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

FORM 10-Q

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

for the quarterly period ended March 31, 2014

or

☐ **Transition Report Under Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the transition period from to

Commission File Number: 001-34058

CAPRICOR THERAPEUTICS, INC.
(Exact Name Of Registrant As Specified In Its Charter)

Delaware	**88-0363465**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

8840 Wilshire Blvd., 2nd Floor, Beverly Hills, California
(Address of principal executive offices)

90211
(Zip Code)

(310) 358-3200
(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer Accelerated filer	Accelerated filer ☐
Non-accelerated filer ☐	Smaller reporting company ☑

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

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the last practicable date.

As of May 12, 2014, there were 11,690,859 shares of the registrant's common stock, par value $0.001 per share, issued and outstanding.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which statements involve substantial risks and uncertainties. Forward-looking statements generally relate to future events or our future financial or operating performance. In some cases, you can identify forward-looking statements because they contain words such as "may," "will," "should," "expects," "plans," "anticipates," "could," "intends," "target," "projects," "contemplates," "believes," "estimates," "predicts," "potential" or "continue" or the negative of these words or other similar terms or expressions that concern our expectations, strategy, plans or intentions. Forward-looking statements contained in this Quarterly Report on Form 10-Q include, but are not limited to, statements about:

- the development of our drug candidates, including when we expect to undertake, initiate and complete clinical trials of our product candidates;
- the regulatory approval of our drug candidates;
- our use of clinical research centers, third party manufacturers and other contractors;
- our ability to find collaborative partners for research, development and commercialization of potential products;
- our ability to manufacture products for clinical and commercial use;
- our ability to protect our patents and other intellectual property;
- our ability to market any of our products;
- our history of operating losses;
- our ability to secure adequate protection for our intellectual property;
- our ability to compete against other companies and research institutions;
- the effect of potential strategic transactions on our business;
- acceptance of our products by doctors, patients or payors and the availability of reimbursement for our product candidates;
- our ability to attract and retain key personnel; and
- the volatility of our stock price.

We caution you that the forward-looking statements highlighted above do not encompass all of the forward-looking statements made in this Quarterly Report on Form 10-Q.

You should not rely upon forward-looking statements as predictions of future events. We have based the forward-looking statements contained in this Quarterly Report on Form 10-Q primarily on our current expectations and projections about future events and trends that we believe may affect our business, financial condition, results of operations and prospects. The outcome of the events described in these forward-looking statements is subject to risks, uncertainties and other factors. Moreover, we operate in a very competitive and challenging environment. New risks and uncertainties emerge from time to time, and it is not possible for us to predict all risks and uncertainties that could have an impact on the forward-looking statements contained in this Quarterly Report on Form 10-Q. We cannot assure you that the results, events and circumstances reflected in the forward-looking statements will be achieved or occur, and actual results, events or circumstances could differ materially from those described in the forward-looking statements.

The forward-looking statements made in this Quarterly Report on Form 10-Q relate only to events as of the date on which the statements are made. We undertake no obligation to update any forward-looking statements made in this Quarterly Report on Form 10-Q to reflect events or circumstances after the date of this Quarterly Report on Form 10-Q or to reflect new information or the occurrence of unanticipated events, except as required by law. We may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements and you should not place undue reliance on our forward-looking statements. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures or investments we may make.

This Quarterly Report on Form 10-Q also contains statistical data, estimates and forecasts that are based on independent industry publications or other publicly available information, as well as other information based on our internal sources. Although we believe that the third-party sources referred to in this Quarterly Report on Form 10-Q are reliable, we have not independently verified the information provided by these third parties. While we are not aware of any misstatements regarding any third-party information presented in this report, their estimates, in particular, as they relate to projections, involve numerous assumptions, are subject to risks and uncertainties, and are subject to change based on various factors.

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements.

CAPRICOR THERAPEUTICS, INC.
(A DEVELOPMENT STAGE COMPANY)
CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2014 (unaudited)	December 31, 2013
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 12,979,150	$ 1,729,537
Marketable securities	326,226	326,494
Restricted Cash	555,232	1,401,859
Interest receivable	757	187
Prepaid expenses and other current assets	169,579	222,763
TOTAL CURRENT ASSETS	14,030,944	3,680,840
PROPERTY AND EQUIPMENT, at cost		
Furniture and equipment	38,850	38,850
Laboratory equipment	208,667	115,766
	247,517	154,616
Less accumulated depreciation	(83,978)	(80,429)
NET PROPERTY AND EQUIPMENT	163,539	74,187
OTHER ASSETS		
Patents, net of accumulated amortization of $33,557 and $32,475 respectively	228,382	227,207
Loan fees, net of accumulated amortization of $8,556 and $6,722, respectively	28,111	29,945
In-process research and development, net of accumulated amortization of $0	1,500,000	1,500,000
Deposits	25,728	25,728
TOTAL ASSETS	$ 15,976,704	$ 5,537,907
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 1,518,595	$ 1,506,509
Accounts payable and accrued expenses, related party	481,643	382,142
Sub-award payable, related party	-	41,855
Accrued royalties	132,379	122,416
Deferred income, current	4,166,667	-
TOTAL CURRENT LIABILITIES	6,299,284	2,052,922
LONG-TERM LIABILITIES		
Deferred income, net of current portion	7,291,666	-
Loan payable	3,961,733	3,961,733
Accrued interest	83,461	58,134
TOTAL LONG-TERM LIABILITIES	11,336,860	4,019,867
TOTAL LIABILITIES	17,636,144	6,072,789
STOCKHOLDERS' EQUITY (DEFICIT)		
Preferred stock, $0.001 par value, 5,000,000 shares authorized, none issued and outstanding	-	-
Common stock, $0.001 par value, 50,000,000 shares authorized, 11,690,859 and 11,687,747 shares issued and outstanding respectively	11,690	11,687
Additional paid-in capital	15,638,420	15,552,946
Accumulated other comprehensive loss	(404)	(980)
Deficit accumulated during the development stage	(17,309,146)	(16,098,535)
TOTAL STOCKHOLDERS' EQUITY (DEFICIT)	(1,659,440)	(534,882)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	$ 15,976,704	$ 5,537,907

See accompanying notes to the unaudited condensed consolidated financial statements.

CAPRICOR THERAPEUTICS, INC.
(A DEVELOPMENT STAGE COMPANY)
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(UNAUDITED)

	Three months ended March 31,		July 5, 2005 (inception) through
	2014	2013	March 31, 2014
INCOME			
Collaboration income	1,041,667	-	1,041,667
Grant income	-	233,291	4,180,970
TOTAL INCOME	1,041,667	233,291	5,222,637
OPERATING EXPENSES			
Research and development	1,374,757	1,191,154	12,874,352
General and administrative	852,347	474,429	7,806,014
TOTAL OPERATING EXPENSES	2,227,104	1,665,583	20,680,366
LOSS FROM OPERATIONS	(1,185,437)	(1,432,292)	(15,457,729)
OTHER INCOME (EXPENSE)			
Investment income (loss)	153	18,889	151,044
Interest expense	(25,327)	(3,711)	(83,461)
Impairment of goodwill	-	-	(1,919,000)
TOTAL OTHER INCOME (EXPENSE)	(25,174)	15,178	(1,851,417)
NET LOSS	(1,210,611)	(1,417,114)	(17,309,146)
OTHER COMPREHENSIVE GAIN (LOSS)			
Net unrealized gain (loss) on marketable securities	576	(8,763)	(404)
COMPREHENSIVE LOSS	$ (1,210,035)	$ (1,425,877)	$ (17,309,550)
Net loss per share, basic and diluted	$ (0.10)	$ (0.14)	
Weighted average number of shares, basic and diluted	11,689,441	10,351,294	

See accompanying notes to the unaudited condensed consolidated financial statements.

CAPRICOR THERAPEUTICS, INC.
(A DEVELOPMENT STAGE COMPANY)
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)
(UNAUDITED)

	COMMON STOCK		ADDITIONAL PAID-IN	SUBSCRIPTION	OTHER COMPREHENSIVE	DEFICIT ACCUMULATED DURING THE DEVELOPMENT	TOTAL STOCKHOLDERS'
	SHARES	AMOUNT	CAPITAL	RECEIVABLE	LOSS	STAGE	EQUITY (DEFICIT)
Balance, July 5, 2005	-	$ -	$ -	$ -	$ -	$ -	$ -
Issuance of common shares to founders	3,734,740	3,735	(1,935)	(1,800)	-	-	$ -
Interest on subscription receivable	-	-	-	(36)	-	-	$ (36)
Net loss	-	-	-	-	-	36	$ 36
Balance at December 31, 2005	3,734,740	3,735	(1,935)	(1,836)	-	36	$ -
Series A-1 Preferred stock issued for cash at $1.54 per share, as converted	1,950,364	1,950	3,006,050	-	-	-	$ 3,008,000
Interest on subscription receivable	-	-	-	(86)	-	-	$ (86)
Net loss	-	-	-	-	-	(1,171,419)	$ (1,171,419)
Balance at December 31, 2006	5,685,104	5,685	3,004,115	(1,922)	-	(1,171,383)	$ 1,836,495
Interest on subscription receivable	-	-	-	(71)	-	-	$ (71)
Stock Based Compensation	-	-	5,820	-	-	-	$ 5,820
Net loss	-	-	-	-	-	(979,076)	$ (979,076)
Balance at December 31, 2007	5,685,104	5,685	3,009,935	(1,993)	-	(2,150,459)	$ 863,168
Common Stock issued for services at $0.15 per share	25,060	25	3,833		-	-	$ 3,858
Interest on subscription receivable	-	-	-	(37)	-	-	$ (37)
Stock Based Compensation	-	-	16,422	-	-	-	$ 16,422
Net loss	-	-	-	-	-	(630,859)	$ (630,859)
Balance at December 31, 2008	5,710,164	5,710	3,030,190	(2,030)	-	(2,781,318)	$ 252,552
Series A-2 Preferred stock and warrants issued for cash at $1.83 per share, as converted	436,816	437	799,570	-	-	-	$ 800,007
Interest on subscription receivable	-	-	-	(69)	-	-	$ (69)
Stock Based Compensation	-	-	8,251	-	-	-	$ 8,251
Net loss	-	-	-	-	-	(148,970)	$ (148,970)
Balance at December 31, 2009	6,146,980	6,147	3,838,011	(2,099)	-	(2,930,288)	$ 911,771
Series A-2 Preferred stock and warrants issued for cash at $1.83 per share, as converted	1,092,030	1,092	1,998,908	-	-	-	$ 2,000,000
Equity Offering transaction costs	-	-	(91,155)	-	-	-	$ (91,155)
Interest on subscription receivable	-	-	-	(57)	-	-	$ (57)
Stock Based Compensation	-	-	24,163	-	-	-	$ 24,163
Net loss	-	-	-	-	-	(1,055,748)	$ (1,055,748)
Balance at December 31, 2010	7,239,010	7,239	5,769,927	(2,156)	-	(3,986,036)	$ 1,788,974
Series A-3 Preferred stock issued for cash at $1.93 per share, as converted	518,714	519	999,481	-	-	-	$ 1,000,000
Interest on subscription receivable	-	-	-	(29)	-	-	$ (29)
Stock Based Compensation	-	-	15,527	-	-	-	$ 15,527
Net loss	-	-	-	-	-	(1,149,320)	$ (1,149,320)
Balance at December 31, 2011	7,757,724	7,758	6,784,935	(2,185)	-	(5,135,356)	$ 1,655,152
Series A-3 Preferred stock issued for cash at $1.93 per share, as converted	2,593,570	2,594	4,997,406	-	-	-	$ 5,000,000
Interest on subscription receivable	-	-	-	(26)	-	-	$ (26)
Stock Based Compensation	-	-	332,347	-	-	-	$ 332,347
Unrealized loss on marketable securities	-	-	-	-	(21,795)	-	$ (21,795)
Net loss	-	-	-	-	-	(2,071,255)	$ (2,071,255)
Balance at December 31, 2012	10,351,294	10,351	12,114,689	(2,211)	(21,795)	(7,206,611)	$ 4,894,423
Interest on subscription receivable	-	-	-	(1)	-	-	$ (1)
Proceeds from subscription receivable	-	-	-	2,212	-	-	$ 2,212
Stock Based Compensation	-	-	263,593	-	-	-	$ 263,593
Reverse merger transaction							
Reverse acquisition of Nile	1,336,453	1,336	3,174,664	-	-	-	$ 3,176,000
Unrealized gain (loss) on marketable securities	-	-	-	-	20,815	-	$ 20,815
Net loss	-	-	-	-	-	(8,891,924)	$ (8,891,924)
Balance at December 31, 2013	11,687,747	11,687	15,552,946	-	(980)	(16,098,535)	$ (534,882)
Stock Based Compensation	-	-	84,544	-	-	-	$ 84,544
Unrealized gain (loss) on marketable securities	-	-	-	-	576	-	$ 576
Stock Option Exercise	3,112	3	930	-	-	-	$ 933
Net loss	-	-	-	-	-	(1,210,611)	$ (1,210,611)
Balance at March 31, 2014	11,690,859	$ 11,690	$ 15,638,420	$ -	$ (404)	$ (17,309,146)	$ (1,659,440)

See accompanying notes to the unaudited condensed consolidated financial statements.

CAPRICOR THERAPEUTICS, INC.
(A DEVELOPMENT STAGE COMPANY)
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Three months ended March 31,		July 5, 2005 (inception) through
	2014	2013	March 31, 2014
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	$ (1,210,611)	$ (1,417,114)	$ (17,309,146)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Gain on sale of property and equipment	-	-	(3,707)
Depreciation and amortization	6,465	6,120	171,197
Common stock issued for services	-	-	3,858
Impairment of goodwill	-	-	1,919,000
Stock-based compensation	84,544	41,373	750,667
Change in assets - (increase) decrease:			
Restricted cash	846,627	(515,222)	(555,232)
Grants receivable	-	329,240	-
Interest receivable	(570)	8,274	(757)
Prepaid expenses and other current assets	53,184	7,268	(146,475)
Deposits	-	-	(23,193)
Change in liabilities - increase (decrease):			
Accounts payable and accrued expenses	12,086	165,058	1,251,092
Accounts payable and accrued expenses, related party	99,501	133,094	481,643
Sub-award payable, related party	(41,855)	48,317	-
Accrued royalties	9,963	9,963	132,379
Accrued interest	25,327	3,711	83,461
Deferred revenue	11,458,333	3,711	11,458,333
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	11,342,994	(1,176,207)	(1,786,880)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of marketable securities	(226,998)	(42,830)	(4,668,517)
Proceeds from sales and maturities of marketable securities	227,842	488,000	4,341,887
Proceeds from sale of property and equipment	-	-	88,908
Payments for purchase of property and equipment	(92,901)	(3,144)	(377,824)
Proceeds from reverse merger	-	-	664
Payments for patents	(2,257)	(10,986)	(261,939)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(94,314)	431,040	(876,821)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from the sale of series A-1 preferred stock	-	-	3,008,000
Proceeds from the sale of series A-2 preferred stock	-	-	2,800,007
Proceeds from the sale of series A-3 preferred stock	-	-	6,000,000
Proceeds from loan payable, net	-	857,267	3,925,066
Proceeds from stock option exercises	933	-	933
Costs related to the issuance of preferred stock and warrants	-	-	(91,155)
NET CASH PROVIDED BY FINANCING ACTIVITIES	933	857,267	15,642,851
NET INCREASE IN CASH AND CASH EQUIVALENTS	11,249,613	112,100	12,979,150
Cash and cash equivalents balance at beginning of period	1,729,537	170,106	-
Cash and cash equivalents balance at end of period	$ 12,979,150	$ 282,206	$ 12,979,150
SUPPLEMENTAL DISCLOSURES:			
Interest paid in cash	$ -	$ -	$ -
Income taxes paid in cash	$ -	$ -	$ -

See accompanying notes to the unaudited condensed consolidated financial statements.

CAPRICOR THERAPEUTICS, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business

The mission of Capricor Therapeutics, Inc., a Delaware corporation (referred to herein as "Capricor Therapeutics" or the "Company"), is to improve the treatment of diseases by commercializing innovative therapies. Capricor, Inc., a privately-held company and a wholly-owned subsidiary of Capricor Therapeutics (referred to herein as "Capricor"), was founded in 2005 as a Delaware corporation based on the innovative work of its founder, Eduardo Marbán, M.D., Ph.D. After completion of a merger between Capricor and Nile Therapeutics, Inc., or Nile, on November 20, 2013, Nile formally changed its name to Capricor Therapeutics, Inc. Capricor Therapeutics, together with its subsidiary, Capricor, currently has six drug candidates in various stages of development.

Basis of Presentation

The accompanying unaudited interim condensed consolidated financial statements for Capricor Therapeutics and its wholly-owned subsidiary have been prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP") and instructions to Form 10-Q and, therefore, do not include all disclosures necessary for a complete presentation of financial position, results of operations and cash flows in conformity with U.S. GAAP. In the Company's opinion, all adjustments, consisting of normal recurring adjustments, considered necessary for a fair presentation have been included. Interim results are not necessarily indicative of the results that may be expected for the entire fiscal year. The accompanying financial information should be read in conjunction with the consolidated financial statements and the consolidated notes thereto in the Company's most recent Annual Report on Form 10-K, as filed with the Securities and Exchange Commission on March 31, 2014, from which the December 31, 2013 consolidated balance sheet has been derived.

Consummation of Merger

On November 20, 2013, pursuant to that certain Agreement and Plan of Merger and Reorganization dated as of July 7, 2013, as amended by that certain First Amendment to Agreement and Plan of Merger and Reorganization, dated as of September 27, 2013 (as amended, the "Merger Agreement"), by and among Nile, Bovet Merger Corp., a Delaware corporation and a wholly-owned subsidiary of Nile ("Merger Sub"), and Capricor, Merger Sub merged with and into Capricor and Capricor became a wholly-owned subsidiary of Nile (the "Merger"). Immediately prior to the effective time of the Merger (the "Effective Time") and in connection therewith, Nile filed certain amendments to its certificate of incorporation which, among other things (i) effected a 1-for-50 reverse split of its common stock (the "Reverse Stock Split"), (ii) changed its corporate name from "Nile Therapeutics, Inc." to "Capricor Therapeutics, Inc.," and (iii) effected a reduction in the total number of authorized shares of common stock from 100,000,000 to 50,000,000, and a reduction in the total number of authorized shares of preferred stock from 10,000,000 to 5,000,000.

At the Effective Time and in connection with the Merger, each outstanding share of Capricor's Series A-1, Series A-2 and Series A-3 Preferred Stock was converted into one share of common stock, par value $0.001 per share, of Capricor (the "Capricor Common Stock").

As a result of the Merger and in accordance with the terms of the Merger Agreement, each outstanding share of Capricor Common Stock was converted into the right to receive approximately 2.07 shares of the common stock of Capricor Therapeutics, par value $0.001 per share (the "Capricor Therapeutics Common Stock"), on a post 1-for-50 Reverse Stock Split basis. Immediately after the Effective Time and in accordance with the terms of the Merger Agreement, the former Capricor stockholders owned approximately 90% of the outstanding common stock of Capricor Therapeutics, and the Nile stockholders owned approximately 10% of the outstanding common stock of Capricor Therapeutics, in each case on a fully-diluted basis. For accounting purposes, the Merger is accounted for as a reverse merger with Capricor as the accounting acquiror (legal acquiree) and Nile as the accounting acquiree (legal acquiror).

Since Capricor was deemed to be the accounting acquiror in the merger, the historical financial information for periods prior to the Merger reflect the financial information and activities solely of Capricor and not of Nile. The historical equity of Capricor has been retroactively adjusted to reflect the equity structure of Capricor Therapeutics using the respective exchange ratio established in the Merger, which reflects the number of shares Capricor Therapeutics issued to equity holders of Capricor as a result of the Merger. The retroactive adjustment of Capricor's equity includes Capricor's preferred stock as if such shares of preferred stock had been converted into Capricor common stock at the respective dates of issuance, which is consistent with the terms of the Merger. Accordingly, all common and preferred shares and per share amounts for all periods presented in the condensed consolidated financial statements contained in this Quarterly Report on Form 10-Q and consolidated notes thereto have been adjusted retrospectively, where applicable, to reflect the respective exchange ratio established in the Merger.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

After the Effective Time, each then outstanding Capricor stock option, whether vested or unvested, was assumed by Capricor Therapeutics in accordance with the terms of (i) the 2006 Stock Option Plan, (ii) the 2012 Restated Equity Incentive Plan, or (iii) the 2012 Non-Employee Director Stock Option Plan, as applicable, and the stock option agreement under which each such option was issued. All rights with respect to Capricor Common Stock under outstanding Capricor options were converted into rights with respect to Capricor Therapeutics Common Stock.

Basis of Consolidation

Our condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary. All intercompany transactions have been eliminated in consolidation.

Development Stage Activities

The Company is a development stage enterprise since it has not yet generated any revenue from the sale of products and, through March 31, 2014, its efforts have been principally devoted to developing its licensed technologies, recruiting personnel, developing its intellectual property portfolio and raising capital. Accordingly, the accompanying financial statements have been prepared in accordance with the provisions of Accounting Standards Codification ("ASC") 915, "*Development Stage Entities*." The Company has experienced net losses since its inception and had an accumulated deficit of approximately $17.3 million at March 31, 2014. The Company expects to incur substantial and increasing losses and have negative net cash flows from operating activities as it expands its technology portfolio and engages in further research and development activities, particularly the conducting of pre-clinical and clinical trials.

Liquidity

The Company has historically financed its research and development activities as well as operational expenses from equity financings, government grants, a payment from Janssen Biotech, Inc. ("Janssen") and a loan award from the California Institute for Regenerative Medicine ("CIRM").

Cash resources consisting of cash, cash equivalents and marketable securities as of March 31, 2014 were approximately $13.3 million, compared to $2.1 million as of December 31, 2013. On January 7, 2014, Capricor received $12.5 million from Janssen pursuant to the terms of the Collaboration Agreement and Exclusive License Option entered into on December 27, 2013 by and between the Company and Janssen (the "Janssen Agreement"). The Company will need substantial additional financing in the future until it can achieve profitability, if ever. The Company's continued operations will depend on its ability to raise additional funds through various potential sources, such as equity and debt financing, or to license its compounds to another pharmaceutical company. The Company will continue to fund operations from cash on hand and through sources of capital similar to those previously described, as well as government funded grants and/or loans.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures. Management uses its historical records and knowledge of its business in making these estimates. Accordingly, actual results may differ from these estimates.

Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less at the date of purchase to be cash equivalents.

Restricted Cash

As of March 31, 2014 and December 31, 2013, restricted cash represents funds received under Capricor's Loan Agreement with CIRM (see note 2), to be allocated to the ALLSTAR clinical trial research costs as incurred.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Marketable Securities

At March 31, 2014 and December 31, 2013, marketable securities consist primarily of United States treasuries. These investments are considered available-for-sale. Realized gains and losses on the sale of debt and equity securities are determined on the specific identification method. Unrealized gains and losses are presented as other comprehensive income (loss).

Intangible Assets

As a result of the Merger, the Company recorded $1.5 million as in-process research and development, a component of intangible assets. As of March 31, 2014, the Company had not begun amortizing the in-process research and development.

Government Research Grants

Government research grants that provide funding for research and development activities are recognized as income when the related expenses are incurred, as applicable.

Income from Collaborative Agreement

Revenue from nonrefundable, up-front license or technology access payments under license and collaborative arrangements that are not dependent on any future performance by the Company is recognized when such amounts are earned. If the Company has continuing obligations to perform under the arrangement, such fees are recognized over the estimated period of continuing performance obligation.

The Company accounts for multiple element arrangements, such as license and development agreements in which a customer may purchase several deliverables, in accordance with Financial Accounting Standards Board ("FASB") ASC Subtopic 605-25, "Multiple Element Arrangements". For new or materially amended multiple element arrangements, the Company identifies the deliverables at the inception of the arrangement and each deliverable within a multiple deliverable revenue arrangement is accounted for as a separate unit of accounting if both of the following criteria are met: (1) the delivered item or items have value to the customer on a standalone basis and (2) for an arrangement that includes a general right of return relative to the delivered item(s), delivery or performance of the undelivered item(s) is considered probable and substantially in the Company's control. The Company allocates revenue to each non-contingent element based on the relative selling price of each element. When applying the relative selling price method, the Company determines the selling price for each deliverable using vendor-specific objective evidence ("VSOE") of selling price, if it exists, or third-party evidence ("TPE") of selling price, if it exists. If neither VSOE nor TPE of selling price exist for a deliverable, the Company uses the best estimated selling price for that deliverable. Revenue allocated to each element is then recognized based on when the basic four revenue recognition criteria are met for each element.

The Company determined the deliverables under its collaborative arrangement with Janssen (see note 7) did not meet the criteria to be considered separate accounting units for the purposes of revenue recognition. As a result, the Company recognized revenue from non-refundable, upfront fees ratably over the term of its performance under the agreement. The upfront payments received, pending recognition as revenue, are recorded as deferred revenue and are classified as a short-term or long-term liability on the consolidated balance sheets and amortized over the estimated period of performance. The Company periodically reviews the estimated performance period of its contract based on the progress of its project.

Goodwill

The Company calculates goodwill as the difference between the acquisition date fair value of the estimated consideration paid in the Merger and the values assigned to the assets acquired and liabilities assumed. Goodwill is not amortized but is generally subject to an impairment test annually or more frequently if an event or circumstance indicates that an impairment loss may have been incurred. The Company determined the goodwill balance of $1.9 million to be impaired as of December 31, 2013, and charged such amount to other expenses.

Loan Payable

The Company accounts for the funds advanced under its Loan Agreement with CIRM (see note 2) as a loan payable as the eventual repayment of the loan proceeds or forgiveness of the loan is contingent upon certain future milestones being met and other conditions. As the likelihood of whether or not the Company will ever achieve these milestones or satisfy these conditions cannot be reasonably predicted at this time, the Company records these amounts as a loan payable.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Research and Development

Costs relating to the design and development of new products are expensed as research and development as incurred in accordance with FASB ASC 730-10*Research and Development*. Research and development costs amounted to approximately $1.4 million, $1.2 million and $12.9 million for the three months ended March 31, 2014 and 2013 and for the period from July 5, 2005 (inception) through March 31, 2014, respectively.

Comprehensive Income (Loss)

Comprehensive income (loss) generally represents all changes in stockholders' equity during the period except those resulting from investments by, or distributions to, stockholders. For the three months ended March 31, 2014 and 2013 and for the period from July 5, 2005 (inception) through March 31, 2014, the Company's comprehensive income (loss) was $576, $(8,763), and $(404), respectively. The Company's other comprehensive income (loss) is related to a net unrealized gain (loss) on marketable securities.

Earnings (Loss) per Share

Basic earnings (loss) per share is computed using the weighted-average number of common shares outstanding during the period. Diluted earnings (loss) per share is computed using the weighted-average number of common shares and dilutive potential common shares outstanding during the period. Dilutive potential common shares, which primarily consist of stock options issued to employees and warrants issued to third parties, have been excluded from the diluted loss per share calculation because their effect is anti-dilutive.

For the three months ended March 31, 2014 and 2013, warrants and options to purchase 5,041,281 and 5,813,078 shares, respectively, have been excluded from the computation of potentially dilutive securities.

Fair Value Measurements

Assets and liabilities recorded at fair value in the balance sheet are categorized based upon the level of judgment associated with the inputs used to measure their fair value. The categories are as follows:

Level Input:	Input Definition:
Level I	Inputs are unadjusted, quoted prices for identical assets or liabilities in active markets at the measurement date.
Level II	Inputs, other than quoted prices included in Level I, that are observable for the asset or liability through corroboration with market data at the measurement date.
Level III	Unobservable inputs that reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date.

The following table summarizes fair value measurements by level at March 31, 2014 and December 31, 2013 for assets and liabilities measured at fair value on a recurring basis:

	March 31, 2014			
	Level I	Level II	Level III	Total
Marketable securities	$ 326,226	$ -	$ -	$ 326,226

	December 31, 2013			
	Level I	Level II	Level III	Total
Marketable securities	$ 326,494	$ -	$ -	$ 326,494

Carrying amounts reported in the balance sheet of cash and cash equivalents, grants receivable and accounts payable and accrued expenses approximate fair value due to their relatively short maturity. The carrying amounts of the Company's marketable securities approximate fair value based on market quotations from national exchanges at the balance sheet date. Interest and dividend income are recognized separately on the income statement based on classifications provided by the brokerage firm holding the investments. The fair value of borrowings is not considered to be significantly different than its carrying amount because the stated rates for such debt reflect current market rates and conditions.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Warrant Liability

The Company accounts for some of its warrants issued in accordance with the guidance on Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity, which provides that the Company classifies the warrant instrument as a liability at its fair value and adjusts the instrument to fair value at each reporting period. The fair value of warrants is estimated by management using Black-Scholes. This liability is subject to re-measurement at each balance sheet date until exercised, and any change in fair value is recognized as a component of other income or expense. Prior to the Merger, the Company and holders of warrants to purchase shares of common stock entered into agreements pursuant to which such holders agreed to receive an aggregate of 59,546 shares of the Company's common stock in exchange for the cancellation and surrender of their warrants. No proceeds were received by the Company from these issuances. Management has determined the value of the warrant liability to be insignificant at March 31, 2014, and no such liability has been reflected on the balance sheet.

New Accounting Pronouncements

In February 2013, the FASB issued Accounting Standards Update ("ASU") 2013-02,*Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*, ("ASU 2013-02"). ASU 2013-02 amends ASC 220,*Comprehensive Income* ("ASC 220"), and requires entities to present the changes in the components of accumulated other comprehensive income for the current period. Entities are required to present separately the amount of the change that is due to reclassifications, and the amount that is due to current period other comprehensive income. These changes are permitted to be shown either before or net-of-tax and can be displayed either on the face of the financial statements or in the footnotes. ASU 2013-02 was effective for our interim and annual periods beginning January 1, 2013. The adoption of ASU 2013-02 did not have a material effect on our consolidated financial position or results of operations.

In March 2013, the FASB issued new guidance related to the release of cumulative translation adjustment related to an entity's investment in a foreign entity. The guidance clarifies that the guidance in Subtopic 830-30, Foreign Currency Matters - Translation of Financial Statements, applies to the release of cumulative translation adjustment into net income when a reporting entity either sells a part or all of its investment in a foreign entity or ceases to have a controlling financial interest in a subsidiary or group of assets that constitute a business within a foreign entity. This guidance is effective for the Company prospectively for reporting periods beginning October 1, 2014. The adoption of this guidance is not expected to have a material impact on the Company's condensed consolidated financial statements.

In April 2013, the FASB issued ASU 2013-07,*Presentation of Financial Statements (Topic 205): Liquidation Basis of Accounting* ASU 2013-07 clarifies when an entity should apply the liquidation basis of accounting. ASU 2013-07 also provides principles for the recognition and measurement of assets and liabilities and requirements for financial statements prepared using the liquidation basis of accounting. ASU 2013-07 is effective for fiscal years and interim periods within those years beginning after December 15, 2013. The Company does not expect amendments in ASU 2013-07 to impact the Company's condensed consolidated financial statements, results of operations or liquidity.

In July 2013, the FASB issued ASU 2013-11,*Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*, which eliminates diversity in practice for the presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss or a tax credit carryforward is available to reduce the taxable income or tax payable that would result from disallowance of a tax position. ASU 2013-11 affects only the presentation of such amounts in an entity's balance sheet and is effective for fiscal years beginning after December 15, 2013 and interim periods within those years. The adoption of ASU 2013-11 did not have a material effect on the Company's consolidated financial position or results of operations.

For a more detailed listing of our significant accounting policies, see Note 1 of the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013, as filed with the Securities and Exchange Commission on March 31, 2014.

2. LOAN PAYABLE

On February 5, 2013, Capricor entered into a Loan Agreement with CIRM (the "CIRM Loan Agreement"), pursuant to which CIRM agreed to disburse $19,782,136 to Capricor over a period of approximately three and one-half years to support Phase II of the ALLSTAR clinical trial.

2. LOAN PAYABLE (Continued)

Under the CIRM Loan Agreement, Capricor is required to repay the CIRM loan with interest at the end of the loan period. The loan also provides for the payment of a risk premium whereby Capricor is required to pay CIRM a premium of up to 500% of the loan amount upon the achievement of certain revenue thresholds. The loan has a term of five years and is extendable annually up to ten years at Capricor's option if certain conditions are met. The interest rate for the initial term is set at the one-year LIBOR rate plus 2% ("base rate"), compounded annually, and becomes due at the end of the fifth year. After the fifth year, if the term of the loan is extended and if certain conditions are met, the interest rate will increase by 1% over the base rate each sequential year thereafter, with a maximum increase of 5% over the base rate in the tenth year. CIRM has the right to cease disbursements if a no-go milestone occurs or certain other conditions are not met. Under the terms of the CIRM Loan Agreement, CIRM deducted $36,667 from the initial disbursement to cover its costs in conducting financial due diligence on Capricor. CIRM will also deduct approximately $16,667 from each disbursement made in the second and third year of the loan period to cover its costs of continuing due diligence according to the payment disbursement schedule, which may be amended from time to time. So long as Capricor is not in default under the terms of the CIRM Loan Agreement, the loan may be forgiven during the term of the project period if Capricor abandons the trial due to the occurrence of a no-go milestone. After the end of the project period, the loan may also be forgiven if Capricor elects to abandon the project under certain circumstances. Under the terms of the CIRM Loan Agreement, Capricor is required to meet certain financial milestones by demonstrating to CIRM prior to each disbursement of loan proceeds that it has funds available sufficient to cover all costs and expenses anticipated to be required to continue Phase II of the ALLSTAR trial for at least the following 12-month period, less the costs budgeted to be covered by planned loan disbursements.

The timing of the distribution of funds pursuant to the CIRM Loan Agreement shall be contingent upon the availability of funds in the California Stem Cell Research and Cures Fund in the State Treasury, as determined by CIRM in its sole discretion.

Capricor did not issue stock, warrants or other equity to CIRM in connection with this award. The due diligence costs to be deducted from each disbursement are capitalized and amortized to general and administrative expenses over the remaining term of the loan. As of March 31, 2014, $36,667 of loan costs were capitalized with $1,834, $1,414, and $8,556 expensed for the three months ended March 31, 2014 and 2013, and the period from July 5, 2005 (inception) through March 31, 2014, respectively, with the balance of $28,111 to be amortized over the next 3.9 years.

On February 6, 2013, Capricor received loan proceeds of $857,267, net of loan costs. This disbursement will carry interest at the initial rate approximately 2.8% per annum.

On July 8, 2013, Capricor received its second disbursement under the loan award of $3,067,799. This disbursement will carry interest at the initial rate of approximately 2.5% per annum. A portion of the principal disbursed under the second disbursement is currently being recorded as restricted cash, as Capricor must expend for approved project costs in order to use these funds. For the three months ended March 31, 2014 and 2013 and for the period from July 5, 2005 (inception) through March 31, 2014, interest expense under the CIRM loan was $25,327, $3,711, and $83,461, respectively.

3. STOCKHOLDERS' EQUITY

Reverse Stock Split

On November 20, 2013, the Company effected a reverse split of our common stock, par value $0.001 per share, at a ratio of one-for-fifty. Unless otherwise indicated, all share amounts, per share data, share prices, exercise prices and conversion rates set forth in these condensed consolidated financial statements and related condensed consolidated notes, where applicable, have been adjusted retroactively to reflect this reverse stock split.

Outstanding Shares

At March 31, 2014, the Company had 11,690,859 common shares issued and outstanding.

Conversion of all Convertible Preferred Stock at the Merger

Prior to the Merger and without giving effect to the applicable multiplier,Capricor was authorized to issue 5,426,844 shares of convertible preferred stock, which was allocated as follows: Series A-1: 940,000 shares, all of which were issued; Series A-2: 736,844 shares, all of which were issued; and Series A-3: 3,750,000 shares, of which 1,500,000 shares were issued. During 2011 and 2012, the 1,500,000 shares of Series A-3 convertible preferred stock, with a par value of $0.001 per share, were issued for cash proceeds of $6,000,000. Immediately prior to the Effective Time, all shares of Capricor preferred stock were converted into shares of Capricor common stock pursuant to the terms of the Merger Agreement. The shares of Capricor preferred stock that were converted into Capricor common stock, as a result of the Merger and in accordance with the terms of the Merger Agreement, were exchanged according to the applicable multiplier for 6,591,494 shares of common stock of the Company, and all rights and preferences (including dividends) attached to the shares of Capricor preferred stock were rendered void. The preferred shares are presented retrospectively as shares of common stock on an as-converted basis.

4. STOCK OPTIONS AND WARRANTS

Warrants

The following table summarizes all warrant activity for the period ended March 31, 2014:

	Warrants	Weighted Average Exercise Price
Outstanding at January 1, 2014	332,281	$ 17.20
Granted	-	-
Exercised	-	-
Outstanding at March 31, 2014	332,281	$ 17.20

The following table summarizes all outstanding warrants to purchase shares of the Company's common stock as of March 31, 2014:

At March 31, 2014			
Grant Date	Warrants Outstanding	Range of Exercise Prices	Expiration Date
7/15/2009	28,400	$62.50 - $114.00	7/14/2014
4/21/2010	52,650	$ 47.00	4/20/2015
4/4/2012	187	$ 2.27	4/3/2017
11/20/2013	251,044	$ 2.27	11/19/2018
	332,281		

Stock Options

The Company's Board of Directors (the "Board") has approved four stock option plans: (i) the Amended and Restated 2005 Stock Option Plan, (ii) the 2006 Stock Option Plan, (iii) the 2012 Restated Equity Incentive Plan (which has superseded the 2006 Stock Option Plan) (the "2012 Plan"), and (iv) the 2012 Non-Employee Director Stock Option Plan (the "2012 Non-Employee Director Plan").

On July 26, 2010, the Company's stockholders approved an amendment to the 2005 Plan increasing the total number of shares authorized for issuance thereunder to 190,000 (after the effects of the Reverse Stock Split at the consummation of the Merger). Under the 2005 Plan, incentives may be granted to officers, employees, directors, consultants and advisors. Incentives under the 2005 Plan may be granted in any one or a combination of the following forms: (i) incentive stock options and non-statutory stock options, (ii) stock appreciation rights, (iii) stock awards, (iv) restricted stock, and (v) performance shares.

After the effects of the Merger, 4,149,710 shares of common stock are reserved under the 2012 Plan for the issuance of stock options, stock appreciation rights, restricted stock awards and performance unit/share awards to employees, consultants and other service providers. Included in the 2012 Plan are the shares of common stock that were originally reserved under the 2006 Stock Option Plan. Under the 2012 Plan, each stock option granted will be designated in the Award Agreement as either an Incentive Stock Option or a Nonstatutory Stock Option. Notwithstanding such designation, however, to the extent that the aggregate fair market value of the shares with respect to which Incentive Stock Options are exercisable for the first time by the participant during any calendar year (under all plans of the Company and any parent or subsidiary) exceeds $100,000, such options will be treated as Nonstatutory Stock Options.

4. STOCK OPTIONS AND WARRANTS (Continued)

After the effects of the Merger, 2,697,311 shares of common stock are reserved under the 2012 Non-Employee Director Plan for the issuance of stock options to members of the Board who are not employees of the Company.

Each of the plans are administered by the Board, or a committee appointed by the Board, which determines the recipients and types of awards to be granted, as well as the number of shares subject to the awards, the exercise price and the vesting schedule. Currently, stock options are granted with an exercise price equal to the closing price of the Company's common stock on the date of grant, and generally vest over a period of one to four years. The term of stock options granted under each of the plans cannot exceed ten years.

The estimated weighted average fair values of the options granted during the three months ended March 31, 2014 and 2013 were $10.65 and $0.25 per share, respectively.

The Company estimates the fair value of each option award using the Black-Scholes option-pricing model. The following assumptions we used for stock options issued for the three months ended March 31, 2014 and 2013:

	March 31, 2014	March 31, 2013
Expected volatility	117%	100%
Expected term	7 years	6-7 years
Dividend yield	0%	0%
Risk-free interest rates	2.2%	0.7% - 1.3%

Employee stock-based compensation expense for the three months ended March 31, 2014 and 2013, and for the cumulative period from July 5, 2005 (inception) through March 31, 2014, are as follows:

	Three months ended March 31,		Period from July 5, 2005 (inception) through March 31, 2014
	2014	2013	
General and administrative	79,260	41,373	745,383
Research and development	5,284	-	5,284
Total	84,544	41,373	750,667

As of March 31, 2014, the total unrecognized fair value compensation cost related to non-vested stock options was approximately $828,035, which is expected to be recognized over approximately 2.9 years.

Common stock, stock options or other equity instruments issued to non-employees (including consultants) as consideration for goods or services received by the Company are accounted for based on the fair value of the equity instruments issued (unless the fair value of the consideration received can be more reliably measured). The fair value of stock options is determined using the Black-Scholes option-pricing model and is periodically re-measured as the underlying options vest. The fair value of any options issued to non-employees is recorded as expense over the applicable vesting periods.

The following table summarizes stock option activity for the three months ended March 31, 2014:

4. STOCK OPTIONS AND WARRANTS (Continued)

	Number of Options	Weighted Average Exercise Price
Outstanding at January 1, 2014	4,888,519	$ 0.51
Granted	25,362	12.00
Exercised	(3,112)	0.30
Expired	(201,769)	0.30
Outstanding at March 31, 2014	4,709,000	$ 0.58
Exercisable at March 31, 2014	2,719,483	$ 0.65

5. CONCENTRATIONS

Cash Concentration

The Company has historically maintained checking accounts at two financial institutions. These accounts are each insured by the Federal Deposit Insurance Corporation for up to $250,000. Historically, the Company has not experienced any significant losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents. As of March 31, 2014, the Company maintained approximately $13.6 million of uninsured deposits.

6. COMMITMENTS AND CONTINGENCIES

Leases

Capricor leases space for its corporate offices pursuant to a lease that is effective for a two year period beginning July 1, 2013. The monthly payment is $16,620 per month for the first twelve months of the term and will increase to $17,285 per month for the second twelve months of the term. Capricor also leases research facilities from Cedars-Sinai Medical Center (“CSMC”), a shareholder of the Company, currently on a month-to-month basis.

Total rent expense to unrelated parties for the three months ended March 31, 2014 and 2013 and for the period from July 5, 2005 (inception) through March 31, 2014 was $49,860, $26,940 and $266,178, respectively. Total rent expense to the related party for the three months ended March 31, 2014 and 2013 and for the period from July 5, 2005 (inception) through March 31, 2014 was $13,662, $13,662 and $336,996, respectively.

Legal Contingencies

Periodically the Company may become involved in certain legal actions and claims arising in the ordinary course of business. There were no material legal actions or claims reported at March 31, 2014.

7. LICENSE AGREEMENTS

Capricor’s Technology - CAP-1002, CAP-1001 and CSps

Capricor has entered into exclusive license agreements for intellectual property rights related to cardiac derived cells with Università Degli Studi Di Roma at la Sapienza (the “University of Rome”), The Johns Hopkins University (“JHU”) and CSMC. In addition, Capricor has filed patent applications related to enhancements or validation of the technology developed by its own scientists.

University of Rome License Agreement

Capricor and the University of Rome entered into a License Agreement, dated June 21, 2006 (the “Rome License Agreement”), which provides for the grant of an exclusive, world-wide, royalty-bearing license by the University of Rome to Capricor (with the right to sublicense) to develop and commercialize licensed products under the licensed patent rights in all fields. With respect to any new or future patent applications assigned to the University of Rome utilizing cardiac stem cells in cardiac care, Capricor has a first right of negotiation for a certain period of time to obtain a license thereto.

Pursuant to the Rome License Agreement, Capricor paid the University of Rome a license issue fee, is currently paying minimum annual royalties in the amount of 20,000 Euros per year, and is obligated to pay a lower-end of a mid-range double-digit percentage on all royalties received as a result of sublicenses granted, which are net of any royalties paid to third parties under a license agreement from such third party to Capricor. The minimum annual royalties are creditable against future royalty payments.

7. LICENSE AGREEMENTS (Continued)

The Rome License Agreement will, unless extended or sooner terminated, remain in effect until the later of the last claim of any patent or until any patent application comprising licensed patent rights has expired or been abandoned. Under the terms of the Rome License Agreement, either party may terminate the agreement should the other party become insolvent or file a petition in bankruptcy. Either party shall have up to 90 days to cure its material breach.

The Johns Hopkins University License Agreement

Capricor and JHU entered into an Exclusive License Agreement, effective June 22, 2006 (the "JHU License Agreement"), which provides for the grant of an exclusive, world-wide, royalty-bearing license by JHU to Capricor (with the right to sublicense) to develop and commercialize licensed products and licensed services under the licensed patent rights in all fields and a nonexclusive right to the know-how. In May 2009, the JHU License Agreement was amended to add additional patent rights to the JHU License Agreement in consideration of a payment to JHU and reimbursement of patent costs. Capricor and JHU executed a Second Amendment to the JHU License Agreement, effective as of December 20, 2013, pursuant to which, among other things, certain definitions were added or amended, the timing of certain obligations was revised and other obligations of the parties were clarified.

Pursuant to the JHU License Agreement, JHU was paid an initial license fee and, thereafter, Capricor is required to pay minimum annual royalties on the anniversary dates of the JHU License Agreement. The minimum annual royalties range from $5,000 on the first and second anniversary dates to $20,000 on the tenth anniversary date and thereafter. The minimum annual royalties are creditable against a low single-digit running royalty on net sales of products and net service revenues which Capricor is also required to pay under the JHU License Agreement, which running royalty may be subject to further reduction in the event that Capricor is required to pay royalties on any patent rights to third parties in order to make or sell a licensed product. In addition, Capricor is required to pay a low double-digit percentage of the consideration received by it from sublicenses granted, and is required to pay JHU certain defined development milestone payments upon the successful completion of certain phases of its clinical studies and upon receiving approval from the U.S. Food and Drug Administration (the "FDA"). The development milestones range from $100,000 upon successful completion of a full Phase I clinical study to $1,000,000 upon full FDA market approval and are fully creditable against payments owed by Capricor to JHU on account of sublicense consideration attributable to milestone payments received from a sublicensee. The maximum aggregate amount of milestone payments payable under the JHU License Agreement, as amended, is $1,850,000. As of March 31, 2014, $100,000 is currently accrued due the Phase I enrollment being completed.

The JHU License Agreement will, unless sooner terminated, continue in effect in each applicable country until the date of expiration of the last to expire patent within the patent rights, or, if no patents are issued, then for twenty years from the effective date. Under the terms of the JHU License Agreement, either party may terminate the agreement should the other party become insolvent or file a petition in bankruptcy, or fail to cure a material breach within 30 days after notice. In addition, Capricor may terminate for any reason upon 60 days' written notice.

Cedars-Sinai Medical Center License Agreement

On January 4, 2010, Capricor entered into an Exclusive License Agreement with CSMC (the "CSMC License Agreement"), for certain intellectual property rights. In 2013, the CSMC License Agreement was amended twice resulting in, among other things, a reduction in the percentage of sublicense fees which would have been payable to CSMC. Effective December 30, 2013, Capricor entered into an Amended and Restated Exclusive License Agreement with CSMC (the "Amended CSMC License Agreement") pursuant to which, among other things, certain definitions were added or amended, the timing of certain obligations was revised and other obligations of the parties were clarified.

The Amended CSMC License Agreement provides for the grant of an exclusive, world-wide, royalty-bearing license by CSMC to Capricor (with the right to sublicense) to conduct research using the patent rights and know-how and develop and commercialize products in the field using the patent rights and know-how. In addition, Capricor has the exclusive right to negotiate for an exclusive license to any future rights arising from related work conducted by or under the direction of Dr. Eduardo Marbán on behalf of CSMC. In the event the parties fail to agree upon the terms of an exclusive license, Capricor shall have a non-exclusive license to such future rights, subject to royalty obligations.

7. LICENSE AGREEMENTS (Continued)

Pursuant to the CSMC License Agreement, CSMC was paid a license fee and Capricor was obligated to reimburse CSMC for certain fees and costs incurred in connection with the prosecution of certain patent rights. Additionally, Capricor was equired to meet certain spending and development milestones. The annual spending requirements range from $350,000 to $800,000 each year between 2010 and 2017 (with the exception of 2014, for which there is no annual spending requirement). Pursuant to the Amended CSMC License Agreement, Capricor remains obligated to pay low single-digit royalties on sales of royalty-bearing products as well as a low double-digit percentage of the consideration received from any sublicenses or other grant of rights. The above-mentioned royalties are subject to reduction in the event Capricor becomes obliged to obtain a license from a third party for patent rights in connection with the royalty-bearing product. In 2010, Capricor discontinued its research under some of the patents.

The Amended CSMC License Agreement will, unless sooner terminated, continue in effect on a country by country basis until the last to expire of the patents covering the patent rights or future patent rights. Under the terms of the Amended CSMC License Agreement, unless waived by CSMC, the agreement shall automatically terminate: (i) if Capricor ceases, dissolves or winds up its business operations; (ii) in the event of the insolvency or bankruptcy of Capricor or if Capricor makes an assignment for the benefit of its creditors; (iii) if performance by either party jeopardizes the licensure, accreditation or tax exempt status of CSMC or the agreement is deemed illegal by a governmental body; (iv) within 30 days for non-payment of royalties; (v) within 90 days if Capricor fails to undertake commercially reasonable efforts to exploit the patent rights or future patent rights; (vi) if a material breach has not been cured within 90 days; or (vii) if Capricor challenges any of the CSMC patent rights. Capricor may terminate the agreement if CSMC fails to cure any material breach within 90 days after notice.

Collaboration Agreement with Janssen Biotech, Inc.

On December 27, 2013, Capricor entered into a Collaboration Agreement and Exclusive License Option (the "Janssen Agreement") with Janssen, a wholly-owned subsidiary of Johnson & Johnson. Under the terms of the Janssen Agreement, Capricor and Janssen agreed to collaborate on the development of Capricor's cell therapy program for cardiovascular applications, including its lead product, CAP-1002. Capricor and Janssen further agreed to collaborate on the development of cell manufacturing in preparation for future clinical trials. Under the Janssen Agreement, Capricor was paid $12.5 million, and Capricor will contribute to the development of a chemistry, manufacturing and controls ("CMC") package. In addition, Janssen has the exclusive right to enter into an exclusive license agreement pursuant to which Janssen would receive a worldwide, exclusive license to exploit CAP-1002 as well as certain allogeneic cardiospheres and cardiosphere-derived cells in the field of cardiology. Janssen has the right to exercise the option at any time until 60 days after the delivery by Capricor of the six-month follow-up results from Phase II of Capricor's ALLSTAR clinical trial for CAP-1002. If Janssen exercises its option rights, Capricor would receive an upfront license fee and additional milestone payments which may total up to $325 million. In addition, a royalty ranging from a low double-digit percentage to a lower-end of a mid-range double-digit percentage would be paid on sales of licensed products.

Company's Technology – Cenderitide and CU-NP

The Company has entered into an exclusive license agreement for intellectual property rights related to natriuretic peptides with the Mayo Foundation for Medical Education and Research and a Clinical Trial Funding Agreement with Medtronic, Inc., which also includes certain intellectual property licensing provisions.

Mayo License Agreement

The Company and the Mayo Foundation for Medical Education and Research ("Mayo") previously entered into a Technology License Agreement with respect to cenderitide on January 20, 2006, which was filed as Exhibit 10.6 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission (the "SEC") on September 21, 2007, and which was amended on June 2, 2008 (as so amended, the "CD-NP Agreement"). On June 13, 2008, the Company and Mayo entered into a Technology License Agreement with respect to CU-NP (the "CU-NP Agreement", which was filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed with the SEC on August 14, 2008. On November 14, 2013, the Company entered into an Amended and Restated License Agreement with Mayo (the "Amended Mayo Agreement"). The Amended Mayo Agreement amends and restates in its entirety each of the CD-NP Agreement and the CU-NP Agreement, and creates a single amended and restated license agreement between the Company and Mayo with respect to CD-NP and CU-NP.

The Amended Mayo Agreement provides for the grant of an exclusive, world-wide, royalty-bearing license by Mayo to the Company (with the right to sublicense) under the Mayo patents, patent applications and improvements, and a nonexclusive right under the know-how, for the development and commercialization of CD-NP and CU-NP in all therapeutic indications. With respect to any future patents and any improvements related to cenderitide and CU-NP owned by or assigned to Mayo, the Company has the exclusive right of first negotiation for the exclusive or non-exclusive rights (at the Company's option) thereto. Such exclusive right of negotiation shall be effective as of June 1, 2016, or such earlier date when the Company has satisfied certain payment obligations to Mayo.

7. LICENSE AGREEMENTS (Continued)

Under each of the previous CD-NP Agreement and CU-NP Agreement, the Company paid Mayo up-front cash payments and the Company agreed to make certain performance-based cash payments to Mayo upon successful completion of certain milestones. Additionally, the Company issued certain amounts of common stock of the Company to Mayo under each agreement. The Amended Mayo Agreement restructured the economic arrangements of the CD-NP Agreement and CU-NP Agreement by, among other things, eliminating certain milestone payments and decreasing the royalty percentages payable upon the commercial sale of the products to low single-digit royalties on sales of CD-NP and CU-NP products. The Company is also obligated to pay to Mayo a low single-digit percentage on any upfront consideration or milestone payment received in connection with a sublicense. The Company is further obligated to pay to Mayo a low single-digit percentage on any consideration received in connection with an assignment of rights under the Amended Mayo Agreement. Pursuant to the terms of the Amended Mayo Agreement, the Company agreed to pay to Mayo an annual license maintenance fee and to issue to Mayo an additional 18,000 shares of the Company's common stock as additional consideration for the grant of certain rights. Mayo also agreed to waive or defer the payment of certain fees owed to Mayo. All breaches and defaults by the Company under the terms of the CD-NP Agreement and CU-NP Agreement were waived by Mayo in the Amended Mayo Agreement.

The Amended Mayo Agreement will, unless sooner terminated, expire on the later of (i) the expiration of the last to expire valid claim contained in the Mayo patents, or (ii) the 20th anniversary of the Amended Mayo Agreement. Under the terms of the Amended Mayo Agreement, Mayo may terminate the agreement earlier (i) for the Company's material breach of the agreement that remains uncured after 90 days' written notice to the Company, (ii) for the Company's insolvency or bankruptcy, (iii) if the Company challenges the validity or enforceability of any of the patent rights in any manner, or (iv) if the Company has not initiated either the next clinical trial of cenderitide within two years of the effective date of the Amended Mayo Agreement or a clinical trial of CU-NP within two and one-half years of the effective date. The Company may terminate the Amended Mayo Agreement without cause upon 90 days' written notice.

Medtronic Clinical Trial Funding Agreement

In February 2011, the Company entered into a Clinical Trial Funding Agreement with Medtronic, Inc. ("Medtronic"). Pursuant to the agreement, Medtronic provided funding and equipment necessary for the Company to conduct a Phase I clinical trial to assess the pharmacokinetics and pharmacodynamics of cenderitide when delivered to heart failure patients through continuous subcutaneous infusion using Medtronic's pump technology.

The agreement provided that intellectual property conceived in or otherwise resulting from the performance of the Phase I clinical trial will be jointly owned by the Company and Medtronic (the "Joint Intellectual Property"), and that the Company is to pay royalties to Medtronic based on the net sales of a product covered by the Joint Intellectual Property. The agreement further provided that, if the parties fail to enter into a definitive commercial license agreement with respect to cenderitide, each party will have a right of first negotiation to license exclusive rights to any Joint Intellectual Property.

Pursuant to its terms, the agreement expired in February 2012, following the completion of the Phase I clinical trial and the delivery of data and reports related to such study. Nile received the final reimbursement of $195,500 in February 2012 and a total of $1,550,000 over the life of the agreement. Although the Medtronic agreement expired, there are certain provisions that survive the expiration of the agreement, including the obligation to pay royalties on products that might be covered by the Joint Intellectual Property. Neither party has exercised its right to negotiate for exclusive rights to the Joint Intellectual Property.

8. RELATED PARTY TRANSACTIONS

Lease and Sub-Lease Agreements

Capricor leases space for its research facilities from CSMC, a shareholder of Capricor Therapeutics (see note 6).

Beginning May 1, 2012, pursuant to a sublease agreement, Capricor subleased part of its office space to Frank Litvack, the Company's Executive Chairman, for $2,500 per month. On April 1, 2013, Capricor entered into a sublease with Reprise Technologies, LLC, a limited liability company which is wholly-owned by Dr. Litvack, for $2,500 per month. The sublease is on a month-to-month basis. Capricor recognized $7,500, $7,500 and $57,500 in sublease income from the related party for the three months ended March 31, 2014 and 2013 and for the period from July 5, 2005 (inception) through March 31, 2014, respectively. Sublease income is recorded as a reduction to general and administrative expenses.

Consulting Agreements

Effective May 1, 2012, Frank Litvack, the Company's Executive Chairman, entered into a consulting agreement with Capricor for $4,000 per month for consulting services. Effective January 1, 2013, the payment amount was increased to $10,000 per month payable for consulting services. On March 24, 2014, Capricor entered into a consulting agreement with Dr. Litvack memorializing the $10,000 per month compensation arrangement described above. The agreement is terminable upon 30 days' notice.

8. RELATED PARTY TRANSACTIONS (Continued)

Sub-Award Agreement

Effective January 30, 2012, Capricor entered into a sub-award agreement with CSMC. Sub-award payments totaling approximately $41,855, $41,339 and $545,754 were paid to CSMC for the three months ended March 31, 2014 and 2013 and for the period from July 5, 2005 (inception) through March 31, 2014, respectively. At March 31, 2014, the Company did not have any sub-awards payable as the award agreement with CSMC ended pursuant to its terms.

Payables to Related Party

At March 31, 2014 and December 31, 2013, the Company had accounts payable and accrued expenses, which excludes the sub-award payable, to CSMC totaling $481,643 and $382,142, respectively.

9. SUBSEQUENT EVENTS

Additional CIRM Loan Disbursement

In May 2014, Capricor received its third loan disbursement from CIRM under the terms of the CIRM loan award (see note 2). Capricor received an amount equal to $ 4,679,947 pursuant to the third loan disbursement. This disbursement will carry interest at the initial rate of approximately 2.6% per annum.

Exosomes License Agreement

On May 5, 2014, Capricor entered into an Exclusive License Agreement with CSMC (the “Exosomes License Agreement”), for certain intellectual property rights related to exosomes technology. The Exosomes License Agreement provides for the grant of an exclusive, world-wide, royalty-bearing license by CSMC to Capricor (with the right to sublicense) in order to conduct research using the patent rights and know-how and to develop and commercialize products in the field using the patent rights and know-how. In addition, Capricor has the exclusive right to negotiate for an exclusive license to any future rights arising from related work conducted by or under the direction of Dr. Eduardo Marbán on behalf of CSMC. In the event the parties fail to agree upon the terms of an exclusive license, Capricor shall have a non-exclusive license to such future rights, subject to royalty obligations.

Pursuant to the Exosomes License Agreement, CSMC was paid a license fee and Capricor reimbursed CSMC for certain fees and costs incurred in connection with the prosecution of certain patent rights. Additionally, Capricor is required to meet certain non-monetary development milestones and is obligated to pay low single-digit royalties on sales of royalty-bearing products as well as a single-digit percentage of the consideration received from any sublicenses or other grant of rights. The above-mentioned royalties are subject to reduction in the event Capricor becomes obliged to obtain a license from a third party for patent rights in connection with the royalty bearing product.

The Exosomes License Agreement will, unless sooner terminated, continue in effect on a country by country basis until the last to expire of the patents covering the patent rights or future patent rights. Under the terms of the Exosomes License Agreement, unless waived by CSMC, the agreement shall automatically terminate: (i) if Capricor ceases, dissolves or winds up its business operations; (ii) in the event of the insolvency or bankruptcy of Capricor or if Capricor makes an assignment for the benefit of its creditors; (iii) if performance by either party jeopardizes the licensure, accreditation or tax exempt status of CSMC or the agreement is deemed illegal by a governmental body; (iv) within 30 days for non-payment of royalties; (v) within 90 days if Capricor fails to undertake commercially reasonable efforts to exploit the patent rights or future patent rights; (vi) if a material breach has not been cured within 90 days; or (vii) if Capricor challenges any of the CSMC patent rights. Capricor may terminate the agreement if CSMC fails to cure any material breach within 90 days after notice.

As noted above and below, Capricor Therapeutics is party to lease agreements with CSMC, which holds more than 10% of the outstanding capital stock of Capricor Therapeutics. Additionally, Dr. Eduardo Marbán, who holds more than 10% of the outstanding capital stock of Capricor Therapeutics, is the Director of the Cedars-Sinai Heart Institute and the Co-founder and Scientific Advisory Board Chairman of Capricor.

9. SUBSEQUENT EVENTS (Continued)

New Facilities Lease with CSMC

On May 15, 2014, Capricor signed a Facilities Lease with CSMC for two research labs (the "Facilities Lease"). The Facilities Lease is for a term of three years and replaces the month-to-month lease that was previously in effect between CSMC and Capricor. The rent expense for the first six-month period is approximately $15,461 per month. Commencing with the seventh month of the lease term, the rent expense will increase to approximately $19,350 per month. The amount of rent expense is subject to annual adjustments according to increases in the Consumer Price Index. A copy of the Facilities Lease is filed as Exhibit 10.1 to this Quarterly Report on Form 10-Q.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion of our financial condition and results of operations should be read in conjunction with the condensed consolidated financial statements and the condensed consolidated notes to those statements included elsewhere in this Quarterly Report on Form 10-Q. This discussion includes forward-looking statements that involve risks and uncertainties. As a result of many factors, our actual results may differ materially from those anticipated in these forward-looking statements.

As used in this Quarterly Report on Form 10-Q, references to "Capricor Therapeutics," the "Company," "we," "us," "our" or similar terms include Capricor Therapeutics, Inc. and its wholly-owned subsidiary. References to "Capricor" are with respect to Capricor, Inc., which became our wholly-owned subsidiary upon completion of the merger between Capricor and Nile Therapeutics, Inc. on November 20, 2013.

Overview

Our mission is to improve the treatment of diseases by commercializing innovative therapies, with a primary focus on heart disease. Our executive offices are located at 8840 Wilshire Blvd., 2nd Floor, Beverly Hills, California 90211. Our telephone number is (310) 358-3200 and our Internet address is*www.capricor.com*.

Consummation of the Merger

On November 20, 2013, pursuant to that certain Agreement and Plan of Merger and Reorganization dated as of July 7, 2013, as amended by that certain First Amendment to Agreement and Plan of Merger and Reorganization dated as of September 27, 2013, or, as so amended, the Merger Agreement, by and among Nile Therapeutics, Inc., a Delaware corporation, or Nile, Bovet Merger Corp., a Delaware corporation and a wholly-owned subsidiary of Nile, or Merger Sub, and Capricor, Merger Sub merged with and into Capricor and Capricor became a wholly-owned subsidiary of Nile. Immediately prior to the effective time of the merger, or the Effective Time, and in connection therewith, Nile filed certain amendments to its certificate of incorporation which, among other things (i) effected a 1-for-50 reverse split of its common stock, (ii) changed its corporate name from "Nile Therapeutics, Inc." to "Capricor Therapeutics, Inc.," and (iii) effected a reduction in the total number of authorized shares of common stock from 100,000,000 to 50,000,000, and a reduction in the total number of authorized shares of preferred stock from 10,000,000 to 5,000,000.

At the Effective Time and in connection with the merger between Capricor and Nile, each outstanding share of Capricor's Series A-1, Series A-2 and Series A-3 Preferred Stock was converted into one share of common stock, par value $0.001 per share, of Capricor.

As a result of the merger between Capricor and Nile and in accordance with the terms of the Merger Agreement, each outstanding share of Capricor common stock was converted into the right to receive approximately 2.07 shares of the common stock of Capricor Therapeutics, par value $0.001 per share, on a post 1-for-50 reverse stock split basis. Immediately after the Effective Time and in accordance with the terms of the Merger Agreement, the former Capricor stockholders owned approximately 90% of the outstanding common stock of Capricor Therapeutics, and the Nile stockholders owned approximately 10% of the outstanding common stock of Capricor Therapeutics, in each case on a fully-diluted basis. For accounting purposes, the merger between Capricor and Nile is accounted for as a reverse merger with Capricor as the accounting acquiror (legal acquiree) and Nile as the accounting acquiree (legal acquiror).

After the Effective Time, each then outstanding Capricor stock option, whether vested or unvested, was assumed by Capricor Therapeutics in accordance with the terms of the (i) 2006 Stock Option Plan, (ii) 2012 Restated Equity Incentive Plan, or (iii) 2012 Non-Employee Director Stock Option Plan, as applicable, and the stock option agreement under which each such option was issued. All rights with respect to Capricor common stock under outstanding Capricor options were converted into rights with respect to Capricor Therapeutics common stock.

Since Capricor was deemed to be the accounting acquiror in the merger, the historical financial information for periods prior to the merger reflects the financial information and activities solely of Capricor and not of Nile. The historical equity of Capricor has been retroactively adjusted to reflect the equity structure of Capricor Therapeutics using the respective exchange ratio established in the merger between Capricor and Nile, which reflects the number of shares Capricor Therapeutics issued to equity holders of Capricor as a result of the merger. The retroactive adjustment of Capricor's equity includes Capricor's preferred stock as if such shares of preferred stock had been converted into Capricor common stock at the respective dates of issuance, which is consistent with the terms of the merger. Accordingly, all common and preferred shares and per share amounts for all periods presented in the condensed consolidated financial statements contained in this Quarterly Report on Form 10-Q and condensed consolidated notes thereto have been adjusted retrospectively, where applicable, to reflect the respective exchange ratio established in the merger.

Capricor, our wholly-owned subsidiary, was founded in 2005 as a Delaware corporation based on the innovative work of its founder, Eduardo Marbán, M.D., Ph.D., and his collaborators. First located in Baltimore, Maryland, adjacent to The Johns Hopkins University, or JHU, where Dr. Marbán was chief of cardiology, Capricor moved to Los Angeles, California in 2007 when Dr. Marbán become Director of the Heart Institute at Cedars-Sinai Medical Center, or CSMC. Capricor's labs are located in space that Capricor leases from CSMC.

We currently have six drug candidates in various stages of development:

- **CAP-1002:** Capricor's lead product candidate consists of allogeneic cardiosphere-derived cells, or CDCs. CAP-1002 is currently being tested in Capricor's ALLSTAR Phase I/II clinical trial which will determine if the cells can lead to reduction in scar size in patients who have had a heart attack. It is a dual cohort clinical trial that has two independently recruiting strata: the first are patients who have recently experienced a myocardial infarction, or MI (30-90 days post MI); the second are patients who have suffered an MI within one year (90 days to one-year post MI) to see if the cells can reduce the size of older, more established scar. In addition to measuring scar size, ALLSTAR will also look at a variety of clinical and quality of life endpoints. Phase I of the ALLSTAR trial was a 14 patient trial conducted at three sites to determine if allogeneic CDCs are safe for patients. Phase I of the trial was funded in large part by a grant received from the National Institutes of Health, or NIH. The primary endpoints focused on acute effects of cell delivery and potential immune consequences of allogeneic cell delivery. Patient enrollment was completed for the Phase I portion of the trial on October 11, 2013. On December 15, 2013, Capricor received notification from the National Heart Lung and Blood Institute, or the NHLBI, Gene and Cell Therapy Data Safety Monitoring Board that the 14-patient Phase I portion had met its safety endpoints and that Capricor was cleared to begin the Phase II portion of the trial. Capricor began enrollment of the Phase II portion of the ALLSTAR study in the first quarter of 2014. Phase II is an estimated 300 patient, double-blind, randomized, placebo-controlled trial which is powered to detect a reduction in infarct (scar) size as measured by MRI in both groups of patients, those with recent and chronic MI, at the one year follow-up. As infarct size was reduced significantly in the CADUCEUS patients at six months, Capricor intends to get a preliminary readout of ALLSTAR at six months post infusion. Phase II of ALLSTAR is being funded in large part through the support of the California Institute for Regenerative Medicine, or CIRM. Recently, Capricor entered into a Collaboration Agreement and Exclusive License Option with Janssen Biotech, Inc., or Janssen. Under the agreement, Janssen has an exclusive option to enter into an exclusive license agreement with Capricor, pursuant to which, if exercised, Janssen would receive a worldwide, exclusive license to exploit CAP-1002 as well as certain allogeneic cardiospheres and cardiosphere-derived cells in the field of cardiology.

  Additionally, Capricor has been awarded a grant from the NIH to support further development of the CAP-1002 product. Dr. Eduardo Marbán of CSMC, and Capricor's founder, has received approval on an investigational new drug, or IND, for a trial named "DYNAMIC" (dilated cardiomyopathy intervention with allogeneic myocardially-regenerative cells). Presently, Capricor is in discussions with the NIH with respect to the possible use of the funds subject to the grant for other clinical purposes. If approved, it is possible that Capricor will deploy this grant to fund the Phase I portion of the DYNAMIC trial. The Phase I portion of the DYNAMIC trial would use CAP-1002 to treat patients with advanced heart failure and a recent hospitalization for such. Capricor's decision to become involved in the DYNAMIC trial will depend on multiple factors, including, but not limited to: approval by the NHLBI to utilize the grant monies to fund the DYNAMIC trial, the ability of Capricor to reach an agreement with CSMC regarding the clinical operations aspect of the trial, and the assessment by Capricor of the appropriateness of DYNAMIC with respect to our pipeline development plan.

- **CAP-1001:** CAP-1001 consists of autologous CDCs. This product was used in the Phase I CADUCEUS clinical trial, which was sponsored and conducted by CSMC in collaboration with JHU. In that study, 25 patients were enrolled, of which 17 patients received autologous CDCs. 16 of the 17 treated patients showed a mean reduction of approximately 45% in scar mass and an increase in viable heart muscle one-year post heart attack. The eight patients in the control group had no significant change in infarct (scar) size. At present there is no plan for another clinical trial for CAP-1001. The data from CADUCEUS, using autologous CDCs, suggests that the cells are effective in reducing scar within several months of a heart attack. The ALLSTAR trial is designed to validate the results of CADUCEUS using an allogeneic product while also looking for potential efficacy in patients between 90 days and one year post MI with a more chronic scar, a patient population that CADUCEUS was not designed to study.

- **CSps:** CSps are multicellular clusters called cardiospheres, a 3D micro-tissue from which CDCs are derived, and have shown significant healing effects in pre-clinical models of heart failure. While Capricor considers the CSps an important product, at present there is no plan for a clinical trial for CSps.

- **Exosomes**: Exosomes are nano-sized, membrane-enclosed vesicles, or "bubbles", that are filled with select molecules, including proteins and microRNAs, which, when released, send messages to neighboring cells to regulate cellular functions. Exosomes act as a transport vehicle out of the cell for microRNA, other fragments of genetic material and proteins that act as messengers between cells, ultimately providing regulatory function for many cell processes, including inflammation, angiogenesis, programmed cell death (apoptosis) and scarring. Research has shown that exogenous exosomes can be used as therapeutic agents aimed to direct or, in some cases, re-direct cellular activities. Their size, ease of crossing cell membranes, and ability to communicate in native cellular language makes them a class of exciting and novel therapeutic agents. Capricor is currently in pre-clinical testing to explore the possible future therapeutic benefits that exosomes may possess.

- **Cenderitide (CD-NP)**: Cenderitide is a chimeric natriuretic peptide that is being considered for the treatment of heart failure. To date, we have explored the use of cenderitide in acute heart failure admissions as well as in the setting of patients in the vulnerable post-hospitalization phase. Any further development of cenderitide is subject to our ability to either raise additional capital or enter into a strategic transaction in which a strategic partner provides the capital necessary to continue development activities. We are currently evaluating whether we will proceed with further clinical development of this product.

- **CU-NP**: CU-NP is a pre-clinical rationally-designed natriuretic peptide that consists of amino acid chains identical to those produced by the human body, specifically the ring structure of C-type natriuretic peptide, or CNP, and the N- and C-termini of Urodilatin, or URO. Any further development of CU-NP is subject to our ability to either raise additional capital or enter into a strategic transaction in which a strategic partner provides the capital necessary to continue development activities. We are currently evaluating whether we will proceed with further clinical development of this product.

We have no product sales to date and will not have the ability to generate any product revenue until after we have received approval from the U.S. Food and Drug Administration, or the FDA, or equivalent foreign regulatory bodies to begin selling our pharmaceutical product candidates. Developing pharmaceutical products is a lengthy and very expensive process. Even if we obtain the capital necessary to continue the development of our product candidates, whether through a strategic transaction or otherwise, we do not expect to complete the development of a product candidate for many years, if ever. To date, most of our development expenses have related to our product candidates, CAP-1002 and cenderitide. As we proceed with the clinical development of CAP-1002 and other potential indications for CAP-1002, or if we further develop cenderitide or other additional products, our expenses will further increase. To the extent that we are successful in acquiring additional product candidates for our development pipeline, our need to finance further research and development activities will continue increasing. Accordingly, our success depends not only on the safety and efficacy of our product candidates, but also on our ability to finance the development of the products. Our major sources of working capital have been proceeds from private and public equity sales, grants received from the NIH, a payment from Janssen, and a loan award from CIRM.

Research and development, or R&D, expenses consist primarily of salaries and related personnel costs, clinical patient costs, consulting fees, costs of manufacturing personnel and supplies, costs of service providers for pre-clinical, clinical and certain legal expenses resulting from intellectual property prosecution, stock compensation expense and other expenses relating to the design, development, testing and enhancement of our product candidates. Except for certain capitalized patent expenses, R&D costs are expensed as incurred.

General and administrative, or G&A, expenses consist primarily of salaries and related expenses for executive, finance and other administrative personnel, stock compensation expense, accounting, legal and other professional fees, consulting expenses, rent for corporate offices, business insurance and other corporate expenses.

Our results have included non-cash compensation expense as a result of the issuance of stock options and warrants, as applicable. We expense the fair value of stock options and warrants over their vesting period as applicable. When more precise pricing data is unavailable, we determine the fair value of stock options using the Black-Scholes option-pricing model. The terms and vesting schedules for share-based awards vary by type of grant and the employment status of the grantee. Generally, the awards vest based upon time-based or performance-based conditions. Performance-based conditions generally include the attainment of goals related to our financial performance and product development. Stock-based compensation expense is included in the condensed consolidated statements of operations under G&A or R&D expenses, as applicable. We expect to record additional non-cash compensation expense in the future, which may be significant.

Results of Operations

General and Administrative Expenses. G&A expenses for the three months ended March 31, 2014 and 2013 were approximately $0.9 million and $0.5 million, respectively. The increase in the first quarter of 2014 of approximately $0.4 million compared to the same period of 2013 is primarily attributable to an increase of approximately $0.2 million in professional fees related to legal, consulting and accounting work related to the merger between Capricor and Nile, as well as additional expenses related to relevant public company compliance. Additionally, there was an increase of approximately $0.1 million in compensation costs related to increased headcount.

Research and Development Expenses. R&D expenses for three months ended March 31, 2014 and 2013 were approximately $1.4 million and $1.2 million, respectively. The increase of approximately $0.2 million over the same period of 2013 is primarily due to the timing of clinical development activities of CAP-1002 in our Phase I/II trial throughout 2013 and 2014. This resulted in an increase of approximately $0.2 million in clinical costs primarily related to patient costs, site costs and expenses for the operational team that supports our clinical trial.

CAP-1002 – Although the development of CAP-1002 is in its early stages, we believe that it has the potential to treat heart disease. On December 15, 2013 the NHLBI Gene and Cell Therapy Data Safety Monitoring Board gave Capricor approval to move into the Phase II portion of the ALLSTAR trial. We expect to spend approximately $7.5 to $10.0 million during 2014 on the development of CAP-1002, which is primarily related to our Phase II ALLSTAR trial. The Phase I portion of the trial was funded in large part through a grant received from the NIH. We began enrollment of the Phase II portion of the ALLSTAR trial in the first quarter of 2014. Phase II is an estimated 300 patient, double blind, placebo controlled, multi-centered study in which CAP-1002 is administered to patients via intracoronary infusion within 30 days to one year following a heart attack. Phase II is substantially funded through the support of a loan award from CIRM for approximately $19.8 million. The trial will measure several endpoints, including infarct size. Additional endpoints include left ventricular end-systolic and diastolic volume and ejection fraction at six and twelve months. Our strategy for further development of CAP-1002 will depend to a large degree on the outcome of these planned studies.

CAP-1001 – In 2011, CSMC, in collaboration with JHU, completed a Phase I, 25 patient clinical trial called CADUCEUS. In this study, 25 patients were enrolled who had suffered a heart attack within a mean of 65 days. 17 of those patients received CAP-1001 and the remaining eight received standard of care. 12 months after the study was completed, no measurable safety effects occurred in the 17 patients who were treated with CAP-1001. 16 of the 17 treated patients showed a mean reduction of approximately 45% in scar mass and an increase in viable heart muscle one-year post heart attack. The eight patients in the control group had no significant change in infarct (scar) size. At present, there is no plan for another clinical trial for CAP-1001. Capricor's strategy for further development of CAP-1001 will depend to a large degree on the outcome of its trial involving its CAP-1002 product and its ability to obtain significant capital to conduct further studies to further develop this product.

CSps – This product candidate is multicellular clusters called cardiospheres. This product is in pre-clinical development and has yet to be studied in humans. At present, there is no plan for a clinical trial of CSps.

Exosomes – Exosomes are nano-sized, membrane-enclosed vesicles, or "bubbles", that are filled with select molecules, including proteins and microRNAs, which, when released, send messages to neighboring cells to regulate cellular functions. Capricor is currently in pre-clinical testing to explore the possible future therapeutic benefits that exosomes may possess.

Cenderitide – The Company acquired the rights to cenderitide in 2006, and incurred substantial losses surrounding the development of the product. Prior to the merger between Capricor and Nile, Nile had incurred approximately $19.9 million in expenses directly relating to the cenderitide development program through September 30, 2013. We are currently evaluating whether to proceed with further clinical development of this product.

CU-NP – The Company acquired the rights to CU-NP in September 2008. Prior to the merger between Capricor and Nile, Nile had incurred approximately $0.7 million directly relating to the CU-NP development program through September 30, 2013.We are currently evaluating whether to proceed with further clinical development of this product.

Our expenditures on current and future clinical development programs, particularly our CAP-1002 and cenderitide programs, are expected to be substantial and to increase in relation to our available capital resources. However, these planned expenditures are subject to many uncertainties, including the results of clinical trials and whether we develop any of our drug candidates with a partner or independently. As a result, we cannot predict with any significant degree of certainty the amount of time which will be required to complete our clinical trials, the costs of completing research and development projects or whether, when and to what extent we will generate revenues from the commercialization and sale of any of our product candidates. The duration and cost of clinical trials may vary significantly over the life of a project as a result of unanticipated events arising during clinical development and a variety of other factors, including:

- the number of trials and studies in a clinical program;
- the number of patients who participate in the trials;
- the number of sites included in the trials;
- the rates of patient recruitment and enrollment;
- the duration of patient treatment and follow-up;

- the costs of manufacturing our drug candidates; and
- the costs, requirements and timing of, and the ability to secure, regulatory approvals.

Grant Income. Grant income for the three months ended March 31, 2014 and 2013 was approximately $0 and $0.2 million, respectively. This decrease in grant income in the first quarter of 2014 as compared to 2013 is due to the timing of activities under certain research and development projects that are covered under grant awards. These activities are not necessarily consistent from project to project and period to period. Additionally, in the last six months of 2013, Capricor's active grants were approaching the ends of their respective project periods.

Collaboration Income. As a result of the Collaboration Agreement and Exclusive License Option with Janssen, or the Janssen Agreement, income for the three months ended March 31, 2014 and 2013 was approximately $1.0 million and $0, respectively. The increase in the three months ended March 31, 2014 over the same period in 2013 is due to the fact that the Janssen Agreement was entered into with Janssen in late 2013, and a payment of $12.5 million was received by Capricor pursuant to the terms of the Janssen Agreement during the first quarter of 2014. A ratable portion of the payment to Capricor was recognized during the three months ended March 31, 2014.

Investment Income (Loss). Investment income (loss) for the three months ended March 31, 2014 and 2013 was $153 and $18,889, respectively. This decrease in investment income in the first quarter of 2014 as compared to the same period in 2013 is primarily due to the timing of interest payments in the marketable securities account.

Interest Expense. Interest expense for the three months ended March 31, 2014 and 2013 was $25,327 and $3,711, respectively. This increase in interest expense in the first quarter of 2014 as compared to the same period in 2013 is due to the interest on the CIRM loan award, related to the principal balance being higher in the first quarter of 2014, as compared to the same period of 2013.

Impairment of Goodwill. Goodwill impairment for each of the three months ended March 31, 2014 and 2013 was $0. There was impairment as a result of goodwill recorded at the consummation of the merger between Capricor and Nile of approximately $1.9 million which we deemed fully impaired as of December 31, 2013.

Liquidity and Capital Resources

The following table summarizes our liquidity and capital resources as of March 31, 2014 and December 31, 2013 and our net increase (decrease) in cash and cash equivalents for the three months ended March 31, 2014 and 2013, and is intended to supplement the more detailed discussion that follows. The amounts stated are expressed in thousands.

Liquidity and capital resources	**March 31, 2014**	**December 31, 2013**
Cash and cash equivalents	$ 12,979	$ 1,730
Working capital	$ 7,732	$ 1,628
Stockholders' equity (deficit)	$ (1,659)	$ (535)

	Three months ended March 31,	
Cash flow data	**2014**	**2013**
Cash provided by (used in):		
Operating activities	$ 11,343	$ (1,176)
Investing activities	(94)	431
Financing activities	1	857
Net increase in cash and cash equivalents	$ 11,250	$ 112

Our total cash resources, not including restricted cash, as of March 31, 2014 were approximately $13.0 million compared to approximately $1.7 million as of December 31, 2013. Total marketable securities, consisting primarily of United States treasuries, were approximately $0.3 million as of each of March 31, 2014 and December 31, 2013. As of March 31, 2014, we had approximately $17.6 million in total liabilities, of which approximately $11.5 million is recorded as deferred income under the Janssen Agreement, and approximately $7.7 million in net working capital. We incurred a net loss of approximately $1.2 million and had positive cash flow from operating activities of approximately $11.3 million for the three months ended March 31, 2014. Since July 5, 2005 (inception) through March 31, 2014, we have incurred an aggregate net loss of approximately $17.3 million. To the extent we obtain sufficient capital and/or long-term debt funding and are able to continue developing our product candidates, we expect to continue to incur substantial and increasing losses, which will continue to generate negative net cash flow from operating activities as we expand our technology portfolio and engage in further research and development activities, particularly the conducting of pre-clinical studies and clinical trials.

We had cash flow from operating activities of approximately $11.3 million, $(1.2) million and $(1.8) million for the three months ended March 31, 2014 and 2013 and for the period from July 5, 2005 (inception) through March 31, 2014, respectively. The difference of approximately $12.5 million in cash from operating activities for the three months ended March 31, 2014 as compared to the same period of 2013 is primarily due to our receipt of the $12.5 million payment under the terms of the Janssen Agreement. To the extent we obtain sufficient capital and/or long-term debt funding and are able to continue developing our product candidates, we expect to continue incurring substantial and increasing losses, which will continue to generate negative net cash flows from operating activities as we expand our technology portfolio and engage in further research and development activities, particularly in conducting pre-clinical studies and clinical trials.

We had cash flow from investing activities of approximately $(0.1) million for the three months ended March 31, 2014, cash flow from investing activities of approximately $0.4 million for the three months ended March 31, 2013, and cash flow from investing activities of approximately $(0.9) million for the period from July 5, 2005 (inception) through March 31, 2014. The difference in cash used in investing activities for the three months ended March 31, 2014 as compared to the same period of 2013 is primarily due to the proceeds from sales of marketable securities.

We had positive cash flow from financing activities of approximately $0, $0.9 million and $15.6 million for the three months ended March 31, 2014 and 2013 and for the period from July 5, 2005 (inception) through March 31, 2014, respectively. The cash flow of approximately $0.9 million in the three months ended March 31, 2013 is a result of Capricor's CIRM loan financing, with no such funds received during the three months ended March 31, 2014.

Phase II of Capricor's ALLSTAR trial has been funded in large part through a loan award from CIRM. Following completion of the Phase II trial would be a Phase IIb and/or Phase III trial. If we continue with a Phase IIb or Phase III trial, we will need substantial additional capital in order to continue the development of CAP-1002. Pursuant to the Janssen Agreement, the CMC package will be developed by the joint efforts of Janssen and Capricor. Capricor will be required to reimburse Janssen for its costs of development up to an agreed-upon maximum amount. If Janssen exercises its exclusive option, Janssen will be responsible for any additional trials with respect to CAP-1002.

We need substantial additional capital in order to continue the development of cenderitide. We are currently evaluating whether to proceed with further clinical development of this product.

From inception through March 31, 2014, Capricor has financed its operations through private sales of its equity securities, NIH grants, a payment from Janssen, and a CIRM loan award. Prior to the merger between Capricor and Nile, Nile financed its operations through public sales of its equity. As we have not generated any revenue from the sale of our products to date, and we do not expect to generate revenue for several years, if ever, we will need to raise substantial additional capital in order to fund our immediate general corporate activities and, thereafter, to fund our research and development, including our long-term plans for clinical trials and new product development. We may seek to raise additional funds through various potential sources, such as equity and debt financings, or through strategic collaborations and license agreements. We can give no assurances that we will be able to secure such additional sources of funds to support our operations, or if such funds are available to us, that such additional financing will be sufficient to meet our needs. Moreover, to the extent that we raise additional funds by issuing equity securities, our stockholders may experience additional significant dilution, and debt financing, if available, may involve restrictive covenants. To the extent that we raise additional funds through collaboration and licensing arrangements, it may be necessary to relinquish some rights to our technologies or our product candidates, or grant licenses on terms that may not be favorable to us.

Our estimates regarding the sufficiency of our financial resources are based on assumptions that may prove to be wrong. We may need to obtain additional funds sooner than planned or in greater amounts than we currently anticipate. The actual amount of funds we will need to operate is subject to many factors, some of which are beyond our control. These factors include the following:

- the progress of our research activities;
- the number and scope of our research programs;
- the progress of our pre-clinical and clinical development activities;
- the progress of the development efforts of parties with whom we have entered into research and development agreements;

- our ability to maintain current research and development programs and to establish new research and development and licensing arrangements;
- the cost involved in prosecuting and enforcing patent claims and other intellectual property rights; and
- the cost and timing of regulatory approvals.

Financing Activities by the Company

March 2013 Financing. On March 15, 2013, we entered into a convertible note purchase agreement with certain accredited investors pursuant to which we agreed to sell an aggregate principal amount of up to $500,000 of secured convertible promissory notes, or the 2013 Notes, for an aggregate original issue price of $425,000, representing a 15% original issue discount. The closing of the private placement also occurred on March 15, 2013, and resulted in the sale of 2013 Notes in the aggregate principal amount of $450,000 for an aggregate original issue price of $382,500.

On September 27, 2013, we and the holders of the 2013 Notes entered into an amendment to the 2013 Notes, which provided, among other things, that upon a Change of Control (as defined in the 2013 Notes), the conversion price applicable to the 2013 Notes and the exercise price applicable to the warrants issuable upon a Change of Control will be equal to the average dollar volume weighted average price, or VWAP, of our common stock for each trading day during the period from July 8, 2013 to September 30, 2013. The average VWAP during such period was approximately $0.045 per share. Additionally, pursuant to the amendment, upon a conversion of the 2013 Notes in connection with a Change of Control, the holders confirmed that all obligations under the 2013 Notes would be deemed satisfied in full and released us from any claims relating to the 2013 Notes.

On October 21, 2013, we and the holders of the 2013 Notes entered into an amendment to the Convertible Note Purchase Agreement pursuant to which we sold to such holders additional notes having an aggregate principal amount of $120,510, or the Additional Notes. The Additional Notes have identical terms and conditions as the 2013 Notes described above and were allocated among the holders on a pro rata basis based on their initial purchase of the 2013 Notes. In exchange for the issuance of the Additional Notes, we received aggregate gross proceeds of $102,433. The 2013 Notes and the Additional Notes are collectively referred to herein as the 2013 Notes.

The 2013 Notes converted at the close of the merger between Capricor and Nile on November 20, 2013 into 251,044 shares of our common stock on a post-reverse stock split basis. Additionally, 251,044 warrants to purchase our common stock at a strike price of $2.2725, on a post-reverse stock split basis, were issued to the holders of the 2013 Notes. We have filed a Registration Statement on Form S-1 to register for resale the shares of common stock underlying the 2013 Notes.

April 2012 Financing. On March 30, 2012, the Company entered into subscription agreements with certain purchasers pursuant to which we agreed to sell an aggregate of 67,000 shares of our common stock to such purchasers for a purchase price of $20.00 per share (calculated using the post-reverse stock split factor of 1:50). In addition, for each share purchased, each purchaser also received three-fourths of a five-year warrant to purchase an additional share of common stock at an exercise price of $25.00 per share (calculated using the post-reverse stock split factor of 1:50), resulting in the issuance of warrants to purchase an aggregate of 50,250 shares of our common stock. The total gross proceeds from the offering were $1.3 million, before deducting anticipated selling commissions and expenses of approximately $0.2 million. The closing of the offering occurred on April 4, 2012. In connection with the offering, we engaged Roth Capital Partners, LLC, or Roth, to serve as placement agent. Pursuant to the terms of the placement agent agreement, we agreed to pay Roth a cash fee equal to seven percent of the gross proceeds received by us, or approximately $93,800, plus a non-accountable expense allowance of $35,000. Richard B. Brewer, our former Executive Chairman, Joshua A. Kazam, our former President and Chief Executive Officer and a current director of the Company, Daron Evans, our former Chief Financial Officer, and Hsiao Lieu, M.D., our former Executive VP of Clinical Development, participated in the offering on the same terms as the unaffiliated purchasers, and collectively purchased 5,500 shares of our common stock and warrants to purchase 4,125 shares of our common stock for an aggregate purchase price of $110,000.

The offer and sale of the shares and warrants were made pursuant to our shelf registration statement on Form S-3 (SEC File No. 333-165167), which became effective on March 12, 2010. Pursuant to the subscription agreements that we entered into with the purchasers in the April 2012 financing, we agreed to file, within 15 business days after the closing of the offering, a registration statement covering the issuance of the shares of our common stock upon exercise of the warrants and the subsequent resale of such shares, or the Additional Registration Statement, and to cause such registration statement to be declared effective within 90 days following the closing of the offering. In the event the Additional Registration Statement was not declared effective by the SEC within such 90-day period, we agreed to pay liquidated damages to each purchaser in the amount of 1% of such purchaser's aggregate investment amount for each 30-day period until the Additional Registration Statement was declared effective, subject to an aggregate limit of 12% of such purchaser's aggregate investment amount. The Additional Registration Statement was filed on April 25, 2012 and was declared effective by the SEC on May 7, 2012.

At the consummation of the merger between Capricor and Nile, warrants to purchase 50,063 shares of our common stock, which were issued in the April 2012 financing described above, were exchanged for 50,063 shares of our common stock, and certain April 2012 warrants were cancelled. After the exchange, warrants to purchase 187 shares of our common stock remain outstanding from the April 2012 issuance, which such warrants provide for a strike price of $2.2725.

Financing Activities by Capricor, Inc.

CIRM Loan Agreement. On February 5, 2013, Capricor entered into a Loan Agreement with CIRM, or the CIRM Loan Agreement, pursuant to which CIRM agreed to disburse $19,782,136 to Capricor over a period of approximately three and one-half years to support Phase II of the ALLSTAR clinical trial.

Under the CIRM Loan Agreement, Capricor is required to repay the CIRM loan with interest at the end of the loan period. The loan also provides for the payment of a risk premium whereby Capricor is required to pay CIRM a premium of up to 500% of the loan amount upon the achievement of certain revenue thresholds. The loan has a term of five years and is extendable annually up to ten years at Capricor's option if certain conditions are met. The interest rate for the initial term is set at the one-year LIBOR rate plus 2% ("base rate"), compounded annually, and becomes due at the end of the fifth year. After the fifth year, if the term of the loan is extended and if certain conditions are met, the interest rate will increase by 1% over the base rate each sequential year thereafter, with a maximum increase of 5% over the base rate in the tenth year. CIRM has the right to cease disbursements if a no-go milestone occurs or certain other conditions are not met. Under the terms of the CIRM Loan Agreement, CIRM deducted $36,667 from the initial disbursement to cover its costs in conducting financial due diligence on Capricor. CIRM will also deduct $16,667 from each disbursement made in the second and third year of the loan period to cover its costs of continuing due diligence, according to the payment disbursement schedule which may be amended from time to time. So long as Capricor is not in default under the terms of the CIRM Loan Agreement, the loan may be forgiven during the term of the project period if Capricor abandons the trial due to the occurrence of a no-go milestone. After the end of the project period, the loan may also be forgiven if Capricor elects to abandon the project under certain circumstances. Under the CIRM Loan Agreement, Capricor is required to meet certain financial milestones by demonstrating to CIRM prior to each disbursement of loan proceeds that it has funds available sufficient to cover all costs and expenses anticipated to be required to continue Phase II of the ALLSTAR trial for at least the following 12-month period, less the costs budgeted to be covered by planned loan disbursements. Capricor will not issue stock, warrants or other equity to CIRM in connection with this award.

The timing of the distribution of funds pursuant to the CIRM Loan Agreement shall be contingent upon the availability of funds in the California Stem Cell Research and Cures Fund in the State Treasury, as determined by CIRM in its sole discretion.

Convertible Preferred Stock. Prior to the Merger and without giving effect to the applicable multiplier, Capricor was authorized to issue 5,426,844 shares of convertible preferred stock, which was allocated as follows: Series A-1: 940,000 shares, all of which were issued; Series A-2: 736,844 shares, all of which were issued; and Series A-3: 3,750,000 shares, of which 1,500,000 shares were issued. During 2011 and 2012, the 1,500,000 shares of Series A-3 convertible preferred stock, par value of $0.001 per share, were issued by Capricor for cash proceeds of $6,000,000. Immediately prior to the effective time of the merger between Capricor and Nile, all shares of Capricor preferred stock were converted into shares of Capricor common stock pursuant to the terms of the merger agreement. The shares of Capricor preferred stock that were converted into Capricor common stock as a result of the merger between Capricor and Nile and in accordance with the terms of the merger agreement, were exchanged according to the applicable multiplier for 6,591,494 shares of our common stock.

Grant and Sub-grant Awards. In 2010, Capricor was awarded $2,993,268 in a federal grant from the NIH to support the project entitled "Safety and Efficacy of Allogeneic Cardiosphere-derived Stem Cells After MI". The award was issued under the American Recovery and Reinvestment Act of 2009. The award is subject to certain quarterly and annual reporting requirements as well as a final progress report. The award was used to fund a portion of the Phase I clinical trial for the CAP-1002 product, as well as various development activities associated with CAP-1002, and includes, among other permitted costs, certain allowable expenses such as personnel, supplies and certain patient costs. In the second quarter of 2013, the project period of the grant was extended until September 30, 2013 through an approved no-cost extension. As of December 31, 2013, the full amount of the award had been disbursed to Capricor.

In 2009, Capricor was awarded $124,791 in a federal grant through the NIH Small Business Innovation Research, or SBIR, program for the project entitled, "Characterization and Potency of Optimized Cardiosphere-derived Stem Cell Method" (Phase I). The grant award is subject to quarterly and annual reporting requirements as stipulated in the Notice of Award, and is subject to certain terms and conditions. The award was complete as of December 31, 2013.

In 2011, Capricor was awarded an additional $397,217 (Phase II) in connection with the SBIR award from the NIH. In 2012, Capricor was awarded a third year under the award and was approved for an additional $425,410 (Phase III). In the third quarter of 2013, the project period of the grant was extended until August 30, 2013 through an approved no-cost extension. The award was complete as of December 31, 2013.

On August 21, 2013, Capricor was approved for a Phase IIB Bridge grant through the NIH SBIR program for continued development of its CAP-1002 product candidate. Under the terms of the grant, approximately $2,879,437 will be disbursed over three years subject to annual and quarterly reporting requirements. As of March 31, 2014, no funds had been disbursed under the terms of this award. Capricor is currently in discussions with the NIH with respect to the possible use of the funds for other clinical purposes. If approved, it is possible that Capricor will deploy this grant to fund the Phase I portion of the DYNAMIC trial, the investigational new drug which was submitted by Dr. Eduardo Marbán of CSMC. The Phase I portion of the DYNAMIC trial would be to use CAP-1002 to treat patients with advanced heart failure and a recent hospitalization for such. Capricor's decision to become involved in the DYNAMIC trial will depend on multiple factors, including, but not limited to: approval by the NHLBI to utilize the grant monies to fund the DYNAMIC trial, the ability of Capricor to reach an agreement with CSMC regarding the clinical operations aspect of the trial, and the assessment by Capricor of the appropriateness of DYNAMIC with respect to our pipeline development plan.

Off -Balance Sheet Arrangements

There were no off-balance sheet arrangements as of March 31, 2014.

Critical Accounting Policies and Estimates

Our financial statements are prepared in accordance with generally accepted accounting principles. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures. We evaluate our estimates and assumptions on an ongoing basis, including research and development and clinical trial accruals, and stock-based compensation estimates. Our estimates are based on historical experience and various other assumptions that we believe to be reasonable under the circumstances. Our actual results could differ from these estimates. We believe the following critical accounting policies reflect the more significant judgments and estimates used in the preparation of our financial statements and accompanying notes.

Grant Income

The determination as to when income is earned is dependent on the language in each specific grant. Generally, we recognize grant income in the period in which the expense is incurred for those expenses that are deemed reimbursable under the terms of the grant.

Income from Collaborative Agreement

Revenue from nonrefundable, up-front license or technology access payments under license and collaborative arrangements that are not dependent on any future performance by us is recognized when such amounts are earned. If we have continuing obligations to perform under the arrangement, such fees are recognized over the estimated period of continuing performance obligation.

We account for multiple element arrangements, such as license and development agreements in which a customer may purchase several deliverables, in accordance with FASB ASC Subtopic 605-25, "Multiple Element Arrangements". For new or materially amended multiple element arrangements, we identify the deliverables at the inception of the arrangement and each deliverable within a multiple deliverable revenue arrangement is accounted for as a separate unit of accounting if both of the following criteria are met: (1) the delivered item or items have value to the customer on a standalone basis and (2) for an arrangement that includes a general right of return relative to the delivered item(s), delivery or performance of the undelivered item(s) is considered probable and substantially in our control. We allocate revenue to each non-contingent element based on the relative selling price of each element. When applying the relative selling price method, we determine the selling price for each deliverable using vendor-specific objective evidence ("VSOE") of selling price, if it exists, or third-party evidence ("TPE") of selling price, if it exists. If neither VSOE nor TPE of selling price exist for a deliverable, we use the best estimated selling price for that deliverable. Revenue allocated to each element is then recognized based on when the basic four revenue recognition criteria are met for each element.

We determined the deliverables under our collaborative arrangement with Janssen did not meet the criteria to be considered separate accounting units for the purposes of revenue recognition. As a result, we recognized revenue from non-refundable, upfront fees ratably over the term of our performance under the agreement. The upfront payments received, pending recognition as revenue, are recorded as deferred revenue and are classified as a short-term or long-term liability on the consolidated balance sheets and amortized over the estimated period of performance. We periodically review the estimated performance period of our contract based on the progress of our project.

Research and Development Expenses and Accruals

Research and development, or R&D, expenses consist primarily of salaries and related personnel costs, clinical patient costs, consulting fees, costs of manufacturing personnel and supplies, costs of service providers for pre-clinical, clinical and certain legal expenses resulting from intellectual property prosecution, stock compensation expense and other expenses relating to the design, development, testing and enhancement of our product candidates. Except for certain capitalized patent expenses, R&D costs are expensed as incurred.

Our cost accruals for clinical trials and other R&D activities are based on estimates of the services received and efforts expended pursuant to contracts with numerous clinical trial centers and Contract Research Organizations, or CROs, clinical study sites, laboratories, consultants or other clinical trial vendors that perform activities in connection with a trial. Related contracts vary significantly in length and may be for a fixed amount, a variable amount based on actual costs incurred, capped at a certain limit, or for a combination of fixed, variable and capped amounts. Activity levels are monitored through close communication with the CROs and other clinical trial vendors, including detailed invoice and task completion review, analysis of expenses against budgeted amounts, analysis of work performed against approved contract budgets and payment schedules, and recognition of any changes in scope of the services to be performed. Certain CRO and significant clinical trial vendors provide an estimate of costs incurred but not invoiced at the end of each quarter for each individual trial. These estimates are reviewed and discussed with the CRO or vendor as necessary, and are included in R&D expenses for the related period. For clinical study sites which are paid periodically on a per-subject basis to the institutions performing the clinical study, we accrue an estimated amount based on subject screening and enrollment in each quarter. All estimates may differ significantly from the actual amount subsequently invoiced, which may occur several months after the related services were performed.

In the normal course of business, we contract with third parties to perform various R&D activities in the on-going development of our product candidates. The financial terms of these agreements are subject to negotiation, vary from contract to contract and may result in uneven payment flows. Payments under the contracts depend on factors such as the achievement of certain events, the successful enrollment of patients, and the completion of portions of the clinical trial or similar conditions. The objective of the accrual policy is to match the recording of expenses in the financial statements to the actual services received and efforts expended. As such, expense accruals related to clinical trials and other R&D activities are recognized based on our estimates of the degree of completion of the event or events specified in the applicable contract.

No adjustments for material changes in estimates have been recognized in any period presented.

Stock-Based Compensation

Our results include non-cash compensation expense as a result of the issuance of stock, stock options and warrants, as applicable. We have issued stock options to employees, directors and consultants under our four stock option plans: (i) the Amended and Restated 2005 Stock Option Plan, (ii) the 2006 Stock Option Plan, (iii) the 2012 Restated Equity Incentive Plan (which superseded the 2006 Stock Option Plan), and (iv) the 2012 Non-Employee Director Stock Option Plan.

We expense the fair value of stock-based compensation over the vesting period. When more precise pricing data is unavailable, we determine the fair value of stock options using the Black-Scholes option-pricing model. This valuation model requires us to make assumptions and judgments about the variables used in the calculation. These variables and assumptions include the weighted-average period of time that the options granted are expected to be outstanding, the volatility of our common stock, the risk-free interest rate and the estimated rate of forfeitures of unvested stock options.

Stock options or other equity instruments to non-employees (including consultants) issued as consideration for goods or services received by us are accounted for based on the fair value of the equity instruments issued (unless the fair value of the consideration received can be more reliably measured). The fair value of stock options is determined using the Black-Scholes option-pricing model and is periodically re-measured as the underlying options vest. The fair value of any options issued to non-employees is recorded as expense over the applicable service periods.

The terms and vesting schedules for share-based awards vary by type of grant and the employment status of the grantee. Generally, the awards vest based upon time-based or performance-based conditions. Performance-based conditions generally include the attainment of goals related to our financial and development performance. Stock-based compensation expense is included in the general and administrative expense or the research and development expense, as applicable, in the Statements of Operations. We expect to record additional non-cash compensation expense in the future, which may be significant.

Warrant Liability

The Company previously accounted for the warrants issued in connection with the April 2012 financing and the embedded derivative warrant liability contained in the 2013 Notes in accordance with the guidance on Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity, which provides that we classify the warrant instrument as a liability at its fair value and adjust the instrument to fair value at each reporting period. This liability is subject to re-measurement at each balance sheet date until exercised, and any change in fair value is recognized as a component of other income or expense. In connection with the merger between Capricor and Nile, 50,063 warrants issued in the April 2012 financing were eliminated and 50,063 shares of Company common stock were issued in exchange for cancellation of the warrants to purchase 50,063 shares of Company common stock. Furthermore, the 2013 Notes converted into shares of Company common stock and additional warrants for Company common stock were issued to the holders. Management has determined the value of the warrant liability to be insignificant at March 31, 2014, and no such liability has been reflected on the balance sheet.

Long-Term Debt

Capricor accounts for the loan proceeds under its CIRM Loan Agreement as long-term liabilities. Capricor recognizes the CIRM loan disbursements as a loan payable as the principal is disbursed rather than recognizing the full amount of the award. Capricor recognizes the disbursements in this manner since the period in which the loan will be paid back will not be in the foreseeable future. The terms of the CIRM Loan Agreement contain certain forgiveness provisions that may allow for the principal and interest of the loan to be forgiven. The potential for forgiveness of the loan is contingent upon many conditions, some of which are outside of Capricor's control, and no such estimates are made to determine a value for this potential for forgiveness.

Restricted Cash

Capricor accounts for the disbursements received under the CIRM Loan Agreement which have not been attributed to a particular project's costs through the current period as restricted cash.

Recently Issued or Newly Adopted Accounting Pronouncements

In February 2013, the FASB issued Accounting Standards Update ("ASU") 2013-02,*Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*, ("ASU 2013-02"). ASU 2013-02 amends ASC 220,*Comprehensive Income* ("ASC 220"), and requires entities to present the changes in the components of accumulated other comprehensive income for the current period. Entities are required to present separately the amount of the change that is due to reclassifications, and the amount that is due to current period other comprehensive income. These changes are permitted to be shown either before or net-of-tax and can be displayed either on the face of the financial statements or in the footnotes. ASU 2013-02 was effective for our interim and annual periods beginning January 1, 2013. The adoption of ASU 2013-02 did not have a material effect on our consolidated financial position or results of operations.

In March 2013, the FASB issued new guidance related to the release of cumulative translation adjustment related to an entity's investment in a foreign entity. The guidance clarifies that the guidance in Subtopic 830-30, Foreign Currency Matters - Translation of Financial Statements, applies to the release of cumulative translation adjustment into net income when a reporting entity either sells a part or all of its investment in a foreign entity or ceases to have a controlling financial interest in a subsidiary or group of assets that constitute a business within a foreign entity. This guidance is effective for the Company prospectively for reporting periods beginning October 1, 2014. The adoption of this guidance is not expected to have a material impact on our condensed consolidated financial statements.

In April 2013, the FASB issued ASU 2013-07,*Presentation of Financial Statements (Topic 205): Liquidation Basis of Accounting* ASU 2013-07 clarifies when an entity should apply the liquidation basis of accounting. ASU 2013-07 also provides principles for the recognition and measurement of assets and liabilities and requirements for financial statements prepared using the liquidation basis of accounting. ASU 2013-07 is effective for fiscal years and interim periods within those years beginning after December 15, 2013. We do not expect amendments in ASU 2013-07 to impact our condensed consolidated financial statements, results of operations or liquidity.

In July 2013, the FASB issued ASU 2013-11,*Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*, which eliminates diversity in practice for the presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss or a tax credit carryforward is available to reduce the taxable income or tax payable that would result from disallowance of a tax position. ASU 2013-11 affects only the presentation of such amounts in an entity's balance sheet and is effective for fiscal years beginning after December 15, 2013 and interim periods within those years. The adoption of ASU 2013-11 did not have a material effect on our consolidated financial position or results of operations.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Interest Rate Sensitivity

The Company's exposure to market risk for changes in interest rates relates primarily to its marketable securities and cash and cash equivalents. As of March 31, 2014, the fair value of the Company's cash, cash equivalents, including restricted cash, and its marketable securities was approximately $13.9 million. Additionally, as of March 31, 2014, Capricor's portfolio consisted of marketable securities, including primarily United States treasuries and bank savings and checking accounts. Capricor did not have any investments with significant exposure to the subprime mortgage market issues.

The goal of the Company's investment policy is to place its investments with highly rated credit issuers and limit the amount of credit exposure. We seek to improve the safety and likelihood of preservation of our invested funds by limiting default risk and market risk. Our investments may be exposed to market risk due to fluctuation in interest rates, which may affect our interest income and the fair market value of our investments, if any. We will manage this exposure by performing ongoing evaluations of our investments. Due to the short-term maturities, if any, of our investments to date, their carrying value has always approximated their fair value. The Company's policy is to mitigate default risk by investing in high credit quality securities, and we currently do not hedge interest rate exposure. Due to our policy of only making investments in United States treasury securities with primarily short-term maturities, we believe that the fair value of our investment portfolio would not be significantly impacted by a hypothetical 100 basis point increase or decrease in interest rates.

Item 4. Controls and Procedures.

We have adopted and maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Principal Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that controls and procedures, no matter how well designed and operated, cannot provide absolute assurance of achieving the desired control objectives.

As required by Rule 13a-15(b), under the Securities Exchange Act of 1934, as amended, we carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and Principal Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based on the foregoing, our Chief Executive Officer and Principal Financial Officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Controls over Financial Reporting

There has been no change in our internal control over financial reporting during the period ended March 31, 2014 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings.

We are not a party to any material pending legal proceedings.

Item 1A. Risk Factors.

There have been no material changes in our risk factors from those previously disclosed in Part 1, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2013 that was filed with the Securities and Exchange Commission on March 31, 2014.

Item 2. Unregistered Sales of Securities and Use of Proceeds.

In February 2014, a former employee of Capricor exercised stock options pursuant to which 3,112 shares of Capricor Therapeutics common stock were issued in accordance with the terms of the 2012 Restated Equity Incentive Plan and the applicable stock option agreement. For the issuance of the shares of Capricor Therapeutics common stock to the former Capricor employee, the Company relied upon the exemption from registration pursuant to Section 4(2) of the Securities Act and Rule 505 promulgated thereunder.

Item 3. Defaults Upon Senior Securities.

Not applicable.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

On May 15, 2014, Capricor, a wholly-owned subsidiary of the Company, signed a Facilities Lease with CSMC, a shareholder of the Company, for two research labs (the "Facilities Lease"). The Facilities Lease is for a term of three years and replaces the month-to-month lease that was previously in effect between CSMC and Capricor. The rent expense for the first six-month period is approximately $15,461 per month. Commencing with the seventh month of the lease term, the rent expense will increase to approximately $19,350 per month. The amount of rent expense is subject to annual adjustments according to increases in the Consumer Price Index. A copy of the Facilities Lease is filed as Exhibit 10.1 to this Quarterly Report on Form 10-Q.

Item 6. Exhibits.

3.1	Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, filed with the Commission on February 9, 2007).
3.2	Certificate of Amendment of Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, filed with the Commission on November 26, 2013).
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* Filed herewith.

SIGNATURES

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

CAPRICOR THERAPEUTICS, INC.

Date: May 15, 2014

By: /s/ Linda Marbán, Ph.D.
Linda Marbán, Ph.D.
Chief Executive Officer
(Principal Executive Officer)

Date: May 15, 2014

By: /s/ Anthony Bergmann
Anthony Bergmann
Vice President of Finance
(Principal Financial and Accounting Officer)

EXHIBIT INDEX

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* Filed herewith.

FACILITIES LEASE

between

CEDARS-SINAI MEDICAL CENTER,

a California nonprofit public benefit corporation

and

Capricor, Inc.

a Delaware corporation

FACILITIES LEASE

THIS FACILITIES LEASE ("Lease") is made and entered into as of June 1, 2014, by and between CEDARS-SINAI MEDICAL CENTER, a California nonprofit public benefit corporation ("Landlord"), and CAPRICOR, INC., a Delaware corporation ("Tenant"), with reference to the following facts and circumstances:

A. Landlord is the owner of buildings located at 110 George Burns Road, Los Angeles, California (the "Davis Building") and 8723 Alden Drive, Los Angeles California (the "SSB1 Building") (each of the Davis Building and the SSB1 Building alone, a "Building" and collectively, the "Buildings"). The land upon which the Davis Building is located is hereinafter referred to as the "Davis Property" and the land upon which the SSB1 Building is located is hereinafter referred to as the "SSB1 Property" (the Davis Property and the SSB1 Property, collectively, the "Property"). Site plans depicting the Buildings, related improvements and the Property (collectively, the "Project") are attached hereto as **Exhibit A**.

B. Tenant is currently leasing certain space in the Davis Building from Landlord pursuant to that certain Lease dated January 1, 2008 (the "Expired Lease"), which space is now being leased by Tenant on a month-to-month basis. Landlord and Tenant agree that upon the Commencement Date of this Lease, the Expired Lease shall be deemed superseded hereby and shall no longer be of force or effect, except with respect to any obligations which were intended to survive the termination thereof.

C. Landlord desires to lease certain space within the Buildings to Tenant and Tenant wishes to lease such space within the Buildings from Landlord, in accordance with the terms and conditions stated herein.

D. Tenant is leasing certain space within the Buildings for the purpose of conducting Biomedical Activities.

E. Landlord and Tenant intend that the execution, delivery and performance of this Lease by each party, and the consummation of the transactions contemplated hereunder, shall not at any time threaten Landlord's tax-exempt status under Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the California Revenue and Taxation Code, or cause Landlord to be in default under any of Landlord's issued and outstanding tax-exempt bonds.

NOW, THEREFORE, for mutual consideration, the receipt and sufficiency of which are hereby acknowledged, Landlord and Tenant hereby agree as follows:

ARTICLE I
BASIC LEASE PROVISIONS

Wherever referred to in this Lease, and subject to modification or revision by particular terms and conditions of this Lease and Addenda thereto, these certain basic lease provisions are defined as follows:

1.1 Tenant: Capricor, Inc., a Delaware corporation.

1.2 Buildings: 110 George Burns Road and 8723 Alden Drive.

1.3 Premises Area: 1,935 total rentable square feet, consisting of:

1.3.1 Rooms 1099, 1099A, and 1100 of the Davis Building, consisting of 652 usable square feet (the "Davis Building Premises");

1.3.2 Rooms 143, 143A, and 143B of the SSB1 Building, and Fifty percent (50%) of the usable square feet contained in Rooms 149 and 150 of the SSB1 Building, consisting of 1,004 usable square feet (collectively, the "SSB1 Building Premises");

1.3.3 Tenant's share of the gross square feet contained in the Common Services Space and the Common Areas of the Davis Building, which shall be an additional fifteen percent (15%) of the total usable square feet of the "Davis Building Premises" described in Section 1.3.1 above (equaling 98 square feet) bringing the total rentable square footage for the Davis Building Premises to 750 square feet.

1.3.4 Tenant's share of the gross square feet contained in the Common Services Space and the Common Areas of the SSB1 Building, which shall be an additional eighteen percent (18%) of the total usable square feet of the "SSB1 Building Premises" described in Section 1.3.2 above (equaling 181 square feet) bringing the total rentable square footage for the SSB1 Building Premises to 1185 square feet.

1.4 Commencement Date: June 1, 2014.

1.5 Termination Date: May 31, 2017.

1.6 Permitted Uses: Biomedical Activities, as set forth in Section 6.1 and more particularly described in **Exhibit D.**

1.7 Total Monthly Payment:

1.7.1 $15,460.65, beginning on the Commencement Date and continuing on the first day of each subsequent calendar month for the first six months of the Term hereof. The Total Monthly Payment includes: (i) the "Basic Monthly Rent" for the first six months of the Term hereof of $11,590.65; and (ii) an "Additional Monthly Rent" of $3,870.00 for Operating Expenses.

1.7.2 $19,350.00, on the first day of each subsequent calendar month after the first six months of the Term hereof. The Total Monthly Payment includes: (i) the "Basic Monthly Rent" of $15,480.00; and (ii) an "Additional Monthly Rent" of $3,870.00 for Operating Expenses.

1.8 Basic Annual Rent:

1.8.1 $162,423.90 , for the first year of the Term hereof. The value for Basic Annual Rent found in this Section 1.8.1 shall not be used for any adjustments made from time to time pursuant to Section 4.2 hereof.

1.8.2 $185,760.00, for all years subsequent to the first year of the Term hereof. The value for Basic Annual Rent found in this Section 1.8.2 shall be used for any adjustments made from time to time pursuant to Section 4.2 hereof.

1.9 Basic Annual Rent Increase: Effective on each and every anniversary of the Commencement Date, pursuant to Section 4.2.

1.10 Additional Rent: $46,440.00 annually (or $3,870.00 per month) for Operating Expenses, pursuant to Section 4.3.

1.11 Total Annual Rent:

1.11.1 $208,863.90 for the first year of the Term hereof, consisting of the Basic Annual Rent set forth in Section 1.8.1 plus the Additional Rent set forth in Section 1.10.

1.11.2 $232,200 for all years subsequent to the first year of the Term hereof, consisting of the Basic Annual Rent set forth in Section 1.8.2 and the Additional Rent set forth in Section 1.10, subject to adjustments as set forth elsewhere in this Lease.

1.12 Security Deposit: $38,700.00.

1.13 Parking Allotment: See Section 29.23 hereof

ARTICLE II
DESCRIPTION OF PREMISES

2.1 Subject to the terms and conditions stated herein, Landlord hereby leases to Tenant, and Tenant hereby leases from Landlord certain premises consisting of the spaces designated as (a) Rooms 1099, 1099A, and 1100 of the Davis Building (the "Davis Building Premises"), (b) Rooms 143, 143A, and 143B of the SSB1 Building, and fifty percent (50%) of the usable square feet contained in Rooms 149 and 150 of the SSB1 Building (the SSB1 Building Premises) (the Davis Building Premises, together with the SSB1 Building Premises, the "Premises"). The "Premises Area" for such Premises shall mean and consist of 1,935 total rentable square feet, consisting of: (a) the sum of the total usable square feet within the Davis Building Premises described in Section 1.3.1 hereof and Tenant's share of the space described in, and as determined pursuant to, Sections 1.3.3, plus (b) the sum of the total usable square feet within the SSB1 Building Premises described in Section 1.3.2 hereof and Tenant's share of the space described in, and as determined pursuant to, Section 1.3.4 hereof. The floor plan for the Davis Building Premises is attached hereto as **Exhibit B.** The floor plan for the SSB1 Building Premises is attached hereto as **Exhibit H**. Tenant acknowledges that it has investigated the Premises prior to the execution hereof and agrees that the total rentable square footage of Premises Area for purposes of this Lease is not less than that set forth above and that Tenant shall be irrevocably bound by the designation of total rentable square footage of the Premises Area set forth above. For purposes of this Agreement, the "Common Services Space" shall mean those portions of the floors on which the Premises are located which are marked as such on **Exhibit B** and **Exhibit H** attached hereto.

2.2 With respect to that portion of the SSB1 Building Premises contained in Rooms 149 and 150 ("SSB1 149 and 150"), Tenant shall have the right to occupy that portion of SSB1 149 and 150 designated as exclusive space on **Exhibit H** attached hereto (the "SSB1 149 and 150 Exclusive Space"), on an exclusive basis and shall have the right to utilize the ducted hood located on the south wall of SSB1 149 and 150 on a non-exclusive basis. To ensure its exclusivity, Tenant shall have the right to install, subject to all appropriate Landlord consents and approvals as well as the provisions of Section 7.2, and so long as such barrier does not violate any fire laws, regulations or codes, a temporary barrier separating the SSB1 149 and 150 Exclusive Space from the remaining portion of SSB1 149 and 150. Subject to any reasonable conditions that Landlord may impose in its sole and absolute discretion, until such time that Landlord has a tenant to occupy the remaining portion of SSB1 149 and 150, Tenant shall have the right to utilize the remaining portion of SSB1 149 and 150.

2.3 This Lease and the Rent to be paid hereunder shall include any personal property, fixtures, equipment and/or other improvements of Landlord's located within the Premises, but shall not include telephone equipment and usage charges, which shall be billed to Tenant separately by the Telecommunications Department.

ARTICLE III
TERM; COMMENCEMENT DATE

The term of this Lease ("Original Lease") shall commence on June 1, 2014. ("Commencement Date") and end on May 31, 2017 ("Original Term Expiration Date"). The term of this Lease ("Term") shall be three (3) years commencing with the Commencement Date, unless sooner terminated pursuant to the provisions hereof.

ARTICLE IV
RENT

4.1 Basic Annual Rent.

4.1.1 Tenant shall pay to Landlord during the Term hereof basic annual rent in twelve equal monthly installments, each monthly installment equal to the product of (a) the total rentable square footage of the Premises Area, multiplied by (b) Eight Dollars ($8.00) per square foot per month, as adjusted from time to time pursuant to Section 4.2 hereof.

4.1.2 Notwithstanding the foregoing, the first six monthly installments payable by Tenant to Landlord during the Term hereof shall be equal to the product of (a) the total rentable square footage of the Premises Area, multiplied by (b) Five Dollars and Ninety Nine Cents ($5.99) per square foot per month.

4.1.3 The basic annual rent, as adjusted from time to time pursuant to Section 4.2 hereof, is referred to hereinafter as the "Basic Annual Rent"; provided, however, that for purposes of adjustments pursuant to Section 4.2 hereof, the Basic Annual Rent for the first adjustment on the first anniversary of the Commencement date shall be determined as though all twelve monthly installments payable by Tenant to Landlord during the first year of the Term hereof were based on the rate of Eight Dollars ($8.00) per square foot per month set forth in Section 4.1.1 and without regard to the lesser rate of Five Dollars and Ninety Nine Cents ($5.99) per square foot per month set forth in Section 4.1.2. Concurrently with the execution of this Lease, Tenant shall pay to Landlord the first monthly installment of Basic Annual Rent. Thereafter, each monthly installment of Basic Annual Rent, as adjusted from time to time pursuant to Section 4.2 hereof, shall be due and payable by Tenant to Landlord on the first day of each calendar month during the Term of the Lease.

4.2 Basic Annual Rent Increase.

4.2.1 On each anniversary ("Adjustment Date") of the Commencement Date, commencing with the first anniversary of the Commencement Date, the Basic Annual Rent shall be increased by multiplying such Basic Annual Rent by a fraction, the numerator of which shall be the CPI (as hereinafter defined) for the calendar month in which the Adjustment Date falls, and the denominator of which shall be (a) the CPI for the calendar month of the Commencement Date in the case of the first adjustment on the first anniversary of the Commencement Date, and (b) in the case of all other adjustments, the CPI for the calendar month one year prior to the Adjustment Date for which the rental adjustment is then being calculated. (Such fraction shall never be less than one.) The sum so calculated or set shall constitute the new Basic Annual Rent hereunder, but, in no event, shall such new Basic Annual Rent be (i) less than the Basic Annual Rent payable for the annual period immediately preceding the Adjustment Date. For purposes hereof, "CPI" shall mean the United States Department of Labor Revised Consumer Price Index, Not Seasonally Adjusted, Los Angeles-Riverside-Orange County, CA metropolitan area (Base Period 1982/84 = 100) established monthly by the Bureau of Labor Statistics.

4.2.2 In the event the compilation and/or publication of the CPI shall be transferred to any other governmental department or bureau or agency or shall be discontinued, then the index most nearly the same as the CPI shall be used to make such calculations. In the event that Landlord and Tenant cannot agree on such alternative index, then the matter shall be submitted for decision to the American Arbitration Association in accordance with the then rules of such association and the decision of the arbitrators shall be binding upon the parties.

4.2.3 Tenant shall continue to pay the Basic Annual Rent at the rate previously in effect until the increase, if any, is determined. Within five (5) days following the date on which an increase is determined, Tenant shall make such payment to Landlord as will bring the increased rental current, commencing with the effective date of such increase through the date of any rental installments then due. Thereafter, the Basic Annual Rent shall be paid at the increased rate.

4.2.4 At such time as the amount of any change in Basic Annual Rent required by this Lease is known or determined, Landlord and Tenant shall execute a statement setting forth such change, but the enforceability of both this Lease and the increase in Basic Annual Rent shall not be affected should either party fail or refuse to execute such statement.

4.3 Additional Rent

4.3.1 Payment. In addition to the Basic Annual Rent, Tenant shall pay such additional rent and all other amounts or charges as may be required in this Lease. The Basic Annual Rent and said additional rent and other payments are sometimes collectively referred to herein as the "rent". The rent shall be payable to Landlord, without demand, deduction or offset of any kind in lawful money of the United States of America at the address for Landlord set forth in this Lease or to such other person or at such other place as Landlord may from time to time designate in writing. If Tenant shall pay any rent with a check which is not a cashier's check, the check shall be drawn against an account maintained in a bank or other financial institution which has a branch office located in Los Angeles, California.

4.3.2 Taxes and Capital Improvements.

(a) Definitions. For purposes of this Section 4.3.2 and this Lease:

(i) "Operating Expenses" shall mean the total of all actual costs, expenses, and disbursements for or in connection with the operation, management, maintenance, protection, remediation, servicing or repair of the Project (or any portion thereof). Operating Expenses shall include: (1) the cost of providing, managing, operating, maintaining and repairing air-conditioning, electricity, steam, heating, mechanical, ventilation, escalator and elevator systems and all other utilities generally supplied to all tenants and the cost of supplies and equipment and maintenance and service contracts in connection therewith; (2) the cost of repairs, general maintenance, cleaning, trash removal, telephone service, security service and janitorial service, light bulb and tube replacement and supplies; (3) the cost of fire, extended coverage, boiler, sprinkler, apparatus, public liability, property damage, rent, earthquake and other insurance; (4) wages, salaries and other labor costs including taxes, insurance, retirement, medical and other employee benefits; (5) fees, charges and other costs, including management fees, consulting fees, legal fees and accounting fees, of all independent contractors engaged by Landlord or charged by Landlord if Landlord performs such services in connection with the Project; (6) the fair market rental value of any offices in the Buildings (or in other buildings on the Landlord's campus) used for management of the Project; (7) the cost of business licenses and similar taxes; (8) fees imposed by any federal, state or local government for fire and police protection, trash removal or other similar service; (9) any charges which are payable by Landlord pursuant to any type of service agreement or a functional equivalent with the City of Los Angeles or for other services supplied to the Project by the City of Los Angeles under any type of a special assessment district, and not included as Real Property Taxes; and (10) any other expenses of any kind whatsoever incurred for managing, operating, protecting, remediating, maintaining and repairing the Project. Operating Expenses shall be adjusted to reflect ninety-five percent (95%) occupancy of the Project during any period in which the Project is not fully occupied. Operating Expenses which are incurred for the benefit of the Project and other properties owned by Landlord shall be reasonably allocated by Landlord between the Project and such other properties.

(ii) "Real Property Taxes" shall mean all taxes, assessments (special or otherwise) and charges levied upon or with respect to the Project (or any portion thereof) and ad valorem taxes on personal property owned or used by Landlord in connection therewith, but excluding taxes on personal property owned or used by Landlord to the extent that such personal property is used by Landlord in its capacity as an occupant of the Buildings. Real Property Taxes shall include, without limitation, any tax, fee or excise on the act of entering into this Lease, on the occupancy of Tenant, or the rent hereunder which are now or hereafter levied, assessed or imposed against Landlord by the United States of America, the State of California or any political subdivision, public corporation, district or other political subdivision, or public entity, and shall also include any other tax, assessment, fee or excise, however described (whether general or special, ordinary or extraordinary, foreseen or unforeseen), which may be levied, assessed or imposed in lieu of, as a substitute, in whole or in part, for or as an addition to, any other Real Property Taxes. Landlord shall pay any such special assessments in installments when allowed by law, in which case Real Property Taxes shall include any interest charged thereon, or, if Landlord chooses to pay such Real Property Taxes in a lump sum payment, Landlord shall allocate such Real Property Taxes (together with a factor for interest thereon at the rate such interest would have accrued had Landlord elected to pay such special assessments on an installment basis) to Tenant as if Landlord had paid such Real Property Taxes on an installment basis. Real Property Taxes shall not include income, franchise, transfer, gift, inheritance, estate or capital stock taxes, unless due to a change in the method of taxation, any of such taxes are levied, assessed or imposed against Landlord in lieu of, as a substitute, in whole or in part, for any other tax which would otherwise constitute a Real Property Tax, but then only to the extent thereof. Real Property Taxes shall also include legal fees, costs and disbursements incurred in connection with proceedings to contest, determine or reduce Real Property Taxes.

(iii) "Cost Saving Capital Improvement(s)" shall mean any equipment, device or other improvement incorporated into the Buildings or other portion of the Project, which capital improvement achieves economies in Operating Expenses, taking into account all applicable costs, in the operation, maintenance and repair of the Buildings or such relevant portion of the Project.

(iv) "Government Mandated Capital Improvement(s)" shall mean any equipment, device or other improvement acquired and installed in the Buildings or other portion of the Project, to comply with any governmental requirement with respect to the Buildings or any portion of the Project, including without limitation, fire, health, safety or construction requirements, if the cost thereof should be capitalized in accordance with generally accepted accounting principles. Government Mandated Capital Improvement(s) and Cost Saving Capital Improvement(s) are sometimes herein referred to as "Capital Improvement(s)."

(v) "Capital Improvement Amortization" shall mean the amount determined by multiplying the actual cost, including financing costs if any, of each Capital Improvement acquired, installed or placed in service by Landlord by the constant annual percentage required to fully amortize such cost over the useful life of the Capital Improvement (as reasonably estimated by Landlord at the time of acquisition, installation, or placement in service). The Capital Improvement Amortization shall be allocated and charged to Tenant as an amount per square foot of rentable area consistently applied.

(b) Adjustments to Rent - Operating Expenses and Real Property Taxes. Operating Expenses shall be charged monthly to Tenant as additional rent as follows: (i) at an amount ("Premises Operating Expenses") equal to (A) total rentable square footage of the Premises Area, multiplied by (B) two dollars ($2.00) ("Base Operating Expense") per square foot per month (described in **Exhibit C** hereto), as adjusted from time to time as follows: on each anniversary ("Adjustment Date") of the Commencement Date, the Base Operating Expense shall be increased by multiplying such Base Operating Expense, by a fraction, the numerator of which shall be the CPI (as defined in Section 4.2.1 hereof) for the calendar month in which the Adjustment Date falls, and the denominator of which shall be (a) the CPI for the calendar month of the Commencement Date in the case of the first adjustment on the first anniversary of the Commencement Date, and (b) in the case of all other adjustments, the CPI for the calendar month one year prior to the Adjustment Date for which the rental adjustment is then being calculated (such fraction shall never be less than one); the adjusted amount so calculated or set shall constitute the new Base Operating Expense hereunder, but, in no event, shall such new Base Operating Expense be less than the Base Operating Expense payable for the monthly period immediately preceding the Adjustment Date. In any calendar year, the sum of the Premises Operating Expenses, Tenant's Pro Rata Share (as defined below) of all costs and other expenses described in Article XXX for the Project, and Tenant's share of Real Property Taxes and other property taxes as determined in accordance with Section 4.3.2(d) hereof and the other provisions of this Lease, shall equal the combined expenses for all twelve months of such calendar year ("Combined Expenses"). In each calendar year during the Term of this Lease (including the partial year commencing on the Commencement Date of this Lease), the rent payable by Tenant for such calendar year shall be increased over the Basic Annual Rent, as adjusted in accordance with Section 4.2, by the amount of the Combined Expenses for such calendar year. In addition to the foregoing, any costs or expenses for services or utilities in excess of those required by this Lease to be supplied by Landlord and which are attributable directly to Tenant's use or occupancy of the Premises shall be paid in full by Tenant as additional rent when such costs are incurred, or, if Landlord makes such payments, within fifteen (15) days after being billed therefor by Landlord. As used in this Lease, the terms "square feet," "square foot" and "square footage" shall be based on rentable square feet as determined using the Building Owners and Managers Association's Standard Method For Measuring Floor Area In Office Buildings (ANSI/BOMA 265.1-1996) ("BOMA Standards"), unless otherwise specifically provided herein. For purposes hereof, "Tenant's Pro Rata Share" shall mean a fraction, the numerator of which is the rentable square feet of the Premises Area and the denominator of which is the rentable square feet of space within the Buildings.

(c) Adjustments to Rent for Capital Improvements. In any Lease Year, or portion thereof, during the Term of this Lease which is included in the useful life of a Capital Improvement, the rent payable by Tenant for such year, or portion thereof, shall be increased over the Basic Annual Rent, as adjusted in accordance with Section 4.2 and Section 4.3.2(b), by the amount of the Capital Improvement Amortization per square foot of rentable area of the Buildings, multiplied by the Premises Area.

(d) Additional Taxes and/or Improvements. Notwithstanding anything contained in this Lease to the contrary, any Real Property Taxes, other property taxes, and/or Government Mandated Capital Improvements which are attributable to Tenant's use or occupancy of the Premises shall be paid in full by Tenant as additional rent. The parties hereto acknowledge that the portion of the Buildings occupied or used by Landlord have been determined to be tax exempt and that the portion of the Buildings occupied by Tenant and other tenants or occupants may be found to be subject to Real Property Taxes and other property taxes because Tenant and other tenants and occupants do not constitute tax-exempt organizations under Section 503(c) of the Internal Revenue Code, as amended, or because the premises area used by such tenants and occupants are found not to be used for tax exempt purposes or for other reasons. Consequently, the parties hereto agree that Real Property Taxes assessed against the Project (or any portion thereof) or Buildings (or any portion thereof) shall be attributed entirely to the premises area occupied or used by such taxable organizations and by organizations using their premises area for purposes which are not tax exempt. Landlord shall have the right to allocate such Real Property Taxes among Tenant and the other tenants and occupants in a reasonably equitable manner. For these purposes, allocating such Real Property Taxes in the following manner shall be deemed reasonably equitable: multiply the Real Property Taxes by a fraction, the numerator of which is the Premises Area of the Tenant, and the denominator of which is the rentable square feet of premises area used or occupied by tenants and other occupants for purposes which are not tax exempt or which are not tax exempt for any other reason.

(e) Landlord's Statement. Prior to the commencement of each calendar year (including the partial year commencing on the Commencement Date of this Lease), or as soon thereafter as possible, Landlord shall furnish to Tenant a statement ("Landlord's Statement") of Landlord's estimate of the Real Property Taxes and Capital Improvement Amortization expected to be incurred during the calendar year, based on the amount of such Real Property Taxes and Capital Improvement Amortization in the prior calendar year (if any), adjusted for known changes which have or will occur in the Project, the rates charged by suppliers, or other circumstances affecting the amount of such Real Property Taxes or Capital Improvement Amortization during the calendar year in question, and showing the amount, if any, payable by Tenant as additional rent for such calendar year, or portion thereof, pursuant to Sections 4.3.2(b), 4.3.2(c), 4.3.2(d) and any other applicable provisions of this Lease, on the basis of such estimate. Commencing as of January 1st of each calendar year, Tenant shall pay to Landlord one-twelfth (1/12) of the amount of the additional rent estimated for Real Property Taxes and Capital Improvement Amortization, along with the monthly charge for Premises Operating Expenses, on each monthly rent payment date until further adjustment pursuant to this Section 4.3.2. If the Term of the Lease with respect to any space commences or terminates at any time other than the first day of the calendar year, then during such partial calendar year, Tenant shall pay to Landlord, on each of the monthly payment dates during said partial calendar year, the amount of said estimated additional rent with respect to such space, attributable solely to such partial calendar year divided by the number of months in said partial calendar year. If Landlord's Statement is furnished after January 1st of a calendar year, Tenant shall pay the entire portion of the estimated additional rent attributable to portions of the calendar year prior to Tenant's receipt of Landlord's Statement on the later of fifteen (15) days, or the first monthly rent payment date, after Tenant's receipt of Landlord's Statement. Landlord shall have the right, in Landlord's discretion, to revise Landlord's estimates during the calendar year to reflect the then current Real Property Taxes and Capital Improvement Amortization, and Landlord shall issue a revised Landlord's Statement. Tenant's monthly rent payments shall be further adjusted in accordance with the revised Landlord's Statement commencing on the first monthly rent payment date following Tenant's receipt from Landlord of the revised Landlord's Statement. With reasonable promptness after the expiration of each calendar year, but in any event within one hundred twenty (120) days after the expiration of such calendar year, Landlord shall furnish to Tenant a year-end statement showing: (i) the actual Real Property Taxes and Capital Improvement Amortization during the previous calendar year, which such amounts in each such category and the proper allocation thereof to the Project shall be certified by Landlord and the allocation thereof to Tenant shall be certified by Landlord to be proper and in accordance with this Lease; (ii) the difference, if any, between Landlord's Statement and the actual amounts; and (iii) the aggregate amount of any charge or credit to Tenant necessary to adjust rent previously paid by Tenant to the actual Real Property Taxes and Capital Improvement Amortization. Promptly after the receipt of said statement by Tenant, Tenant shall, in case of any underpayment, pay Landlord in accordance with Section 4.3.1, or in case of an overpayment, Tenant shall receive a credit against rents subsequently payable to Landlord.

4.3.3 Charges for Use of Specialized Research Cores. In addition to Basic Annual Rent, Tenant shall be charged for any use by Tenant of Specialized Research Cores (as defined in Section 9.2 hereof) or any services rendered from such Specialized Research Cores (or both) at rates established by Landlord, in its sole discretion, from time to time. Tenant understands that the rates charged for such use or services (or both) are subject to change from time to time. Services rendered by or through Landlord from the Specialized Research Cores are more specifically described in Section 28.6 hereof.

4.4 Definitions. As used in this Lease, the following terms shall have the following meanings:

4.4.1 Lease Years; Calendar Years. "Lease Years" shall mean the consecutive twelve (12) month periods commencing with the Commencement Date or, if the Commencement Date falls other than on the first day of a calendar month, then commencing the first day of the first calendar month following the Commencement Date. The fraction of the month (if any) following the Commencement Date and prior to the commencement of the first Lease Year shall be deemed to be part of the first Lease Year. If Landlord employs fiscal years not constituting calendar years, the term "calendar years" shall be deemed, at Landlord's election, to mean the consecutive twelve (12) month periods comprising Landlord's fiscal years.

4.4.2 Lease Rate. "Lease Rate" shall mean an annual interest rate which is the lesser of: (a) the maximum rate permitted by law, if applicable; or (b) the rate of interest from time to time announced by Union Bank at its corporate headquarters in Los Angeles, California, as its prime rate of interest, plus two (2) percentage points, or, should Union Bank cease or fail to announce a prime rate, then the rate announced from time to time by Bank of America NT & SA at its corporate headquarters in San Francisco, California, as its reference rate, plus two (2) percentage points. Should both Union Bank and Bank of America NT & SA cease or fail to announce such rates, the rate shall be agreed upon by the parties or, if they cannot agree, the rate shall be determined by arbitration pursuant to the American Arbitration Association in accordance with the then rules of such association and the decision of the arbitrator shall be binding upon the parties.

4.5 Miscellaneous Rent Provisions.

4.5.1 Prorations. If the Term of this Lease commences, or the date of expiration of this Lease occurs, other than on the first day or last day of a calendar month, the Basic Annual Rent for such month shall be prorated on the basis of a thirty (30) day month.

4.5.2 Place and Manner of Payment. Basic Annual Rent shall be payable in advance in twelve (12) equal monthly installments, with the first such monthly payment of Basic Annual Rent due on the Commencement Date (prorated if such date occurs on other than the first day of the month), and all other monthly payments to be due on the first day of each calendar month during the Term hereof. All such payments are to be forwarded by Tenant to the respective offices of the Buildings, or to such other person or at such other place as directed from time to time by written notice from Landlord, in lawful money of the United States of America, without demand, deduction, offset or abatement, except as may otherwise be specifically provided in this Lease.

4.5.3 Conditional Payment. No payment by Tenant or receipt by Landlord of a lesser amount than the total of all sums due hereunder shall be deemed other than on account of the earliest stipulated rent, nor shall any endorsement or statement on any check, or any letter accompanying any check or payment as rent, be deemed an accord or satisfaction, and Landlord may accept such cash and/or negotiate such check or payment without prejudice to Landlord's right to recover the balance of such rent, or Landlord may pursue any of its other remedies provided in this Lease or otherwise, regardless of whether Landlord makes any notation on such instrument of payment or otherwise notifies Tenant that such acceptance, cashing or negotiation is without prejudice to Landlord's rights.

4.6 Security Deposit. Landlord and Tenant acknowledge and agree that pursuant to the Expired Lease, Tenant has on deposit with Landlord the sum of Nine Thousand One Hundred Eight Dollars ($9,108.00) as a security deposit. Concurrently with the execution and delivery of this Lease, Tenant shall deposit the additional sum of Twenty Nine Thousand Five Hundred Ninety Two Dollars ($29,592.00) with Landlord, bringing the total amount of the Security Deposit to Thirty Eight Thousand Seven Hundred Dollars ($38,700.00) as security for the full and faithful performance of every provision of this Lease to be performed by Tenant. If Tenant defaults with respect to any provision of this Lease, including, but not limited to, the provisions relating to the payment of rent set forth in this Lease, Landlord may use, apply or retain all or any part of the Security Deposit for the payment of such rent, fees or any other sum in default, or for the payment of any other amount which Landlord may reasonably 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 reasonably suffer by reason of Tenant's breach of the terms of this Lease, or to pay Landlord for any amount due under any indemnification provision contained in this Lease. If any portion of the Security Deposit is so used or applied, Tenant shall within five (5) days of receipt of notice thereof from Landlord, 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 not be required to keep the Security Deposit separate from its general funds, and Tenant shall not be entitled to interest on such deposit.

ARTICLE V
TAXES ON TENANT'S PROPERTY

With respect to all of Tenant's trade fixtures, equipment and personal property (collectively, "Tenant's Property") located within the Premises: (i) Tenant shall pay prior to delinquency all taxes assessed against or levied thereon; and (ii) when reasonably possible, Tenant shall cause such property to be assessed and billed separately from the property of Landlord; but if Tenant's Property shall be assessed and taxed with the property of Landlord, Tenant shall pay to Landlord its share of such taxes within ten (10) days after receipt by Tenant of a statement in writing setting forth the amount of such taxes applicable to Tenant's Property, which statement shall include the basis on which such share of taxes was allocated to Tenant. Tenant shall have the right to contest, in good faith and by appropriate and timely legal proceedings, the legality, assessed valuation or amount of any tax or assessment which Tenant is required to pay pursuant to the Lease. Landlord shall reasonably cooperate with the Tenant in the prosecution of such contest, provided that all expenses incurred by Landlord for or in connection with such cooperation (including, without limitation, all attorney's fees, appeals board, court and other costs) are paid solely by Tenant. If Landlord is required to pay the taxing authority any tax or assessment which Tenant desires to contest, Tenant shall, pending resolution of the contest by the taxing authority and as a condition of its right to contest the tax assessment, pay the tax or assessment under protest, but otherwise as provided in the Lease.

ARTICLE VI
USE OF PREMISES

6.1 Limitation of Use. Tenant shall use and occupy the Premises only for activities ("Company Activities") arising from, or relating to, reasonable corporate activities, including office, administrative, fundraising activities, and research and development, including biomedical or biochemical processes and methods, including research, development and production of biomedical reagents, agents, devices, cell lines, and other chemical, biomedical, or biochemical products or devices ("Permitted Uses"), as more particularly described in **Exhibit D** attached hereto. Tenant shall not use or occupy the Premises or permit the same to be used or occupied for patient care activities, to conduct clinical trials or for any other purposes without the prior written approval of Landlord, which approval shall be in Landlord's sole and absolute discretion. Tenant shall control access to the Premises, and to any Specialized Research Core used by Tenant, by issuing identification badges and access cards to each of Tenant's employees, who shall be required to carry such identification badges and access cards at all times that they are present in the Premises or any other part of the Buildings. Tenant shall not do or permit anything to be done which will in any way obstruct or interfere with the rights of other tenants or occupants of the Buildings or injure or annoy them, nor use or allow the Premises to be used for any improper, immoral, or unlawful or reasonably objectionable purpose, nor shall Tenant cause or maintain or permit any nuisance in, or about the Premises, nor shall Tenant cause or permit any hazardous or toxic waste, substance or material to be brought to the Premises or used, handled, stored or disposed of in or about the Premises, except as otherwise permitted by law and typically used in the conduct of the Biomedical Activities which are conducted from the Premises in accordance with this Lease and then only in accordance with the provisions of any rules and regulations established by Landlord from time to time concerning such use. Tenant shall provide the Director of Radiation Safety of Landlord (or such other person as Landlord shall direct from time to time) with a list of all Hazardous Materials (as defined in Article XXX hereof) which it is using or which it intends or expects to use in the Premises, an explanation of the purpose for each listed item, and the means and methods for each listed item's disposal in compliance with all applicable laws. Tenant shall promptly revise and supply Landlord with a new list of Hazardous Materials whenever the existing list on file is no longer complete and accurate in all respects. Tenant shall not conduct business or other activity in, on or about the Premises of such a nature as to place an unreasonable and excessive burden upon the public and Common Areas of the Project. Tenant shall not commit or suffer the commission of any waste in, on or about the Premises. In connection with all of the foregoing, Tenant, at its sole cost and expense and subject to compliance with all applicable provisions of this Lease, shall install and maintain: (i) such improvements and equipment as shall be reasonably necessary to prevent the use or operation of equipment located in the Premises or the conduct of Tenant's practice in the Premises from affecting others in the Buildings or their equipment; and (ii) such additional floor load support as shall be reasonably necessary to accommodate equipment to be located in the Premises. Nothing contained in this Lease shall limit Landlord's right to use, or to lease other portions of, the Project for any purpose or use that Landlord deems appropriate, and nothing contained herein shall be deemed to grant to Tenant any right to prevent Landlord, or to require Landlord to preclude others in the Project, from using space anywhere in the Project for the same or similar uses or purposes for which Tenant uses the Premises.

6.2 Compliance with Governmental and Insurance Regulations. Tenant shall not use or occupy the Premises in violation of the Certificates of Occupancy of the Buildings or the Premises or of any law, ordinance or regulation or other directive of any governmental authority having or exercising jurisdiction over the Buildings or Project, whether now in effect or becoming effective subsequent to the date hereof (collectively, "Applicable Laws"). Tenant may, in good faith, contest the validity or application of any law, statute, ordinance, governmental rule or regulation, provided Landlord is not thereby subject to any liability and provided Landlord shall not anticipate suffering adverse consequences or monetary or other damage as a result of such contest or as a result of the outcome of such contest. Upon five (5) days' written notice from Landlord, Tenant shall discontinue any use of the Premises which is declared by any governmental authority having or exercising jurisdiction to be a violation of the Certificate of Occupancy of the Buildings or the Premises or any Applicable Laws. Tenant shall not do or permit to be done anything which will invalidate or cause termination of or increase the cost of any fire and extended coverage or other insurance policy covering the Buildings, the Project or the Property. Within five (5) days of its receipt of written notice, Tenant shall reimburse Landlord for any additional premium charges for such policy or policies caused by reason of Tenant's failure to comply with the provisions of this Section. Tenant shall keep the Premises, and every part thereof, in a clean, sanitary and wholesome condition, free from any objectionable noises, odors or nuisances, public or private, and Tenant shall comply, at its own expense, with all health and policy regulations. Tenant shall comply with all laws, rules, orders, ordinances, directions, regulations and requirements of federal, state, county and municipal authorities pertaining to Tenant's use of the Premises, and with any direction of any public officer or officers, pursuant to law, which shall impose any duty upon Landlord or Tenant with respect to the use or occupation of the Premises.

6.3 Assumption of Risk of Noncompliance. Tenant hereby warrants that, as of the execution of this Lease, it has investigated whether its proposed use of the Premises and its proposed manner of operation will comply with all Applicable Laws, and Tenant assumes the risk that its proposed use of the Premises and its proposed manner of operation are and will continue to be in compliance with all Applicable Laws, including, without limitation, all zoning laws regulating the use and enjoyment of the Premises. Tenant agrees that under no circumstances will Tenant be released, in whole or in part, from any of its obligations under this Lease as a result of any governmental authority disallowing or limiting Tenant's proposed use of the Premises or its manner of operation. Additionally, subject to Article VII below, Tenant shall install, at its own expense, any improvements, changes or Alterations in the Premises authorized in writing by Landlord which are required by any governmental authority as a result of Tenant's specific use of the Premises or its manner of operation thereunder. If Landlord performs such Alterations because of Tenant's failure to perform the same, Tenant shall promptly reimburse Landlord for the actual costs of such Alterations.

6.4 Safety Training Program. Prior to participating in any of the Biomedical Activities permitted under this Lease, each of Tenant's employees shall be required to participate in an orientation and safety training program established by Landlord, which program shall address environmental safety issues, including, but not limited to, the proper handling of radioactive, chemical and other Hazardous Materials.

6.5 Use of Common Services Space. Tenant shall have the right to use the Common Services Space in connection with and ancillary to its use of the Premises, in common with other tenants and occupants of the Buildings, subject to such rules and regulations as Landlord may impose from time to time. The Common Services Space as of the date of this Lease is graphically depicted on **Exhibit B** and **Exhibit H** hereto.

6.6 Animal Research. If Tenant uses animals for or in connection with research on or about the Premises or the Buildings, such animals must be acquired or obtained solely through Landlord. Tenant acknowledges that a breach of this Section 6.6 could result in irreparable harm to Landlord and will cause Landlord to incur substantial damages. Therefore, notwithstanding anything contained in this Lease to the contrary, any breach of this Section 6.6 shall be deemed to be an incurable breach which shall automatically entitle the Landlord, in addition to all other remedies to which Landlord is or may be entitled under this Lease, or at law, or in equity, to terminate this Lease.

ARTICLE VII
CONSTRUCTION AND MAINTENANCE OF PREMISES AFTER INITIAL CONSTRUCTION

7.1 Maintenance of Premises. Following the Commencement Date and except as otherwise provided in Section 7.4 below, Tenant shall, at its own cost and expense, keep and maintain, in good, sanitary, and tenantable condition and repair, the Premises and every part thereof including, without limitation, the floor covering, all interior walls, ceilings, doors, decorations (e.g., carpeting, painting, wall covering and refinishing), fixtures and equipment therein. Landlord may make any reasonable repairs which are not made by Tenant with reasonable diligence after notice from Landlord and charge Tenant for the actual cost thereof Tenant shall take precautions to prevent, shall prevent, and shall promptly eradicate from the Premises or any other portion of the Buildings or Project any infestations which arise from Tenant's use of the Premises, including, without limitation, rodents and insects.

7.2 Tenant Construction.

7.2.1 Landlord's Consent. Tenant shall not make any alterations, additions, modifications or improvements (collectively, "Alterations") to the Premises, the Buildings or any part thereof without Landlord's advance written consent, nor, in any event, Alterations which interfere with or disrupt other tenants or occupants in the Buildings or with Landlord's work, if any, then being carried out therein. Landlord shall not unreasonably withhold its consent to any Alterations, additions or improvements to the Premises or any part thereof which do not involve structural changes to the Buildings, do not affect the external appearance of the Buildings, and do not affect or involve modifications to the Buildings' systems such as HVAC, electrical systems, floor load capacities, plumbing and other utility systems. Landlord will grant its approval or disapproval of any proposed alteration, addition or improvements within thirty (30) business days after receipt from Tenant of the necessary plans and specifications and other information reasonably necessary to make a decision with respect thereto or reasonably relevant to such Landlord's decision, and failure by Landlord to disapprove such proposed alteration, addition or improvement within such thirty (30) business days shall be deemed approval thereof. To the extent permitted or consented to hereunder, any construction undertaken by Tenant in or to the Premises or the Buildings shall comply with all the terms and provisions of Sections 7.2.2 and 7.2.3 below.

7.2.2 Licensed Contractors. Tenant shall utilize only bondable licensed contractors for any proposed Alterations. Tenant shall prepare, obtain and promptly provide Landlord with copies of bid solicitations and bids received for all such work.

7.2.3 Construction Requirements. Subject to the other provisions hereof, any Alterations installed by Tenant, its contractor or agents at any time subsequent to the Commencement Date, and including, without limitation, any construction performed by Tenant, shall be done only in compliance with the following:

(a) No such work shall proceed without Landlord's prior written approval of: (i) Tenant's contractor and Tenant's architect or space planner; (ii) certificates of insurance; (iii) detailed plans and specifications for such work; performance and labor and materials payment bonds; and (v) all governmental permits.

(b) Any work not acceptable to any governmental authority or agency having or exercising jurisdiction over such work, or not satisfactory to Landlord, shall be promptly replaced at Tenant's expense. Notwithstanding any failure by Landlord to object to any such work, Landlord shall have no responsibility therefor.

(c) All work by Tenant or its contractors shall be scheduled through Landlord.

(d) Tenant shall promptly reimburse Landlord for any extra expense incurred by Landlord by reason of faulty work done by Tenant or its contractors, or by reason of inadequate cleanup.

(e) Tenant or any contractor of Tenant shall not use non-union labor if such use would result in any unreasonable or unusual interference with or disturbance of the operations of Landlord or Landlord's labor relationships. Neither Tenant nor any contractor of Tenant shall use non-union labor if such use would constitute a violation of any applicable master or other labor agreement which is or becomes binding or applicable to Landlord now or in the future. Tenant shall assume the risk of any strikes or labor disturbances arising out of the use of non-union labor, and any delays arising out of such strikes or disturbances shall not excuse or postpone the time for any performance or obligation of Tenant under this Lease or related agreements, notwithstanding the applicability of any force majeure clause or other provision contained in this Lease or related agreements.

(f) If required for either or both Buildings' safety in Landlord's discretionary judgment, all x-ray, laser, other medical equipment, data processing, photocopying, copying, and other special electrical equipment shall have a separate duplex outlet and shall be installed only under the supervision of Landlord or its electrical contractor. Tenant shall pay any additional costs on account of any increased support to the floor load necessary therefor or for any other equipment or improvements which Landlord reasonably deems necessary for the proper and safe installation of any such equipment.

(g) Before the commencement of any construction by Tenant in, on or around the Premises or the Buildings, Tenant or its contractors shall give advance written notice thereof to Landlord or its agent sufficient for Landlord's preparation, posting and recordation of an appropriate notice of non-responsibility as provided in California Civil Code § 3094 or any related, successor or similar provision of law. Within ten (10) days after completion of any work in, to or about the Premises or the Buildings, Tenant or its contractor shall file for record in the Office of the Los Angeles County Recorder a notice of completion as permitted by law.

(h) Tenant acknowledges that Landlord's approval of Tenant's plans and specifications for any work to be performed in or to the Premises (including, without limitation, any mechanical, electrical, architectural or structural Alterations) shall not constitute a representation or warranty by Landlord as to the adequacy of such plans and specifications respecting Tenant's intended use of the Premises (including, without limitation, electrical energy conservation) or as to the compliance of such plans and specifications (or the work performed pursuant thereto) with the laws, regulations and ordinances of any governmental authority or agency having or exercising jurisdiction over such work. Landlord expressly disclaims any liability or responsibility for such plans and specifications and the work performed pursuant thereto and Tenant expressly agrees that Landlord shall not be responsible therefor, and Tenant shall indemnify and hold Landlord harmless from any damage or injuries (including, without limitation, reasonable attorneys' fees) resulting from errors or omissions in such plans and specifications.

(i) Upon completion of such work, Tenant shall deliver to Landlord a set of as-built drawings and all CADD work (on disks) relating to the work.

7.3 Condition of Premises. Tenant acknowledges that neither Landlord nor any agent of Landlord has made any representation or warranty with respect to the Buildings or the Premises or with respect to the suitability of either for the conduct of Tenant's business. The taking of possession of the Premises by Tenant shall conclusively establish that the Premises and the Buildings were at such time in good and sanitary order, condition and repair.

7.4 Landlord Repairs and Maintenance After Commencement Date. Subject to the provisions of Section 7.1 above and performance of Tenant's obligations under this Lease, including, without limitation, those set forth in Section 4.3 hereof, following the Commencement Date, Landlord shall: (i) keep in good order, condition and repair the foundations, exterior walls, downspouts, gutters and roof of the Buildings and the plumbing and sewage system outside the Buildings; (ii) make structural repairs to the Premises necessitated by defective, faulty, or negligent design or construction; (iii) repair and maintain the mechanical systems necessary to provide those utilities and Buildings' services to the Premises which Landlord has specifically agreed to provide pursuant to Article XXVIII below, and maintain the light fixtures and unexposed electrical, plumbing and sewage systems in the Premises and the heating, ventilating and air conditioning systems in the Premises. Notwithstanding the foregoing, Landlord shall not be obligated to repair any damage to the Buildings or the Premises caused by any act or negligence of Tenant or its employees, agents, invitees, permittees, licensees or contractors. Landlord shall not be obligated to make any such repairs until after the expiration of fifteen (15) days" written notice from Tenant to Landlord, stating the need for such repairs or maintenance. Landlord shall not be called upon or required at any time to make any repairs, maintenance, improvements, alterations, changes, additions, repairs or replacements of any nature whatsoever in or to the Premises or the Buildings except as specifically provided in this Lease. To the maximum extent permitted by law, Tenant hereby waives the provisions of any statute or law permitting a tenant to make repairs at the expense of a landlord or to terminate a lease by reason of the condition of the Premises, including the provisions of California Civil Code Sections 1941 and 1942 and any similar, successor or related provision of law.

ARTICLE VIII
MECHANICS' LIENS

Tenant agrees to pay promptly for all costs and charges for all labor done or materials furnished for any work of repair, maintenance, improvement, alteration or addition, including, without limitation, installation of fixtures, done or caused to be done by Tenant in connection with the Premises, and Tenant hereby indemnifies and agrees to hold Landlord and the Premises free, clear and harmless from and against all liens and claims of liens, and all other liabilities, claims and demands (including, without limitation, reasonable attorneys' fees), that arise by reason of such work. If any such lien shall at any time be filed against the Premises, or any portion of the Buildings, Tenant shall either cause the same to be discharged of record within twenty (20) days after the date upon which the same is filed or, if Tenant in its discretion and in good faith determines that such lien should be contested, Tenant shall record, in the office of the county recorder in which such claim of lien was recorded, a bond executed by a corporation authorized to issue surety bonds in the State of California, in a penal sum equal to one and one-half (1 1/2) times the amount of the claim or one and one-half (1 1/2) times the amount allocated to the Premises (and/or to other portions of the Buildings, Project, or Property) to prevent any foreclosure proceedings against the Premises (and/or other portions of the Buildings, Project, or Property) during the pendency of such contest. Such bond shall be conditioned for the payment of any sum which the claimant may recover on the claim together with the claimant's costs of suit in the action, if the claimant recovers therein. Nothing contained herein shall imply any consent or agreement on the part of Landlord to subject Landlord's interest in the real property of which the Premises are a part to liability under any mechanics' or other lien law. Should Tenant receive notice that a claim of lien has been or is about to be filed against the Premises, the Buildings, Property or Project or that any action affecting the title to such property has commenced or is about to commence, Tenant shall immediately transmit such notice and information to Landlord.

ARTICLE IX
COMMON AREAS AND SPECIALIZED RESEARCH CORES

9 . 1 Common Areas. The term "Common Areas" as used in this Lease shall mean all areas and facilities around the Premises and within the exterior boundaries of the Property which are provided and designated from time to time by Landlord for the general use and convenience of Tenant and other tenants or occupants of the Buildings and their respective employees, invitees or other visitors. Common Areas include, without limitation, the Common Services Space, the lobby area, walkways, parking facilities, landscaped areas, sidewalks, service quarters, hallways. restrooms (if not part of the Premises), stairways, elevators, walls, fire stairs, telephone and electric closets, truck docks, plazas, service areas, lobbies, darkroom, pantry, small conference room, glass wash room, equipment corridor, walk-in cold room, and all other common and service areas of the Property and Buildings or any other area of the Project intended for such use, other than Specialized Research Cores (defined in Section 9.2 hereof). Floors wholly occupied by Tenant shall not have any facilities which would be used in common with other tenants, except for fire stairs, shafts and similar installations. Tenant, its employees and invitees shall have the nonexclusive right to use the Common Areas along with others entitled to use the same, subject to Landlord's rights and duties as hereinafter set forth. Without advance notice to Tenant or consent of Tenant and without any liability to Tenant in any respect, Landlord shall have the right to:

(a) establish and enforce reasonable rules and regulations concerning the maintenance, management, use and operation of the Common Areas;

(b) close off any of the Common Areas to whatever extent required in the reasonable opinion of Landlord and its counsel to prevent a dedication of any of the Common Areas or the accrual of any rights by any person or the public to the Common Areas;

(c) temporarily close any of the Common Areas for maintenance, alteration or improvement purposes;

(d) select, appoint and/or contract with any person for the purpose of operating and maintaining the Common Areas; and

(e) change the size, use, shape or nature of any of the Common Areas.

Landlord shall use its reasonable efforts to minimize interference with Tenant's use of and access to the Premises when exercising Landlord's rights with respect to the Common Areas set forth in this Article IX.

9.2 Specialized Research Cores. The term "Specialized Research Cores" as used in this Lease shall mean all areas and facilities around the Premises and within the exterior boundaries of the Property which are provided and designated from time to time by Landlord for special use by Tenant and other tenants or occupants of the Buildings and their respective employees. Specialized Research Cores include, without limitation, animal housing facilities, animal surgical core, confocal microscopy facility, sequencing core, and cell sorter core.

ARTICLE X
LANDLORD'S RIGHT OF ACCESS

Landlord reserves for itself and its agents the right to enter the Premises (after advance notice except in emergencies and except to perform janitorial services) for purposes reasonably related to Landlord's operation of the Buildings, including, without limitation: (i) examining or inspecting the same; (ii) providing janitorial and any other service to be provided by Landlord to Tenant hereunder; (iii) showing the same to prospective tenants, purchasers or lenders (or to others who may have a financial interest in the Buildings) in a reasonable manner; (iv) emergency entry; (v) making such changes or repairs to the Premises or to any other portion of the Buildings as Landlord may deem necessary or desirable; and (vi) showing the Premises to prospective tenants, during the last one hundred eighty (180) day period before the expiration of the term or before an earlier termination of this Lease; all without being deemed to constitute or cause any eviction of Tenant and without abatement of rent. Tenant hereby waives any claim for damages for any injury or inconvenience to or interference with Tenant's business, any loss of occupancy or quiet enjoyment of the Premises, and any other loss occasioned thereby. For each of the aforesaid purposes, Landlord shall at all times have and retain a key with which to unlock all of the doors in, upon and about the Premises, excluding Tenant's vaults and safes, and Landlord shall have the right to use any and all means which Landlord may reasonably deem proper to open said doors in an emergency in order to obtain entry to the Premises, and any entry to the Premises obtained by Landlord by any of said means shall not under any circumstances be construed or deemed to be a forcible or unlawful entry into or a detainer of the Premises, or an eviction of Tenant from the Premises or any portion thereof. Whenever Landlord exercises its right of entry pursuant to this Article X, Landlord shall use its reasonable efforts to maintain the confidentiality of Tenant's biomedical research records, as required by law. No provision of this Lease shall be construed as obligating Landlord to perform any repairs, alterations or decorations, except as otherwise expressly provided herein. Landlord shall have the right to run utility or other services and facilities through the Premises, whether to service the Premises or other portions of the Buildings. If, during the last month of the Term hereof, Tenant shall have removed substantially all of its property therefrom, Landlord may immediately enter and alter, renovate and redecorate the Premises without eliminating or abating any rent hereunder or incurring any liability to Tenant. Tenant's property remaining within the Premises at the time of such entry by Landlord may be warehoused by Landlord at Tenant's sole cost, expense and risk.

ARTICLE XI
PROPERTY DAMAGE AND PERSONAL INJURY CLAIMS

11.1 Indemnification. Tenant shall indemnify and hold harmless Landlord against and from any and all claims of damage or injury arising from Tenant's use of the Premises or the conduct of its business or from any activity, work or thing done, permitted or suffered by Tenant in or about the Premises or the Buildings, and shall further indemnify and hold harmless Landlord against and from any and all claims arising from any breach or default in the performance of any obligation of Tenant hereunder, or arising from any act or omission of Tenant, or any of its agents, employees, invitees or licensees, and against and from all costs, attorneys' fees, consultants' fees, expenses and liabilities incurred in connection with or as a result of any such claim or any action or proceeding brought thereon (including, without limitation, any and all judgments, fines and costs of appeal and costs of settlement), and in case any action or proceeding is brought against Landlord by reason of any such claim, Landlord shall give Tenant, upon notice from Landlord, the option to defend the same at Tenant's expense with counsel selected by Tenant and reasonably acceptable to Landlord; provided, however, that should Tenant elect not to defend any such claim, Tenant shall reimburse Landlord for Landlord's out-of-pocket expenses (including reasonable attorneys' fees and expenses and costs of investigation) which are incurred as a result of any investigation, defense or settlement relating to the foregoing, which reimbursement shall be made to Landlord upon receipt by Tenant of invoices reflecting in reasonable detail such expenses incurred by Landlord.

11.2 Procedure.

(a) As a condition of the indemnification provided for in this Article 11, Landlord will promptly notify Tenant in writing of any third-party claim giving rise to indemnification hereunder and shall tender the defense thereof to Tenant. Tenant shall have the right, but not the obligation, to assume sole control of the defense, settlement or disposition thereof, including, without limitation, the selection of defense counsel provided that such defense counsel is reasonably acceptable to Landlord. Landlord will cooperate in good faith with Tenant in the defense and settlement of all such third-party claims at Tenant's request and expense. Tenant will keep Landlord advised concerning the relevant claim(s), and the Tenant shall not admit liability with respect thereto without the express prior written consent of Landlord. A failure to promptly notify Tenant of a claim shall serve to reduce the indemnity rights of Landlord only to the extent that such delay or failure to promptly notify Tenant actually prejudiced Tenant's defense of the claim. If Tenant elects to assume any such defense, Tenant shall not be liable for any legal or other expenses subsequently incurred directly by Landlord in connection with such defense.

(b) So long as Tenant is conducting the defense of the claim for liability in accordance with this Article 11, (i) Landlord will not consent to the entry of any judgment or enter into any settlement with respect to the claim without the prior written consent of Tenant, and (ii) Tenant will not consent to the entry of any judgment or enter into any settlement with respect to the claim without the prior written consent of Landlord, which consent will not be unreasonably withheld or delayed; provided, however, that such consent of Landlord will not be required if the judgment or settlement contains a full release of claims against Landlord without an admission of liability. Notwithstanding any other provision of this Section 11.2, if Landlord withholds its consent to a bona fide settlement offer that includes a full release of claims against Landlord without an admission of liability, where but for such action Tenant could have settled such claim, Tenant will be required to indemnify Landlord only up to a maximum of the bona fide settlement offer for which Tenant could have settled such claim.

11.3 Assumption of Liability and Waiver of Claims. Tenant, as a material part of the consideration to Landlord for this Lease, hereby assumes all risk of damage to property or injury to persons in, upon or about the Project from any cause whatsoever, and Tenant hereby waives all claims in respect thereof against Landlord and acknowledges that this assumption and waiver by Tenant has been reflected as a reduction of the rent which Landlord would otherwise charge. Landlord shall not be liable for interference with light, air or other similar benefits, nor shall Landlord be liable for any latent or patent defect in the Project. Tenant shall give prompt notice to Landlord in case of fire or accidents in the Premises or in the Buildings or defects therein or in the fixtures or equipment thereof but Landlord's receipt of such notice shall not impose upon Landlord any duty, liability or obligation which it has not assumed or which it has disclaimed in this Lease. Landlord shall not be liable for any damage to property entrusted to employees of the Buildings, nor for the loss of or damage to, any property by theft or otherwise, nor for any injury or damage to persons, property or Tenant's business (or loss of income) resulting from construction, repair or alteration of premises adjoining the Premises, the Premises or any other portion of the Buildings, or from the pipes, appliances or plumbing works therein, or from the roof, street or subsurface, or from any other place, or resulting from dampness or any other cause whatsoever, nor shall Landlord be liable for any damage caused by acts or omissions of other tenants, occupants or visitors of the Project.

ARTICLE XII
INSURANCE

12.1 Tenant's Insurance Obligations. From and after the date of delivery of the Premises from Landlord to Tenant, Tenant shall carry and maintain, at its own expense, the following types, amounts and forms of insurance:

12.1.1 Liability Insurance. Tenant shall carry and maintain a policy of comprehensive general liability insurance with a combined single limit of not less than One Million Dollars ($1,000,000) per occurrence and Two Million Dollars ($2,000,000) in the aggregate in the name of Tenant (with Landlord and, if requested by Landlord, any mortgagee, trust deed holder, ground lessor or secured party with an interest in this Lease, the Buildings or the Project named as additional insured(s)). Such policy shall specifically include, without limitation, personal injury, broad form property damage and contractual liability coverage, the last of which shall cover the insuring provisions of this Lease and the performance by Tenant of the indemnity agreements in Article XI above. The amount of such insurance required hereunder shall be subject to adjustment from time to time as reasonably requested by Landlord.

12.1.2 Property Insurance. Tenant shall carry and maintain a policy or policies of property insurance in the name of Tenant (with Landlord and, if requested by Landlord, any mortgagee, trust deed holder, ground lessor or secured party with an interest in this Lease, the Building or the Project named as additional insured(s)) covering any tenant improvements in the Premises and Alterations and any property of Tenant at the Premises and providing protection against all perils included within the classification of fire, extended coverage, vandalism, malicious mischief, special extended peril (all risk) and sprinkler leakage, in an amount equal to at least one hundred percent (100%) of the replacement cost thereof from time to time (including, without limitation, cost of debris removal).

12.1.3 Workers' Compensation Insurance. Tenant shall carry and maintain a policy of workers' compensation insurance in compliance with all applicable laws.

12.1.4 Other Insurance. Tenant shall carry and maintain such other policies of insurance (including, without limitation, business interruption insurance) in connection with the Premises as Landlord may from time to time require.

12.1.5 Policy Provisions. All of the policies required to be obtained by Tenant pursuant to the provisions of this Section 12.1 shall be issued by companies, and shall be, in form and content, reasonably acceptable to Landlord. Without limiting the generality of the foregoing, any deductible amounts under said policies shall be subject to Landlord's approval. Each policy shall designate Landlord as an additional named insured and shall provide full coverage in the amounts set forth herein. Although named as an insured, Landlord shall be entitled to recover under said policies for any loss occasioned to Landlord, its servants, agents and employees, by reason of the negligence of Tenant. Tenant shall, prior to delivery of the Premises by Landlord to Tenant, provide Landlord with copies of and certificates for all insurance policies. All insurance policies shall provide that they may not be altered or canceled until after thirty (30) days written notice to Landlord (by any means described in Article XXII below). Tenant shall, at least thirty (30) days prior to the expiration of any of such policies, furnish Landlord with a renewal or binder therefor. Tenant may carry insurance under a so-called "blanket" policy, provided that such policy provides that the amount of insurance required hereunder shall not be prejudiced by other losses covered thereby. All insurance policies carried by Tenant shall be primary with respect to, and non-contributory with, any other insurance available to Landlord and shall contain cross-liability coverage. If Tenant fails to carry any insurance policy required hereunder or to furnish copies thereof and certificates therefor pursuant hereto, Landlord may obtain such insurance, and Tenant shall reimburse Landlord for the costs thereof with the next monthly rent payments due hereunder.

12.2 Landlord's Insurance Obligations. During the Term of this Lease, Landlord shall keep and maintain fire and extended coverage insurance with vandalism and malicious mischief endorsement for the Buildings and public liability insurance or an equivalent funded program of self-insurance in such reasonable amounts with such reasonable deductibles as would be carried by a prudent owner of a similar building in Southern California. Landlord may obtain insurance for the Buildings and the rents from the Buildings against such other perils as Landlord may reasonably consider appropriate. Tenant acknowledges that it will not be a named insured in such policies and that it has no right to receive any proceeds from any such insurance policies carried by Landlord. Landlord shall not be required to carry insurance covering the property described in Section 12.1.2 above.

12.3 Waivers of Subrogation. Each of the parties hereto waives any and all rights of recovery against the other or against any other tenant or occupant of the Buildings, or against the officers, employees, agents, representatives, patients or visitors of such other party or of such other tenant or occupant of the Buildings, for loss of or damage to such waiving party or its property or the property of others under its control and arising from any cause insured against under any insurance required to be carried by such waiving party pursuant to this Lease or arising from any cause insured against under any standard form of first insurance policy with all permissible extension endorsements covering additional perils carried by such waiving party or under any other policy of insurance carried by such waiving party in lieu thereof, to the extent such loss or damage is insured against by such policy.

12.4 Increases. Tenant shall pay any increases in insurance premiums relating to property in the Project other than the Premises to the extent that any such increase is specified by the insurance carrier as being caused by Tenant's acts or omissions or use or occupancy of the Premises.

ARTICLE XIII
DAMAGE OR DESTRUCTION OF BUILDING OR PREMISES

13.1 Repair; Termination. If the Premises or a Building is damaged by an insured casualty occurring more than six (6) months prior to the expiration of the Term hereof, Landlord shall forthwith repair the same, or cause the same to be repaired, to the extent that insurance proceeds are made available to Landlord therefor and provided that such repairs can, in Landlord's opinion, be made within ninety (90) days from the date of such damage (without payment of overtime or other premiums) under the laws and regulations of the federal, state and local governmental authorities having jurisdiction thereof. If Landlord is not so required to repair such damage, Landlord shall have the option within sixty (60) days from the date of such damage either to: (i) notify Tenant of Landlord's election to repair such damage, in which event Landlord shall thereafter use its reasonable efforts to repair the same; or (ii) notify Tenant of Landlord's election to immediately terminate this Lease, in which event this Lease shall be so terminated. Notwithstanding any contrary provision herein: (a) Landlord shall not be required to repair any damage to the property of Tenant or to repair or replace any paneling, decorations, railings, floor coverings, alterations, additions, fixtures, equipment or improvements installed in the Premises by or at the expense of Tenant; and (b) any damage caused by the negligent, reckless or intentional act or omission of Tenant or any of its agents, contractors, employees or invitees shall be promptly repaired by Tenant, at its sole cost and expense, to the reasonable satisfaction of Landlord.

13.2 Abatement of Rent. If Landlord repairs damage to the Premises pursuant to the provisions of Section 13.1 above, Basic Annual Rent payable hereunder shall be abated, until such repairs are completed, in the proportion that the square footage of the portion, if any, of the Premises rendered unusable by Tenant bears to the Premises Area; provided, however, that there shall be no such abatement: (i) except to the extent Landlord receives proceeds covering the amount of such abatement under any rental value insurance policy maintained by Landlord; (ii) to the extent that any business interruption insurance policy required pursuant to Section 12.1.4 above insures payment of Basic Annual Rent; (iii) unless a material portion of the Premises is rendered unusable for more than fifteen (15) consecutive business days; or (iv) if the damage so repaired is caused by the negligent, reckless or intentional act or omission of Tenant or any of its agents, contractors, employees or invitees. Except for abatement of Basic Annual Rent, if any, Tenant shall have no claim against Landlord for any damage suffered by reason of: (1) any damage to the Premises; (2) such repairs; or (3) any inconvenience, interruption or annoyance caused by such damage or repairs.

13.3 Waiver. In respect of any partial or total damage or destruction which Landlord is obligated or agrees to restore under any of the provisions of this Lease, Tenant hereby waives the provisions of Sections 1932 and 1933 of the California Civil Code and any related, similar or successor provision of law, to the extent applicable hereto, if at all.

ARTICLE XIV
EMINENT DOMAIN

If the whole of the Premises or so much thereof as to render the balance unusable by Tenant shall be taken by right of eminent domain or by condemnation, or shall be conveyed in lieu of any such taking, then this Lease, at the option of either Landlord or Tenant exercised by either party giving written notice to the other of such termination within thirty (30) days after such taking or conveyance, shall forthwith cease and terminate and the rent and all other sums payable hereunder shall be duly apportioned as of the date of such taking or conveyance. Tenant thereupon shall surrender to Landlord the Premises and all interest therein under this Lease, and Landlord may reenter and take possession of the Premises and remove Tenant therefrom. If any portion of the Premises or any portion of the Buildings which shall not render the Premises untenantable shall be taken or conveyed as described above, then this Lease, at the option of Landlord exercised by Landlord giving written notice to Tenant of such termination within thirty (30) days after such taking or conveyance, shall forthwith cease and terminate and the rent and all other sums payable hereunder shall be duly apportioned as of the date of such taking or conveyance. Tenant thereupon shall surrender to Landlord the Premises and all interest therein under this Lease, and Landlord may reenter and take possession of the Premises and remove Tenant therefrom. No award for any partial or entire taking shall be apportioned and Tenant hereby releases any claim to and assigns to Landlord any award which may be made in such taking or condemnation, together with any and all rights of Tenant now or hereafter arising in or to the same or any part thereof, including, but not limited to, any award for the "bonus value" of Tenant's interest under this Lease. In the event of a partial taking, or a sale, transfer or conveyance in lieu thereof, which does not result in a termination of this Lease pursuant to the foregoing, the rent shall be apportioned according to the ratio that the part of the Premises remaining usable by Tenant bears to the total area of the Premises. To the extent it is inconsistent with the above, each party waives the provisions of Section 1265.130 of the California Code of Civil Procedure allowing either party to petition the superior court to terminate this Lease in the event of a partial taking of the Premises.

ARTICLE XV
ASSIGNING — MORTGAGING — SUBLETTING — CHANGE IN OWNERSHIP

15.1 No Unauthorized Transfer. Tenant shall not voluntarily, by operation of law or otherwise, assign, sublet, enter into a license or concession agreement for, hypothecate, encumber, pledge or otherwise transfer this Lease or Tenant's interest in the Premises (or any portion thereof) or permit any third party or parties other than Tenant, its authorized agents, employees, invitees and visitors, to occupy the Premises or any portion thereof without Landlord's advance written consent in each instance, which consent may be withheld in the sole and absolute discretion of Landlord. Tenant acknowledges and agrees that Landlord is entering into this Lease because Landlord has permitted Tenant to be present in the Buildings on the basis of both tangible and intangible factors, many of which are not susceptible of rational articulation or prioritization, and that the Premises represents scarce space in the Buildings which are owned and primarily occupied by Landlord. Any attempted assignment, subletting or other transfer without Landlord's advance written consent shall constitute a default hereunder and, at Landlord's election, shall be void so as not to confer any rights upon any third person.

15.2 Procedures for Requesting Authorization. If Tenant desires at any time to assign or otherwise transfer this Lease or to sublet the Premises or any portion thereof, it must first notify Landlord of its desire to do so and shall submit in writing to Landlord: (i) the name 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 (iv) such financial, professional and other background information as Landlord may request concerning the proposed subtenant or assignee.

15.3 Landlord's Option. At any time within thirty (30) days after Landlord's receipt of the information specified in Section 15.2 above, Landlord may, by written notice to Tenant, elect, in the exercise of its sole and absolute discretion, to: (i) consent to the subletting or assignment upon the terms and to the subtenant or assignee proposed; (ii) refuse to give consent; or (iii) sublease the Premises or the portion so proposed to be subleased by Tenant or take an assignment of Tenant's leasehold estate hereunder or such part thereof as shall be specified in said notice upon the same terms (excluding terms relating to the use of Tenant's name or the continuation of Tenant's business) as those offered to the proposed subtenant or assignee, as the case may be. Tenant agrees that Landlord may consent to a proposed subletting or assignment subject to such conditions as Landlord deems appropriate in the exercise of its sole and absolute discretion, including, but not limited to, the conditions specified in Sections 15.4.1, 15.4.2 and 15.4.3 below. Tenant further agrees that no assignment or subletting consented to by Landlord shall impair or diminish any covenant, condition or obligation imposed upon Tenant by this Lease or any right, remedy or benefit afforded Landlord by this Lease. If Landlord consents to such assignment or subletting, Tenant may, within ninety (90) days after the date of Landlord's consent, enter into a valid assignment or sublease of the Premises or portion thereof upon the terms and conditions described in the information required to be furnished by Tenant to Landlord pursuant to Section 15.2 above, or upon other terms not more favorable to Tenant; provided, however, that any material change in such terms shall be subject to Landlord's consent as provided in this Article XV. Failure of Landlord to exercise any option set forth in clauses (i) through (iii) above within such thirty (30) day period shall be deemed refusal of Landlord to consent to the proposed subletting or assignment.

15.4 Conditions to Consent.

15.4.1 Standards of Reasonableness. Landlord may withhold its consent to any assignment or subletting, encumbrance, hypothecation, pledge or other transfer in the exercise of Landlord's sole and absolute discretion. Landlord hereby advises Tenant in advance and Tenant hereby agrees that Landlord will withhold such consent for any of the following reasons, among others, if the proposed assignee, sublessee or transferee: (i) is not satisfactory to Landlord as to credit or character or business or professional reputation; (ii) intends to occupy the Premises for purposes other than specified in this Lease or for purposes which are inconsistent with Landlord's commitments to other tenants in the Buildings or in other buildings or facilities owned and operated by Landlord, or for purposes which are unlawful or reasonably undesirable; (iii) is unable to fulfill the terms of this Lease; (iv) is not satisfactory to Landlord as to the quality of services provided or research to be conducted; or (v) will be occupying the Premises to supply services which are duplicative of services already available to patients or the professional staff of Cedars-Sinai Medical Center or to occupants in the Buildings.

15.4.2 Further Transfers. In no event shall Landlord's consent to any assignment, transfer or subletting relieve Tenant from the obligations to obtain Landlord's express written consent to any further assignment, transfer, subletting or sub-subletting or release Tenant from any liability or obligation hereunder (whether or not then accrued) and Tenant shall continue to be fully, jointly and severally liable hereunder notwithstanding Landlord's consent to such assignment, transfer or subletting.

15.4.3 Rent or Other Premiums. As a further condition to Landlord's consent to any subletting, assignment or other transfer referred to in Sections 15.3 and 15.4.1 or any other part of Article XV, Landlord shall be entitled to receive any rent or other premium otherwise payable to Tenant in consideration of the sublease, assignment or other transfer (i.e., if the sublease, assignment or other transfer provides that the sublessee, assignee or other transferee thereunder is to pay any amount in excess of the rent and other charges due under this Lease, whether such premium be in the form of an increased monthly or annual rent, a lump sum payment in consideration of the sublease, assignment or transfer or consideration of the sublease, assignment or transfer or consideration of any other form, such premium over and above the rent and the other sums due hereunder shall, at Landlord's election, inure only to Landlord's benefit), and any such sublease, assignment or transfer and Landlord's consent shall be effected on forms supplied or approved by Landlord and its attorneys. In addition, the Basic Annual Rent, after the transfer, shall not be less than the Basic Annual Rent, as adjusted pursuant to Section 4.2, immediately before the transfer, plus the total compensation paid for the annual period immediately preceding the transfer, pursuant to Section 4.3.2 hereof.

15.4.4 Processing Costs and Fees. Tenant agrees to reimburse Landlord for Landlord's reasonable costs and attorneys' fees incurred in connection with the processing and documentation of any such requested assignment, subletting, transfer, change of ownership, hypothecation, pledge or encumbrance of this Lease or Tenant's interest in and to the Premises.

15.4.5 No Waiver. No subletting, assignment or other transfer, even with the consent of Landlord, shall relieve Tenant of its obligation to pay the rent and to perform all of the other obligations to be performed by Tenant hereunder. Landlord's consent to any one transfer shall apply only to the specific transaction thereby authorized and such consent shall not be construed as a waiver of the duty of Tenant or any transferee to obtain Landlord's consent to any other or subsequent transfer or as modifying or limiting Landlord's rights hereunder in any way. Landlord's acceptance of rent directly for any subtenant, assignee or any other transferee shall not be construed as Landlord's approval or consent thereto nor Landlord's agreement to accept the attornment of any subtenant in the event of any termination of this Lease. In no event shall Landlord's enforcement of any provision of this Lease against any transferee be deemed a waiver of Landlord's right to enforce any term of this Lease against Tenant or any other person.

15.4.6 Nature of Tenant. If Tenant is a corporation which, under the then current guidelines published by the Commissioner of Corporations of the State of California, is not deemed a public corporation, or is an unincorporated association or partnership or company, the following shall be deemed an assignment within the meaning of this Article XV: the transfer, assignment, hypothecation, or other disposition, whether in one transaction or a series of transactions, of any stock or interest in such corporation, association or partnership, which results in a transfer, assignment, hypothecation, change, addition, or other disposition of fifty-one percent (51%) or more of any class of stock in Tenant or in a transfer, assignment, hypothecation, or other disposition of a fifty-one percent (51%) interest or more in Tenant (including, without limitation, an interest in profits, net profits or cash flow). Tenant shall notify Landlord of any transfer of an ownership interest in Tenant to any person not later than thirty (30) days prior to such transfer together with a summary of the material terms of such transaction, whether or not consent of Landlord is required pursuant to this Article XV.

ARTICLE XVI
SUBORDINATION; ATTORNMENT

16.1 Subordination. With respect to all ground leases, mortgages, deeds of trust or other recorded evidences of financing obligations ("Superior Interests") now or hereafter covering the Premises and/or all or any other portion of the Project, Buildings or the Property, and with respect to the ground lessors, mortgagees or beneficiaries thereunder ("Superior Interest Holders"), Tenant agrees as follows:

(a) Unless otherwise requested by any Superior Interest Holder in writing, this Lease is and shall remain subordinate to all Superior Interests existing as of the date of this Lease, and to all renewals, modifications, consolidations, replacements, extensions and amendments thereof

(b) If requested by any future Superior Interest Holder in writing, this Lease shall automatically become subordinate to any such future Superior Interest and all extensions or amendments thereof.

The above-referenced subordinations shall be automatic and self-executing, but additionally Tenant agrees, within ten (10) days after receipt of written request therefor from Landlord or any Superior Interest Holder, to execute, acknowledge and deliver any and all documents or instruments requested to confirm and assure such subordination under the above-referenced terms.

16.2 Attornment. Tenant shall attorn to any person, firm or corporation purchasing or otherwise acquiring the Premises, a Building or the Project at any sale or other proceeding, or pursuant to the exercise of any rights, powers or remedies under any Superior Interests, as if such person, firm or corporation had been named as Landlord herein. Tenant shall confirm such attornment in writing if so requested.

16.3 Attorney-in-Fact. If Tenant fails to execute any document required from Tenant under this Article within ten (10) days after written request therefor, Tenant hereby constitutes and appoints Landlord as its special attorney-in-fact to execute and deliver any such document or documents in the name of Tenant. Such power, being coupled with an interest, is irrevocable.

16.4 Non-Disturbance. With respect to any ground leases, mortgages, deeds of trust, or other liens entered into by Landlord and any such mortgagee or deed of trust beneficiary, and in consideration of Tenant's agreement to be bound by the provisions of this Article XVI, Landlord shall use its reasonable efforts to cause, upon the request of Tenant, any and all future Superior Interest Holders to enter into and deliver to Tenant non-disturbance and attornment agreements which are customarily entered into by such Superior Interest Holders in consideration of the subordination of pre-existing tenant leases such as this Lease.

ARTICLE XVII
DEFAULT

17.1 Default by Tenant. The occurrence of any of the following shall constitute a breach of and default under this Lease by Tenant:

(a) Failure by Tenant to pay any amount, including without limitation, monthly installments of Basic Annual Rent and any additional rent, when and as the same becomes payable in accordance with the provisions of this Lease, and the continuation of such failure for a period of ten (10) business days after written notice thereof from Landlord to Tenant.

(b) Failure by Tenant in the due, prompt and complete performance and observance of any express or implied covenant, agreement or obligation of Tenant contained in this Lease, other than the breaches described of Sections 17.1(a), (g), and (h) hereof, and the continuation of such failure for a period of thirty (30) days after written notice thereof from Landlord to Tenant specifying the nature of such failure; provided, however, that if any such failure involves a hazardous condition or involves interference with, or an adverse effect upon, Landlord's operations in the Buildings or those of any other tenant or occupant of the Buildings, Landlord shall have the right, in addition to its other rights under this Lease, to cure such condition or to obtain injunctive relief against Tenant if the condition is not cured within said thirty (30) day period or such shorter period of time as may be required by applicable laws or as may be required by Landlord.

(c) Tenant's vacating or abandoning of the Premises, as such abandonment is established pursuant to Section 1951.3 of the California Civil Code, as such code section is amended or replaced from time to time.

(d) Any financial statement or any representation given to Landlord by Tenant, or any assignee, sublessee or successor of Tenant or any guarantor of this Lease, proves to be materially false.

(e) The insolvency of Tenant; the making by Tenant of any assignment for the benefit of creditors; the filing by or against Tenant of a petition to have Tenant adjudged bankrupt or of a petition for reorganization or arrangement under any law relating to bankruptcy, insolvency or creditors' rights in general (unless in the case of a petition filed against Tenant, the same is dismissed within sixty (60) days); the appointment of a trustee or receiver to take possession of all or a substantial part of Tenant's assets or of Tenant's interest under this Lease, where such seizure is not discharged within thirty (30) days. The occurrence of any of the acts or events referred to in this subparagraph with respect to any guarantor of this Lease, if any, shall also constitute a default hereunder.

(f) The attachment, execution or other judicial seizure of a substantial portion of Tenant's assets located at the Premises or of Tenant's interest in this Lease, where such seizure is not discharged within thirty (30) days.

(g) The breach of the provisions of Section 6.6 concerning animal research.

(h) The breach of any obligation of Tenant under this Agreement with respect to the use, disposal, handling, or storage of Hazardous Materials.

The notices referred to in clauses (a) and (b) above shall be in lieu of, and not in addition to, any notice required under Section 1161 et seq. of the California Code of Civil Procedure.

ARTICLE XVIII
REMEDIES

18.1 Termination of Lease and Removal of Tenant. In the event of Tenant's breach of or default under this Lease as provided in Article XVII hereof, Landlord, at Landlord's option, and without limiting Landlord in the exercise of any other right or remedy Landlord may have on account of such default, and without any further demand or notice, may terminate this Lease and/or, to the extent permitted by law, remove all persons and property from the Premises, which property shall be stored by Landlord at a warehouse or elsewhere at the risk, expense and for the account of Tenant.

18.2 Damages. If Landlord elects to terminate this Lease as provided in Section 18.1 above, Landlord shall be entitled to recover from Tenant the aggregate of:

(a) The worth at the time of award of the unpaid rent and charges equivalent to rent earned as of the date of the termination hereof;

(b) The worth at the time of award of the amount by which the unpaid rent and charges equivalent to rent which would have been earned after the date of termination hereof until the time of award exceeds the amount of such rental loss that Tenant proves could have been reasonably avoided;

(c) The worth at the time of award of the amount by which the unpaid rent and charges equivalent to rent for the balance of the Term hereof after the time of award exceeds the amount of such rental loss that Tenant proves could have been reasonably avoided;

(d) Any other amount necessary to compensate Landlord for 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; and

(e) Any other amount which Landlord may hereafter be permitted to recover from Tenant to compensate Landlord for the detriment caused by Tenant's default. For the purposes of this Section, the "time of award" shall mean the date upon which the judgment in any action brought by Landlord against Tenant by reason of such default is entered or such earlier date as the court may determine; the ¯worth at the time of award" of the amounts referred to in Sections 18.2(a) and 18.2(b) shall be computed by allowing interest at the lesser of the Lease Rate plus three (3) percentage points or the maximum rate permitted by law; and the "worth at the time of award" of the amount referred to in Section 18.2(c) shall be computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of award plus one percent (1%) per annum. Tenant agrees that such charges shall be recoverable by Landlord under California Code of Civil Procedure Section 1174(b) or any similar, successor or related provision of law. Further. Tenant hereby waives the provisions of California Code of Civil Procedure Section 1174(c) and California Civil Code Section 1951.7 or any other similar, successor or related provision of law providing for Tenant's right to satisfy any judgment in order to prevent a forfeiture of this Lease or requiring Landlord to deliver written notice to Tenant of any reletting of the Premises. No acts or efforts of Landlord to mitigate damages caused by Tenant's breach or default shall be construed or operate to waive or reduce any damages or other sums recoverable by Landlord hereunder (provided, however, that Landlord shall under no circumstances be obligated to so mitigate any such damages).

18.3 No Effect on Indemnification. Nothing in this Article shall be deemed to affect Landlord's right to indemnification for liability or liabilities arising prior to the termination of this Lease under the indemnification clause or clauses contained in this Lease.

18.4 No Acceptance of Surrender. Notwithstanding anything to the contrary set forth herein, Landlord's reentry to perform acts of maintenance or preservation of, or in connection with efforts to relet, the Premises or any portion thereof, or the appointment of a receiver upon Landlord's initiative to protect Landlord's interest under this Lease, shall not terminate Tenant's right to possession of the Premises or any portion thereof and, until Landlord does elect to terminate this Lease, this Lease shall continue in full force and Landlord may pursue all its remedies hereunder, including, without limitation, the right to recover from Tenant as they become due hereunder all rent and other charges required to be paid by Tenant under the terms of this Lease.

18.5 Action for Rent. In the event of any default by Tenant as set forth above, then in addition to any other remedies available to Landlord at law or in equity or under this Lease. Landlord shall have the right to bring an action or actions from time to time against Tenant, in any court of competent jurisdiction, for all rent and other sums due or becoming due under this Lease, including all damages and costs proximately caused thereby, notwithstanding Tenant's abandonment or vacation of the Premises or other acts of Tenant, as permitted by Section 1951.4 of the California Civil Code or any successor, related or similar provision of law. Such remedy may be exercised by Landlord without prejudice to its right to thereafter terminate this Lease in accordance with the other provisions contained in this Article.

18.6 Definition of Rent. The terms "rent" and "rental", as used in this Article and in any and all other provisions of this Lease, shall mean Basic Annual Rent and any and all other amounts payable by Tenant pursuant to the provisions of this Lease.

18.7 Reletting. In the event of Tenant's abandonment of the Premises or if Landlord shall elect to reenter or shall take possession of the Premises pursuant to any legal proceeding or pursuant to any notice provided by law, and until Landlord elects to terminate this Lease, Landlord may, from time to time, without terminating this Lease, recover all rent as it becomes due under Section 18.5 above and/or relet the Premises or any part thereof for the account of and on behalf of Tenant, on any terms, for any term (whether or not longer than the Term of this Lease) and at any rent as Landlord in its reasonable discretion may deem advisable, and Landlord may make any alterations and repairs to the Premises in connection therewith. Tenant hereby irrevocably constitutes and appoints Landlord as its special attorney-in-fact, irrevocable and coupled with an interest, for purposes of reletting the Premises pursuant to the immediately preceding sentence. In the event that Landlord shall elect to so relet the Premises on behalf of Tenant, then rent received by Landlord from such reletting shall be applied:

(a) First, to reimburse Landlord for the costs and expenses of such reletting (including, without limitation, costs and expenses of retaking or repossessing the Premises, removing persons and property therefrom, securing new tenants, and, if Landlord shall maintain and operate the Premises, the costs thereof) and necessary or reasonable alterations.

(b) Second, to the payment of any indebtedness of Tenant to Landlord other than Basic Annual Rent and other sums due and unpaid hereunder.

(c) Third, to the payment of rent, Basic Annual Rent and other sums due and unpaid hereunder, and the residue, if any, shall be held by Landlord and applied in payment of other or future obligations of Tenant to Landlord as the same may become due and payable.

Should the rent received from such reletting, when applied in the manner and order indicated above, at any time be less than the total amount owing from Tenant pursuant to this Lease, then Tenant shall pay such deficiency to Landlord, and if Tenant does not pay such deficiency within five (5) days of its receipt of written notice, Landlord may bring an action against Tenant for recovery of such deficiency or may pursue its other remedies hereunder or under California Civil Code Section 1951.8, California Code of Civil Procedure Section 1161 et seq., or any similar, successor or related provision of law.

18.8 Cumulative Remedies. All rights, powers and remedies of Landlord hereunder and under any other agreement now or hereafter in force between Landlord and Tenant shall be cumulative and not alternative and shall be in addition to all rights, powers and remedies given to Landlord at law or in equity. The exercise of any one or more of such rights or remedies shall not impair Landlord's right to exercise any other right or remedy, including, without limitation, any and all rights and remedies of Landlord under California Civil Code Section 1951.8, California Code of Civil Procedure Section 1161 et seq., or any similar, successor or related provision of law.

18.9 Assignment of Subrents. As security for Tenant's performance and satisfaction of each and every one of its duties and obligations under this Lease, Tenant does hereby assign and grant to Landlord a security interest under the California Commercial Code in and to Tenant's right, power and authority, during the continuance of this Lease, to receive the rents, issues, profits or other payments received under any sublease or other transfer of part or all of Tenant's interest in the Premises, reserving unto Tenant the right prior to any default hereunder to collect and retain said rents, issues and profits as they become due and payable, except that nothing contained herein shall be construed to alter the provisions of Article XV above. Upon any such default, Landlord shall have the right at any time thereafter, without notice (except as may be provided for herein), either in person, by agent or receiver to be appointed by a court, to enter and take possession of said Premises and collect such rents, issues, profits or other payments, including, without limitation, those past due and unpaid, and apply the same, less costs and expenses of collection, including, without limitation, reasonable attorneys' fees, upon any indebtedness secured hereby and in such order as Landlord may determine.

18.10 Storage of Personal Property. If, after Tenant's abandonment of the Premises, Tenant leaves behind any items of personal property, then Landlord shall store such property at a warehouse or any other location at the risk, expense and for the account of Tenant, and such property shall be released only upon Tenant's payment of such charges, together with all sums due and owing under this Lease. If Tenant does not reclaim such property within the period permitted by law, Landlord may sell such property in accordance with law and apply the proceeds of such sale to any sums due and owing hereunder, or retain said property, granting Tenant credit against sums due and owing hereunder for the reasonable value of such property.

18.11 Waiver. To the maximum extent permitted by law, Tenant hereby waives all provisions of, or protection under, any decisions, statutes, rules, regulations or other laws of the State of California to the extent the same are inconsistent with the terms and provisions hereof, including all rights and remedies of Landlord provided under this Article.

18.12 Landlord's Cure of Tenant's Default. If at any time during the Term hereof Tenant fails, refuses or neglects to do any of the things herein provided to be done by Tenant, Landlord shall have the right, upon five (5) days' written notification to Tenant, but not the obligation, to do the same, but at the expense and for the account of Tenant. The amount of any money so expended or obligations so incurred by Landlord, together with interest thereon at the Lease Rate, shall be repaid to Landlord within five (5) days of Tenant's receipt of written notice, and unless so paid shall be added to the next monthly rent payment coming due hereunder.

18.13 Interest and Charges on Past Due Obligations. Any amount due from Tenant to Landlord hereunder which is not paid when due shall bear interest at the Lease Rate from the due date until paid, unless otherwise specifically provided herein, but the payment of such interest shall not excuse or cure any such default by Tenant under this Lease. In addition to such interest, if any monthly installment of Basic Annual Rent is not paid within five (5) business days after the same is due, a late charge equal to six percent (6%) of such monthly installment shall be assessed, which late charge Tenant hereby agrees is a reasonable estimate of the damages Landlord shall suffer as a result of Tenant's late payment, which damages include Landlord's additional administrative and other costs associated with such late payment. The parties agree that it would be impracticable and extremely difficult to fix Landlord's actual damages in such event. Such interest and late payment penalties are separate and cumulative and are in addition to and shall not diminish or represent a substitute for any or all of Landlord's rights or remedies under any other provision of this Lease.

ARTICLE XIX
RULES AND REGULATIONS

Tenant shall observe faithfully and comply strictly with the rules and regulations ("Rules and Regulations") contained in **Exhibit E** attached hereto, as amended or supplemented by Landlord from time to time. Landlord shall not be liable to Tenant for violation by any other tenant in the Buildings of any of the Rules and Regulations, or for the breach of any covenant or condition in any lease. Landlord has not and is not hereby representing that all tenants in the Buildings are or shall be bound to any part or all of the Rules and Regulations.

ARTICLE XX
SURRENDER OF PREMISES

20.1 Surrender. Upon the expiration or sooner termination of the Term of this Lease, Tenant shall surrender the Premises in good condition, reasonable wear and tear excepted, broom clean and free of trash and rubbish. If Tenant has not been in default beyond any applicable cure period under any provision of this Lease and is not then in default, upon the expiration or sooner termination of the Term of this Lease, then Tenant may remove the trade fixtures set forth on **Exhibit F** attached hereto and Tenant's Alterations, provided that, in the case of Tenant's Alterations, such Alterations shall be removed only to the extent they have not become a part of the Premises. Tenant shall promptly repair any damage to the Premises occasioned by the removal of such fixtures and Alterations. In any event, Landlord may require that Tenant remove all or any portion of such fixtures and Tenant's Alterations upon such expiration or termination, in which event Tenant shall cause such removal to occur and all damage arising out of such removal repaired. All other Tenant property shall be removed by Tenant upon such expiration or termination. Tenant shall repair, at its own cost, any and all damage to the Premises and the Buildings resulting from or caused by any removal hereunder.

20.2 No Merger. The voluntary or other surrender of this Lease by Tenant, or termination hereof, shall not constitute a merger, and shall operate, at the option of Landlord, as an assignment to Landlord of any or all subleases or subtenancies affecting the Premises.

ARTICLE XXI
HOLDING OVER

Should Tenant, with or without Landlord's written consent, hold over after the expiration or earlier termination of this Lease, Tenant shall become a tenant from month-to-month only upon each and all of the terms herein provided as may reasonably and logically be construed as applicable to a month-to-month tenancy, and any such holding over shall not constitute an extension of this Lease. During such holding over without Landlord's written consent, Tenant shall pay, in advance, monthly rent at the highest monthly rate provided for herein (including any and all prior adjustments) plus an amount equal to one hundred and fifty percent (150%) thereof. Nothing contained in the foregoing shall relieve Tenant from, and Tenant shall remain liable for, damages incurred by Landlord as a result of any such hold over.

ARTICLE XXII
NOTICES

Any notice, consent or communication to Landlord or Tenant required or permitted to be given under this Lease shall be effectively given only if in writing and: (a) personally served: (b) mailed by United States registered or certified mail, postage prepaid, return receipt requested; or (c) sent by a nationally recognized courier service *(e.g.,* Federal Express) for next day delivery, to be confirmed in writing by such courier, addressed as follows:

If to Tenant, as follows:

Capricor, Inc.
8840 Wilshire Blvd., 2nd Floor
Beverly Hills, CA 90211
Attn: Linda Marban, CEO
With a copy to: Karen G. Krasney, General Counsel

If to Landlord, as follows:

Cedars-Sinai Medical Center 8700 Beverly Boulevard
North Tower - 2048
Los Angeles, CA 90048-1869
Attention: Mark Daniel
Vice President, Research

With copy to:

Cedars-Sinai Medical Center 8700 Beverly Boulevard
TBS 290
Los Angeles, CA 90048-1869
Attention: Peter Braveman, Esq.
Senior Vice President of Legal Affairs and General Counsel

And with a copy to any and all Superior Interest Holders, but only as previously requested in writing by Landlord.

Either party shall have the right to change the address or addresses to which notices shall thereafter be sent by giving notice to the other party as aforesaid. Notices given in the manner aforesaid shall be deemed delivered when actually received or refused by the party to whom sent, unless such notice is mailed as aforesaid, in which event such notice shall be deemed complete on the day of actual delivery as shown by the return receipt or at the expiration of the third (3rd) business day after the date of mailing, whichever first occurs.

ARTICLE XXIII
QUIET ENJOYMENT

So long as Tenant performs and observes all of its obligations and covenants hereunder and is not in default hereunder, Tenant shall have the right to the quiet and peaceful enjoyment and possession of the Premises during the Term of this Lease without hindrance or ejection by anyone lawfully making a claim by, through, or under Landlord, subject to the terms and conditions of this Lease and of any ground leases, underlying leases, mortgages or deeds of trust affecting all or any portion of the Project.

ARTICLE XXIV
ESTOPPEL CERTIFICATE

Tenant shall, at any time and from time to time, within ten (10) days after written notice from Landlord, execute, acknowledge and deliver to Landlord a statement in writing, in a form provided by Landlord to Tenant, certifying, among other things, that this Lease is unmodified and in full force and effect (or, if modified, stating the nature of such modification and certifying that this Lease, as so modified, is in full force and effect), the dates to which the rent and other charges, if any, are paid in advance and the amount of Tenant's security deposit, if any, and acknowledging that there are not, to Tenant's knowledge. any uncured defaults on the part of Landlord hereunder, and that there are no events or conditions then in existence which, with the passage of time or notice or both, would constitute a default on the part of Landlord hereunder (or specifying such defaults, events or conditions, if any are claimed). It is expressly understood and agreed that any such statement may be relied upon by any prospective purchaser or encumbrancer of all or a portion of the Project. Tenant's failure to deliver such statement shall, at the Landlord's election, be conclusive upon Tenant that this Lease is in full force and effect without modification (except as may be represented by Landlord), that there are no uncured defaults in Landlord's performance, and that no more than one month's rent has been paid in advance. Tenant shall be liable to Landlord for any consequential damages suffered by Landlord and occasioned by Tenant's failure to deliver such certificates in the manner described above.

ARTICLE XXV
LIABILITY OF LANDLORD

In the event of any transfer or transfers of Landlord's interest in the Premises, other than a transfer for security purposes only, Landlord (or Landlord's successor-in-interest as a transferor) shall be automatically relieved of any and all obligations and liabilities on the part of Landlord accruing hereunder from and after the date of such transfer, including, without limitation, the payment of the leasing commission, if any, due with respect to this Lease. Tenant agrees to look solely to Landlord's interest in the Project (or the proceeds thereof) for the satisfaction of any remedy of Tenant for the collection of a judgment (or other judicial process) requiring the payment of money by Landlord in the event of any default by Landlord hereunder, and no other property or assets of Landlord shall be subject to levy, execution or other enforcement procedure for the satisfaction of Tenant's remedies under or with respect to this Lease.

ARTICLE XXVI
LANDLORD'S INABILITY TO PERFORM

This Lease and the obligations of Tenant hereunder shall not be affected or impaired because Landlord is unable to fulfill any of its obligations hereunder or is delayed in doing so, if such inability or delay is caused by reason of the inability of Landlord to obtain the necessary building permits and other governmental approvals required to construct any improvements to the Buildings, the unavailability of materials, strikes or other labor troubles or any other cause beyond the control of Landlord, except as may otherwise be specifically set forth in this Lease. Landlord shall not be deemed to be in default in the performance of any obligation required to be performed by it hereunder unless and until Landlord or any beneficiary under any deed of trust or any mortgage, ground lessor or other lienholder with rights in all or any portion of the Project has failed to perform such obligation within thirty (30) days after written notice by Tenant to Landlord specifying wherein Landlord has failed to perform such obligation; provided, however, that if the nature of Landlord's obligation is such that more than thirty (30) days are required for its performance, then Landlord shall not be deemed to be in default if Landlord or any of such other parties shall commence such performance within such thirty (30) day period and thereafter diligently prosecutes the same to completion.

ARTICLE XXVII
ATTORNEYS' FEES

In the event of any litigation between Tenant and Landlord to enforce any provision of this Lease or otherwise with respect to the subject matter hereof, the unsuccessful party in such litigation shall pay to the successful party all costs and expenses, including reasonable attorneys' fees, incurred therein by the successful party. If either party hereto without fault is made a party to any litigation instituted by or against the other party to this Lease, such other party shall indemnify the party who without fault has been made a party to such litigation and save it harmless from all costs and expenses, including reasonable attorneys' fees, incurred by it in connection therewith.

ARTICLE XXVIII
SERVICES

28.1 Provision of Services. So long as Tenant is not in default hereunder, Landlord agrees to provide to the Premises the following services on the same basis as such services are provided from time to time to other occupants of the Davis Building or the SSB1 Building, as appropriate: elevator, electrical, water, heating, ventilating and air conditioning, janitorial and security services. Landlord shall provide to the Premises heating, ventilation, and air conditioning twenty-four (24) hours daily. With respect to security services, Tenant may: (a) subject to the other provisions of this Lease, cause a separate security system to be installed for the Premises, provided that the same shall not limit Landlord's right of access to the Premises; or (b) if practicable, tie into any central security system for the appropriate Building, provided that Tenant shall, upon demand by Landlord, pay to Landlord all incremental costs incurred by Landlord from time to time in connection with such tie-in.

28.2 Interruption of Services. Landlord shall not be liable for any failure to furnish, stoppage of, or interruption in furnishing any of the services or utilities described in this Article XXVIII when such failure is caused by accident, breakage, repairs, strikes, lockouts, labor disputes, labor disturbances, governmental regulation, civil disturbances, acts of war, moratorium or other governmental action, or any other cause beyond Landlord's reasonable control, and, in such event, Tenant shall not be entitled to any damages nor shall any failure or interruption abate or suspend Tenant's obligation to pay rent required under this Lease or constitute or be construed as a constructive or other eviction of Tenant. Further, in the event any governmental authority or public utility promulgates or revises any law, ordinance, rule or regulation, or issues mandatory controls or voluntary controls relating to the use or conservation of energy, water, gas, light or electricity, the reduction of automobile or other emissions, or the provision of any other utility or service. Landlord may take any reasonably appropriate action to comply with such law, ordinance, rule, regulation, mandatory control or voluntary guideline and Tenant's obligations hereunder shall not be affected by any such action of Landlord. The parties acknowledge that safety and security devices, services and programs provided by Landlord, if any, while intended to deter crime and ensure safety, may not in given instances prevent theft or other criminal acts, or ensure safety of persons or property. The risk that any safety or security device, service or program may not be effective, or may malfunction, or be circumvented by a criminal, is assumed by Tenant with respect to Tenant's property and interests, and Tenant shall obtain insurance coverage to the extent Tenant desires protection against such criminal acts and other losses, as further described in this Lease. Tenant agrees to cooperate in any reasonable safety or security program developed by Landlord or required by Law.

28.3 Compliance with Service Related Regulations. Tenant shall comply with all rules and regulations which Landlord may reasonably establish for the proper functioning and protection of the heating, ventilating, air conditioning, plumbing and other mechanical systems, and Tenant shall in no event use the same in any manner vocative of any governmental law or regulation.

28.4 Additional Building Service Demands. Tenant shall not use, without the prior written consent of Landlord, any apparatus or device in the Premises (including, but not limited to, electronic data processing machines and machines using current in excess of 110 volts) which will in any way increase the amount of electricity, water or compressed air (if compressed air is furnished by Landlord) normally furnished or supplied for use of the Premises as space for Biomedical Activities, nor shall Tenant connect with electric current (except through existing electrical outlets in the Premises, or water pipes or air pipes, if there are any) any apparatus or device for the purpose of using electric current or water or air. Tenant shall cause water meters and electric current meters to be installed so as, and as necessary, to measure the amount of water and electric current consumed for its use of the Premises. The cost of any such meters and of installation, maintenance and repair thereof shall be paid for by Tenant, and, notwithstanding anything contained in this Lease to the contrary, Tenant agrees to pay Landlord, promptly upon demand, for all such water and electric current consumed as shown by said meters at the rates charged for such services by the jurisdiction or jurisdictions in which the Buildings are located or by the local public utility or utilities furnishing the same, whichever the case may be, plus any additional expense incurred in keeping account of the water and electric current so consumed.

28.5 Modification of Services. Notwithstanding anything herein above to the contrary, Landlord reserves the right from time to time to make reasonable and nondiscriminatory modifications to the above standards for utilities and services.

28.6 Special Services. At any time during the Term of this Lease, Tenant, at its sole option, may elect to purchase from Landlord any of the special services identified in **Exhibit G** attached hereto. The rates for such special services shall be established by Landlord in its sole discretion from time to time and are subject to change.

ARTICLE XXIX
GENERAL PROVISIONS

29.1 Headings. The section and subsection headings contained in this Lease are for convenience only and do not in any way limit or amplify any term or provision hereof

29.2 Plurals and Genders. The terms "Landlord" and "Tenant" as used herein shall include the plural as well as the singular, and the neuter shall include the masculine and feminine genders.

29.3 "Persons" Defined. The words "person" or "persons" as used herein shall include individuals, firms, associations and corporations.

29.4 Covenants and Agreements; Time of the Essence. All of the provisions of this Lease are to be construed as covenants and agreements as though the words importing such covenants and agreements were used in each separate provision hereof. Each of Tenant's covenants and agreements herein contained are conditions, the time of which is of the essence, and the strict performance of each shall be a condition precedent to Landlord's obligations hereunder and the right of Tenant to remain in possession of the Premises and to have this Lease continue in effect.

29.5 Intellectual Property. Landlord and Tenant hereby acknowledge that, as of the Commencement Date, the parties independently own and/or have rights in and to certain items of intellectual property, and that during the term of this Lease, the parties may independently develop and/or otherwise accumulate rights in and to additional items of intellectual property. The parties agree that neither this Lease nor any Company Activities in the Premises, Specialized Research Cores or Common Areas shall create any rights whatsoever of access, ownership, license or otherwise to the other party's intellectual property, whether such intellectual property or a party's rights therein are in existence prior to the Commencement Date or developed and/or accumulated during the Term of this Lease or thereafter.

29.6 Successors and Assigns. All of the covenants, conditions and provisions of this Lease shall be binding upon and shall inure to the benefit of the parties hereto and their respective heirs, personal representatives, successors and assigns, subject at all times, however, to all agreements and restrictions contained in Article XV hereof.

29.7 Interpretation. The language in all parts of this Lease shall be in all cases construed simply according to its fair meaning, and not strictly for or against Landlord or Tenant. Any reference to any Article herein shall be deemed to include all subsections thereof unless otherwise specified or reasonably required from the context. Any reference to "days" or "months" herein shall refer to calendar days or months, respectively, unless specifically provided to the contrary. The terms "therein," "hereunder" and "hereof" as used in this Lease shall mean "in this Lease," "under this Lease" and "of this Lease", respectively, except as otherwise specifically set forth in this Lease.

29.8 Waiver and Default. No waiver by Landlord of any provision of this Lease shall be deemed to be a waiver of any other provision hereof or of any subsequent breach by Tenant of the same or any other provision. No delay on the part of Landlord in exercising any of its rights hereunder shall operate as a waiver of such rights or of any other right of Landlord, nor shall any delay, omission or waiver on any one occasion be deemed a bar to, or a waiver of, the same or any other right on any other occasion. Neither Landlord's failure to bill Tenant for any rent as it becomes due hereunder, nor Landlord's error in such billing or failure to provide any other documentation in connection therewith, shall operate as a waiver of Landlord's right to collect any such rent which may have at any time become due hereunder in the full amount to which Landlord is entitled pursuant to the terms hereof, except as otherwise may be specifically set forth in this Lease. Landlord's consent to or approval of any act by Tenant requiring Landlord's consent or approval shall not be deemed to render unnecessary the obtaining of Landlord's consent to or approval of any subsequent act of Tenant whether or not similar to the act so consented to or approved. No act or thing done by Landlord or Landlord's agents during the Term of this Lease shall be deemed an acceptance of a surrender of the Premises, and no agreement to accept such surrender shall be valid, unless in writing and signed by Landlord. No employee of Landlord or Landlord's agents shall have any power to accept the keys to the Premises prior to the termination of this Lease and the delivery of the keys to any such employee shall not operate as a termination of this Lease or a surrender or Landlord's acceptance of the Premises. If Tenant at any time desires to have Landlord sublet or attempt to sublet the Premises for Tenant's account, Landlord or Landlord's agents are authorized to receive said keys for such purposes without releasing Tenant from any of its obligations under this Lease.

29.9 Entire Agreement; Amendments. This Lease and the Exhibits and any Riders attached hereto constitute the entire agreement between the parties hereto with respect to the subject matter hereof, and no prior agreement or understanding pertaining to any such matter shall be effective for any purpose. No provision of this Lease may be amended or supplemented except by an agreement in writing signed by the party or parties to be bound thereby. Tenant warrants and represents that there have been no representations or statements of fact with respect to the Premises, the Buildings, the surrounding area or otherwise, whether by Landlord, its agents or representatives, any lease broker or any other person, which representations or statements have in any way induced Tenant to enter this Lease or which have served as the basis in any way for Tenant's decision to execute this Lease, except as contained in this Lease. Tenant agrees and acknowledges that no lease broker, agent or other person has had or does have the authority to bind Landlord to any statement, covenant, warranty or representation except as contained in this Lease, and that no person purporting to hold such authority shall bind Landlord, and that it is not reasonable for Tenant to have assumed that any person had or has such authority. Further, neither Landlord's execution of this Lease nor any other of its acts shall be construed in any way to indicate Landlord's ratification, consent or approval of any act, statement or representation of any third person except as specifically set forth in this Lease.

29.10 Landlord's Consent or Approval. Except as may otherwise be expressly provided herein, Landlord may, in its sole and absolute discretion, withhold any consent or approval required hereunder.

29.11 Counterparts. This Lease may be executed in any number of counterparts, each of which shall be an original and all of which together shall constitute and be construed as one and the same instrument.

29.12 Applicable Law and Venue. This Lease shall be governed by and construed in accordance with the laws of the State of California. Except for the matters required to be arbitrated pursuant to specific provisions of this Lease, any action to declare or enforce any rights or obligations under this Lease may be commenced by any party in the Superior Court or other Court of competent jurisdiction of the County in which the Buildings are located. Tenant and Landlord hereby consent to the jurisdiction of such Court for such purposes and agree that any notice, complaint or other legal process delivered to Tenant or Landlord in accordance with the provisions of Article XXII of this Lease shall constitute adequate notice and service of process for all purposes and shall subject Tenant and Landlord to the jurisdiction of such Court for purposes of adjudicating any matter related to this Lease. The provisions of this Section shall also apply to all guarantors of this Lease.

29.13 Incorporation of Exhibits. All Exhibits or Riders referenced in this Lease, if any, are incorporated herein by reference as though fully set forth herein.

29.14 Reserved Area. Tenant hereby acknowledges and agrees that the exterior walls of the Buildings and the area between the finished ceilings of the Premises and the slab of the floor of the Buildings there above have not been demised hereby, and that the use thereof together with the right to install, maintain, use, repair and replace pipes, ducts, conduits and wires leading through, under or above the Premises, is hereby excepted and reserved unto Landlord.

29.15 Brokers. Tenant and Landlord each warrant and represent that no person is, or may be, entitled to a commission, finder's fee or other like payment in connection herewith. Landlord and Tenant hereby indemnify and hold each other harmless from and against any and all loss, liability, cost and expense, including, without limitation, reasonable attorneys' fees, that the other party may incur as a result of the incorrectness of such warranty and representation.

29.16 No Option. The submission of this Lease by Landlord or its agent or representative for examination or execution by Tenant does not constitute an option or offer to lease the Premises upon the terms and conditions contained herein or a reservation of the Premises in favor of Tenant; it being intended hereby that this Lease shall become effective only upon the execution hereof by Landlord and delivery of a fully executed counterpart hereof to Tenant.

29.17 Authority. In the event Tenant is a corporation, the parties executing this Lease on behalf of Tenant hereby covenant, represent and warrant that: (i) they are duly authorized to execute and deliver this Lease on behalf of Tenant; (ii) Tenant is a duly organized corporation in good standing, with full right, power and authority to enter into this Lease and to perform its obligations hereunder; (iii) all necessary steps have been taken prior to the date hereof to qualify Tenant to do business in California; (iv) all franchise and corporate taxes have been paid as of the date hereof; and (v) all future forms, reports, fees and other documents necessary to comply with applicable laws will be filed when due. In the event Tenant is a partnership, the parties executing this Lease on behalf of Tenant hereby covenant and warrant that: (i) they are duly authorized to execute and deliver this Lease on behalf of Tenant; and (ii) Tenant is a duly organized partnership with full right, power and authority to enter into this Lease and to perform its obligations hereunder. Tenant shall deliver to Landlord such evidence of the foregoing as Landlord may request.

29.18 Recordation of Lease. At the request of any Superior Interest Holder, or in its own discretion, Landlord shall record a memorandum of this Lease. Tenant shall not record, or cause to be recorded, this Lease or a memorandum of this Lease without Landlord's prior written consent.

29.19 Multiple Parties. If there is more than one person, firm, corporation, partnership or other entity comprising Tenant, then: (i) the term "Tenant" as used herein shall include all of the undersigned; (ii) each and every provision in this Lease shall be binding on each and every one of the undersigned; (iii) each of the undersigned shall be jointly and severally liable hereunder; (iv) Landlord shall have the right to join one or all of the undersigned in any proceeding or to proceed against them in any order; (v) Landlord shall have the right to release any one or more of the undersigned without in any way prejudicing its right to proceed against the others; and (vi) the act of or notice from, or notice or refund to, or the signature of, any one or more of them, with respect to the tenancy of this Lease, including, but not limited to, any renewal, extension, expiration or modification of this Lease, shall be binding upon each and all of the persons executing this Lease as Tenant with the same force and effect as if each and all of them had so acted or so given or received such notice or refund or so signed.

29.20 No Violation of Other Agreements. Tenant hereby warrants and represents that neither its execution of nor performance under this Lease shall cause Tenant to be in violation of any agreement, instrument, contract, law, rule or regulation by which Tenant is bound, and Tenant agrees to indemnify Landlord against any loss, cost, damage or liability, including, without limitation, reasonable attorneys' fees, arising out of Tenant's breach of this warranty and representation.

29.21 Adjacent Land. If an excavation shall be made upon land adjacent to either or both Buildings, or shall be authorized to be made, Tenant shall afford to the person causing or authorized to cause such excavation license to enter upon the Premises at reasonable times, for the purpose of doing such work as said person shall deem necessary to preserve the wall of the Building of which the Premises form a part from injury or damage, and to support the same by proper foundations without any claim for damages or indemnity against Landlord or diminution or abatement of rent.

29.22 Buildings' Directories.

(a) Tenant may not place any sign inside or outside the Buildings without the consent of Landlord, except an entrance door sign in a size and style approved by Landlord and subject to all applicable laws and covenants, conditions or restrictions affecting the Project.

(b) Landlord shall provide a directory (which, at Landlord's option, may be computerized) in the main lobby of each Building listing the name of Tenant.

29.23 Parking. Landlord shall use its good faith efforts to assist Tenant so that, concurrently with the execution of this Lease, Tenant may obtain parking rights for unreserved parking spaces at the Cedars-Sinai Medical Office Building (located at the corner of Alden Drive and George Burns Road) at current prevailing parking rates available to employees of Landlord for unreserved parking spaces. Tenant acknowledges that Landlord does not own or operate the Cedars-Sinai Medical Office Building and further acknowledges that Landlord is not agreeing to supply parking to Tenant pursuant to this Lease and that the issuance of parking rights is not a condition to Tenant's obligations under this Lease.

29.24 Subdivision; Mutual Cooperation. Landlord shall have the right to subdivide the Property and/or the Buildings at any time for any purpose whatsoever, including, without limitation: (a) the purpose of creating condominium ownership of the Property and the Buildings; and (b) the purpose of constructing, or financing the construction of, other buildings or improvements on the Property. Tenant agrees to cooperate with Landlord in completing such subdivision and in obtaining any governmental authorization or permits necessary to facilitate the construction of any such additional improvements on the Property, and to execute all such documents and amendments to the Lease reasonably necessary to effectuate the same. Tenant agrees that upon subdivision of the Property and/or the Buildings, Landlord may sell, transfer or convey one or more portions of the Buildings and/or the Property, and that title to such portions may be held in other than the name of Landlord.

29.25 Name of Building. Neither Tenant nor any shareholders of Tenant nor any of their employees may use the name "Cedars-Sinai Medical Center" for any purpose, including, without limitation, any advertising or the naming of any medical group or professional corporation.

29.26 Rental Abatement. Any and all references herein to abatement of Basic Annual Rent shall apply to only those amounts which would otherwise thereafter accrue. If any dispute relating to such abatement occurs, Tenant shall pay the rent demanded by Landlord pending the final resolution of such dispute.

29.27 Guarantees. If any guarantee of this Lease is required by Landlord, such guarantee shall be in a form provided by Landlord to Tenant and Landlord may terminate this Lease at any time until it receives such guarantee fully executed by the required guarantors.

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

29.29 Waiver of Rights of Redemption. Tenant hereby expressly waives any and all rights of redemption granted by or under any present or future laws in the event that Tenant is evicted or dispossessed for any cause or in the event that Landlord obtains possession of the Premises by reason of the violation by Tenant of any of the covenants and conditions of this Lease or otherwise. The rights given to Landlord herein are in addition to any rights that may be given to Landlord by any statute or otherwise.

29.30 Light and Air. Any diminution or shutting off of light, air or view by any structure that may be erected on lands adjacent to either or both Buildings or any other portion of the Project shall in no manner affect this Lease or impose liability upon Landlord.

29.31 No Joint Venture. The Parties hereto acknowledge and agree that nothing contained in this Lease shall be deemed or construed to create a partnership or joint venture between Landlord and Tenant or between Landlord and any other party or causing Landlord to be responsible in any way for the debts or obligations of Tenant or any other party.

ARTICLE XXX
HAZARDOUS MATERIALS

30.1 Compliance Costs. Tenant acknowledges that Landlord may incur, as Operating Expenses, costs for complying with laws, codes, regulations or ordinances relating to Hazardous Materials (as defined in Section 30.2) on or about the Project, including, without limitation, the following: (i) Hazardous Materials present in the soil or ground water on the Project; (ii) a change in laws, codes, regulations or ordinances which relate to Hazardous Materials and which makes any substance or material which is present on, in, under or about the Project as of the date hereof, a violation of such changed laws, codes, regulations or ordinances; (iii) Hazardous Materials that migrate, flow, percolate, diffuse or in any way move onto or under the Project; (iv) Hazardous Materials present on or under the Project as a result of any discharge, dumping or spilling (whether accidental or otherwise) on the Project by other tenants of the Project or their agents, employees, contractors or invitees, or by others. Each item of cost incurred by Landlord for complying with laws, codes, regulations or ordinances relating to Hazardous Materials with respect to the Project (or any portion thereof) and which exceeds Fifty Thousand Dollars ($50,000) shall be amortized over a five (5) year period from the date of installation as "Capital Improvement Amortization" as provided in Section 4.3.2 herein and treated as a "Capital Improvement". To the extent any such cost relating to Hazardous Materials is subsequently recovered or reimbursed through insurance, or recovery from responsible third parties, or other action. Tenant shall be entitled to proportionate reimbursement to the extent it has paid its share of such cost to which such recovery or reimbursement relates (regardless of whether such costs were paid as Operating Expenses or as a Capital Improvement). Nothing contained herein shall be construed to modify Tenant's obligation to make full payment for Hazardous Materials or compliance with laws pertaining to Hazardous Materials if the cost of compliance or other responsibility for such Hazardous Materials is made the responsibility of Tenant pursuant to any other provision of this Lease or applicable law.

30.2 Definition. As used herein, the term "Hazardous Materials" means any hazardous or toxic substance, material or waste which is or becomes regulated by any local governmental authority, the State of California or the United States government. The term "Hazardous Materials" includes, without limitation, any material or substance which is: (i) defined as a "hazardous waste," "extremely hazardous waste," or "restricted hazardous waste" under Section 25115, or 25117 or 25122.7, or listed pursuant to Section 25140 of the California Health and Safety Code, Division 20, Chapter 6.5 (Hazardous Waste Control Law); or (ii) defined as a "hazardous substance," under Section 25316 of the California Health and Safety Code, Division 20, Chapter 6.8 (Carpenter-Presley-Tanner Hazardous Substance Account Act); (iii) defined as a "hazardous material," "hazardous substance," or "hazardous waste" under Section 25501 of the California Health and Safety Code, Division 20, Chapter 6.95 (Hazardous Materials Release Response Plans and Inventory); (iv) defined as a "hazardous substance" under Section 25281 of the California Health and Safety Code, Division 20, Chapter 6.7 (Underground Storage of Hazardous Substances); (v) petroleum; (vi) asbestos; (vii) listed under Article 9 or defined as hazardous or extremely hazardous pursuant to Article 11 of Title 22 of the California Administrative Code, Division 4, Chapter 30; (viii) designated as a "hazardous substance" pursuant to Section 311 of the Federal Water Pollution Control Act, 33 U.S.C. 1317; (ix) defined as a "hazardous waste" pursuant to Section 1004 of the Federal Resource Conservation and Recovery Act. 42 U.S.C. 6901 et seq. (42 U.S.C. 6903); or (x) defined as "hazardous substance" pursuant to Section 101 of the Comprehensive Environmental Response Compensation and Liability Act, 42 U.S.C. 9601 et seq. (42 U.S.C. 9601).

IN WITNESS WHEREOF, Landlord and Tenant have duly executed this Lease as of the day and year first written above.

LANDORD		TENANT	
CEDARS-SINAI MEDICAL CENTER		CAPRICOR, INC.	
By:	/s/ Edward M. Prunchunas	By:	/s/ Karen Krasney
Name:	Edward M. Prunchunas	Name:	Karen Krasney
Its:	Senior Vice President for Finance and CFO	Its:	Executive Vice President, General Counsel
By:	/s/ Mark Daniel		
Name:	Mark Daniel		
Its:	Vice President, Research Administration		

EXHIBITS

Exhibit A	Building Site Plan
Exhibit B	Floor Plan of the Davis Building Premises
Exhibit C	Monthly Rent Calculation
Exhibit D	Permitted Uses
Exhibit E	Rules and Regulations
Exhibit F	Trade Fixtures
Exhibit G	Special Services
Exhibit H	Floor Plan of the SSB1 Premises

EXHIBIT A

BUILDING SITE PLAN

[See Following Page]

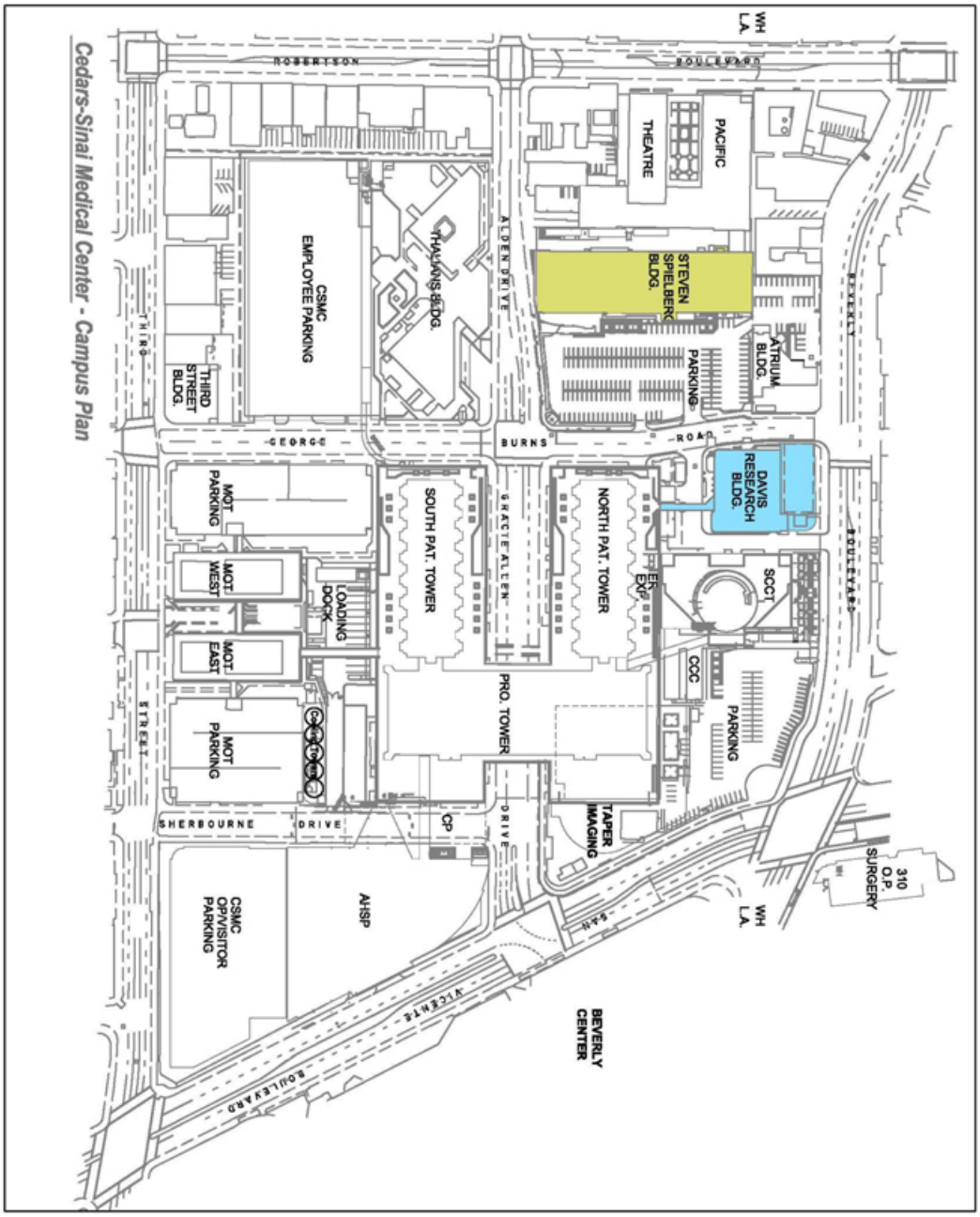
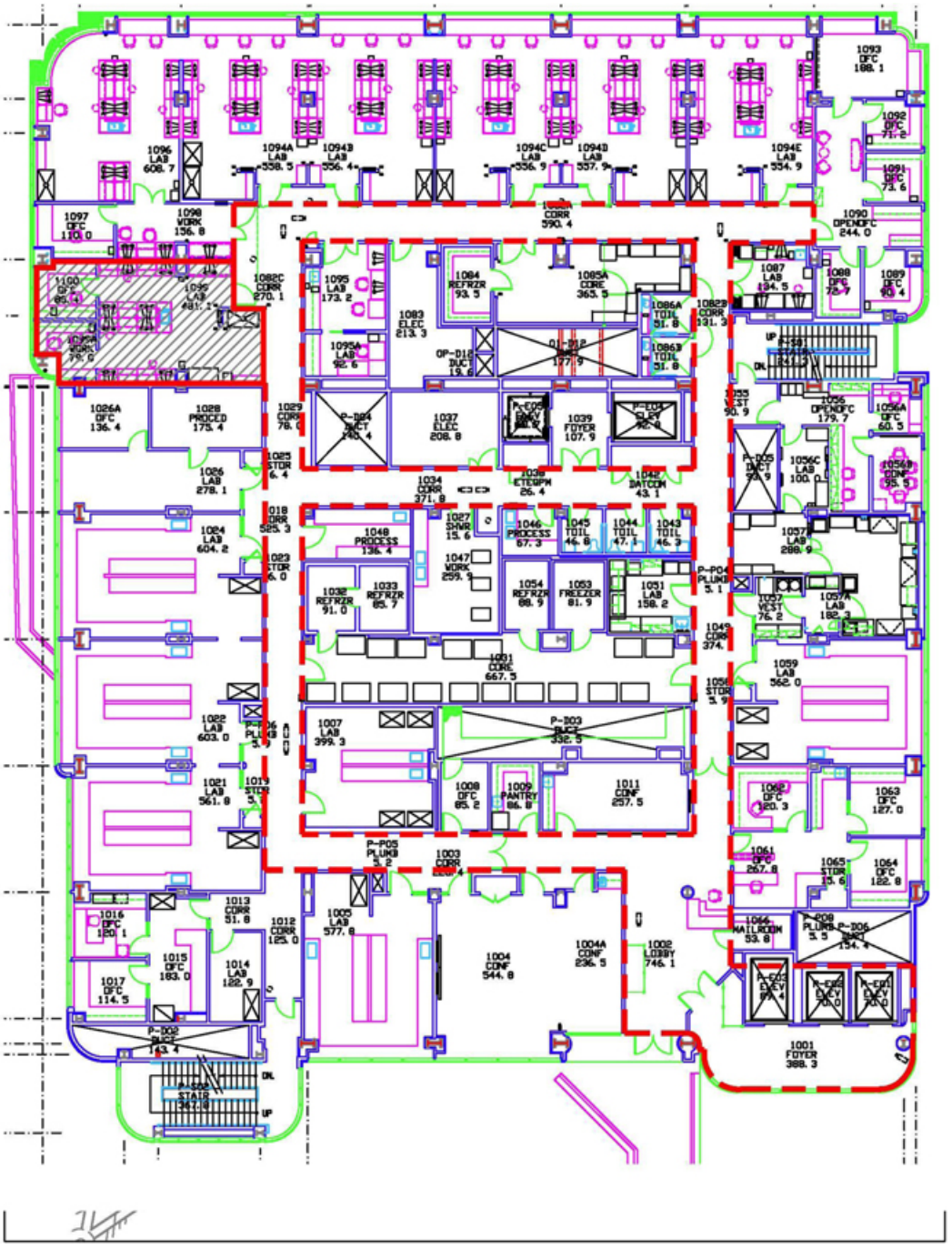

Cedars-Sinai Medical Center - Campus Plan
WH LA.
ROBERTSON
BOULEVARD
THEATRE
PACIFIC
STEVEN SPIELBERG BLDG.
ATRIUM BLDG.
PARKING
ALDEN DRIVE
THALMAN BLDG.
CSMC EMPLOYEE PARKING
THIRD STREET BLDG.
THIRD
GEORGE
BURNS
ROAD
DAVIS RESEARCH BLDG.
BEVERLY
BOULEVARD
NORTH PAT. TOWER
SOUTH PAT. TOWER
GRACIE ALLEN
MOT. PARKING
MOT. WEST
MOT. EAST
LOADING DOCK
PER EXP.
SCCT
CCC
PARKING
PRO. TOWER
TAPER IMAGING
310 O.P. SURGERY
SHERBOURNE
DRIVE
CP
CSMC OP/VISITOR PARKING
AHSP
SAN VICENTE
BOULEVARD
BEVERLY CENTER

EXHIBIT B

FLOOR PLAN OF THE DAVIS BUILDING PREMISES

[See Following Page]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1091 OFC 73.6
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1094A LAB 358.5
1094B LAB 356.4
1094C LAB 356.9
1094D LAB 357.9
1094E LAB 354.9
1097 OFC 110.0
1098 WORK 136.8
1100 OFC 90.4
1099A WORK 78.6
1099 LAB 491.1
1082C CORR 270.1
1095 LAB 173.2
1095A LAB 92.6
1084 REFRZR 93.3
1085A CORR 365.5
1083 ELEC 213.3
OP-D16 DUCT 19.8
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1086B TOIL 51.8
1082B CORR 191.3
1087 LAB 134.5
1088 OFC 75.7
1089 OFC 90.4
1026A OFC 136.4
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1029 CORR 78.0
P-D24 DUCT 140.4
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P-E04 ELEV 42.8
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1055 VEST 90.9
1056 OPENOFC 179.7
1056A OFC 60.3
1026 LAB 278.1
1025 STOR 6.4
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1038 ETEQPM 26.4
1042 JANITOR 43.1
P-D05 DUCT 90.9
1056C LAB 100.0
1056B CONF 55.5
1018 CORR 525.3
1024 LAB 604.2
1048 PROCESS 136.4
1027 SHWR 15.6
1046 PROCESS 67.3
1045 TOIL 46.8
1044 TOIL 47.1
1043 TOIL 46.3
1057B LAB 288.9
1023 STOR 6.0
1047 WORK 259.5
1036 REFRZR 91.0
1033 REFRZR 85.7
1054 REFRZR 88.9
1053 FREEZER 81.9
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P-P04 PLUMB 3.1
1057 VEST 76.2
1057A LAB 182.3
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1031 CORR 667.5
1059 LAB 562.0
1054 STOR 3.9
1022 LAB 603.0
P-P06 PLUMB 3.9
1007 LAB 399.3
P-303 DUCT 332.5
1021 LAB 561.8
1019 STOR 3.9
1008 OFC 85.2
1009 PANTRY 86.8
1011 CONF 257.5
1062 OFC 120.3
1063 OFC 127.0
P-P05 PLUMB 3.2
1003 CORR 1004.4
1061 OFC 267.8
1065 STOR 15.6
1064 OFC 122.8
1013 CORR 31.8
1012 CORR 125.0
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1004 CONF 544.8
1004A CONF 236.5
1002 LOBBY 746.1
1066 MAILROOM 53.8
P-208 PLUMB 3.5
P-306 DUCT 154.4
1016 OFC 120.1
1015 OFC 183.0
1014 LAB 122.9
1017 OFC 114.5
P-E03 ELEV PA 4
P-E01 ELEV 40.0
P-E01 ELEV 40.0
P-D02 DUCT 143.4
1001 FOYER 388.3
P-D08 STAIR 347.8
DN
UP

EXHIBIT C

MONTHLY RENT CALCULATION

BUILDING	TYPE OF SPACE	ROOM #	SQ. FT.
Davis Building	Laboratory	1099	477
Davis Building	Work Area	1099A	85
Davis Building	Office	1100	90
SSB1 Building	Lab	143	660
SSB1 Building	Office	143A	95
SSB1 Building	Office/Storage	143B	41
SSB1 Building	50% of Shared Lab	149 and 150	208
Total Usable Sq. Ft.			1,656
Share/Common Space Davis Building Premises (15%)			98
Share/Common Space SSB1 Premises (18%)			181
Total Rentable Sq. Ft.			1,935

MONTHLY PAYMENT COMPUTATION:		
First Six Monthly Installments		
Basic rent @ $5.99/sq.ft.	$	11,590.65
Operating overhead @ $2.00/sq.ft.	$	3,870.00
Total Monthly Payment	$	15,460.65
All Monthly Installments After the First Six		
Basic rent @ $8.00/sq.ft.	$	15,480.00
Operating overhead @ $2.00/sq.ft.	$	3,870.00
Total Monthly Payment	$	19,350.00

EXHIBIT D

PERMITTED USES

EXHIBIT E

RULES AND REGULATIONS

EXHIBIT F

TRADE FIXTURES

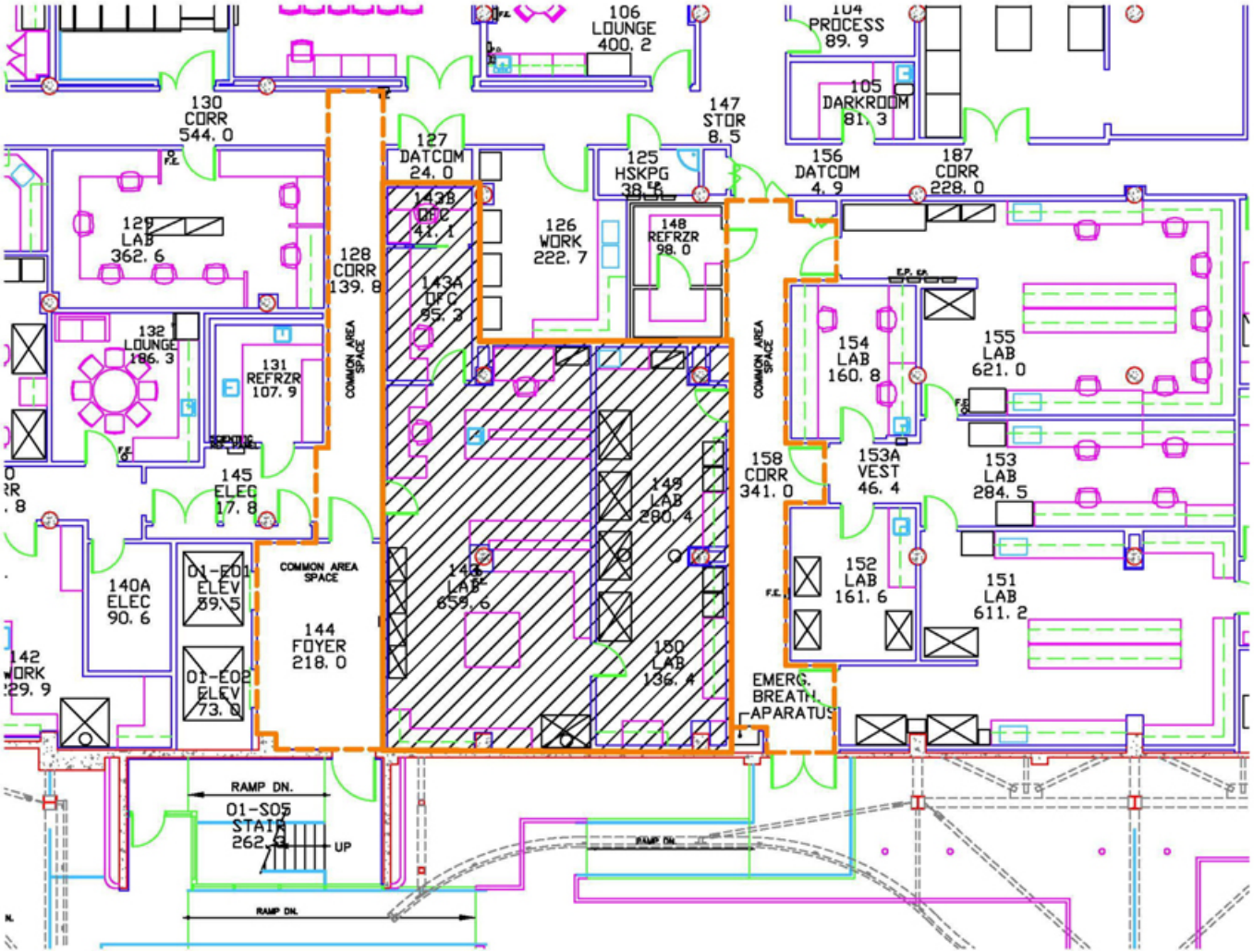
EXHIBIT G

SPECIAL SERVICES

EXHIBIT H

FLOOR PLAN OF THE SSB1 PREMISES

[See Following Page]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LOUNGE
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DARKROOM
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ELEV
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LAB
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152
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150
LAB
136. 4
EMERG.
BREATH.
APARATUS
142
WORK
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RAMP DN.
01-S05
STAIR
262. 6
UP
RAMP DN.
RAMP DN.

Exhibit 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

I, Linda Marbán, Ph.D., certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Capricor Therapeutics, Inc.;

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

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

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

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

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

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

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

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

Date: May 15, 2014

/s/ Linda Marbán, Ph.D.
Linda Marbán, Ph.D.
Title: Chief Executive Officer and Principal
Executive Officer

Exhibit 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

I, Anthony Bergmann, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Capricor Therapeutics, Inc.;

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

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

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

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

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

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

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

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

Date: May 15, 2014

/s/ Anthony Bergmann
Name: Anthony Bergmann
Title: Principal Financial Officer and Vice President of Finance

Exhibit 32.1

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

Pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, Linda Marbán, Ph.D., the Principal Executive Officer of Capricor Therapeutics, Inc. (the "**Company**"), hereby certifies, to her knowledge, that:

(1) the accompanying Quarterly Report on Form 10-Q of the Company for the quarterly period ended March 31, 2014 (the "**Report**") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

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

Date: May 15, 2014

/s/ Linda Marbán, Ph.D.
Linda Marbán, Ph.D.
Title: Chief Executive Officer and Principal
Executive Officer

Exhibit 32.2

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

Pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, Anthony Bergmann, the Principal Financial Officer of Capricor Therapeutics, Inc. (the "**Company**"), hereby certifies, to his knowledge, that:

(1) the accompanying Quarterly Report on Form 10-Q of the Company for the quarterly period ended March 31, 2014 (the "**Report**") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

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

Date: May 15, 2014

/s/ Anthony Bergmann
Name: Anthony Bergmann
Title: Principal Financial Officer and Vice President of Finance