cumulative Profits allocated to the ITS Limited Partner under Section 3.1(c) hereof for all prior Calendar Years, over (ii) the cumulative Losses allocated to the ITS Limited Partner pursuant to this Section 3.2(b) for all prior Calendar Years; and

(c) Third, in proportion to the Capital Account Balances of the Partners, provided that Losses shall not be allocated pursuant to this Section 3.2(c) to the extent such allocation would cause any Limited Partner to have an Adjusted Capital Account Deficit at the end of such Calendar Year; and

(d) The balance, if any, one hundred percent (100%) to the General Partner.

3.3 SPECIAL ALLOCATIONS. The following special allocations shall be made in the following order:

(a) MINIMUM GAIN CHARGEBACK. Except as otherwise provided in Section 1.704-2(f) of the Regulations, notwithstanding any other provision of this SECTION 3, if there is a net decrease in Partnership Minimum Gain during any Calendar Year, each Partner shall be specially allocated items of Partnership income and gain for such Calendar Year (and, if necessary, subsequent Calendar Years) in an amount equal to such Partner's share of the net decrease in Partnership Minimum Gain, determined in accordance with Regulations Section 1.704-2(g). Allocations pursuant to the previous sentence shall be made in proportion to the respective amounts required to be allocated to each Partner pursuant thereto. The items to be so allocated shall be determined in accordance with sections 1.704-2(f) (6) and 1.704-2(j) (2) of the Regulations. This SECTION 3.3(a) is intended to comply with the minimum gain chargeback

requirement in Section 1.704-2(f) of the Regulations and shall be interpreted consistently therewith.

(b) PARTNER MINIMUM GAIN CHARGEBACK. Except as otherwise provided in Section 1.704-2(i) (4) of the Regulations, notwithstanding any other provision of this SECTION 3, if there is a net decrease in Partner Nonrecourse Debt Minimum Gain attributable to a Partner Nonrecourse Debt during any Calendar Year, each Partner who has a share of the Partner Nonrecourse Debt Minimum Gain attributable to such Partner Nonrecourse Debt, determined in accordance with Section 1.704-2(i) (5) of the Regulations, shall be specially allocated items of Partnership income and gain for such Calendar Year (and, if necessary, subsequent Calendar Years) in an amount equal to such Partner's share of the net decrease in Partner Nonrecourse Debt, determined in accordance with Regulations Section 1.704-2(i) (4). Allocations pursuant to the previous sentence shall be made in proportion to the respective amounts required to be allocated to each Partner pursuant thereto. The items to be so allocated shall be determined in accordance with Sections 1.704-2(i) (4) and 1.704-2(j) (2) of the Regulations. This SECTION 3.3(b) is intended to comply with the minimum gain chargeback requirement in Section 1.704-2(i)(4) of the Regulations and shall be interpreted consistently therewith.

(c) QUALIFIED INCOME OFFSET. In the event any Partner unexpectedly receives any adjustments, allocations, or distributions described in Sections 1.704-1(b)(2)(ii)(d)(4), 1.704-1(b)(2)(ii)(d)(5), or 1.704-1(b)(2)(ii)(d)(6) of the Regulations, items of Partnership income and gain shall be specially allocated to such Partner in an amount and manner sufficient to eliminate, to the extent required by the Regulations, the Adjusted Capital Account Deficit of the Partner as quickly as possible, provided that an allocation pursuant to this SECTION 3.3(c) shall be made only if and to the extent that the Partner would have an Adjusted Capital Account Deficit after all other allocations provided for in this SECTION 3 have been tentatively made as if this SECTION 3.3(c) were not in the Agreement.

(d) NONRECOURSE DEDUCTIONS. Nonrecourse Deductions for any Calendar Year shall be specially allocated to the Partners in proportion to their respective Percentage Interests.

(e) PARTNER NONRECOURSE DEDUCTIONS. Any Partner Nonrecourse Deductions for any Calendar Year shall be specially allocated to the Partner who bears the economic risk of loss with respect to the Partner Nonrecourse Debt to which such Partner Nonrecourse Deductions are attributable in accordance with Regulations Section 1.704-2(i)(1).

(f) SECTION 754 ADJUSTMENTS. To the extent an adjustment to the adjusted tax basis of any Partnership asset, pursuant to Code Section 734(b) or Code Section 743(b) is required, pursuant to Regulations Section 1.704-1(b)(2)(iv)(m)(2) or 1.704-1(b)(2)(iv)(m)(4), to be taken into account in determining Capital Accounts as the result of a distribution to a Partner in complete liquidation of such Partner's interest in the Partnership, the amount of such adjustment to Capital Accounts shall be treated as an item of gain (if the adjustment increases the basis of the asset) or loss (if the adjustment decreases such basis) and such gain or loss shall be specially allocated to the Partners in accordance with their interests in

the Partnership in the event Regulations Section 1.704-1(b)(2)(iv)(m)(2) applies, or to the Partner to whom such distribution was made in the event Regulations Section 1.704-1(b)(2)(iv)(m)(4) applies.

3.4 CURATIVE ALLOCATIONS. The allocations set forth in SECTIONS 3.3(a), 3.3(b), 3.3(c), 3.3(d), 3.3(e), 3.3(f) AND 4.5 (the "REGULATORY ALLOCATIONS") are intended to comply with certain requirements of the Treasury Regulations. It is the intent of the Partners that, to the extent possible, all Regulatory Allocations shall be offset either with other Regulatory Allocations or with special allocations of other items of Partnership income, gain, loss or deduction pursuant to this SECTION 3.4. Therefore, notwithstanding any other provision of this SECTION 3 (other than the Regulatory Allocations), the Partners shall make such offsetting special allocations of Partnership income, gain, loss or deduction in whatever manner it determines appropriate so that, after such offsetting allocations are made, each Partner's Capital Account balance is, to the extent possible, equal to the Capital Account balance such Partner would have had if the Regulatory Allocations were not part of the Agreement and all Partnership items were allocated pursuant to SECTIONS 3.1 AND 3.2.

3.5 LOSS LIMITATION. Losses allocated pursuant to SECTION 3.2 hereof shall not exceed the maximum amount of Losses that can be allocated without causing any Partner to have an Adjusted Capital Account Deficit at the end of any Calendar Year. In the event some but not all of the Partners would have Adjusted Capital Account Deficits as a consequence of an allocation of Losses pursuant to SECTION 3.2 hereof, the limitation set forth in this SECTION 3.5 shall be applied on a Partner-by-Partner basis and Losses not allocable to any Partner as a result of such limitation shall be allocated to the other Partners in accordance with the positive balances in such Partner's Capital Accounts so as to allocate the maximum permissible Losses to each Partner under Section 1.704-1(b)(2)(ii)(d) of the Regulations.

3.6 OTHER ALLOCATION RULES.

(a) For purposes of determining the Profits, Losses, or any other items allocable to any period, Profits, Losses, and any such other items shall be determined on a daily, monthly, or other basis, as approved by the Partners using any permissible method under Code Section 706 and the Regulations thereunder.

(b) Solely for purposes of determining a Partner's proportionate share of the "excess nonrecourse liabilities" of the Partnership within the meaning of Regulations Section 1.752-3(a)(3), the Partners' interests in Partnership profits are in proportion to their Percentage Interests.

(c) In the event any Partner's Percentage Interest changes during a Calendar Year for any reason, including the transfer of any interest in the Partnership or an adjustment of the Partner's Percentage Interests, hereunder, the allocations of Profits, Losses, and other items of income and deduction under this SECTION 3 shall be adjusted as necessary to reflect the varying interests of the Partners during the Calendar Year in accordance with Code Section 706(d) using an interim closing of the books method as of the date of such changes.

3.7 TAX ALLOCATIONS: CODE SECTION 704(c). In accordance with Code Section 704(c) and the Regulations thereunder, income, gain, loss, and deduction with respect to any property contributed to the capital of the Partnership shall, solely for tax purposes, be allocated among the Partners so as to take account of any variation between the adjusted basis of such property to the Partnership for federal income tax purposes and its initial Gross Asset Value (computed in accordance with the definition of Gross Asset Value) using the traditional method of allocation under Regulations Section 1.704-3(b). The Partners, without having to amend this Agreement, can approve the use of any other allocation method provided for under Regulations Section 1.704-3.

In the event the Gross Asset Value of any Partnership asset is adjusted pursuant to subparagraph (ii) of the definition of Gross Asset Value, subsequent allocations of income, gain, loss, and deduction with respect to such asset shall take account of any variation between the adjusted basis of such asset for federal income tax purposes and its Gross Asset Value in the same manner as under Code Section 704(c) and the Regulations thereunder.

Any elections or other decisions relating to such allocations shall be made by the Partners in any manner that reasonably reflects the purpose and intention of this Agreement. Allocations pursuant to this SECTION 3.6 are solely for purposes of federal, state, and local taxes and shall not affect, or in any way be taken into account in computing, any Partner's Capital Account or share of Profits, Losses, other items, or distributions pursuant to any provision of this Agreement.

EXHIBIT C

[INTENTIONALLY DELETED]

EXHIBIT D
Illustration of Calculation
Of Actual Preferred Return

EXHIBIT "D"

Illustration of calculation of Actual Preferred Return

Assumptions:

Interest Rate for Actual Preferred Return and Construction Interest Carry	10.50%
Max number of Months of Preferred Return per Phase	12.00

Tenant Improvement Allowance draw limited to 12 month period
Rent credit will be paid:

- after payment of all debt service;
- only from available cash flow otherwise accrued;
- paid on a monthly basis over a 12 month schedule;
- only paid after the Actual Preferred Return has been determined and commences month following Actual Preferred Return determination.

Example for phase 2A

Tenant Improvement Allowance	$5,496,500	
Monthly Preferred Return	$ 48,094	(T.I. Allowance X Interest Rate/12 mnths)
Maximum Preferred Return	$ 577,133	

Tenant Improvement Allowance Draw Schedule (hypothetical)

Month	1	2	3	4	5	6	7
T.I. Draw	$175,000	$ 665,188	$ 665,188	$ 665,188	$ 665,188	$ 665,188	$ 665,188
Total T.I. Draw	$175,000	$ 840,188	$1,505,375	$2,170,563	$2,835,750	$3,500,938	$4,166,125
Interest Carry		1,531.25	7,351.64	13,172.03	18,992.42	24,812.81	30,633.20

Month	8	9	Total
T.I. Draw	$ 665,188	$ 665,188	$5,496,500
Total T.I. Draw	$4,831,313	$5,496,500	
Interest Carry	36,453.59	42,273.98	$ 175,221

Maximum Preferred Return	$ 577,133	
Less Interest Carry	$ 175,221	
Actual Preferred Return	$ 401,912	(Max Preferred Return less interest carry)
Monthly Preferred Return	33,492.63	(Total Preferred Return/ 12 months)

Example for phase 2B

Tenant Improvement Allowance	$5,605,000	
Monthly Preferred Return	$ 49,044	(T.I. Allowance X Interest Rate / 12 mnths)
Maximum Preferred Return	$ 588,525	

Tenant Improvement Allowance Draw Schedule (hypothetical)

Month	1	2	3	4	5	6	7
T.I. Draw	$ -	$ -	$ -	$ -	$1,000,000	$1,151,250	$1,151,250
Total Draw	$ -	$ -	$ -	$ -	$1,000,000	$2,151,250	$3,302,500
Interest Carry	-	-	-	-	-	8,750.00	18,823.44

Month	8	9	Total
T.I. Draw	$1,151,250	$1,151,250	$5,605,000
Total Draw	$4,453,750	$5,605,000	
Interest Carry	28,896.88	38,970.31	$ 95,441

Maximum Preferred Return	$ 588,525	
Less Interest Carry	$ 95,441	

Actual Preferred Return	$ 493,084	(Max Preferred Return less interest carry)
Monthly Preferred Return	41,090.36	(Total Preferred Return/ 12 months)

EXHIBIT E
Illustration of Calculation of Purchase Price

A. Assumptions

- - Total scheduled Property revenue (including fair market value of unleased space) for consecutive 12 month period commencing 90 days from option notice date	$7,500,000
- - Capitalization rate	10.5%
- - Partnership debt	$54,000,000
- - Total Unpaid Capital Contribution	$12,900,000
- - Partnership percentage purchased	10%
- - Selling Partners' Unpaid Capital Contribution	$900,000

Capitalization calculation $7,500,000 /10.5% = $71,428,571

Property Value	$71,428,571
less Partnership debt	-54,000,000
less unpaid capital	-12,900,000
Total Equity	$ 4,528,571
Percentage Purchased	10%
Paid to Selling Partners	$ 452,857
Partial return of Sellers' Unpaid Capital Contribution*	90,000
Total Paid to Selling Partners	$ 542,857

*For each percentage interest acquired in the Partnership, ITS Limited Partner shall pay to the Selling Partners an equal percentage of its Unpaid Capital Contribution.

EXHIBIT F

NO. CW-____

THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE BEEN ACQUIRED FOR INVESTMENT AND HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT') OR ANY STATE SECURITIES LAWS. SUCH SECURITIES MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED, ASSIGNED, PLEDGED OR HYPOTHECATED UNLESS AND UNTIL REGISTERED UNDER THE ACT OR UNLESS THE COMPANY HAS RECEIVED AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY AND ITS COUNSEL THAT SUCH REGISTRATION IS NOT REQUIRED.

WARRANT TO PURCHASE UP TO 9,804 SHARES OF COMMON STOCK OF INHALE THERAPEUTIC SYSTEMS, INC.

This certifies that 201 Industrial Partnership, a California general partnership, or its assigns (the "Holder"), for value received, is entitled to purchase from INHALE THERAPEUTIC SYSTEMS, INC. a Delaware corporation located at 150 Industrial Road, San Carlos CA 94070 (the "Company"), a number of shares of fully paid and nonassessable shares of the Company's Common Stock ("Common Stock") as determined in accordance with Section 1 hereof, not to exceed 9,804 shares (the "Maximum Shares"), for cash at a price equal to $_____ (the "Stock Purchase Price") at such times as determined in accordance with Section 2 hereof and, with respect to any Vested Shares (as defined herein) prior to the earlier of (i) the closing (after the Exercise Date (as defined herein) with respect to such Vested Shares) of (A) a sale of substantially all of the assets of the Company; (B) a merger or consolidation in which the Company is not the surviving corporation (other than a merger or consolidation in which shareholders immediately before the merger or consolidation have, immediately after the merger or consolidation, greater stock voting power); (C) a reverse merger in which the Company is the surviving corporation but the shares of the Company's common stock outstanding immediately preceding the merger are converted by virtue of the merger into other property, whether in the form of securities, cash or otherwise (other than a reverse merger in which stockholders immediately before the merger have, immediately after the merger, greater stock voting power); or (D) any transaction or series of related transactions in which in excess of 50% of the Company's voting power is transferred (a "Change of Control") or (ii) six (6) years from such Exercise Date, such earlier day being referred to herein as the "Expiration Date," upon surrender to the Company at its principal office (or at such other location as the Company may advise the Holder in writing) of this Warrant properly endorsed with the Form of Subscription attached hereto duly filled in and signed and upon payment in cash or by check of the aggregate Stock Purchase Price for the number of shares for which this Warrant is being exercised determined in accordance with the provisions hereof.

Capitalized terms used herein and not defined shall have the meaning set forth in the Agreement of Limited Partnership of Inhale 201 Industrial Road, L.P. (the "Partnership Agreement"). This Warrant is subject to the following terms and conditions:

1. VESTED SHARES. At any given time, this Warrant shall be exercisable for only such number of shares of Common Stock that are "Vested Shares." At any time during the term of this Warrant, the number of Vested Shares shall be determined by the following equation:

V = (P*M) - E

Where V = the number of Vested Shares;

P = the total percentage of the Holder's (or Holder's successor in interests) Limited Partnership interests which have been purchased pursuant to the exercise of the Option under the Warrant Payment Alternative set forth in Section 20 of the Partnership Agreement;

M = the Maximum Shares (as adjusted pursuant to Section 6 hereof); and

E = the number of shares previously issued upon exercise of this Warrant (or any predecessor Warrant), including any additional shares canceled as a result of any exercise pursuant to Section 3 hereof, (as adjusted for stock dividends, combinations, splits and recapitalizations and the like with respect to such shares).

For purposes of example only, attached as Exhibit A hereto are hypothetical examples of the calculation of Vested Shares.

2. EXERCISE DATE. This Warrant is exercisable at the option of the holder of record hereof, at any time or from time to time after the Exercise Date with respect to the Vested Shares being acquired and prior to the Expiration Date with respect to such Vested Shares for all or any part of the Vested Shares (but not for a fraction of a share) which may be purchased hereunder. The Exercise Date with respect to any shares issuable pursuant to this Warrant shall be the date which such shares shall initially become Vested Shares. To the extent this Warrant is exercised in part, the Holder shall be deemed to have acquired those Vested Shares with the earliest Exercise Date first (provided such exercise is prior to the Expiration Date with respect to such Vested Shares).

3. NET ISSUE EXERCISE. Notwithstanding any provisions herein to the contrary, if the fair market value of one share of the Company's Common Stock is greater than the Stock Purchase Price (at the date of calculation as set forth below), in lieu of exercising this Warrant for cash, the Holder may elect to receive shares equal to the value (as determined below) of this Warrant (or the portion thereof being canceled) by surrender of this Warrant at the principal office of the Company together with the properly endorsed Form of Subscription and notice of

such election in which event the Company shall issue to the Holder a number of shares of Common Stock computed using the following formula:

$$X = \frac{Y(A-B)}{A}$$

Where X = the number of shares of Common Stock to be issued to the Holder

Y = the number of shares of Common Stock purchasable under the Warrant or, if only a portion of the Warrant is being exercised, the portion of the Warrant being canceled (at the date of such calculation)

A = the fair market value of one share of the Company's Common Stock (at the date of such calculation)

B = Stock Purchase Price (as adjusted to the date of such calculation)

For purposes of the above calculation, fair market value of one share of Common Stock shall be the average closing price of the Company's Common Stock for the ten trading days preceding the date of exercise.

4. EXERCISE; ISSUANCE OF CERTIFICATES; PAYMENT FOR SHARES. The Company agrees that the shares of Common Stock purchased under this Warrant shall be and are deemed to be issued to the Holder hereof as the record owner of such shares as of the close of business on the date on which this Warrant shall have been surrendered, properly endorsed, the completed, executed Form of Subscription delivered and payment made for such shares. Certificates for the shares of Common Stock so purchased, together with any other securities or property to which the Holder hereof is entitled upon such exercise, shall be delivered to the Holder hereof by the Company at the Company's expense within a reasonable time after the rights represented by this Warrant have been so exercised. In case of a purchase of less than all the shares which may be purchased under this Warrant, the Company shall cancel this Warrant and execute and deliver a new Warrant or Warrants of like tenor for the balance of the shares purchasable under the Warrant surrendered upon such purchase to the Holder hereof within a reasonable time. Each stock certificate so delivered shall be in such denominations of Common Stock as may be requested by the Holder hereof and shall be registered in the name of such Holder.

5. SHARES TO BE FULLY PAID; RESERVATION OF SHARES. The Company covenants and agrees that all shares of Common Stock which may be issued upon the exercise of the rights represented by this Warrant will, upon issuance, be duly authorized, validly issued, fully paid and nonassessable and free from all preemptive rights of any shareholder and free of all taxes, liens and charges with respect to the issue thereof. The Company further covenants and agrees that, during the period within which the rights represented by this Warrant may be exercised, the Company will at all times have authorized and reserved, for the purpose of issue or

transfer upon exercise of the subscription rights evidenced by this Warrant, a sufficient number of shares of authorized but unissued Common Stock, or other securities and property, when and as required to provide for the exercise of the rights represented by this Warrant. The Company will take all such action as may be necessary to assure that such shares of Common Stock may be issued as provided herein without violation of any applicable law or regulation, or of any requirements of any domestic securities exchange upon which the Common Stock may be listed; provided, however, that the Company shall not be required to effect a registration under Federal or State securities laws with respect to such exercise. The Company will not take any action which would result in any adjustment of the Stock Purchase Price (as set forth in Section 6 hereof) if the total number of shares of Common Stock issuable after such action upon exercise of all outstanding warrants, together with all shares of Common Stock then outstanding and all shares of Common Stock then issuable upon exercise of all options and upon the conversion of all convertible securities then outstanding, would exceed the total number of shares of Common Stock then authorized by the Company's Restated Certificate of Incorporation.

6. ADJUSTMENT OF STOCK PURCHASE PRICE AND NUMBER OF SHARES. The Stock Purchase Price and the number of shares purchasable upon the exercise of this Warrant shall be subject to adjustment from time to time upon the occurrence of certain events described in this Section 6. Upon each adjustment of the Stock Purchase Price, the Holder of this Warrant shall thereafter be entitled to purchase, at the Stock Purchase Price resulting from such adjustment, the number of shares obtained by multiplying the Stock Purchase Price in effect immediately prior to such adjustment by the number of shares purchasable pursuant hereto immediately prior to such adjustment, and dividing the product thereof by the Stock Purchase Price resulting from such adjustment.

6.1 SUBDIVISION OR COMBINATION OF COMMON STOCK. In case the Company shall at any time subdivide its outstanding shares of Common Stock into a greater number of shares, the Stock Purchase Price in effect immediately prior to such subdivision shall be proportionately reduced, and conversely, in case the outstanding shares of Common Stock of the Company shall be combined into a smaller number of shares, the Stock Purchase Price in effect immediately prior to such combination shall be proportionately increased.

6.2 DIVIDENDS IN COMMON STOCK, OTHER STOCK, PROPERTY, RECLASSIFICATION. If at any time or from time to time the holders of Common Stock (or any shares of stock or other securities at the time receivable upon the exercise of this Warrant) shall have received or become entitled to receive, without payment therefor,

(A) Common Stock or any shares of stock or other securities which are at any time directly or indirectly convertible into or exchangeable for Common Stock, or any rights or options to subscribe for, purchase or otherwise acquire any of the foregoing by way of dividend or other distribution,

(B) any cash paid or payable otherwise than as a cash dividend, or

(C) Common Stock or additional stock or other securities or property (including cash) by way of spinoff, split-up, reclassification, combination of shares or similar corporate rearrangement, (other than shares of Common Stock issued as a stock split or adjustments in respect of which shall be covered by the terms of Section 6.1 above), then and in each such case, the Holder hereof shall, upon the exercise of this Warrant, be entitled to receive, in addition to the number of shares of Common Stock receivable thereupon, and without payment of any additional consideration therefor, the amount of stock and other securities and property (including cash in the cases referred to in clause (b) above and this clause (c)) which such Holder would hold on the date of such exercise had he been the holder of record of such Common Stock as of the date on which holders of Common Stock received or became entitled to receive such shares or all other additional stock and other securities and property.

6.3 REORGANIZATION, RECLASSIFICATION, CONSOLIDATION, MERGER OR SALE. If any recapitalization, reclassification or reorganization of the capital stock of the Company, or any consolidation or merger of the Company with another corporation, or sale of all or substantially all of the Company's assets or other transaction (other than a Change in Control which occurs after the Exercise Date) shall be effected in such a way that holders of Common Stock shall be entitled to receive stock, securities, or other assets or property (an "Organic Change"), then, as a condition of such Organic Change, lawful and adequate provisions shall be made by the Company whereby the Holder hereof shall thereafter have the right to purchase and receive (in lieu of the shares of the Common Stock of the Company immediately theretofore purchasable and receivable upon the exercise of the rights represented hereby) such shares of stock, securities or other assets or property as may be issued or payable with respect to or in exchange for a number of outstanding shares of such Common Stock equal to the number of shares of such stock immediately theretofore purchasable and receivable upon the exercise of the rights represented hereby. In the event of any Organic Change, appropriate provision shall be made by the Company with respect to the rights and interests of the Holder of this Warrant to the end that the provisions hereof (including, without limitation, provisions for adjustments of the Stock Purchase Price and of the number of shares purchasable and receivable upon the exercise of this Warrant) shall thereafter be applicable, in relation to any shares of stock, securities or assets thereafter deliverable upon the exercise hereof.

6.4 CERTAIN EVENTS. If any change in the outstanding Common Stock of the Company or any other event occurs as to which the other provisions of this Section 6 are not strictly applicable or if strictly applicable would not fairly protect the purchase rights of the Holder of the Warrant in accordance with such provisions, then the Board of Directors of the Company shall make an adjustment in the number and class of shares available under the Warrant, the Stock Purchase Price or the application of such provisions, so as to protect such purchase rights as aforesaid. The adjustment shall be such as will give the Holder of the Warrant upon exercise for the same aggregate Stock Purchase Price the total number, class and kind of shares as the Holder would have owned had the Warrant been exercised prior to the event and had the Holder continued to hold such shares until after the event requiring adjustment.

6.5 NOTICES OF CHANGE. The Company shall give written notice to the Holder at least 10 business days prior to the date on which a Change of Control or Organic Change shall take place.

7. REPRESENTATIONS AND WARRANTIES OF THE HOLDER

7.1 PURCHASE FOR OWN ACCOUNT. Holder represents that it is acquiring the Warrant and the Common Stock issuable upon exercise of the Warrant (collectively, the "SECURITIES") solely for its own account and beneficial interest for investment and not for sale or with a view to distribution of the Securities or any part thereof, has no present intention of selling (in connection with a distribution or otherwise), granting any participation in, or otherwise distributing the same, and does not presently have reason to anticipate a change in such intention.

7.2 INFORMATION AND SOPHISTICATION. Holder acknowledges that it has received all the information it has requested from the Company and it considers necessary or appropriate for deciding whether to acquire the Securities. Holder represents that it has had an opportunity to ask questions and receive answers from the Company regarding the terms and conditions of the offering of the Securities and to obtain any additional information necessary to verify the accuracy of the information given the Holder. Holder further represents that it has such knowledge and experience in financial and business matters that it is capable of evaluating the merits and risk of this investment.

7.3 ABILITY TO BEAR ECONOMIC RISK. Holder acknowledges that investment in the Securities involves a high degree of risk, and represents that it is able, without materially impairing its financial condition, to hold the Securities for an indefinite period of time and to suffer a complete loss of its investment.

7.4 FURTHER LIMITATIONS ON DISPOSITION. Without in any way limiting the representations set forth above, Holder further agrees not to make any disposition of all or any portion of the Securities unless and until:

(A) There is then in effect a Registration Statement under the Act covering such proposed disposition and such disposition is made in accordance with such Registration Statement; or

(B) Holder shall have notified the Company of the proposed disposition and shall have furnished the Company with a detailed statement of the circumstances surrounding the proposed disposition, and if reasonably requested by the Company, Holder shall have furnished the Company with an opinion of counsel, reasonably satisfactory to the Company, that such disposition will not require registration under the Act or any applicable state securities laws.

(C) Notwithstanding the provisions of paragraphs (a) and (b) above, no such registration statement or opinion of counsel shall be necessary for a transfer by gift, will or

intestate succession to any spouse or lineal descendants or ancestors, if all transferees agree in writing to be subject to the terms hereof to the same extent as if they were Holder hereunder.

(D) Each certificate representing Securities shall (unless otherwise permitted by the provisions of the Agreement) be stamped or otherwise imprinted with a legend substantially similar to the following (in addition to any legend required under applicable state securities laws):

THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT") OR ANY STATE SECURITIES LAWS. SUCH SECURITIES MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED, ASSIGNED, PLEDGED OR HYPOTHECATED UNLESS AND UNTIL REGISTERED UNDER THE ACT OR UNLESS THE COMPANY HAS RECEIVED AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY AND ITS COUNSEL THAT SUCH REGISTRATION IS NOT REQUIRED.

(E) The Company shall be obligated to reissue promptly unlegended certificates at the request of any Holder if the Holder shall have obtained an opinion of counsel (which counsel may be counsel to the Company) reasonably acceptable to the Company to the effect that the Securities proposed to be disposed of may lawfully be so disposed of without registration, qualification or legend. The Company shall pay the reasonable fees and expenses of such counsel in rendering such opinion, not to exceed $5,000.

7.5 ACCREDITED INVESTOR STATUS. Holder is an "ACCREDITED INVESTOR" as such term is defined in Rule 501 of Regulation D promulgated under the Act.

7.6 FURTHER ASSURANCES. Holder agrees and covenants that at any time and from time to time it will promptly execute and deliver to the Company such further instruments and documents and take such further action as the Company may reasonably require in order to carry out the full intent and purpose of this Agreement.

8. ISSUE TAX. The issuance of certificates for shares of Common Stock upon the exercise of the Warrant shall be made without charge to the Holder of the Warrant for any issue tax (other than any applicable income taxes) in respect thereof; provided, however, that the Company shall not be required to pay any tax which may be payable in respect of any transfer involved in the issuance and delivery of any certificate in a name other than that of the then Holder of the Warrant being exercised.

9. CLOSING OF BOOKS. The Company will at no time close its transfer books against the transfer of any warrant or of any shares of Common Stock issued or issuable upon the exercise of any warrant in any manner which interferes with the timely exercise of this Warrant.

10. NO VOTING OR DIVIDEND RIGHTS; LIMITATION OF LIABILITY. Nothing contained in this Warrant shall be construed as conferring upon the Holder hereof the right to vote or to consent or to receive notice as a shareholder of the Company or any other matters or any rights whatsoever as a shareholder of the Company. No dividends or interest shall be payable or accrued in respect of this Warrant or the interest represented hereby or the shares purchasable hereunder until, and only to the extent that, this Warrant shall have been exercised. No provisions hereof, in the absence of affirmative action by the Holder to purchase shares of Common Stock, and no mere enumeration herein of the rights or privileges of the holder hereof, shall give rise to any liability of such Holder for the Stock Purchase Price or as a shareholder of the Company, whether such liability is asserted by the Company or by its creditors.

11. MARKET STAND-OFF AGREEMENT. Holder shall not sell, dispose of, transfer, make any short sale of, grant any option for the purchase of, or enter into any hedging or similar transaction with the same economic effect as a sale, any Common Stock or other securities of the Company held by Holder, (the "Restricted Securities"), for a period of time specified by the managing underwriter (not to exceed one hundred eighty (180) days) following the effective date of a registration statement of the Company filed under the Act. Holder agrees to execute and deliver such other agreements as may be reasonably requested by the Company and/or the managing underwriter which are consistent with the foregoing or which are necessary to give further effect thereto. In order to enforce the foregoing covenant, the Company may impose stop-transfer instructions with respect to Holder's Restricted Securities until the end of such period.

12. WARRANTS TRANSFERABLE. Subject to compliance with applicable federal and state securities laws, this Warrant and all rights hereunder are transferable, in whole or in part, without charge to the holder hereof (except for transfer taxes), upon surrender of this Warrant properly endorsed. Each taker and holder of this Warrant, by taking or holding the same, consents and agrees that this Warrant, when endorsed in blank, shall be deemed negotiable, and that the holder hereof, when this Warrant shall have been so endorsed, may be treated by the Company, at the Company's option, and all other persons dealing with this Warrant as the absolute owner hereof for any purpose and as the person entitled to exercise the rights represented by this Warrant, or to the transfer hereof on the books of the Company any notice to the contrary notwithstanding; but until such transfer on such books, the Company may treat the registered owner hereof as the owner for all purposes.

13. RIGHTS AND OBLIGATIONS SURVIVE EXERCISE OF WARRANT. The rights and obligations of the Company, of the holder of this Warrant and of the holder of shares of Common Stock issued upon exercise of this Warrant, shall survive the exercise of this Warrant.

14. MODIFICATION AND WAIVER. This Warrant and any provision hereof may be changed, waived, discharged or terminated only by an instrument in writing signed by the party against which enforcement of the same is sought.

15. NOTICES. Any notice, request or other document required or permitted to be given or delivered to the holder hereof or the Company shall be delivered or shall be sent by certified mail, postage prepaid, to each such holder at its address as shown on the books of the Company or to the Company at the address indicated therefor in the first paragraph of this Warrant or such other address as either may from time to time provide to the other.

16. BINDING EFFECT ON SUCCESSORS. To the extent then exercisable, this Warrant shall be binding upon any corporation succeeding the Company by merger, consolidation or acquisition of all or substantially all of the Company's assets. All of the obligations of the Company relating to the Common Stock issuable upon the exercise of this Warrant shall survive the exercise and termination of this Warrant. All of the covenants and agreements of the Company shall inure to the benefit of the successors and assigns of the holder hereof.

17. DESCRIPTIVE HEADINGS AND GOVERNING LAW. The description headings of the several sections and paragraphs of this Warrant are inserted for convenience only and do not constitute a part of this Warrant. This Warrant shall be construed and enforced in accordance with, and the rights of the parties shall be governed by, the laws of the State of California.

18. LOST WARRANTS. The Company represents and warrants to the Holder hereof that upon receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction, or mutilation of this Warrant and, in the case of any such loss, theft or destruction, upon receipt of an indemnity reasonably satisfactory to the Company, or in the case of any such mutilation upon surrender and cancellation of such Warrant, the Company, at its expense, will make and deliver a new Warrant, of like tenor, in lieu of the lost, stolen, destroyed or mutilated Warrant.

19. FRACTIONAL SHARES. No fractional shares shall be issued upon exercise of this Warrant. The Company shall, in lieu of issuing any fractional share, pay the holder entitled to such fraction a sum in cash equal to such fraction multiplied by the then effective Stock Purchase Price.

20. EXCHANGE ACT REPORTING. The Company covenants that it shall file any reports required to be filed by it under the Securities Exchange Act of 1934 and that it shall take such further action as any Holder may reasonably request, all to the extent required from time to time to enable Holder to sell Common Stock without registration under the Act within the limitations of the exemption provided by Rule 144 promulgated under the Act. Upon the request of any Holder, the Company shall deliver to such Holder, so long as Holder owns any of the Securities, a written statement as to whether it has complied with such requirements.

[THIS SPACE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the Company and Holder have caused this Warrant to be duly executed by their officers, thereunto duly authorized this _____ day of September, 2000.

INHALE THERAPEUTIC SYSTEMS, INC.
a Delaware corporation

By:_____

Title:_____

ATTEST:

_____
Secretary

AGREED AND ACCEPTED

201 INDUSTRIAL PARTNERSHIP

By: _____

Title:_____

SUBSCRIPTION FORM

Date: _____, 20___

Inhale Therapeutic Systems, Inc.
150 Industrial Way
San Carlos, CA 94070

Attn: President

Ladies and Gentlemen:

/_/ The undersigned hereby elects to exercise the warrant issued to it by Inhale Therapeutic Systems, Inc. (the "Company") and dated September _____, 2000 Warrant No. CW-___ (the "Warrant") and to purchase thereunder _____ shares of the Common Stock of the Company (the "Shares") at a purchase price of _____ Dollars ($_____) per Share or an aggregate purchase price of _____ Dollars ($_____) (the "Purchase Price").

Pursuant to the terms of the Warrant the undersigned has delivered the Stock Purchase Price herewith in full in cash or by certified check or wire transfer.

/_/ The undersigned hereby elects to convert _____ percent (____%) of the value of the Warrant pursuant to the provisions of Section 3 of the Warrant.

Very truly yours,

_____

By:_____

Title:_____

EXHIBIT A

VESTED SHARES CALCULATION SCENARIOS

ASSUMPTION: 10,000 SHARE WARRANT

SCENARIO 1

Step 1: Inhale purchases 10% of LP interests and LP elects the Warrant Payment Alternative

Step 2: Inhale subsequently purchases another 30% of the LP interests and LP elects the Warrant Payment Alternative

RESULT:

After Step 1, the number of Vested Shares equals 1,000 shares

V = (P*M) - E
1000 = (.10*10,000)-0

(note E=0 as no shares have been issued upon exercise of Warrant)

After Step 2, the number of Vested Shares equals 4,000 shares

V = (P*M) - E
4000 = (.40*10,000)-0

(note E remains 0 as no shares have been issued upon exercise of Warrant)

SCENARIO 2

Step 1: Inhale purchases 10% of LP interests and LP elects the Warrant Payment Alternative

Step 2: LP exercises Warrant for 50% of the then Vested Shares

Step 3: Inhale subsequently purchases another 30% of the LP interests and LP elects the Warrant Payment Alternative

RESULT:

After Step 1, the number of Vested Shares equals 1,000 shares

V = (P*M) - E
1000 = (.10*10,000)-0

(note E=0 as no shares have been issued upon exercise of Warrant)

After Step 2, the number of Vested Shares equals 500 shares

V = (P*M) - E
500 = (.10*10,000)-500

(note E=500 as 500 shares have been issued upon exercise of Warrant)

After Step 3, the number of Vested Shares equals 3,500 shares

V = (P*M) - E
3,500 = (.40*10,000)-500

(note E=500 as 500 shares have been issued upon exercise of Warrant)

SCENARIO 3

ADDITIONAL ASSUMPTIONS:
$50.00 EXERCISE PRICE

$100.00 AVERAGE CLOSING PRICE FOR 10 DAYS PRECEDING EXERCISE

Step 1: Inhale purchases 10% of LP interests and LP elects the Warrant Payment Alternative

Step 2: LP exercises Warrant for 50% of the then Vested Shares via Net Issue Election

Step 3: Inhale subsequently purchases another 30% of the LP interests and LP elects the Warrant Payment Alternative

RESULT:

After Step 1, the number of Vested Shares equals 1,000 shares

V = (P*M) - E
1000 = (.10*10,000)-0

(note E=0 as no shares have been issued upon exercise of Warrant)

Upon Exercise of Warrant (Step 2), LP is issued 250 shares

$$X = \frac{Y (A-B)}{A}$$

$$250 = \frac{500 * (100-50)}{100}$$

(note that as result of Net Issue Election, 250 shares are cancelled)

After Step 2, the number of Vested Shares equals 500 shares

V = (P*M) - E 500 = (.10*10,000)-500

(note E=500 as 500 shares have been issued (including cancelled shares) upon exercise of Warrant)

After Step 3, the number of Vested Shares equals 3,500 shares

V = (P*M) - E
3,500 = (.40*10,000)-500

(note E=500 as 500 shares have been issued (including cancelled shares) upon exercise of Warrant)

NO. CW-____

THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE BEEN ACQUIRED FOR INVESTMENT AND HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT') OR ANY STATE SECURITIES LAWS. SUCH SECURITIES MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED, ASSIGNED, PLEDGED OR HYPOTHECATED UNLESS AND UNTIL REGISTERED UNDER THE ACT OR UNLESS THE COMPANY HAS RECEIVED AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY AND ITS COUNSEL THAT SUCH REGISTRATION IS NOT REQUIRED.

WARRANT TO PURCHASE UP TO 196 SHARES OF COMMON STOCK OF INHALE THERAPEUTIC SYSTEMS, INC.

This certifies that SCIMED PROP III, Inc., a California corporation, or its assigns (the "Holder"), for value received, is entitled to purchase from INHALE THERAPEUTIC SYSTEMS, INC. a Delaware corporation located at 150 Industrial Road, San Carlos CA 94070 (the "Company"), a number of shares of fully paid and nonassessable shares of the Company's Common Stock ("Common Stock") as determined in accordance with Section 1 hereof, not to exceed 196 shares (the "Maximum Shares"), for cash at a price equal to $_____ (the "Stock Purchase Price") at such times as determined in accordance with Section 2 hereof and, with respect to any Vested Shares (as defined herein) prior to the earlier of (i) the closing (after the Exercise Date (as defined herein) with respect to such Vested Shares) of (A) a sale of substantially all of the assets of the Company; (B) a merger or consolidation in which the Company is not the surviving corporation (other than a merger or consolidation in which shareholders immediately before the merger or consolidation have, immediately after the merger or consolidation, greater stock voting power); (C) a reverse merger in which the Company is the surviving corporation but the shares of the Company's common stock outstanding immediately preceding the merger are converted by virtue of the merger into other property, whether in the form of securities, cash or otherwise (other than a reverse merger in which stockholders immediately before the merger have, immediately after the merger, greater stock voting power); or (D) any transaction or series of related transactions in which in excess of 50% of the Company's voting power is transferred (a "Change of Control") or (ii) six (6) years from such Exercise Date, such earlier day being referred to herein as the "Expiration Date," upon surrender to the Company at its principal office (or at such other location as the Company may advise the Holder in writing) of this Warrant properly endorsed with the Form of Subscription attached hereto duly filled in and signed and upon payment in cash or by check of the aggregate Stock Purchase Price for the number of shares for which this Warrant is being exercised determined in accordance with the provisions hereof.

Capitalized terms used herein and not defined shall have the meaning set forth in the Agreement of Limited Partnership of Inhale 201 Industrial Road, L.P. (the "Partnership Agreement"). This Warrant is subject to the following terms and conditions:

1. VESTED SHARES. At any given time, this Warrant shall be exercisable for only such number of shares of Common Stock that are "Vested Shares." At any time during the term of this Warrant, the number of Vested Shares shall be determined by the following equation:

V = (P*M) - E

Where V = the number of Vested Shares;

P = the total percentage of the Holder's (or Holder's successor in interests) General Partnership interests which have been purchased pursuant to the exercise of the Option under the Warrant Payment Alternative set forth in Section 20 of the Partnership Agreement;

M = the Maximum Shares (as adjusted pursuant to Section 6 hereof); and

E = the number of shares previously issued upon exercise of this Warrant (or any predecessor Warrant), including any additional shares canceled as a result of any exercise pursuant to Section 3 hereof, (as adjusted for stock dividends, combinations, splits and recapitalizations and the like with respect to such shares).

For purposes of example only, attached as Exhibit A hereto are hypothetical examples of the calculation of Vested Shares.

2. EXERCISE DATE. This Warrant is exercisable at the option of the holder of record hereof, at any time or from time to time after the Exercise Date with respect to the Vested Shares being acquired and prior to the Expiration Date with respect to such Vested Shares for all or any part of the Vested Shares (but not for a fraction of a share) which may be purchased hereunder. The Exercise Date with respect to any shares issuable pursuant to this Warrant shall be the date which such shares shall initially become Vested Shares. To the extent this Warrant is exercised in part, the Holder shall be deemed to have acquired those Vested Shares with the earliest Exercise Date first (provided such exercise is prior to the Expiration Date with respect to such Vested Shares).

3. NET ISSUE EXERCISE. Notwithstanding any provisions herein to the contrary, if the fair market value of one share of the Company's Common Stock is greater than the Stock Purchase Price (at the date of calculation as set forth below), in lieu of exercising this Warrant for cash, the Holder may elect to receive shares equal to the value (as determined below) of this Warrant (or the portion thereof being canceled) by surrender of this Warrant at the principal office of the Company together with the properly endorsed Form of Subscription and notice of

such election in which event the Company shall issue to the Holder a number of shares of Common Stock computed using the following formula:

$$X = \frac{Y\,(A-B)}{A}$$

Where X = the number of shares of Common Stock to be issued to the Holder

Y = the number of shares of Common Stock purchasable under the Warrant or, if only a portion of the Warrant is being exercised, the portion of the Warrant being canceled (at the date of such calculation)

A = the fair market value of one share of the Company's Common Stock (at the date of such calculation)

B = Stock Purchase Price (as adjusted to the date of such calculation)

For purposes of the above calculation, fair market value of one share of Common Stock shall be the average closing price of the Company's Common Stock for the ten trading days preceding the date of exercise.

4. EXERCISE; ISSUANCE OF CERTIFICATES; PAYMENT FOR SHARES. The Company agrees that the shares of Common Stock purchased under this Warrant shall be and are deemed to be issued to the Holder hereof as the record owner of such shares as of the close of business on the date on which this Warrant shall have been surrendered, properly endorsed, the completed, executed Form of Subscription delivered and payment made for such shares. Certificates for the shares of Common Stock so purchased, together with any other securities or property to which the Holder hereof is entitled upon such exercise, shall be delivered to the Holder hereof by the Company at the Company's expense within a reasonable time after the rights represented by this Warrant have been so exercised. In case of a purchase of less than all the shares which may be purchased under this Warrant, the Company shall cancel this Warrant and execute and deliver a new Warrant or Warrants of like tenor for the balance of the shares purchasable under the Warrant surrendered upon such purchase to the Holder hereof within a reasonable time. Each stock certificate so delivered shall be in such denominations of Common Stock as may be requested by the Holder hereof and shall be registered in the name of such Holder.

5. SHARES TO BE FULLY PAID; RESERVATION OF SHARES. The Company covenants and agrees that all shares of Common Stock which may be issued upon the exercise of the rights represented by this Warrant will, upon issuance, be duly authorized, validly issued, fully paid and nonassessable and free from all preemptive rights of any shareholder and free of all taxes, liens and charges with respect to the issue thereof. The Company further covenants and agrees that, during the period within which the rights represented by this Warrant may be exercised, the Company will at all times have authorized and reserved, for the purpose of issue or transfer upon

exercise of the subscription rights evidenced by this Warrant, a sufficient number of shares of authorized but unissued Common Stock, or other securities and property, when and as required to provide for the exercise of the rights represented by this Warrant. The Company will take all such action as may be necessary to assure that such shares of Common Stock may be issued as provided herein without violation of any applicable law or regulation, or of any requirements of any domestic securities exchange upon which the Common Stock may be listed; provided, however, that the Company shall not be required to effect a registration under Federal or State securities laws with respect to such exercise. The Company will not take any action which would result in any adjustment of the Stock Purchase Price (as set forth in Section 6 hereof) if the total number of shares of Common Stock issuable after such action upon exercise of all outstanding warrants, together with all shares of Common Stock then outstanding and all shares of Common Stock then issuable upon exercise of all options and upon the conversion of all convertible securities then outstanding, would exceed the total number of shares of Common Stock then authorized by the Company's Restated Certificate of Incorporation.

6. ADJUSTMENT OF STOCK PURCHASE PRICE AND NUMBER OF SHARES. The Stock Purchase Price and the number of shares purchasable upon the exercise of this Warrant shall be subject to adjustment from time to time upon the occurrence of certain events described in this Section 6. Upon each adjustment of the Stock Purchase Price, the Holder of this Warrant shall thereafter be entitled to purchase, at the Stock Purchase Price resulting from such adjustment, the number of shares obtained by multiplying the Stock Purchase Price in effect immediately prior to such adjustment by the number of shares purchasable pursuant hereto immediately prior to such adjustment, and dividing the product thereof by the Stock Purchase Price resulting from such adjustment.

6.1 SUBDIVISION OR COMBINATION OF COMMON STOCK. In case the Company shall at any time subdivide its outstanding shares of Common Stock into a greater number of shares, the Stock Purchase Price in effect immediately prior to such subdivision shall be proportionately reduced, and conversely, in case the outstanding shares of Common Stock of the Company shall be combined into a smaller number of shares, the Stock Purchase Price in effect immediately prior to such combination shall be proportionately increased.

6.2 DIVIDENDS IN COMMON STOCK, OTHER STOCK, PROPERTY, RECLASSIFICATION. If at any time or from time to time the holders of Common Stock (or any shares of stock or other securities at the time receivable upon the exercise of this Warrant) shall have received or become entitled to receive, without payment therefor,

(A) Common Stock or any shares of stock or other securities which are at any time directly or indirectly convertible into or exchangeable for Common Stock, or any rights or options to subscribe for, purchase or otherwise acquire any of the foregoing by way of dividend or other distribution,

(B) any cash paid or payable otherwise than as a cash dividend, or

(C) Common Stock or additional stock or other securities or property (including cash) by way of spinoff, split-up, reclassification, combination of shares or similar corporate rearrangement, (other than shares of Common Stock issued as a stock split or adjustments in respect of which shall be covered by the terms of Section 6.1 above), then and in each such case, the Holder hereof shall, upon the exercise of this Warrant, be entitled to receive, in addition to the number of shares of Common Stock receivable thereupon, and without payment of any additional consideration therefor, the amount of stock and other securities and property (including cash in the cases referred to in clause (b) above and this clause (c)) which such Holder would hold on the date of such exercise had he been the holder of record of such Common Stock as of the date on which holders of Common Stock received or became entitled to receive such shares or all other additional stock and other securities and property.

6.3 REORGANIZATION, RECLASSIFICATION, CONSOLIDATION, MERGER OR SALE. If any recapitalization, reclassification or reorganization of the capital stock of the Company, or any consolidation or merger of the Company with another corporation, or sale of all or substantially all of the Company's assets or other transaction (other than a Change in Control which occurs after the Exercise Date) shall be effected in such a way that holders of Common Stock shall be entitled to receive stock, securities, or other assets or property (an "Organic Change"), then, as a condition of such Organic Change, lawful and adequate provisions shall be made by the Company whereby the Holder hereof shall thereafter have the right to purchase and receive (in lieu of the shares of the Common Stock of the Company immediately theretofore purchasable and receivable upon the exercise of the rights represented hereby) such shares of stock, securities or other assets or property as may be issued or payable with respect to or in exchange for a number of outstanding shares of such Common Stock equal to the number of shares of such stock immediately theretofore purchasable and receivable upon the exercise of the rights represented hereby. In the event of any Organic Change, appropriate provision shall be made by the Company with respect to the rights and interests of the Holder of this Warrant to the end that the provisions hereof (including, without limitation, provisions for adjustments of the Stock Purchase Price and of the number of shares purchasable and receivable upon the exercise of this Warrant) shall thereafter be applicable, in relation to any shares of stock, securities or assets thereafter deliverable upon the exercise hereof.

6.4 CERTAIN EVENTS. If any change in the outstanding Common Stock of the Company or any other event occurs as to which the other provisions of this Section 6 are not strictly applicable or if strictly applicable would not fairly protect the purchase rights of the Holder of the Warrant in accordance with such provisions, then the Board of Directors of the Company shall make an adjustment in the number and class of shares available under the Warrant, the Stock Purchase Price or the application of such provisions, so as to protect such purchase rights as aforesaid. The adjustment shall be such as will give the Holder of the Warrant upon exercise for the same aggregate Stock Purchase Price the total number, class and kind of shares as the Holder would have owned had the Warrant been exercised prior to the event and had the Holder continued to hold such shares until after the event requiring adjustment.

6.5 NOTICES OF CHANGE. The Company shall give written notice to the Holder at least 10 business days prior to the date on which a Change of Control or Organic Change shall take place.

7. REPRESENTATIONS AND WARRANTIES OF THE HOLDER

7.1 PURCHASE FOR OWN ACCOUNT. Holder represents that it is acquiring the Warrant and the Common Stock issuable upon exercise of the Warrant (collectively, the "SECURITIES") solely for its own account and beneficial interest for investment and not for sale or with a view to distribution of the Securities or any part thereof, has no present intention of selling (in connection with a distribution or otherwise), granting any participation in, or otherwise distributing the same, and does not presently have reason to anticipate a change in such intention.

7.2 INFORMATION AND SOPHISTICATION. Holder acknowledges that it has received all the information it has requested from the Company and it considers necessary or appropriate for deciding whether to acquire the Securities. Holder represents that it has had an opportunity to ask questions and receive answers from the Company regarding the terms and conditions of the offering of the Securities and to obtain any additional information necessary to verify the accuracy of the information given the Holder. Holder further represents that it has such knowledge and experience in financial and business matters that it is capable of evaluating the merits and risk of this investment.

7.3 ABILITY TO BEAR ECONOMIC RISK. Holder acknowledges that investment in the Securities involves a high degree of risk, and represents that it is able, without materially impairing its financial condition, to hold the Securities for an indefinite period of time and to suffer a complete loss of its investment.

7.4 FURTHER LIMITATIONS ON DISPOSITION. Without in any way limiting the representations set forth above, Holder further agrees not to make any disposition of all or any portion of the Securities unless and until:

(A) There is then in effect a Registration Statement under the Act covering such proposed disposition and such disposition is made in accordance with such Registration Statement; or

(B) Holder shall have notified the Company of the proposed disposition and shall have furnished the Company with a detailed statement of the circumstances surrounding the proposed disposition, and if reasonably requested by the Company, Holder shall have furnished the Company with an opinion of counsel, reasonably satisfactory to the Company, that such disposition will not require registration under the Act or any applicable state securities laws.

(C) Notwithstanding the provisions of paragraphs (a) and (b) above, no such registration statement or opinion of counsel shall be necessary for a transfer by gift, will or

intestate succession to any spouse or lineal descendants or ancestors, if all transferees agree in writing to be subject to the terms hereof to the same extent as if they were Holder hereunder.

(D) Each certificate representing Securities shall (unless otherwise permitted by the provisions of the Agreement) be stamped or otherwise imprinted with a legend substantially similar to the following (in addition to any legend required under applicable state securities laws):

THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT") OR ANY STATE SECURITIES LAWS. SUCH SECURITIES MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED, ASSIGNED, PLEDGED OR HYPOTHECATED UNLESS AND UNTIL REGISTERED UNDER THE ACT OR UNLESS THE COMPANY HAS RECEIVED AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY AND ITS COUNSEL THAT SUCH REGISTRATION IS NOT REQUIRED.

(E) The Company shall be obligated to reissue promptly unlegended certificates at the request of any Holder if the Holder shall have obtained an opinion of counsel (which counsel may be counsel to the Company) reasonably acceptable to the Company to the effect that the Securities proposed to be disposed of may lawfully be so disposed of without registration, qualification or legend. The Company shall pay the reasonable fees and expenses of such counsel in rendering such opinion, not to exceed $5,000.

7.5 ACCREDITED INVESTOR STATUS. Holder is an "ACCREDITED INVESTOR" as such term is defined in Rule 501 of Regulation D promulgated under the Act.

7.6 FURTHER ASSURANCES. Holder agrees and covenants that at any time and from time to time it will promptly execute and deliver to the Company such further instruments and documents and take such further action as the Company may reasonably require in order to carry out the full intent and purpose of this Agreement.

8. ISSUE TAX. The issuance of certificates for shares of Common Stock upon the exercise of the Warrant shall be made without charge to the Holder of the Warrant for any issue tax (other than any applicable income taxes) in respect thereof; provided, however, that the Company shall not be required to pay any tax which may be payable in respect of any transfer involved in the issuance and delivery of any certificate in a name other than that of the then Holder of the Warrant being exercised.

9. CLOSING OF BOOKS. The Company will at no time close its transfer books against the transfer of any warrant or of any shares of Common Stock issued or issuable upon the exercise of any warrant in any manner which interferes with the timely exercise of this Warrant.

10. NO VOTING OR DIVIDEND RIGHTS; LIMITATION OF LIABILITY. Nothing contained in this Warrant shall be construed as conferring upon the Holder hereof the right to vote or to consent or to receive notice as a shareholder of the Company or any other matters or any rights whatsoever as a shareholder of the Company. No dividends or interest shall be payable or accrued in respect of this Warrant or the interest represented hereby or the shares purchasable hereunder until, and only to the extent that, this Warrant shall have been exercised. No provisions hereof, in the absence of affirmative action by the Holder to purchase shares of Common Stock, and no mere enumeration herein of the rights or privileges of the holder hereof, shall give rise to any liability of such Holder for the Stock Purchase Price or as a shareholder of the Company, whether such liability is asserted by the Company or by its creditors.

11. MARKET STAND-OFF AGREEMENT. Holder shall not sell, dispose of, transfer, make any short sale of, grant any option for the purchase of, or enter into any hedging or similar transaction with the same economic effect as a sale, any Common Stock or other securities of the Company held by Holder, (the "Restricted Securities"), for a period of time specified by the managing underwriter (not to exceed one hundred eighty (180) days) following the effective date of a registration statement of the Company filed under the Act. Holder agrees to execute and deliver such other agreements as may be reasonably requested by the Company and/or the managing underwriter which are consistent with the foregoing or which are necessary to give further effect thereto. In order to enforce the foregoing covenant, the Company may impose stop-transfer instructions with respect to Holder's Restricted Securities until the end of such period.

12. WARRANTS TRANSFERABLE. Subject to compliance with applicable federal and state securities laws, this Warrant and all rights hereunder are transferable, in whole or in part, without charge to the holder hereof (except for transfer taxes), upon surrender of this Warrant properly endorsed. Each taker and holder of this Warrant, by taking or holding the same, consents and agrees that this Warrant, when endorsed in blank, shall be deemed negotiable, and that the holder hereof, when this Warrant shall have been so endorsed, may be treated by the Company, at the Company's option, and all other persons dealing with this Warrant as the absolute owner hereof for any purpose and as the person entitled to exercise the rights represented by this Warrant, or to the transfer hereof on the books of the Company any notice to the contrary notwithstanding; but until such transfer on such books, the Company may treat the registered owner hereof as the owner for all purposes.

13. RIGHTS AND OBLIGATIONS SURVIVE EXERCISE OF WARRANT. The rights and obligations of the Company, of the holder of this Warrant and of the holder of shares of Common Stock issued upon exercise of this Warrant, shall survive the exercise of this Warrant.

14. MODIFICATION AND WAIVER. This Warrant and any provision hereof may be changed, waived, discharged or terminated only by an instrument in writing signed by the party against which enforcement of the same is sought.

15. NOTICES. Any notice, request or other document required or permitted to be given or delivered to the holder hereof or the Company shall be delivered or shall be sent by certified mail, postage prepaid, to each such holder at its address as shown on the books of the Company or to the Company at the address indicated therefor in the first paragraph of this Warrant or such other address as either may from time to time provide to the other.

16. BINDING EFFECT ON SUCCESSORS. To the extent then exercisable, this Warrant shall be binding upon any corporation succeeding the Company by merger, consolidation or acquisition of all or substantially all of the Company's assets. All of the obligations of the Company relating to the Common Stock issuable upon the exercise of this Warrant shall survive the exercise and termination of this Warrant. All of the covenants and agreements of the Company shall inure to the benefit of the successors and assigns of the holder hereof.

17. DESCRIPTIVE HEADINGS AND GOVERNING LAW. The description headings of the several sections and paragraphs of this Warrant are inserted for convenience only and do not constitute a part of this Warrant. This Warrant shall be construed and enforced in accordance with, and the rights of the parties shall be governed by, the laws of the State of California.

18. LOST WARRANTS. The Company represents and warrants to the Holder hereof that upon receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction, or mutilation of this Warrant and, in the case of any such loss, theft or destruction, upon receipt of an indemnity reasonably satisfactory to the Company, or in the case of any such mutilation upon surrender and cancellation of such Warrant, the Company, at its expense, will make and deliver a new Warrant, of like tenor, in lieu of the lost, stolen, destroyed or mutilated Warrant.

19. FRACTIONAL SHARES. No fractional shares shall be issued upon exercise of this Warrant. The Company shall, in lieu of issuing any fractional share, pay the holder entitled to such fraction a sum in cash equal to such fraction multiplied by the then effective Stock Purchase Price.

20. EXCHANGE ACT REPORTING. The Company covenants that it shall file any reports required to be filed by it under the Securities Exchange Act of 1934 and that it shall take such further action as any Holder may reasonably request, all to the extent required from time to time to enable Holder to sell Common Stock without registration under the Act within the limitations of the exemption provided by Rule 144 promulgated under the Act. Upon the request of any Holder, the Company shall deliver to such Holder, so long as Holder owns any of the Securities, a written statement as to whether it has complied with such requirements.

[THIS SPACE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the Company and Holder have caused this Warrant to be duly executed by their officers, thereunto duly authorized this _____ day of September, 2000.

INHALE THERAPEUTIC SYSTEMS, INC.
a Delaware corporation

By:_____

Title:_____

ATTEST:

_____
Secretary

AGREED AND ACCEPTED

SCIMED PROP III, INC.

By:_____

Title:_____

SUBSCRIPTION FORM

Date: _____, 20___

Inhale Therapeutic Systems, Inc.
150 Industrial Way
San Carlos, CA 94070

Attn: President

Ladies and Gentlemen:

/_/ The undersigned hereby elects to exercise the warrant issued to it by Inhale Therapeutic Systems, Inc. (the "Company") and dated September _____, 2000 Warrant No. CW-___ (the "Warrant") and to purchase thereunder _____ shares of the Common Stock of the Company (the "Shares") at a purchase price of _____ Dollars ($_____) per Share or an aggregate purchase price of _____ Dollars ($_____) (the "Purchase Price").

Pursuant to the terms of the Warrant the undersigned has delivered the Stock Purchase Price herewith in full in cash or by certified check or wire transfer.

/_/ The undersigned hereby elects to convert _____ percent (____%) of the value of the Warrant pursuant to the provisions of Section 3 of the Warrant.

Very truly yours,

_____

By:_____

Title:_____

EXHIBIT A

VESTED SHARES CALCULATION SCENARIOS

ASSUMPTION: 1,000 SHARE WARRANT

SCENARIO 1

Step 1: Inhale purchases 10% of GP interests and GP elects the Warrant Payment Alternative

Step 2: Inhale subsequently purchases another 30% of the GP interests and GP elects the Warrant Payment Alternative

RESULT:

After Step 1, the number of Vested Shares equals 100 shares

V = (P*M) - E
100 = (.10*1,000)-0

(note E=0 as no shares have been issued upon exercise of Warrant)

After Step 2, the number of Vested Shares equals 400 shares

V = (P*M) - E
400 = (.40*1,000)-0

(note E remains 0 as no shares have been issued upon exercise of Warrant)

SCENARIO 2

Step 1: Inhale purchases 10% of GP interests and GP elects the Warrant Payment Alternative

Step 2: GP exercises Warrant for 50% of the then Vested Shares

Step 3: Inhale subsequently purchases another 30% of the GP interests and GP elects the Warrant Payment Alternative

RESULT:

After Step 1, the number of Vested Shares equals 100 shares

V = (P*M) - E
100 = (.10*1,000)-0

(note E=0 as no shares have been issued upon exercise of Warrant)

After Step 2, the number of Vested Shares equals 50 shares

V = (P*M) - E
50 = (.10*1,000)-50

(note E=50 as 50 shares have been issued upon exercise of Warrant)

After Step 3, the number of Vested Shares equals 350 shares

V = (P*M) - E
350 = (.40*1,000)-50

(note E=50 as 50 shares have been issued upon exercise of Warrant)

SCENARIO 3

ADDITIONAL ASSUMPTIONS:
$50.00 EXERCISE PRICE

$100.00 AVERAGE CLOSING PRICE FOR 10 DAYS PRECEDING EXERCISE

Step 1: Inhale purchases 10% of GP interests and GP elects the Warrant Payment Alternative

Step 2: GP exercises Warrant for 50% of the then Vested Shares via Net Issue Election

Step 3: Inhale subsequently purchases another 30% of the GP interests and GP elects the Warrant Payment Alternative

RESULT:

After Step 1, the number of Vested Shares equals 100 shares

$$V = (P*M) - E$$
$$100 = (.10*1,000)-0$$

(note E=0 as no shares have been issued upon exercise of Warrant)

Upon Exercise of Warrant (Step 2), GP is issued 25 shares

$$X = \frac{Y (A-B)}{A}$$

$$25 = \frac{50 * (100-50)}{100}$$

(note that as result of Net Issue Election, 25 shares are cancelled)

After Step 2, the number of Vested Shares equals 50 shares

$$V = (P*M) - E$$
$$50 = (.10*1,000)-50$$

(note E=50 as 50 shares have been issued (including cancelled shares) upon exercise of Warrant)

After Step 3, the number of Vested Shares equals 350 shares

$$V = (P*M) - E$$
$$350 = (.40*1,000)-50$$

(note E=50 as 50 shares have been issued (including cancelled shares) upon exercise of Warrant)

Exhibit G

PROMISSORY NOTE

$3,000,000.00 September __, 2000
San Carlos, California

FOR VALUE RECEIVED, INHALE 201 INDUSTRIAL ROAD, L.P., a California limited partnership ("BORROWER"), hereby promises to pay to the order of INHALE THERAPEUTIC SYSTEMS, INC., a Delaware corporation ("LENDER"), in lawful money of the United States of America and in immediately available funds, the principal sum of Three Million Dollars ($3,000,000.00), plus such additional amounts added to principal pursuant to Section 2, below (the "LOAN"), together with accrued and unpaid interest thereon, each due and payable on the dates and in the manner set forth below.

1. PRINCIPAL REPAYMENT. The outstanding principal amount of the Loan (and all accrued but unpaid interest thereon) shall be due and payable in full on the "MATURITY DATE," which date shall be the earlier to occur of (i) the date which is fifty-four (54) months after the date of this Note or (ii) the date that the "Construction Financing" (as defined in that certain Contribution Agreement dated as of September __, 2000, by and between Lender and Borrower) is refinanced.

2. INTEREST.

2.1 Borrower further promises to pay interest on the outstanding principal amount of the Loan from the date hereof until payment in full, which interest shall be payable at the rate of ten and one-half percent (10.5%) per annum or the maximum rate permissible by law (which under the laws of the State of California shall be deemed to be the laws relating to permissible rates of interest on commercial loans), whichever is less. Interest shall be due and payable monthly in arrears not later than the first day of each calendar month for the preceding month and shall be calculated on the basis of a 360-day year for the actual number of days elapsed; provided, however, the during the Deferment Period (as defined below), interest on the Loan shall accrue but shall not be payable. For purposes of this Note, the term "DEFERMENT PERIOD" shall mean any period of time commencing on the date of this Note and ending on the Maturity Date, during which Borrower generates insufficient "OPERATING CASH FLOW" (as defined in Section 8 of that certain Agreement of Limited Partnership of Inhale 201 Industrial Road, L.P., dated as of September __, 2000, by and among SMP III, Scimed Prop III, and Lender and determined on a commercially reasonable basis) from operations to make interest payments.

2.2 During the Deferment Period, all accrued interest shall, on the date it would otherwise be due (but for the Deferment Period), be added to the principal amount of the Loan and shall thereafter accrue interested as stated herein.

2.3 After the Deferment Period, any principal repayment or interest payment on the Loan hereunder not paid when due, whether at stated maturity, by acceleration, or otherwise, shall bear interest at twelve percent (12%) per annum or the maximum rate

permissible by law (which under the laws of the State of California shall be deemed to be the laws relating to permissible rates of interest on commercial loans), whichever is less.

3. PLACE OF PAYMENT. All amounts payable hereunder shall be payable at the office of Lender, 150 Industrial Road, San Carlos, California 94070, unless another place of payment shall be specified in writing by Lender.

4. APPLICATION OF PAYMENTS. Payment on this Note shall be applied first to accrued interest, and thereafter to the outstanding principal balance hereof.

5. DEFAULT. Each of the following events shall be an "EVENT OF DEFAULT" hereunder:

(A) Borrower fails to pay timely any of the principal amount due under this Note on the date the same becomes due and payable or any accrued interest (subject to the deferment rights provided under Section 2 above) or other amounts due under this Note within five (5) business days of the date the same becomes due and payable;

(B) Borrower files any petition or action for relief under any bankruptcy, reorganization, insolvency or moratorium law or any other law for the relief of, or relating to, debtors, now or hereafter in effect, or makes any assignment for the benefit of creditors or takes any corporate action in furtherance of any of the foregoing; or

(C) An involuntary petition is filed against Borrower (unless such petition is dismissed or discharged within sixty (60) days) under any bankruptcy statute now or hereafter in effect, or a custodian, receiver, trustee, assignee for the benefit of creditors (or other similar official) is appointed to take possession, custody or control of any property of Borrower.

Upon the occurrence of an Event of Default hereunder, all unpaid principal, accrued interest and other amounts owing hereunder shall, at the option of Lender, and, in the case of an Event of Default pursuant to (B) or (C) above, automatically, be immediately due, payable and collectible by Lender pursuant to applicable law.

6. WAIVER. Borrower waives presentment and demand for payment, notice of dishonor, protest and notice of protest of this Note, and shall pay all costs of collection when incurred, including, without limitation, reasonable attorneys' fees, costs and other expenses.

The right to plead any and all statutes of limitations as a defense to any demands hereunder is hereby waived to the full extent permitted by law.

7. GOVERNING LAW. This Note shall be governed by, and construed and enforced in accordance with, the laws of the State of California, excluding conflict of laws principles that would cause the application of laws of any other jurisdiction.

8. SUCCESSORS AND ASSIGNS. The provisions of this Note shall inure to the benefit of and be binding on any successor to Borrower and shall extend to any holder hereof.

BORROWER:

INHALE 201 INDUSTRIAL ROAD, L.P., a California limited partnership:

By SciMed PropIII, Inc., a California corporation, its General Partner

By:_____
Alan D. Gold
President

By:_____
Gary A. Kreitzer
Executive Vice President

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BUILD-TO-SUIT LEASE

BY AND BETWEEN

INHALE 201 INDUSTRIAL ROAD, L.P.

A CALIFORNIA LIMITED PARTNERSHIP, AS

LANDLORD

AND

INHALE THERAPEUTIC SYSTEMS INC.,

A DELAWARE CORPORATION, AS

TENANT

201 INDUSTRIAL ROAD
SAN CARLOS, CA 94070

BUILD-TO-SUIT LEASE

THIS BUILD-TO-SUIT LEASE ("LEASE") is made and entered into as of September __, 2000 by and between INHALE 201 INDUSTRIAL ROAD, L.P., a California limited partnership ("LANDLORD"), and INHALE THERAPEUTIC SYSTEMS INC., a Delaware corporation ("TENANT").

RECITALS

A. CONTRIBUTION AGREEMENT. Tenant and Landlord entered into that certain Contribution Agreement dated as of September __, 2000 (the "Contribution Agreement") pursuant to which, among other things: (i) Tenant agreed to contribute, and Landlord agreed to accept, inter alia, that certain real property situated at 201 Industrial Road, San Carlos, California, as partially improved by Tenant (the "REAL PROPERTY"); and (ii) the parties agreed to enter into this Lease as of the date of closing under the Contribution Agreement. The Real Property is more particularly described in EXHIBIT A attached hereto and incorporated herein by this reference.

B. BUILD-TO-SUIT. Pursuant to this Lease and the plans, specifications, and other documents required hereby, Landlord will construct and/or complete certain improvements on the Real Property, including (i) two connected four-story buildings containing an aggregate of approximately 390,000 square feet, consisting of approximately 171,965 square feet of rentable area and two lower stories primarily of parking for the foregoing buildings as well as for adjacent property currently leased and occupied by Contributor located at 150 Industrial Road; (ii) site improvements; and (iii) certain other improvements.

C. DEFINITIONS. Unless the context otherwise specifies or requires for the purpose of this Lease, all words and phrases having their initial letters capitalized herein shall have the meanings set forth below:

AFFILIATE OF TENANT: shall have the meaning assigned in Section 13.1(b).

APPROVED PLANS: shall have the meaning assigned in Section 1(a) in the Work Letter.

BASE BUILDING WORK: Base Building Work for Building 1, as defined in Section 1(h) of the Work Letter, and Base Building Work for Building 2, as defined in Section 1(i) of the Work Letter.

BUILDING CORES: shall have the meaning assigned in Section 1(j) of the Work Letter.

BUILDING COST: shall have the meaning assigned in Section 18.2.

BUILDING SHELLS: shall have the meaning assigned in Section 1(k) of the Work Letter.

BUILDING 1: shall have the meaning assigned in Section 1.1(a)(ii).

BUILDING 2: shall have the meaning assigned in Section 1.1(a)(ii).

BUILDING 2 SUBSTANTIAL COMPLETION: shall mean the date of Tenant's receipt of the Certificate of Substantial Completion of the Base Building Work for Building 2.

BUILDINGS: shall have the meaning assigned in Section 1.1(a).

CERTIFICATE OF SUBSTANTIAL COMPLETION: shall have the meaning assigned in Section 1(l) of the Work Letter.

COMMON AREAS: shall mean the Interior and Exterior Common Areas, collectively, as indicated in Section 1.1(a)(x).

COSMETIC ALTERATIONS: shall have the meaning assigned in Section 9.1.

DATE OF SUBSTANTIAL COMPLETION: shall have the meaning assigned in Section 1(o) of the Work Letter.

EFFECTIVE DATE: shall have the meaning assigned in Section 2.1.

EXTERIOR COMMON AREAS: shall have the meaning assigned in Section 1.1(a)(viii).

FAIR MARKET RENTAL: shall have the meaning assigned in Section 3.1(d).

HAZARDOUS MATERIALS: shall have the meaning assigned in Section 11.4(a).

HVAC: shall have the meaning assigned in Section 7.2(a).

IMPROVEMENTS: shall have the meaning assigned in Section 1.1(a)(vii).

INTERIOR COMMON AREAS: shall have the meaning assigned in Section 1.1(a)(ix).

LANDLORD: shall have the meaning assigned in the Introduction.

LEASE YEAR: shall have the meaning assigned in Section 7.3.

LEASE: shall have the meaning assigned in the Introduction.

MINIMUM RENTAL: shall have the meaning assigned in Section 3.1(c).

OPERATING EXPENSES: shall have the meaning assigned in Section 7.2(a).

PARKING LEASE: shall have the meaning assigned in Section 1.1(a).

PERMITTED TRANSFER: shall have the meaning assigned in Section 13.1(b).

PHASE 1A: shall have the meaning assigned in Section 1.1(a)(iii).

PHASE 1B: shall have the meaning assigned in Section 1.1(a)(iv).

PHASE 2A: shall have the meaning assigned in Section 1.1(a)(v).

PHASE 2B: shall have the meaning assigned in Section 1.1(a)(vi).

PHASE 1 RENT COMMENCEMENT DATE: shall have the meaning assigned in Section 3.1(a).

PHASE 2A RENT COMMENCEMENT DATE: shall have the meaning assigned in Section 3.1(b).

PHASE 2B RENT COMMENCEMENT DATE: shall have the meaning assigned in Section 3.1(b).

PHASE 2B EXPANSION OPTION: shall have the meaning assigned in Section 1.2.

PREMISES: shall have the meaning assigned in Section 1.1(a).

PREVAILING PARTY: shall have the meaning assigned in Section 19.5.

PROJECT: shall have the meaning assigned in Section 1.1(a)(vii).

REAL PROPERTY: shall have the meaning assigned in Recital A.

RENT COMMENCEMENT DATE: shall mean any of the Phase 1 Rent Commencement Date, Phase 2A Rent Commencement Date or Phase 2B Rent Commencement Date, all as defined in Section 3.1.

REQUESTING PARTY: shall have the meaning assigned in Section 17.3.

REQUIREMENTS: shall have the meaning assigned in Section 11.3.

RESPONDING PARTY: shall have the meaning assigned in Section 17.3.

SECURITY DEPOSIT: shall have the meaning assigned in Section 18.1.

SHELL FINAL: shall have the meaning in Section 1(u) of the Work Letter.

SITE PLAN: shall have the meaning assigned in Section 1.1(a)(ii).

SUBSTANTIAL COMPLETION OF BASE BUILDING WORK: shall have the meaning assigned in Section 1(w) of the Work Letter.

TENANT: shall have the meaning assigned in the Introduction.

TENANT IMPROVEMENTS: shall have the meaning assigned in Section 1(y) of the

Work Letter.

TENANT IMPROVEMENT ALLOWANCE: shall have the meaning assigned in Section 4(b) of the Work Letter.

TENANT'S OPERATING COST SHARE: shall refer, collectively, to Tenant's Building 1 Operating Cost Share, Tenant's Exterior Common Area Cost Share and Tenant's Building 2 Operating Cost Share, as described in Section 7.1(a)(iv).

TENANT'S BUILDING 1 OPERATING COST SHARE: shall have the meaning assigned in Section 7.1(a)(i).

TENANT'S EXTERIOR COMMON AREA OPERATING COST SHARE: shall have the meaning assigned in Section 7.1(a)(i).

TENANT'S BUILDING 2 OPERATING COST SHARE: shall have the meaning assigned in Section 7.1(a)(ii).

TENANT'S WORK: shall have the meaning assigned in Section 1(aa) of the Work Letter.

TERM: shall have the meaning assigned in Section 2.1.

TERMINATION DATE: shall have the meaning assigned in Section 2.1.

USEABLE SQUARE FEET: shall have the meaning in Section 1(cc) of the Work Letter.

WORK LETTER: shall have the meaning assigned in Section 5.1(a).

THE PARTIES AGREE AS FOLLOWS:

1. PROPERTY.

1.1 LEASE OF PREMISES.

(a) BUILDINGS, PROPERTY, IMPROVEMENTS. Subject to the Parking Lease dated as of September _____, 2000 (the "PARKING LEASE") by and between Landlord and Tenant, Landlord leases to Tenant and Tenant leases from Landlord, on the terms, covenants and conditions hereinafter set forth, Phase 1A, Phase 1B, and Phase 2A (all as defined below and referred to collectively herein as the "PREMISES"). The Premises, together with Phase 2B, are to be constructed by Landlord in accordance with Article 5 hereof and EXHIBIT C attached hereto; and will be located in two connected four-story buildings containing an aggregate of approximately 390,000 square feet, consisting of approximately 171,965 square feet of rentable area for office and laboratory research and development and two lower stories primarily of parking (collectively, the "BUILDINGS" and each a "BUILDING"). The Buildings are being constructed or will be constructed on the Real Property in connection with the Project.

(i) The Real Property is located at 201 Industrial Road in the City of San Carlos, County of San Mateo, State of California.

(ii) The location of the Real Property is, and the location of the Buildings on the Real Property is intended to be, substantially as shown on the site plans attached hereto as EXHIBIT B (the "SITE PLAN"); the first BUILDING to be constructed ("BUILDING 1") is being constructed on the Real Property in the location depicted on the Site Plan, and the second BUILDING to be constructed ("BUILDING 2") shall be constructed on the Real Property in the location depicted on the Site Plan.

(iii) The term "PHASE 1A" shall refer to that portion of Building 1 consisting of approximately 39,077 rentable square feet (37,703 usable square feet) located on the fourth floor and the approximately 964 rentable square feet (930 usable square feet) located on the second floor and shown on the Site Plan.

(iv) The term "PHASE 1B" shall refer to that portion of Building 1 consisting of approximately 39,876 rentable square feet (38,474 usable square feet) located on the third floor and shown on the Site Plan.

(v) The term "PHASE 2A" shall refer to that portion of Building 2 consisting of approximately 45,574 rentable square feet (43,972 useable square feet) located on the third floor and shown on the Site Plan.

(vi) The term "PHASE 2B" shall refer to that portion of Building 2 consisting of approximately 46,474 rentable square feet (44,840 useable square feet) located on the fourth floor and shown on the Site Plan.

(vii) The Buildings and the other improvements to be constructed on the Real Property in connection with the Project, including the Common Areas (defined below), are sometimes referred to collectively herein as the "IMPROVEMENTS." The "PROJECT," when completed, will consist of the Real Property and the Improvements.

(viii) The parking areas (whether inside or outside the Buildings), courtyard, driveways, sidewalks, landscaped areas and other portions of the Project, including any areas leased under the Parking Lease, that lie outside the exterior walls of the Buildings to be constructed on the Real Property, as depicted in the Site Plan and as hereafter modified by Landlord from time to time in accordance with the provisions of this Lease, are sometimes referred to herein as the "EXTERIOR COMMON AREAS."

(ix) The term "INTERIOR COMMON AREAS" shall refer to the interior lobby, elevators, stairwells, utility risers, and any mechanical rooms located outside any tenant's premises in the Buildings.

(x) The term "COMMON AREAS" shall refer collectively to the Exterior Common Areas and the Interior Common Areas

(b) USE OF COMMON AREAS. As an appurtenance to Tenant's leasing of the Premises pursuant to Section 1.1(a), Landlord hereby grants to Tenant, for the benefit of Tenant

and its employees, suppliers, shippers, customers and invitees, during the Term of this Lease, the non-exclusive right to use, in common with others entitled to such use, (i) those portions of the Common Areas improved from time to time for use as parking areas, driveways, courtyard, sidewalks, landscaped areas, lobbies, elevators, stairwells, utility risers, any mechanical rooms located outside any tenant's premises, or for other common purposes, and (ii) all access easements and similar rights and privileges relating to or appurtenant to the Property and created or existing from time to time under any access easement agreements, declarations of covenants, conditions and restrictions, or other written agreements now or hereafter of record with respect to the Property, subject however to the rights granted under the Parking Lease and any limitations applicable to such rights and privileges under applicable law, under this Lease and/or under the written agreements creating such rights and privileges.

1.2 PHASE 2B EXPANSION OPTION. So long as Inhale Therapeutic Systems, Inc. (or a transferee of a Permitted Transfer) is the Tenant hereunder as of its exercise of the option granted herein, Tenant shall have the option to lease Phase 2B from Landlord (the "PHASE 2B EXPANSION OPTION") upon the terms and conditions set forth in this Lease, subject to the following conditions:

(a) The Phase 2B Expansion Option shall be exercised by written notice of its irrevocable election to exercise the Phase 2B Expansion Option ("EXERCISE NOTICE") given to Landlord by Tenant at any time prior to, but no later than, three (3) business days following the date of Building 2 Substantial Completion. Upon Tenant's giving of the Exercise Notice, Phase 2B shall be deemed added to the Premises.

(b) In the event that Tenant shall not have given the Exercise Notice by Substantial Completion of the Base Building Work, Landlord may lease Phase 2B to a third party for a term not to exceed three years and not later than six (6) months prior to the end of the term of such third party lease, Landlord shall notify Tenant of the availability of Phase 2B. Tenant may exercise the Phase 2B Expansion Option, at any time prior to, but no later than, thirty days following its receipt of Landlord's notice of availability, by giving the Exercise Notice; provided that the Minimum Rental for Phase 2B in such event shall be the lower of (i) $3.60 per rentable square foot per month, which amount shall be subject to a two percent (2%) annual increase on each anniversary of the date of Building 2 Substantial Completion, commencing in 2001, or (ii) the then Fair Market Rental (as determined pursuant to the mechanism described in Section 3.1(d). In such event, Landlord shall have no obligation to provide any tenant improvement allowance.

(c) Notwithstanding anything to the contrary contained herein, if Tenant is in default beyond any applicable notice and cure periods, under any obligation to pay amounts when due and/or any of the other material terms, covenants or conditions of this Lease at the time Tenant exercises the Phase 2B Expansion Option, Landlord shall have, in addition to all of Landlord's other rights and remedies provided in this Lease, the right to terminate such Phase 2B Expansion Option upon written notice to Tenant, and Landlord shall be free to lease Phase 2B to any other third party or parties for any term and condition.

2. TERM.

2.1 TERM. The term of this Lease (as it may be extended from time to time, the "TERM") shall commence upon mutual execution of this Lease by Landlord and Tenant (the "EFFECTIVE DATE") and shall terminate on the date that is one day prior to the sixteenth anniversary of the Phase 1 Rent Commencement Date (as it may be extended pursuant to Section 2.6, below, the "TERMINATION DATE").

2.2 EARLY POSSESSION. Provided Tenant's activities do not unduly interfere with or delay the Base Building Work, Tenant shall have the non-exclusive right to enter the Property from and after the date hereof for the purposes of performing Tenant's Work. Such entry shall be subject to and upon all of the terms and conditions of this Lease and of the Work Letter attached hereto as EXHIBIT C (including, but not limited to, conditions relating to the maintenance of required insurance), except that Tenant shall have no obligation to pay Minimum Rental or Operating Expenses for any period prior to the applicable Rent Commencement Date as determined under Section 3.1; such early possession shall not advance or otherwise affect the applicable Rent Commencement Date. Upon Substantial Completion of the Base Building Work for each Phase, Tenant shall be entitled to the exclusive possession of the Premises.

2.3 DELAY IN POSSESSION. Except to the extent caused by a material default by Landlord of its obligations set forth in this Lease, Landlord shall not be liable for any damages caused by any delay in the completion of the Improvements, nor shall any such delay affect the validity of this Lease or the obligations of Tenant hereunder.

2.4 ACKNOWLEDGEMENT OF RENT COMMENCEMENT. Promptly following each of the Phase 1 Rent Commencement Date, the Phase 2A Rent Commencement Date and the Phase 2B Rent Commencement Date, Landlord and Tenant shall execute a written acknowledgement of the applicable Rent Commencement Date, Termination Date and related matters, substantially in the form attached hereto as EXHIBIT E (with appropriate insertions), which acknowledgement shall be deemed to be incorporated herein by this reference. Notwithstanding the foregoing requirement, the failure of either party to execute any such written acknowledgement shall not affect the determination of the applicable Rent Commencement Date, Termination Date and related matters in accordance with the provisions of this Lease.

2.5 HOLDING OVER. If Tenant holds possession of the Premises or any portion thereof after the Term of this Lease with Landlord's written consent, then except as otherwise specified in such consent, Tenant shall become a tenant from month to month at one hundred and two percent (102%) of the rental and otherwise upon the terms herein specified for the period immediately prior to such holding over and shall continue in such status until the tenancy is terminated by either party upon not less than one hundred twenty (120) days prior written notice. If Tenant holds possession of the Premises or any portion thereof after the Term of this Lease without Landlord's written consent, then Landlord in its sole discretion may elect (by written notice to Tenant) to have Tenant become a tenant either from month to month or at will, at one hundred fifty percent (150%) of the rental (prorated on a daily basis for an at-will tenancy, if applicable) and otherwise upon the terms herein specified for the period immediately prior to such holding over, or may elect to pursue any and all legal remedies available to Landlord under applicable law with respect to such holding over by Tenant. Tenant shall indemnify and

hold Landlord harmless from any loss, damage, claim, liability, cost or expense (including reasonable attorneys' fees) resulting from any delay by Tenant in surrendering the Premises or any portion thereof (except to the extent such delay is with Landlord's prior written consent), including, but not limited to, any claims made by a succeeding tenant by reason of such delay. Acceptance of rent by Landlord following expiration or termination of this Lease shall not constitute a renewal of this Lease.

2.6 OPTIONS TO EXTEND TERM. Tenant shall have the option to extend the Term of this Lease, at the Minimum Rental set forth in Section 3.1(b) and (c), below, and otherwise upon all the terms and provisions set forth herein with respect to the initial term of this Lease, for up to two (2) additional periods of ten (10) years each, the first commencing upon the expiration of the initial term hereof and the second commencing upon the expiration of the first extended term, if any. Exercise of such option with respect to the first such extended term shall be by written notice to Landlord at least eighteen (18) months prior to the expiration of the initial term hereof, exercise of such option with respect to the second extended term, if the first extension option has been duly exercised, shall be by written notice to Landlord at least eighteen (18) months prior to the expiration of the first extended term hereof. If Tenant is in material default hereunder, beyond any applicable notice and cure periods, on the date of such notice or on the date any extended term is to commence, then the exercise of the option shall be of no force or effect, the extended term shall not commence and this Lease shall expire at the end of the then current term hereof (or at such earlier time as Landlord may elect pursuant to the default provisions of this Lease). If Tenant properly exercises one or more extension options under this Section, then all references in this Lease (other than in this Section 2.6) to the "term" of this Lease shall be construed to include the extension term(s) thus elected by Tenant. Except as expressly set forth in this Section 2.6, Tenant shall have no right to extend the Term of this Lease beyond its prescribed term.

3. RENTAL.

Tenant shall cause payment of Minimum Rental and other rent or charges to be received by Landlord on the first calendar day of each month of the Term of this Lease in lawful money of the United States, without offset or deduction, except as specifically provided herein. All amounts payable by Tenant hereunder shall be deemed "Rent."

3.1 MINIMUM RENTAL.

(a) COMMENCEMENT OF RENTAL OBLIGATIONS FOR PHASE 1. Tenant's Minimum Rental and Operating Expense obligations with respect to Phase 1A and Phase 1B shall commence on September ___, 2000 ("PHASE 1 RENT COMMENCEMENT DATE") and shall end on the Termination Date, unless sooner terminated or extended as hereinafter provided.

(b) COMMENCEMENT OF RENTAL OBLIGATIONS FOR PHASES 2A AND 2B. Tenant's Minimum Rental and Operating Expense obligations with respect to Phase 2A shall commence on the earlier of occupancy or the day after the date of Building 2 Substantial Completion (the "PHASE 2A RENT COMMENCEMENT DATE") and shall end on the Termination Date, unless sooner terminated or extended as hereinafter provided. In the event Tenant exercises its option to lease Phase 2B, Tenant's Minimum Rental and Operating Expense obligations with respect to

Phase 2B shall commence on the earlier of occupancy or the day after the date of Building 2 Substantial Completion (the "PHASE 2B RENT COMMENCEMENT DATE") and shall end on the Termination Date, unless sooner terminated or extended as hereinafter provided.

(c) RENTAL AMOUNTS FOR PHASE 1A, PHASE 1B, PHASE 2A, AND PHASE 2B: ANNUAL INCREASES. Tenant shall pay to Landlord as minimum rental for the following Phases, in advance, without deduction, offset, notice or demand, on or before the respective Rent Commencement Date and on or before the first day of each subsequent calendar month of the Term of this Lease, the following amounts per month, subject to adjustment in accordance with the terms of this Section 3.1 ("MINIMUM RENTAL"):

(i) PHASE 1A AND 1B. Beginning on the Phase 1 Rent Commencement Date, Tenant shall pay Minimum Rental for Phase 1 in an amount equal to $287,701.20 ($3.60 per sq. ft. multiplied by 79,917), provided that Tenant shall be entitled to a rent credit in the amount of $46,444 per month (to be prorated for partial months) until such time as Tenant shall have completed Tenant's Work in Phase 1B (but in any event not later than April 1, 2001), as defined in and in accordance with the terms and conditions of the Work Letter.

(ii) PHASE 2A. Beginning on the Phase 2A Rent Commencement Date, Tenant shall pay Minimum Rental for Phase 2A in an amount equal to $164,066.40 ($3.60 per sq. ft. multiplied by 45,574).

(iii) PHASE 2B. In the event that Tenant shall have exercised its Phase 2B Expansion Option, then beginning on the Phase 2B Rent Commencement Date, Tenant shall pay Minimum Rental for Phase 2B in an amount equal to $167,306.40 ($3.60 per sq. ft. multiplied by 46,474).

(iv) ANNUAL INCREASES. On the anniversary of each of the Phase 1 Rent Commencement Date, the Phase 2A Rent Commencement Date and the Phase 2B Rent Commencement Date (assuming Tenant exercises its Phase 2B Expansion Option), the then current Minimum Rental for the relevant Phase shall be increased by two percent (2%).

(v) PARTIAL MONTHS. If the obligation to pay Minimum Rental hereunder commences on other than the first day of a calendar month or if the Term of this Lease terminates on other than the last day of a calendar month, the Minimum Rental for such first or last month of the Term of this Lease, as the case may be, shall be prorated based on the number of days the Term of this Lease is in effect during such month. If an increase in Minimum Rental becomes effective on a day other than the first day of a calendar month, the Minimum Rental for that month shall be the sum of the two applicable rates, each prorated for the portion of the month during which such rate is in effect.

(d) RENTAL AMOUNTS DURING FIRST EXTENDED TERM. If Tenant properly exercises its right to extend the Term of this Lease pursuant to Section 2.6 hereof, the Minimum Rental during the first year of the first extended term shall be equal to one hundred percent (100%) of the fair market rental value (as defined below), determined as of the commencement of such extended term in accordance with this paragraph. Upon Landlord's receipt of a proper notice of Tenant's exercise of its option to extend the Term of this Lease, the parties shall have

thirty (30) days in which to agree on the Fair Market Rental at the commencement of the first extended term for the uses permitted hereunder. If the parties agree on such Fair Market Rental, they shall execute an amendment to this Lease stating the amount of the applicable minimum monthly rental (including the indexed amounts applicable during subsequent years of the first extended term as described above in Section 3.1(c)(iv)). If the parties are unable to agree on such rental within such thirty (30) day period, then within thirty (30) days after the expiration of such period each party, at its cost and by giving notice to the other party, shall appoint a real estate appraiser with at least five (5) years experience appraising similar commercial properties in the County in which the Property is located to appraise and set the Fair Market Rental for the Premises at the commencement of the first extended term in accordance with the provisions of this Section 3.1(d). If either party fails to appoint an appraiser within the allotted time, the single appraiser appointed by the other party shall be the sole appraiser. If an appraiser is appointed by each party and the two appraisers so appointed are unable to agree upon a Fair Market Rental within thirty (30) days after the appointment of the second, the two appraisers shall appoint a third similarly qualified appraiser within ten (10) days after expiration of such 30-day period; if they are unable to agree upon a third appraiser, then either party may, upon not less than five (5) days notice to the other party, apply to the Presiding Judge of the Superior Court of the County in which the Property is located for the appointment of a third qualified appraiser. Each party shall bear its own legal fees in connection with appointment of the third appraiser and shall bear one-half of any other costs of appointment of the third appraiser and of such third appraiser's fee. The third appraiser, however selected, shall be a person who has not previously acted for either party in any capacity. Within thirty (30) days after the appointment of the third appraiser, the third appraiser shall set the Fair Market Rental for the first extended term by selecting the appraised value determined by the first two appraisers which is closest to his own determination, and shall so notify the parties, which determination shall be binding on the parties and shall be enforceable in any further proceedings relating to this Lease. For purposes of this Section 3.1(d), the "FAIR MARKET RENTAL" of the Premises shall be determined with reference to the then prevailing market rental rates for properties in the City of San Carlos with improvements and common area improvements comparable to those then existing in the Premises and paid for by Landlord, either directly or through the payment of the Tenant Improvement Allowance (as defined in Section 4(b) of the Work Letter attached hereto as Exhibit C) to Tenant.

(e) RENTAL AMOUNTS DURING SECOND EXTENDED TERM. If Tenant properly exercises its right to a second extended Term of this Lease pursuant to Section 2.6 hereof, the Minimum Rental during such second extended term shall be determined in the same manner provided in the preceding paragraph for the first extended term (including the rental increase provision for years after the first year of such second extended term), except that the determination shall be made as of the commencement of the second extended term.

3.2 LATE CHARGE. If Tenant shall fail to pay, when the same is due and payable (after giving effect to any applicable notice and cure period), any rent or other amounts due Landlord hereunder, such unpaid amounts shall bear interest for the benefit of the Landlord at a rate equal to the lesser of ten percent (10%) per annum or the maximum rate permitted by law, from the date due to the date of payment. Tenant further acknowledges that late payment of rent will cause Landlord to incur certain costs not contemplated by this Lease, the exact amount of such costs being extremely difficult and impractical to determine with certainty. For this reason, in addition to interest, if Tenant shall fail to pay (which for purposes of this paragraph, "pay" shall

mean actual receipt of the payment by Landlord) any installment of rent by the fifth (5th) day of the calendar month for which such installment is due, a late charge equal to five percent (5%) of the overdue installment of rent automatically shall be due without further notice, and shall be in addition to all other sums due. The parties agree that this additional late charge represents a fair and reasonable estimate of the costs Landlord will incur by reason of late payment by Tenant

4. PARKING.

Landlord and Tenant agree that the Common Areas of the Property shall include not less than 690 parking spaces. Commencing on the Effective Date and continuing until the Phase 1 Rent Commencement Date, at no additional charge, Tenant may use up to 300 spaces for parking. At no additional charge, following the Phase 1 Rent Commencement Date Tenant shall be entitled to 230 spaces; following the Phase 2A Rent Commencement Date Tenant shall be entitled to an additional 131 spaces; and, provided Tenant exercises the Phase 2B Expansion Option, following the Phase 2B Rent Commencement Date Tenant shall be entitled to an additional 139 spaces constituting the remaining spaces on the Common Areas, all of which shall be subject to the Parking Lease. Tenant acknowledges that during the construction of the Base Building Work for Building 2, the available number of parking spaces may be diminished by a much as 100 spaces, and Tenant shall have no right to a reduction in Minimum Rental as a result.

5. CONSTRUCTION.

5.1 CONSTRUCTION OF IMPROVEMENTS.

(a) BASE BUILDING WORK; PERFORMANCE AND PAYMENT. Landlord shall, at Landlord's cost and expense (except as otherwise provided herein and in EXHIBIT C, construct BASE BUILDING WORK as defined in and in accordance with the terms and conditions of the WORK LETTER attached hereto as EXHIBIT C (the "WORK LETTER"). Landlord shall use its best efforts to complete such construction promptly, diligently and within the applicable time periods set forth in the Estimated Construction Schedule attached hereto as EXHIBIT D and incorporated herein by this reference, as such schedule may be modified from time to time in accordance with the WORK LETTER, subject to the effects of any delays caused by Tenant or any other circumstances beyond Landlord's reasonable control (excluding any financial inability), and subject to the provisions of Section 2.3 above. Tenant may cause the Tenant Improvements therein to be constructed concurrently with Landlord's construction of the Base Building Improvements provided such construction does not unduly interfere with Landlord's construction of the Base Building Improvements.

(b) TENANT'S WORK. Tenant shall, at Tenant's cost and expense (except as otherwise provided herein and in EXHIBIT C), promptly and diligently construct Tenant's Work as defined in and in accordance with the terms and conditions of the WORK LETTER. Landlord shall provide the Tenant Improvement Allowance as described in the Work Letter. All Tenant's Work shall comply with all applicable laws and shall be completed in conformance with the APPROVED PLANS as defined in the Work Letter.

(c) COMPLIANCE WITH LAW. Landlord warrants to Tenant that the Base Building Work and any other improvements constructed by Landlord from time to time shall not

violate any applicable law, building code, regulation or ordinance in effect on the applicable Rent Commencement Date or at the time such improvements are placed in service. If it is determined that any of these warranties have been violated, then it shall be the obligation of the Landlord, after written notice from Tenant, to correct the condition(s) constituting such violation promptly, at Landlord's sole cost and expense.

6. TAXES.

6.1 PERSONAL PROPERTY. Tenant shall be responsible for and shall pay prior to delinquency all taxes and assessments levied against or by reason of (a) any and all alterations, additions and items installed or placed on or in the Premises and taxed as personal property rather than as real property, and/or (b) all personal property, trade fixtures and other property placed by Tenant on or about the Premises. Upon request by Landlord, Tenant shall furnish Landlord with satisfactory evidence of Tenant's payment thereof. If it any time during the Term of this Lease any of said alterations, additions or personal property, whether or not belonging to Tenant, shall be taxed or assessed as part of the Property, then such tax or assessment shall be paid by Tenant to Landlord within thirty (30) days after presentation by Landlord of copies of the tax bills in which such taxes and assessments are included and shall, for the purposes of this Lease, be deemed to be personal property taxes or assessments under this Section 6.1.

6.2 REAL PROPERTY.

(a) REAL PROPERTY TAXES. Commencing with the Phase 1 Rent Commencement Date and continuing for each calendar year, or tax year at Landlord's option (such "tax year" being a period of twelve (12) consecutive calendar months for which the applicable taxing authority levies or assesses real property taxes), for the balance of the Lease Term, Tenant shall pay to Landlord the amount of all real property taxes levied and assessed for any such year upon the Premises. Notwithstanding the foregoing, prior to the date of Building 2 Substantial Completion, Tenant be responsible for all real property taxes levied and assessed during such period upon the Project. Such sum for any partial year of the Lease Term shall be prorated on the basis of the number of days of such partial year. Payment shall be made in the following manner: Tenant shall pay to Landlord as Operating Expenses, the amount of all real property taxes levied and assessed upon the Premises including improvements and the underlying realty for any calendar year to be paid either: (i) monthly in accordance with Article 7 below; or (ii) at Landlord's option, for any tax year, within thirty (30) days after Landlord gives notice to Tenant of the amount of such real property taxes payable by Tenant (or not less than thirty (30) days prior to delinquency, whichever is later). Landlord also shall provide Tenant with a copy of the applicable tax bill or tax statement from the taxing authority. In addition to any other amounts due from Tenant to Landlord, if Tenant fails to pay the real property taxes to Landlord as herein required, Tenant shall pay to Landlord the amount of any interest, penalties or late charges caused by Tenant's late payment.

(b) PROTESTS. If the Premises are separately assessed, Tenant shall have the right, by appropriate proceedings, to protest or contest in good faith any assessment or reassessment of real property taxes, any special assessment, or the validity of any real property taxes or of any change in assessment or tax rate; provided, however, that prior to any such challenge Tenant must either (a) pay the taxes alleged to be due in their entirety and seek a

refund from the appropriate authority, or (b) post bond in an amount sufficient to insure full payment of the real property taxes. In any event, upon a final determination with respect to such contest or protest, Tenant shall promptly pay all sums found to be due with respect thereto. In any such protest or contest, Tenant may act in its own name, and at the request of Tenant, Landlord shall cooperate with Tenant in any way Tenant may reasonably require in connection with such contest or protest, including signing such documents as Tenant reasonably shall request, provided that such cooperation shall be at no expense to Landlord and shall not require Landlord to attend any appeal or other hearing. Any such contest or protest shall be at Tenant's sole expense, and if any penalties, interest or late charges become payable with respect to the real property taxes as a result of such contest or protest, Tenant shall pay the same.

(c) REFUNDS. If Tenant obtains a refund as the result of Tenant's protest or contest and subject to Tenant's obligation to pay Landlord's costs (if any) associated therewith, Tenant shall be entitled to such refund to the extent it relates to the Premises during the Lease Term.

(d) OTHER TAXES. If at any time during the Lease Term under the laws of the United States Government, state, county or city, or any political subdivision thereof in which the Premises are situated, a tax or excise on rent or any other tax however described is levied or assessed by any such political body against Landlord on account of rentals payable to Landlord hereunder, such tax or excise shall be considered "REAL PROPERTY TAXES" for the purposes of this Section 6.2, excluding, however, from such tax or excise any amount assessed against Landlord as state or federal income tax.

(e) TAX AND INSURANCE ESCROWS. To the extent required by any lender of Landlord, Tenant shall timely pay all tax and insurance impound payments due on the Premises.

7. OPERATING EXPENSES.

7.1 PAYMENT OF OPERATING EXPENSES.

(a) TENANT'S OPERATING COST SHARE.

(i) Commencing on the Phase 1 Rent Commencement Date through the date of Building 2 Substantial Completion, Tenant shall pay to Landlord, at the time and in the manner hereinafter set forth, as additional rental: (i) an amount equal to one hundred percent (100%) of the Operating Expenses defined in Section 7.2 applicable to the Buildings (excluding any construction or construction-related costs or capital improvement costs for Building 2) ("TENANT'S BUILDING 1 OPERATING COST SHARE"), and (ii) an amount equal to 100% of the Operating Expenses attributable to the all Exterior Common Areas ("TENANT'S EXTERIOR COMMON AREA OPERATING COST SHARE").

(ii) Commencing on the date of Building 2 Substantial Completion, Tenant shall pay to Landlord, at the time and in the manner hereinafter set forth, as additional rental: (i) an amount equal to one hundred percent (100%) of the Operating Expenses defined in Section 7.2 applicable to Building 1, (ii) an amount equal to forty-nine and three hundredths percent (49.03%) of the Operating Expenses applicable to Building 2 ("TENANT'S BUILDING 2 OPERATING COST SHARE"), and (iii) Tenant's Exterior Common Area Operating Cost Share shall

be reduced to an amount equal to seventy-three and three tenths percent (73.30%) of the Operating Expenses attributable to the Common Areas.

(iii) In the event Tenant exercises the Phase 2B Expansion Option, commencing on the Phase 2B Rent Commencement Date, Tenant's Building 2 Operating Cost Share shall be increased to 100% of the Operating Costs attributable to Building 2, and Tenant's Exterior Common Area Operating Cost Share shall be increased to 100% of the Operating Expenses attributable to the all Exterior Common Areas.

(iv) The term "TENANT'S OPERATING COST SHARE" shall refer collectively to Tenant's Building 1 Operating Cost Share, Tenant's Exterior Common Area Operating Cost Share and Tenant's Building 2 Operating Cost Share, as they may be in effect from time to time.

(b) ADJUSTMENT OF SHARE FOLLOWING CHANGE SIZE OF PREMISES. If at any time the size of the Premises changes, then Tenant's Operating Cost Share for the Building in which the change has occurred shall be adjusted to be equal to the percentage determined by dividing the gross square footage of the Premises in such Building as they exist from time to time by the gross square footage of the relevant Building, and the Tenant's Exterior Common Area Operating Cost Share shall be equitably adjusted accordingly.

7.2 DEFINITION OF OPERATING EXPENSES.

(a) INCLUSIONS. Subject to the exclusions and provisions hereinafter contained, the term "OPERATING EXPENSES" shall mean the total costs and expenses incurred by Landlord or Tenant for operation and maintenance of the Buildings and the Property, including, without limitation, costs and expenses of (i) insurance premiums for insurance carried by Landlord pursuant to Section 12.1 (which may include, at Landlord's option, flood, earthquake or environmental remediation insurance), insurance deductibles, provided that any increase in premiums for flood, earthquake or environmental remediation coverage which is in excess of twenty five percent of the previous years' premium shall not be included in Operating Expenses; (ii) the operation, repair and maintenance of the Building Shells and Common Areas in a first class condition including but not limited to sidewalks, parking areas, curbs, roads, driveways, lighting standards, landscaping, sewers, water, gas and electrical distribution systems and facilities, drainage facilities, and all signs, both illuminated and non-illuminated that are now or hereafter in the Buildings and on the Property; (iii) all Common Area utilities and services not separately metered to Tenant; (iv) real and personal property taxes and assessments or substitutes therefor levied or assessed against the Property or any part thereof, including (but not limited to) any possessory interest, use, business, license or other taxes or fees, any taxes imposed directly on rents or services, any assessments or charges for police or fire protection, housing, transit, open space, street or sidewalk construction or maintenance or other similar services from time to time by any governmental or quasi-governmental entity, and any other new taxes on landlords in addition to taxes now in effect; (v) supplies, equipment, utilities and tools used in the operation and maintenance of the Property; (vi) capital improvements to the Property, the Improvements or the Buildings including, without limitation, all structural, roof, HVAC (defined as heating, ventilation, and air conditioning equipment and fixtures related thereto) serving the Common Areas, plumbing and electrical systems costing Seventy-five Thousand dollars ($75,000) or less,

provided that the cost of all other capital improvements shall be amortized over the useful life of any such capital improvement (calculated in accordance with GAAP) and included in Operating Expenses; (vii) property management fees; (viii) market rate lease costs for equipment, and (ix) any other costs (including, but not limited to, any parking or utilities fees or surcharges) allocable to or paid by Landlord, as owner of the Property, Buildings or Improvements, pursuant to any applicable laws, ordinances, regulations or orders of any governmental or quasi-governmental authority or pursuant to the terms of any declaration of covenants, conditions and restrictions now or hereafter affecting the Property or any other property over which Tenant has non-exclusive use rights as contemplated in Section 1.1(b) hereof.

(b) EXCLUSIONS. Notwithstanding anything to the contrary contained in this Lease, the following shall not be included within Operating Expenses:

(i) Leasing commissions, attorneys' fees, costs, disbursements, and other expenses incurred in connection with negotiations or disputes with tenants, or in connection with leasing, renovating or improving space for tenants or other occupants or prospective tenants or other occupants of the Property;

(ii) The cost of any service sold to any tenant (including Tenant) or other occupant for which Landlord is entitled to be reimbursed as an additional charge or rental over and above the basic rent and operating expenses payable under the lease with that tenant;

(iii) Any depreciation on the Buildings or on any other improvements on the Property;

(iv) Expenses in connection with services or other benefits of a type that are not offered or made available to Tenant but that are provided to another tenant of the Property or of any other property owned by Landlord;

(v) Costs incurred due to Landlord's violation of any terms or conditions of this Lease or of any other lease relating to the Buildings or to any other portion of the Property;

(vi) Overhead profit increments paid to any subsidiary or affiliate of Landlord for services other than management on or to the Property, or for supplies or other materials to the extent that the cost of the services, supplies or materials exceeds the cost that would have been paid had the services, supplies or materials been provided by unaffiliated parties on a competitive basis;

(vii) All interest, loan fees and other carrying costs related to any mortgage or deed of trust, and all rental and other amounts payable under any ground or underlying lease, or above market lease payments under any lease for any equipment ordinarily considered to be of a capital nature (except janitorial equipment which is not affixed to the Buildings and/or equipment the costs of which, if purchased, would be considered an amortizable Operating Expense under the provisions above, notwithstanding the capital nature of such equipment;

(viii) Any compensation paid to clerks, attendants or other persons in commercial concessions operated by Landlord;

(ix) Advertising and promotional expenditures;

(x) Any costs, fines or penalties incurred due to violations by Landlord of any governmental rule or authority or of this Lease or any other lease of any portion of the Property or any other property owned by Landlord, or due to Landlord's gross negligence or willful misconduct;

(xi) Management fees in excess of five (5%) percent of all other Operating Expenses, provided that no management fees shall be included within the definition of Operating Expenses in circumstances where Tenant's Security Deposit is required to be larger than an amount equal to three months Minimum Rent, subject to the Landlord's lender's right to reinstate such management fee pursuant to Section 7.7, below;

(xii) Costs for sculpture, paintings or other objects of art, and for any insurance thereon or extraordinary security in connection therewith other than that provided in connection with the initial construction of the Buildings or the Common Area improvements on the Property;

(xiii) Wages, salaries or other compensation paid to any executive employees above the grade of building manager;

(xiv) The cost of containing, removing or otherwise remediating any contamination of the Property (including the underlying land and groundwater) by any toxic or Hazardous Materials (as defined in Section 11.4(a), below) for which Landlord is responsible under Section 11.4, below; and

(xv) Premiums for earthquake, environmental remediation or flood insurance coverage other than as permitted under Section 7.2(a), above.

(xvi) Operating Expenses shall not include any costs attributable to the work for which Landlord is required to pay under Article 5 or EXHIBIT C, nor any costs attributable to the initial construction of the Buildings or of Common Area improvements on the Property.

7.3 DETERMINATION OF OPERATING EXPENSES. During the last month of each calendar year of the Term of this Lease ("LEASE YEAR"), or as soon thereafter as practical, Landlord shall provide Tenant notice of Landlord's estimate of the Operating Expenses for the ensuing Lease Year or applicable portion thereof. On or before the first day of each month during the ensuing Lease Year or applicable portion thereof, beginning on the Phase I Rent Commencement Date, Tenant shall pay to Landlord Tenant's Operating Cost Share of the portion of such estimated Operating Expenses allocable (on a pro rata basis) to such month; PROVIDED, HOWEVER, that if such notice is not given in the last month of a Lease Year, Tenant shall continue to pay on the basis of the prior year's estimate, if any, until the month after such notice is given. If at any time or times it appears to Landlord that the actual Operating Expenses will vary from Landlord's estimate by

more than four percent (4%), Landlord may, by notice to Tenant, revise its estimate for such year and subsequent payments by Tenant for such year shall be based upon such revised estimate.

7.4 FINAL ACCOUNTING FOR LEASE YEAR.

(a) ANNUAL STATEMENT. Within ninety (90) days after the close of each Lease Year, or as soon after such 90-day period as practicable, Landlord shall deliver to Tenant a statement of Tenant's Operating Cost Share of the Operating Expenses for such Lease Year prepared by Landlord from Landlord's books and records, which statement shall be final and binding on Landlord and Tenant (except as provided in Section 7.4(b)). If on the basis of such statement Tenant owes an amount that is more or less than the estimated payments for such Lease Year previously made by Tenant, Tenant or Landlord, as the case may be, shall pay the deficiency to the other party within thirty (30) days after delivery of the statement. Failure or inability of Landlord to deliver the annual statement within such ninety (90) day period shall not impair or constitute a waiver of Tenant's obligation to pay Operating Expenses, or cause Landlord to incur any liability for damages.

(b) AUDIT RIGHTS. At any time within one hundred twenty (120) days after receipt of Landlord's annual statement of Operating Expenses as contemplated in Section 7.4(a), Tenant shall be entitled, upon reasonable written notice to Landlord and during normal business hours at Landlord's office or such other places as Landlord shall designate, to inspect and examine those books and records of Landlord relating to the determination of Operating Expenses for the immediately preceding Lease Year covered by such annual statement or, if Tenant so elects by written notice to Landlord, to request an independent audit of such books and records. The independent audit of the books and records shall be conducted by a certified public accountant acceptable to both Landlord and Tenant or, if the parties are unable to agree, by a certified public accountant appointed by the Presiding Judge of the County Superior Court in which the Property is located upon the application of either Landlord or Tenant (with notice to the other party). In either event, such certified public accountant shall be one who is not then employed in any capacity by Landlord or Tenant. The audit shall be limited to the determination of the amount of Operating Expenses for the subject Lease Year, and shall be based on generally accepted accounting principles and tax accounting principles, consistently applied. If it is determined, by mutual agreement of Landlord and Tenant or by independent audit, that the amount of Operating Expenses billed to or paid by Tenant for the applicable Lease Year was incorrect, then the appropriate party shall pay to the other party the deficiency or overpayment, as applicable, within thirty (30) days after the final determination of such deficiency or overpayment. All costs and expenses of the audit shall be paid by Tenant unless the audit shows that Landlord overstated Operating Expenses for the subject Lease Year by more than five percent (5%), in which case Landlord shall pay all costs and expenses of the audit. Each party agrees to maintain the confidentiality of the findings of any such audit.

7.5 PRORATION. If the Rent Commencement Date for Phase I, Phase 2A or 2B falls on a day other than the first day of a Lease Year or if this Lease terminates on a day other than the last day of a Lease Year, then the amount of Operating Expenses payable by Tenant with respect to such first or last partial Lease Year shall be prorated on the basis which the number of days during such Lease Year in which this Lease is in effect bears to 365. The termination of this

Lease shall not affect the obligations of Landlord and Tenant pursuant to Section 7.4 to be performed after such termination.

7.6 RESERVE ACCOUNT. Tenant shall each month, commencing on the Phase 1 Rent Commencement Date and on the first day of each calendar month thereafter of the Lease term, deposit into a segregated, interest bearing bank account in a federally insured bank or savings institute an amount equal to one percent (1%) of the monthly rent due for that month, to provide for future replacements to improvements and fixtures within the Premises (the "RESERVE ACCOUNT"); provided that if at any time the amount held in the Reserve Account is equal to the product of thirty six months times the amount of the monthly contribution, Tenant's obligation to make additional deposits shall be temporarily suspended. Tenant's obligation to make such deposits shall resume at such time as the amount in the Reserve Account drops below such amount. The Reserve Account shall remain the property of Tenant, but disbursements from the Reserve Account shall be made only by joint check executed by Landlord and Tenant upon the mutual consent of Landlord and Tenant, which consent shall not be unreasonably withheld, delayed or conditioned. Landlord shall, within ten (10) days after receipt of a written request, either sign any such check or convey in writing to Tenant any objections to signing the check, and shall thereafter diligently work with Tenant to resolve any differences with regard to the disbursement. Notwithstanding the foregoing, if Tenant, pursuant to the Lease, is required to make certain repairs, improvements, or replacements to the Premises or Common Area but fails to do so within the time allowed hereunder (subject to any applicable cure period), then Landlord, as provided under the Lease, may make such repairs, improvements, or replacements, and may disburse funds from the Reserve Account, without Tenant's consent or signature on the disbursement check(s), to pay for the cost of the repairs, improvements, or replacements. Any amount in the Reserve Account remaining at the expiration of the Lease shall remain the property of Tenant.

7.7 PROPERTY MANAGEMENT FEE. Tenant shall pay to Landlord, as an Operating Expense, a monthly fee ("Management Fee") to cover costs of property management services in an amount not to exceed two and one-half percent (2 1/2%) of the Operating Expenses for the Premises, whether or not the Operating Expenses are paid or incurred by Landlord or Tenant, and whether or not Landlord incurs fees payable to any third party to provide such services and without regard to the actual costs incurred by Landlord for such services. Upon the closing of a loan providing permanent financing for the Project and the reduction in the Security Deposit to $1,375,000 pursuant to Section 18.1 hereof, the Management Fee shall be increased to five percent (5%). In the event that the lender in such financing has consented to a reduction in the Security Deposit to a sum other than $1,375,000, then the Management Fee shall be proportionately increased (i.e., by way of example only, if such lender requires that the Security Deposit not be reduced below $2,750,000 and the Security Deposit is actually reduced to such amount, then the Management Fee will be increased to three and three-fourths percent (3 3/4%)). Notwithstanding the foregoing, in the event that any lender succeeds to Landlord's interest in the Property in the event of Landlord's default in its obligations to such lender, the Management Fee shall be five percent (5%).

8. UTILITIES.

8.1 PAYMENT. Commencing with the Phase 1 Rent Commencement Date and thereafter throughout the Term of this Lease, Tenant shall pay, before delinquency, all charges for water, trash collection, gas, heat, light, electricity, power, sewer, telephone, alarm system, janitorial and other services or utilities supplied to or consumed in or with respect to the Premises, including any taxes on such services and utilities, and Tenant's Operating Cost Share of all charges for water, gas, heat, light, electricity, power, sewer, telephone, alarm system, janitorial and other services or utilities supplied to or consumed in or with respect to the Common Areas. It is the intention of the parties that to the extent feasible, all services provided to the Premises (as opposed to the Common Areas) shall be separately metered to the Premises.

8.2 INTERRUPTION. There shall be no abatement of rent or other charges required to be paid hereunder and Landlord shall not be liable in damages or otherwise for interruption or failure of any service or utility furnished to or used with respect to the Premises because of accident, making of repairs, alterations or improvements, severe weather, difficulty or inability in obtaining services or supplies, labor difficulties or any other cause, except the gross negligence of willful misconduct of Landlord, its employees and/or agents.

9. ALTERATIONS.

9.1 RIGHT TO MAKE ALTERATIONS. Tenant shall make no alterations, additions or improvements to the Premises, other than interior non-structural alterations ("COSMETIC ALTERATIONS") costing less than One Hundred Thousand Dollars ($100,000) in the aggregate during any twelve (12) month period, without the prior written consent of Landlord, which consent shall not be unreasonably withheld, delayed or conditioned, and if Tenant so requests, Landlord shall specify whether Landlord intends to require that Tenant remove such Cosmetic Alterations (or any specified portions thereof) upon expiration or termination of this Lease. Landlord's failure to respond within fifteen (15) days of Tenant's request or notice to Landlord shall be deemed Landlord's consent to allow the Cosmetic Alterations to remain with the Premises at the end of the Lease Term. Tenant shall provide to Landlord copies of any plans submitted to any governmental agency in connection with the construction of any Cosmetic Alterations, within thirty (30) days of such submittal. All alterations, additions and improvements shall be completed with due diligence in a first-class, workmanlike manner, in compliance with plans and specifications approved in writing by Landlord and in compliance with all applicable laws, ordinances, rules and regulations, and to the extent Landlord's consent is not otherwise required hereunder for such alterations, additions or improvements, Tenant shall give prompt written notice thereof to Landlord. With respect to all proposed alterations (other than Cosmetic Alterations or otherwise), Tenant shall provide Landlord with a cost estimate to perform the alterations, a set of plans and specifications for the proposed work, and a set of final "as built" plans of the work actually performed. Tenant shall cause any contractors engaged by Tenant for work in the Buildings or on the Property to maintain public liability and property damage insurance, and other customary insurance, with such terms and in such amounts as Landlord may reasonably require, naming as additional insureds Landlord and any of its partners, shareholders, property managers and lenders designated by Landlord for this purpose, and shall furnish Landlord with certificates of insurance or other evidence that such coverage is in effect. Notwithstanding any other provisions of this Section 9.1, under no circumstances shall

Tenant make any structural alterations or improvements, or any changes to the roof or equipment installations on the roof, or any substantial changes or alterations to the building systems, except Cosmetic Alterations, without Landlord's prior written consent (which consent shall not be unreasonably withheld, delayed or conditioned). Landlord's failure to respond within fifteen (15) days following Tenant's request shall be deemed approval. Landlord shall receive no fee for supervision, profit, overhead or general conditions, but shall be entitled to be reimbursed by Tenant for any reasonable costs incurred by Landlord in connection with its retention of third parties to assist in its review of Tenant's request for consent in connection with any alterations, additions or improvements constructed or installed by Tenant under this Lease after completion of the initial Tenant's Work for each Phase.

9.2 TITLE TO ALTERATIONS. All alterations, additions and improvements installed in, on or about the Premises at Tenant's expense shall belong to Tenant during the Lease Term and upon expiration or earlier termination shall become part of the Property and shall become the property of Landlord, unless Landlord elects (at the time it grants consent to installation) to require Tenant to remove the same upon the termination of this Lease; PROVIDED HOWEVER, that the foregoing shall not apply to Tenant's movable furniture and equipment and trade fixtures. Tenant shall promptly repair any damage caused by its removal of any such alterations, additions and improvements, furniture, equipment or trade fixtures. Landlord shall not be entitled to require removal unless Landlord specified its intention to do so at the time of granting of Landlord's consent to the requested alterations, additions or improvements. Notwithstanding any other provisions of this Article 9, however, under no circumstances shall Tenant have any obligation to remove from the Buildings or the Property, at the expiration or termination of this Lease, any of the Tenant's Work or Base Building Work.

9.3 TENANT FIXTURES AND PERSONAL PROPERTY. Subject to Section 9.2 and to Section 9.5, Tenant may install, remove and reinstall trade fixtures without Landlord's prior written consent, except that installation and removal of any fixtures which are affixed to the Buildings or the Property or which affect the exterior or structural portions of the Buildings or the building systems shall require Landlord's written approval, which approval shall not be unreasonably withheld, delayed or conditioned.

9.4 NO LIENS. Tenant shall at all times keep the Premises free from all liens and claims of any contractors, subcontractors, materialmen, suppliers or any other parties employed either directly or indirectly by Tenant in construction work on the Buildings or the Property. Tenant may contest any claim of lien, but only if, prior to such contest, Tenant either (i) posts security in the amount of the claim, plus estimated costs and interest, or (ii) records a bond of a responsible corporate surety in such amount as may be required to release the lien from the Buildings and the Property no later than the thirtieth day following recordation of such lien. Tenant shall indemnify, defend and hold Landlord harmless against any and all liability, loss, damage, cost and other expenses, including, without limitation, reasonable attorneys' fees, arising out of claims of any lien for work performed or materials or supplies furnished at the request of Tenant or persons claiming under Tenant. Tenant shall at no time voluntarily place any fixture filing or otherwise grant a security interest in any alterations, additions or improvements installed in, on or about the Premises.

9.5 SIGNS. Tenant shall have the sole right to display its corporate name and logo on the exterior of the Buildings. Tenant shall have the right to its proportionate share of monument signage, in proportion to the ratio between the rentable square footage in Tenant's Premises and the total rentable square footage on the Property, subject to all restrictions and requirements of applicable law and of any covenants, conditions and restrictions.

10. MAINTENANCE AND REPAIRS.

10.1 TENANT'S OBLIGATION FOR MAINTENANCE.

(a) GOOD ORDER, CONDITION AND REPAIR.

(i) Once Building 1 has been delivered to Tenant, in addition to Tenant's obligation to pay Tenant's Operating Cost Share as required by Section 7.1, during any period in which Tenant leases the entire Building 1, Tenant, at its sole cost and expense, shall keep and maintain in good and sanitary order, in a first class condition and repair, such Building and every part thereof, wherever located, including, but not limited to the structural components of the Building, the roof, signs, exterior, interior, walls, ceiling, electrical system, plumbing system, telephone and communications systems of such Building, all the HVAC equipment and related mechanical systems serving such Building (for which equipment and systems Tenant shall enter into a service contract with a person or entity reasonably acceptable to Landlord), all doors, door checks, windows, plate glass, door fronts, plumbing and sewage and other utility facilities, fixtures, lighting, wall surfaces, floor surfaces and ceiling surfaces of such Building and all other interior repairs, foreseen and unforeseen, subject to Tenant's right to require Landlord to take over such maintenance and repair obligations pursuant to Section 10.1(b), below.

(ii) If Tenant exercises its Phase 2B Expansion Option, upon Landlord's delivery of Building 2 to Tenant, in addition to Tenant's obligation to pay Tenant's Operating Cost Share as required by Section 7.1, during any period in which Tenant leases the entire Building 2, Tenant, at its sole cost and expense, shall keep and maintain in good and sanitary order, in a first class condition and repair, Building 2 and every part thereof, wherever located, including, but not limited to the structural components of Building 2, the roof, signs, exterior, interior, walls, ceiling, electrical system, plumbing system, telephone and communications systems of such Building, all the HVAC equipment and related mechanical systems serving such Building (for which equipment and systems Tenant shall enter into a service contract with a person or entity reasonably acceptable to Landlord), all doors, door checks, windows, plate glass, door fronts, plumbing and sewage and other utility facilities, fixtures, lighting, wall surfaces, floor surfaces and ceiling surfaces of such Building and all other interior repairs, foreseen and unforeseen, subject to Tenant's right to require Landlord to take over such maintenance and repair obligations pursuant to Section 10.1(b), below.

(iii) During any period in which Tenant leases all of both Buildings 1 and 2, Tenant shall keep and maintain in good and sanitary order, in a first class condition and repair all Common Areas and every part thereof, subject to Tenant's right to require Landlord to take over such maintenance and repair obligations pursuant to Section 10.1(b), below.

(iv) In the event Tenant shall fail to exercise its Phase 2B Expansion Option by the date described in Section 1.2(a), and during any period during the Lease Term in which Tenant leases less than an entire Building, Tenant's repair and maintenance obligation shall be limited to (i) the repair and maintenance of the interior of the Premises (being defined as the floor surfaces, ceiling, interior wall surfaces, electrical, plumbing, HVAC equipment exclusively serving the Premises and telephone and communications systems within such interior), and (ii) the payment of Tenant's Operating Cost Share, as required by Section 7.1.

(b) TENANT'S OPTION TO REQUIRE LANDLORD TO MAINTAIN AND REPAIR BOTH BUILDINGS AND COMMON AREAS. During any period in which Tenant leases all of both Building 1 and Building 2, Tenant may, at its option, to be exercised by written notice to Landlord, require Landlord to take over the maintenance and repair of both Building 1 and Building 2 and all Common Areas, in which event Tenant's repair and maintenance obligation shall be limited to (i) the repair and maintenance of the interior of the Premises (being defined as the floor surfaces, ceiling, interior wall surfaces, electrical, plumbing, HVAC equipment exclusively serving the Premises, telephone and communications systems within such interior), and (ii) the payment of Tenant's Operating Cost Share, as required by Section 7.1. Additionally, Operating Expenses shall under those circumstances include the actual costs to Landlord of any third party property management firm engaged by Landlord to manage the Buildings, up to a maximum amount equal to five percent (5%) of Operating Expenses.

(c) LANDLORD'S REMEDY. If Tenant, after notice from Landlord, fails to make or perform promptly any repairs or maintenance which are the obligation of Tenant hereunder, Landlord shall have the right, but shall not be required, to enter the Buildings and make the repairs or perform the maintenance necessary to restore the Buildings to good and sanitary order, in a first class condition and repair. In such case, immediately on demand from Landlord, the cost of such repairs shall be due and payable by Tenant to Landlord.

(d) CONDITION UPON SURRENDER. At the expiration or sooner termination of this Lease, Tenant shall surrender the Premises, including any additions, alterations and improvements thereto, broom clean, in good and sanitary order, in a first class condition and repair, free from Hazardous Materials caused to be present by Tenant, its agents or invitees (it being understood and agreed that Tenant shall have no responsibility for Hazardous Materials that have migrated onto the Property through the air, water or soils), ordinary wear and tear excepted, and delivered free of radioactive licenses or other restrictions on use, first, however, removing all goods and effects of Tenant and all fixtures and items required to be removed or specified to be removed at Landlord's election pursuant to this Lease, and repairing any damage caused by such removal. Tenant expressly waives any and all interest in any personal property and trade fixtures not removed from the Premises by Tenant at the expiration or termination of this Lease, agrees that any such personal property and trade fixtures may, at Landlord's election, be deemed to have been abandoned by Tenant, and authorizes Landlord (at its election and without prejudice to any other remedies under this Lease or under applicable law) to remove and either retain, store or dispose of such property at Tenant's cost and expense, and Tenant waives all claims against Landlord for any damages resulting from any such removal, storage, retention or disposal.

10.2 LANDLORD'S OBLIGATION FOR MAINTENANCE.

(a) GOOD ORDER, CONDITION AND REPAIR. In the event that either (i) Tenant shall have elected not to exercise the Phase 2B Expansion Option by the date described in Section 1.2(a), or (ii) Tenant shall have exercised its option to require Landlord to take over maintenance and repair of both the Buildings and the Common Area pursuant to Section 10.1(b), above, Landlord, at its cost and expense, but subject to Tenant's obligation to pay the Tenant's Operating Cost Share as required by Section 7.1, shall keep and maintain in good and sanitary order, in a first class condition and repair, all Common Areas and each such Building and every part thereof, wherever located, including, but not limited to the structural components of the Buildings, the roof, signs, exterior, interior, walls, ceiling, electrical system, plumbing system, telephone and communications systems of each such Building, all the HVAC equipment and related mechanical systems serving each such Building, all doors, door checks, windows, plate glass, door fronts, plumbing and sewage and other utility facilities, fixtures, lighting, wall surfaces, floor surfaces and ceiling surfaces of each such Building and all other interior repairs, foreseen and unforeseen, (except the interior of the Premises and the systems designated for Tenant's exclusive use required to be repaired and maintained by Tenant as required by Section 10.1(a)(iv) above).

(b) NO ABATEMENT. There shall be no abatement of rent and no liability of Landlord by reason of any injury to or interference with Tenant's business arising from the making of any repairs, alterations or improvements in or to any portion of the Premises or Common Areas, or in or to improvements, fixtures, equipment and personal property therein.

(c) LANDLORDS' RIGHT OF ENTRY FOR REPAIRS. Landlord and Landlord's agents shall have the right to enter upon the Premises, or any part thereof, for the purpose of performing any repairs or maintenance Landlord is permitted to make pursuant to this Lease, and of ascertaining the condition of the Premises or whether Tenant is observing and performing Tenant's obligations hereunder, all without unreasonable interference from Tenant or Tenant's agents. Except for emergency maintenance or repairs, the right of entry contained in this Section shall be exercisable at reasonable times, at reasonable hours and on reasonable notice (which shall not be less than twenty-four (24) hours.

11. USE OF PROPERTY.

11.1 PERMITTED USE. Subject to Sections 11.3, and 11.4 hereof, Tenant shall use the Premises solely for an office and laboratory research and development facility, including (but not limited to) storage and use of small laboratory animals, and other lawful purposes reasonably related to or incidental to such specified uses (subject in each case to receipt of all necessary approvals from the City and County in which the Property is located and other governmental agencies having jurisdiction over the Buildings and uses therein), and for no other purpose.

11.2 NO NUISANCE. Tenant shall not use the Premises for or carry on or permit upon the Premises or any part thereof any offensive, noisy or dangerous trade, business, manufacture, occupation, odor or fumes, or any nuisance or anything against public policy, nor commit or allow to be committed any waste in, on or about the Premises. Tenant shall not do or permit anything to be done in or about the Premises, nor bring nor keep anything therein, which will in any way cause the Premises to be uninsurable with respect to the insurance required by this

Lease or with respect to standard fire and extended coverage insurance with vandalism, malicious mischief and riot endorsements.

11.3 COMPLIANCE WITH LAWS. Tenant shall not use the Premises or permit the Premises to be used in whole or in part for any purpose or use that is in violation of any applicable laws, ordinances, regulations or rules of any governmental agency or public authority. Tenant shall keep the Premises equipped with all safety appliances required by law, ordinance or insurance on the Premises, or any order or regulation of any public authority, because of Tenant's particular use of the Premises. Tenant shall procure at its costs all licenses and permits required for Tenant's use of the Premises. Tenant shall use the Premises in strict accordance with all applicable ordinances, rules, laws and regulations and shall comply, at its expense, with all requirements of all governmental authorities now in force or which may hereafter be in force pertaining to the use of the Premises by Tenant, including, without limitation, regulations applicable to noise, water, soil and air pollution, and making such structural and nonstructural alterations and additions thereto as may be required from time to time by such laws, ordinances, rules, regulations and requirements of governmental authorities or insurers of the Premises (collectively, "REQUIREMENTS") because of Tenant's construction of improvements in or other particular use of the Premises. The judgment of any court, or the admission by Tenant in any proceeding against Tenant, that Tenant has violated any law, statute, ordinance or governmental rule, regulation or requirement shall be conclusive of such violation as between Landlord and Tenant.

11.4 ENVIRONMENTAL MATTERS.

(a) DEFINITION OF HAZARDOUS MATERIALS. For purposes of this Lease, "HAZARDOUS MATERIALS" shall mean the substances included within the definitions of the term "hazardous substance" under (i) the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, 42 U.S.C. ss.ss. 9601 et seq., and the regulations promulgated thereunder, as amended, (ii) the California Carpenter-Presley-Tanner Hazardous Substance Account Act, California Health & Safety Code ss.ss. 25300 et seq., and regulations promulgated thereunder, as amended, (iii) the Hazardous Materials Release Response Plans and Inventory Act, California Heath & Safety Code ss.ss. 2-5500 et seq., and regulations promulgated thereunder, as amended, and (iv) petroleum; "HAZARDOUS WASTE" shall mean (i) any waste listed as or meeting the identified characteristics of a "hazardous waste" under the Resource Conservation and Recovery Act of 1976, 42 U.S.C. ss.ss. 6901 et seq., and regulations promulgated pursuant thereto, as amended (collectively, "RCRA"), (ii) any waste meeting the identified characteristics of "hazardous waste," "extremely hazardous waste" or "restricted hazardous waste" under the California Hazardous Waste Control Law, California Health & Safety Code ss.ss. 25 100 et seq., and regulations promulgated pursuant thereto, as amended (collectively, the "CHWCL"), and/or (iii) any waste meeting the identified characteristics of "medical waste" under California Health & Safety Code ss.ss. 25015-25027.8, and regulations promulgated thereunder, as amended; and "HAZARDOUS WASTE FACILITY" shall mean a hazardous waste facility as defined under the CHWCL.

(b) TENANT'S OBLIGATIONS RE: HAZARDOUS SUBSTANCES.

(i) Tenant shall not cause or permit any Hazardous Material or hazardous waste to be brought upon, kept, stored or used in or about the Premises without the prior written consent of Landlord, which consent shall not be unreasonably withheld, delayed or conditioned, except that Tenant, in connection with its permitted use of the Premises as provided in Section 11.1, may keep, store and use materials that constitute Hazardous Materials which are customary for such permitted use, PROVIDED such Hazardous Materials are kept, stored and used in quantities which are customary for such permitted use and are kept, stored and used in full compliance with clauses (ii) and (iii) immediately below.

(ii) Tenant shall comply with all applicable laws, rules, regulations, orders, permits, licenses and operating plans of any governmental authority with respect to the receipt, use, handling, generation, transportation, storage, treatment and/or disposal of Hazardous Materials or wastes by Tenant or its agents or employees.

(iii) Tenant shall not (A) operate on or about the Premises any facility required to be permitted or licensed as a hazardous waste facility or for which interim status as such is required, nor (B) store any hazardous wastes on or about the Premises for ninety (90) days or more, nor (C) conduct any other activities on or about the Premises that could result in the Premises being deemed to be a "hazardous waste facility" (including, but not limited to, any storage or treatment of Hazardous Materials or hazardous wastes which could have such a result).

(iv) Tenant shall comply with all applicable laws, rules, regulations, orders and permits relating to underground storage tanks installed by Tenant or its agents or employees or at the request of Tenant (including any installation, monitoring, maintenance, closure and/or removal of such tanks) as such tanks are defined in California Health & Safety Code ss. 25281(x), including, without limitation, complying with California Health & Safety Code ss.ss. 25280-25299.7 and the regulations promulgated thereunder, as amended. Upon request by Landlord, Tenant shall furnish to Landlord copies of all registrations and permits issued to or held by Tenant from time to time for any and all underground storage tanks located on or under the Property. Notwithstanding the foregoing, Tenant shall not install any underground storage tanks at the Property without Landlord's prior written consent, which Landlord may withhold in its reasonable discretion.

(v) Tenant shall not keep any trash, garbage, waste or other refuse on the Premises except in sanitary containers and shall regularly and frequently remove the same from the Premises. Tenant shall keep all incinerators, containers or other equipment used for the storage or disposal of such matter in a clean and sanitary condition. Tenant shall properly dispose of all sanitary sewage and shall not use the sewage disposal system of the Buildings for the disposal of anything except as permitted by any governmental entity.

(vi) At reasonable times and upon reasonable prior notice, prior to the expiration or earlier termination of the Lease Term, Landlord shall have the right to conduct (a) an annual hazardous waste investigation of the Premises and (b) if Landlord has reasonable cause to believe that any contamination exists on, in, under, or around the Buildings or the Premises, such other tests of the Premises and the Buildings as Landlord may deem necessary or desirable to demonstrate whether contamination has occurred as a result of Tenant's use of the

Premises. Tenant shall be solely responsible for and shall defend, indemnify and hold the Landlord, its agents and contractors harmless from and against any and all claims, demands or actions, arising out of or in connection with any removal, clean up, restoration and materials required hereunder to return the Premises and any other property of whatever nature to their condition existing prior to the time of any such contamination caused by Tenant, its employees or agents. Landlord shall pay for the cost of the annual investigation and other tests of the Premises, unless it has been determined that Tenant, its employees or agents have caused contamination of the Premises with Hazardous Materials, in which case Tenant shall bear such costs. Tenant shall pay the reasonable costs required to perform or conduct any closure study, exit audit or similar investigation required by then applicable laws.

(vii) Tenant shall surrender the Premises at the expiration or earlier termination of this Lease free of any Hazardous Materials caused to be present by Tenant, its employees or agents and free and clear of all judgments, liens or encumbrances relating thereto and, at its own cost and expense, shall repair all damage and clean up or perform any remedial action necessary relating to any Hazardous Materials caused to be present by Tenant, its employees or agents. Tenant, at its sole cost and expense, shall, following Landlord's request, remove any alterations or improvements that may be contaminated or contain Hazardous Materials caused to be present by Tenant, its employees or agents.

(c) TENANT'S INDEMNITY. Tenant shall indemnify, defend and hold Landlord harmless from and against any and all claims, losses (including, but not limited to, loss of rental income and diminution in value), damages, liabilities, costs, legal fees and expenses of any sort arising out of or relating to (A) any failure by Tenant to comply with any provisions of this Section 11.4, or (B) any receipt, use handling, generation, transportation, storage, treatment, release and/or disposal of any Hazardous Material or waste or any radioactive material or radiation on or about the Premises as a proximate result of Tenant's use of the Premises or as a result of any intentional or negligent acts or omissions of Tenant or of any agent, employee, vendor or invitee of Tenant.

(d) SURVIVAL. The provisions of this Section 11.4 shall survive the termination of this Lease.

12. INSURANCE AND INDEMNITY.

12.1 LANDLORD'S INSURANCE. During the Lease Term, Landlord shall keep and maintain, or cause to be kept and maintained, as part of Operating Expenses, a policy or policies of insurance on the Buildings insuring the same against loss or damage by the following risks: fire and extended coverage, vandalism, malicious mischief, sprinkler leakage (if sprinklers are required in the Buildings under applicable building code provisions, or are installed by Tenant in the absence of such requirement) in amounts not less than ninety percent (90%) of Full Replacement Value of the Buildings, (including both the Base Building Work and the Tenant Improvements), or the amount of such insurance Landlord's lender requires Landlord to maintain. The term "Full Replacement Value" shall mean actual replacement cost, including changes required by new building codes or ordinances (exclusive of the cost of excavation, foundations and footings). Such insurance shall show, as a loss payee in respect of the Premises, Landlord, Tenant and any ground lessor or mortgagee of Landlord required to be named pursuant

to its mortgage documents, as their interests may appear. Landlord, subject to availability thereof and, as part of Operating Expenses, shall further insure as Landlord deems appropriate coverage against flood, earthquake, environmental remediation, loss or failure of building equipment, rental loss for a period of eighteen (18) months for periods of repair or rebuild, workmen's compensation insurance and fidelity bonds for employees employed to perform services. Notwithstanding the foregoing, Landlord may, but shall not be deemed required to, provide insurance as to any improvements installed by Tenant or which are in addition to the Tenant Improvements, provided that such coverage does not duplicate coverages maintained by Tenant. Landlord, as part of the Operating Expenses, shall further carry General Liability with General Aggregate Amount & Per Occurrence Limit insurance with a single loss limit of not less than Five Million Dollars ($5,000,000) for death or bodily injury, or property damage with respect to the Property.

12.2 TENANT'S INSURANCE.

(a) COMMERCIAL GENERAL LIABILITY INSURANCE. During the Lease Term, Tenant shall keep and maintain, or cause to be kept and maintained, at Tenant's sole cost and expense, a policy or policies of Commercial General Liability insurance, showing, as an additional insured in respect of the Premises, Landlord, Tenant, any management company retained by Landlord to manage the Premises, any ground lessor and any lender of Landlord required to be named pursuant to its loan documents. Such policy shall insure against any and all claims, demands or actions for injuries to persons, loss of life and damage to property occurring upon, in or about the Premises (including coverage for liability caused by independent contractors of Tenant or subtenants of Tenant working in or about the Premises), with minimum coverage in an amount not less than a Five Million Dollars ($5,000,000) combined single limit with respect to all bodily injury, death or property damage in any one accident or occurrence. In the event of a claim, action or demand relating to the Premises, the amount of any deductible or self-insured retention and/or any award in excess of the policy limits shall be the sole responsibility of Tenant.

(b) TENANT'S RISK. Tenant assumes the risk of damage to any fixtures, goods, inventory, merchandise and equipment, and Landlord shall not be liable for injury to Tenant's business or any loss of income therefrom relative to such damage except as more particularly heretofore set forth within this Lease. Tenant at Tenant's cost may carry such insurance as Tenant desires for Tenant's protection with respect to personal property of Tenant, business interruption or other coverages.

(c) OTHER INSURANCE. In addition to all other insurance required to be carried by Tenant hereunder, Tenant, throughout the Lease Term, shall provide and keep in force at Tenant's sole cost and expense the following:

(i) Workman's Compensation insurance to the full extent required under the laws of the State of California;

(ii) Insurance on Tenant's equipment, personal property and other contents in, on or about the Premises insuring against loss or damage by all risks covered by

"special form" coverage, in amounts equal to ninety percent (90%) of their full replacement value;

(iii) During the period of construction of the Tenant's Work as described under Section 5.1 and Exhibit C and any other construction by Tenant, Builder's All Risk Insurance with Completed Operations Coverage, in such amounts and with such deductibles and other terms as Landlord and/or the construction lender may reasonably require; and

(iv) Other nonduplicative insurance required by Landlord, in types and amounts consistent with commercially reasonable practice.

12.3 INSURERS; PRIMARY INSURANCE. All policies of insurance provided for herein shall be on an occurrence basis and shall be issued by insurance companies with a general policy holder's rating of not less than A- and a financial rating of not less than Class XV as rated in the most current available "Best's" Insurance Reports. Such insurance companies shall be qualified to do business in the State of California. All such policies carried by Tenant shall name Landlord, any ground lessor and any lender (or its successors and assigns) as additional insureds, and shall be for the mutual and joint benefit and protection of Landlord, Tenant, any ground lessor and Landlord's first mortgagee or beneficiary. All public liability and property damage policies carried by Tenant shall contain a provision that Landlord, although named as an insured, nevertheless shall be entitled to recovery under said policies for any loss occasioned to it, its servants, agents and employees by reason of the negligence of Tenant. As often as any such policy shall expire or terminate, renewal or additional policies shall be procured and maintained by Tenant in like manner and to like extent. All policies of insurance must contain a provision that the company writing said policy will give to Landlord thirty (30) days notice in writing in advance of any cancellation or lapse. All public liability, property damage and other casualty policies carried by Tenant shall be written as primary policies, not contributing with and not in excess of coverage which Landlord may carry. Tenant shall, upon request from Landlord from time to time, immediately deliver to Landlord copies of all insurance policies (including the declarations pages) in effect with respect to the Premises. All liability policies shall contain endorsements for cross-liability, fire, legal liability, broad form contractual liability, employer's automobile non-ownership, products completed operation coverage and dram shop liability, as applicable.

12.4 BLANKET POLICY. Notwithstanding anything to the contrary contained within this Section 12, Tenant's obligations to carry the insurance provided for herein may be brought within the coverage of a so-called blanket policy or policies of insurance carried and maintained by Tenant; provided, however, that Landlord, any ground lessor and any lender shall be named as an additional insured thereunder as their interests appear, the coverage afforded Landlord will not be reduced or diminished by reason of the use of such blanket policy of insurance, and the requirements set forth herein are otherwise satisfied.

12.5 DEDUCTIBLES. The deductible amounts, if any, with respect to all insurance, which Tenant is required to maintain hereunder, shall not exceed Twenty Thousand Dollars ($20,000) per claim or occurrence. The amount of the deductibles, if any, within this limitation shall be a business decision by Tenant; under no circumstances shall Landlord be required to reimburse Tenant for the amount of any deductible incurred by Tenant in connection with any insured

event, except to the extent the event resulting in the claim was caused by Landlord's or Landlord's agents' gross negligence or willful misconduct.

12.6 CERTIFICATES. Upon the execution and delivery of this Lease and thereafter not less than thirty (30) days prior to the expiration dates of the expiring policies theretofore maintained, Tenant shall deliver to Landlord certificates of insurance with respect to the policies of insurance required by this Lease or duplicate originals of all such policies. Landlord, upon reasonable notice, may inspect and copy any policies of insurance, and any records relating thereto kept and maintained by Tenant.

12.7 ADJUSTMENT IN THE EVENT OF LOSS. Except as otherwise provided herein, all insurance proceeds payable with respect to any damage or destruction to the Premises (but not with respect to Tenant's personal property, it being understood that insurance proceeds allocable to Tenant's personal property shall be payable directly to Tenant) shall be payable to Landlord and Tenant, jointly, to be held in an interest bearing account. If Tenant and Landlord undertake to repair said damage in accordance with Article 15 below, the proceeds shall be made available to Tenant as to the Tenant Improvements and to Landlord as to the Base Building Work and Common Area used to fund the reconstruction. In all other events, the proceeds shall be the sole property of Landlord except otherwise expressly provided herein. Landlord shall be entitled to compromise, adjust or settle any and all claims with respect to insurance carried by it covering the Premises. Each party agrees to execute and deliver to the other party such releases, endorsements and other instruments as the other party reasonably may require in order to compromise, adjust or settle any insurance claim which such other party shall be entitled to compromise, adjust or settle pursuant to this paragraph and to enable the other party or its designee to collect such insurance proceeds as are payable in respect of such claim.

12.8 PRORATION UPON TERMINATION. If any of the insurance required to be carried by Tenant hereunder is still in effect at the termination of this Lease, Landlord may elect to terminate such insurance, or Landlord shall reimburse Tenant for the pro rata portion of the premium paid by Tenant for such insurance based upon the number of days remaining unexpired in such insurance.

12.9 WAIVER OF SUBROGATION. To the extent permitted by law and without affecting the coverage provided by insurance required to be maintained hereunder, Landlord and Tenant each waive any right to recover against the other with respect to (i) damage to property, (ii) damage to the Premises or any part thereof, or (iii) claims arising by reason of any of the foregoing, but only to the extent that any of the foregoing damages and claims under clauses (i)-(iii) hereof are covered, and only to the extent of such coverage, by casualty insurance actually carried by either Landlord or Tenant. This provision is intended to waive fully, and for the benefit of each party, any rights and claims which might give rise to a right of subrogation in any insurance carrier. Each party shall procure a clause or endorsement on any casualty insurance policy denying to the insurer rights of subrogation against the other party to the extent rights have been waived by the insured prior to the occurrence of injury or loss. Coverage provided by insurance maintained by Tenant shall not be limited, reduced or diminished by virtue of the subrogation waiver herein contained.

12.10 INDEMNIFICATION.

(a) TENANT'S INDEMNIFICATION OBLIGATIONS. Tenant shall indemnify, defend, and hold Landlord and its lenders, agents, employees, directors, officers, managers, members, partners, affiliates, independent contractors, and property managers (collectively, "LANDLORD'S AGENTS" or "AGENTS") harmless from and against any and all claims, demands, liability, loss or damage, whether for injury to or death of persons or damage to real or personal property, arising out of or in connection with the Premises, Tenant's use of the Premises, any activity, work, or other thing done, permitted, or suffered by Tenant in or about the Buildings, or arising from any reason or cause whatsoever in connection with the use or occupancy of the Premises by any party during the Term of this Lease, except to the extent that the event giving rise to the claim, demand, liability, loss or damage was caused by the gross negligence or willful misconduct of Landlord or Landlord's Agents. Tenant shall further indemnify, defend, and hold Landlord and Landlord's Agents harmless against and from any and all claims arising from any breach or default in the performance of any obligation on Tenant's part to be performed under the terms of this Lease, or arising from any act or negligence of Tenant or any officer, agent, employee, guest, or invitee of Tenant, and from and against all costs, attorney's fees, expenses, and liabilities incurred as a result of any such claim or any action or proceeding brought thereon. In any case, action, or proceeding brought against Landlord or Landlord's Agents by reason of any such claim, Tenant, upon notice from Landlord, shall defend the same at Tenant's expense by counsel reasonably satisfactory to Landlord. Tenant, as a material part of the consideration to Landlord, hereby assumes all risk of damage to property or injury to persons in, upon, or about the Premises from any cause arising prior to the later of the termination of this Lease or the date Tenant has performed all obligations under Section 10.1(d) and is no longer in possession of the Premises (except for such damage or injury caused by Landlord's or Landlord's Agents' willful misconduct or gross negligence), and Tenant hereby waives all claims in respect thereof against Landlord and Landlord's Agents. Tenant's obligation to indemnify under this paragraph shall include attorney's fees, investigation costs, and other reasonable costs, expenses, and liabilities incurred by Landlord and Landlord's Agents. If the ability of Tenant to use the Premises or the Buildings is interrupted for any reason, Landlord and Landlord's Agents shall not be liable to Tenant for any loss or damages occasioned by such loss of use, except to the extent such loss or damages is caused by Landlord's or its Agents' willful misconduct or gross negligence.

(b) LANDLORD'S INDEMNIFICATION OBLIGATIONS. Landlord shall indemnify, defend and hold Tenant and its members, partners, shareholders, officers, directors, agents and employees harmless from any and all liability for injury to or death of any person, or loss of or damage to the property of any person, and all actions, claims, demands, costs (including, without limitation, reasonable attorneys' fees), damages or expenses of any kind arising therefrom which may be brought or made against Tenant or which Tenant may pay or incur, to the extent such liabilities or other matters arise in, on or about the Premises by reason of the gross negligence or willful misconduct or omission by Landlord or Landlord's Agents. Landlord shall further indemnify, defend, and hold Tenant and its members, partners, shareholders, officers, directors, agents and employees harmless against and from any and all claims arising from any breach or default in the performance of any obligation on Landlord's part to be performed under the terms of this Lease, and from and against all costs, attorney's fees, expenses, and liabilities incurred as a result of any such claim or any action or proceeding brought thereon. In any case, action, or proceeding brought against Tenant or its members, partners, shareholders, officers, directors,

agents and employees by reason of any such claim, Landlord, upon notice from Tenant, shall defend the same at Landlord's expense by counsel reasonably satisfactory to Tenant.

12.11 LIMITATION ON LANDLORD LIABILITY. Neither Landlord nor Landlord's Agents shall be liable for loss or damage to any property by theft or otherwise, or for any injury to or damage to persons or property resulting from fire, explosion, falling plaster, steam, gas, electricity, water, or rain which may leak from any part of the Buildings or from the pipes, appliances, or plumbing works therein or from the roof, street, or subsurface or from any other place resulting from dampness or any other cause whatsoever, except to the extent caused by the gross negligence or willful misconduct of Landlord or Landlord's Agents. Neither Landlord nor Landlord's Agents, shall be liable for interference with or loss of business by Tenant. Tenant shall give prompt written notice to Landlord in case of fire or accidents in the Premises or in the Buildings or of defects therein or in the fixtures or equipment belonging to Landlord. If Landlord is in default of this Lease, and as a consequence, Tenant recovers a money judgment against Landlord, the judgment shall be satisfied only out of the proceeds of sale received on execution of the judgment and levy against the right, title, and interest of Landlord in the Premises, and out of rent or other income from the Premises receivable by Landlord or out of the consideration received by Landlord from the sale or other disposition of all or any part of Landlord's right, title, and interest in the Premises. Landlord's Agents shall not be personally liable for any deficiency except to the extent liability is based upon willful misconduct. If Landlord is a partnership, joint venture, or limited liability company, the partners or members of such partnership or limited liability company, as the case may be, shall not be personally liable and no partner or member of Landlord (or of any affiliated entity) shall be sued or named as a party in any suit or action, or service of process be made against any partner or member of Landlord (or of any affiliated entity), except as may be necessary to secure jurisdiction of the partnership, joint venture, or limited liability company or to the extent liability is caused by willful misconduct. If Landlord is a corporation, the shareholders, directors, officers, employees, and/or agents of such corporation shall not be personally liable and no shareholder, director, officer, employee, or agent of Landlord shall be sued or named as a party in any suit or action, or service of process be made against any shareholder, director, officer, employee or agent of Landlord, except as may be necessary to secure jurisdiction of the corporation. No partner, member, shareholder, director, employee, or agent of Landlord (or of any affiliated entity) shall be required to answer or otherwise plead to any service of process and no judgment will be taken or writ of execution levied against any partner, shareholder, director, employee, or agent of Landlord.

13. SUBLEASE AND ASSIGNMENT.

13.1 ASSIGNMENT AND SUBLEASE OF BUILDING.

(a) CONSENT REQUIRED. Except in connection with a Permitted Transfer, Tenant shall neither voluntarily nor by operation of law assign, sell, encumber, pledge or otherwise transfer all or any part of Tenant's leasehold estate hereunder, or permit any other person (excepting Tenant's agents and employees) to occupy the Premises or any portion thereof, without Landlord's prior written consent, which consent shall be not be unreasonably withheld, delayed or conditioned. Consent by Landlord to one or more assignments of this Lease or to one or more sublettings of the Premises shall not constitute a waiver of Landlord's right to require

consent to any subsequent assignment, subletting or other transfer. If Tenant is a corporation, unincorporated association or partnership, the transfer, assignment or hypothecation of any stock or interest in such corporation, association or partnership in the aggregate in excess of twenty-five percent (25%) of all outstanding stock or interests, or liquidation thereof, shall be deemed an assignment within the meaning and provisions of this section and the sale of all or substantially all of the assets of Tenant shall be deemed an assignment within the meanings and provisions of this section. The foregoing sentence shall not apply to: (i) any corporation or partnership which is a reporting company under the Securities Exchange Act of 1934 (the "1934 Act") or (ii) a sale to an entity with a net worth, as designated in its most recent financial statement (no older than 3 months), equal to or greater than Tenant's net worth on the Effective Date. Tenant shall reimburse Landlord for all of Landlord's reasonable costs and attorneys' fees incurred in conjunction with the processing and documentation of any required consent to assignment, subletting, transfer, change of ownership or hypothecation of this Lease or Tenant's interest in and to the Premises, not to exceed one thousand dollars ($1000) per request plus reasonable out-of-pocket expenses payable to third parties. Any purported sublease or assignment of Tenant's interest in this Lease requiring but not having received Landlord's consent thereto (to the extent such consent is required hereunder) shall be void.

(b) PERMITTED TRANSFERS. Notwithstanding the foregoing, (i) any bona fide financing or capitalization, including a public offering of the common stock of Tenant, shall not be deemed to be an assignment hereunder; and (ii) Tenant shall have the right to assign this Lease or sublet the Buildings, or any portion thereof, without Landlord's consent, to any Affiliate of Tenant, or to any entity which results from a merger, reorganization or consolidation with Tenant, or to any entity which acquires substantially all of the stock or assets of Tenant as a going concern (hereinafter each a "PERMITTED TRANSFER"). For purposes of the preceding sentence, an "AFFILIATE" of Tenant shall mean any entity in which Tenant owns at least a twenty five percent (25%) equity interest, any entity which owns at least a twenty five percent (25%) equity interest in Tenant and/or any entity which is related to Tenant by a chain of ownership interests involving at least twenty five percent (25%) equity interest at each level in the chain. Landlord shall have no right to terminate this Lease in connection with, and shall have no right to any sums or other economic consideration resulting from, any Permitted Transfer. The transferee under such Permitted Transfer shall be and remain subject to all of the terms and provisions of this Lease.

(c) CONSENT REQUIRED. Landlord's consent may be based upon a determination that the same type, class, nature and quality of business, services, management and financial soundness of ownership shall exist after the proposed assignment or subletting and, provided further, that each and every covenant, condition and obligation imposed upon Tenant by this Lease and each and every right, remedy and benefit afforded Landlord by this Lease and the underlying purpose of this Lease is not thereby impaired or diminished. The determination by Landlord as to whether consent will be granted in any specific instance may be based on, without limitation, the following factors, which shall be in Landlord's reasonable discretion: (a) whether the transferee's use of the Premises will be compatible with the provisions of this Lease; (b) the financial capacity of the transferee; (c) the business reputation of the transferee; (d) the quality and type of the business operations of the transferee; and (e) the business experience of the proposed transferee. This list of factors is not intended to be exclusive, and Landlord may rely on such other basis for judgment as may apply from time to time.

(d) PROCEDURE TO OBTAIN CONSENT. If Tenant desires at any time to assign this Lease or to sublet the Premises or any portions thereof, it first shall notify Landlord of its desire to do so and shall submit in writing to Landlord (i) the name and legal composition of the proposed subtenant or assignee; (ii) the nature of the proposed subtenant's or assignee's business to be carried on in the Premises; (iii) the terms and provisions of the proposed sublease or assignment and all transfer documents relating to the proposed transfer; and (iv) such reasonable business and financial information as Landlord may request concerning the proposed subtenant or assignee. Any request for Landlord's approval of a sublease or assignment shall be accompanied with a check in such reasonable amount as Landlord shall advise for the cost of review and preparation, including reasonable attorneys' fees, of any documents relating to such proposed transfer, not to exceed one thousand dollars ($1000) for each transfer plus reasonable out-of-pocket expenses payable to third parties. The provisions and conditions of any proposed sublease or assignment must not be inconsistent with any provision of this Lease, and must address all matters contained in this Lease. In addition, the transferee must expressly assume all of the obligations of Tenant under this Lease. Notwithstanding the assumption of the obligations of this Lease by the transferee, no subletting or assignment, even with the consent of Landlord, shall relieve Tenant of its continuing obligation to pay the rent and perform all the other obligations to be performed by Tenant hereunder. The obligations and liability of Tenant hereunder shall continue notwithstanding the fact that Landlord may accept rent and other performance from the transferee. The acceptance of rent by Landlord from any other person shall not be deemed to be a waiver by Landlord of any provision of this Lease or to be a consent to any assignment or subletting.

13.2 RIGHTS OF LANDLORD: EFFECT OF LANDLORD'S CONSENT. Consent by Landlord to one or more assignments of this Lease, or to one or more sublettings of the Buildings or any portion thereof, or collection of rent by Landlord from any assignee or sublessee, shall not operate to exhaust Landlord's rights under this Article 13, nor constitute consent to any subsequent assignment or subletting. No assignment of Tenant's interest in this Lease and no sublease shall relieve Tenant of its obligations hereunder, notwithstanding any waiver or extension of time granted by Landlord to any assignee or sublessee, or the failure of Landlord to assert its rights against any assignee or sublessee, and regardless of whether Landlord's consent thereto is given or required to be given hereunder. In the event of a default by any assignee, sublessee or other successor of Tenant in the performance of any of the terms or obligations of Tenant under this Lease, Landlord may proceed directly against Tenant without the necessity of exhausting remedies against any such assignee, sublessee or other successor.

13.3 ADVERTISING. In no event shall Tenant display on or about the Premises any signs for the purpose of advertising the Premises for assignment, subletting or other transfer of rights.

13.4 WRITING REQUIRED. Each Permitted Transfer, permitted assignment or sublease shall be consummated by an instrument in writing executed by the transferor and transferee in form satisfactory to Landlord. Each assignee and subtenant shall agree in writing for the benefit of the Landlord herein to assume all obligations of Tenant hereunder which are applicable to the space subject to the assignment or sublease and any associated common areas, including the payment of all amounts due or to become due under this Lease directly to the Landlord. At least one executed copy of such written instrument shall be delivered to the Landlord.

13.5 TRANSFER PREMIUMS. If Tenant assigns or sublets its rights under this Lease, Tenant shall pay to Landlord as additional rent, after Tenant has recovered any relevant leasing commissions, costs of tenant improvements and other expenses of the assignment or sublease, the unamortized (over the Term of the Lease) costs of any tenant improvements consented to by Landlord paid for by Tenant prior to such Transfer, one-half (1/2) of all such excess consideration due and payable to Tenant from said assignment or sublease to the extent said consideration exceeds the rent or a pro rata portion of the rent, in the event only a portion of the Premises is sublet or assigned.

14. RIGHT OF ENTRY AND QUIET ENJOYMENT.

14.1 RIGHT OF ENTRY. Landlord and its authorized representatives shall have the right to enter the Buildings at any time during the Term of this Lease during normal business hours when accompanied by a representative of Tenant and upon not less than twenty-four (24) hours prior notice, except in the case of emergency (in which event no notice and no accompaniment shall be required and entry may be made at any time), for the purpose of inspecting and determining the condition of the Buildings or for any other proper purpose including, without limitation, to make repairs, replacements or improvements which Landlord may be entitled to make hereunder, to show the Buildings to prospective purchasers, lenders and investors, to show the Buildings to prospective tenants (but only during the final eighteen (18) months of the Term of this Lease), and to post notices of nonresponsibility. Landlord shall not be liable for inconvenience, annoyance, disturbance, loss of business, quiet enjoyment or other damage or loss to Tenant by reason of making any repairs or performing any work upon the Premises or by reason of erecting or maintaining any protective barricades in connection with any such work, and the obligations of Tenant under this Lease shall not thereby be affected in any manner whatsoever, PROVIDED, HOWEVER, Landlord shall use its best reasonable efforts to minimize the inconvenience to Tenant's normal business operations caused thereby.

14.2 QUIET ENJOYMENT. Landlord covenants that Tenant, upon paying the rent and performing its obligations hereunder and subject to all the terms and conditions of this Lease, shall peacefully and quietly have, hold and enjoy the Premises throughout the Term of this Lease, or until this Lease is terminated as provided by this Lease.

15. CASUALTY AND TAKING.

15.1 DAMAGE OR DESTRUCTION.

(a) TERMINATION RIGHTS. If the Buildings, or the Common Areas necessary for Tenant's use and occupancy of the Premises, are damaged or destroyed in whole or in part under circumstances in which (i) repair and restoration is permitted under applicable governmental laws, regulations and building codes then in effect and (ii) repair and restoration reasonably can be completed within a period of one (1) year (or, in the case of an occurrence during the last year of the Term of this Lease, within a period of sixty (60) days) following the date of the occurrence, then Landlord, as to the Base Building Work and Common Areas and the Tenant Improvements, shall commence and complete, with all due diligence and as promptly as is reasonably practicable under the conditions then existing, all such repair and restoration as may be required to return the affected portions of the Property to a condition comparable to that

existing immediately prior to the occurrence. In the event of damage or destruction the repair of which is not permitted under applicable governmental laws, regulations and building codes then in effect, or if such damage or destruction (despite being repaired to the extent then permitted under applicable governmental laws, regulations and building codes) would materially impair Tenant's ability to conduct its business in the Premises, then either party may terminate this Lease as of the date of the occurrence by giving written notice to the other within sixty (60) days after the date of the occurrence; if neither party timely elects such termination, or if such damage or destruction after being repaired would not materially impair Tenant's ability to conduct its business in the Premises, then this Lease shall continue in full force and effect, except that there shall be an equitable adjustment in monthly Minimum Rental and of Tenant's Operating Cost Share, based upon the extent to which Tenant's ability to conduct its business in the Premises is impaired, and Landlord shall restore the Common Areas and Base Building Work and Tenant Improvements to a complete architectural whole and to a functional condition. In the event of damage or destruction which cannot reasonably be repaired within one (1) year (or, in the case of an occurrence during the last twenty-four (24) months of the Term of this Lease, within a period of sixty (60) days) following the date of the occurrence, then either Landlord or Tenant, at its election, may terminate this Lease as of the date of the occurrence by giving written notice to the other within thirty (30) days after the date of the occurrence; if neither party timely elects such termination, then this Lease shall continue in full force and effect and Landlord shall repair and restore applicable portions of the Property in accordance with the first sentence of this Section 15.1.Landlord and Tenant agree that the terms of this Lease shall govern the effect of any damage to or destruction of the Project with respect to termination of this Lease and hereby waive the provisions of any present or future statute to the extent inconsistent herewith.

(b) LIMITATIONS ON PARTIES' OBLIGATIONS. The obligations of Landlord pursuant to Section 15.1(a) are subject to the following limitations:

(i) If the occurrence results from a peril which is required to be insured pursuant to Section 12.1(c) above, the obligations of Landlord shall not exceed the amount of insurance proceeds received from insurers (or, in the case of any failure to maintain required insurance, proceeds that reasonably would have been available if the required insurance had been maintained) by reason of such occurrence, plus the amount of the permitted deductible (PROVIDED that Landlord shall be obligated to use its best efforts to recover any available proceeds from the insurance which it is required to maintain pursuant to the provisions of Article 12, and, if such proceeds (including, in the case of a failure to maintain required insurance, any proceeds that reasonably would have been available) are insufficient, either party may terminate the Lease unless the other party promptly elects and agrees, in writing, to contribute the amount of the shortfall; and

(ii) If the occurrence results from a peril which is not required to be insured pursuant to Article 12 above and is not actually insured, Landlord shall be required to repair and restore the Base Building Work and Common Areas and Tenant Improvements to the extent necessary for Tenant's continued use and occupancy of the Buildings, PROVIDED that Landlord's obligation to repair and restore shall not exceed an amount equal to ten percent (10%) of the replacement cost of the Base Building Work and Common Area improvements and ten percent (10%) of the replacement cost of the Tenant Improvements; if the cost to repair and

restore exceeds such amount, then Landlord may terminate this Lease unless the Tenant promptly elects and agrees, in writing, to contribute the amount of the shortfall.

(c) ENTITLEMENT TO INSURANCE PROCEEDS. If this Lease is terminated pursuant to the foregoing provisions of this Section 15.1 following an occurrence which is a peril actually insured or required to be insured against pursuant to Article 12, Landlord and Tenant agree (and any Lender shall be asked to agree) that such insurance proceeds, after repayment of the loan, shall be allocated between Landlord and Tenant in a manner which fairly and reasonably reflects their respective ownership rights under this Lease, as of the termination or expiration of the Term of this Lease, with respect to the improvements, fixtures, equipment and other items to which such insurance proceeds are attributable.

(d) ABATEMENT OF RENT. From and after the date of an occurrence resulting in damage to or destruction of the Buildings or of the Common Areas necessary for Tenants use and occupancy of the Buildings, and continuing until the earlier of the date repair and restoration thereof are completed or the date on which rental loss insurance payments cease, there shall be an equitable abatement of Minimum Rental and of Tenant's Operating Cost Share of Operating Expenses based upon the degree to which Tenant's ability to conduct its business in the Buildings is impaired.

15.2 CONDEMNATION.

(a) TERMINATION RIGHTS. If during the Term of this Lease the Property or Improvements or any substantial part of either, is taken by eminent domain or by reason of any public improvement or condemnation proceeding, or in any manner by exercise of the right of eminent domain (including any transfer in avoidance of an exercise of the power of eminent domain), then (i) this Lease shall terminate as to the entire affected Premises at Landlord's election by written notice given to Tenant within sixty (60) days after the taking has occurred, and (ii) this Lease shall terminate as to the entire affected Premises at Tenant's election, by written notice given to Landlord within thirty (30) days after the nature and extent of the taking have been finally determined, if the portion of the Premises taken is of such extent and nature as substantially to handicap, impede or permanently impair Tenant's use of the balance of the Premises, and (iii) this Lease shall remain in full force and effect as to the remaining portion of the Premises. If Tenant elects to terminate this Lease, as to the affected Premises, Tenant shall also notify Landlord of the date of termination, which date shall not be earlier than thirty (30) days nor later than ninety (90) days after Tenant has notified Landlord of Tenant's election to terminate, except that this Lease shall terminate on the date of taking if such date falls on any date before the date of termination designated by Tenant. If neither party elects to terminate this Lease as hereinabove provided, this Lease shall continue in full force and effect (except that there shall be an equitable abatement of Minimum Rental and of Tenant's Operating Cost Share of Operating Expenses based upon the degree to which Tenant's ability to conduct its business in the Premises is impaired), Landlord shall restore the Base Building Work and Common Area and Tenant Improvements to a complete architectural whole and a functional condition and as nearly as reasonably possible to the condition existing before the taking. In connection with any such restoration, Landlord shall use its best efforts (including, without limitation, any necessary negotiation or intercession with its lender, if any) to ensure that any severance damages or other condemnation awards intended to provide compensation for rebuilding or restoration costs are

promptly collected and made available to Tenant and Landlord subject only, to such payment controls as either party or its lender may reasonably require in order to ensure the proper application of such proceeds toward the restoration of the Improvements. Each party waives the provisions of Code of Civil Procedure Section 1265.130, allowing either party to petition the Superior Court to terminate this Lease in the event of a partial condemnation of the Buildings or Property.

(b) LIMITATIONS ON PARTIES' OBLIGATIONS. The obligations of Landlord pursuant to Section 15.2(a) are subject to the following limitations:

(i) Landlord's obligation to repair and restore shall not exceed, net of any condemnation awards or other proceeds available for and allocable to such restoration as contemplated in Section 15.2(a), an amount equal to ten percent (10%) of the replacement cost of the Base Building Work and Common Area improvements and an amount equal to ten percent (10%) of the replacement cost of the Tenant Improvements; if the replacement cost exceeds such amount, then Landlord may terminate this Lease unless Tenant promptly elects and agrees, in writing, to contribute the amount of the shortfall; and

(ii) If this Lease is terminated pursuant to the foregoing provisions of this Section 15.2, or if this Lease remains in effect but any condemnation awards or other proceeds become available as compensation for the loss or destruction of any of the Improvements, then Landlord and Tenant agree (and any Property lender shall be asked to agree) that such proceeds shall be allocated between Landlord and Tenant, respectively, in the respective proportions in which Landlord and Tenant would have shared, under Section 15.1(c), the proceeds of any insurance proceeds following loss or destruction of the applicable Improvements by an insured casualty.

15.3 RESERVATION OF COMPENSATION. Landlord reserves, and Tenant waives and assigns to Landlord, all rights to any award or compensation for damage to the Improvements and the Property, but not the leasehold estate created hereby, accruing by reason of any taking in any public improvement, condemnation or eminent domain proceeding or in any other manner by exercise of the right of eminent domain or of anything lawfully done by public authority, except that (a) Tenant shall be entitled to any and all compensation or damages expressly awarded to Tenant on account of Tenant's loss of the leasehold estate and Tenant's moving expenses, trade fixtures and equipment and any leasehold improvements installed by Tenant in the Buildings at its own sole expense, but only to the extent Tenant would have been entitled to remove such items at the expiration of the Term of this Lease and then only to the extent of the then remaining unamortized value of such improvements computed on a straight-line basis over the Term of this Lease, and (b) any condemnation awards or proceeds described in Section 15.2(b)(ii) shall be allocated and disbursed in accordance with the provisions of Section 15.2(b)(ii), notwithstanding any contrary provisions of this Section 15.3.

15.4 RESTORATION OF IMPROVEMENTS. In connection with any repair or restoration of Improvements following a casualty or taking as hereinabove set forth, the party responsible for such repair or restoration shall, to the extent possible, return such Improvements to a condition substantially equal to that which existed immediately prior to the casualty or taking. To the extent such party wishes to make material modifications to such Improvements, such

modifications shall be subject to the prior written approval of the other party (not to be unreasonably withheld, delayed or conditioned), except that no such approval shall be required for modifications that are required by applicable governmental authorities as a condition of the repair or restoration, unless such required modifications would substantially impair or impede Tenant's conduct of its business in the Buildings (in which case any such modifications in Base Building Work shall require Tenant's consent, not unreasonably withheld, delayed or conditioned) or would materially affect the exterior appearance, the structural integrity or the mechanical or other operating systems of the Buildings (in which case any such modifications shall require Tenant's consent, not to be unreasonably withheld, delayed or conditioned).

16. DEFAULT.

16.1 EVENTS OF DEFAULT. The occurrence of any of the following shall constitute an event of default on the part of Tenant:

(a) NONPAYMENT. Failure to pay, when due, any amount payable to Landlord hereunder, such failure continuing for a period of five (5) business days after written notice of such failure;

(b) OTHER OBLIGATIONS. Failure to perform any obligation, agreement or covenant under this Lease other than those matters specified in subsection (a) hereof, such failure continuing for thirty (30) days after written notice of such failure; PROVIDED, HOWEVER, that if such failure is curable in nature but cannot reasonably be cured within such 30-day period, then Tenant shall not be in default if, and so long as, Tenant promptly (and in all events within such 30-day period) commences such cure and thereafter diligently pursues such cure to completion; and PROVIDED FURTHER HOWEVER, that any such notice shall be in lieu of, and not in addition to, any notice required under California Code of Civil Procedure Section 1161 et seq., as amended from time to time. Notwithstanding the foregoing, if any such failure on the part of Tenant affects or threatens to affect the health or safety of others, or would result in the destruction of property, Tenant shall immediately begin to cure and shall use its diligent and best efforts in pursuing said cure to completion (it being understood and agreed that Landlord shall not be entitled to exercise any remedy to terminate this Lease unless and until such failure shall have continued for thirty (30) days after written notice of such failure);

(c) GENERAL ASSIGNMENT. A general assignment by Tenant for the benefit of creditors;

(d) BANKRUPTCY. The filing of any voluntary petition in bankruptcy by Tenant, or the filing of an involuntary petition by Tenant's creditors, which involuntary petition remains undischarged for a period of sixty (60) days. In the event that under applicable law the trustee in bankruptcy or Tenant has the right to affirm this Lease and continue to perform the obligations of Tenant hereunder, such trustee or Tenant shall, in such time period as may be permitted by the bankruptcy court having jurisdiction, cure all defaults of Tenant hereunder outstanding as of the date of the affirmance of this Lease and provide to Landlord such adequate assurances as may be necessary to ensure Landlord of the continued performance of Tenant's obligations under this Lease. Specifically, but without limiting the generality of the foregoing, such adequate assurances must include assurances that the Buildings continue to be operated

only for the use permitted hereunder. The provisions hereof are to assure that the basic understandings between Landlord and Tenant with respect to Tenant's use of the Premises and the benefits to Landlord therefrom are preserved, consistent with the purpose and intent of applicable bankruptcy laws;

(e) RECEIVERSHIP. The employment of a receiver appointed by court order to take possession of substantially all of Tenants assets or its interest in the Buildings, if such receivership remains undissolved for a period of sixty (60) days;

(f) ATTACHMENT. The attachment, execution or other judicial seizure of all or substantially all of Tenant's assets or its interest in the Buildings, if such attachment or other seizure remains undismissed or undischarged for a period of sixty (60) days after the levy thereof; or

(g) INSOLVENCY. The admission by Tenant in writing of its inability to pay its debts as they become due, the filing by Tenant of a petition seeking any reorganization or arrangement, composition, readjustment, liquidation, dissolution or similar relief under any present or future statute, law or regulation, the filing by Tenant of an answer admitting or failing timely to contest a material allegation of a petition filed against Tenant in any such proceeding or, if within sixty (60) days after the commencement of any proceeding against Tenant seeking any reorganization or arrangement, composition, readjustment, liquidation, dissolution or similar relief under any present or future statute, law or regulation, such proceeding shall not have been dismissed.

16.2 REMEDIES UPON TENANT'S DEFAULT.

(a) RE-ENTRY; TERMINATION. Upon the occurrence of any event of default described in Section 16.1 hereof, Landlord, in addition to and without prejudice to any other rights or remedies it may have, shall have the immediate right to re-enter the Buildings or any part thereof and repossess the same, expelling and removing therefrom all persons and property (which property may be stored in a public warehouse or elsewhere at the cost and risk of and for the account of Tenant). In addition to or in lieu of such re-entry, and without prejudice to any other rights or remedies it may have, Landlord shall have the right either (i) to terminate this Lease and recover from Tenant all damages incurred by Landlord as a result of Tenant's default, as hereinafter provided, or (ii) to continue this Lease in effect and recover rent and other charges and amounts as they become due.

(b) CONTINUATION OF LEASE. Even if Tenant has breached this Lease and abandoned the Buildings, this Lease shall continue in effect for so long as Landlord does not terminate Tenant's right to possession and Landlord may enforce all of its rights and remedies under this Lease, including the right to recover rent as it becomes due, and Landlord, without terminating this Lease, may exercise all of the rights and remedies of a lessor under California Civil Code Section 1951.4 (lessor may continue lease in effect after lessee's breach and abandonment and recover rent as it becomes due, if lessee has right to sublet or assign, subject only to reasonable limitations), or any successor Code section. Acts of maintenance, preservation or efforts to relet the Buildings or the appointment of a receiver upon application of

Landlord to protect Landlord's interests under this Lease shall not constitute a termination of Tenant's right to possession.

(c) REMEDIES. If Landlord terminates this Lease pursuant to this Section 16.2, Landlord shall have all of the rights and remedies of a landlord provided by Section 1951.2 of the Civil Code of the State of California, or any successor Code section, which remedies include Landlord's right to recover from Tenant (i) the worth at the time of award of the unpaid rent and additional rent and Tenant's Operating Cost Share of Operating Expense which had been earned at the time of termination, (ii) the worth at the time of award of the amount by which the unpaid rent and additional rent and Tenant's Operating Cost Share of Operating Expense which would have been earned after termination until the time of award exceeds the amount of such rental loss that Tenant proves could have been reasonably avoided, (iii) the worth at the time of award of the amount by which the unpaid rent and additional rent and Tenant's Operating Cost Share of Operating Expense for the balance of the Term after the time of award exceeds the amount of such rental loss that Tenant proves could be reasonably avoided, and (iv) any other amount reasonably necessary to compensate Landlord for all the detriment proximately caused by Tenant's failure to perform its obligations under this Lease or which in the ordinary course of things would be likely to result therefrom, including, but not limited to, the cost of recovering possession of the Buildings, expenses of reletting, including necessary repair, renovation and alteration of the Buildings, reasonable attorneys' fees, and other reasonable costs. The "worth at the time of award" of the amounts referred to in clauses (i) and (ii) above shall be computed by allowing interest at twelve percent (12%) per annum from the date such amounts accrued to Landlord. The "worth at the time of award" of the amounts referred to in clause (iii) above shall be computed by discounting such amount at one percentage point above the discount rate of the Federal Reserve Bank of San Francisco at the time of award.

16.3 REMEDIES CUMULATIVE. All rights, privileges and elections or remedies of Landlord contained in this Article 16 are cumulative and not alternative to the extent permitted by law and except as otherwise provided herein.

16.4 LANDLORD'S DEFAULT. Landlord shall not be deemed to be in default of this Lease unless Landlord fails within a reasonable time (or the time specified herein, if applicable) to perform an obligation required to be performed by it. Tenant agrees to give Landlord and any lender designated by Landlord notice of any Landlord default, and a reasonable opportunity to cure such default.

17. SUBORDINATION, ATTORNMENT AND SALE.

17.1 SUBORDINATION TO MORTGAGE. This Lease, and any sublease entered into by Tenant under the provisions of this Lease, shall be subject and subordinate to any ground lease, mortgage, deed of trust, sale/leaseback transaction or any other hypothecation for security now or hereafter placed upon the Buildings, the Property, or any of them, and the rights of any assignee of Landlord or of any ground lessor, mortgagee, trustee, beneficiary or leaseback lessor under any of the foregoing, and to any and all advances made on the security thereof and to all renewals, modifications, consolidations, replacements and extensions thereof; PROVIDED, HOWEVER, that such subordination in the case of any future ground lease, mortgage, deed of trust, sale/leaseback transaction or any other hypothecation for security placed upon the Buildings, the

Property, or any of them shall be conditioned on Tenant's receipt from the ground lessor, mortgagee, trustee, beneficiary or leaseback lessor of a Non-Disturbance Agreement in a form reasonably acceptable to Tenant (i) confirming that so long as Tenant is not in material default hereunder beyond any applicable cure period (for which purpose the occurrence of any event of default under Section 16.1 hereof shall be deemed to be "material"), Tenant's rights hereunder shall not be disturbed by such person or entity and (ii) agreeing that the benefit of such Non-Disturbance Agreement shall be transferable to any transferee under a Permitted Transfer and to any other assignee or subtenant that is acceptable to the ground lessor, mortgagee, trustee, beneficiary or leaseback lessor at the time of transfer. Tenant agrees to execute such other commercially reasonable documentation as may be required by an institutional lender to evidence such subordination and to attorn to any such ground lessor, mortgagee, trustee, beneficiary or leaseback lessor in the event such party succeeds to Landlord's interest hereunder and agrees to recognize this Lease. Moreover, Tenant's obligations under this Lease shall be conditioned on Tenant's receipt within thirty (30) days after mutual execution of this Lease, from any existing ground lessor, mortgagee, trustee, beneficiary or leaseback lessor currently owning or holding a security interest in the Property, of a Non-Disturbance Agreement in a form reasonably acceptable to Tenant confirming (i) that so long as Tenant is not in material default hereunder beyond any applicable cure period, Tenant's rights hereunder shall not be disturbed by such person or entity and (ii) agreeing that the benefit of such Non-Disturbance Agreement shall be transferable to any transferee under a Permitted Transfer and to any other assignee or subtenant that is acceptable to the ground lessor, mortgagee, trustee, beneficiary or leaseback lessor at the time of transfer. If any mortgagee, trustee, beneficiary, ground lessor, sale/leaseback lessor or assignee elects in writing to have this Lease be an encumbrance upon the Property prior to the lien of its mortgage, deed of trust, ground lease or leaseback lease or other security arrangement and gives notice thereof to Tenant, this Lease shall be deemed prior thereto, whether this Lease is dated prior or subsequent to the date thereof or the date of recording thereof. Tenant, and any sublessee, shall execute such documents as may reasonably be requested by any mortgagee, trustee, beneficiary, ground lessor, sale/leaseback lessor or assignee to evidence the subordination herein set forth, subject to the conditions set forth above, or to make this Lease prior to the lien of any mortgage, deed of trust, ground lease, leaseback lease or other security arrangement, as the case may be. Upon any default by Landlord in the performance of its obligations under any mortgage, deed of trust, ground lease, leaseback lease or assignment, Tenant (and any sublessee) shall, notwithstanding any subordination hereunder, attorn to the mortgagee, trustee, beneficiary, ground lessor, leaseback lessor or assignee thereunder upon demand and become the tenant of the successor in interest to Landlord, at the option of such successor in interest, and shall execute and deliver any instrument or instruments confirming the attornment herein provided for.

17.2 SALE OF LANDLORD'S INTEREST. Upon sale, transfer or assignment of Landlord's entire interest in the Buildings and the Property, Landlord shall be relieved of its obligations hereunder with respect to liabilities accruing from and after the date of such sale, transfer or assignment.

17.3 ESTOPPEL CERTIFICATES. Tenant or Landlord (the "RESPONDING PARTY") as applicable, shall at any time and from time to time, within ten (10) days after written request by the other party (the "REQUESTING PARTY"), execute, acknowledge and deliver to the Requesting Party a certificate in writing stating: (i) that this Lease is unmodified and in full force and effect,

or if there have been any modifications, that this Lease is in full force and effect as modified and stating the date and the nature of each modification; (ii) the date to which rental and all other sums payable hereunder have been paid; (iii) that the Requesting Party is not in default in the performance of any of its obligations under this Lease, that the certifying party has given no notice of default to the Requesting Party and that no event has occurred which, but for the expiration of the applicable time period, would constitute an event of default hereunder, or if the responding party alleges that any such default, notice or event has occurred, specifying the same in reasonable detail; and (iv) such other matters as may reasonably be requested by the Requesting Party or by any institutional lender, mortgagee, trustee, beneficiary, ground lessor, sale/leaseback lessor or prospective purchaser of the Property, or prospective sublessee or assignee of this Lease. Any such certificate provided under this Section 17.3 may be relied upon by any lender, mortgagee, trustee, beneficiary, assignee or successor in interest to the Requesting Party, by any prospective purchaser, by any purchaser on foreclosure or sale, by any grantee under a deed in lieu of foreclosure of any mortgage or deed of trust on the Property, by any subtenant or assignee, or by any other third party. Failure to execute and return within the required time any estoppel certificate requested hereunder, if such failure continues for five (5) days after a second written request by the Requesting Party for such estoppel certificate, shall be deemed to be an admission of the truth of the matters set forth in the form of certificate submitted to the Responding Party for execution.

18. SECURITY.

18.1 DEPOSIT. Upon execution of this Lease, Tenant shall deposit with Landlord the sum of $5,500,000. Upon the closing of a loan providing permanent financing for the Project, the amount of such deposit shall be reduced to $1,375,000, provided only that (i) Tenant is not then in default under any of the terms or conditions of this Lease, and no event has occurred which, with the passage of time or the giving of notice or both would constitute a default, and (ii) the lender in such financing has consented to such reduction in security deposit. At Tenant's election, in lieu of a cash security deposit, Tenant may provide one or more irrevocable letters of credit in amounts described above, payable to Landlord, and issued by an institution and in form reasonably satisfactory to Landlord. Such sums or the Letter of Credit (individually and collectively, the "SECURITY DEPOSIT") shall be held by Landlord as security for the faithful performance of all of the terms, covenants, and conditions of this Lease to be kept and performed by Tenant during the Term hereof; provided that if at any time Tenant shall have maintained an investment grade credit rating of BBB or better for a consecutive twelve month period, Landlord shall return the Security Deposit to Tenant. If Tenant defaults with respect to any provision of this Lease, including, without limitation, the provisions relating to the payment of rental and other sums due hereunder, Landlord shall have the right, but shall not be required, to use, apply or retain all or any part of the Security Deposit for the payment of rental, unreimbursed Operating Expenses or any other amount which Landlord may spend or become obligated to spend by reason of Tenant's default or to compensate Landlord for any other loss or damage which Landlord may suffer by reason of Tenant's default. Landlord may also apply the Security Deposit toward costs incurred to repair damages to the Premises or to clean and bring the Premises to good order, condition and repair during its Lease Term and upon expiration or sooner termination of this Lease. If any portion of the Security Deposit is so used or applied, Tenant shall, within five (5) days after written demand therefor, deposit cash with Landlord in an amount sufficient to restore the Security Deposit to its original amount and Tenant's failure to do

so shall be a material breach of this Lease. Landlord shall be required to keep any deposit under this Section separate from Landlord's general funds in an interest bearing account reasonably acceptable to Tenant, and Tenant shall be entitled to the interest thereon, to be paid to Tenant when and if the Security Deposit is refundable to Tenant. If Tenant fully and faithfully performs every provision of this Lease to be performed by it, the Security Deposit, or any balance thereof, together with all accrued interest, shall be returned to Tenant or, at Landlord's option, to the last assignee of Tenant's interest hereunder, at the expiration of the Term of this Lease and after Tenant has vacated the Premises. In the event of termination of Landlord's interest in this Lease, Landlord shall transfer all deposits then held by Landlord under this Section to Landlord's successor in interest, whereupon Tenant agrees to release Landlord from all liability for the return of such deposit or the accounting thereof.

18.2 PLEDGE OF SECURITY DEPOSIT. The Security Deposit may be pledged by Landlord as additional collateral to any lender having a security interest in the Property. The lender may use, apply or retain all or any part of the Security Deposit for the payment of Building Costs, but only in the event that lender shall have notified Landlord and Tenant that such Building Costs remain unpaid and the parties shall have failed within thirty (30) days following receipt of such notice to cure such nonpayment. For purposes of this Section, "BUILDING COST(S)" shall mean any and all costs actually incurred in constructing the Base Building Work, Common Area and the related site improvements including, but not limited to, costs for demolition, grading, utility fees, architectural and engineering fees, permits, surveys, appraisals, insurance, legal and accounting fees, development overhead, construction management, blueprinting, equity fees, construction lender, permanent lender and mortgage banker fees, interest carry, site improvements, off-site improvements and tenant improvements. If any portion of the Security Deposit is so applied, upon the Phase I Rent Commencement Date, Tenant shall deposit cash with Landlord in an amount sufficient to restore the Security Deposit to its original amount, and Tenant's failure to do so shall constitute a material breach of this Lease. It is expressly understood and agreed by Landlord and Tenant that nothing in this Section shall change the parties' responsibilities for the payment of Building Costs, as set forth on the Work Letter, and that in the event the lender applies the Security Deposit to the payment of Building Costs which are the responsibility of Landlord, Landlord shall promptly reimburse Tenant for all such costs.

19. MISCELLANEOUS.

19.1 NOTICES. All notices, consents, waivers and other communications which this Lease requires or permits either party to give to the other shall be in writing and shall be deemed given when delivered personally (including delivery by private courier or express delivery service) or three (3) days after deposit in the United States mail, registered or certified mail, postage prepaid, assessed to the parties at their respective addresses as follows:

To Tenant: 150 Industrial Road
San Carlos, CA 94070
Attn: Sharron Reiss-Miller, Vice President

with a copy to: 150 Industrial Road
San Carlos, CA 94070
Attn: Robert A. Donnally, Esq.

and with a copy to:	Cooley Godward LLP One Maritime Plaza, 20th Floor San Francisco, CA 94111-3580 Attn: Anna B. Pope, Esq.
To Landlord:	Inhale 201 Industrial Road L.P. c/o Bernardo Property Advisors, Inc. 11440 West Bernardo Ct., Suite 208 San Diego, CA 92127 Attn: Alan D. Gold
with a copy to:	Seltzer Caplan McMahon Vitek 2100 Symphony Towers 750 B Street San Diego, CA 92101 Attn: David J. Dorne, Esq.

or to such other address as may be contained in a notice at least fifteen (15) days prior to the address change from either party to the other given pursuant to this Section. Rental payments and other sums required by this Lease to be paid by Tenant shall be delivered to Landlord at Landlord's address provided in this Section, or to such other address as Landlord may from time to time specify in writing to Tenant, and shall be deemed to be paid only upon actual receipt.

19.2 SUCCESSORS AND ASSIGNS. The obligations of this Lease shall run with the land, and this Lease shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns, except that the original Landlord named herein and each successive Landlord under this Lease shall be liable only for obligations accruing during the period of its ownership of the Property, and any liability for obligations accruing after termination of such ownership shall terminate as of the date of such termination of ownership and shall pass to the successor lessor.

19.3 NO WAIVER. The failure of Landlord to seek redress for violation, or to insist upon the strict performance, of any covenant or condition of this Lease shall not be deemed a waiver of such violation, or prevent a subsequent act which would originally have constituted a violation from having all the force and effect of an original violation.

19.4 SEVERABILITY. If any provision of this Lease or the application thereof is held to be invalid or unenforceable, the remainder of this Lease or the application of such provision to persons or circumstances other than those as to which it is invalid or unenforceable shall not be affected thereby, and each of the provisions of this Lease shall be valid and enforceable, unless enforcement of this Lease as so invalidated would be unreasonable or grossly inequitable under all the circumstances or would materially frustrate the purposes of this Lease.

19.5 LITIGATION BETWEEN PARTIES. In the event of any litigation or other dispute resolution proceedings between the parties hereto arising out of or in connection with this Lease, the prevailing party shall be reimbursed for all reasonable costs, including, but not limited to, reasonable accountants' fees and attorneys' fees, incurred in connection with such proceedings

(including, but not limited to, any appellate proceedings relating thereto) or in connection with the enforcement of any judgment or award rendered in such proceedings. "PREVAILING PARTY" within the meaning of this Section shall include, without limitation, a party who dismisses an action for recovery hereunder in exchange for payment of the sums allegedly due, performance of covenants allegedly breached or consideration substantially equal to the relief sought in the action.

19.6 SURRENDER. A voluntary or other surrender of this Lease by Tenant, or a mutual termination thereof between Landlord and Tenant, shall not result in a merger but shall, at the option of Landlord, operate either as an assignment to Landlord of any and all existing subleases and subtenancies, or a termination of all or any existing subleases and subtenancies. This provision shall be contained in any and all assignments or subleases made pursuant to this Lease.

19.7 INTERPRETATION. The provisions of this Lease shall be construed as a whole, according to their common meaning, and not strictly for or against Landlord or Tenant. The captions preceding the text of each Section and subsection hereof are included only for convenience of reference and shall be disregarded in the construction or interpretation of this Lease.

19.8 ENTIRE AGREEMENT. This written Lease, together with the exhibits hereto, the Agreement of Limited Partnership of Inhale 201 Industrial Road, L.P. dated as of September __, 2000 (the "Partnership Agreement") and the Contribution Agreement, contains all the representations and the entire understanding between the parties hereto with respect to the subject matter hereof. Except as to the agreements contained in the Partnership Agreement and in the Contribution Agreement and their respective related exhibits, any prior correspondence, memoranda or agreements are replaced in total by this Lease and the exhibits hereto. This Lease may be modified only by an agreement in writing signed by each of the parties.

19.9 GOVERNING LAW. This Lease and all exhibits hereto shall be construed and interpreted in accordance with and be governed by all the provisions of the laws of the State of California.

19.10 NO PARTNERSHIP. The relationship created by this lease between Landlord and Tenant is solely that of a lessor and lessee. Nothing contained in this Lease shall be construed as creating any type or manner of partnership, joint venture or joint enterprise with or between Landlord and Tenant. Neither party is the agent or representative of the other, except as expressly set forth in the Agreement of Limited Partnership of Inhale 201 Industrial Road, L.P.

19.11 FINANCIAL INFORMATION. From time to time Tenant shall promptly provide directly to prospective lenders and purchasers of the Property designated by Landlord such financial information pertaining to the financial status of Tenant as Landlord may reasonably request; PROVIDED, Tenant shall be permitted to provide such financial information in a manner which Tenant deems reasonably necessary to protect the confidentiality of such information. In addition, from time to time, Tenant shall provide Landlord with such financial information pertaining to the financial status of Tenant as Landlord may reasonably request. Landlord agrees that all financial information supplied to Landlord by Tenant shall be treated as confidential material, and shall not be disseminated to any party or entity (including any entity affiliated with

Landlord) without Tenant's prior written consent, except that Landlord shall be entitled to provide such information, subject to reasonable precautions to protect the confidential nature thereof, (i) to Landlord's partners and professional advisors, solely to use in connection with Landlord's execution and enforcement of this Lease, and (ii) to prospective lenders and/or purchasers of the Property, solely for use in connection with their bona fide consideration of a proposed financing or purchase of the Property, PROVIDED that such prospective lenders and/or purchasers are not then engaged in businesses directly competitive with the business then being conducted by Tenant. For purposes of this Section, without limiting the generality of the obligations provided herein, it shall be deemed reasonable for Landlord to request copies of Tenant's most recent audited annual financial statements, or, if audited statements have not been prepared, unaudited financial statements for Tenant's most recent fiscal year, accompanied by a certificate of Tenant's chief financial officer that such financial statements fairly present Tenant's financial condition as of the date(s) indicated. Notwithstanding any other provisions of this Section 19.11, during any period in which Tenant has outstanding a class of publicly traded securities and is filing with the Securities and Exchange Commission, on a regular basis, Forms 10Q and 10K and any other periodic filings required under the Securities Exchange Act of 1934, as amended, it shall constitute sufficient compliance under this Section 19.11 for Tenant to furnish Landlord with copies of such periodic filings substantially concurrently with the filing thereof with the Securities and Exchange Commission.

Landlord and Tenant recognize the need of Tenant to maintain the confidentiality of information regarding its financial status and the need of Landlord to be informed of, and to provide to prospective lenders and purchasers of the Property financial information pertaining to, Tenant's financial status. Landlord and Tenant agree to cooperate with each other in achieving these needs within the context of the obligations set forth in this Section.

19.12 COSTS. Notwithstanding anything to the contrary contained in this Lease, if Tenant requests the consent of Landlord under any provision of this Lease for any act that Tenant proposes to do hereunder, including, without limitation, assignment or subletting of the Buildings or any portion thereof, Tenant shall, as a condition to doing any such act and the receipt of such consent, reimburse Landlord promptly for any and all reasonable costs and expenses incurred by Landlord in connection therewith (including, without limitation, reasonable attorneys' fees) up to a maximum of $1,000 per request.

19.13 TIME. Time is of the essence of this Lease, and of every term and condition hereof.

19.14 BROKERS. There are no brokers entitled to a commission in connection with this Lease except BT Commercial, who will be paid by Landlord pursuant to a separate agreement. Each party represents and warrants that no other broker participated in the consummation of this Lease and agrees to indemnify, defend and hold the other party harmless against any liability, cost or expense, including, without limitation, reasonable attorneys' fees, arising out of any claims for brokerage commissions or other similar compensation in connection with any conversations, prior negotiations or other dealings by the indemnifying party with any other person making such claim.

19.15 MEMORANDUM OF LEASE. At any time during the Term of this Lease, either party, at its sole expense, shall be entitled to record a memorandum of this Lease and, if either party so elects, both parties agree to cooperate in the preparation, execution, acknowledgement and recordation of such document in reasonable form.

19.16 CORPORATE AUTHORITY. Each person signing this Lease on behalf of Tenant or Landlord warrants that he or she is fully authorized to do so and, by so doing, to bind the entity on whose behalf he or she is signing.

19.17 EXECUTION AND DELIVERY. This Lease may be executed in one or more counterparts and by separate parties on separate counterparts, but each such counterpart shall constitute an original and all such counterparts together shall constitute one and the same instrument.

19.18 SURVIVAL. Without limiting survival provisions which would otherwise be implied or construed under applicable law, the provisions of Sections 2.5, 7.4, 9.2, 9.3, 9.4, 11.4, 12.10, 12.11, 19.5 and 19.11 hereof shall survive the termination of this Lease with respect to matters occurring prior to the expiration of this Lease.

19.19 WAIVER OF JURY TRIAL. The parties hereto shall, and they hereby do, waive trial by jury in any action or proceeding or counterclaim brought by either of the parties hereto against the other on any matters arising out of or in any way connected with this Lease.

19.20 EXCLUSIVITY. Landlord agrees that it shall not, during the Term of this Lease or any period during which Tenant occupies all or any portion of the Premises, lease or allow the use or occupancy of any portion of the Premises or the Buildings to or by any party which is a competitor of Tenant.

19.21 TENANT'S REMEDIES. Except to the extent expressly provided herein, no event or occurrence during the Lease Term is intended to allow Tenant the right to surrender or terminate this Lease or to relieve Tenant from any of its obligations hereunder, and Tenant waives any rights now or hereafter conferred upon it by statute or otherwise (except for rights conferred herein) to surrender or terminate this Lease or to claim any abatement or suspension of Rent or other sums payable hereunder.

19.22 SECURITY MEASURES. Tenant acknowledges that the Rent payable to Landlord hereunder does not and will not include the cost of guard service or other security services and that Landlord shall have no obligation whatsoever to provide same. Tenant agrees that Landlord shall nave no responsibility for the protection of the Premises, Tenant, its agents and invitees or their property from the acts of third parties.

IN WITNESS WHEREOF, the parties hereto have executed this Lease as of the day and year first set forth above.

"Landlord"	"Tenant"
INHALE 201 INDUSTRIAL ROAD, L.P., a California limited partnership	INHALE THERAPEUTIC SYSTEMS, INC. a Delaware corporation
By SciMed Prop III, a California corporation, its General Partner	By: ---------- Name: ---------- Title: ----------
By: ---------- Name: ---------- Title: ----------	By: ---------- Name: ---------- Title: ----------
By: ---------- Name: ---------- Title: ----------	By: ---------- Name: ---------- Title: ----------

EXHIBIT A

Property Legal Description

All that certain real property in the State of California, County of San Mateo, City of San Carlos more particularly described as follows:

ALL LANDS LYING WITHIN THE EXTERIOR BOUNDARIES OF THAT MAP ENTITLED "REVERSION TO ACREAGE OF THE LANDS OF ARNDT ELECTRONICS LYING WITHIN THE COUNTY OF SAN MATEO, BEING PARCELS 1,2,3 AND 4 AS SHOWN ON THAT CERTAIN PARCEL MAP FILED IN VOLUME 51 OF PARCEL MAPS AT PAGE 71 RECORDS OF SAN MATEO," FILED IN THE OFFICE OF THE COUNTY RECORDER OF SAN MATEO COUNTY, STATE OF CALIFORNIA, ON OCTOBER 6, 1986 IN VOLUME 58 OF PARCEL MAPS AT PAGE 13.

ASSESSOR'S PARCEL NOS.	046-020-370	JOINT PLAN NOS.	046-002-020-22A
	046-020-380		046-002-020-22-01A
			046-002-020-22-02A
			046-002-020-22-03A
			046-002-020-23A
			046-002-020-23-01A

EXHIBIT B

SITE PLAN

(ATTACHED)

EXHIBIT B

[MAP]

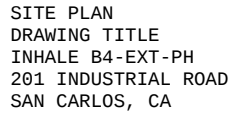

EXHIBIT C

WORK LETTER

This Work Letter ("WORK LETTER") constitutes part of the Build-to-Suit Lease dated as September __, 2000 (the "LEASE") between INHALE 201 INDUSTRIAL ROAD. L.P., a California limited partnership ("LANDLORD"), and Inhale Therapeutic Systems, Inc., a Delaware corporation ("TENANT"). The terms of this Work Letter are incorporated in the Lease for all purposes.

1. DEFINED TERMS.

As used in this Work Letter, the following capitalized terms have the following meanings:

(a) APPROVED PLANS: Approved Tenant Improvement Plans for Phase 1A, Approved Tenant Improvement Plans for Phase 1B, Approved Tenant Improvement Plans for Phase 2A, Approved Tenant Improvement Plans for Phase 2B, Approved Base Building Work Plans for Building 1 and Approved Base Building Work Plans for Building 2.

(b) APPROVED TENANT IMPROVEMENT PLANS FOR BUILDING 1: Approved Tenant Improvement Plans for Phase 1A (Plans and specifications prepared by the Architect for the Tenant Improvements in Phase 1A and approved by both Landlord and Tenant, and listed in the attached Schedule C-3 hereto), Approved Tenant Improvement Plans for Phase 1B, as defined in Section 2(b), below.

(c) APPROVED TENANT IMPROVEMENT PLANS FOR BUILDING 2: Plans and specifications to be prepared by the Architect for the Tenant Improvements in Phase 2A and 2B (provided Tenant has exercised the Phase 2B Expansion Option) in Building 2 and to be approved by both Landlord and Tenant, with the understanding that the Tenant Improvements for Building 2 will be similar in size, quality and materials as the Tenant Improvements for Building 1.

(d) APPROVED BASE BUILDING WORK PLANS FOR BUILDING 1: Plans and specifications prepared by the Architect for the Base Building Work in Building 1 and approved by both Landlord and Tenant, and listed in the attached Schedule C-1 and C-2 hereto.

(e) APPROVED BASE BUILDING WORK PLANS FOR BUILDING 2: Plans and specifications to be prepared by the Architect for the Base Building Work in Building 2 and to be approved by both Landlord and Tenant, with the understanding that the Building Shell and Building Core for Building 2 will be similar in size, quality and materials as the Building Shell and Building Core for Building 1.

(f) ARCHITECT: Dowler Gruman Architects.

(g) ASSIGNED CONSTRUCTION CONTRACTS: See definition in Section 2(f) hereof.

(h) BASE BUILDING WORK FOR BUILDING 1: The Building Core for Building 1, Building Shell for Building 1 and Site Improvements, as described by the Approved Base Building Plans listed in the attached Schedules C-1 and C-2.

(i) BASE BUILDING WORK FOR BUILDING 2: The Building Core and Building Shell to be more fully described by the Approved Base Building Plans to be prepared by Architect and approved by Landlord and Tenant.

(j) BUILDING CORES: The core of Building 1, as more fully defined in Schedule C-2, and the core for Building 2 to be more fully described by the Approved Base Building Work Plans for Building 2 to be prepared by Architect and approved by Landlord and Tenant.

(k) BUILDING SHELLS: The shell of Building 1, as more fully defined in Schedule C-1, and the shell for Building 2 to be more fully described by the Approved Base Building Work Plans for Building 2 to be prepared by Architect and approved by Landlord and Tenant.

(l) CERTIFICATE OF SUBSTANTIAL COMPLETION: the written certificate signed by Architect with respect to each Phase, certifying that: (i) the completion of the Base Building Work for such Phase has been completed (except for Punch List Work), in good and workmanlike condition, in compliance with all applicable Requirements, and in conformance with the Approved Plans for such Base Building Work, and (ii) a Shell Final, or its equivalent, has been received from all required governmental authorities.

(m) CHANGE ORDER: See definition in Section 2(g)(ii) hereof.

(n) COST OF IMPROVEMENT: See definition in Section 2(e) hereof.

(o) DATE OF SUBSTANTIAL COMPLETION: the date of issuance of The Certificate of Substantial Completion.

(p) DEFINITIONS: Capitalized terms not otherwise defined in this Work Letter shall have the definitions set forth in the Lease.

(q) GENERAL CONTRACTOR: South Bay Construction, Rudolph and Sletten, or any other general contractor selected by Tenant from the list attached as SCHEDULE C-4, or any other general contractor selected by Tenant with the approval of Landlord, which consent shall not be unreasonably withheld, delayed or conditioned, and all of which are further subject to any approval of Lender required by Lender.

(r) IMPROVEMENTS: The Building Cores, Building Shells, Site Improvements, Tenant Improvements and other improvements shown on the Approved Plans from time to time and to be constructed on the Property pursuant to the Lease and this Work Letter.

(s) LANDLORD DELAY: Any of the following types of delay in the completion of construction of the Improvements:

(i) Any delay resulting from Landlord's failure to furnish, in a timely manner, information requested by Tenant in Landlord's possession or under Landlord's control or by the

Architect or General Contractor for Tenant's Work in connection with the design or construction of the Improvements; or

(ii) Any material delay of any other kind or nature caused by Landlord (or Landlord's contractors, agents or employees).

(t) PUNCH LIST WORK: Minor corrections of construction or decoration details, and minor mechanical adjustments, that are required in order to cause any applicable portion of the Improvements as constructed to conform to the Approved Plans in all material respects and that do not materially interfere with Tenant's use or occupancy of the Premises.

(u) SHELL FINAL: Approval from the City of San Carlos confirming that Building Shell and Site Improvements have been completed with required Government Approvals.

(v) SITE IMPROVEMENTS: The parking areas, driveways, landscaping and other improvements to the Common Areas of the Property that are depicted on EXHIBIT B to the Lease (as the same may be modified pursuant to the process of development and approval of the Approved Plans) and more specifically described in SCHEDULE C- 1 attached to this Work Letter.

(w) SUBSTANTIAL COMPLETION OF BASE BUILDING WORK: Shall mean, with respect to each Phase, the completion of the Base Building Work for such Phase (except for Punch List Work), in good and workmanlike condition, in compliance with all applicable Requirements, and in conformance with the Approved Plans for such Base Building Work, and the receipt of a Shell Final, or its equivalent, from all required governmental authorities as certified in a writing signed by Architect.

(x) TENANT DELAY: Any of the following types of delay in the completion of construction of the Base Building Work:

(i) Any delay resulting from Tenant's failure to furnish, in a timely manner, information requested by Landlord or by the Architect or General Contractor for Base Building Work in connection with the design or construction of the Base Building Work, or from Tenant's failure to approve in a timely manner any matters requiring approval by Tenant;

(ii) Any delay resulting from Change Orders, including any delay resulting from the need to revise any drawings or obtain further governmental approvals as a result of any Change Order; or

(iii) Any material delay of any other kind or nature caused by Tenant (or Tenant's contractors, agents or employees).

(y) TENANT IMPROVEMENTS: The improvements to or within the Premises, other than improvements constituting part of the Base Building Work, shown on the Approved Plans from time to time and to be constructed by Tenant pursuant to the Lease and this Work Letter, including (but not limited to) the improvements to Building 1 described on SCHEDULE C-3 attached to this Work Letter.

(z) TENANT IMPROVEMENT ALLOWANCE: See definition in Section 4(b) hereof.

(aa) TENANT'S WORK: All of the Improvements other than those constituting BASE BUILDING WORK, and such other materials and improvements as Tenant deems necessary or appropriate for Tenant's use and occupancy of the Premises.

(bb) UNAVOIDABLE DELAYS: Delays due to acts of God, acts of public agencies, labor disputes, strikes, fires, freight embargoes, rainy or stormy weather, inability to obtain supplies, materials, fuels or permits, delays of contractors or subcontractors, or other causes or contingencies beyond the reasonable control of Landlord or Tenant, as applicable.

(cc) USEABLE SQUARE FEET: Useable Square Feet shall mean, with respect to Phase 1A, 38,633 square feet; with respect to Phase 1B, 38,474 square feet; with respect to Phase 2A, 43,972 square feet; and with respect to Phase 2B, 44,840 square feet.

(dd) WORK DEADLINES: The target dates for performance listed in the Estimated Construction Schedule attached as EXHIBIT D to the Lease.

2. PLANS, COST OF IMPROVEMENTS AND CONSTRUCTION.

Landlord and Tenant shall comply with the procedures set forth in this Section 2 in preparing, delivering and approving matters relating to the Improvements.

(a) APPROVED PLANS FOR BASE BUILDING WORK FOR BUILDING 1. Tenant and Landlord have approved the Approved Base Building Work Plans for Building 1.

(b) APPROVED PLANS FOR BASE BUILDING WORK FOR BUILDING 2. Tenant and Landlord shall cooperate with Architect in the development of the plans and specifications for the Base Building Work for Building 2 (once such plans and specifications are approved by Landlord and Tenant, the "APPROVED BASE BUILDING WORK PLANS FOR BUILDING 2"), with the understanding that the Building Shell and Building Core for Building 2 will be similar in size, quality and materials as the Building Shell and Building Core for Building 1.

(c) APPROVED PLANS AND WORKING DRAWINGS FOR TENANT'S WORK FOR BUILDING 1. Tenant and Landlord have approved the Approved Tenant Improvement Plans for Phase 1A. Tenant and Landlord shall cooperate with Architect in the development of the plans and specifications for the Tenant's Work for Phase 1B (once such plans and specifications are approved by Landlord and Tenant, the "APPROVED TENANT IMPROVEMENT PLANS FOR PHASE 1B"), with the understanding that the Tenant Improvements for Phase 1B will be similar in size, quality and materials as the Tenant Improvements for Phase 1A

(d) APPROVED PLANS AND WORKING DRAWINGS FOR TENANT'S WORK FOR BUILDING 2. Tenant and Landlord shall cooperate with Architect in the development of the plans and specifications for the Tenant's Work for Building 2 (once such plans and specifications are approved by Landlord and Tenant, the "APPROVED TENANT IMPROVEMENT PLANS FOR BUILDING 2"), with the understanding that the Tenant Improvements for Building 2 will be similar in size, quality and materials as the Tenant Improvements for Building 1.

(e) COST OF IMPROVEMENTS. "COST OF IMPROVEMENTS" shall mean, with respect to any item or component for which a cost must be determined in order to allocate such cost, or an

increase in such cost, to Base Building Work and/or Tenant's Work pursuant to this Work Letter or pursuant to the Lease, the sum of the following (unless otherwise agreed in writing by Landlord and Tenant with respect to any specific item or component or any category of items or components): (i) all sums paid to contractors or subcontractors for labor and materials furnished in connection with construction of such item or component; (ii) all costs, expenses, payments, fees and charges (other than penalties) paid or incurred to or at the direction of any city, county or other governmental or quasi-governmental authority or agency which are required to be paid in order to obtain all necessary governmental permits, licenses, inspections and approvals relating to construction of such item or component; (iii) engineering and architectural fees for services rendered in connection with the design and construction of such item or component (including, but not limited to, the applicable Architect for such item or component and an electrical engineer, mechanical engineer and civil engineer); (iv) sales and use taxes; (v) testing and inspection costs; (vi) the cost of power, water and other utility facilities and the cost of collection and removal of debris required in connection with construction of such item or component; and (vii) all other "hard" costs incurred in the construction of such item or component in accordance with the Approved Plans and this Work Letter.

(f) CONSTRUCTION OF BASE BUILDING WORK. Tenant shall assign the following construction contracts and Landlord shall assume such construction contracts: (Phase 1 Shell and Site Construction) dated 3/14/00 between Tenant and Rudolph & Sletten, (Phase 1 Core) dated 8/24/99 between Tenant and South Bay Construction, (Phase 1 Shell and Site Design) dated 3/16/99 between Tenant and Dowler Gruman Architects, and (Phase 1 Core Design) dated 7/18/00 between Tenant and Dowler Gruman Architects (the "ASSIGNED CONSTRUCTION CONTRACTS"). Upon receipt of such permits and approvals, Landlord shall, at Landlord's sole expense (except as otherwise provided in the Lease or in this Work Letter), diligently construct and complete the Improvements constituting BASE BUILDING WORK substantially in accordance with the Approved Base Building Work Plans, subject to Unavoidable Delays and Tenant Delays (if any). Such construction shall be performed in a neat and workmanlike manner and shall conform to all applicable governmental codes, laws and regulations in force at the time such work is completed.

(g) CHANGES.

(i) BY LANDLORD. If Landlord determines at any time that changes in Base Building Final Working Drawings or in any other aspect of the Approved Plans relating to any item of BASE BUILDING WORK are required as a result of applicable law or governmental requirements, or at the insistence of any other third party whose approval may be required with respect to the Improvements, or as a result of unanticipated conditions encountered in the course of construction, then Landlord shall promptly (A) advise Tenant of such circumstances and (B) cause revised Approved Plans and/or Base Building Final Working Drawings, as applicable, reflecting such changes to be prepared by Architect.

(ii) BY TENANT. If Tenant at any time desires any changes, alterations or additions to the Approved Plans or Base Building Final Working Drawings with respect to any of BASE BUILDING WORK, Tenant shall submit a detailed written request to Landlord specifying such changes, alterations or additions (a "CHANGE ORDER"). Upon receipt of any such request, Landlord shall notify Tenant within five (5) business days of (A) whether the matters proposed

in the Change Order are approved by Landlord (which approval shall not be unreasonably withheld, delayed or conditioned, and Landlord's failure to respond within such five (5) business days period shall be deemed Landlord's approval), (B) Landlord's estimate of the number of days of delay, if any, which shall be caused by such Change Order if implemented (including, without limitation, delays due to the need to obtain any revised plans or drawings and any governmental approvals), and (C) Landlord's estimate of the increase or decrease, if any, which shall occur in the Cost of Improvement for the items or components affected by such Change Order if such Change Order is implemented (including, but not limited to, any costs of compliance with laws or governmental regulations that become applicable because of the requested Change Order). If Tenant notifies Landlord in writing, within five (5) business days after receipt of such notice, of Tenant's approval of the Change Order (including the estimated delays and cost increases or decreases, if any, described in the notice), then Landlord shall cause such Change Order to be implemented and Tenant shall be responsible for all costs or cost increases, resulting from or attributable to the Change Order, subject to the provisions of Section 4 hereof. If Tenant fails to notify Landlord in writing of its approval of such Change Order within said five (5) business day period, then such Change Order shall be deemed to be withdrawn and shall be of no further effect.

(h) With respect to all matters requiring Landlord's Approval herein, Landlord's failure to respond within fifteen (15) days following Tenant's request shall be deemed approval.

3. COMPLETION.

(a) Notwithstanding any other provisions of this Work Letter or of the Lease, if Substantial Completion of any of the Base Building Work is delayed beyond the applicable Work Deadline reflected in Exhibit D to the Lease as a result of any Tenant Delay, then the applicable Rent Commencement Date pursuant to Section 3.1 of the Lease shall be accelerated, day for day, by the number of days by which such Tenant Delay delayed completion of the portions of Base Building Work beyond such applicable Work Deadline. In the event Landlord determines that the Rent Commencement Date should be advanced in accordance with the foregoing, Landlord shall notify Tenant within five (5) business days of commencement of the Tenant Delay purporting to cause the delay in completion. Any dispute between Landlord and Tenant as to the existence or duration of Tenant Delay shall be decided by the Architect.

(b) When Landlord believes the Base Building Work for any Phase is complete subject only to completion of Punch List Work, it shall so notify Architect and if Architect concurs, Architect shall issue to Tenant Substantial Completion Certificate for the Base Building Work for such Phase.

(c) At any time within thirty (30) days after delivery of the Substantial Completion Certificate, Tenant shall be entitled to submit one or more lists to Landlord specifying Punch List Work to be performed on the applicable Improvements constituting Base Building Work, and upon receipt of such list(s), Landlord shall diligently complete such Punch List Work at Landlord's sole expense. In the event of any dispute as to completion of any item or component of Base Building Work, the Certificate of the Architect shall be conclusive. Promptly after receipt by Tenant of the Certificate of Substantial Completion, Landlord shall cause the

recordation of a Notice of Completion (as defined in Section 3093 of the California Civil Code) with respect to relevant Base Building Work.

4. PAYMENT OF COSTS.

(a) BASE BUILDING WORK. Except as otherwise expressly provided in this Work Letter or by mutual written agreement of Landlord and Tenant, the cost of construction of BASE BUILDING WORK for each Phase shall be borne by Landlord at its sole cost and expense, including any costs or cost increases incurred as a result of Unavoidable Delays, governmental requirements or unanticipated conditions.

(b) TENANT'S WORK; TENANT IMPROVEMENT ALLOWANCE. Except as otherwise expressly provided in this Work Letter or by mutual written agreement of Landlord and Tenant, the cost of construction of the Tenant Improvements shall be borne by Tenant, PROVIDED that Landlord shall provide Tenant a tenant improvement allowance for each Phase equal to $125 per Useable Square Foot in such Phase (the "TENANT IMPROVEMENT ALLOWANCE"). Landlord shall pay the Tenant Improvement Allowance periodically, following demand by Tenant and submittal of appropriate documentation reflecting the Cost of the Tenant Improvements in such Phase. If the entire Tenant Improvement Allowance is not used toward the costs of Tenant's Work, Tenant shall not receive a credit of such unused portion of the Tenant Improvement Allowance

(c) APPROVAL OF BUDGET FOR TENANT'S WORK. Notwithstanding anything to the contrary set forth elsewhere in this Work Letter, Landlord shall not have any obligation to fund to Tenant any portion of the Tenant Improvement Allowance until Landlord shall have reasonably approved, in writing, the project budget for the Tenant's Work (an "Approved Budget"). Landlord agrees that such approval shall not be unreasonably withheld, delayed or conditioned. Attached hereto as SCHEDULE C-5 is an Approved Budget for the portion of the Tenant's Work relating to Phase 1A. If Tenant submits to Landlord a construction budget for any Tenant's Work which shows that the cost of Tenant's Work shall exceed the amount of the Tenant Improvement Allowance (a "Deficiency"), Tenant shall pay a pro rata share of any sums requested in a "Funding Request" (as defined below). If there exists a Deficiency for any Tenant Work (by reason of cost overruns or Tenant Changes, as defined below), Landlord's obligation to expand or disburse any portion of the Tenant Improvement Allowance shall be limited, for each Fund Request, to an amount equal to (a) the total amount due under the Fund Request multiplied by (b) a fraction, the numerator of which is the undisbursed balance of the Tenant Improvement Allowance at the commencement of such Tenant's Work and the denominator of which is the Approved Budget for such Tenant's Work. In the alternative, if required by Lender, Tenant agrees to fund the Deficiency into a cash collateral account pledged to the Lender from which disbursements shall be made following full disbursement of the Tenant Improvement Allowance. Tenant shall have until the loan from which the Tenant Improvement Allowance is funded is no longer available to Landlord (through no fault or default of Landlord) to expend the unused portion of the Tenant Improvement Allowance, after which date landlord's obligation to fund such costs shall expire.

(d) FUNDING REQUESTS. Upon submission by Tenant to Landlord of a statement (a "Funding Request") setting forth the total amount requested (including any Deficiency which may exist) and a reasonably detailed summary of the work preformed (which may be satisfied by

a copy of an AIA standard form Application for Payment (G 702) executed by the General Contractor and by the Architect) accompanied by lien releases for the General Contractor and the subcontractors with respect to the prior advance and such other documentation which may be required by the lender of Landlord ("Lender"), within thirty (30) business days following receipt by Landlord of a Funding Request and the accompanying materials, shall advance to Tenant the amount set forth in the Funding Request; provided, however, that with respect to any Funding Requests subject to reduction in accordance with Section 4(c). Landlord shall advance to Tenant the amount calculated in accordance with section 4(c). Tenant shall not make more than one Funding Request in any thirty (30) day period, and any Funding Request (other than the Final Funding Request) shall be for an amount not less than fifty thousand dollars ($50,000.00).

(e) USE OF THE TENANT IMPROVEMENT ALLOWANCE. The Tenant Improvement Allowance may be used solely for the payment of Cost of Improvements. Nothwithstanding the foregoing, the Tenant Improvement Allowance shall not be used for the payment of i) personal property, equipment or specialty trade fixtures unique to the business of Tenant (which shall not be deemed to include, in any event, laboratory benches and casework or other laboratory furniture); ii) any work performed by specialty contractors such as data cabling, telephone and data equipment, audio/visual equipment, office furniture systems or security systems; iii) any permitting or construction costs associated therewith specific to the business of Tenant (such as FDA licensing requirements); (iv) charges and expenses for changes to the Approved Plans which have not been approved by Landlord; (v) wages, labor and overhead for overtime and premium time; (vi) additional costs and expenses incurred on account of any contractor's default or construction defects; (vii) offsite management or other general overhead costs of Tenant; (vii) costs for which Tenant has a right of reimbursement from others (including, without limitation, insurers and warranties); or (viii) the cost of bringing the Property into compliance with applicable environmental laws, or other statutes, laws, rules and regulations. The Tenant Improvement Allowance shall in no event be used to purchase any office furniture, tabletop laboratory equipment, telephone equipment, personal property or other non-building system equipment of Tenant. Landlord is under no obligation to bear any portion of the cost for any of Tenant's Work except to the extent of the Tenant Improvement Allowance.

5. TENANT'S WORK.

Tenant shall construct and install in the respective Phase the Tenant's Work, substantially in accordance with the Approved Tenant Improvement Plans or, with respect to Tenant's Work not shown on the Approved Tenant Improvement Plans, substantially in accordance with plans and specifications prepared by Tenant and approved in writing by Landlord (which approval shall not be unreasonably withheld, delayed or conditioned). Tenant's Work may be performed concurrently with Landlord's performance of the Base Building Work, provided that Tenant's Work does not unreasonably interfere with the Base Building Work. Tenant's Work shall be performed in accordance with, and shall in all respects be subject to, the terms and conditions of the Lease (to the extent not inconsistent with this Work Letter), and shall also be subject to the following conditions:

(a) CONTRACTOR REQUIREMENTS. The contractor engaged by Tenant for Tenant's Work, and any subcontractors, shall be duly licensed in California.

(b) COSTS AND EXPENSES OF TENANT'S WORK. Subject to Landlord's payment or reimbursement obligations under Section 4(b) hereof with respect to the Tenant Improvement Allowance, Tenant shall promptly pay all costs and expenses arising out of the performance of Tenant's Work (including the costs of permits) and shall furnish Landlord with evidence of payment on request.

(c) INDEMNIFICATION. Tenant shall indemnify, defend (with counsel satisfactory to Landlord) and hold Landlord harmless from all suits, claims, actions, losses, costs and expenses (including, but not limited to, claims for workers' compensation, attorneys' fees and costs) based on personal injury or property damage or contract claims (including, but not limited to, claims for breach of warranty) arising from the performance of Tenant's Work. Tenant shall repair or replace (or, at Landlord's election, reimburse Landlord for the cost of repairing or replacing) any portion of the Improvements and/or any of Landlord's real or personal property or equipment that is damaged, lost or destroyed in the course of or in connection with the performance of Tenant's Work.

(d) INSURANCE. Tenant's contractors shall obtain and provide to Landlord certificates evidencing workers' compensation, public liability and property damage insurance in amounts and forms and with companies satisfactory to Landlord.

(e) RISK OF LOSS. All materials, work, installations and decorations of any nature brought onto or installed in the Premises, by or at the direction of Tenant before the commencement of Tenant's rental payment obligations with respect to the applicable Building shall be at Tenant's risk, and neither Landlord nor any party acting on Landlord's behalf shall be responsible for any damage, loss or destruction thereof.

(f) CONDITION OF TENANT'S WORK. All work performed by Tenant shall be performed in a good and workmanlike manner, shall be free from defects in design, materials and workmanship, and shall be completed in compliance with the plans approved by Landlord for such work in all material respects and in compliance with all applicable governmental laws, ordinances, codes and regulations in force at the time such work is completed. All materials and equipment furnished by Tenant shall be new or like new,

(g) LANDLORD'S APPROVAL. Any approval or consent by Landlord shall in no way obligate Landlord in any manner whatsoever in respect of the finished product designed and/or constructed by Tenant. Any deficiency in design or construction of the Tenant's Work, although the same has prior approval of Landlord, shall be solely the responsibility of Tenant.

6. NO AGENCY.

Nothing contained in this Work Letter shall make or constitute either Landlord or Tenant as the agent of the other.

7. SURVIVAL.

Without limiting survival provisions that would otherwise be implied or construed under applicable law, the provisions of Section 5(c) of this Work Letter shall survive the termination of the Lease with respect to matters occurring prior to expiration of the Lease.

8. TENANT'S AUTHORIZED REPRESENTATIVE.

Tenant designates Sharron Reiss-Miller, Brigid Makes and William Voight (collectively and individually, "Tenant's Authorized Representative") as the person authorized to approve all plans, drawings, change orders and approvals pursuant to this Work Letter. Landlord shall not be obligated to respond to or act upon any such item until such item has been signed or initialed by Tenant's Authorized Representative.

9. LANDLORD'S AUTHORIZED REPRESENTATIVE.

Landlord designates Alan D. Gold, Gary A. Kreitzer and John F. Wilson (collectively and individually, "Landlord's Authorized Representative") as the person authorized to approve all plans, drawings, change orders and approvals pursuant to this Work Letter. Tenant shall not be obligated to respond to or act upon any such item until such item has been signed or initialed by Landlord's Authorized Representative.

10. SUBJECT TO LEASE.

This Work Letter is subject in all respects to the terms and conditions of the Lease.

11. LENDER REQUIREMENTS.

This Work Letter is subject to the requirements of Lender. Tenant agrees to cooperate with Landlord, at no material cost to Tenant and without materially adversely affecting Tenant's rights or obligations hereunder, in meeting Lender's requirements and in obtaining any required Lender approvals.

12. MERGER.

All understanding and agreements, oral and written, heretofore made between the parties hereto and relating to the matters covered herein are merged in this Work Letter, which, along with the Lease and its exhibits, the Partnership Agreement, and the documents referenced therein and contemplated thereby, fully and completely expresses the agreement between Landlord and Tenant with regard to the matters set forth in this Work Letter.

13. MISCELLANEOUS.

All references in this Work Letter to a number of days shall be construed to refer to calendar days, unless otherwise specified herein. In all instances where a party's approval is required, if no written notice of disapproval is given within the applicable time period, at the end of that period such party shall be deemed to have given approval and the next succeeding time period shall commence. If any item requiring approval is disapproved by a party in a timely manner, the procedure for preparation of that item and approval shall be repeated.

IN WITNESS WHEREOF, the parties have executed this Work Letter concurrently with and as of the date of the Lease.

LANDLORD	TENANT
INHALE 201 INDUSTRIAL ROAD. L.P., a California limited partnership	INHALE THERAPEUTIC SYSTEMS INC. a Delaware corporation
By: SciMed Prop III, a California corporation, its General Partner	By: ---------- Name: ---------- Title: ----------
By: ---------- Name: ---------- Title: ----------	By: ---------- Name: ---------- Title: ----------
By: ---------- Name: ---------- Title: ----------	

SCHEDULE C-1 TO WORK LETTER

DEFINITION OF BUILDING SHELL AND SITE IMPROVEMENTS

The "BUILDING SHELL" for Building 1 and the Site Improvements referred to in the Work Letter to which this SCHEDULE C-1 is attached shall consist of work described in the following plans:

(attached)

EXHIBIT C-1 TO WORK LETTER

DOWLER-GRUMAN ARCHITECTS

Document Log

Inhale, Bldg. 4, Exterior, Ph-1, 99033
Shell and Site Improvements

SHT. NO.	SHEET NAME	CP-4, Construction Set (11-11-99)	CP-4, Plan Check (12-3-99)	Struct. P.C. Comments (2-7-00)	2nd P.C.C. Revised (2-15-00)
A0	Cover Sheet and Project Data	x	x		
A0.1	Code Compliance	x	x		
A0.2	Title 24, Energy Compliance	x	x		
C-1	Existing Topography & Proposed Site Plan	x	x		
C-2	Site Grading Plan	x	x		
C-3	Sewer/Water & Storm Drain	x	x		
C-3.1	On-Siote Fire System Plan		x		
C-4	Grading / Utility Plan Details	x	x		
C-5	Industrial Road Street Improvements	x	x		
L1.1	Entry Plaza & Courtyard Layout Plan	x	x		
L1.2	Entry Plaza & Courtyard Layout Plan	x	x		
L2.1	Plaza & Courtyard Layout Plan	x	x		
L2.2	Landscape Hardscape Details	x	x		
L2.3	Landscape Hardscape Details	x	x		
L3.1	Irrigation Plan	x	x		
L4.1	Irrigation Details	x	x		
L4.2	Drip Irrigation Details	x	x		
L5.1	Planting Plan	x	x		
L6.1	Planting Details	x	x		
A1.0	Overall Site Plan	x	x		
A2.1.1.0	Overall Floor Plan-Level 1	x	x		
A2.1.1.1	Phase 1 , Level 1, Floor Plan	x	x		
A2.1.2.0	Overall Floor Plan-Level 2	x	x		
A2.1.2.1	Phase 1 , Level 2, Floor Plan	x	x		
A2.1.3.0	Overall Floor Plan-Level 3	x	x		
A2.1.3.1	Phase 1 , Level 3, Floor Plan	x	x		
A2.1.4.0	Overall Floor Plan-Level 4	x	x		
A2.1.4.1	Phase 1 , Level 4, Floor Plan	x	x		
A2.1.5.0	Overall Floor Plan Penthouse Level	x	x		
A2.1.5.1	Phase 1 , Penthouse Level, Floor Plan	x	x		
A2.1.6.0	Overall Floor Plan - Roof Level	x	x		

A2.1.7.0	Not Used		
A2.1.7.1	Enlarged Plans - Exterior Walls	x	x
A2.1.7.2	Enlarged Plans - Lobby Core	x	x
A2.1.7.3	Enlarged Plans and Sections - Stair No. 2	x	x
A2.1.7.4	Enlarged Plans and Sections - Stair No. 3	x	x
A2.1.7.5	Sections - Stair No. 1	x	x
A3.0	Not Used		
A3.1	Door,Window, Wall Type & Mtg Hght Sched.	x	x
A3.1a	Fire Rated System Details		x
A3.2	Exterior Window Schedule	x	x
A4.0	Not Used		
A4.1	Building Sections	x	x
A4.2	Wall Sections	x	x
A4.3	Wall Sections	x	x
A4.4	Wall Sections	x	x
A4.5	Wall Sections	x	x
A4.6	Wall Sections	x	x
A5.0	Overall Exterior Elevations	x	x
A5.1	Enlarged Exterior Elevations	x	x
A5.2	Enlarged Exterior Elevations	x	x

EXHIBIT C-1 TO WORK LETTER

DOWLER-GRUMAN ARCHITECTS

Document Log

Inhale, Bldg. 4, Exterior, Ph-1, 99033
Shell and Site Improvements

SHT. NO.	SHEET NAME	CP-4, Construction Set (11-11-99)	CP-4, Plan Check (12-3-99)	Struct. P.C. Comments (2-7-00)	2nd P.C.C. Revised (2-15-00)
A6.0	Not Used				
A6.1	Exterior Details - Site	x	x		
A6.2	Exterior Details - Site and Parking	x	x		
A6.3	Exterior Details -	x	x		
A6.4	Exterior Details -	x	x	x	
A6.5	Exterior Details -	x	x		
A6.6	Exterior Details -	x	x	x	
A6.7	Exterior Details - Plan	x	x		
A6.8	Exterior Details - Roof	x	x	x	x
A7.0	Not Used				
A7.1	Not Used				
A8.0	Not Used				
A8.1	Interior Details	x	x		
A8.2	Not Used				
A8.3	Not Used				
A8.4	Not Used				
S2.1.1.0p	Pile Plan	x	x	x	
S2.1.1.0pc	Pile Cap Plan	x	x	x	
S2.1.1.0	Level 1, Slab Plan	x	x	x	
S2.1.2.0	Level 2, Framing Plan	x	x	x	
S2.1.3.0	Level 3, Framing Plan	x	x	x	x
S2.1.4.0	Level 4, Framing Plan	x	x	x	x
S2.1.5.0	Roof Framing Plan	x	x	x	
S2.1.6.0	Penthouse Framing Plan	x	x	x	
S3.1.1	Braced Frame Elevations	x	x	x	x
S4.1.1	General Notes & Typical Concrete Details	x	x	x	
S5.1.1	Concrete Details	x	x	x	
S5.1.2	Pile Cap Details	x	x	x	
S5.1.3	Concrete Slab Details	x	x	x	
S7.1.1	Metal Deck Details	x	x	x	
S7.1.2	Typical Steel Framing Details	x	x	x	x
S7.1.3	Steel Column Details	x	x	x	
S7.1.4	Steel Details	x	x	x	x
S7.1..5	Miscellaneous Steel Details	x	x	x	

S7.1.6	Miscellaneous Steel Details		x	x
P1.0	Overall Site Plan Plumging/Process Piping		x	
P2.1.1.1	Phase 1, Level 1, Plumbing Plan		x	
P2.1.2.1	Phase 1, Level 2, Plumbing Plan		x	
P2.1.3.1	Phase 1, Level 3, Plumbing Plan		x	
P2.1.4.1	Phase 1, Level 4, Plumbing Plan		x	
P2.1.5.1	Phase 1, Level 5, Plumbing Plan		x	
E0.1	One Line Diagram, Details & Schedules	x	x	
E1.0	Site Power Plan	x	x	
E1.1	Site Lighting Plan	x	x	
E2.1	Phase 1, Level 1, Lighting Plan	x	x	
E2.2	Phase 1, Level 2, Lighting Plan	x	x	
PK1	Not Used			
PK1.1	Fire Truck Turning Radius Study	x	x	
PK1.2	Fire Truck Turning Radius Study	x	x	
PK1.3	Fire Truck Turning Radius Study	x	x	
PK2	Not Used			
PK3	Sign Schedule Details	x	x	
PK4	Striping Details	x	x	
PK5	Typical Details	x	x	
PK6	Control Lane Plans & Details	x	x	

EXHIBIT C-1 TO WORK LETTER

DOWLER-GRUMAN ARCHITECTS

Document Log

Inhale, Bldg. 4, Exterior, Ph-1, 99033
Shell and Site Improvements

SHT. NO.	SHEET NAME	CP-4, Construction Set (11-11-99)	CP-4, Plan Check (12-3-99)	Struct. P.C. Comments (2-7-00)	2nd P.C.C. Revised (2-15-00)
	General Conditions - AIA A201	x	x		
	Materials List				
	Temporary Materials List				
	Structural Outline Specifications				
	DIVISION 1 GENERAL REQUIREMENTS				
1010	Summary of the Work	x	x		
1020	Allowances	x	x		
1026	Unit Prices				
1028	Applications for Payment				
1030	Alternates	x	x		
1045	Cutting and Patching	x			
1049	Supporting from Building Structure	x	x		
1300	Submittals	x	x		
1400	Quality Control	x	x		
1430	Mock-Ups	x	x		
1500	Construction Facilities & Temporary Controls	x	x		
1540	Site Security & Safety	x	x		
1600	Materials & Equipment	x	x		
1640	Hazardous Materials	x	x		
1700	Contract Closeout	x	x		
1900	Colors	x	x		
	DIVISION 2 SITE WORK				
	Outline Specifications				
2050	Demolition				
2200	Earthwork	x	x		
2211	Site Grading	x	x		
2226	Structural Excavation & Backfilling	x	x		
2235	Vapor Barrier & Sand Cushion	x	x		
2300	Piling	x	x		
2520	Site Concrete	x	x		
2525	Specialty Walkway Paving and Surfacing	x	x		
2530	Sanitary Sewer				
2630	Storm Drainage				
2700	Site Utilities	x	x		
2726	Trench Drains	x	x		
2727	Site Drainage	x	x		

2505/2745	Asphaltic Concrete Paving	x	x
2753	Portland Cement Concrete Paving		
2770	Curbs and Gutters		
2810	Irrigation Systems	x	x
2830	Retaining Walls		
2920	Soil Preparation	x	x
2950	Trees, Plants, and Groundcovers	x	x
2970	Landscape Maintenance	x	x
DIVISION 3 CONCRETE			
3100	Concrete Formwork	x	x
3200	Concrete Reinforcement	x	x
3300	Cast-in-Place Concrete	x	x
3410	Glass Fiber Reinforced Concrete Panels	x	x
3450	Architectural Precast Concrete		
3455	Glass Fiber Reinforced Concrete Wall Panels	x	x
3600	Concrete Tests and Inspections	x	x

EXHIBIT C-1 TO WORK LETTER

DOWLER-GRUMAN ARCHITECTS

Document Log

Inhale, Bldg. 4, Exterior, Ph-1, 99033
Shell and Site Improvements

SHT. NO.	SHEET NAME	CP-4, Construction Set (11-11-99)	CP-4, Plan Check (12-3-99)	Struct. P.C. Comments (2-7-00)	2nd P.C.C. Revised (2-15-00)
	DIVISION 4 MASONRY				
	4220 Concrete Unit Masonry				
	4400 Stone				
	DIVISION 5 METALS				
	5120 Structural Steel	x	x		
	5310 Steel Decking	x	x		
	5440 Light Gauge Framing	x	x		
	5445 Metal Wall Panels				
	5500 Metal Fabrications	x	x		
	5510 Metal Stairs	x	x		
	5800 Expansion Control				
	5805 Expansion Joint Covers	x	x		
	5999 Miscellaneous Metals	x	x		
	DIVISION 6 WOOD & PLASTICS				
	6100 Rough Carpentry	x	x		
	6200 Finish Carpentry	x	x		
	DIVISION 7 THERMAL & MOISTURE PROTECTION				
	7100 Waterproofing & Dampproofing				
	7130 Below Grade Waterproofing	x	x		
	7142 Rubberized Asphalt Membrane Waterproofing	x	x		
	7145 Crystallization Waterproofing	x	x		
	7200 Insulation	x	x		
	7240 Exterior Insulation Finish System (EIFS)	x	x		
	7400 Factory Formed Metal Panel System	x	x		
	7410 Composite Aluminum Building Panels				
	7450 Mineral Fiber Siding	x	x		
	7511 Built-up Roofing (Metal Deck)	x	x		
	7610 Metal Roofing	x	x		
	7600 Flashing & Sheet Metal	x	x		
	7700 Roof Accessories	x	x		
	7810 Sparyu Applied Fire Resistive Coating	x	x		
	7815 Intumescent Coatings	x	x		
	7840 Firesstoppping and Smokeseals	x	x		
	7915 Compression Seals	x	x		
	7920 Sealants & Caulking	x	x		
	DIVISION 8 DOORS & WINDOWS				
	8100 Hollow Metal Doors & Frames	x	x		

8200 Wood Doors	x	x
8300 Special Doors	x	x
8499 Exterior Aluminum door & Glass Systems	x	x
8710 Finish Hardware	x	x
8800 Glazing	x	x
DIVISION 9 FINISHES		
9290 Drywall Systems	x	x
9300 Ceramic Tile		
9900 Painting	x	x
DIVISION 10 SPECIALTIES		
10210 Louvers	x	x
10430 Exterior Signs		
10440 Interior Signs		
10999 Miscellaneous Specialties		

EXHIBIT C-1 TO WORK LETTER

DOWLER-GRUMAN ARCHITECTS

Document Log

Inhale, Bldg. 4, Exterior, Ph-1, 99033
Shell and Site Improvements

SHT. NO.	SHEET NAME	CP-4, Construction Set (11-11-99)	CP-4, Plan Check (12-3-99)	Struct. P.C. Comments (2-7-00)	2nd P.C.C. Revised (2-15-00)
	DIVISION 11 EQUIPMENT				
11150	Parking Control Equipment	x	x		
11160	Loading Dock Equipment	x	x		
11170	Waste Handling Equipment				
	DIVISION 12 FURNISHINGS				
	DIVISION 13 SPECIAL CONSTRUCTION				
	DIVISION 14 CONVEYING SYSTEMS				
14240	Passenger Elevators (2- 4 stops)	x	x		
14245	Freight Elevators (1-3 stops)				
14600	Jib Crane & Hoist	x	x		
14610	Davit System				
	DIVISION 15 MECHANICAL (Design by Murphy)				
	Outline Mechanicl Equipment Specifications				
15400	Plumbing	x	x		
15500	Heating, Ventilating, & Air Conditioning				
	DIVISION 16 ELECTRICAL (Silverman & Light)				
	Outline Electrical Specifications				
16010	Electrical General Provisions	x	x		
16050	Basic Materials and Methods	x	x		
16195	Electrical Identification				
16250	Automatic Transfer Switches				
16400	Service and Distribution				
16500	Lighting				
16620	Emergency Generators				
16721	Fire Alarm/Life Safety System				
16900	Electrical Controls				
16901	Electrical Sensing and Measurement				
16920	Motor Control Centers				
16950	Testing Requirements				
16960	Short Circuit Analysis and Coordination				

SCHEDULE C-2 TO WORK LETTER

DEFINITION OF BUILDING CORE

The "BUILDING CORE" for Building 1 as defined in the Work Letter to which this SCHEDULE C-2 is attached shall consist of work described in the following plans: (attached)

EXHIBIT C-2 TO WORK LETTER

DOWLER-GRUMAN ARCHITECTS

Documents Log

Inhale, Bldg. 4, Interior, Ph-1, 99086
Tenant Improvements

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SHT. NO.	SHEET NAME	Design Development (10-29-99)	Progress Print (12-7-99)	Plan Check (1-7-00)	Bld Set (2-28-00)
ARCHITECTURAL					
A0	Cover Sheet and Project Data	x	x	x	x
A0.1	Code Compliance	x	x	x	x
A0.2	Phase A, Level-4, Code Compliance		x	x	x
A0.3	Title 24 Code Compliance				
A1.0	Overall Site Plan			R	R
A2.1.1.1	Phase A , Level 1, Floor Plan	x	x	x	x
A2.1.2.1	Phase A , Level 2, Floor Plan	x	x	x	x
A2.1.3.1	Phase A , Level 3, Floor Plan	x			
A2.1.3.1r	Phase A, Level 3, Reflected Ceiling Plan	x			
A2.1.4.1	Phase A , Level 4, Floor Plan	x	x	x	x
A2.1.4.2	Phase A , Level 4, Area A, Floor Plan	x	x	x	x
A2.1.4.3	Phase A , Level 4, Area B, Floor Plan	x	x	x	x
A2.1.4.4	Phase A , Level 4, Area C, Floor Plan	x	x	x	x
A2.1.5.1	Phase A , Penthouse Level, Floor Plan	x	x	x	x
A2.1.7.1	Not Used				
A2.1.7.2	Phase A, Enlarged Plans, Lobby Core	x	x	x	x
A2.1.7.3	Enlarged Plans - Stairs No. 2 & 3	x	x	x	x
A2.1.4.2c	Phase A , Level 4, Area A, Casework Plan		x	x	x
A2.1.4.3c	Phase A , Level 4, Area B, Casework Plan		x	x	x
A2.1.4.4c	Phase A , Level 4, Area C, Casework Plan		x	x	x
A2.1.4.2q	Phase A , Level 4, Area A, Equipment Plan			x	x
A2.1.4.3q	Phase A , Level 4, Area B, Equipment Plan			x	x
A2.1.4.1f	Phase A, Level 4, Finish Plan		x	x	x
A2.1.4.2f	Phase A , Level 4, Area A, Finish Plan		x	x	x
A2.1.4.3f	Phase A , Level 4, Area B, Finish Plan		x	x	x
A2.1.4.4f	Phase A , Level 4, Area C, Finish Plan		x	x	x

A2.1.7.1f	Not Used			
A2.1.7.2f	Phase A, Lobby Core, Finish Plans	x	x	x
A2.1.7.3f	Stairs No. 2 & 3 Finish Plans	x	x	x

EXHIBIT C-2 TO WORK LETTER

DOWLER-GRUMAN ARCHITECTS

Documents Log

Inhale, Bldg. 4, Interior, Ph-1, 99086
Tenant Improvements

SHT. NO.	SHEET NAME	Design Development (10-29-99)	Progress Print (12-7-99)	Plan Check (1-7-00)	Bld Set (2-28-00)
A2.1.4.1r	Phase A, Level 4, Reflected Ceiling Plan	x		x	x
A2.1.4.2r	Phase A , Level 4, Area A, RCP			x	x
A2.1.4.3r	Phase A , Level 4, Area B, RCP			x	x
A2.1.4.4r	Phase A , Level 4, Area C, RCP			x	x
A2.1.7.1r	Not Used				
A2.1.7.2r	Phase A, Lobby Core, Reflected Ceiling Plan			x	x
A2.1.7.3r	Stairs No. 2 & 3 Refl. Ceiling			x	x
A3.0	Not Used				
A3.1	Door & Window Schedule	x	x	x	x
A3.2	Partition Types		x	x	x
A3.3	Casework Schedule		x	x	x
A3.4	Penetration Details		x	x	x
A3.5.1	Equipment Matrix				
A4.0	Not Used				
A4.1	Wall Sections		x	x	x
A4.2	Wall Details	x	x	x	x
A4.3	Not Used	x			
A4.4	Not Used	x			
A4.5	Not Used	x			
A7.0	Not Used				
A7.1	Interior Sections	x	x	x	x
A7.2	Interior Sections	x	x	x	x
A7.3	Interior Elevations		x	x	x
A7.4	Interior Elevations		x	x	x
A8.0	Not Used				
A8.1	Interior Details - Doors & Windows		x	x	x
A8.2	Interior Details -Partitions		x	x	x
A8.3	Interior Details - Finishes & Exterior Details - Roofing		x	x	x
A8.4	Ineterior Details - Ceiling		x	x	x
A8.5	Interior Details - Casework		x	x	x
A8.6	Interior Details - Miscellaneous		x	x	x
STRUCTURAL					
S2.1.4.1	Framing Plan, Level 4, Phase A			x	x

S2.1.5.1	Roof Framing Plan	x	x
S7.1.6	Misc. Details	x	x

EXHIBIT C-2 TO WORK LETTER

DOWLER-GRUMAN ARCHITECTS

Documents Log

Inhale, Bldg. 4, Interior, Ph-1, 99086
Tenant Improvements

SHT. NO.	SHEET NAME	Design Development (10-29-99)	Progress Print (12-7-99)	Plan Check (1-7-00)	Bld Set (2-28-00)
MECHANICAL					
M-0.1	Mechanical Equipment Schedule	x	x	x	x
MT-24	Mechanical Titel-24 Compliance			x	x
M2.1.2.2	Phase A, Level 2, Area A, Mechanical Plan			x	x
M2.1.4.1	Phase A, Level 4, Mechanical Plan		x	x	x
M2.1.4.2	Phase A, Level 4, Area A, Mechanical Plan			x	x
M2.1.4.3	Phase A, Level 4, Area B, Mechanical Plan			x	x
M2.1.4.4	Phase A, Level 4, Area C, Mechanical Plan			x	x
M2.1.7.2	Enlarged Mechanical Lobby Core Plans				x
M2.1.5.1	Phase A, Penthouse Level, Mechanical Plan	x	x	x	x
M3.1	Mechanical Sections & Details		x	x	x
PLUMBING					
P0	General			x	x
P2.1.1.1	Phase A, Level 1, Piping Plan			x	x
P2.1.2.1	Phase A, Level 2, Piping Plan			x	x
P2.1.3.1	Phase A, Level 3, Piping Plan			x	x
P2.1.3.2	Phase A, Level 3, Area A, Piping Plan			x	x
P2.1.3.3	Phase A, Level 3, Area B, Piping Plan			x	x
P2.1.4.1	Phase A, Level 4, Piping Plan			x	x
P2.1.4.2	Phase A, Level 4, Area A, Piping Plan			x	x
P2.1.4.3	Phase A, Level 4, Area B, Piping Plan			x	x
P2.1.5.1	Phase A, Penthouse Level, Piping Plan			x	x
P3.1	Enlarged Toilet Core Plans, Isometric, Riser			x	x
P4.1	Partial 4th Flr. Plan, Mechanical Room and Detail		x	x	x
P6.1	Details			x	x

P2.1	Partial Third Floor Plan Mechanical Room and detail piping	x
P2.1.3.1	Partial Third Floor Plan - Piping	x
P2.1.3.2	Partial Third Floor Plan Piping	x
P2.1.3.3	Partial Third Floor Plan - Piping	x
P2.1.3.4	Partial Third Floor Plan - Piping	x

EXHIBIT C-2 TO WORK LETTER

DOWLER-GRUMAN ARCHITECTS

Documents Log

Inhale, Bldg. 4, Interior, Ph-1, 99086
Tenant Improvements

SHT. NO.	SHEET NAME	Design Development (10-29-99)	Progress Print (12-7-99)	Plan Check (1-7-00)	Bld Set (2-28-00)
ELECTRICAL					
E0.1	Legend, Titel 24 and Schedules			x	x
E0.2	One Line Diagram			x	x
E2.1.1.1	Phase A, Level 1, Electrical Plan			x	x
E2.1.2.1	Phase A, Level 2, Electrical Plan		x	x	x
E2.1.3.1	Phase A, Level 3, Electrical Plan		x	x	x
E2.1.4.1	Phase A, Level 4, Electrical Plan		x	x	x
E2.1.4.2	Phase A, Level 4, Area A, Electrical Plan			x	x
E2.1.4.3	Phase A, Level 4, Area B, Electrical Plan			x	x
E2.1.4.4	Phase A, Level 4, Area C, Electrical Plan			x	x
E2.1.5.1	Phase A, Penthouse Level, Electrical Plan			x	x
E6.0	Panel Schedules			x	x
	Interior Phase 1, Level 4, Power Plan	x			
	2nd Floor Power Plan	x			
	3rd Floor Power Plan	x			

EXHIBIT C-2 TO WORK LETTER

DOWLER-GRUMAN ARCHITECTS

Documents Log

Inhale, Bldg. 4, Interior, Ph-1, 99086
Tenant Improvements

SHT. NO.	SHEET NAME	Design Development (10-29-99)	Progress Print (12-7-99)	Plan Check (1-7-00)	Bld Set (2-28-00)
	General Conditions -AIA 111, AIA A201			x	
	DIVISION 1 GENERAL REQUIREMENTS				
	1010 Summary of the Work			x	
	1018 Owner Furnished Equipment			x	
	1020 Allowances			x	
	1030 Alternates			x	
	1045 Cutting and Patching			x	
	1049 Supporting from Building Structure			x	
	1300 Submittals			x	
	1400 Quality Control			x	
	1430 Mock-Ups			x	
	1500 Construction Facilities & Temporary Controls			x	
	1540 Site Security & Safety			x	
	1600 Materials & Equipment			x	
	1640 Hazardous Materials			x	
	1700 Contract Closeout			x	
	1900 Colors			x	
	DIVISION 2 SITE WORK				
	2070 Selective Demolition			x	
	2831 Chain Link Fence and Gate			x	
	DIVISION 3 CONCRETE				
	3320 Leveling Topping			x	
	DIVISION 4 MASONRY				
	DIVISION 5 METALS				
	5999 Miscellaneous Metals			x	
	DIVISION 6 WOOD & PLASTICS				
	6200 Finish Carpentry			x	
	6410 Custom Casework			x	
	6640 FRP Panels			x	
	DIVISION 7 THERMAL & MOISTURE PROTECTION				
	7200 Insulation			x	
	7510 Repairs to Existing Built-up			x	

Bituminous Roofing	
7600 Flashing & Sheet Metal	x
7840 Firesstoppping and Smokeseals	x
7920 Sealants & Caulking	x
DIVISION 8 DOORS & WINDOWS	
8100 Hollow Metal Doors & Frames	x
8305 Access Doors	x
8710 Finish Hardware	x
8800 Glazing	x

EXHIBIT C-2 TO WORK LETTER

DOWLER-GRUMAN ARCHITECTS

Documents Log

Inhale, Bldg. 4, Interior, Ph-1, 99086
Tenant Improvements

SHT. NO.	SHEET NAME	Design Development (10-29-99)	Progress Print (12-7-99)	Plan Check (1-7-00)	Bld Set (2-28-00)
	DIVISION 9 FINISHES				
9290	Drywall Systems			x	
9500	Acoustical Treatment			x	
9600	Stone Flooring			x	
9650	Resilient Flooring			x	
9680	Carpeting			x	
9800	Special Coatings			x	
9900	Painting			x	
	DIVISION 10 SPECIALTIES				
10100	Markerboard and Tackboard			x	
10150	Metal Toilet Partitions			x	
10260	Corner Guards			x	
10441	Accessibility and Safety Signage			x	
10520	Fire Extinguisher Cabinets and Accessories			x	
10605	Mesh Partitions			x	
	DIVISION 11 EQUIPMENT				
11132	Projection Screens			x	
11455	Appliances			x	
11600	Laboratory Equipment			x	
	DIVISION 12 FURNISHINGS				
12500	Window Treatment			x	
	DIVISION 13 SPECIAL CONSTRUCTION				
	DIVISION 14 CONVEYING SYSTEMS				
	DIVISION 15 MECHANICAL (Design by Murphy)				
15400	Plumbing			x	
	DIVISION 16 ELECTRICAL (Silverman & Light)				
16010	Electrical General Provisions			x	
16050	Basic Materials and Methods			x	

SCHEDULE C-3 TO WORK LETTER

DEFINITION OF TENANT IMPROVEMENTS

The TENANT IMPROVEMENTS FOR BUILDING 1 referred to in the Work Letter to which this SCHEDULE C-2 are described by the following plans: (attached)

EXHIBIT C-3 TO WORK LETTER

DOWLER-GRUMAN ARCHITECTS

Document Log

Inhale, Bldg. 4, Interior, Ph-1, 99086
Core Improvements

SHT. NO.	SHEET NAME	Design Development (10-29-99)	Progress Print (12-7-99)	Plan Check (1-7-00)	Bld set (2-28-00)
ARCHITECTURAL					
A0	Cover Sheet and Project Data	x	x	x	x
A0.1	Code Compliance	x	x	x	x
A0.2	Phase A, Level-4, Code Compliance		x	x	x
A0.3	Title 24 Code Compliance				
A1.0	Overall Site Plan			R	x
A2.1.1.1	Phase A , Level 1, Floor Plan	x	x	x	x
A2.1.2.1	Phase A , Level 2, Floor Plan	x	x	x	x
A2.1.3.1	Phase A , Level 3, Floor Plan	x			
A2.1.3.1r	Phase A, Level 3, Reflected Ceiling Plan	x			
A2.1.4.1	Phase A , Level 4, Floor Plan	x	x	x	x
A2.1.4.4	Phase A , Level 4, Area C, Floor Plan	x	x	x	x
A2.1.5.1	Phase A , Penthouse Level, Floor Plan	x	x	x	x
A2.1.7.2	Phase A, Enlarged Plans, Lobby Core	x	x	x	x
A2.1.7.3	Enlarged Plans - Stairs No. 2 & 3	x	x	x	x
A2.1.4.1f	Phase A, Level 4, Finish Plan		x	x	x
A2.1.4.4f	Phase A , Level 4, Area C, Finish Plan		x	x	x
A2.1.7.2f	Phase A, Lobby Core, Finish Plans		x	x	x
A2.1.7.3f	Stairs No. 2 & 3 Finish Plans		x	x	x

EXHIBIT C-3 TO WORK LETTER

DOWLER-GRUMAN ARCHITECTS

Document Log

Inhale, Bldg. 4, Interior, Ph-1, 99086
Core Improvements

SHT. NO.	SHEET NAME	Design Development (10-29-99)	Progress Print (12-7-99)	Plan Check (1-7-00)	Bld set (2-28-00)
A2.1.4.1r	Phase A, Level 4, Reflected Ceiling Plan	x		x	x
A2.1.4.4r	Phase A , Level 4, Area C, RCP			x	x
A2.1.7.2r	Phase A, Lobby Core, Reflected Ceiling Plan			x	x
A2.1.7.3r	Stairs No. 2 & 3 Refl. Ceiling			x	x
A3.1	Door & Window Schedule	x	x	x	x
A3.2	Partition Types	x	x	x	
A3.4	Penetration Details	x	x	x	
A4.1	Wall Sections	x	x	x	
A4.2	Wall Details	x	x	x	x
A7.2	Interior Sections	x	x	x	x
A8.1	Interior Details - Doors & Windows		x	x	x
A8.2	Interior Details -Partitions		x	x	x
A8.3	Interior Details - Finishes & Exterior Details - Roofing		x	x	x
A8.4	Interior Details - Ceiling		x	x	x
STRUCTURAL					
S2.1.4.1	Framing Plan, Level 4, Phase A			x	x
S2.1.5.1	Roof Framing Plan			x	x
S7.1.6	Misc. Details			x	x

EXHIBIT C-3 TO WORK LETTER

DOWLER-GRUMAN ARCHITECTS

Document Log

Inhale, Bldg. 4, Interior, Ph-1, 99086
Core Improvements

SHT. NO.	SHEET NAME	Design Development (10-29-99)	Progress Print (12-7-99)	Plan Check (1-7-00)	Bld set (2-28-00)
MECHANICAL					
M-0.1	Mechanical Equipment Schedule	x	x	x	x
MT-24	Mechanical Titel-24 Compliance			x	x
M2.1.2.2	Phase A, Level 2, Area A, Mechanical Plan			x	x
M2.1.4.1	Phase A, Level 4, Mechanical Plan		x	x	x
M2.1.4.2	Phase A, Level 4, Area A, Mechanical Plan			x	x
M2.1.4.4	Phase A, Level 4, Area C, Mechanical Plan			x	x
M2.1.7.2	Enlarged Mechanical Lobby Core Plans				x
M2.1.5.1	Phase A, Penthouse Level, Mechanical Plan	x	x	x	x
M3.1	Mechanical Sections & Details		x	x	x
PLUMBING					
P0	General		x	x	
P2.1.1.1	Phase A, Level 1, Piping Plan		x	x	
P2.1.2.1	Phase A, Level 2, Piping Plan		x	x	
P2.1.4.1	Phase A, Level 4, Piping Plan		x	x	
P6.1	Details		x	x	

EXHIBIT C-3 TO WORK LETTER

DOWLER-GRUMAN ARCHITECTS

Document Log

Inhale, Bldg. 4, Interior, Ph-1, 99086
Core Improvements

SHT. NO.	SHEET NAME	Design Development (10-29-99)	Progress Print (12-7-99)	Plan Check (1-7-00)	Bld set (2-28-00)
ELECTRICAL					
E0.1	Legend, Titel 24 and Schedules			x	x
E0.2	One Line Diagram			x	x
E2.1.1.1	Phase A, Level 1, Electrical Plan			x	x
E2.1.2.1	Phase A, Level 2, Electrical Plan		x	x	x
E2.1.3.1	Phase A, Level 3, Electrical Plan	x	x	x	
E2.1.4.1	Phase A, Level 4, Electrical Plan	x	x	x	
E2.1.4.4	Phase A, Level 4, Area C, Electrical Plan		x	x	
E2.1.5.1	Phase A, Penthouse Level, Electrical Plan		x	x	
E6.0	Panel Schedules		x	x	

EXHIBIT C-3 TO WORK LETTER

DOWLER-GRUMAN ARCHITECTS

Document Log

Inhale, Bldg. 4, Interior, Ph-1, 99086
Core Improvements

SHT. NO.	SHEET NAME	Design Development (10-29-99)	Progress Print (12-7-99)	Plan Check (1-7-00)	Bld set (2-28-00)
	General Conditions -AIA 111, AIA A201			x	
	DIVISION 1 GENERAL REQUIREMENTS				
	1010 Summary of the Work			x	
	1018 Owner Furnished Equipment			x	
	1020 Allowances			x	
	1030 Alternates			x	
	1045 Cutting and Patching			x	
	1049 Supporting from Building Structure			x	
	1300 Submittals			x	
	1400 Quality Control			x	
	1430 Mock-Ups			x	
	1500 Construction Facilities & Temporary Controls				
	1540 Site Security & Safety			x	
	1600 Materials & Equipment			x	
	1640 Hazardous Materials			x	
	1700 Contract Closeout			x	
	1900 Colors			x	
	DIVISION 2 SITE WORK				
	2070 Selective Demolition			x	
	2831 Chain Link Fence and Gate			x	
	DIVISION 3 CONCRETE				
	3320 Leveling Topping			x	
	DIVISION 4 MASONRY				
	DIVISION 5 METALS				
	5999 Miscellaneous Metals			x	
	DIVISION 6 WOOD & PLASTICS				
	6200 Finish Carpentry			x	
	6640 FRP Panels			x	
	DIVISION 7 THERMAL & MOISTURE PROTECTION				
	7200 Insulation			x	
	7510 Repairs to Existing Built-up Bituminous Roofing			x	
	7600 Flashing & Sheet Metal			x	

7840 Firesstoppping and Smokeseals	x
7920 Sealants & Caulking	x
DIVISION 8 DOORS & WINDOWS	
8100 Hollow Metal Doors & Frames	x
8305 Access Doors	x
8710 Finish Hardware	x
8800 Glazing	x

EXHIBIT C-3 TO WORK LETTER

DOWLER-GRUMAN ARCHITECTS

Document Log

Inhale, Bldg. 4, Interior, Ph-1, 99086
Core Improvements

SHT. NO.	SHEET NAME	Design Development (10-29-99)	Progress Print (12-7-99)	Plan Check (1-7-00)	Bld set (2-28-00)
DIVISION 9 FINISHES					
9290	Drywall Systems			X	
9500	Acoustical Treatment			X	
9600	Stone Flooring			X	
9650	Resilient Flooring			X	
9680	Carpeting			X	
9800	Special Coatings			X	
9900	Painting			X	
DIVISION 10 SPECIALTIES					
10260	Corner Guards			X	
10441	Accessibility and Safety Signage			X	
10520	Fire Extinguisher Cabinets and Accessories			X	
10605	Mesh Partitions			X	
DIVISION 11 EQUIPMENT					
DIVISION 12 FURNISHINGS					
12500	Window Treatment			X	
DIVISION 13 SPECIAL CONSTRUCTION					
DIVISION 14 CONVEYING SYSTEMS					
DIVISION 15 MECHANICAL (Design by Murphy)					
15400	Plumbing			x	
DIVISION 16 ELECTRICAL (Silverman & Light)					
16010	Electrical General Provisions			X	
16050	Basic Materials and Methods			X	

SCHEDULE C-4 TO WORK LETTER

APPROVED CONTRACTORS

Rudolph & Slette4n
South Bay Construction
DPR Construction, Inc.
XL Construction Corp.
Devcon Construction
Vance Brown Construction
Hathaway Dinwiddie Construction
Dome Construction
San Jose Construction
Blach Construction
Technical Builders
Mai Industries
LE Wenz Co.
Swinerton
Webcor Builders

SCHEDULE C-5 TO WORK LETTER

APPROVED BUDGET FOR TENANT'S WORK (PHASE 1)

(ATTACHED)

EXHIBIT C-5

Phase 1A Tenant Improvement Budget

Design (soft costs)	$299,665
Construction	$4,463,904
Contingency	$65,556
TOTAL TI BUDGET	$4,829,125

Phase 1 - 2nd Floor	930	$ 125	$ 116,250
Phase 1 - 4th Floor	37,703	$ 125	$ 4,712,875
	38,633		$ 4,829,125

EXHIBIT D

ESTIMATED CONSTRUCTION SCHEDULE

Phase 1A	Certificate of Substantial Completion by September 1, 2000
Phase 1B	Certificate of Substantial Completion by September 1, 2000
Phase 2A	Certificate of Substantial Completion by September 1, 2001
Phase 2B	Assuming Tenant exercises its Phase 2B Expansion Option:
	Certificate of Substantial Completion by September 1, 2001

EXHIBIT E

ACKNOWLEDGMENT OF RENT COMMENCEMENT DATE

This Acknowledgment is executed as of _____, by _____, a _____ ("LANDLORD"), and _____, a _____ ("TENANT"), pursuant to Section 2.4 of the Build-to-Suit Lease dated between Landlord and Tenant (the "LEASE") covering premises located at 201 Industrial Road, San Carlos, CA 94070 (the "PROPERTY").

Landlord and Tenant hereby acknowledge and agree as follows:

1. The [Phase 1A, Phase 1B, Phase 2A, Phase 2B] Rent Commencement Date under the Lease is _____.

2. The termination date under the Lease shall be _____, subject to any applicable provisions of the Lease for extension or early termination thereof.

EXECUTED as of the date first set forth above.

LANDLORD	TENANT
INHALE 201 INDUSTRIAL ROAD. L.P., a California limited partnership	INHALE THERAPEUTIC SYSTEMS INC., a Delaware corporation
By: SciMed Prop III, a California corporation, its General Partner	By: ---------- Name: ---------- Title: ----------
By: ---------- Name: ---------- Title: ----------	By: ---------- Name: ---------- Title: ----------
By: ---------- Name: ---------- Title: ----------	

TABLE OF CONTENTS

EXHIBITS

Exhibit A	Real Property Description
Exhibit B	Site Plan
Exhibit C	Work Letter
Exhibit D	Estimated Construction Schedule
Exhibit E	Acknowledgment of Rent Commencement Date

AMENDMENT TO LEASE

This AMENDMENT TO LEASE (this "Amendment") is dated as of this _____ day of October, 2000 by and between INHALE 201 INDUSTRIAL ROAD, L.P., a California limited partnership ("LANDLORD") and INHALE THERAPEUTIC SYSTEMS INC., a Delaware corporation ("TENANT").

RECITALS

A. Landlord and Tenant entered into a Build-to-Suit Lease dated September ___, 2000 (the "Lease"), for certain premises (the "Premises") with a street address of 201 Industrial Road, San Carlos, California, and more particularly described in the Lease;

B. Landlord and Tenant now desire to amend the Lease on the terms and conditions set forth herein. Capitalized terms used in this Amendment and not otherwise defined shall have the meanings assigned to them in the Lease.

AGREEMENT

NOW THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Landlord and Tenant hereby agree as follows:

1. SECOND OPTION TERM. Section 2.6 of the Lease is hereby amended to provide that the second option term shall be for an eight (8) year period.

2. RATIFICATION. The Lease, as amended by this Amendment, is hereby ratified by Landlord and Tenant and Landlord and Tenant hereby agree that the Lease, as so amended, shall continue in full force and effect.

3. MISCELLANEOUS.

(a) VOLUNTARY AGREEMENT. The parties have read this Amendment and on the advice of counsel they have freely and voluntarily entered into this Amendment.

(b) ATTORNEY'S FEES. If either party commences an action against the other party arising out of or in connection with this Amendment, the prevailing party shall be entitled to recover from the losing party reasonable attorney's fees and costs of suit.

(c) SUCCESSORS. This Amendment shall be binding on and inure to the benefit of the parties and their successors.

(d) COUNTERPARTS. This Amendment may be signed in two or more counterparts. When at least one such counterpart has been signed by each party, this Amendment shall be deemed to have been fully executed, each counterpart shall be deemed to be an original, and all counterparts shall be deemed to be one and the same agreement.

IN WITNESS WHEREOF, Landlord and Tenant have executed this Amendment as of the date first written above.

LANDLORD: INHALE 201 INDUSTRIAL ROAD, L.P.

By: SciMed Prop III, Inc., a California corporation, its General Partner

By:

Alan D. Gold
President

By:

Gary A. Kreitzer
Executive Vice President

TENANT: INHALE THERAPEUTIC SYSTEMS INC., a Delaware corporation

By:

Name:

Title:

By:

Name:

Title:

Exhibit 10.25

PARKING LEASE AGREEMENT

This Parking Lease Agreement (this "Lease"), is entered into as of September __, 2000, by and between INHALE 201 INDUSTRIAL ROAD L.P., a California limited partnership (" Landlord") and INHALE THERAPEUTIC SYSTEMS INC., a Delaware corporation ("Tenant") for the benefit of each other and the City of San Carlos, a municipal corporation (the "City"), in reference to the following:

RECITALS

A. Landlord is the owner of fee title to that certain real property commonly known as 201 Industrial Road, San Carlos, California, more particularly described on the attached Exhibit A (referred to herein as "201 Industrial Road");

B. TMT Associates, LLC, a California limited liability company ("TMT") is the owner of fee title to that certain real property commonly known as 150 Industrial Road, San Carlos California, more particularly described on the attached Exhibit B (referred to herein as "150 Industrial Road");

C. Tenant leases 201 Industrial Road from Landlord pursuant to a Build-to-Suit Lease dated as of September _____, 2000 (the "Inhale 201 Lease"), and leases 150 Industrial Road from TMT pursuant to a lease dated _____ (the "Inhale 150 Lease").

D. In the event that Tenant elects to expand its facility at 150 Industrial Road ("Inhale's Proposed Expansion"), the City will require additional parking of up to 190 parking spaces be provided, and pursuant to the City's Ordinance Number 1257, adopted April 12, 1999, one way in which such additional parking can be provided is through the leasing of the required spaces on 201 Industrial Road for Tenant's use in connection with its use of its facility at 150 Industrial Road;

E. Landlord and Tenant now agree as follows:

AGREEMENT

NOW, THEREFORE, in consideration of the mutual promises herein contained and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

1. INHALE PARKING LEASE.

(A) PREMISES. Landlord hereby leases to Tenant one hundred and ninety (190) parking spaces located in the area described in Exhibit C attached hereto and made a part hereof (the "Inhale Parking Area"), for the sole purpose of parking vehicles by employees and invitees of Tenant.

(B) TERM. The term of this Lease shall commence on the date hereof and shall terminate on the date Tenant, or its permitted successor or assignee, ceases to operate its business at 150 Industrial Road, San Carlos, California.

(C) RENT. Beginning on the date of this Lease, Tenant shall pay to Landlord as rent the amount of $10.00 per year, payable on the second day of each calendar year; provided, however, that in the event that the Inhale 201 Lease is terminated for any reason, commencing upon the first day of the first full calendar month following the month in which such termination takes place, and on the anniversary of such date each year during the remainder of the term of this Lease, Tenant shall pay to Landlord an amount equal to $540 (subject to an annual increase of two percent (2%), commencing on the first anniversary date of this Lease and on each such anniversary during the term hereof) multiplied by 190. Additionally, in the event that the Inhale 201 lease is terminated, Tenant shall pay, in addition to such rent, it's pro rata share of surface parking maintenance costs at 201 Industrial Road. For purposes of this section, "pro rata share" shall equal 27.5% [190/690], and "surface parking maintenance costs" shall consist of the recurring expenses of maintaining surface parking at 201 Industrial Road, including costs of sweeping, patching, resealing, restriping, lighting, landscaping and insuring the surface parking areas.

2. MAINTENANCE OF PARKING AREA. Landlord shall perform, or cause to be performed by the tenant of 201 Industrial Road, any and all maintenance or repair work which may be required to keep the Inhale Parking Area in good condition.

3. NO REPRESENTATIONS OR WARRANTIES. Each party disclaims the making of any representations or warranties, express or implied, regarding the adequacy of the Inhale Parking Area, for the purposes for which it is granted hereunder. Each party acknowledges that it is not relying upon any statements, representations or warranties made by the other party or anyone acting on the other party's behalf concerning the Inhale Parking Area.

4. USE AND INDEMNIFICATION. Each party agrees to refrain from taking, or allowing to be taken, any action in connection with the use of the Inhale Parking Area which would impair the value, condition or use by the other party of its property. Landlord reserves the right to control access to and activities within the Inhale Parking Area, to the extent not inconsistent with Tenant's use and enjoyment of the Inhale Parking Area for the purposes intended herein. Tenant shall not do or permit to be done anything in or about the Inhale Parking Area which would obstruct or interfere with the rights of other tenants of 201 Industrial Road or adjoining property users or knowingly permit any nuisance or waste in, on or about the Inhale Parking Area. Landlord reserves the right to reconfigure and/or relocate the location of the Inhale Parking Area at 201 Industrial Road, provided that Tenant shall at all times have the right to use 190 parking spaces. Tenant shall make no alterations or improvements within the Inhale Parking Area or install any gate, gated fence, or locked or bolted enclosure of any kind in the Inhale Parking Area, without Landlord's prior written consent, which consent Landlord may withhold in the exercise of its reasonable discretion. Each party shall indemnify, hold harmless, defend and protect the other party against and from any and all loss, claim, cost, liability, damage or expense, including, without limitation, reasonable attorneys' fees, arising out of each party's, its agents', employees', contractors' and invitees' activities in connection with this Lease.

5. CONSTRUCTION. The parties acknowledge that each party and its counsel have reviewed this Lease and that the normal rule of construction to the effect that any ambiguities are to be resolved against the drafting party shall not be employed in the interpretation of this Lease or any amendments or exhibits hereto. If any provision of this Lease shall be determined to be illegal or unenforceable, such determination shall not affect any other provision of this Lease and all such other provisions shall remain in full force and effect.

6. ENTIRE AGREEMENT; MODIFICATION; TERMINATION. This Lease constitutes the entire agreement between the parties hereto with respect to Tenant's and its successors and assigns right to use the Inhale Parking Area for parking in connection with the use of 150 Industrial Road. This Lease may be amended or terminated only by an instrument in writing executed by the parties hereto, or their successors, and consented to in writing by the City; provided, however, that the City's consent shall not be required in connection with the termination of this Lease resulting from the failure of Tenant to retain any right, title or interest in 150 Industrial Road; and provided, further that this Lease may be terminated without Tenant's consent in the event of a default by Tenant after applicable notice and cure periods, in accordance with Section 9 below.

7. GOVERNING LAW. This Lease shall be construed, interpreted, and applied in accordance with, and shall be governed by, the laws applicable in the State of California.

8. DEFAULT; REMEDIES. The occurrence of any of the following shall constitute an event of default on the part of Tenant:

(A) NONPAYMENT. Failure to pay, when due, any amount payable to Landlord hereunder, such failure continuing for a period of thirty (30) days after written notice of such failure;

(B) OTHER OBLIGATIONS. Failure to perform any obligation, agreement or covenant under this Lease other than those matters specified in subsection (a) hereof, such failure continuing for thirty (30) days after written notice of such failure; PROVIDED, HOWEVER, that if such failure is curable in nature but cannot reasonably be cured within such 30-day period, then Tenant shall not be in default if, and so long as, Tenant promptly (and in all events within such 30-day period) commences such cure and thereafter diligently pursues such cure to completion; and PROVIDED FURTHER HOWEVER, that any such notice shall be in lieu of, and not in addition to, any notice required under California Code of Civil Procedure Section 1161 et seq., as amended from time to time;

(C) GENERAL ASSIGNMENT. A general assignment by Tenant for the benefit of creditors;

(D) BANKRUPTCY. The filing of any voluntary petition in bankruptcy by Tenant, or the filing of an involuntary petition by Tenant's creditors, which involuntary petition remains undischarged for a period of sixty (60) days. In the event that under applicable law the trustee in bankruptcy or Tenant has the right to affirm this Lease and continue to perform the obligations of Tenant hereunder, such trustee or Tenant shall, in such time period as may be permitted by the bankruptcy court having jurisdiction, cure all defaults of Tenant hereunder outstanding as of the

date of the affirmance of this Lease and provide to Landlord such adequate assurances as may be necessary to ensure Landlord of the continued performance of Tenant's obligations under this Lease;

(E) RECEIVERSHIP. The employment of a receiver appointed by court order to take possession of substantially all of Tenant's assets, if such receivership remains undissolved for a period of sixty (60) days;

(F) ATTACHMENT. The attachment, execution or other judicial seizure of all or substantially all of Tenant's assets, if such attachment or other seizure remains undismissed or undischarged for a period of sixty (60) days after the levy thereof; or

(G) INSOLVENCY. The admission by Tenant in writing of its inability to pay its debts as they become due, the filing by Tenant of a petition seeking any reorganization or arrangement, composition, readjustment, liquidation, dissolution or similar relief under any present or future statute, law or regulation, the filing by Tenant of an answer admitting or failing timely to contest a material allegation of a petition filed against Tenant in any such proceeding or, if within sixty (60) days after the commencement of any proceeding against Tenant seeking any reorganization or arrangement, composition, readjustment, liquidation, dissolution or similar relief under any present or future statute, law or regulation, such proceeding shall not have been dismissed.

9. REMEDIES UPON TENANT'S DEFAULT.

(A) RE-ENTRY; TERMINATION. Upon the occurrence of any event of default described above, Landlord, in addition to and without prejudice to any other rights or remedies it may have, shall have the immediate right to re-enter the Inhale Parking Area or any part thereof and repossess the same, expelling and removing therefrom all persons and property (which property may be stored in a public warehouse or elsewhere at the cost and risk of and for the account of Tenant). In addition to or in lieu of such re-entry, and without prejudice to any other rights or remedies it may have, Landlord shall have the right either (i) to terminate this Lease and recover from Tenant all damages incurred by Landlord as a result of Tenant's default, as hereinafter provided, or (ii) to continue this Lease in effect and recover rent and other charges and amounts as they become due.

(B) CONTINUATION OF LEASE. Even if Tenant has breached this Lease and abandoned the Inhale Parking Area, this Lease shall continue in effect for so long as Landlord does not terminate Tenant's right to possession and Landlord may enforce all of its rights and remedies under this Lease, including the right to recover rent as it becomes due, and Landlord, without terminating this Lease, may exercise all of the rights and remedies of a Landlord under California Civil Code Section 1951.4 (Landlord may continue lease in effect after Tenant's breach and abandonment and recover rent as it becomes due, if Tenant has right to sublet or assign, subject only to reasonable limitations), or any successor Code section.

(C) REMEDIES. If Landlord terminates this Lease pursuant to this Section, Landlord shall have all of the rights and remedies of a landlord provided by Section 1951.2 of the Civil Code of the State of California, or any successor Code section.

(D) REMEDIES CUMULATIVE. All rights, privileges and elections or remedies contained in this Lease are cumulative and not alternative to the extent permitted by law and except as otherwise provided herein.

10. COMPREHENSIVE LIABILITY INSURANCE. During the Lease term, Tenant shall keep and maintain, or cause to be kept and maintained, at Tenant's sole cost and expense, a policy or policies of comprehensive general public liability insurance, showing, as an additional insured, Landlord, Tenant, any management company retained by Landlord, any ground lessor and any lender of Landlord required to be named pursuant to its loan documents. Such policy shall insure against any and all claims, demands or actions for injuries to persons, loss of life and damage to property occurring upon, in or about 201 Industrial Road, with minimum coverage in an amount not less than a Five Million Dollar ($5,000,000) combined single limit with respect to all bodily injury, death or property damage in any one accident or occurrence. In the event of a claim, action or demand relating to or arising out of Tenant's use of the Inhale Parking Area, the amount of any deductible or self-insured retention and/or any award in excess of the policy limits shall be the sole responsibility of Tenant. The insurance shall include (i) personal injury insurance with endorsement deleting the employee liability exclusions, and employee liability insurance and (ii) a broad form contractual liability endorsement insuring Tenant's indemnity obligation hereunder.

(A) ASSIGNMENT AND SUBLETTING. Except in connection with a Permitted Transfer, Tenant shall neither voluntarily nor by operation of law assign, sell, encumber, pledge or otherwise transfer all or any part of Tenant's leasehold estate hereunder, or permit any other person (excepting Tenant's agents and employees) to occupy the Inhale Parking Area or any portion thereof, without Landlord's prior written consent, which consent shall be not be unreasonably withheld, conditioned or delayed. Consent by Landlord to one or more assignments of this Lease or to one or more sublettings of the Premises shall not constitute a waiver of Landlord's right to require consent to any subsequent assignment, subletting or other transfer. Notwithstanding the foregoing, (i) any bona fide financing or capitalization, including a public offering of the common stock of Tenant, shall not be deemed to be an assignment hereunder; and (ii) Tenant shall have the right to assign this Lease or sublet its interests hereunder, or any portion thereof, without Landlord's consent, to any Affiliate of Tenant, or to any entity which results from a merger, reorganization or consolidation with Tenant, or to any entity which acquires substantially all of the stock or assets of Tenant as a going concern (hereinafter each a "PERMITTED TRANSFER"); provided that in no event may Tenant assign or sublet except in connection with an assignment, subletting or other transfer of its rights in 150 Industrial Road. For purposes of the preceding sentence, an "AFFILIATE" of Tenant shall mean any entity in which Tenant owns at least a twenty five percent (25%) equity interest, any entity which owns at least a twenty five percent (25%) equity interest in Tenant and/or any entity which is related to Tenant by a chain of ownership interests involving at least twenty five percent (25%) equity interest at each level in the chain. Landlord shall have no right to terminate this Lease in connection with, and shall have no right to any sums or other economic consideration resulting from, any Permitted Transfer. The transferee under such Permitted Transfer shall be and remain subject to all of the terms and provisions of this Lease.

11. DAMAGE AND DESTRUCTION. In the event of a partial or total destruction of the Inhale Parking Area and the improvements at 201 Industrial Road, and Landlord elects to repair the

improvements at 201 Industrial Road, Landlord may relocate the Inhale Parking Area during such period of repair to another parking area located not further than one quarter mile radius from 150 Industrial Road. Any cost associated with obtaining such relocated parking shall be borne by Landlord. In the event of such partial or total destruction and the Landlord does not elect to repair the improvements at 201 Industrial Road, Landlord may, at its option, terminate this Lease, provided that Landlord locates and provides Tenant with equivalent alternative parking facilities reasonably acceptable to Tenant.

12. ESTOPPELS. Landlord or Tenant (the "RESPONDING PARTY") as applicable, shall at any time and from time to time, within ten (10) days after written request by the other party (the "REQUESTING PARTY"), execute, acknowledge and deliver to the Requesting Party a certificate in writing stating: (i) that this Lease is unmodified and in full force and effect, or if there have been any modifications, that this Lease is in full force and effect as modified and stating the date and the nature of each modification; (ii) the date to which rental and all other sums payable hereunder have been paid; (iii) that the Requesting Party is not in default in the performance of any of its obligations under this Lease, that the certifying party has given no notice of default to the Requesting Party and that no event has occurred which, but for the expiration of the applicable time period, would constitute an event of default hereunder, or if the responding party alleges that any such default, notice or event has occurred, specifying the same in reasonable detail; and (iv) such other matters as may reasonably be requested by the Requesting Party or by any institutional lender, mortgagee, trustee, beneficiary, ground lessor, sale/leaseback lessor or prospective purchaser of the Property, or prospective sublessee or assignee of this Lease. Any such certificate provided under this Section may be relied upon by any lender, mortgagee, trustee, beneficiary, assignee or successor in interest to the Requesting Party, by any prospective purchaser, by any purchaser on foreclosure or sale, by any grantee under a deed in lieu of foreclosure of any mortgage or deed of trust on the Property, by any subtenant or assignee, or by any other third party. Failure to execute and return within the required time any estoppel certificate requested hereunder, if such failure continues for five (5) days after a second written request by the Requesting Party for such estoppel certificate, shall be deemed to be an admission of the truth of the matters set forth in the form of certificate submitted to the Responding Party for execution.

13. SUBORDINATION AND NONDISTURBANCE. This Lease, and any sublease entered into by Tenant under the provisions of this Lease, shall be subject and subordinate to any ground lease, mortgage, deed of trust, sale/leaseback transaction or any other hypothecation for security now or hereafter placed upon 201 Industrial Road or any portion thereof, and the rights of any assignee of Landlord or of any ground lessor, mortgagee, trustee, beneficiary or leaseback lessor under any of the foregoing, and to any and all advances made on the security thereof and to all renewals, modifications, consolidations, replacements and extensions thereof; provided, however, that such subordination in the case of any future ground lease, mortgage, deed of trust, sale/leaseback transaction or any other hypothecation for security placed upon 201 Industrial Road shall be conditioned on Tenant's receipt from the ground lessor, mortgagee, trustee, beneficiary or leaseback lessor of a Non-Disturbance Agreement in a form reasonably acceptable to Tenant (i) confirming that so long as Tenant is not in material default hereunder beyond any applicable cure period, Tenant's rights hereunder shall not be disturbed by such person or entity and (ii) agreeing that the benefit of such Non-Disturbance Agreement shall be transferable to any transferee under a Permitted Transfer and to any other assignee or subtenant that is acceptable to

the ground lessor, mortgagee, trustee, beneficiary or leaseback lessor at the time of transfer. Landlord shall provide to Tenant within thirty (30) days after mutual execution of this Lease, from any existing ground lessor, mortgagee, trustee, beneficiary or leaseback lessor currently owning or holding a security interest in the 201 Industrial Road, a Non-Disturbance Agreement in a form reasonably acceptable to Tenant confirming (i) that so long as Tenant is not in material default hereunder beyond any applicable cure period, Tenant's rights hereunder shall not be disturbed by such person or entity and (ii) agreeing that the benefit of such Non-Disturbance Agreement shall be transferable to any transferee under a Permitted Transfer and to any other assignee or subtenant that is acceptable to the ground lessor, mortgagee, trustee, beneficiary or leaseback lessor at the time of transfer. If any mortgagee, trustee, beneficiary, ground lessor, sale/leaseback lessor or assignee elects in writing to have this Lease be an encumbrance upon 201 Industrial Road prior to the lien of its mortgage, deed of trust, ground lease or leaseback lease or other security arrangement and gives notice thereof to Tenant, this Lease shall be deemed prior thereto, whether this Lease is dated prior or subsequent to the date thereof or the date of recording thereof. Tenant, and any sublessee, shall execute such documents as may reasonably be requested by any mortgagee, trustee, beneficiary, ground lessor, sale/leaseback lessor or assignee to evidence the subordination herein set forth, subject to the conditions set forth above, or to make this Lease prior to the lien of any mortgage, deed of trust, ground lease, leaseback lease or other security arrangement, as the case may be. Upon any default by Landlord in the performance of its obligations under any mortgage, deed of trust, ground lease, leaseback lease or assignment, Tenant (and any sublessee) shall, notwithstanding any subordination hereunder, attorn to the mortgagee, trustee, beneficiary, ground lessor, leaseback lessor or assignee thereunder upon demand and become the tenant of the successor in interest to Landlord, at the option of such successor in interest, and shall execute and deliver any instrument or instruments confirming the attornment herein provided for.

14. SIGNAGE. Any signage installed by Tenant shall be in compliance with all applicable laws, and shall be installed and maintained, and removed at the end of the term, at Tenant's sole cost and expense.

15. ATTORNEYS' FEES. If either party brings any suit or other proceeding with respect to the subject matter or the enforcement of this Lease, the prevailing party (as determined by the court, agency or other authority before which such suit or proceeding is commenced), in addition to such other relief as may be awarded, shall be entitled to recover all costs and expenses including, without limitation, reasonable attorneys' and paralegals' fees and expenses, incurred by such prevailing party. The foregoing includes, without limitation, attorneys' fees, expenses and costs of investigation incurred in appellate proceedings, costs incurred in collection of any award(s), judgment or other relief, costs incurred in establishing the right to indemnification, or in any action or participation in, or in connection with, any case or proceeding under Chapter 7, 11 or 13 of the Bankruptcy Code, 11 United States Code Section 101 et seq., or any successor statutes.

16. TIME OF ESSENCE. Time is of the essence of every provision contained in this Lease.

17. NOTICES. Any notice required or permitted to be given under this Lease shall be in writing and (i) personally delivered, (ii) sent by United States mail, registered or certified mail, postage prepaid, return receipt requested, (iii) sent by Federal Express or other reputable

overnight courier service, or (iv) transmitted by facsimile with a hard copy sent within one (1) business day by any of the foregoing means, and in all cases addressed as follows:

If to Landlord:	Inhale 201 Industrial Road L.P. c/o Bernardo Property Advisors, Inc. 11440 West Bernardo Court, Suite 208 San Diego, CA 92127 Attn: Alan D. Gold
If to Tenant:	Inhale Therapeutic Systems, Inc. 150 Industrial Road San Carlos, CA 94070 Attn: Sharron Reiss-Miller
With a copy to:	Inhale Therapeutic Systems, Inc. 150 Industrial Road San Carlos, CA 94070 Attn: Robert A. Donnally, Esq.
With a copy to:	Cooley Godward LLP One Maritime Plaza, 20th Floor San Francisco, CA 94111 Attn: Anna Pope, Esq.

Any such notice shall be deemed delivered as follows: (a) if personally delivered, the date of delivery to the address of the person to receive such notice; (b) if sent by "next business day" Federal Express or other reputable overnight courier service, the next business day after being sent; or (c) if sent by facsimile transmission, the date transmitted to the person to receive such notice if sent by 5:00 p.m. Pacific Time and the next business day if sent after 5:00 p.m. Pacific Time, provided in either case that there is evidence of such transmission printed by the sending machine. Any notice sent by facsimile transmission must be confirmed by personally delivering or mailing a copy of the notice sent by facsimile transmission. Any party may change its address for notice by written notice given to the other at least three (3) business days before the effective date of such change in the manner provided in this Section.

18. COUNTERPARTS. This Lease may be executed in one or more counterparts and each such counterpart shall be deemed to be an original; all counterparts so executed shall constitute one instrument and shall be binding on all of the parties to this Lease notwithstanding that all of the parties are not signatory to the same counterpart. Facsimile copies of this Lease signed by the parties shall be binding and enforceable as if the same were executed originals.

IN WITNESS WHEREOF, the parties hereto have executed this Lease as of the date first written above.

INHALE 201 INDUSTRIAL ROAD L.P., a California limited partnership	INHALE THERAPEUTIC SYSTEMS INC. a Delaware corporation
By: SciMed Prop III, a California corporation, its General Partner	
By: _____	By: _____
Name: _____	Name: _____
Title: _____	Title: _____
By: _____	By: _____
Name: _____	Name: _____
Title: _____	Title: _____

EXHIBIT A

Property Legal Description

All that certain real property in the State of California, County of San Mateo, City of San Carlos more particularly described as follows:

ALL LANDS LYING WITHIN THE EXTERIOR BOUNDARIES OF THAT MAP ENTITLED "REVERSION TO ACREAGE OF THE LANDS OF ARNDT ELECTRONICS LYING WITHIN THE COUNTY OF SAN MATEO, BEING PARCELS 1,2,3 AND 4 AS SHOWN ON THAT CERTAIN PARCEL MAP FILED IN VOLUME 51 OF PARCEL MAPS AT PAGE 71 RECORDS OF SAN MATEO," FILED IN THE OFFICE OF THE COUNTY RECORDER OF SAN MATEO COUNTY, STATE OF CALIFORNIA, ON OCTOBER 6, 1986 IN VOLUME 58 OF PARCEL MAPS AT PAGE 13.

ASSESSOR'S PARCEL NOS.	046-020-370	JOINT PLAN NOS.	046-002-020-22A
	046-020-380		046-002-020-22-01A
			046-002-020-22-02A
			046-002-020-22-03A
			046-002-020-23A
			046-002-020-23-01A

EXHIBIT B TO PARKING LEASE

LEGAL DESCRIPTION OF 150 INDUSTRIAL ROAD

All that certain real property in the County of San Mateo, State of California, more particularly described as follows:

UNINCORPORATED AREA

PARCEL ONE:

PARCEL 2, AS SHOWN ON THE PARCEL MAP FILED JUNE 13, 1996 IN BOOK 69 OF PARCEL MAPS, AT PAGES 26 AND 27, IN THE OFFICE OF THE RECORDER OF THE COUNTY OF SAN MATEO, STATE OF CALIFORNIA.

PARCEL TWO:

A NON-EXCLUSIVE EASEMENT OVER, ALONG AND ACROSS A STRIP OF LAND 60 FEET IN WIDTH, BEING A PORTION OF THAT CERTAIN PRIVATE ROAD COMMONLY CALLED QUARRY ROAD, FOR ROAD PURPOSES, WITH THE RIGHT TO ENTER UPON THE SAME AT ANY AND ALL TIMES, AND TO CONSTRUCT, OPERATE AND MAINTAIN THEREON, SEWERS AND DRAINS, GAS AND WATER MAINS AND ELECTRIC LIGHT CONDUITS, AND TO ERECT AND MAINTAIN THEREON POLES FOR THE TRANSMISSION OF ELECTRIC POWER AND FOR THE SUPPORT OF TELEPHONE LINES. SAID STRIP OF LAND BEING MORE PARTICULARLY DESCRIBED AS FOLLOWS:

COMMENCING AT A CONCRETE MONUMENT WHICH IS SITUATED ON THE NORTHEASTERLY LINE OF THE OLD COUNTY ROAD LEADING FROM BELMONT TO REDWOOD CITY, WHICH MONUMENT STANDS AT THE MOST SOUTHERLY CORNER OF THAT CERTAIN 10.5711 ACRE PARCEL OF LAND HEREINABOVE MENTIONED; THENCE FROM SAID POINT OF COMMENCEMENT, NORTH 43(degreE) 01' EAST 1667.62 FEET TO A POINT ON THE SOUTHWESTERLY LINE OF THE 80 FOOT ROADWAY EASEMENT HEREINAFTER DESCRIBED; THENCE FOLLOWING SAID LINE, SOUTH 46(degree) 59' EAST 60 FEET; THENCE LEAVING SAID LINE, SOUTH 43(DEGRee) 01' WEST 1671.39 FEET TO A CONCRETE MONUMENT, WHICH STANDS ON THE AFORESAID NORTHEASTERLY LINE OF THE OLD COUNTY ROAD; THENCE FOLLOWING THE LAST MENTIONED LINE, NORTH 43(degree) 23' 00" WEST 60.11 FEET TO THE POINT OF COMMENCEMENT.

EXCEPTING FROM PARCEL TWO:

THOSE PORTIONS THEREOF LYING WITHIN THE PARCELS OF LAND HERETOFORE CONVEYED TO THE COUNTY OF SAN MATEO BY THE FOLLOWING DEEDS OF RECORD:

1. BY DEED RECORDED JUNE 2, 1969, BOOK 5646, PAGE 201, OFFICIAL RECORDS OF SAN MATEO COUNTY.

2. BY DEED RECORDED JUNE 2, 1969, BOOK 5646, PAGE 555, OFFICIAL RECORDS OF SAN MATEO COUNTY.

3. BY DEED RECORDED JUNE 30, 1969, BOOK 5659, PAGE 334, OFFICIAL RECORDS OF SAN MATEO COUNTY.

4. BY DEED RECORDED JUNE 30, 1969, BOOK 5659, PAGE 337, OFFICIAL RECORDS OF SAN MATEO COUNTY.

5. BY DEED RECORDED JULY 22, 1969, BOOK 5667, PAGE 511, OFFICIAL RECORDS OF SAN MATEO COUNTY.

6. BY DEED RECORDED AUGUST 5, 1969, BOOK 5673, PAGE 443, OFFICIAL RECORDS OF SAN MATEO COUNTY.

7. BY DEED RECORDED SEPTEMBER 23, 1969, BOOK 5692, PAGE 325, OFFICIAL RECORDS OF SAN MATEO COUNTY.

8. BY DEED RECORDED OCTOBER 29, 1969, BOOK 5707, PAGE 719, OFFICIAL RECORDS OF SAN MATEO COUNTY.

ALSO EXCEPTING FROM PARCEL TWO THAT PORTION THEREOF LYING WITHIN THE LINES OF PARCEL FOUR BELOW DESCRIBED.

PARCEL THREE:

A NON-EXCLUSIVE EASEMENT OVER, ALONG AND ACROSS A STRIP OF LAND 80 FEET WIDE, FOR ROAD PURPOSES, WITH THE RIGHT TO ENTER UPON THE SAME AT ANY AND ALL TIMES, AND TO CONSTRUCT, OPERATE AND MAINTAIN THEREON, SEWERS AND DRAINS, GAS AND WATER MAINS AND ELECTRIC LIGHT CONDUITS, AND TO ERECT AND MAINTAIN THEREON POLES FOR THE TRANSMISSION OF ELECTRIC POWER AND FOR THE SUPPORT OF TELEPHONE LINES, SAID STRIP OF LAND BEING MORE PARTICULARLY DESCRIBED AS FOLLOWS:

BEGINNING AT A POINT ON THE SOUTHEASTERLY LINE OF HARBOR BOULEVARD, SAID POINT BEING THE MOST WESTERLY CORNER OF THAT CERTAIN STRIP OF LAND 80 FEET WIDE, OVER WHICH AN EASEMENT FOR PURPOSES OF A PRIVATE ROAD WAS GRANTED BY DEED FROM HARBOR DEVELOPMENT CORPORATION TO BELMONT STADIUM, INCORPORATED, DATED NOVEMBER 14, 1947 AND RECORDED DECEMBER 1, 1947 IN BOOK 1422 OF OFFICIAL RECORDS OF SAN MATEO COUNTY AT PAGE 466 (1993H); THENCE FROM SAID POINT OF BEGINNING, SOUTH 46(degree) 59' EAST 1096.91 FEET; THENCE SOUTHERLY ALONG A CIRCULAR CURVE, TANGENT TO THE PREVIOUS COURSE, CONCAVE TO THE RIGHT AND HAVING A RADIUS OF 540 FEET AND A CENTRAL ANGLE OF 33(degree) 22' 24", AN ARC DISTANCE OF 314.54 FEET TO A POINT ON THE BOUNDARY BETWEEN THE PROPERTY OF HARBOR DEVELOPMENT CORPORATION AND THE PROPERTY OF RAYMOND J. BRAGATO; THENCE CONTINUING ALONG THE AFORESAID CURVE, THROUGH A CENTRAL ANGLE OF 2(degree) 20' 23", A FURTHER DISTANCE OF 22.05 FEET TO A POINT; THENCE SOUTH 11(degree) 16' 13" EAST 369.19 FEET; THENCE SOUTHERLY, ALONG A CIRCULAR CURVE, TANGENT TO THE LAST COURSE, CONCAVE TO THE LEFT, AND HAVING A RADIUS OF 620 FEET AND A CENTRAL ANGLE OF 7(degree) 00' 05", AN ARC DISTANCE OF 75.91 FEET TO A POINT ON THE BOUNDARY BETWEEN PROPERTY OF RAYMOND J. BRAGATO AND PROPERTY OF NIELSEN AND BEAVER, INC., A CORPORATION; THENCE CONTINUING ALONG SAID CURVE, THROUGH A CENTRAL ANGLE OF 4(dEGREE) 41' 38", A FURTHER DISTANCE OF 50.79 FEET TO A POINT ON THE NORTHEASTERLY BOUNDARY OF RANCHO DE LAS PULGAS, DISTANT THEREON SOUTH 0(degree) 08' 48" EAST 270.26 FEET FROM AN ANGLE POINT THEREIN, DESIGNATED AS P.M.C. NO. 27; THENCE CONTINUING ALONG SAID CURVE, THROUGH A CENTRAL ANGLE OF 19(degree) 01' 14", A FURTHER DISTANCE OF 205.82 FEET; THENCE SOUTH 42(degree) 00' EAST 513.09 FEET TO A POINT IN THE SOUTHEASTERLY LINE OF THAT CERTAIN 25.0265 ACRE PARCEL, DESCRIBED IN DEED TO BELMONT STADIUM, INCORPORATED, HEREINABOVE MENTIONED, DISTANT THEREON NORTH 48(degree) 00' EAST 606.78 FEET FROM THE SOUTHWESTERLY TERMINUS THEREOF; THENCE CONTINUING SOUTH 42(degree) 00' EAST, A FURTHER DISTANCE OF 1211.50 FEET; THENCE SOUTH 48(degree) 55' 40" EAST 4.43 FEET TO AN ANGLE POINT IN THE NORTHEASTERLY LINE OF THE LANDS OF THE CITY AND COUNTY OF SAN FRANCISCO; THENCE CONTINUING SOUTH 48(degree) 55' 40" EAST, ALONG THE LAST MENTIONED LINE AND THE NORTHEASTERLY LINE OF LOT 28, AS DESIGNATED ON THE MAP ENTITLED "PHELPS HOME SUBDIVISION, SAN CARLOS, CALIF.", FILED IN THE OFFICE OF THE RECORDER OF THE COUNTY OF SAN MATEO, STATE OF CALIFORNIA ON JUNE 18, 1930 IN BOOK 18 OF MAPS AT PAGE 34, A DISTANCE OF 374.83 FEET TO THE NORTHWESTERLY LINE OF THE PROPOSED WIDENING OF HOLLY STREET, FOR THE BAYSHORE FREEWAY; THENCE ALONG SAID NORTHWESTERLY LINE, NORTH 16(degree) 04' 42" EAST 74.00 FEET, TO A POINT AND NORTHEASTERLY, ALONG THE ARC OF A CURVE TO THE RIGHT, HAVING A RADIUS OF 300.00 FEET, A CENTRAL ANGLE OF 2(degree) 41' 44", AND BEING TANGENT TO THE LAST MENTIONED COURSE, AT THE LAST MENTIONED POINT, A DISTANCE OF 14.11 FEET TO THE SOUTHWESTERLY LINE OF THE LANDS DESCRIBED IN DEED FROM HARBOR DEVELOPMENT CORPORATION, A CORPORATION TO CITY OF SAN CARLOS, A MUNICIPAL CORPORATION, DATED JUNE 20, 1950 AND RECORDED JULY 20, 1950 IN BOOK 1902 OF OFFICIAL RECORDS OF SAN MATEO COUNTY AT PAGE 467 (73922-I); THENCE ALONG THE LAST MENTIONED LINE, NORTH 48(degree) 55' 60" WEST 337.48 FEET; THENCE LEAVING SAID LINE, NORTH 42(degree) 00' WEST 1206.56 FEETTO A POINT IN THE SOUTHEASTERLY LINE OF LANDS OF BELMONT STADIUM, INCORPORATED, HEREINABOVE MENTIONED; THENCE CONTINUING NORTH 42(degree) 00' WEST, A FURTHER DISTANCE OF 513.09 FEET TO A POINT; THENCE NORTHWESTERLY, ALONG A CURVE CONCAVE TO THE RIGHT, TANGENT TO THE LAST MENTIONED COURSE, AND HAVING A RADIUS OF 540 FEET, A CENTRAL ANGLE OF 30(degree) 43' 47", AN ARC DISTANCE OF 289.62 FEET; THENCE NORTH 11(degree) 16' 13" WEST 369.19 FEET; THENCE NORTHWESTERLY ALONG A CURVE CONCAVE TO THE LEFT, TANGENT TO THE LAST COURSE AND HAVING A RADIUS OF 620 FEET AND A CENTRAL ANGLE 7(degree) 03' 54", AN ARC DISTANCE OF 76.45 FEET TO A POINT ON THE NORTHWESTERLY LINE OF THE AFORESAID LANDS OF BELMONT STADIUM, INCORPORATED, DISTANT THEREON NORTH 45(degree) 00' 45" EAST 26.47 FEET FROM THE SOUTHWESTERLY TERMINUS THEREOF; THENCE CONTINUING ALONG THE LAST MENTIONED CURVE, THROUGH A CENTRAL ANGLE OF 28(degree) 38' 53", A FURTHER DISTANCE OF 310 FEET; THENCE NORTH 46(degree) 59' WEST 1096.91 FEET TO A POINT ON THE SOUTHEASTERLY LINE OF HARBOR BOULEVARD, WHICH POINT IS THE MOST WESTERLY CORNER OF THAT 3.30 ACRE PARCEL OF LAND DESIGNATED AS PARCEL NO. 3 IN THAT CERTAIN DEED DATED FEBRUARY 28, 1946 FROM HARBOR DEVELOPMENT CORPORATION, TO GEORGE W. WILLIAMS, RECORDED MARCH 21, 1946 IN BOOK 1264 OF OFFICIAL RECORDS OF SAN MATEO COUNTY AT PAGE 114 (93979F); THENCE FOLLOWING THE SOUTHEASTERLY LINE OF HARBOR BOULEVARD, SOUTH 43(degree) 01' WEST 80 FEET TO THE POINT OF BEGINNING.

EXCEPTING FROM PARCEL THREE THAT PORTION THEREOF LYING WITHIN THE LINES OF PARCEL FOUR BELOW DESCRIBED.

PARCEL FOUR:

A NON-EXCLUSIVE EASEMENT OVER, ALONG AND ACROSS THE STRIP OF LAND DESIGNATED "INDUSTRIAL WAY" ON THE PARCEL MAP FILED JUNE 13, 1996 IN BOOK 69 OF PARCEL MAPS, AT PAGES 26 AND 27, IN THE OFFICE OF THE RECORDER OF THE COUNTY OF SAN MATEO, STATE OF CALIFORNIA, FOR ROAD PURPOSES, WITH THE RIGHT TO ENTER UPON THE SAME AT ANY AND ALL TIMES, AND TO CONSTRUCT, OPERATE AND MAINTAIN THEREON, SEWERS AND DRAINS, GAS AND WATER MAINS AND ELECTRIC LIGHT CONDUITS, AND TO ERECT AND MAINTAIN THEREON POLES FOR THE TRANSMISSION OF ELECTRIC POWER AND FOR THE SUPPORT OF TELEPHONE LINES, AS AN APPURTENANCE TO AND FOR THE BENEFIT OF PARCEL ONE ABOVE AND ANY SUBSEQUENT SUBDIVISION OR SUBDIVISIONS THEREOF.

JOINT PLANT NO. 046-002-021-08A

EXHIBIT C TO PARKING LEASE

LOCATION OF INHALE PARKING LEASE AREA

EXHIBIT C - LOCATION OF INHALE PARKING AREA

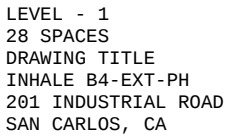
[MAP OF PARKING AREA]

SITE PLAN

164 SPACES
DRAWING TITLE
INHALE B4-EXT-PH
201 INDUSTRIAL ROAD
SAN CARLOS, CA

EXHIBIT C - LOCATION OF INHALE PARKING AREA

[MAP OF PARKING AREA]



THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE QUARTERLY FINANCIAL STATEMENTS OF INHALE THERAPEUTICS SYSTEMS, INC., AS FILED ON FORM 10-Q FOR THE PERIOD ENDED SEPTEMBER 30, 2000.

9-MOS
DEC-31-2000
JAN-01-2000
SEP-30-2000
93,095
187,819
1,942
0
0
288,644
121,373
(19,901)
420,325
21,519
237,760
0
0
296,738
(142,569)
420,325
0
38,483
0
0
86,785
0
24,183
(57,794)
0
(57,794)
0
0
0
(57,794)
(1.42)
(1.42)