

In the opinion of Orrick, Herrington & Sutcliffe LLP, Special Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, the interest component of the Installment Payments to be paid by the County under the Purchase Agreement and received by the Beneficial Owners is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Special Counsel, such interest component is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Special Counsel observes that such interest component is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Special Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest with respect to, the Certificates. See "TAX MATTERS" herein.

\$59,405,000

**Certificates of Participation
Evidencing Proportionate Interests of the Holders Thereof
in Installment Payments to be Paid by the
COUNTY OF SAN DIEGO
From Purchase Payments to be Received from**

**Dated: Date of Delivery****Due: September 1, as shown on inside cover**

The Certificates represent undivided proportionate interests in the right to receive Installment Payments (the "Installment Payments") to be paid by the County of San Diego (the "County") under an Installment Purchase Agreement, dated as of February 1, 2006 (the "Purchase Agreement"), by and between Burnham Institute for Medical Research (the "Institute") and the County. The obligation of the County to make Installment Payments under the Purchase Agreement is a limited obligation of the County, payable solely from Revenues (as described herein) consisting primarily of purchase payments (the "Purchase Payments") to be made by the Institute under an Installment Sale Agreement, dated as of February 1, 2006 (the "Sale Agreement"), by and between the Institute and the County.

Interest with respect to the Certificates is payable on March 1 and September 1 of each year, commencing September 1, 2006. The Certificates will be delivered in fully registered form only and, when executed and delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Certificates. Purchases of beneficial interests in the Certificates will be made in book-entry only form and purchasers will not receive physical certificates representing their interest in the Certificates. Individual purchases will be in principal amounts of \$100,000 or in any integral multiple of \$5,000 above such amount thereof. Disbursement of principal and interest represented by the Certificates will be paid by U.S. Bank National Association, Los Angeles, California, as trustee (the "Trustee"), directly to DTC as the registered owner thereof, and disbursements of such payments to the beneficial owners is the responsibility of DTC Participants and Indirect Participants, as more fully described herein. Any beneficial owner of a Certificate must maintain an account with a broker or dealer who is, or acts through, a DTC Participant to receive payment of the principal and interest with respect to such Certificates. See "THE CERTIFICATES – Use of Book-Entry Only System" and APPENDIX F – "BOOK-ENTRY ONLY SYSTEM."

The proceeds of the sale of the Certificates will be used to (i) refinance certain outstanding indebtedness of the Institute, (ii) finance certain capital improvements and equipment for the Institute, (iii) fund a debt service reserve account for the Certificates, and (iv) pay certain delivery costs of the Certificates.

The Certificates are subject to optional, mandatory and extraordinary prepayment prior to their respective certificate payment dates as described herein. See "THE CERTIFICATES – Prepayment or Purchase."

This cover page contains information for general reference only, and is not a summary of the security or terms of this issue. Investors must read the entire Official Statement, including the section entitled "RISK FACTORS," for a discussion of special factors which should be considered, in addition to the other matters set forth herein, in considering the investment quality of the Certificates.

THE COUNTY SHALL NOT BE OBLIGATED TO PAY THE INSTALLMENT PAYMENTS OR OTHERWISE THE PRINCIPAL, PREMIUM, IF ANY, OR INTEREST WITH RESPECT TO THE CERTIFICATES, EXCEPT FROM REVENUES (AS DEFINED IN THE SALE AGREEMENT) RECEIVED BY THE COUNTY, AND THE FAITH AND CREDIT OF THE COUNTY IS NOT PLEDGED TO THE PAYMENT OF THE INSTALLMENT PAYMENTS OR OTHERWISE TO THE PAYMENT OF THE PRINCIPAL, PREMIUM OR INTEREST WITH RESPECT TO THE CERTIFICATES. NEITHER THE OBLIGATION OF THE COUNTY TO MAKE THE INSTALLMENT PAYMENTS NOR THE CERTIFICATES CONSTITUTE A DEBT OF THE COUNTY OR THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY PROVISION.

The Certificates are offered when, as and if delivered and received by the Underwriter, subject to prior sale and to the approval of validity by Orrick, Herrington & Sutcliffe LLP, Los Angeles, California, Special Counsel, the approval of certain matters for Burnham Institute for Medical Research by Sheppard, Mullin, Richter & Hampton LLP, Los Angeles, California, for the County by the office of the County Counsel, and for the Underwriter by Hawkins Delafield & Wood LLP, San Francisco, California. It is expected that the Certificates will be available for delivery through the facilities of DTC in New York, New York, on or about March 8, 2006.

STONE & YOUNGBERG LLC

\$59,405,000
 Certificates of Participation
 Evidencing Proportionate Interests of the Holders Thereof
 in Installment Payments to be Paid by the
 COUNTY OF SAN DIEGO
 From Purchase Payments to be Received from
 BURNHAM INSTITUTE FOR MEDICAL RESEARCH

Certificate Payment Dates, Amounts, Interest Rates and Prices or Yields

<u>Maturity Date</u> <u>(September 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>CUSIP[†]</u> <u>(797391)</u>
2006	\$ 955,000	5.00%	3.30%	D2 2
2007	1,000,000	5.00	3.65	D3 0
2008	995,000	5.00	3.70	D4 8
2009	1,085,000	5.00	3.85	D5 5
2010	1,180,000	5.00	4.00	D6 3
2011	1,170,000	5.00	4.08	D7 1
2012	1,260,000	5.00	4.18	D8 9
2013	1,340,000	5.00	4.28	D9 7
2014	1,420,000	5.00	4.38	E2 1
2015	1,500,000	5.00	4.44	E3 9
2016	1,575,000	5.00	4.48	E4 7
2017	1,645,000	5.00	4.54	E5 4
2018	1,715,000	5.00	4.60*	E6 2
2019	1,780,000	5.00	4.65*	E7 0
2020	1,845,000	5.00	4.70*	E8 8
2021	2,005,000	5.00	4.73*	E9 6
2022	2,065,000	5.00	4.76*	F2 0
2023	2,215,000	5.00	4.80*	F3 8
2024	2,265,000	5.00	4.84*	F4 6

\$30,390,000 5.00% Term Certificates due September 1, 2034 Yield 4.90%*; CUSIP[†]: 797391 G6 0

* Yield to par call on September 1, 2017.

[†] Copyright 2006, American Bankers Association. CUSIP data herein is provided by Standard & Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. CUSIP data herein are set forth herein for convenience of reference only. None of the County, the Institute or the Underwriter assumes responsibility for the accuracy of such information.

No dealer, broker, salesperson or other person has been authorized by the County, the Institute or the Underwriter to give any information or to make any representations other than those contained herein and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Certificates by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers of the Certificates. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact.

The information set forth herein under the caption "THE COUNTY" has been furnished by the County. All other information set forth herein has been obtained from the Institute and other sources (other than the County) that are believed to be reliable, but the adequacy, accuracy or completeness of such information is not guaranteed by, and is not to be construed as a representation of, the County or the Underwriter. The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibility to investors under the federal securities law as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement, nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the County or the Institute since the date hereof.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE CERTIFICATES AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

COUNTY OF SAN DIEGO

BOARD OF SUPERVISORS

Bill Horn, *Chairman*, Fifth District
Ron Roberts, *Vice Chairman*, Fourth District
Gregory Cox, First District
Dianne Jacob, Second District
Pam Slater-Price, Third District

COUNTY OFFICIALS

Walter F. Ekard, *Chief Administrative Officer*
Dan McAllister, *Treasurer-Tax Collector*
Donald Steuer, *Chief Financial Officer*
John J. Sansone, *County Counsel*

SPECIAL SERVICES

Orrick, Herrington & Sutcliffe LLP
Los Angeles, California
Special Counsel

Sheppard, Mullin, Richter & Hampton LLP
Los Angeles, California
Counsel to Institute

U.S. Bank National Association
Los Angeles, California
Trustee

TABLE OF CONTENTS

INTRODUCTION 1

THE COUNTY 2

THE INSTITUTE 2

THE FINANCING PLAN 3

Refinancing of Existing Indebtedness 3

New Project 3

ESTIMATED SOURCES AND USES OF FUNDS 4

DEBT SERVICE REQUIREMENTS..... 5

THE CERTIFICATES 6

General 6

Prepayment or Purchase 7

Exchange and Transfer of Certificates 8

Use of Book-Entry Only System 9

SECURITY FOR THE CERTIFICATES 9

General 9

Revenues; Pledge of Revenues 10

Payment of Purchase Payments 10

Gross Revenue Fund Pledge 11

Additional Indebtedness 12

Reserve Account..... 12

RISK FACTORS 13

Limited Obligation for Certificates 13

Tax-Exempt Status of the Certificates 14

Unrelated Business Income 15

State Income Tax Exemption 15

Exemption from Property Taxes..... 15

Environmental Laws and Regulations 15

Investment of Funds Risk..... 16

Factors That Could Affect the Security Interest in the Institute's Gross Revenues 16

Seismic Risks..... 16

Bankruptcy and Other Factors that Could Affect Security for the Certificates 16

Insurance..... 18

LITIGATION..... 18

VERIFICATION..... 18

TAX MATTERS..... 18

CONTINUING DISCLOSURE..... 21

APPROVAL OF LEGALITY..... 21

INDEPENDENT AUDITORS..... 21

RATING 22

UNDERWRITING 22

MISCELLANEOUS 22

- APPENDIX A – INFORMATION CONCERNING BURNHAM INSTITUTE FOR MEDICAL RESEARCH
- APPENDIX B – AUDITED FINANCIAL STATEMENTS OF BURNHAM INSTITUTE FOR MEDICAL RESEARCH (FORMERLY, THE BURNHAM INSTITUTE) FOR FISCAL YEARS ENDED JUNE 30, 2005 AND 2004
- APPENDIX C – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS
- APPENDIX D – FORM OF CONTINUING DISCLOSURE AGREEMENT
- APPENDIX E – FORM OF FINAL OPINION OF SPECIAL COUNSEL
- APPENDIX F – BOOK-ENTRY ONLY SYSTEM

OFFICIAL STATEMENT

\$59,405,000

**Certificates of Participation
Evidencing Proportionate Interests of the Holders Thereof
in Installment Payments to be Paid by the
COUNTY OF SAN DIEGO
From Purchase Payments to be Received from
BURNHAM INSTITUTE FOR MEDICAL RESEARCH**

INTRODUCTION

This Official Statement, including the cover page, the inside cover page and appendices hereto (the "Official Statement"), is provided to furnish information with respect to (i) the sale and delivery of \$59,405,000 aggregate principal amount of Certificates of Participation (the "Certificates") evidencing proportionate interests of the registered holders thereof in the right to receive certain installment payments (the "Installment Payments") to be made by the County of San Diego (the "County") from purchase payments to be received from Burnham Institute for Medical Research (the "Institute"), pursuant to an Installment Purchase Agreement, dated as of February 1, 2006 (the "Purchase Agreement"), by and between the Institute and the County. The Certificates are being executed and delivered pursuant to the terms of a Trust Agreement dated as of February 1, 2006 (the "Trust Agreement"), by and among the County, the Institute and U.S. Bank National Association, as trustee (the "Trustee").

Pursuant to the Purchase Agreement, the Institute will sell certain real property and improvements (the "Real Property") to the County, in consideration for which the County will agree to make Installment Payments. Simultaneously therewith, the County will sell the Real Property back to the Institute pursuant to an Installment Sale Agreement, dated as of February 1, 2006, by and between the County and the Institute (the "Sale Agreement"), in consideration for which the Institute will agree to make purchase payments (the "Purchase Payments") for the Real Property.

The proceeds of the sale of the Certificates will be used to (i) refinance certain outstanding indebtedness of the Institute, (ii) finance certain capital improvements and equipment for the Institute, (iii) fund a debt service reserve account for the Certificates, and (iv) pay certain delivery costs of the Certificates. See "THE FINANCING PLAN" and "ESTIMATED SOURCES AND USES OF FUNDS" herein.

The obligation of the County to make Installment Payments under the Purchase Agreement is a limited obligation of the County payable solely from Revenues. "Revenues," as defined in the Sale Agreement, consist primarily of Purchase Payments.

THE COUNTY SHALL NOT BE OBLIGATED TO PAY THE INSTALLMENT PAYMENTS OR OTHERWISE THE PRINCIPAL, PREMIUM, IF ANY, OR INTEREST WITH RESPECT TO THE CERTIFICATES, EXCEPT FROM REVENUES (AS DEFINED IN THE SALE AGREEMENT) RECEIVED BY THE COUNTY, AND THE FAITH AND CREDIT OF THE COUNTY IS NOT PLEDGED TO THE PAYMENT OF THE INSTALLMENT PAYMENTS OR OTHERWISE TO THE PAYMENT OF THE PRINCIPAL, PREMIUM OR INTEREST WITH RESPECT TO THE CERTIFICATES. NEITHER THE OBLIGATION OF THE COUNTY TO MAKE THE INSTALLMENT PAYMENTS NOR THE CERTIFICATES CONSTITUTE A DEBT OF THE COUNTY OR THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY PROVISION.

For a discussion of certain risks associated with ownership of the Certificates see “RISK FACTORS” herein.

The descriptions and summaries of various documents hereinafter set forth do not purport to be comprehensive or definitive and reference is made to each document for the complete details of all terms and conditions. All statements herein are qualified in their entirety by reference to each document. For definitions of certain words and terms used, but not otherwise defined, herein, see APPENDIX C – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Definition of Certain Terms.”

Copies of the documents described herein will be available at the office of the Trustee, U.S. Bank National Association, Corporate Trust Services, 633 West Fifth Street, 24th Floor, Los Angeles, CA 90071.

THE COUNTY

The County is the southernmost major metropolitan area in the State of California. The County covers 4,255 square miles, extending 70 miles along the Pacific Coast from the Mexican border to Orange County, and inland 75 miles to Imperial County. Riverside and Orange Counties form the northern boundary. The County is approximately the size of the State of Connecticut. The County was incorporated on February 18, 1850, and functions under a charter adopted in 1933, as subsequently amended from time to time. The County is governed by a five-member Board of Supervisors elected to four-year terms in district nonpartisan elections. The Board of Supervisors appoints the Chief Administrative Officer and the County Counsel. The Chief Administrative Officer appoints the Chief Financial Officer. Elected officials include the Assessor/Recorder/County Clerk, District Attorney, Sheriff and Treasurer-Tax Collector.

THE INSTITUTE

The Institute, founded in 1976, is a California nonprofit 501(c)(3) corporation dedicated to basic biomedical research. The Institute was originally known as La Jolla Cancer Research Foundation and changed its name to Burnham Institute for Medical Research from The Burnham Institute in 2005. The Institute is home to three major centers: the Cancer Center, the Del E. Webb Neuroscience and Aging Center and the Infectious and Inflammatory Disease Center. Since 1981, the Institute has held designation by the National Cancer Institute as a “Non-Comprehensive Cancer Center” and is one of only eight U.S. organizations that currently hold that designation. The Institute operates on an annual budget of approximately \$80 million. These funds are derived primarily from federal grants. Other important sources of funding include foundations and philanthropy and investment income. As of June 30, 2005, there were over 700 people employed by the Institute, including 334 individuals with doctoral and/or medical degrees. Seventy-one faculty lead the research effort, which includes training at the postdoctoral and Ph.D. student levels. The Institute is presently located on a 9.3 acre campus in proximity with one of the fastest-growing and largest concentrations of academic and biotechnical research in the world. For further information concerning the Institute, see APPENDIX A – “INFORMATION CONCERNING BURNHAM INSTITUTE FOR MEDICAL RESEARCH” and APPENDIX B – “AUDITED FINANCIAL STATEMENTS OF BURNHAM INSTITUTE FOR MEDICAL RESEARCH (FORMERLY, THE BURNHAM INSTITUTE) FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004.”

THE FINANCING PLAN

Refinancing of Existing Indebtedness

A portion of the proceeds of the Certificates will be used for the purpose of refinancing the Certificates of Participation executed and delivered on September 14, 1999 in the principal amount of \$51,500,000 (the "Refunded Certificates"), the proceeds of which financed and refinanced the acquisition, construction, rehabilitation, remodeling and equipping of capital projects and facilities at the Institute's campus. A portion of the proceeds of the Certificates together with other available moneys will be used to advance refund and defease the Refunded Certificates in full. See "ESTIMATED SOURCES AND USES OF FUNDS" herein.

The Refunded Certificates will be refunded pursuant to the Escrow Agreement (the "Escrow Agreement"), dated as of February 1, 2006, by and among the County, the Institute and U.S. Bank National Association, as escrow agent (the "Escrow Agent"). A portion of the proceeds of the Certificates, together with certain other available moneys, will be held in an escrow fund by the Escrow Agent (the "Escrow Fund") for the benefit of the owners of the Refunded Certificates. The amounts deposited in the Escrow Fund will be sufficient to pay scheduled principal and interest payments with respect to the Refunded Certificates from September 1, 2006 through September 1, 2009 and the prepayment price of the Refunded Certificates maturing on September 1, 2010 through the final maturity thereof, together with accrued and unpaid interest, on September 1, 2009. The moneys held under the Escrow Agreement will be pledged to payment of the Refunded Certificates. No moneys in the Escrow Fund will be available for payments with respect to the Certificates. See "VERIFICATION" herein.

New Project

A portion of the proceeds of the Certificates will be used for the purpose of financing the acquisition and installation of scientific equipment, mechanical and facilities support equipment, office equipment and furnishings at the Institute's campus. The Institute may substitute other projects for the projects described herein.

See APPENDIX A – "INFORMATION CONCERNING BURNHAM INSTITUTE FOR MEDICAL RESEARCH – INSTITUTE FACILITIES" for a description of the Institute's current facilities.

ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth the estimated sources and uses of funds related to the Certificates and the refunding of the Refunded Certificates.

Sources:

Principal Amount of Certificates	\$59,405,000.00
Plus Original Issue Premium	<u>1,167,866.75</u>
Total Certificate Proceeds	\$60,572,866.75
Other Sources of Funds ⁽¹⁾	<u>4,619,607.17</u>
Total Sources of Funds	\$65,192,473.92

Uses:

Deposit to Escrow Fund	\$50,945,983.33
Deposit to Project Fund	9,542,453.09
Deposit to Reserve Account	3,958,500.00
Deposit to Costs of Delivery Fund ⁽²⁾	<u>745,537.50</u>
Total Uses of Funds	\$65,192,473.92

⁽¹⁾ Includes amounts released from funds related to the Refunded Certificates.

⁽²⁾ Includes Underwriter's discount, legal, printing, rating agency, Trustee and County fees and other miscellaneous costs of delivery.

DEBT SERVICE REQUIREMENTS

The following table sets forth, for each year ending September 1, the amounts required to be made available for the payment of principal due with respect to the Certificates, at their final Certificate Payment Date or by mandatory sinking account payment, for the payment of interest with respect to the Certificates and for the amounts payable with respect to the Certificates.

Year (September 1)	Principal	Interest	Total Debt Service
2006	\$ 955,000.00	\$1,427,370.13	\$2,382,370.13
2007	1,000,000.00	2,922,500.00	3,922,500.00
2008	995,000.00	2,872,500.00	3,867,500.00
2009	1,085,000.00	2,822,750.00	3,907,750.00
2010	1,180,000.00	2,768,500.00	3,948,500.00
2011	1,170,000.00	2,709,500.00	3,879,500.00
2012	1,260,000.00	2,651,000.00	3,911,000.00
2013	1,340,000.00	2,588,000.00	3,928,000.00
2014	1,420,000.00	2,521,000.00	3,941,000.00
2015	1,500,000.00	2,450,000.00	3,950,000.00
2016	1,575,000.00	2,375,000.00	3,950,000.00
2017	1,645,000.00	2,296,250.00	3,941,250.00
2018	1,715,000.00	2,214,000.00	3,929,000.00
2019	1,780,000.00	2,128,250.00	3,908,250.00
2020	1,845,000.00	2,039,250.00	3,884,250.00
2021	2,005,000.00	1,947,000.00	3,952,000.00
2022	2,065,000.00	1,846,750.00	3,911,750.00
2023	2,215,000.00	1,743,500.00	3,958,500.00
2024	2,265,000.00	1,632,750.00	3,897,750.00
2025	2,410,000.00	1,519,500.00	3,929,500.00
2026	2,550,000.00	1,399,000.00	3,949,000.00
2027	2,680,000.00	1,271,500.00	3,951,500.00
2028	2,810,000.00	1,137,500.00	3,947,500.00
2029	2,930,000.00	997,000.00	3,927,000.00
2030	3,080,000.00	850,500.00	3,930,500.00
2031	3,230,000.00	696,500.00	3,926,500.00
2032	3,395,000.00	535,000.00	3,930,000.00
2033	3,565,000.00	365,250.00	3,930,250.00
2034	3,740,000.00	187,000.00	3,927,000.00

THE CERTIFICATES

General

The Certificates will be delivered in the form of fully registered Certificates in principal amounts of \$100,000 or in any integral multiple thereof. The Certificates will be registered initially in the name of “Cede & Co.,” as nominee of The Depository Trust Company and will be evidenced by one Certificate for each Certificate Payment Date. For so long as the Certificates are registered in the name of Cede & Co., the transfer and exchange of Certificates will be made only as provided in APPENDIX F – “BOOK-ENTRY ONLY SYSTEM.”

The principal components of, or Prepayment Price with respect to, the Certificates will be payable by check in lawful money of the United States of America at the Corporate Trust Office of the Trustee. Interest with respect to the Certificates is payable on March 1 and September 1 of each year, commencing September 1, 2006, and continuing to and including their final stated Certificate Payment Dates or the date of prior prepayment or purchase thereof. Said interest represents the sum of those portions of the Installment Payments designated as interest coming due on the Interest Payment Dates in each year. Payment of the interest component with respect to any Certificate will be made to the person whose name appears on the Certificate registration books of the Trustee as the Holder thereof as of the close of business on the Record Date (being the fifteenth day of the calendar month preceding such Interest Payment Date) for each Interest Payment Date, such interest to be paid by check mailed by first class mail to such Holder at its address as it appears on such registration books, or, upon the written request of any Holder of at least \$1,000,000 in aggregate principal amount of Certificates, submitted to the Trustee at least one Business Day prior to the Record Date, by wire transfer in immediately available funds to an account within the United States designated by such Holder no later than the applicable Record Date. As long as Cede & Co. is the Holder of all of the Certificates, said interest payments will be made by wire transfer in immediately available funds. CUSIP number identification is required to accompany all payments of interest, principal and premiums, if any, whether by check or by wire transfer. Any such interest not so punctually paid or duly provided for will forthwith cease to be payable to the Certificate Holder on such Record Date and will be paid to the person in whose name the Certificate is registered at the close of business on a Special Record Date for the payment of such defaulted interest to be fixed by the Trustee, notice whereof being given by first class mail to the Certificate Holders not less than ten (10) days prior to such Special Record Date.

Prepayment or Purchase

Optional Prepayment or Purchase. The Certificates having a Certificate Payment Date on or after September 1, 2016, are subject to prepayment or purchase by the Institute prior to their stated Certificate Payment Dates on and after September 1, 2015, as a whole or in part on any date, in such amounts and of such Certificate Payment Dates, respectively, as may be specified by the Institute (or if the Institute fails to designate such Certificate Payment Dates, in inverse order of Certificate Payment Date) and by lot among Certificates with the same Certificate Payment Date, at the option of the County (which will be exercised as directed in writing by the Institute, and which direction must be received by the Trustee at least 45 days (or such shorter period as agreed to in writing by the Trustee) prior to the prepayment or purchase date) from moneys derived from optional prepayments of Installment Payments by the County and deposited in the Optional Prepayment Account or from any other source of available funds, at the following Prepayment Prices or Purchase Prices (expressed as a percentage of the principal amount of Certificates called for prepayment or purchase), plus accrued interest with respect thereto to the date fixed for prepayment or purchase:

Prepayment or Purchase Period (<u>Dates Inclusive</u>)	Prepayment or Purchase Price
September 1, 2015 through August 31, 2016	102%
September 1, 2016 through August 31, 2017	101
September 1, 2017 and thereafter	100

Mandatory Sinking Account Prepayment. The Certificates having a Certificate Payment Date of September 1, 2034 are also subject to prepayment prior to their stated Certificate Payment Date, in part, by lot, from Mandatory Sinking Account Payments deposited in the Sinking Account on any September 1 on or after September 1, 2025, at the principal amount and interest accrued with respect thereto to the date fixed for prepayment without premium, as set forth below:

Date (<u>September 1</u>)	Mandatory <u>Sinking Account Payment</u>
2025	\$2,410,000
2026	2,550,000
2027	2,680,000
2028	2,810,000
2029	2,930,000
2030	3,080,000
2031	3,230,000
2032	3,395,000
2033	3,565,000
2034 [†]	3,740,000

[†] Maturity.

Extraordinary Prepayment. The Certificates are subject to prepayment prior to their stated Certificate Payment Date as a whole or in part on any date, at the option of the County (which will be exercised as directed in writing by the Institute), from Insurance and Condemnation Proceeds the Institute elects to use to prepay Certificates pursuant to the Sale Agreement, at the principal amount and interest accrued with respect thereto to the date fixed for prepayment without premium.

Selection of Certificates for Prepayment or Purchase. Whenever provision is made for the prepayment or purchase of less than all of the Certificates or any given portion thereof, subject to the

provisions of the Trust Agreement, the Trustee is required to select the Certificates to be prepaid or purchased, from all Certificates subject to prepayment or purchase or such given portion thereof equal to a multiple of \$100,000 or any integral multiple thereof not previously called for prepayment or purchase, in any manner which the Trustee in its sole discretion deems appropriate and fair. The Trustee will promptly notify the County and the Institute in writing of any prepayment or purchase of Certificates and of the Certificates or portions thereof so selected for prepayment or purchase.

Notice of Prepayment or Purchase. Notice of prepayment or purchase is required to be mailed by first-class mail by the Trustee, not less than thirty (30) nor more than sixty (60) days prior to the prepayment or purchase date, to (i) the respective Holders of any Certificates designated for prepayment or purchase at their addresses appearing on the registration books of the Trustee, and (ii) if the Certificates are no longer held by the Depository, to the Securities Depositories and the Information Services.

If any of the Certificates are prepaid pursuant to an advance refunding, notice of such advance refunding and prepayment is required to be given in the same manner as above provided, and within the same time period with respect to the actual prepayment date.

Notice of prepayment or purchase of Certificates shall be given by the Trustee, at the expense of the Institute. Conditional notice of prepayment may be given at the direction of the Institute and shall be given if funds sufficient to prepay the Certificates are not then on deposit with the Trustee.

Failure by the Trustee to give notice to any one or more of the Information Services or Securities Depositories will not affect the sufficiency of the proceedings for prepayment or purchase. Failure by the Trustee to mail notice of prepayment or purchase to any one or more of the respective Holders of any Certificates designated for prepayment or purchase will not affect the sufficiency of the proceedings for prepayment or purchase with respect to the Holder or Holders to whom such notice was mailed.

Partial Prepayment or Purchase of Certificates. Upon surrender of any Certificate to be prepaid or purchased in part only, the Trustee will execute and deliver to the Holder thereof, at the expense of the Institute, a new Certificate or Certificates of authorized denominations, and having the same Certificate Payment Date, equal in aggregate principal amount to the unprepaid or unpurchased portion of the Certificate surrendered.

Effect of Prepayment. Notice of prepayment having been duly given as provided in the Trust Agreement and as described above, and moneys for payment of the Prepayment Price of, together with interest accrued to the prepayment date with respect to, the Certificates (or portions thereof) so called for prepayment being held by the Trustee, on the prepayment date designated in such notice, the Certificates (or portions thereof) so called for prepayment will become due and payable at the Prepayment Price specified in such notice and interest accrued with respect thereto to the prepayment date, interest with respect to the Certificates so called for prepayment will cease to accrue, said Certificates (or portions thereof) will cease to be entitled to any benefit or security under the Trust Agreement, and the Holders of said Certificates will have no rights in respect thereof except to receive payment of said Prepayment Price and accrued interest.

Exchange and Transfer of Certificates

Subject to the requirements of the book-entry only system set forth in APPENDIX F, Certificates may be exchanged or transferred at the Corporate Trust Office of the Trustee for a like aggregate principal amount of Certificates of other authorized denominations having the same Certificate Payment Date. The Trustee will require the Certificate Holder requesting such exchange or transfer to pay any tax or other governmental charge required to be paid with respect to such exchange or transfer.

The Trustee will not be required to exchange or transfer: (i) any Certificate during the fifteen (15) days preceding the date on which notice of prepayment or purchase of Certificates is given; or (ii) any Certificate selected for prepayment or purchase.

Use of Book-Entry Only System

When executed and delivered, the Certificates will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York (“DTC”). The County, the Trustee and the Institute have no responsibility or obligation with respect to the accuracy of the records of DTC, Cede & Co. or any DTC Participant (as defined herein) in connection with the delivery to any DTC Participant of any notice with respect to the Certificates, including any notice of redemption, or the payment to any DTC Participant of any amount with respect to principal, premium, if any, or interest with respect to the Certificates. As long as Cede & Co. is the Holder of the Certificates as nominee of DTC, references herein to the Certificate Holders, Holders, owners or registered owners will mean Cede & Co., as aforesaid and will not mean the Beneficial Owners of the Certificates. For more information concerning the use of the book-entry system, see APPENDIX F – “BOOK-ENTRY ONLY SYSTEM” herein.

SECURITY FOR THE CERTIFICATES

General

The Certificates are limited obligations of the County payable solely from Revenues (as defined below), which consist primarily of Purchase Payments required to be paid by the Institute to the Trustee (as assignee of the County) under the Sale Agreement and from certain other funds held under the Trust Agreement. In the Sale Agreement, the Institute agrees to make payments to the Trustee (as assignee of the County) which, in the aggregate, are required to be in an amount sufficient for the payment in full of all amounts payable with respect to the Certificates, including the total interest payable with respect to the Certificates to their stated Certificate Payment Dates, the principal amount of the Certificates, any prepayment or purchase premiums, and certain other fees and expenses (consisting generally of reasonable fees and charges of the Trustee, taxes, accountants’ fees and reasonable fees and expenses of the County in connection with the Certificates) (the “Supplemental Payments”), less any amounts available for such payment as provided in the Trust Agreement.

The County’s obligations under the Purchase Agreement to make Installment Payments are limited obligations of the County, payable solely from Revenues derived from Purchase Payments and not from any other County fund or source. The County’s obligations under the Purchase Agreement do not constitute general obligations or indebtedness of the County and are not payable in any manner from taxation.

THE COUNTY SHALL NOT BE OBLIGATED TO PAY THE INSTALLMENT PAYMENTS OR OTHERWISE THE PRINCIPAL, PREMIUM, IF ANY, OR INTEREST WITH RESPECT TO THE CERTIFICATES, EXCEPT FROM REVENUES RECEIVED BY THE COUNTY, AND THE FAITH AND CREDIT OF THE COUNTY IS NOT PLEDGED TO THE PAYMENT OF THE INSTALLMENT PAYMENTS OR OTHERWISE TO THE PAYMENT OF THE PRINCIPAL, PREMIUM OR INTEREST WITH RESPECT TO THE CERTIFICATES. NEITHER THE OBLIGATION OF THE COUNTY TO MAKE THE INSTALLMENT PAYMENTS NOR THE CERTIFICATES CONSTITUTE A DEBT OF THE COUNTY OR THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY PROVISION.

For a further description of the provisions of the Trust Agreement, the Sale Agreement and the Purchase Agreement, including covenants which secure the Certificates, see APPENDIX C – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS.”

Revenues; Pledge of Revenues

Under the Sale Agreement, “Revenues” are defined as all amounts received by the County or the Trustee for the account of the County under the Trust Agreement pursuant or with respect to this Sale Agreement, including, without limiting the generality of the foregoing, Installment Payments and Purchase Payments (including both timely and delinquent payments, any late charges, and regardless of source), prepayments, insurance proceeds, condemnation proceeds, and all interest, profits or other income derived from the investment of amounts in any fund or account established pursuant to the Trust Agreement, but not including any Administrative Fees and Expenses or amounts received or on deposit in the Rebate Fund. “Administrative Fees or Expenses” means any application, commitment, financing or similar fee charged, or reimbursement for administrative or other expenses incurred, by the County or the Trustee, including Supplemental Payments.

Pursuant to the Trust Agreement, all of the interests of the County and the Institute in the Revenues and any other amounts (including proceeds of the sale of Certificates) held in any fund or account established pursuant to the Trust Agreement, other than the Rebate Fund, Supplemental Payments paid by the Institute pursuant to the Sale Agreement and any other amounts paid by the Institute pursuant to the Sale Agreement relating to indemnification or certain expenses, are pledged to secure the payment of the principal and interest components of the Certificates. The Trust Agreement provides that said pledge will constitute a lien on and security interest in such assets and will attach, be perfected and be valid and binding from and after delivery by the Trustee of the Certificates, without any physical delivery thereof or further act. Pursuant to the Trust Agreement, the County transfers in trust, grants a security interest in and assigns to the Trustee, for the benefit of the Holders from time to time of the Certificates, all of its interests in the Revenues and other assets so pledged and all of the right, title and interest of the County in the Sale Agreement (except Supplemental Payments, any rights of the County to indemnification paid by the Institute and the obligation of the Institute to make deposits to the Rebate Fund). The Trustee is entitled to and will collect and receive all of the Revenues.

Payment of Purchase Payments

Pursuant to the Sale Agreement, the Institute agrees to make the Purchase Payments in an amount sufficient for the payment in full of all obligations to the Holders of the Certificates from time to time Outstanding under the Trust Agreement, including (i) the total interest components due and payable with respect to the Installment Payments of the County under the Purchase Agreement, (ii) the total principal components of the Installment Payments, and (iii) the prepayment or purchase premium, if any, that will be payable upon the prepayment or purchase of the Certificates prior to their stated Certificate Payment Dates; less the amount of other funds available for such payment as provided in the Trust Agreement. The Institute is required to pay the Purchase Payments to the Trustee, as assignee of the County, for deposit in the Interest Account and Principal Account. The Purchase Payments are due and payable on or prior to the fifth (5th) day next preceding each Interest Payment Date. Each Purchase Payment is required to be held, invested, disbursed and applied by the Trustee as provided in the Trust Agreement. The Institute is required to make each such Purchase Payment directly to the Trustee in satisfaction of the County’s Installment Payment obligations under the Purchase Agreement.

The obligations of the Institute to make the Purchase Payments and Supplemental Payments required under the Sale Agreement and to perform and observe the other agreements on its part contained therein constitute a general obligation of the Institute and is absolute and unconditional, and will not be

abated, rebated, set-off, reduced, abrogated, terminated, waived, diminished, postponed or otherwise modified in any manner or to any extent whatsoever, while any Certificates remain Outstanding or any Supplemental Payments remain unpaid, regardless of any contingency, act of God, event or cause whatsoever, including, without limiting the generality of the foregoing, any acts or circumstances that may constitute failure of consideration, eviction or constructive eviction, the taking by eminent domain or destruction of or damage to the Facilities or the Real Property, commercial frustration of purpose, any change in the laws of the United States of America or of the State or any political subdivision thereof or in the rules or regulations of any governmental authority, or any failure of the County to perform and observe any agreement, whether express or implied, or any duty, liability or obligation arising out of or connected with the Sale Agreement, the Purchase Agreement or the Trust Agreement.

Gross Revenue Fund Pledge

Pursuant to the Sale Agreement, the Institute agrees that, as long as any of the Certificates remain Outstanding or any Supplemental Payment remains unpaid, all of the Gross Revenues (see APPENDIX C – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS” herein) of the Institute will be deposited as soon as practicable upon receipt with a depository bank or banks (the “Depository Bank(s)”) in a fund designated as the “Gross Revenue Fund.” Pursuant to the Sale Agreement, the Institute pledges and grants a security interest (to the extent permitted by law) to the Trustee, as assignee of the County (for the benefit of the Certificateholders and the holders of any Parity Debt, as and to the extent provided in the Sale Agreement), in the Gross Revenue Fund and all of the Gross Revenues to secure the payment of the Purchase Payments and Supplemental Payments and the performance by the Institute of its other obligations under the Sale Agreement and the payment and performance of all obligations of the Institute under any agreement securing Parity Debt.

In the event that the Institute is delinquent for more than one (1) Business Day in the payment or required prepayment of any Purchase Payment or any payment with respect to Parity Debt, the Trustee is required to notify the Institute, the County and the Depository Bank(s) of such delinquency, and, unless such Purchase Payment or payment with respect to Parity Debt is paid within five (5) days after receipt of such notice, the Institute is required to cause the Depository Bank(s) to transfer the Gross Revenue Fund to the name and credit of the Trustee, as assignee of the County. All Gross Revenues will continue to be deposited in the Gross Revenue Fund until the amounts on deposit in such fund are sufficient to pay in full, or have been used to pay in full, all Purchase Payments in default and payments required with respect to Parity Debt in default and until all other Sale Agreement Defaults and events of default with respect to Parity Debt known to the Trustee have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate has been made therefor whereupon the Gross Revenue Fund (except for Gross Revenues required to make such payments or cure such defaults) will be transferred by the Depository Bank(s) automatically back to the name and credit of the Institute. During any period that the Gross Revenue Fund is held in the name and to the credit of the Trustee, the Trustee is required to use and withdraw from time to time amounts in such fund to make Purchase Payments, Supplemental Payments and the other payments required of the Institute under the Sale Agreement or with respect to any Parity Debt as such payments become due (whether by maturity, prepayment, acceleration or otherwise) and, if such amounts are not sufficient to pay in full all such payments due on any date, then to the payment of Purchase Payments and debt service on such Parity Debt, ratably according to the amounts due respectively for Purchase Payments and such debt service, without any discrimination or preference, and to such other payments in the order which the Trustee, in sole its discretion, determines to be in the best interests of the Holders of the Certificates and such Parity Debt, without discrimination or preference. During any period that the Gross Revenue Fund is held in the name and to the credit of the Trustee, the Institute will not be entitled to use or withdraw any of the Gross Revenues unless and to the extent the Trustee, in its sole discretion, so directs for the payment of current

or past due operating expenses of the Institute; provided that the Institute will be entitled to use or withdraw any amounts in the Gross Revenue Fund which do not constitute Gross Revenues.

Additional Indebtedness

The Institute may not issue Parity Debt unless the Trustee receives either of the following:

(1) A Statement of the Institute certifying that the Net Cash Flow Available for Debt Service was at least equal to 1.25 times the amount of Maximum Aggregate Annual Debt Service, taking into account all outstanding Parity Debt and the Parity Debt proposed to be incurred, for each of the two most recent Fiscal Years for which audited financial statements are available; or

(2) A Statement of the Institute certifying that the forecasted Net Cash Flow Available for Debt Service will be at least equal to 1.25 times the amount of Maximum Aggregate Annual Debt Service, taking into account all outstanding Parity Debt and the Parity Debt proposed to be incurred, for each of two complete Fiscal Years succeeding the date on which the proposed Parity Debt is to be incurred. The projections and forecasts of the Institute with respect to such Statement is required to be prepared on a basis consistent with the financial statements prepared by the Institute.

The Institute may issue or incur Non-recourse Debt without limitation in such principal amount as determined by the Institute.

The Institute may issue or incur Subordinate Debt without limitation in such principal amount as determined by the Institute.

See APPENDIX C – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Sale Agreement – Parity Debt; Additional Indebtedness.”

Reserve Account

On the date of initial execution and delivery of the Certificates, the Reserve Account of the Revenue Fund established under the Trust Agreement will be initially funded in an amount equal to the least of (i) 10% of the proceeds of the Certificates, or (ii) the maximum annual debt service with respect to the Certificates, or (iii) 125% of the average annual debt service with respect to the Certificates (the “Reserve Account Requirement”). The Trustee will use funds in the Reserve Account to make up deficiencies in the Principal Account or Interest Account in the Trust Agreement. All Investment Securities in the Reserve Account will be valued annually (or more frequently as may be reasonably requested by the Institute), and such valuation will be reported in a timely manner to the Institute. Any amount in the Reserve Account in excess of 100% of the Reserve Account Requirement will then be transferred to the Revenue Fund. To the extent that amounts in the Reserve Account are less than 95% of the Reserve Account Requirement on any day following such valuation, the Institute is required, within thirty (30) Business Days after receiving notice from the Trustee of such valuation, to pay to the Trustee an amount sufficient to increase the balance in the Reserve Account to the Reserve Account Requirement. In lieu of maintaining and depositing moneys in the Reserve Account, the Institute may deposit with the Trustee a letter of credit or an irrevocable surety bond policy satisfying the requirements set forth in the Trust Agreement. See APPENDIX C – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Trust Agreement.”

RISK FACTORS

The purchase of the Certificates involves certain investment risks that are discussed throughout this Official Statement. Accordingly, each prospective purchaser of the Certificates should make an independent evaluation of all of the information presented in this Official Statement in order to make an informed investment decision. Certain of these risks are described below.

Limited Obligation for Certificates

The Certificates are payable solely from Installment Payments to be made by the County under the Purchase Agreement which Installment Payments are payable solely from Revenues derived primarily from Purchase Payments made by the Institute to the County under the Sale Agreement and not from any other fund or source. The Institute substantially relies on federal grants and donations from public and private donors and on investment earnings from its endowments for its operating expenses and its debt service payments. No representation or assurance can be made or given that sufficient revenues will be generated in the future by the Institute to make the Purchase Payments necessary to pay the principal, premium, if any, and interest components with respect to the Certificates. The payment of the Purchase Payments is a general obligation of the Institute, secured by a pledge of Gross Revenues and the Reserve Account. See “SECURITY FOR THE CERTIFICATES” herein. See APPENDIX A – “INFORMATION CONCERNING BURNHAM INSTITUTE FOR MEDICAL RESEARCH.”

The payment of the Purchase Payments is not secured by a mortgage of any real property of the Institute. The Sale Agreement allows the Institute to provide its assets as collateral security for future borrowings.

The Sale Agreement does not obligate the Institute to maintain a debt service coverage ratio. There is no rate covenant.

The Sale Agreement generally does not restrict the Institute’s ability to sell, lease, transfer, mortgage or otherwise dispose of its assets, including cash.

Future revenues and expenses of the Institute will be affected by events and conditions relating generally to, among other things, the extent of funding through National Institutes of Health (“NIH”) research grants, research grants from other sources, the Institute’s ability to maintain or increase investment returns and to raise funds, to maintain and solicit donations and to develop privately sponsored research and other programs, the success of its patent and licensing program, the continued excellence of its research personnel and the relevance of their research programs, management capabilities, economic developments, and the Institute’s ability to control expenses and maintain good relations with the NIH and other public and private sponsors of research, competition, costs, and governmental legislation and regulation. Research statutes and regulations will change, researchers may leave or join the Institute and unanticipated events and circumstances may occur, which could cause material variations in future revenues. These factors, among others, may affect, in a positive or negative manner, the level of the Institute’s revenues and its financial condition. See APPENDIX A – “INFORMATION CONCERNING BURNHAM INSTITUTE FOR MEDICAL RESEARCH” for further discussion of the sources of revenues and funding of the Institute. **There can be no assurance given that the financial condition of the Institute will not be adversely affected and there can be no guaranty there will be sufficient revenue to make payments with respect to the Certificates.**

With respect to the financial condition of the Institute, see APPENDIX B – “AUDITED FINANCIAL STATEMENTS OF BURNHAM INSTITUTE FOR MEDICAL RESEARCH

(FORMERLY, THE BURNHAM INSTITUTE) FOR FISCAL YEARS ENDED JUNE 30, 2005 AND 2004.”

Tax-Exempt Status of the Certificates

Tax-Exempt Status of Interest with respect to the Certificates. The Internal Revenue Code of 1986, as amended (the “Code”) imposes a number of requirements that must be satisfied for interest on state and local obligations, such as the Certificates, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of Certificate proceeds, limitations on the investment earnings of Certificate proceeds prior to expenditure, a requirement that certain investment earnings on Certificate proceeds be paid periodically to the United States and a requirement that the issuers file an information report with the Internal Revenue Service (the “IRS”). The County and the Institute have covenanted in certain of the documents referred to herein that they will comply with such requirements. Failure by the Institute to comply with the requirements stated in the Code and related regulations, rulings and policies may result in the treatment of interest with respect to the Certificates as taxable, retroactively to the date of delivery of the Certificates.

Tax-Exempt Status of the Institute. The tax-exempt status of interest with respect to the Certificates presently depends upon the maintenance by the Institute of its status as an organization described in Section 501(c)(3) of the Code. The maintenance of such status is contingent upon compliance with general rules promulgated in the Code and related regulations regarding the organization and operation of tax-exempt entities, including their operation for charitable purposes and their avoidance of transactions which may cause their earnings or assets to inure to the benefit of private individuals. As these general principles were developed primarily for public charities which do not conduct large-scale technical operations and business activities, they often do not adequately address the myriad of operations and transactions entered into by modern tax-exempt organizations.

Tax-exempt organizations such as the Institute are subject to scrutiny from ongoing IRS audit programs. The primary penalty available to the IRS under the Code with respect to a tax-exempt entity engaged in unlawful, private benefit is the revocation of tax-exempt status. Although the IRS has not frequently revoked the tax-exempt status of nonprofit corporations or trusts, it could do so in the future. Loss of tax-exempt status by the Institute would most likely result in loss of tax exemption of interest with respect to the Certificates and of future tax-exempt debt of the Institute, if any, and defaults in covenants regarding the Certificates and existing and future tax-exempt debt, if any, would likely be triggered. Loss of tax-exempt status of the Institute would also have material adverse consequences on the financial condition of the Institute.

Bond Audit. In December 1999, as a part of a larger reorganization of the IRS, the IRS commenced operation of its Tax Exempt and Government Entities Division (the “TE/GE Division”), as the successor to its Employee Plans and Exempt Organizations Division. The new TE/GE Division has a subdivision that is specifically devoted to tax-exempt bond compliance. Public statements by IRS officials indicate that the number of tax-exempt bond examinations is expected to increase significantly under the new TE/GE Division.

The Institute has not sought to obtain a private letter ruling from the IRS with respect to the Certificates, and the opinion of Orrick, Herrington & Sutcliffe LLP, Special Counsel, is not binding on the IRS. There is no assurance that an IRS examination of the Certificates will not adversely affect the market value of the Certificates. See the section entitled “TAX MATTERS” herein.

Unrelated Business Income

In recent years, the IRS and State, county and local taxing authorities have been undertaking audits and reviews of the operations of tax-exempt organizations with respect to their exempt activities and the generation of unrelated business taxable income (“UBTI”). The Institute has not historically generated any UBTI. The Institute may participate in activities which generate UBTI in the future. Management of the Institute believes it has properly accounted for and reported UBTI; nevertheless, an investigation or audit could lead to a challenge which could result in taxes, interest and penalties with respect to unreported UBTI and in some cases could ultimately affect the tax-exempt status of the Institute as well as the exclusion from gross income for federal income tax purposes of the interest with respect to the Certificates and other future tax-exempt debt of the Institute, if any.

State Income Tax Exemption

The State has not been as active as the IRS in scrutinizing the income tax exemption of organizations, though this does not preclude future State scrutiny, and it is likely that the loss by the Institute of federal tax exemption would also trigger a challenge to the State tax exemption of the Institute. Depending on the circumstances, such an event could be adverse and material to the holders of the Certificates.

Exemption from Property Taxes

In recent years, State, county and local taxing authorities have been undertaking audits and reviews of the operations of tax-exempt corporations with respect to their real property tax exemptions. The management of the Institute believes that its real property and the planned improvements thereon are and will continue to be exempt from California real property taxation.

Environmental Laws and Regulations

Biological research facilities are subject to a wide variety of federal, state and local environmental and occupational health and safety laws and regulations which address, among other things, operations or facilities and properties owned or operated by such organizations. Among the types of regulatory requirements faced by research facilities are: air and water quality control requirements; waste management requirements; specific regulatory requirements applicable to asbestos, polychlorinated biphenyls, and radioactive substances; requirements for providing notice to employees and members of the public about hazardous materials and wastes; and other requirements.

Typical research operations include, but are not limited to, in various combinations, the handling, use, treatment, storage, transportation, disposal and/or discharge of hazardous, infectious, toxic, radioactive and flammable materials, wastes, pollutants or contaminants. As such, research operations are particularly susceptible to the practical, financial and legal risks associated with the obligations imposed by applicable environmental laws and regulations. Such risks may result in damage to individuals, property or the environment; may interrupt operations and/or increase its cost, may result in legal liability, damages, injunctions or fines; may result in investigations, administrative proceedings, civil litigation, criminal prosecution, penalties or other governmental agency actions; and may not be covered by insurance. There can be no assurance that the Institute will not encounter such risks in the future, and such risks may result in material adverse consequences to the operations or financial condition of the Institute. In addition, in its role as owner of properties or facilities, biological research organizations may be subject to liability for investigating and remedying contamination caused by any hazardous substances which have come to be located on the property, including contamination caused by any such substances that may have migrated off of the property.

At the present time, management of the Institute is not aware of any pending or threatened claim, investigation or enforcement action regarding such environmental issues, or any instance of contamination, which, if determined adversely to the Institute, would have material adverse consequences to the Institute.

Investment of Funds Risk

All funds and accounts held under the Trust Agreement are required to be invested in Investment Securities as provided under the Trust Agreement. See Appendix C attached hereto for a summary of the definition of "Investment Securities." See the financial statements of the Institute attached as Appendix B for a summary of the investments of the Institute as of the date of such financial statements. All investments, including the Investment Securities and other investments made by the Institute, contain a certain degree of risk. Such risks include, but are not limited to, a lower rate of return than expected, loss of market value and loss or delayed receipt of principal. The occurrence of these events with respect to amounts held under the Trust Agreement or by the Institute could have a material adverse effect on the security of the Certificates.

Factors That Could Affect the Security Interest in the Institute's Gross Revenues

Attachment, perfection and priority of the security interest in the Gross Revenues and the Gross Revenue Fund is subject to a number of risks and it may not be possible to enforce such security interest. The Trustee's security interest in the Gross Revenue Fund and all the Gross Revenues may be subordinated to the interest and claims of others in several instances. Some examples of cases of subordination of prior claims are (i) statutory liens, (ii) rights arising in favor of the United States of America or any agency thereof, (iii) present or future prohibitions against assignment in any statutes or regulations, (iv) constructive trusts, equitable liens or other rights impressed or conferred by any state or federal court in the exercise of its equitable jurisdiction, (v) federal or state bankruptcy or insolvency laws that may affect the enforceability of the Sale Agreement or pledge of Gross Revenues, (vi) rights of third parties in Gross Revenues converted to cash and not in the possession of the Trustee, (vii) commingling of proceeds of Gross Revenues with other moneys of the Institute not subject to the security interest in the Gross Revenues; and (viii) claims that might arise if control agreements with banks or securities firms are not executed or appropriate financing or continuation statements are not filed in accordance with the California Uniform Commercial Code as from time to time in effect. In addition, it may not be possible to perfect or enforce a security interest in any manner whatsoever in certain types of Gross Revenues (e.g., gifts, donations and certain insurance proceeds) prior to actual receipt by the Institute for deposit in the Gross Revenue Fund. Additionally, the lien on the Gross Revenues may not extend to revenues received after the filing of bankruptcy.

Seismic Risks

The facilities of the Institute are located in a seismically active region of southern California. The occurrence of severe seismic activity in the area could result in substantial damage to the facilities of the Institute and could have a material, adverse impact on the Institute's finances. The Sale Agreement does not require the Institute to maintain earthquake insurance for its facilities. For information on insurance currently maintained by the Institute, see Appendix A – "INFORMATION CONCERNING BURNHAM INSTITUTE FOR MEDICAL RESEARCH" attached hereto.

Bankruptcy and Other Factors that Could Affect Security for the Certificates

The ability of the Trustee to enforce the obligations of the Institute under the Sale Agreement may be limited by laws relating to bankruptcy, insolvency, reorganization or moratorium and by other

similar laws affecting creditors rights, including equitable principles. In addition, the Trustee's ability to enforce such agreements will depend upon the exercise of various remedies specified by such documents which may in many instances require judicial actions that are often subject to discretion, delay and substantial costs or that otherwise may not be readily available or may be limited.

The various legal opinions to be delivered concurrently with the delivery of the Certificates will be qualified as to the enforceability of the various legal instruments by limitations imposed by State and federal laws, rulings and decisions affecting remedies, and by bankruptcy, reorganization or other laws of general application affecting the enforcement of creditors' rights, including equitable principles.

In the event of bankruptcy of the Institute, the rights and remedies of the Certificate Holders are subject to various provisions of the federal Bankruptcy Code. If the Institute were to file a petition in bankruptcy, payments made by the Institute during the 90-day (or perhaps one-year) period immediately preceding the filing of such petition may be avoidable as preferential transfers to the extent such payments allow the recipients thereof to receive more than they would have received in the event of the Institute's liquidation. Security interests and other liens granted to the Trustee and perfected during such preference period may also be avoided as preferential transfers to the extent such security interest or other lien secures obligations that arose prior to the date of such perfection. Such a bankruptcy filing would operate as an automatic stay of the commencement or continuation of any judicial or other proceeding against the Institute, and its property, and as an automatic stay of any act or proceeding to enforce a lien upon or to otherwise exercise control over its property as well as various other actions to enforce, maintain or enhance the rights of the Trustee. If the bankruptcy court so ordered, the property of the Institute could be used for the financial rehabilitation of the Institute, despite any security interest of the Trustee therein. The rights of the Trustee to enforce its security interest could be delayed during the pendency of the rehabilitation proceeding.

The Institute could file a plan for the adjustment of its debts in any such proceeding which could include provisions modifying or altering the rights of creditors generally, or any class of them, secured or unsecured. The plan, when confirmed by a court, binds all creditors who had notice or knowledge of the plan and, with certain exceptions, discharges all claims against the debtor to the extent provided for in the plan. No plan may be confirmed unless certain conditions are met, among which are that the plan is feasible and has been accepted by each class of claims impaired thereunder. Each class of claims has accepted the plan if at least two-thirds in dollar amount and more than one-half in number of the class cast votes in its favor. Even if the plan is not so accepted, it may be confirmed if the court finds that the plan is fair and equitable with respect to each class of non-accepting creditors impaired thereunder and does not discriminate unfairly.

The Trustee's security interest in the Revenues under the Trust Agreement may be subordinated to the interest and claims of others in several instances. Some examples of cases of subordination of prior claims are (i) statutory liens, (ii) rights arising in favor of the United States of America or any agency thereof, (iii) present or future prohibitions against assignment in any statutes or regulations, (iv) constructive trusts, equitable liens or other rights impressed or conferred by any state or federal court in the exercise of its equitable jurisdiction, (v) federal or state bankruptcy or insolvency laws that may affect the enforceability of the Sale Agreement or pledge of Revenues, (vi) rights of third parties in Revenues converted to cash and not in the possession of the Trustee or a depository bank, (vii) commingling of proceeds of Revenues with other moneys of the Institute not subject to the security interest in the Revenues; and (viii) claims that might arise if appropriate financing or continuation statements are not filed in accordance with the California Uniform Commercial Code as from time to time in effect.

Insurance

The Institute purchases insurance for employee medical benefits and workers' compensation benefits from commercial insurers licensed to sell insurance in the State of California. The Institute also purchases insurance covering professional liability and physical damage to the Institute's facilities subject to customary deductibles. See APPENDIX A – "INFORMATION CONCERNING BURNHAM INSTITUTE FOR MEDICAL RESEARCH."

LITIGATION

Except as discussed in APPENDIX A – "INFORMATION CONCERNING BURNHAM INSTITUTE FOR MEDICAL RESEARCH," there is no controversy or litigation of any nature now pending against the Institute, or to the knowledge of its officers threatened, restraining or enjoining the execution, sale and delivery of the Certificates, or in any way contesting or affecting the validity of the Certificates, any proceedings of the Institute taken concerning the execution, sale and delivery thereof or the pledge or application of any moneys or security provided for the payment of the Certificates.

To the knowledge of the County, there is no controversy or litigation of any nature now pending against the County, threatened, restraining or enjoining the execution, sale and delivery of the Certificates, or in any way contesting or affecting the validity of the Certificates, any proceedings of the County taken concerning the execution, sale and delivery thereof, the pledge or application of any moneys or security provided for the payment of the Certificates, or the existence or powers of the County relating to the execution, sale or delivery of the Certificates.

VERIFICATION

Upon delivery of the Certificates, Causey, Demgen & Moore Inc., a firm of independent public accountants, will deliver a report on the mathematical accuracy of certain computations based upon certain information and assertions provided to them by the Underwriter relating to (a) the adequacy of the maturing principal and interest on the federal securities in the Escrow Fund to pay all of the principal, interest and prepayment premium on the Refunded Certificates and (b) the computations of yield of the Certificates and the federal securities in the Escrow Fund which support Special Counsel's opinion that the interest represented by the Certificates is excluded from gross income for federal income tax purposes.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP, Special Counsel ("Special Counsel"), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, the interest component of the Installment Payments to be paid by the County under the Purchase Agreement and received by the Beneficial Owners of the Certificates is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code") and is exempt from State of California personal income taxes. Special Counsel is of the further opinion that such interest component evidenced by the Certificates is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Special Counsel observes that such interest component is included in adjusted current earnings when calculating corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Special Counsel is set forth in Appendix E hereto.

To the extent the issue price of any maturity of the Certificates is less than the amount to be paid at maturity of such Certificates (excluding amounts stated to be interest and payable at least annually over the term of such Certificates), the difference constitutes “original issue discount,” the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest evidenced by the Certificates which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the Certificates is the first price at which a substantial amount of such maturity of the Certificates is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Certificates accrues daily over the term to maturity of the Certificates on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Certificates to determine taxable gain or loss upon disposition (including sale, prepayment, or payment on maturity) of such Certificates. Beneficial Owners should consult their own tax advisors with respect to the tax consequences of ownership of Certificates with original issue discount, including the treatment of Beneficial Owners who do not purchase such Certificates in the original offering to the public at the first price at which a substantial amount of such Certificates is sold to the public.

Certificates purchased, whether at original execution and delivery or otherwise, for an amount higher than their principal evidenced thereby payable at maturity (or, in some cases, at their earlier prepayment date) (“Premium Certificates”) will be treated as having amortizable premium. No deduction is allowable for the amortizable premium in the case of obligations, like those evidenced by the Premium Certificates, the interest with respect to which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner’s basis in a Premium Certificate, will be reduced by the amount of amortizable premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Certificates should consult their own tax advisors with respect to the proper treatment of amortizable premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Certificates. The County and the Institute have made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that the interest portion of the Installment Payments received by the Beneficial Owners will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in such interest component being included in gross income for federal income tax purposes, possibly from the date of original execution and delivery of the Certificates. The opinion of Special Counsel assumes the accuracy of these representations and compliance with these covenants. Special Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Special Counsel’s attention after the date of execution and delivery of the Certificates may adversely affect the value of, or the tax status of the interest portion of the Installment Payments evidenced by, the Certificates.

In addition, Special Counsel has relied, among other things, on the opinion of Sheppard, Mullin, Richter & Hampton LLP, Counsel to the Institute, regarding the current qualification of the Institute as an organization described in Section 501(c)(3) of the Code and the intended operation of the facilities to be financed by the Certificates as substantially related to the Institute’s charitable purpose under Section 513(a) of the Code. Such opinion is subject to a number of qualifications and limitations. Furthermore, Counsel to the Institute cannot give and has not given any opinion or assurance about the future activities of the Institute, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or changes in enforcement thereof by the Internal Revenue Service. Failure of the Institute to be organized and operated in accordance with the Internal Revenue Service’s requirements for

the maintenance of its status as an organization described in Section 501(c)(3) of the Code, or to operate the facilities financed by the Certificates in a manner that is substantially related to the Institute's charitable purpose under Section 513(a) of the Code, may result in the interest portion of the Installment Payments to be paid by the County under the Purchase Agreement and received by the Beneficial Owners being included in federal gross income, possibly from the date of the original execution and delivery of the Certificates.

Certain requirements and procedures contained or referred to in the Trust Agreement, the Sale Agreement, the Purchase Agreement, the Tax Certificate and Agreement between the County and the Institute (the "Tax Agreement") and other relevant documents may be changed and certain actions (including, without limitation, prepayment of the Certificates) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Special Counsel expresses no opinion as to any Certificate or the interest component of the Installment Payments evidenced thereby if any such change occurs or action is taken or omitted upon the advice or approval of Special Counsel other than Orrick, Herrington & Sutcliffe LLP.

Although Special Counsel is of the opinion that the interest component of the Installment Payments to be paid by the County and received by the Beneficial Owners is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of interest evidenced by, the Certificates may otherwise affect a Beneficial Owners' federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the Beneficial Owner's particular tax status and other items of income or deduction. Special Counsel expresses no opinion regarding any such other tax consequences.

Future legislation, if enacted into law, or clarification of the Code may cause the interest component of the Installment Payments to be paid by the County and received by the Beneficial Owners to be subject, directly or indirectly, to federal income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest component. The introduction or enactment of any such future legislation or clarification of the Code may also affect the market price for, or marketability of, the Certificates. Prospective purchasers of the Certificates should consult their own tax advisers regarding any pending or proposed federal tax legislation, as to which Special Counsel expresses no opinion.

The opinion of Special Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Special Counsel's judgment as to the proper treatment of the Certificates for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Special Counsel cannot give and has not given any opinion or assurance about the future activities of the County or the Institute, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The County and the Institute have covenanted, however, to comply with the requirements of the Code.

Special Counsel's engagement with respect to the Certificates ends with the execution and delivery of the Certificates, and, unless separately engaged, Special Counsel is not obligated to defend the County, the Institute or the Beneficial Owners regarding the tax-exempt status of the Certificates in the event of an audit examination by the IRS. Under current procedures, parties other than the County, the Institute and their appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the County or the Institute legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Certificates for audit, or the course or result of such audit, or an audit of obligations presenting similar tax issues may affect the market price for, or

the marketability of, the Certificates, and may cause the County, the Institute or the Beneficial Owners to incur significant expense.

CONTINUING DISCLOSURE

The County has determined that no financial or operating data concerning the County is material to an evaluation of the offering of the Certificates or to any decision to purchase, hold or sell the Certificates, and the County will not provide any such information. The Institute has undertaken all responsibilities for any continuing disclosure to Holders of the Certificates as described below, and the County will have no liability to the Holders of the Certificates or any other person with respect to Rule 15c2-12 promulgated by the Securities and Exchange Commission (the "Rule").

The Institute has covenanted for the benefit of the Holders of the Certificates to provide certain financial information and operating data relating to the Certificates by not later than six months after the end of the Institute's fiscal year (the "Annual Report") and to provide notices of the occurrence of certain enumerated events, if material, so long as the Certificates are outstanding. The Annual Report will be filed by the Trustee, as Dissemination Agent, on behalf of the Institute, with each Nationally Recognized Municipal Securities Information Repository and any State Repository. The notices of material events will be filed by the Trustee, on behalf of the Institute, with the Municipal Securities Rulemaking Board and any State Repository.

The above covenants with respect to continuing disclosure have been made in order to assist the Underwriter in complying with the Rule. The Institute has not failed to materially comply with any previous undertaking with respect to the Rule. The specific nature of the information to be contained in the Annual Report or the notices of material events is set forth in APPENDIX D – "FORM OF CONTINUING DISCLOSURE AGREEMENT."

APPROVAL OF LEGALITY

Certain legal matters incident to the delivery of the Certificates are subject to the approving opinion of Orrick Herrington & Sutcliffe LLP, Los Angeles, California, Special Counsel. A copy of the proposed form of opinion of Special Counsel is set forth in APPENDIX E – "FORM OF FINAL OPINION OF SPECIAL COUNSEL." Certain other legal matters will be passed upon for the Institute by Sheppard, Mullin, Richter & Hampton LLP, San Diego, California, for the County by the Office of County Counsel, and for the Underwriter by Hawkins Delafield & Wood LLP, San Francisco, California. Payment of the fees of Special Counsel and Underwriter's Counsel are contingent upon the execution and delivery of the Certificates. Special Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement.

INDEPENDENT AUDITORS

The financial statements of Burnham Institute for Medical Research (formerly, The Burnham Institute) as of and for the years ended June 30, 2005 and 2004, included in Appendix B to this Preliminary Official Statement have been audited by Deloitte & Touche LLP, independent auditors, as stated in their report appearing therein.

RATING

Moody's Investors Service has assigned its municipal bond rating of "Baa3" to the Certificates. Generally, rating agencies base their ratings on such information and materials and on investigations, studies and assumptions made by the rating agencies themselves. There is no assurance that such rating mentioned above will remain in effect for any given period of time or that it might not be lowered or withdrawn entirely by Moody's Investors Service if, in its judgment, circumstances so warrant. The Institute, the County and the Underwriter have undertaken no responsibility either to bring to the attention of the Holders of the Certificates any proposed change in or withdrawal of any rating or to oppose any such proposed revision or withdrawal. Any such downward change in or withdrawal of any rating might have an adverse effect on the market price or marketability of the Certificates.

UNDERWRITING

The Underwriter has agreed to purchase the Certificates at a purchase price of \$60,127,329.25, calculated as the par amount of the Certificates, plus original issue premium of \$1,167,866.75 less an underwriting discount of \$445,537.50. The Certificate Purchase Contract provides that the Underwriter will purchase all of the Certificates if any are purchased, and contains the agreement of the Institute to indemnify the Underwriter and the County against certain liabilities. The Underwriter intends to offer the Certificates to the public initially at the prices and/or yields set forth on the inside cover page of this Official Statement, which prices or yields may subsequently change without any requirement of prior notice by the Underwriter.

The Underwriter reserves the right to join with dealers and other underwriters in offering the Certificates to the public. The Underwriter may offer and sell Certificates to certain dealers (including dealers depositing Certificates into investment trusts) at prices lower than the public offering prices, and such dealers may reallocate any such discounts on sales to other dealers.

In reoffering Certificates to the public, the Underwriter may overallocate or effect transactions which stabilize or maintain the market prices for Certificates at levels above those which might otherwise prevail. Such stabilization, if commenced, may be discontinued at any time.

MISCELLANEOUS

The foregoing and subsequent summaries or description of provisions of the Certificates, the Trust Agreement, the Sale Agreement and the Purchase Agreement, and all references to other materials not purporting to be quoted in full, are only brief outlines of some of the provisions thereof and do not purport to summarize or describe all of the provisions thereof, and reference is made to said documents for full and complete statements of their provisions. The appendices attached hereto are a part of this Official Statement. Copies, in reasonable quantity, of the Trust Agreement, the Sale Agreement and the Purchase Agreement may be obtained during the offering period upon request directed to the Underwriter and thereafter upon request directed to the Trustee.

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APPENDIX A

INFORMATION CONCERNING THE BURNHAM INSTITUTE FOR MEDICAL RESEARCH

The information contained herein as Appendix A to this Official Statement has been obtained from the Burnham Institute for Medical Research.

MISSION AND HISTORY

Mission

The mission of the Burnham Institute for Medical Research (the "Institute") is to conduct world-class collaborative research to cure human disease, improve quality of life, and thus create a legacy for the Institute's employees, partners, donors and community.

The Institute conducts basic scientific investigations on the workings of cells and the molecules that comprise them. Knowledge gained in this pursuit will be used toward the Institute's ultimate goal: to alleviate human suffering through the improved detection, treatment, and prevention of disease. The Institute's philosophy is grounded in the recognition that most breakthroughs in fighting human disease come from basic scientific investigations. Moreover, the emphasis on basic research, as opposed to clinically applied research, means that Institute discoveries often reveal fundamental concepts and principles of cell biology that have broad relevance not only to cancer but also to other diseases.

History

The Institute was founded in 1976 as a California 501(c)(3) non-profit, public benefit corporation dedicated to basic biomedical research. The Institute was originally known as La Jolla Cancer Research Foundation and changed its name to Burnham Institute for Medical Research from The Burnham Institute in 2005. Today the Institute is home to three major centers: the Cancer Center, the Del E. Webb Neuroscience and Aging Center, and the Infectious and Inflammatory Disease Center. Since 1981, the Institute has held the designation by the National Cancer Institute ("NCI") as a "Non-Comprehensive Cancer Center" and is one of only eight U.S. organizations that currently hold that designation. In fact, at the most recent renewal of the Cancer Center grant, the Institute received an "outstanding" rating from the NCI. This most recent renewal by the NCI will provide \$18 million in funding through April 2009, which will continue to be used to support scientific programs and highlights the Institute's emphasis on scientific achievement and productivity.

The Institute's research at the Cancer Center focuses on understanding and thus developing ways of preventing tumor growth and metastasis. Researchers are investigating methods for blocking tumor angiogenesis (blood vessel recruitment into tumors), strategies for triggering cell suicide pathways in cancer cells ("apoptosis"), understanding mechanisms of tumor chemo resistance and radio resistance, use of natural products (vitamins) for preventing or treating tumors, and technologies for specifically targeting anticancer drugs to tumors, thus avoiding side-effects.

The Del E. Webb Center for Neuroscience and Aging Research was founded in 1999. The goal of the Center is to develop novel strategies for either protecting existing cells or replacing cells lost due to disease. The Center's efforts are focused on stem cells, degenerative diseases, and tissue regeneration.

The Infectious and Inflammatory Disease Center ("IIDC") was founded in 2004 to address the global population's increasing vulnerability to emerging pathogens, to counter threats of deadly diseases intentionally introduced by bioterrorists, and to discover new ways to treat chronic inflammatory diseases,

some of which are linked to dysfunctional host responses to pathogens. A central focus in the IIDC is the rational, structure-based design of small molecule inhibitors, using crystallography and NMR to determine structures; chemistry, high through-put screening, and in silico approaches to identify and test inhibitors.

The Institute operates on an annual budget of approximately \$80 million. These funds are derived primarily from federal grants. Other important sources of funding include foundations, philanthropy and investment income. As of June 30, 2005, there were over 700 people employed by the Institute, including 334 individuals with doctoral and/or medical degrees. Seventy-one faculty members lead the research effort, which includes training at the postdoctoral and Ph.D. graduate student levels. The Institute is presently located in proximity to one of the fastest-growing and largest concentrations of academic and biotechnical research in the world.

INSTITUTE FACILITIES

The Institute owns 9.3 acres located on North Torrey Pines Road in La Jolla, California. The Institute is within two miles of The Scripps Research Institute, the Salk Institute for Biological Studies, the University of California at San Diego (UCSD), the Sidney Kimmel Cancer Center and the Neurosciences Institute.

The Institute's facilities comprise 10 buildings totaling approximately 300,000 gross square feet. These facilities include wet labs for molecular biology, common equipment support rooms, investigator offices, conference rooms, and administrative support office space. Common use facilities include nuclear magnetic resonance, x-ray crystallography, electron microscopy, confocal microscopy, DNA sequencing, an accredited animal facility (primarily housing mice), and many other specialized facilities devoted to collaborative research. Included in the 10 buildings is a 75,000 square foot leased building on Science Park Road that serves as home to the IIDC, as well as the finance and intellectual property management groups.

SCIENTIFIC PROGRAM

Organization of Research Program

The research activities of the Institute encompass the efforts of 71 (as of June 30, 2005) faculty members, who are the recipients of independent research funding ("Principal Investigators"), and their staffs, which total approximately 505 persons (including approximately 334 holding advanced degrees: M.D. and/or Ph.D.). The research activities at the Institute are based on the "Program" principle. Under this organizational plan, a group of independent investigators work together within a Program. The advantages of this approach are to facilitate sharing of the available resources and to help provide the critical mass that a mid-size institution can achieve in only a few research areas.

The Institute's scientific organization consists of twelve established Programs:

Cancer Center

Cell Adhesion and Extracellular Matrix Biology

Oncodevelopment Biology

Glycobiology

Cancer Genetics & Epigenetics

Signal Transduction

Apoptosis and Cell Death Research

Del E. Webb Center for Neurosciences and Aging

Developmental Neurobiology
Stem Cell & Regeneration
Degenerative Disease Research

Infectious and Inflammatory Disease Center

Infectious Diseases
Inflammatory Diseases
Bioinformatics and Systems Biology

Each of the established Programs combines the expertise of a minimum of three and as many as eight faculty groups having mutually complementary skills and talents. In addition, Program themes are planned in such a way that several Programs are mutually supportive of one another. This focused programmatic approach creates opportunities for synergism among research groups and contributes to a scientifically stimulating environment. Individual faculty members have joint appointments in more than one Center.

Principal Investigators

As of June 30, 2005, the Institute had a 71 member staff of Principal Investigators and an additional scientific staff of 519. The scientific staff is composed of 22 Visiting Scientists, 222 Postdoctoral Associates/Fellows, 49 graduate and rotation students and 226 other direct research support staff (Laboratory Assistants, Research Technicians and Associates, etc.).

The table below shows, for each of the past five years, the number of Principal Investigators hired and departed, and their total number.

**Principal Investigators Hired and Departed
for the Fiscal Years ended June 30,**

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Number Principal Investigators hired	1	7	10	6	8
Number Principal Investigators departed	0	2	1	1	2
Total Principal Investigators	<u>46</u>	<u>51</u>	<u>60</u>	<u>65</u>	<u>71</u>

Source: The Institute

As shown above, the Institute experiences a modest turnover of Principal Investigators each year. In fiscal year 2006, while it is difficult to project, the Institute anticipates adding one new Principal Investigator to the staff and possibly one Principal Investigator may leave the Institute.

The Institute intends to continue its aggressive efforts to recruit additional Principal Investigators to replace those who are departing as well as to expand the total number of Principal Investigators. Continued growth in the number of Principal Investigators will reduce the fiscal impact of annual turnover of Principal Investigators.

Recruiting of Scientists

The formal scientific recruitment process is typically led by one or more of the Institute's Center directors in conjunction with the President and CEO, ensuring that each new scientist's research specialty is consistent with the areas of focus of the Institute as delineated in the Five-Year Scientific Plan.

In fiscal year 2004-2005, the Institute successfully recruited and hired five additional faculty members, as well as three additional adjunct faculty members. These new faculty members are: (1) Sara Courtneidge, an internationally recognized cancer biologist whose work focuses on mechanisms of tumor invasion and tumor microenvironment, and who will be heading the *Program on Cell Adhesion & Extracellular Matrix Biology* in the *Cancer Center*; (2) Ze'ev Ronai, an expert on protein ubiquitinylation, whose work focuses on E3 ligases involved in the control of cell growth, DNA repair, and stress signaling, and who has recently assumed the directorship of the *Program on Signal Transduction* in the *Cancer Center*; (3) Jeff Price, an engineer with expertise in development of high-throughput microscope (HTM) systems and applications for life-science research and who has joined the *Program on Signal Transduction*; (4) Robert Rickert, whose work focuses on B-lymphocyte signaling and who has joined the new *Program on Inflammatory Diseases Research*; and (5) Pier Lorenzo Puri, whose work focuses on the molecular biology of muscle development. In addition, the *Bioinformatics & Systems Biology Program* took on two new Adjunct faculty members, Drs. Krzysztof Appelt and Robert Edwards, and the *Stem Cell and Regeneration Program* brought on Adjunct Assistant Professor Pamela Itkin-Ansari.

Strategic Planning

Planning is an integral part of the Institute's operating practices. Each year the Five-Year Scientific Plan is updated and critiqued by the Institute's Scientific Advisory Board in order to facilitate a long-term view of how the Institute will continue to advance research in its selected fields of biomedical investigation. All of the Institute's scientific Program leaders participate in the process of developing and updating this five-year strategic vision.

The Five-Year Scientific Plan provides the primary impetus for development and execution of the five-year financial and facilities plans. Financial planning is an integral part of the financial operations at the Institute. The five-year financial forecast is updated quarterly to reflect current recruitment plans, facility and equipment expenditure considerations, debt management modeling, lab square footage utilization, and indirect cost management. As such, senior management of the Institute is in a position to evaluate the financial consequences of all major decisions, filtered through the indirect cost reimbursement rules and cash flow considerations.

This planning process is extended to the Principal Investigators who receive lab financial forecasts and other key operating statistics. This allows each of them to plan grant application submittals, recruit postdoctoral fellows, and monitor spending so their research efforts can be optimized.

Program Planning

The Institute's scientific direction is set by its scientists. On a monthly basis, the Program directors meet to discuss the scientific direction of the Institute, determined by the fostering of scientific collaborations and the recruiting of new scientists to the Institute. Numerous potential recruits are presented, but few are seriously pursued, given the Institute's desire to extend offers to only top caliber scientists. New directions of research by existing scientists are also considered at the committee meetings.

The Scientific Advisory Board, a group of prestigious scientists well versed in the Institute's areas of research, provides guidance and an independent perspective. The Scientific Advisory Board also works with the Institute's President and CEO to review and comment on the Five-Year Scientific Plan.

Recent Progress

The Institute's scientific achievements and leadership in the global biomedical research arena are highlighted by select recent accomplishments noted below:

- In April 2005, Dr. Erkki Ruoslahti, Distinguished Professor and former President/CEO of the Institute, was awarded the 2005 Japan Prize for cell biology. Dr. Ruoslahti was selected for Japan's highest honor awarded to scientists, in recognition of his "fundamental contributions in elucidating molecular mechanisms of cell adhesion" which include key discoveries for "elucidating the etiology and developing therapy for serious diseases such as malignant tumors".
- In June 2005, the National Institutes of Health ("NIH") awarded \$11.9 million to the Institute to establish one of nine national centers for high throughput chemical library screening, to be known as the San Diego Chemical Genomics Screening Center ("SDCGSC"). Through this consortium, the SDCGSC will gain access to a library of approximately two million chemicals and will expand the Institute's existing robotic screening capabilities to achieve the ability to screen approximately one million chemicals per day to find chemicals with medicinal properties that bind disease-causing proteins, or targets.
- Also in June 2005, NIH selected the Institute as a "Program of Excellence in Nanotechnology", awarding \$13 million to build a collaboration that will design nanotechnologies to detect, monitor, treat, and eliminate "vulnerable" plaque, the probable cause of death in sudden cardiac arrest.
- In July 2005, the National Cancer Institute selected the Institute as one of ten organizations in the country to receive funding for establishing and supporting cancer drug discovery groups, awarding \$6 million over the next five years.
- In August 2005, NIH selected the Institute as one of three "exploratory" Centers for Human Embryonic Stem Cell Research, awarding funds to support pilot projects, core facilities, and training. NIH has established a total of five exploratory human embryonic stem cell centers to date; the Institute is the only such center in California and the southwest region of the United States.

Publications

Scientists report their findings through research journals. The results are written up, submitted to a particular journal, reviewed by a panel of experts, and then accepted for publication, rejected or returned for further work. Once the findings are published, they are available for everyone to review. For many of these discoveries, their true value is sometimes not recognized for many years due to the early-stage nature of the research.

The scientists at the Institute publish approximately 200 papers per year. Approximately 30% of those publications represent collaborative endeavors involving two or more faculty members as co-authors, reflecting the highly collaborative approach to research at the Institute.

The Institute for Scientific Information ("ISI") quantifies the number of times each publication is cited in the bibliography of other scientists' publications, a method that was acquired by Thomson Scientific. The premise is that the greater the impact of a published work, the more times other scientists will cite it as the inspiration for their studies. According to these citation rankings, the Institute ranks

consistently among the world's top research organizations for the impact of its research publications. A recent analysis by Thomson Scientific released in January 2006 cited Dr. John Reed, President and CEO of the Institute, as the world's most highly cited researcher in cell biology for the decade 1995 – 2005. Thomson Scientific recognizes four of the Institute's faculty among its most highly-cited researchers of all time: Dr. John Reed, Dr. Erkki Ruoslahti, Dr. Stuart Lipton, and Dr. Minoru Fukuda.

GOVERNANCE

Board of Trustees

As a California nonprofit 501(c)(3) corporation, the Institute is governed by a non-compensated, voluntary Board of Trustees with 38 voting members. The Board is composed of accomplished business and community leaders and scientists and meets quarterly. Its committees meet as needed.

The current Board of Trustees is composed of the following members:

Ernest Beutler, M.D., Trustee ex officio	Chairman, Department of Molecular and Experimental Medicine, The Scripps Research Institute and Professor at the Skaggs Institute for Chemical Biology; Member, National Academy of Sciences; Recipient, Gairdner Award. Dr. Beutler is Chairman of the Institute's Scientific Advisory Board.
Linden S. Blue	Vice Chairman of General Atomics, a diversified international high technology company with world leadership positions in fusion, fission and training research and isotope nuclear reactors. Mr. Blue is also co-founder and chairman of the executive committee of Cordiellera Corporation of Denver, a holding company with principal assets in real estate, gas utilities, and oil and gas production. Mr. Blue's other activities, past and present, include: trustee and member of the executive committee, the Hudson Institute; board member, National Parks Foundation; member of the board of advisors, CONNECT; board member, Denver Symphony and the Denver Center for the Performing Arts; and board member, San Diego Science and Technology Council.
Mary Bradley	Mrs. Bradley is a community leader.
Arthur Brody	President of Brosoar Corporation, a management and administrative service for business and personal investments located in Solana Beach, CA. Mr. Brody is also Chairman of the Board of Tura, Inc. an eyeglass frame manufacturer and distributor located in Great Neck, New York.
Denyse Browne	Mrs. Browne has been an associate member of the Women's Board of the California Pacific Medical Center Foundation since 1982 and served as a trustee of the Foundation from 1996 until 2002. She has been actively involved with the Medical Center's Institute for Health and Healing since 1996, serving as its development chair and in various other capacities. She has also been a member of the Northern California Chapter of ARCS (Achievement Rewards for College Scientists) since 2000.

Terrence Bruggeman	Mr. Bruggeman has been Executive Chairman and a Director of Somanta Pharmaceuticals, Inc., since January 2005. From 2002 to 2005, Mr. Bruggeman was Chairman, President, and Chief Executive Officer of Aspetuck Capital Partners, Inc., a strategic consulting and interim management firm focused on development stage business. He was President and Chief Executive Officer of SureBeam Corporation, supplier of electron beam food safety systems from 2003 to 2004 and from 1999 to 2002 was Chairman, President, and Chief Executive Officer of Provasis Therapeutics, Inc., a medical device company treating vascular diseases. He was Chairman, President, and Chief Executive Officer of Diversa Corporation, an entity discovering, developing, and optimizing novel enzymes and other bioactive compounds for use in industrial agricultural and pharmaceutical application from 1996 to 1999. Mr. Bruggeman is an Advisor Director of InnerTalent, Inc., Advanced Cardiovascular Devices, LLC, as Chairman, and the College of Business, California State University, San Marcos. Mr. Bruggeman is a member of the Board of Directors of The Lincoln Park Zoological Society.
Malin Burnham	Chairman of John Burnham Insurance Services and Real Estate. Mr. Burnham has been active as a board member of several major corporations and 16 firms in total. His present involvements include San Diego Hall of Champions, UCSD Foundation, The Campanile Foundation and Chairman of the USS Midway Museum. Some of his past professional and civic organizations include the California and San Diego Mortgage Bankers Association, San Diegans, Inc., Greater San Diego Sports Association, and America's Cup Organizing Committee.
Howard I. Cohen	Mr. Cohen is the former President of Douglas Furniture de Mexico, S.A. de C.V. He joined the family business in 1962 and was active until 2001, at which time he retired.
Karin Eastham	Executive Vice President and Chief Operating Officer, Burnham Institute for Medical Research (summary resume included under the heading "Selected Executive Management/Leadership" below).
M. Wainwright Fishburn	Partner, Cooley Godward LLP, with over 18 years of legal experience. Mr. Fishburn's practice emphasizes the representation of high growth technology and other operating companies ranging from start-ups to publicly held corporations. He is a founder of two publicly-traded companies and he is a founding member of the Corporate Directors Forum and founding Director and the past president of BIOCUM, an organization of corporate leaders serving the biotechnology industry in California. He has been active with the UCSD CONNECT program in entrepreneurship, having served as the President of the CONNECT San Diego Technology Financial Forum.

<p>Jeannie M. Fontana, M.D., Ph.D.</p>	<p>As a patient advocate, Dr. Fontana focuses primarily on ALS, Amyotrophic Lateral Sclerosis. She became highly focused when her mother was diagnosed with ALS in 1999. Since then, she has become a true patient advocate. She is called upon frequently to speak to scientists and the interested public informing about the medical, scientific and emotional aspects of ALS. In 2000, Dr. Fontana, as advocacy chair for the Greater Los Angeles Chapter of ALS Association, participated in the first Senate hearing for ALS, chaired by Senator Arlen Specter and Congresswoman Lois Capps. She has also served on the Board of Trustees of the National ALS Association. In 2002, Dr. Fontana founded the 501(c)(3) nonprofit foundation SALSa, Inc., Solutions for ALS, a Marlene Hall Foundation. In 2005, Dr. Fontana was appointed Executive Director, Patient Advocacy, Burnham Institute for Medical Research, in which capacity she serves as an alternate for Dr. John Reed on the Independent Citizens' Oversight Committee of the California Institute (ICOC) for the California Institute for Regenerative Medicine (CIRM), the governing body charged with implementing California's Proposition 71, \$3 billion dollar stem cell funding. Dr. Fontana recently organized a medical clinic for ALS patients at Los Angeles' Cedars Sinai Hospital, due to open in Spring, 2006. Dr. Fontana earned her Ph.D. in Biochemistry and Molecular Biophysics from the Medical College of Virginia and her M.D. from the University of Southern California. She is board-certified in internal medicine by the State of California.</p>
<p>Alan A. Gleicher</p>	<p>Mr. Gleicher was Sr. Vice President of Global Operations at Intuit, Inc. Intuit maintained wholly-owned subsidiaries in Japan, Canada and the UK as well as partnerships throughout Europe, Australia and South America. Prior to running Global Operations he was Sr. Vice President of Sales where he was in charge of Retail, Direct, OEM and the Parsons business. Mr. Gleicher joined Intuit as Vice President of Sales in December 1993. From September 1990 until Intuit's acquisition of ChipSoft in December 1993, Mr. Gleicher served as ChipSoft's President of its Personal Tax Division. Prior to joining ChipSoft, Mr. Gleicher was President and Co-founder of SofKat, a leading educational and consumer software distributor. Today he serves on the Board of Commerce 5 (formally Channelwave) a leading provider of internet enterprise solutions for manufactures as well as Cokem an entertainment software company.</p>
<p>Lynn E. Gorguze</p>	<p>President, CEO, and Founder of San Diego-based Cameron Holdings Corporation, an investment company that invests in privately held small to (or) middle-market companies with annual revenues from \$15 million to \$200 million. Since 1978, Cameron has acquired a variety of companies in the United States, Canada, Mexico, Europe and Australia.</p>

W. D. Grant	Mr. Grant is a retired insurance executive. He served as President, CEO, and Chairman of Businessmen's Assurance Company of America & BMA Corporation, 1946 – 1992. Mr. Grant is former Chairman Emeritus and Director of Seafield Capital Corporation and LabOne, Inc. He has served as Advisory Director, Bank of America; Director SLH Corporation; Member, General Council, Assicurazioni Generali Trieste; Member, various syndicates, Lloyd's of London; Founder and Chairman, KBMA (now KSHB) Channel 41, Kansas City; Director, Kansas City Power & Light Company; and Director, Union Pacific Corporation.
David F. Hale	President and CEO, CancerVax Corporation, a biotechnology company focused on the research, development and commercialization of novel biological products for the treatment and control of cancer. Mr. Hale currently serves on the Board of Directors of Santarus, Inc., Metabasis Therapeutics, Inc., and Xcel Pharmaceuticals, Inc., and as Chairman of the Board of LMA North America, Inc., SkinMedica, Inc., and Somaxon Pharmaceuticals, Inc. Mr. Hale also serves as Chairman of BIOCOM/San Diego (formerly the Biomedical Industry Council of which he was the founder), and serves on the Board of the California Healthcare Institute (CHI) and the BIO Emerging Growth Companies Section Governing Body.
Brent Jacobs	Senior Vice President, Burnham Real Estate Services' Life Science Group. Mr. Jacobs is a founder of BIOCOM, where he co-chairs the Facilities Finance Committee and the Land Use Committee. Mr. Jacobs also co-chairs the Life Science Division of ONCOR International.
Leon Kassel	Former Chairman of First National Bank of San Diego, Chairman and Partner of the San Diego Brokerage Investment Placement Group (IPG), Vice President and Treasurer for Citibank's Mexico office, as well as Senior Vice President and Treasurer for Multibanco Comermex. Mr. Kassel has also served as Director for the Bank of Southern California.
Cynthia H. Kozmetsky	Mrs. Kozmetsky is Trustee, Vice President, and Secretary of RGK Foundation. She is a Life Trustee of the Children's Hospital Foundation of Austin and currently holds leadership positions on several boards, including Greenlights for NonProfit Success; The People's Community Clinic; The Women's Fund of Central Texas; and Leadership Austin. Her previous service on boards includes the Helping Hand Home for Children, St. Andrews Episcopal School; the James Dick Foundation for the Performing Arts (The Festival Institute at Roundtop), and the Capital of Texas Public Telecommunications Council (KLRU-TV).

Robert Kyle	Mr. Kyle was chairman of Dearborn Financial Publishing (AKA Dearborn Publishing Group), when the Chicago firm was purchased by Kaplan Inc., a wholly-owned subsidiary of The Washington Post Company, in 1998. Dearborn was the successor to a publishing and training organization founded by Mr. Kyle in 1967. Mr. Kyle is author of a number of books and textbooks on real estate and property management. He co-authored <i>Modern Real Estate Practice</i> , first published in 1959, which is now in its 15 th edition with more than three million copies sold. Mr. Kyle is past president of the Real Estate Educators Association, an international professional organization from which he received the Award Emeritus.
Marvin S. Levine	Mr. Levine is active in the San Diego community. At present, he serves as a board member with the San Diego Youth Symphony; The Performing Arts League; The Anti-Defamation League; is an advisory director of the San Diego Opera Association, and serves on the Advisory Board of Cardiology at University of California, San Diego. Former affiliations include the La Jolla Playhouse and InSite.
Sheila B. Lipinsky	Mrs. Lipinsky has chaired or co-chaired many events benefiting the San Diego community. She currently serves on the board of directors of The Old Globe Theatre.
Stuart A. Lipton, M.D., Ph.D.	Dr. Lipton was recruited to the Burnham Institute for Medical Research in September 1999 as Professor and Director of the Del E. Webb Center for Neuroscience and Aging Research. At that time he initiated the Center's program on Degenerative Disease Research. In 2004, Dr. Lipton was awarded Germany's prestigious Jung Prize for Medicine in recognition of a series of discoveries from his laboratory, which led to the development of a new paradigm for treating stroke and neurodegenerative diseases based on "neuroprotection", or protecting the brain from cell death.
Gregory T. Lucier	Chairman and Chief Executive Officer, Invitrogen. Mr. Lucier is currently a director of BIOCOM, serves on the BIO Board of Directors, as well as on BIO policy subcommittees, and is actively involved at San Diego State University as a distinguished lecturer.

Douglas F. Manchester	<p>Chairman of Manchester Financial Group, one of San Diego's largest and most profitable private companies involved in banking, hospitality, telecommunications, radio broadcasting, medical instrumentation, publishing, and real estate development locally and nationwide. Founder of La Jolla Bank and Trust Company, and La Jolla Pacific Savings Bank, co-founder of NextWave Broadband, Broadcast Company of the Americas, San Diego Port Tenants Association, and San Diego Crime Commission. Mr. Manchester serves as a Director Emeritus of the San Diego International Sports Council, a Life Director of Holiday Bowl, member of San Diego State's Directors Cabinet and currently sits on the Board of NextWave Wireless, NexGenix Pharmaceuticals, Cygnus Multimedia Communications, Junior Seau Foundation, University of San Diego, and Wake Forest University. His foundation has endowed scholarships and funded major facilities at the University of San Diego, the Bishop's School, San Diego State University, Wake Forest University, and Cathedral Catholic High School. As a community leader, Mr. Manchester has received national recognition for his long standing contributions to numerous professional, civic and charitable organizations.</p>
Norman P. Neureiter, Ph.D.	<p>Director, Center for Science, Technology, and Security Policy, American Association for the Advancement of Science. From 2000-2003, Dr. Neureiter served as the first Science and Technology Adviser to the US Secretary of State. His 24-year career with Texas Instruments (TI) ended in 1996, during which he held a variety of positions in international business development, including manager of the TI Europe Division, vice president of TI Asia and director of TI Japan. Before joining TI, Dr. Neureiter was a US diplomat-first as a science attaché in Germany and then in Poland (1965-69). From 1969-73 he served in the White House Office of Science and Technology (OST) as international affairs assistant to the President's Science Adviser and was involved in President Nixon's dramatic breakthroughs with both Russia and China. With a Ph.D. in organic chemistry from Northwestern (1957), he worked several years as a chemist at the Humble Oil Co. (now part of Exxon) and had a two-year stint at NSF's international office. Dr. Neureiter was made a Distinguished Presidential Fellow for International Affairs of the National Academies in 2003 and is member of the International Advisory Board (IAB), the Committee on Scientific Communication and National Security (CSCANS). As a consultant to the Department of State, Dr. Neureiter also serves as the US co-chair of the Indo-US Science and Technology Forum, a broad, bilateral cooperative program between the US and India.</p>
Nicolas C. Nierenberg	<p>Chairman and Chief Architect, Actuate Corporation, a software engineering firm he founded in 1993. Prior to Actuate, Mr. Nierenberg co-founded Unify Corporation, which develops and markets relational database development tools. He also served as systems software chief for Rogers, Kirkham and Associates, where he was responsible for developing a number of new products and applications. Mr. Nierenberg currently is the Chairman of the Institute's Board of Trustees.</p>

Douglas Obenshain	Partner, Ernst & Young LLP, San Diego. Mr. Obenshain is a member of the core leadership team of Ernst & Young's Pacific Southwest Area, which includes nearly 2,000 employees from Denver to Honolulu. He is a member of CONNECT, BIOCUM, and the San Diego Venture Group.
Lowell Potiker	Vice President for Acquisitions, HSP Group, Inc., a private venture company based in La Jolla, California.
Mark A. Pulido	Mr. Pulido had a 25-year career in the healthcare and distribution industries, which includes Fortune 50 experience. Prior to his retirement in June 2002, Mr. Pulido served as the Chairman of BenefitPoint, Inc., an employee benefits technology company, where he also served as its President and Chief Executive Officer. From May 1996 to July 1999, Mr. Pulido was President and Chief Executive Officer of McKesson Corporation, a healthcare services and information technology company. Previously, he served as President and Chief Executive Officer of Sandoz Pharmaceuticals Corporation (now Novartis), a research-based pharmaceutical manufacturer, and Redline Healthcare corporation, a medical surgical distribution company during the period from January 1990 to April 1996. Mr. Pulido is currently Chairman of the Board of Directors for Quidel Corporation, a developer and manufacturer of rapid point of care diagnostic tests. He is an affiliated executive with Freeman Spogli, a private equity firm, and serves on the Board of Directors of Bright Now! Dental, Inc., the largest dental practice management company in the United States (and a Freeman Spogli portfolio company). He also serves on the Board of Directors of Sunrise Medical, Inc., a home medical equipment manufacturer, and served on the Board of Directors of the Charles Schwab Corporation, a financial services company, Imation Corporation, a technology company, and McKesson Corporation.
John C. Reed, M.D., Ph.D.	President and CEO, Burnham Institute for Medical Research (summary resume included under the heading "Selected Executive Management/Leadership" below).
Erkki Ruoslahti, M.D., Ph.D.	Distinguished Professor, Burnham Institute for Medical Research. Dr. Ruoslahti joined the Institute in 1979, was appointed scientific director in 1980, and served as President and CEO 1989 – 2001. Dr. Ruoslahti is a member of the U.S. National Academy of Sciences and the Institute of Medicine of the National Academy of Sciences, the American Academy of Arts and Sciences, and the European Molecular Biology Organization. His research has been recognized with numerous awards, including the Gairdner Foundation International Award for Achievement in Medical Science in 1997 and the 2005 Japan Prize. Dr. Ruoslahti serves in an advisory capacity to various companies.
Scott South	Chief Executive Officer, Stevens Water Monitoring Systems, Inc., Portland, Oregon. Mr. South was co-founder of Stormwater Management, Inc., Chief Financial Officer of Hollywood Video and a CPA with Coopers & Lybrand. He is Chairman of the Board of Regencies the National College of Naturopathic Medicine in Portland.

Alan G. Stanford	Independent business consultant.
Eugene Step	Mr. Step is former Executive Vice President, President of the Pharmaceutical Division, and member of the board of directors of Eli Lilly & Co. While with the company, his responsibilities included overseeing pharmaceutical operations in the United States and the operations of Eli Lilly International Corporation. He is past President of the Pharmaceutical Manufacturers Association and past President of the International Federation of Pharmaceutical Manufacturers Associations. He is the former Chairman of the National Foundation for Infectious Diseases and former Chairman of the Board of Trustees of Community Hospitals of Indiana. Mr. Step currently serves on the boards of Guidant Corporation, Pathogenesis Inc., Scios Inc., Cell-Genysys Inc., Medco Research Inc., and DBT Online, Inc.
Stuart Tanz	Chairman, Chief Executive Officer and President, Pan Pacific Retail Properties, Inc., since the company's inception in 1997. Mr. Tanz has been involved in the real estate business for more than 20 years. He currently serves on the Board of Directors of USC's Lusk Center for Real Estate.
Barbara Warren	Community leader. Mrs. Warren is a member of the national board, Lymphoma Research Foundation.
Armi K. Williams	Community leader. Mrs. Williams participates in numerous community activities, including those benefiting the Mingei International Museum, which is dedicated to furthering the understanding of world art and culture, and the Americas Foundation, which promotes bi-national community development in the San Diego-Tijuana region.
Diane Winokur	Principal, Winokur Associates, a management consulting firm in San Francisco. Mrs. Winokur also serves as Chair of the Board, UCSF ALS (Lou Gehrig's Disease) Center and is a trustee in the national and Bay Area ALS Association patient advocacy groups.
Kenneth J. Woolcott	Principal, Six Degrees Capital Consulting. Prior to becoming an independent consultant, Mr. Woolcott served as general counsel to Idec Pharmaceuticals from 1992 – 2002. Mr. Woolcott is a member of the Technology Advisory Council of Pacific Lutheran University. He also serves on the board of the San Diego International Sports Council, as a member of the Jimmy V Foundation for Cancer Research, and is a partner in the Basketball Club of Seattle, LLP.

The following standing committees of the Board of Trustees oversee the Institute's operations: Executive, Finance, Audit, Development, Technology Transfer, Nominating and Governance, and Compensation.

Scientific Advisory Board

External review of the Institute's scientific mission is provided by a Scientific Advisory Board composed of scientists each distinguished in a field related to the objectives of the Institute. Scientific Advisors are appointed for a three-year term with no limit on reappointment. This Board serves in an advisory capacity to the Scientific Director and the President of the Institute, the research faculty and the Board of Trustees, making recommendations and suggestions to further the scientific mission of the Institute.

The Scientific Advisory Board is composed of the following members:

Ernest Beutler, M.D., Chair	Chairman, Department of Molecular and Experimental Medicine, The Scripps Research Institute, La Jolla, CA
Theodore Friedmann, M.D.	Professor, Department of Pediatrics, Center for Molecular Genetics, University of California, San Diego, CA
Wayne A. Hendrickson, Ph.D.	University Professor, Department of Biochemistry and Molecular Biophysics, Columbia University, New York, NY
Steve Heinemann, Ph.D.	Professor, Molecular Neurobiology Laboratory, The Salk Institute for Biological Studies, La Jolla, CA
Leroy Hood, Ph.D.	President, Institute for Systems Biology, Seattle, WA
Tony Hunter, Ph.D.	Professor, and American Cancer Society Professor, Molecular and Cell Biology Laboratory, The Salk Institute for Biological Studies, La Jolla, CA
Cynthia Kenyon, Ph.D.	Professor, Department of Biochemistry & Biophysics, University of California, San Francisco, CA
Susan S. Taylor, Ph.D.	Professor, Department of Chemistry & Biochemistry, University of California, San Diego, CA
Paul A. Wender, Ph.D.	Bergstrom Professor, Department of Chemistry, Stanford University, Palo Alto, CA
Ray L. White, Ph.D.	Director, Ernest Gallo Clinic and Research Center, Emeryville, CA

Selected Executive Management/Leadership

John C. Reed, M.D., Ph.D., President and Chief Executive Officer. In 1992, Dr. Reed joined the Institute, and was promoted to the Scientific Director position in 1995, prior to becoming President & CEO in 2002. He was chiefly responsible for recruiting and managing the scientific staff, quadrupling the number of researchers. Dr. Reed was instrumental in launching two new research centers at the Institute devoted to research on aging and neurodegenerative diseases, the Del E. Webb Center for Neuroscience & Aging Research and the Infectious & Inflammatory Disease Center (IIDC). Dr. Reed also served as Deputy Director of the Institute's NCI-sponsored Cancer Center from 1994 to 2002, and briefly as interim Director in 2002. He additionally holds adjunct Professorships at the University of California San Diego and San Diego State University.

Dr. Reed remains an active scientist, currently directing a laboratory of approximately 40 persons at the Institute. His research interests have focused primarily on cancer, but he has also made important contributions in the areas of AIDS, autoimmunity, stroke and other diseases. He has been a pioneer in delineating the fundamental mechanisms that regulate programmed cell death, a process by which cells in the body commit suicide through activation of a genetically controlled program. Dr. Reed is the author of over 600 peer-reviewed scientific articles and over 50 book chapters. He has the distinction of having published more papers on programmed cell death (also known as "apoptosis") during the past decade than any other scientist worldwide, according to the Institute for Scientific Information. Dr. Reed was also recognized by the Institute for Scientific Information as the world's most cited scientist in all areas of research from 1997-1999.

Dr. Reed leads several drug discovery efforts at the Institute, including serving as director of the National Center for Chemical Library Screening based at the Institute (one of nine in the nation), and director of the Cancer Drug Discovery Group sponsored by the National Cancer Institute (NCI). His inventions have resulted in over 60 U.S. patents or patent applications, and have spawned drug-discovery programs at several biopharmaceutical companies. Dr. Reed's inventions in DNA-based targeting of genes in cancer have resulted in drugs that are currently undergoing Phase-III clinical testing for patients with treatment-refractory cancers (Genasense).

Dr. Reed currently serves on the editorial boards of over 12 scientific journals. He has also served in various capacities as an advisor to the NIH, American Cancer Society (ACS), and the American Association for Cancer Research (AACR). He is the recipient of numerous awards for his research accomplishments, and has been awarded over 70 research grants by a variety of funding agencies, including the NIH, ACS, Leukemia Society of America, CaP-CURE, ABC2, and the Susan G. Komen Breast Cancer Foundation.

Dr. Reed serves as an advisor and consultant to numerous biotechnology and pharmaceutical companies. Dr. Reed is the Scientific Co-Founder of IDUN Pharmaceuticals, a biopharmaceutical company focusing on apoptosis-based therapies (recently acquired by Pfizer), and of GMP/Diagnostics, a cancer diagnostics company. He serves on the Board of Directors of ISIS Pharmaceuticals, Inc., Pharmion, Inc., STRATAGENE, Inc., and BIOCROM. Dr. Reed has also served on Scientific Advisory Boards for IDUN Pharmaceuticals, Abbott Laboratories, Bristol-Myers-Squibb, ISIS Pharmaceuticals, Genta, GMP/Diagnostics, Stratagene, Structural Bioinformatics, Genome Biosciences, Entropia, and the global Life-sciences Information Technology (LSIT) initiative. In November 2004, Dr. Reed was appointed to the Independent Citizen's Oversight Committee governing The California Institute for Regenerative Medicine.

Dr. Reed received his undergraduate education from the University of Virginia (BA/Biochemistry), where he graduated Phi Beta Kappa in 1980, then entered the Medical School of the University of Pennsylvania (M.D., Ph.D.), where he graduated in Alpha Omega Alpha in 1986. Dr. Reed's residency training in Pathology & Laboratory Medicine was undertaken at the Hospital of the University of Pennsylvania, followed by post-doctoral training in Molecular Biology at the Wistar Institute in Philadelphia. Dr. Reed was an Assistant Professor in the Medical School at University of Pennsylvania from 1990-1992, and served as a director of the Laboratory for Molecular Diagnosis, performing DNA-based testing for clinical diagnosis at the university hospital. He also ran a basic-research laboratory, and was active in teaching residents, medical and graduate students.

Karin Eastham, Executive Vice President and Chief Operating Officer. Ms. Eastham has over 25 years experience in financial and operations management, primarily in life sciences companies. From April 1999 to May 2004, Ms. Eastham served as Senior Vice President, Finance, Chief Financial Officer, and Secretary of Diversa Corporation, where she led the company's IPO, raising over \$200 million. She previously held similar positions with CombiChem, Inc., a computational chemistry

company, and Cytel Corporation, a biopharmaceutical company. Ms. Eastham also held several positions, including Vice President, Finance, at Boehringer Mannheim Diagnostics, from 1976 to 1988.

Ms. Eastham serves as a director for Amylin Pharmaceuticals, Inc., Illumina, Inc., and Tercica, Inc., public biotechnology companies, and SGX Pharmaceuticals, Inc. and Cytellect, Inc., privately-held biotechnology companies. She previously served as a director of Molecular Probes, Inc. and Salmedix, Inc., privately-held biotechnology companies, until the sale of the companies to Invitrogen, Inc. and Cephalon, Inc., respectively. Ms. Eastham also serves on the Board of UCSD Athena, a program fostering personal and professional growth for executive women in San Diego's technology companies. Ms. Eastham received a B.S. and an M.B.A. from Indiana University and is a Certified Public Accountant and a Certified Director.

Nicole DeBerg, Vice President, Chief Financial Officer, and Treasurer. Ms. DeBerg joined the Burnham Institute for Medical Research in November 2004 as Vice President of Finance and Chief Financial Officer. Ms. DeBerg also serves as Treasurer of the Institute. Ms. DeBerg has over 14 years' experience in financial management. She previously served as Controller and Director of Finance and Administration at Kalypsys, Inc., a biotechnology company focused on discovery and clinical development of new medicines for cancer, inflammation and metabolic disease. Her previous positions included Chief Financial Officer at MicroIslet, Inc., Chief Financial Officer at Amdax, Inc., Controller/Chief Financial Officer at Bio-Hydration Research Lab, Inc. and Finance Manager at Depotech Corporation. Ms. DeBerg earned her CPA credentials at Deloitte and Touche, LLP, where her client base included hospitals, governmental agencies and nonprofit entities. Ms. DeBerg is a graduate of San Diego State University, where she graduated Summa Cum Laude. She received the Elijah Watts Sells Award for outstanding achievement (top 1%) on the CPA exam. Ms. DeBerg is actively involved in raising funds for charitable organizations in San Diego and is currently on the Board of Trustees and serves as Treasurer for Girls Inc of San Diego. She is a member of the CFO Steering Committee of UCSD Athena.

FINANCIAL INFORMATION

Grants

Grants research funding of approximately \$66.8 million for the fiscal year ended June 30, 2005, represented 93% of total unrestricted revenue, and 82% of such grants revenue was provided through awards from the NIH, other federal government agencies and the State of California.

The remaining funds come from philanthropy and technology transfer. While federal dollars provide the bulk of funding for research projects, financial support for facilities, equipment, and start-up funds for new scientists is very limited at the NIH.

Faculty scientists write their own grants, bringing in the money that pays their salaries, that of their staff, and all related research expenses; the Institute limits its role in funding direct research expenses primarily to establishing new scientists when they first start a lab at the Institute. Scientists' salaries, the size of their staff, and the amount of lab space they are assigned all fluctuate in accordance with their success or failure in the competition for funding.

In addition to grants awarded individually to scientists, the Institute has a notable track record in securing institutional grants that fund collaborative research. Currently, Institute faculty direct seven program project grants awarded from the NIH that support a minimum of three complementary projects that focus on a specific biomedical challenge.

Institute scientists also participate in research projects involving the global scientific community. For example, two Institute faculty members provide the structural biology expertise for a \$34 million

grant from the NIH that mobilizes researchers from all over the world to study cell motility. Another Institute scientist directs the bioinformatics component for a collaboration funded by NIH to develop analytical tools and provide training to graduate students to interpret data from the human genome project.

The outstanding quality of the scientific staff and faculty has resulted in obtaining additional collaborative multidisciplinary style research grants. With the addition of these grants, the Institute has the distinction of currently being:

- One of ten national centers for chemical genomics
- One of eight national centers for cancer drug discovery
- One of eight basic-science Cancer Centers in the nation
- One of six programs of cancer molecular signatures
- One of three national proteomics centers
- One of four collaborative centers for structural genomics
- One of four national bio-nanotechnology programs of excellence for vascular disease
- One of four programs funded to establish a bioinformatics grid for cancer researchers
- One of six national stem cell research centers
- One of five national stem cell training centers
- One of fifteen national programs for bioterrorism countermeasures

Research Programs incur costs which are directly charged to Programs and costs that are indirectly accumulated and applied to the research activities.

Although budget authorizations have been funded in past years, budget authorizations are subject to annual Congressional appropriations and payment, and no assurance can be given that such appropriations or payments will be made in the future or that the various forms of federal grant, contract or aid programs will be continued at current levels. A significant reduction of such programs could have a material adverse effect on the Institute.

The Institute's research Programs incur costs in two different categories:

1) *Direct costs* are directly charged to a research project and include wages of scientists and technicians, supplies and grant-specific equipment; and

2) *Indirect costs* are incurred for purposes common to some or all of the research Programs and include interest on long-term debt, depreciation, utilities, occupancy and facility costs, general management, scientific support and administrative services such as accounting, purchasing, human resources and library.

To compete for the limited number of grant dollars available from the NIH, Institute scientists submit grant applications which are reviewed and rated through the NIH peer review process. An initial

review of a grant application is made by an NIH Initial Review Group ("IRG"). Generally, a review group is composed of non-federally employed scientists who are selected on the basis of their recognized competence in their respective research fields. The initial review results in the determination of a priority score for the application and recommendation for approval or disapproval for support.

A second level of review is conducted by an advisory council composed of scientists and other members of the public. Taking into account the recommendations of the IRG, the degree of relevance of the proposed research and other policy matters, the advisory council concurs with or modifies the recommendation of the IRG. A final priority score is assigned based on the recommendations of the two review groups and each applicant is assigned a percentile ranking in relation to all other approved applications. NIH officials make the final award decision based on the percentile ranking. Because the number of applications recommended for approval always exceeds the funds available, a cut-off point is established to determine the priority score necessary for a project to obtain funding. While the awards are generally for an average period of four years and provide for a budget to cover direct and indirect costs, two Institute senior scientists are recipients of NIH Merit Awards that provide funding for a period of seven years.

The federal government, through the Office of Management and Budget ("OMB"), has defined (OMB Circular A-122) regulations governing indirect cost reimbursement to research organizations. These regulations apply to all federal granting agencies. The Institute's indirect costs are reimbursed by multiplying a percentage, the "Indirect Cost Reimbursement Rate" (allowable indirect costs divided by direct costs), by the direct cost of a grant. The Institute calculates and negotiates, prospectively, a provisional Indirect Cost Reimbursement Rate on an annual basis with the U.S. Department of Health and Human Services. The indirect costs that are received with respect to any individual federal grant are determined by applying the negotiated Indirect Cost Reimbursement Rate to that grant's awarded direct costs. While the cost principles are intended to provide for a fair sharing and allocation of indirect costs amongst direct cost activities, such as research and fundraising, certain costs are not reimbursable.

Indirect costs reimbursement from non-federal grants varies from agency to agency. Some agencies, including several that are funded through the State of California, have indirect reimbursement regulations modeled after the federal rules. Other public agencies may have a fixed percentage of direct costs provided as indirect cost reimbursement.

A summary of grant revenue is provided in the following table:

**Summary of Grant Revenue
for the Fiscal Years ended June 30 (in thousands of dollars)**

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
NIH	\$30,342	\$33,650	\$40,179	\$45,826	\$54,915
Other Federal Agencies	2,403	3,967	5,787	5,231	6,132
Other	<u>5,886</u>	<u>6,048</u>	<u>5,022</u>	<u>6,595</u>	<u>5,799</u>
Total	<u>\$38,631</u>	<u>\$43,665</u>	<u>\$50,988</u>	<u>\$57,652</u>	<u>\$66,846</u>

Source: The Institute

Intellectual Property and Technology Transfer

The passage of Public Law 96-517, the Bayh-Dole Act, in 1980, permitted the Institute and all NIH grantees to retain title to and manage the commercialization of intellectual property generated with NIH funding. Under federal law, the federal government has the right to take over the licensing effort with respect to a given invention in the event that the Institute is not diligent in its licensing efforts. To

date, the federal government has not exercised this right. While the Institute has been successful in its licensing efforts to date, there is no certainty that such efforts will be successful in the future.

Since the early 1980's, the Institute has entered into research funding agreements with for-profit pharmaceutical and biotechnology firms that have provided funding in exchange for technology licenses and/or options to license Institute technology on various terms and conditions. The agreements have provided an additional source of unrestricted funds and support for specific research projects and provided a vehicle to transfer the Institute's basic research findings into commercial products.

Under Institute policy, inventions made by any member of the Institute's professional staff arising out of his or her professional activities, and any invention made by other staff during the course of work at the Institute, are the property of the Institute. The Institute determines whether patent protection will be sought for any such invention and maintains a department for seeking such patent protection and licensing the rights to these inventions. Management believes that patent protection of its inventions is essential to induce biotechnology and pharmaceutical companies to expend the large sums required to further develop the inventions and obtain necessary regulatory approvals for commercially useful applications. Management further believes that the Institute should share the economic benefits of such commercially useful applications, should they occur, with the inventors of the technology. The Institute's policy allows for the sharing of proceeds from technology transfer agreements with the inventors individually and their laboratories.

As a result of the cutting edge world-class science carried out at the Institute by our faculty, the Institute has a significant patent portfolio of over 210 issued patents and 250 pending patent applications. The Institute currently has 24 active licensing agreements with a number of the leading biotechnology and pharmaceutical companies. These 24 agreements have produced approximately \$4.3 million in gross revenue for the Institute to-date. This revenue consists largely of upfront license fees, achievement of preclinical milestones, royalties on sales of products and the sale of equity positions in companies formed on the basis of Institute technology. The relatively modest total is due to the relatively young "life" of most of the underlying discoveries.

Investments

The following table summarizes the fair value of the Institute's investments at June 30 of each of the last five fiscal years.

Investments Summary as of June 30 (in thousands of dollars)

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Equity securities	\$ 5,206	\$ 4,881	\$ 5,322	\$ 6,812	\$ 7,730
U.S. Government securities	3,917	3,917	3,917	3,917	3,935
Mutual and managed fixed income funds	3,085	2,477	2,174	2,198	2,372
Short-term funds	<u>153</u>	<u>136</u>	<u>89</u>	<u>351</u>	<u>212</u>
Total investments	<u>\$12,361</u>	<u>\$11,411</u>	<u>\$11,502</u>	<u>\$13,278</u>	<u>\$14,249</u>

Source: The Institute

Investment Policy

The Institute has established a policy to govern funds designated by the Institute as "Investment Funds." The Investment Funds are composed of endowment funds and all unrestricted funds other than those funds reserved as working capital. The policy outlines a general portfolio strategy, sufficiently flexible to accommodate changes in the economy and securities markets. It establishes long-term return objectives as well as procedures for evaluating overall policy and performance.

Investment Objectives. The primary investment objective of the Investment Funds is to achieve a total rate of return, over rolling three year periods, which meets or exceeds the rate of return, over the same period, of certain commonly recognized market indices. The Investment Funds should experience risk, as measured by volatility and variability of return, commensurate with that of such market indices.

Distributions. Distributions of endowment earnings and unrestricted funds are determined as part of the annual Board-approved budget.

Asset Allocation. The Institute requires its investment manager to apply the asset allocation policies to reflect, and be consistent with, the investment objectives and risk tolerances expressed in the Investment Policy. The asset allocation as set forth below is designed to provide the highest probability of meeting or exceeding the return objectives at the lowest possible risk, based on historical data. This allocation is subject to annual review by the Institute. The Investment Funds may be invested in equities, fixed income, a limited amount of alternative investments and cash equivalents.

<u>Category</u>	<u>Allocation Range</u>
Equities	60% - 70%
Fixed Income	20% - 35%
Alternative Investments*	0% - 15%

* As of February 17, 2006, the Institute has no alternative investments.

Fundraising

The Institute maintains an active fund raising program designed to advance philanthropic support for the Institute. The current strategy incorporates a targeted approach directed at private foundations and high net worth individuals, along with an active planned giving program and public awareness for the Institute's work.

The Institute fundraises for three classes of gifts: Unrestricted, Temporarily Restricted and Permanently Restricted, as described below:

- Unrestricted gifts carry no legal restriction and can be used for any usual purpose of the Institute.
- Temporarily Restricted gifts carry a donor-imposed restriction as to the use and/or time lapse. When the conditions of the restriction are met through the use or time lapse, these gifts become unrestricted. As of June 30, 2005, the Institute has approximately \$5.3 million of such funds.

- Permanently Restricted gifts have a restriction imposed by the donor which may never be lifted. Typically, income from these gifts may be utilized for operations. As of June 30, 2005, the Institute has approximately \$4.2 million of such funds.

The following table summarizes these three types of contributions during the last five fiscal years:

Contributions Summary					
as of June 30 (in thousands of dollars)					
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Unrestricted	\$ 501	\$549	\$ 686	\$ 822	\$2,101
Temporarily restricted	868	324	689	442	781
Permanently restricted	<u>128</u>	<u>125</u>	<u>13</u>	<u>0</u>	<u>0</u>
Total contributions	<u>\$1,497</u>	<u>\$998</u>	<u>\$1,388</u>	<u>\$1,264</u>	<u>\$2,882</u>

Source: The Institute

A partial list of organizations that have supported the Institute appears below:

- ABC2 Foundation
- ALS Association
- Alzheimer's Association
- American Cancer Society
- American Foundation for AIDS Research
- American Heart Association
- American Parkinson's Disease Association
- Arthritis Foundation
- CAN Foundation
- Cancer Research Institute
- Prostate Cancer Foundation
- Christopher Reeve Foundation
- Del E. Webb Foundation
- Entertainment Industry Foundation
- Leukemia and Lymphoma Society
- Lymphoma Research Foundation
- March of Dimes
- Mitzutani Foundation
- Muscular Dystrophy Association
- National Foundation of Cancer Research
- National Institutes of Health
- Omentum Foundation
- PEW Scholars Program in the Biomedical Sciences
- Prostate Cancer Foundation
- RGK Foundation
- San Diego Parkinson's Disease Corporation
- Susan G. Komen Breast Cancer Research Foundation
- The G. Harold & Leila Y. Mathers Charitable Foundation

Source: The Institute

Summary of Revenues and Expenditures

The audited financial statements of the Institute for the years ended June 30, 2005 and 2004, are included in Appendix B. Appendix B should be read in its entirety. In addition, set forth below is information for the last five fiscal years with respect to the Statement of Activities of the Institute (in thousands of dollars) which is derived from the Institute's audited financial statements.

	2001	2002	2003	2004	2005
CHANGES IN UNRESTRICTED NET ASSETS:					
Revenues:					
Federal grants and contracts	\$32,745	\$37,617	\$45,966	\$51,057	\$61,047
Private and other government grants	5,886	6,048	5,022	6,595	5,799
Contributions	501	549	686	822	2,101
Investment return and other	328	762	1,394	2,632	2,185
Net assets released from restrictions	<u>345</u>	<u>(15)</u>	<u>264</u>	<u>455</u>	<u>496</u>
Total unrestricted revenues	<u>39,805</u>	<u>44,961</u>	<u>53,332</u>	<u>61,561</u>	<u>71,628</u>
Expenses:					
Research	37,144	40,702	47,326	52,898	61,184
General and administrative	4,343	5,500	6,705	8,337	8,976
Fundraising	<u>410</u>	<u>210</u>	<u>294</u>	<u>431</u>	<u>1,099</u>
Total expenses	<u>41,897</u>	<u>46,412</u>	<u>54,325</u>	<u>61,666</u>	<u>71,259</u>
Increase (decrease) in unrestricted net assets	(2,092)	(1,451)	(993)	(105)	369
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:					
Contributions	868	324	689	442	781
Recovery of (provision for) uncollectible pledge	0	0	(765)	120	240
Net assets released from restrictions	(345)	15	(264)	(455)	(496)
Transfer of net assets	<u>0</u>	<u>0</u>	<u>(170)</u>	<u>(170)</u>	<u>(170)</u>
Increase (decrease) in temporarily restricted net assets	<u>523</u>	<u>339</u>	<u>(510)</u>	<u>(63)</u>	<u>355</u>
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS:					
Contributions	128	125	13	0	0
Recovery of (provision for) uncollectible pledge	0	0	(2,179)	681	0
Transfer of net assets	<u>0</u>	<u>0</u>	<u>170</u>	<u>170</u>	<u>170</u>
Increase (decrease) in permanently restricted net assets	<u>128</u>	<u>125</u>	<u>(1,996)</u>	<u>851</u>	<u>170</u>
INCREASE (DECREASE) IN NET ASSETS	(1,441)	(987)	(3,499)	683	894
NET ASSETS AT BEGINNING OF YEAR	<u>34,649</u>	<u>33,208</u>	<u>32,221</u>	<u>28,722</u>	<u>29,405</u>
NET ASSETS AT END OF YEAR	<u>\$33,208</u>	<u>\$32,221</u>	<u>\$28,722</u>	<u>\$29,405</u>	<u>\$30,299</u>

Source: The Institute.

Debt Service Coverage

The following table summarizes the debt service coverage during the last five years:

	2001	2002	2003	2004	2005
Net cash provided by operating activity	\$2,787	\$9,293	\$4,507	\$2,849	\$4,546
Cash paid during year for interest	3,227	3,201	3,178	3,437	3,497
Cash available for debt service	6,014	12,494	7,685	6,286	8,043
Debt service	3,136	3,136	3,917	3,879	3,839
Debt service coverage ratio	1.92	3.98	1.96	1.62	2.09

Source: The Institute.

Management's Discussion and Analysis

As a nonprofit public benefit corporation, the Institute does not seek to maximize income, but instead, budgets its operations to generate a surplus sufficient to permit the Institute to meet its operating goals and to protect against unforeseen contingencies. The following highlights some of the key trends in the items comprising revenue and expenses:

Grant Revenue. Grant revenue has increased steadily every year from fiscal year 2001 to 2005, averaging 14% revenue growth per year. By contrast, the Institute's faculty has grown an average of 11% per year over this same period, demonstrating not only growth in the number of Principal Investigators, but also growth in the grant revenue base of the Principal Investigators. Management attributes the increase, which significantly outpaced inflation, to the success of the Institute in attracting and retaining researchers who are successful in obtaining funding from the NIH and other sources and the increase in securing large collaborative grants.

The Institute's grant funding is primarily from the NIH. The percentage of grant revenue from NIH has increased from 79% in fiscal year 2001 to 82% in fiscal year 2005 and as such has remained relatively stable. The Institute currently has grant funding awards from 14 of the 27 individual institutes and centers that comprise the NIH. For fiscal year 2006, the NIH budget was cut 0.1% to \$28.6 billion; this was the first budget cut since 1970. All but two institutes comprising the NIH have a smaller budget in 2006 than in 2005, with most institutes facing budget cuts of between 0.4 and 0.7 percent.

Grant revenue is recognized as grant expenditures are incurred. Grant revenue represents reimbursements for both the direct costs of research, such as salaries and laboratory supplies, as well as indirect costs, such as facility expenses, depreciation, interest, and other general and administrative costs. Certain costs, such as fundraising, are not subject to reimbursement. Overall, grant revenue reimbursed 94% of all expenses for the fiscal year ended 2005, up from 92% in fiscal year 2001.

Expenses. Expenses are broadly grouped as research, general and administrative, and fundraising. Research expense, as a percentage of total expenses, has slightly decreased from 89% in fiscal year 2001 to 86% in fiscal year 2005. This trend is due to the addition of a business development and institutional relations function as well as the expansion into a new leased building to add capacity and expansion of the administrative support base.

Contributions. As presented in the Contributions Summary table on page 21, contributions are classified as unrestricted, temporarily restricted and permanently restricted. The unpredictable timing of bequests and gifts can result in significant fluctuations in contribution revenue from year to year. The Institute has averaged \$1.6 million in contribution revenue per year over the last five years.

In fiscal year 2005, the Institute increased the amount of private contributions raised to \$2.88 million, which represents a 128% increase from the year before and a 79% increase from the most recent five-year average. The increase in private contributions came from various sources.

Other Revenue. Other revenue is composed of investment income, net proceeds from the transfer of intellectual property and miscellaneous revenue, such as consulting fees. This source of revenue has been trending up, increasing from \$328,000 in fiscal year 2001 to \$2.2 million in fiscal year 2005 with the majority of the increase being derived from investment income. This increase in investment income is a direct result of improved market returns as well as an increase in the amount of assets invested. Accounting rules governing nonprofit organizations require that investments held be adjusted to market value each reporting period, which can result in significant fluctuations in investment income from year to year.

Generation of proceeds from the transfer of intellectual property is described in the Intellectual Property and Technology Transfer discussion on pages 18-19. This source of revenue has averaged gross revenue of \$856,000 over the last five years netting an average income of \$541,000 for the same period. Revenue from Technology Transfer has been trending upward due to a combination of factors including license term revisions, activity, and technology mix, increasing from gross revenue of \$526,000 in fiscal year 2001 (net \$287,000, excluding amounts payable to others) to gross revenue of \$1,011,000 in fiscal year 2005 (net \$720,000, excluding amounts payable to others). Management anticipates that this source of revenue may increase in the future, due to the increase in the number of inventions recently licensed. Additionally, most inventions licensed have not yet completed the U.S. Food and Drug Administration's approval process, which must occur prior to the generation of royalty income for the Institute as a result of the sale and marketing of final products.

Debt Service Coverage. As presented in the Debt Service Coverage table on page 23, the Institute has generated cash flow available for debt service in excess of 162% of the debt service payments for the last five fiscal years. This positive cash flow position is primarily due to depreciation, a non-cash expense, which is subject to reimbursement from grants as part of the Institute's allowable indirect cost, and thus is a source of positive cash flow.

EMPLOYEES

As of June 30, 2005, the Institute had a total of over 700 employees, made up of 71 Principal Investigators (Faculty), 22 visiting scientists and volunteers, 49 graduate students, 222 postdoctoral associated/fellows, 226 other direct research support staff (laboratory assistants, research technicians and associates, etc.) and 117 in administration. Of the 566 employees directly involved in research, 334 hold a Ph.D. and/or M.D. degree. Management considers relations with employees to be satisfactory. No employees are represented by a collective bargaining agent.

INSURANCE

The Institute currently maintains commercial general liability insurance with a limit of \$1,000,000 for each occurrence and \$2,000,000 in the annual aggregate. Excess liability coverage is provided through an umbrella policy with a limit of \$14,000,000 for each occurrence and in the annual aggregate. The Institute also maintains property damage and boiler and machinery insurance for risks of direct physical loss excluding flood, earthquake, and any earth movement other than sinkhole collapse

to covered property in the amount of \$79,433,000 on buildings and \$38,284,000 on contents with a deductible of \$5,000. Other insurance includes business interruption, directors' and officers' liability, automobile, and employee dishonesty coverage. All such insurance is obtained from commercial carriers. The Institute may modify these coverages at any time.

PENSION PLAN AND OTHER BENEFITS

Pension Plan

On a voluntary basis, all full-time regular employees and trainees of the Institute may participate in a tax deferred annuity plan. After one year of continuous service, full-time regular employees (excluding trainees) or employees who have worked 1,000 or more hours in a 12-month period, are eligible to participate in the Institute's defined contribution retirement plan. The Institute's contribution to this plan for 2005 was \$1,358,000.

Other Benefits

The Institute provides a comprehensive benefit package for its regular full-time employees. These plans include medical, dental, vision, life, AD&D, LTD and several voluntary plans such as a short-term disability plan, and supplemental cancer and life insurance. In addition to the aforementioned benefits, all other full-time regular employees are eligible for the Institute's flexible benefit plan, as well as buying supplemental life insurance through payroll deductions.

LITIGATION

The Institute is from time to time, a party to certain legal actions in the ordinary course of business. In the opinion of management, liabilities, if any under these actions will not result in material charges against net assets.

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APPENDIX B

**AUDITED FINANCIAL STATEMENTS OF BURNHAM INSTITUTE FOR MEDICAL
RESEARCH (FORMERLY, THE BURNHAM INSTITUTE)
FOR FISCAL YEARS ENDED JUNE 30, 2005 AND 2004**

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The Burnham Institute

***Financial Statements as of and for the Years
Ended June 30, 2005 and 2004, Supplemental
Schedules for the Year Ended June 30,
2005, Reports on Compliance with Office of
Management and Budget Circular A-133,
and Independent Auditors' Report***

THE BURNHAM INSTITUTE

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2005 AND 2004:	
Balance Sheets	2
Statements of Activities	3
Statements of Cash Flows	4
Notes to Financial Statements	5-10
SUPPLEMENTAL SCHEDULES FOR THE YEAR ENDED JUNE 30, 2005:	11
Functional Expenses	12
Schedule of Expenditures of Federal Awards	13
Note to Schedule of Expenditures of Federal Awards	14
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED UPON THE AUDIT PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	15
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	16-17
SUMMARY OF AUDITORS' RESULTS	18-19

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
The Burnham Institute:

We have audited the accompanying balance sheets of The Burnham Institute (the "Institute") as of June 30, 2005 and 2004, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the management of the Institute. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Institute's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Institute as of June 30, 2005 and 2004, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were performed for the purpose of forming an opinion on the basic financial statements of the Institute, taken as a whole. The supplemental schedules listed in the table of contents, including the Schedule of Expenditures of Federal Awards, which is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are presented for the purpose of additional analysis and are not a required part of the basic financial statements. These schedules are the responsibility of the management of the Institute. Such information has been subjected to the auditing procedures applied in our audit of the basic 2005 financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic 2005 financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 7, 2005, on our consideration of the Institute's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Deloitte & Touche LLP

September 7, 2005

THE BURNHAM INSTITUTE

BALANCE SHEETS AS OF JUNE 30, 2005 AND 2004

ASSETS	2005	2004
Cash and cash equivalents	\$ 7,345,000	\$ 9,298,000
Restricted cash	5,216,000	
Short-term investments	6,112,000	5,311,000
Grants receivable and other, net of allowance of \$16,000 in 2005 and 2004, respectively	10,921,000	10,718,000
Pledges receivable, net of allowance of \$0 and \$500,000 in 2005 and 2004, respectively	5,087,000	4,795,000
Property—net	57,537,000	56,044,000
Long-term investments	<u>8,137,000</u>	<u>7,967,000</u>
TOTAL	<u>\$ 100,355,000</u>	<u>\$94,133,000</u>
 LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable and accrued expenses	\$ 9,289,000	\$ 7,864,000
Deferred revenue	2,813,000	4,226,000
Debt	<u>57,954,000</u>	<u>52,638,000</u>
Total liabilities	<u>70,056,000</u>	<u>64,728,000</u>
 NET ASSETS:		
Unrestricted	20,804,000	20,435,000
Temporarily restricted	5,275,000	4,920,000
Permanently restricted	<u>4,220,000</u>	<u>4,050,000</u>
Total net assets	<u>30,299,000</u>	<u>29,405,000</u>
TOTAL	<u>\$ 100,355,000</u>	<u>\$94,133,000</u>

See notes to financial statements.

THE BURNHAM INSTITUTE

STATEMENTS OF ACTIVITIES FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

	2005	2004
CHANGES IN UNRESTRICTED NET ASSETS:		
Revenues:		
Federal grants and contracts	\$ 61,047,000	\$ 51,057,000
Private and other government grants	5,799,000	6,595,000
Contributions	2,101,000	822,000
Investment return and other	2,185,000	2,632,000
Net assets released from restrictions	<u>496,000</u>	<u>455,000</u>
Total unrestricted revenues	<u>71,628,000</u>	<u>61,561,000</u>
Expenses:		
Research	61,184,000	52,898,000
General and administrative	8,976,000	8,337,000
Fund raising	<u>1,099,000</u>	<u>431,000</u>
Total expenses	<u>71,259,000</u>	<u>61,666,000</u>
Increase (decrease) in unrestricted net assets	<u>369,000</u>	<u>(105,000)</u>
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	781,000	442,000
Recovery of pledge	240,000	120,000
Net assets released from restrictions	(496,000)	(455,000)
Transfer of net assets	<u>(170,000)</u>	<u>(170,000)</u>
Increase (decrease) in temporarily restricted net assets	<u>355,000</u>	<u>(63,000)</u>
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS:		
Recovery of pledge		681,000
Transfer of net assets	<u>170,000</u>	<u>170,000</u>
Increase in permanently restricted net assets	<u>170,000</u>	<u>851,000</u>
INCREASE IN NET ASSETS	894,000	683,000
NET ASSETS—Beginning of year	<u>29,405,000</u>	<u>28,722,000</u>
NET ASSETS—End of year	<u>\$ 30,299,000</u>	<u>\$ 29,405,000</u>

See notes to financial statements.

THE BURNHAM INSTITUTE

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	\$ 894,000	\$ 683,000
Adjustments to reflect cash flows from operating activities:		
Depreciation and amortization	6,152,000	5,593,000
Contributions restricted for endowment	(170,000)	(170,000)
Gift of equipment	(714,000)	
Net realized and unrealized gains	(870,000)	(1,519,000)
Changes in assets and liabilities:		
Grants receivable and other	(466,000)	(2,991,000)
Pledges receivable	(292,000)	88,000
Accounts payable and accrued expenses	1,425,000	1,088,000
Deferred revenue	(1,413,000)	77,000
Net cash provided by operating activities	<u>4,546,000</u>	<u>2,849,000</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(19,026,000)	(16,675,000)
Proceeds from sales of investments	18,925,000	16,418,000
Increase in restricted cash	(6,300,000)	
Decrease in restricted cash	1,084,000	
Purchases of property, plant, and equipment	<u>(6,668,000)</u>	<u>(4,076,000)</u>
Net cash used in investing activities	<u>(11,985,000)</u>	<u>(4,333,000)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of debt	(1,690,000)	(1,346,000)
Proceeds from issuance of debt	7,006,000	3,002,000
Contributions restricted for endowment	<u>170,000</u>	<u>170,000</u>
Net cash provided by financing activities	<u>5,486,000</u>	<u>1,826,000</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(1,953,000)	342,000
CASH AND CASH EQUIVALENTS—Beginning of year	<u>9,298,000</u>	<u>8,956,000</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 7,345,000</u>	<u>\$ 9,298,000</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION—Cash paid during the year for interest		
	\$ 3,497,000	\$ 3,437,000
NON-CASH INVESTING AND FINANCING ACTIVITIES—Gift of equipment		
	\$ 714,000	

THE BURNHAM INSTITUTE

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

1. SIGNIFICANT ACCOUNTING POLICIES

General—The Burnham Institute (the “Institute”) conducts basic biomedical research funded primarily by grants from agencies of the U.S. Government. The Institute is a California not-for-profit public benefit corporation, exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code.

Funding—Grant applications are submitted to various federal and non-federal agencies. Those applications funded are typically awarded for a four-year period, with the amount awarded negotiated in advance. Grant revenue is recognized as unrestricted revenue when the research costs are incurred. Unspent grant funds received in advance of the related expenditure are reported as deferred revenue.

Contributions—Contributions are recorded as revenue at their present value when unconditionally pledged or when received, whichever is earlier. The discounted values of recorded pledges are accreted to their full values, using a risk-free interest rate, during the period beginning when the pledge is made until the time it is expected to be paid.

Contributions subject to donor-imposed restrictions for use in a future period or for a specific purpose are reported as either temporarily or permanently restricted, depending on the nature of the donor’s restriction. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted contributions.

The Institute reports gifts of equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Institute reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Cash and Cash Equivalents—Cash and cash equivalents are defined as cash on hand and in banks plus short-term investments with a maturity, at the date of purchase, of three months or less.

Restricted Cash—Restricted cash represents net proceeds from the 2005 lease line held in escrow for the purchase of equipment (Note 5).

Grants Receivable and Other—Included in grants receivable and other is \$515,000 and \$450,000 at June 30, 2005 and 2004, respectively, for loans to employees for housing relocation. These loans are secured by deeds of trust and incur interest at rates ranging from 0% to 5.5%.

Pledges Receivable—The Institute records pledges receivable, net of allowances for uncollectible amounts, when there is sufficient evidence in the form of verifiable documentation that an unconditional promise was made. The Institute discounts pledges that are expected to be collected after one year, using

the risk-free rate of return. The provision for uncollectible amounts, if any, is calculated based on specific identification of uncollectible accounts.

Investments—Investments are carried at fair value based on quoted market prices. Long-term investments include securities related to permanently restricted net assets and to the debt service reserve account of the Institute’s certificates of participation (Note 5). All other investments are reported as short-term.

Property and Depreciation—Purchased property is recorded at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the assets as follows:

	Years
Buildings and improvements	7–40
Furniture and equipment	3–5

Deferred Rent—The Institute entered into a new lease agreement during fiscal 2005. This has resulted in a deferred rent balance of \$1,123,000, due to a free rent period, which is included in accounts payable and accrued expenses in the accompanying 2005 balance sheet.

Use of Estimates—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications—Certain reclassifications have been made to prior year balances in order to conform to the current year presentation.

2. INVESTMENTS

Investments at fair value are summarized as follows:

	2005	2004
Equity securities:		
Mutual and managed funds	\$ 7,687,000	\$ 6,717,000
Individual securities	43,000	95,000
Fixed income securities:		
U.S. Government	3,935,000	3,917,000
Mutual and managed funds	2,372,000	2,198,000
Short-term funds	<u>212,000</u>	<u>351,000</u>
Investments, short- and long-term	<u>\$ 14,249,000</u>	<u>\$ 13,278,000</u>

Long-term investments with a fair value of \$4,018,000 and \$3,998,000 as of June 30, 2005 and 2004, respectively, are restricted for use as a debt service reserve supporting the Institute’s tax-exempt certificates of participation debt issue. Accrued interest of \$83,000 and \$82,000 at June 30, 2005 and 2004, respectively, is included in grants receivable and other.

Investment return, net of management fees of \$47,000 and \$39,000 in fiscal year 2005 and 2004 respectively, is included in investment return and other is comprised of the following:

	2005	2004
Interest and dividends	\$ 471,000	\$ 645,000
Management fees	(47,000)	(39,000)
Net realized and unrealized gains	<u>870,000</u>	<u>1,519,000</u>
 Total investment return	 <u>\$1,294,000</u>	 <u>\$2,125,000</u>

3. PLEDGES RECEIVABLE

Pledges receivable, net of discount to present value and allowance for uncollectible pledges, are due to be collected as follows:

	2005	2004
Gross amounts due in:		
Less than one year	\$ 775,000	\$ 936,000
One to five years	1,492,000	1,579,000
More than five years	<u>3,602,000</u>	<u>3,855,000</u>
	5,869,000	6,370,000
Less present value discount	(782,000)	(1,075,000)
Less allowance for uncollectible pledges	<u> </u>	<u>(500,000)</u>
 Total	 <u>\$5,087,000</u>	 <u>\$ 4,795,000</u>

The discount will be recognized as contribution income in future years as the discount is amortized using an effective yield over the duration of the pledges. Management estimates collectibility on a pledge-by-pledge basis. During fiscal 2003, the Institute established an allowance for uncollectible pledges totaling \$2,944,000 related to two pledges from prior years. The collectibility of the unpaid pledged amounts was uncertain due to information received subsequent to the deaths of the donors in the year ended June 30, 2003. During fiscal 2004, the Institute settled with the estate of one of these donors resulting in receipt by the Institute of \$801,000 after legal costs. During fiscal 2005, the Institute settled with the estate of the second donor resulting in the estate agreeing to pay the Institute three payments of \$80,000. The first payment was received in July 2005.

During fiscal 2005, the Institute also received two pledges which are conditional upon certain future events occurring. These conditional pledges, totaling \$150,000, will be recognized by the Institute when the conditions have been met.

Pledges receivable, net of present value discount, include \$3,430,000 and \$3,376,000 from trustees of the Institute at June 30, 2005 and 2004, respectively. The Institute received contributions from trustees of \$835,000 and \$187,000 for the years ended June 30, 2005 and 2004, respectively.

The Institute is named as the beneficiary in various revocable trusts and wills. The contribution revenue will be recognized when the agreements become irrevocable or when the assets are distributed to the Institute for its unconditional use, whichever occurs first.

4. PROPERTY

The carrying value and related accumulated depreciation of property are as follows:

	2005	2004
Land	\$ 5,167,000	\$ 5,167,000
Buildings and building improvements	60,118,000	59,673,000
Furniture and equipment	27,311,000	20,990,000
Construction in progress	<u>105,000</u>	<u>48,000</u>
Total	92,701,000	85,878,000
Less accumulated depreciation	<u>35,164,000</u>	<u>29,834,000</u>
Property—net	<u>\$ 57,537,000</u>	<u>\$ 56,044,000</u>

Depreciation expense was \$5,889,000 and \$5,334,000 for the years ended June 30, 2005 and 2004, respectively.

5. LONG-TERM DEBT

In 1999, the Institute borrowed \$51,500,000 through the issuance of tax-exempt serial and term certificates of participation sponsored by the County of San Diego. The certificates are collateralized by a pledge of revenues and include certain covenants, including restrictions on the issuance of parity debt. Principal is due in varying annual installments through 2029. Interest is payable on a semiannual basis at rates ranging from 5.15% to 6.25%. The principal balance outstanding on the bonds at June 30, 2005 and 2004 was \$49,100,000 and \$49,900,000, respectively.

Proceeds from the issuance of the certificates were used to repay all debt outstanding and to finance certain new capital improvements. The Institute incurred a penalty for the extinguishment of a loan. The penalty is expected to be recouped over a seven-year period. Included in grants receivable and other in the accompanying balance sheets are issue costs and net repayment penalties of \$746,000 and \$958,000 at June 30, 2005 and 2004, respectively, which are amortized over periods ranging from 7 to 30 years.

During 2004, the Institute obtained two loans from a commercial bank for \$2,001,000 and \$1,001,000 totaling \$3,002,000 to finance the purchase of scientific equipment. The loans are secured by certain equipment of the Institute. The loans are payable in monthly installments of \$46,722 and \$23,320 and bear interest at rates of 5.71% and 5.60%, respectively. Final payment is due in 2008. The outstanding balance of the loans at June 30, 2005 and 2004 was \$2,035,000 and \$2,738,000, respectively.

Included in debt was \$606,000 at June 30, 2005, representing a capital lease for equipment with a net book value of \$701,000 at June 30, 2005. Amortization of this equipment is included with depreciation expense for the year ended June 30, 2005 and was \$78,000. The agreement expires in September 2009. Future minimum lease payments under this capital lease are \$170,000 per year through fiscal 2009 and \$28,000 for fiscal 2010. Of this amount, \$102,000 represents interest payments. The present value of the minimum lease payments, \$606,000, is included in the table below.

During 2005, the Institute entered into an equipment financing arrangement through ABAG Finance Authority for Nonprofit Corporations totaling \$6,300,000 (the "lease line") for the purchase of equipment during 2005 and 2006. Principal and interest payments of \$117,000 are due monthly. The lease line bears interest at 4.22% and matures in 2010. Available funds related to the lease line of

\$5,216,000 at June 30, 2005 are held in escrow and are reported as restricted cash. At June 30, 2005, included in accounts payable and accrued expenses are \$758,000 of equipment purchases that will be reimbursed from this lease line. The outstanding lease line balance at June 30, 2005 was \$6,213,000.

Total interest expense incurred for the years ended June 30, 2005 and 2004 is \$3,508,000 and \$3,415,000, respectively.

Scheduled principal repayments on long-term debt are as follows:

Year Ending June 30	
2006	\$ 2,935,000
2007	3,038,000
2008	2,916,000
2009	2,479,000
2010	2,386,000
Thereafter	<u>44,200,000</u>
Total	<u>\$57,954,000</u>

6. NET ASSETS

Substantially all temporarily restricted net assets are restricted for use in future periods, generally for research purposes.

Permanently restricted net assets are restricted to investment in perpetuity, the income from which is expendable to support research.

7. COMMITMENTS

Operating Leases—The Institute has entered into operating leases for equipment and facilities space. The lease agreements expire on various dates through June 2010. Future minimum payments due under the noncancelable operating leases with remaining terms in excess of one year as of June 30, 2005 are as follows:

Fiscal Year Ending June 30,	
2006	\$ 1,720,000
2007	2,823,000
2008	2,772,000
2009	2,806,000
2010	<u>2,890,000</u>
Total	<u>\$13,011,000</u>

Rent expense totaled \$1,734,000 and \$497,000 for the years ended June 30, 2005 and 2004, respectively.

The Institute leases space under operating leases to unrelated parties. Rental income under the leases was \$112,000 and \$71,000 for the years ended June 30, 2005 and 2004, respectively, and is included in investment return and other. The leases expire on various dates through April 2008. Total minimum lease payments to be received are \$611,000.

Pension Plan—The Institute has a defined contribution pension plan. For eligible employees, the Institute matches an employee's contribution after two years of continuous service to a maximum of 10% of the employee's annual salary if the employee's contributions are at least 5% of annual salary. The Institute's contributions expense related to this plan for fiscal 2005 and 2004 was \$1,358,000 and \$1,008,000, respectively.

Deferred Compensation Plan—The Institute established a deferred compensation plan in February 2003. Eligible employees may elect salary deferrals to be made to the plan up to the maximum amount permitted by law. The Institute may make elective contributions and/or matching contributions at the sole discretion of the Board. No elective contributions were made in 2005 and 2004. Plan assets, and the related liabilities to participants, are included in the accompanying balance sheets and totaled \$217,000 and \$111,000 at June 30, 2005 and 2004, respectively.

Legal—The Institute is, from time to time, a party to certain legal actions arising in the ordinary course of business. In the opinion of management, liabilities, if any, under these actions will not result in material charges against net assets.

Guarantees and Indemnities—From time to time, the Institute enters into certain types of contracts that contingently require the Institute to indemnify parties against third party claims. These contracts primarily relate to; (i) certain technology transfer/license agreements under which the Institute may be required to indemnify licensees, (ii) certain real estate leases, under which the Institute may be required to indemnify property owners for environmental or other liabilities and other claims arising from the Institute's use of the premises, and (iii) certain agreements with the Institute's officers, directors and employees, under which the Institute may be required to indemnify such persons for liabilities arising out of their employment relationship.

The terms of such obligations vary by contract and, in most instances, a specific or maximum dollar amount is not explicitly stated therein. Generally, amounts under these contracts cannot be reasonably estimated until a specific claim is asserted. Consequently, no liabilities have been recorded for these obligations on the Institute's balance sheets for any of the periods presented.

8. OTHER RELATED PARTY DISCLOSURES

During 2005, the Institute entered into a \$100,000 sponsored research agreement with a company at which an officer and trustee of the Institute served as a director. The term of this agreement is for a one year period, and it may be expanded in scope and extended by mutual written agreement of both parties. During fiscal 2005, the Institute received \$90,000 in connection with this agreement.

The Institute received \$945,000 during fiscal 2005 from a company at which another officer and trustee of the Institute serves as a director and has an ownership interest in the company.

* * * * *

**SUPPLEMENTAL SCHEDULES
FOR THE YEAR ENDED JUNE 30, 2005,
AND REPORTS IN COMPLIANCE WITH
OFFICE OF MANAGEMENT AND BUDGET CIRCULAR A-133**

THE BURNHAM INSTITUTE

SUPPLEMENTAL SCHEDULE OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED JUNE 30, 2005

	Research	General and Administrative	Fund Raising	Total Expenses
Salaries and wages	\$ 26,603,000	\$ 3,989,000	\$ 476,000	\$ 31,068,000
Research supplies and services	7,760,000			7,760,000
Fringe benefits	5,647,000	879,000	100,000	6,626,000
Depreciation	5,160,000	707,000	22,000	5,889,000
Occupancy	4,609,000	679,000	22,000	5,310,000
Interest	3,074,000	421,000	13,000	3,508,000
Equipment rental and maintenance	2,598,000	178,000	4,000	2,780,000
Consortium	2,647,000			2,647,000
Professional fees and services	378,000	1,233,000	182,000	1,793,000
Other supplies	627,000	265,000	80,000	972,000
Printing and publications	678,000	118,000	18,000	814,000
Conferences and meetings	597,000	128,000	12,000	737,000
Travel	499,000	84,000	29,000	612,000
Miscellaneous	32,000	257,000	127,000	416,000
Recruitment and relocation	166,000	24,000	10,000	200,000
Postage and shipping	109,000	14,000	4,000	127,000
	<u>\$ 61,184,000</u>	<u>\$ 8,976,000</u>	<u>\$ 1,099,000</u>	<u>\$ 71,259,000</u>

THE BURNHAM INSTITUTE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2005

Program Title/ Federal Grantor/ Pass-Through Grantor	CFDA Number	Pass-Through Grant or Contract Number	Expenditures
RESEARCH AND DEVELOPMENT			
<u>U.S. Department of Health and Human Services</u>			
National Institutes of Health			
Direct Program (\$1,944,944 was passed on to other organizations)	93.RD		\$ 50,000,529
Passed Through Other Organizations:			
Children's Hospital of Orange County	93.RD	T15 HL074286	82,903
Frontier Science & Technology	93.RD	U01 CA21115	401
Molsoft, LLC.	93.RD	R41 CA101295	49,419
Ohio State University	93.RD	R01 CA83745	(7,602)
Texas A & M Research Foundation	93.RD	R01 A106582	145,377
The Scripps Research Institute	93.RD	N01 GAI40058	271,233
The Scripps Research Institute	93.RD	R01 GM073949	2,093
University of Arizona	93.RD	U01 CA52995	207,713
University of California, San Diego	93.RD	P01 CA81534	142,999
University of California, San Diego	93.RD	P01 GM63208	300,873
University of California, San Diego	93.RD	R01 DK68754	17,859
University of California, San Diego	93.RD	R01 EY005990	808
University of Massachusetts	93.RD	R21 HD44095	26,768
University of Michigan	93.RD	P01 AG015434	642,513
University of Texas MD Anderson	93.RD	P01 CA55164	254,991
University of Virginia	93.RD	U54 GM64346	1,176,452
Washington University	93.RD	R01 CA101012	197,133
Wayne State University	93.RD	R01 CA109370	157,524
Yale University	93.RD	R01 NS40822	227,998
Yale University	93.RD	P01 GM66311	<u>1,016,890</u>
			<u>54,914,874</u>
Contracts:			
Direct Program	93.RD		887,746
Passed Through Other Organizations:			
Washington University	93.RD	NO1-CO-37007	<u>354,713</u>
			<u>1,242,459</u>
Total U.S. Department of Health and Human Services			<u>56,157,333</u>
<u>U.S. Department of Defense</u>			
U.S. Army Medical Research Acquisition Activity Direct Program	12.RD		4,484,657
Passed Through Other Organizations:			
Wayne State University	12.RD	DAMD17-02-0693	<u>239,865</u>
Total U.S. Department of Defense			<u>4,724,522</u>
<u>National Science Foundation</u>			
Direct Program	47.RD		<u>165,437</u>
TOTAL FEDERAL AWARDS EXPENDED			<u>\$ 61,047,292</u>

See accompanying note to Schedule of Expenditures of Federal Awards.

THE BURNHAM INSTITUTE

NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting—The accompanying Schedule of Expenditures of Federal Awards has been prepared from the Institute's accounting records and is presented on the accrual basis of accounting.

The information in this schedule is presented in accordance with U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of, the Institute's financial statements. Additionally, the Schedule of Expenditures of Federal Awards presents only a selected portion of the activities of the Institute, it is not intended to and does not present either the financial position or changes in net assets of the Institute.

Cost Adjustments—The net credit to the expenditures to date on a particular grant is as a result of over-reported expenditures in prior reporting periods, which were reallocated to other unrestricted funds. These are accounting adjustments only and in no case was the grantee agency billed in excess of the amount awarded.

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED UPON THE AUDIT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Trustees of
The Burnham Institute:

We have audited the financial statements of The Burnham Institute (the "Institute") as of and for the year ended June 30, 2005, and have issued our report thereon dated September 7, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Institute's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Institute's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Institute in a separate letter dated September 7, 2005.

This report is intended solely for the information and use of the board of trustees, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

September 7, 2005

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Trustees of
The Burnham Institute:

Compliance

We have audited the compliance of The Burnham Institute (the "Institute") with the types of compliance requirements described in the *U.S. Office of Management and Budget ("OMB") Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2005. The Institute's major federal program is identified in the accompanying Summary of Auditors' Results. Compliance with the requirements of laws, regulations, contracts, and grant agreements applicable to its major federal program is the responsibility of the Institute's management. Our responsibility is to express an opinion on the Institute's compliance based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the major federal program has occurred. An audit includes examining, on a test basis, evidence about the Institute's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provided a reasonable basis for our opinion. Our audit does not provide a legal determination on the Institute's compliance with those requirements.

In our opinion, the Institute complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2005.

Internal Control over Compliance

The management of the Institute is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grant agreements applicable to its federal program. In planning and performing our audit, we considered the Institute's internal control over compliance with requirements that could have a direct and material effect on its major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the Institute's internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grant agreements that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the board of trustees, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

September 7, 2005

THE BURNHAM INSTITUTE

SUMMARY OF AUDITORS' RESULTS FOR THE YEAR ENDED JUNE 30, 2005

I. SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified opinion

Internal control over financial reporting:

Material weakness(es) identified? No

Reportable condition(s) identified not considered to be material weakness(es)? N/A

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major program:

Material weakness(es) identified? No

Reportable condition(s) identified not considered to be material weakness(es)? N/A

Type of auditors' report issued on compliance for the major program: Unqualified opinion

Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (section .510(a))? No

Major program: Research and development

Dollar threshold used to distinguish Type A and Type B programs: \$300,000

Auditee qualified as a low-risk auditee? No

II. FINANCIAL STATEMENT FINDINGS

The audit disclosed no findings that are required to be reported.

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

The audit disclosed no federal award findings and no questioned costs.

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APPENDIX C

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

The following is a summary of certain provisions of the Purchase Agreement, the Sale Agreement and the Trust Agreement, which are not described elsewhere in this Official Statement. These summaries do not purport to be comprehensive and reference should be made to the Purchase Agreement, the Sale Agreement and the Trust Agreement for a full and complete statement of their provisions. All capitalized terms not defined in this Official Statement have the meanings set forth in the Sale Agreement.

DEFINITIONS OF CERTAIN TERMS

“Accountant” means any independent public accountant or firm of such accountants of national reputation selected by the Institute.

“Administrative Fees and Expenses” means any application, commitment, financing or similar fee charged, or reimbursement for administrative or other expenses incurred, by the County or the Trustee, including Supplemental Payments.

“Aggregate Annual Debt Service” means Annual Debt Service on the applicable Indebtedness for the twelve-month period ending on June 30.

“Annual Debt Service” means, when used with respect to Indebtedness, as of any date of calculation and with respect to any period the sum of (i) the interest payable on all such Indebtedness during such period (except to the extent that such interest is payable from the proceeds of such Indebtedness set aside for such purpose), and (ii) the principal (or mandatory sinking fund or redemption fund or installment purchase price or lease rental or similar payment or deposit) payments on such Indebtedness required in such period, computed on the assumption that no portion of such Indebtedness shall cease to be outstanding in such period except by reason of the application of such scheduled payments; provided, however, that for purposes of such computation if Indebtedness is secured by an irrevocable letter of credit issued by a bank having a combined capital and surplus of at least \$100,000,000, principal payments or deposits with respect to such Indebtedness nominally due in the last Fiscal Year in which such Indebtedness matures may, at the option of the Institute, be treated as if they were due as specified in any loan agreement or reimbursement agreement issued in connection with such letter of credit or pursuant to the repayment provisions of such letter of credit and interest on such Indebtedness after such Fiscal Year shall be assumed to be payable pursuant to the terms of such loan agreement or reimbursement agreement or repayment provisions; and provided, further, that if interest on Indebtedness is payable pursuant to a variable interest rate formula, the interest rate on such Indebtedness for periods when the actual interest rate cannot be yet determined shall be assumed to be equal to the greater of (a) the current interest rate calculated pursuant to the provisions of such agreement or, (b) if available, the weekly average interest rate on such Indebtedness during the preceding thirty-six (36) months preceding the date of calculation or, (c) if such Indebtedness has not been outstanding for such 36-month period, such weekly average interest rate on comparable debt (as determined by the Institute), as set forth in a certificate filed with the Trustee.

“Authorized Representative” means, (1) with respect to the County, the Chief Financial Officer of the County, the Capital Finance Manager of the County, the Clerk of the Board of Supervisors of the County, any Member of the Board of Supervisors of the County, or any other person designated as an Authorized Representative of the County by a Statement of the County signed by said Chief Financial Officer, said Capital Finance Manager, said Clerk or any such Member and filed with the Trustee, and (2) with respect to the Institute, the Chairman or Vice-Chairman of its Board, its President, Chief Administrative Officer, Chief Financial Officer and Treasurer or Secretary, or any other person designated as an Authorized Representative of the Institute by a Statement of the Institute signed by the Chairman or Vice-Chairman of its Board, its

President, Chief Administrative Officer or Chief Financial Officer and Treasurer or Secretary, and filed with the Trustee.

“Board” means the Board of Directors of the Institute.

“Bond Counsel” means counsel of recognized national standing in the field of obligations the interest on which is excluded from gross income for federal income tax purposes, selected by the Institute and not objected to by the Trustee.

“Business Day” means a day of the year on which banks located in New York, New York, and Los Angeles, California, are not required or authorized to be closed and on which the federal reserve system is open.

“Certificate Payment Date” means, with respect to a Certificate, the date on which principal evidenced and represented by such Certificate becomes due and payable.

“Certificate Year” means the period of twelve consecutive months ending on September 1 of any year in which Certificates are Outstanding.

“Certificates” means the certificates of participation evidencing proportionate interests of the Holders thereof in Installment Payments to be made by the County pursuant to the Purchase Agreement.

“Closing Date” means March 8, 2006.

“Code” means the Internal Revenue Code of 1986 and the regulations issued thereunder, or any successor to the Internal Revenue Code of 1986. Reference to any particular Code section shall, in the event of such a successor Code, be deemed to be reference to the successor to such Code section.

“Continuing Disclosure Agreement” means that certain continuing disclosure agreement, between the Institute and the Trustee in its capacity as Dissemination Agent, dated as of February 1, 2006, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

“Corporate Trust Office” or “corporate trust office” means the principal corporate trust office of the Trustee at 633 W. 5th Street, 24th Floor, Los Angeles, CA 90071, Attention: Corporate Trust Department, or such other or additional offices as may be designated by the Trustee.

“Costs of Delivery” means all items of expense directly or indirectly payable by or reimbursable to the County or the Institute and related to the authorization, execution, sale and delivery of the Certificates, including but not limited to advertising and printing costs, costs of preparation and reproduction of documents, filing and recording fees, documentary transfer tax, premiums for title insurance, if any, initial fees and charges of the Trustee and its counsel, legal fees and charges, fees and disbursements of consultants and professionals, rating agency fees, initial Administrative Fees and Expenses, fees and charges for preparation, execution, transportation and safekeeping of Certificates, and any other cost, charge or fee in connection with the original delivery of Certificates.

“Costs of Delivery Fund” means the fund so designated and established pursuant to the Trust Agreement.

“County” means the County of San Diego.

“Depository” means The Depository Trust Company and its successors and assigns, or any other depository selected as set forth in the Trust Agreement, which agrees to follow the procedures required to be followed by such depository in connection with the Certificates.

“Escrow Agreement” means that certain escrow agreement, dated as of February 1, 2006, among the County, the Institute and the Escrow Bank, as originally executed and as it may from time to time be supplemented, modified or amended in accordance with the terms thereof.

“Escrow Bank” means U.S. Bank National Association, a national banking association organized and existing under the laws of United States of America, or its successor, as Escrow Bank under the Escrow Agreement.

“Event of Default” means any of the events specified in the Trust Agreement.

“Facilities” means (i) the Real Property; (ii) all buildings, structures, fixtures and improvements to the Real Property; and (iii) all personal property owned by the Institute and used in, around or about the Real Property, whether now existing or hereafter constructed, installed or acquired; provided, however, that any property of any nature that is financed under a separate financing arrangement with respect to Subordinate Debt or Non-recourse Debt shall not be part of the Facilities.

“Federal Securities” means (i) direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States of America and including certificates or other instruments evidencing ownership interests in direct obligations of the United States of America such as Treasury Receipts), (ii) obligations the timely payment of the principal of and interest on which are fully guaranteed by the United States of America and (iii) pre-refunded municipal obligations meeting the following conditions: (A) such obligations are not to be callable prior to maturity or the trustee has been given irrevocable instructions concerning their calling and redemption; (B) such obligations are secured by cash or Federal Securities described in clause (i) above which may be applied only to interest, principal, and premium payments of such obligations; (C) the principal of and interest on such Federal Securities (plus any cash in the fund) are sufficient to meet the liabilities of such obligations; (D) such Federal Securities serving as security for such obligations are held by an escrow agent or trustee; (E) such Federal Securities are not available to satisfy any other claims, including those against the trustee or escrow agent; and (F) the trust or escrow instructions for which cannot be amended to provide for redemption of such Federal Securities prior to the date set forth in the trust or escrow agreement governing such deposit.

“Fiscal Year” means the period beginning on July 1 of each year and ending on the next succeeding June 30, or any other twelve month period hereafter selected and designated as the official fiscal year period of the Institute.

“Fitch” means Fitch Ratings, a corporation organized and existing under the laws of the State of New York, its successors and their assigns, or, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, any other nationally recognized securities rating agency designated by the Institute by notice to the County and the Trustee.

“Gross Revenues” means all moneys, fees, rates, receipts, rentals, charges, issues and income received for, received by or derived from, the Institute, the operation of the Institute or the Facilities or any other source whatsoever, including without limitation gifts, bequests, grants, devises, contributions, moneys received from the operation of the Institute’s business or the possession of its properties, indirect cost recovery payments under research grant agreements, insurance proceeds or condemnation awards, and all rights to receive the same, whether in the form of accounts, accounts receivable, contract rights or other rights, and the proceeds of the same whether now owned or held or hereafter coming into being. Notwithstanding anything therein to the contrary, Gross Revenues shall not include (i) gifts, grants, devises, bequests and contributions designated by the maker thereof to a specific purpose inconsistent with their use for the payment of principal of, premium, if any, and interest on Indebtedness or for the payment of operating expenses; (ii) any revenue, moneys or income (including, without limitation, royalty or license income) for

which the Institute has a contractual obligation to pay to any other Person; or (iii) any proceeds of insurance (other than business interruption insurance), sale proceeds or condemnation awards attributable to any property of any kind that is subject to or financed under a separate financing arrangement with respect to Subordinate Debt or Non-recourse Debt.

“Gross Revenue Fund” means the fund by that name established pursuant to the Sale Agreement.

“Guaranty” means all loan commitments and all obligations of the Institute guaranteeing in any manner whatsoever, whether directly or indirectly, any obligation of any other Person which would, if such other Person were the Institute, constitute Indebtedness.

“Holder” or “Certificateholder,” whenever used in the Sale Agreement with respect to a registered Certificate, means the person in whose name such Certificate is registered.

“Indebtedness” means any Guaranty and any indebtedness or obligation of the Institute for borrowed money or the deferred purchase price for property, as determined in accordance with generally accepted accounting principles, including without limitation obligations under conditional sales contracts or other title retention contracts, and rental obligations under leases which are considered capital leases under generally accepted accounting principles.

“Information Services” means Financial Information, Inc.’s “Daily Called Bond Service,” 30 Montgomery Street, 10th Floor, Jersey City, New Jersey 07302, Attention: Editor; Kenny Information Services “Called Bond Service,” 65 Broadway, 16th Floor, New York, New York 10006; Moody’s “Municipal and Government,” 5250 77 Center Drive, Suite 150, Charlotte, North Carolina 28217, Attention: Called Bonds Department; and S&P’s “Called Bond Record,” 25 Broadway, 3rd Floor, New York, New York 10004; or to such other addresses and/or such other services providing information with respect to called bonds as the County may designate.

“Installment Payments” means all of the payments so designated and required to be made by the County pursuant to the Purchase Agreement.

“Institute” means the Burnham Institute for Medical Research, a nonprofit public benefit corporation duly organized and existing under the laws of the State, or any corporation which is the surviving, resulting or transferee corporation in any merger, consolidation or transfer of assets permitted under the Sale Agreement.

“Insurance and Condemnation Proceeds Fund” means the fund by that name established pursuant to the Trust Agreement.

“Insurance Consultant” means a person or firm (which may be an insurance broker or agent of the Institute) who is not, and no member, director, officer or employee of which is, an officer or employee of the Institute, selected by the Institute, and qualified to survey risks and to recommend insurance coverage for research facilities and organizations engaged in such operations.

“Interest Account” means the account by that name in the Revenue Fund established pursuant to the Trust Agreement.

“Interest Payment Date” means March 1 and September 1 in each year commencing September 1, 2006.

“Investment Securities” means the following:

- (a) Federal Securities;

(b) obligations, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following: Banks for Cooperatives, Federal Intermediate Credit Banks, Federal Home Loan Bank System, Export-Import Bank of the United States, Federal Financing Bank, Federal Land Banks, Federal Farm Credits, Government National Mortgage Association, Farmer's Home Administration, Federal Home Loan Mortgage Institute or Federal Housing Administration;

(c) interest-bearing demand or time deposits (including certificates of deposit) or deposit accounts either (i) in national, State of California banks (including the Trustee or its affiliates) or United States agencies or branches of foreign banks, the obligations of which or the obligations of the holding company of which are rated equal to or better than the then existing rating of the Certificates by any Rating Agency, or (ii) which are fully insured by the Federal Deposit Insurance Corporation, or the Federal Savings and Loan Association;

(d) obligations issued by any corporation organized and operating within the United States of America having assets in excess of \$500,000,000, which obligations are rated equal to or better than the then existing rating of the Certificates by any Rating Agency;

(e) money market mutual funds which are rated equal to or better than the then existing rating of the Certificates by any Rating Agency, including funds for which the Trustee, its affiliates or subsidiaries provide investment, advisory or other management or administrative services;

(f) bills of exchange or time drafts drawn on and accepted by a commercial bank, otherwise known as bankers acceptances, which are eligible for purchase by the Federal Reserve System and the obligations of which commercial bank or the obligations of the holding company of which are rated equal to or better than the then existing rating of the Certificates by any Rating Agency;

(g) repurchase agreements with any bank, trust company or dealer in government bonds which reports to, trades with and is recognized as a primary dealer by, a Federal Reserve Bank the securities of which, or the securities of the holding company of which, are rated equal to or better than the then existing rating of the Certificates by any Rating Agency, fully secured by collateral security continuously having a market value at least equal to the amount so invested, pursuant to which such bank unconditionally agrees to repurchase the same on or before a specified date and for a specified amount;

(h) obligations described in section 103(a) of the Code which are rated equal to or better than the then existing rating of the Certificates by any Rating Agency;

(i) investment agreements, including guaranteed investment contracts ("GICS"), forward purchase agreement and reserve fund put agreements by a provider with the obligations of which are rated "A" or better by any Rating Agency; and

(j) taxable government money market portfolios restricted to obligations with maturities of one year or less, issued or guaranteed as to payment of principal and interest by the full faith and credit of the United States of America.

"Mandatory Sinking Account Payment" means, with respect to Certificates of any Certificate Payment Date, the amount required by the Trust Agreement to be applied by the Trustee for the retirement of Term Certificates of such Certificate Payment Date.

"Maximum Aggregate Annual Debt Service" means Aggregate Annual Debt Service with respect to the Sale Agreement and all Parity Debt then outstanding for the twelve month period ending on June 30 in which such Annual Debt Service is the largest.

“Moody’s” means Moody’s Investors Service, a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns, or, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, any other nationally recognized securities rating agency designated by the Institute by notice to the County and the Trustee.

“Net Cash Flow Available for Service” means the net cash provided by operating activities of the Institute determined in accordance with generally accepted accounting principles, to which shall be added interest expense, amortization and depreciation expense and other non-cash charges, each item determined in accordance with generally accepted accounting principles, and excluding (a) any profits or losses on the sale or disposition, not in the ordinary course of business, of investments or fixed or capital assets or resulting from the early extinguishment of debt, (b) gifts, grants, bequests, donations and contributions, to the extent specifically restricted by the donor to a particular purpose inconsistent with their use for the payment of debt service, (c) the net proceeds of insurance (other than business interruption insurance) and condemnation awards and (d) unrealized gains and losses on investments.

“Non-recourse Debt” means any Indebtedness secured by a lien, which is not a general obligation of the Institute and liability for which is effectively limited to the property subject to such lien with no recourse to, or lien upon, directly or indirectly, the Gross Revenues or any other property of the Institute.

“Opinion of Counsel” means a written opinion of counsel (who may be counsel for the County or the Institute, but not an employee of either) selected by the Institute and not objected to by the Trustee.

“Optional Prepayment Account” means the account by that name in the Prepayment Fund established pursuant to the Trust Agreement.

“Outstanding” when used as of any particular time with reference to Certificates, means (subject to the provisions of the Trust Agreement) all Certificates theretofore, or thereupon being, authenticated and delivered by the Trustee under the Trust Agreement except (1) Certificates theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation; (2) Certificates with respect to which all liability shall have been discharged in accordance with the Trust Agreement, including Certificates (or portions of Certificates) referred to in the Trust Agreement; and (3) Certificates for the transfer or exchange of or in lieu of or in substitution for which other Certificates shall have been authenticated and delivered by the Trustee pursuant to the Trust Agreement.

“Parity Debt” means Indebtedness which is incurred by the Institute and is secured equally and ratably with the Sale Agreement by a lien on and security interest in Gross Revenues which satisfies the following conditions:

- (a) The agreement under which the Parity Debt is issued shall require that:
 - (i) an Event of Default under the Sale Agreement shall constitute an event of default under such agreement;
 - (ii) rights and obligations of the holders of Parity Debt shall be substantially the same as the rights and obligations of the Holders under the Sale Agreement;
 - (iii) remedies upon an event of default shall be substantially the same as the remedies provided in the Trust Agreement and, prior to exercising any such remedies, the holders of such Parity Debt (or a trustee representing their interests) shall be required to cooperate with the Trustee to the end that the interests of such holders and the Holders shall be equally protected;

(iv) payments therefor shall be made on the same dates as are required for the payment of Purchase Payments; and

(b) The Institute shall furnish the Trustee with a copy of the proceedings relating to the incurrence of any Parity Debt immediately upon the incurrence thereof.

“Person” means an individual, corporation, firm, association, partnership, trust, or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

“Prepayment Fund” means the fund by that name established pursuant to the Trust Agreement.

“Prepayment Price” means, with respect to any Certificate (or portion thereof) the principal amount with respect to such Certificate (or portion), plus the applicable premium, if any, payable upon prepayment thereof pursuant to the provisions of such Certificate and the Trust Agreement.

“Prior Certificates” has the meaning assigned to such term in the preambles to the Sale Agreement.

“Prior Trust Agreement” has the meaning assigned to such term in the preambles to the Sale Agreement.

“Principal Account” means the account by that name in the Revenue Fund established pursuant to the Trust Agreement.

“Project” means financing and refinancing of the acquisition, construction, rehabilitation, remodeling and equipping of certain biomedical research and drug discovery facilities owned and/or operated by the Institute.

“Project Fund” means the fund so designated and established pursuant to the Trust Agreement.

“Purchase Agreement” means that certain installment purchase agreement, dated as of February 1, 2006, between the County and the Institute, as originally executed and as it may from time to time be supplemented, modified or amended in accordance with the terms thereof and of the Trust Agreement.

“Purchase Agreement Default” means any of the events specified in the Purchase Agreement.

“Purchase Payments” means the payments so designated and required to be made by the Institute pursuant to the Sale Agreement.

“Purchase Price” means with respect to any Certificate (or portion thereof) the principal amount with respect to such Certificate (or portion), plus the applicable premium, if any, payable upon purchase thereof pursuant to the provisions of such Certificate and the Trust Agreement.

“Rating Agency” means Fitch, if Fitch is then rating the Certificates, Moody’s, if Moody’s is then rating the Certificates and S&P, if S&P is then rating the Certificates.

“Real Property” means the real estate described in an exhibit to the Purchase Agreement and the Sale Agreement and all buildings and structures thereon and fixtures and improvements thereto.

“Rebate Fund” means the fund by that name established pursuant to the Trust Agreement.

“Record Date” means, with respect to any interest payment date, the fifteenth (15th) day of the calendar month preceding such interest payment date.

“Reserve Account” means the account by that name in the Revenue Fund established pursuant to the Trust Agreement.

“Reserve Account Requirement” means, as of any date of calculation, an amount which shall not exceed the least of (i) ten percent (10%) of the proceeds of the Certificates, (ii) maximum annual debt service with respect to the Certificates during each Certificate Year or (iii) one hundred twenty-five percent (125%) of average annual debt service with respect to the Certificates.

“Revenue Fund” means the fund by that name established pursuant to the Trust Agreement.

“Revenues” means all amounts received by the County or the Trustee for the account of the County under the Trust Agreement pursuant or with respect to the Sale Agreement, including, without limiting the generality of the foregoing, Installment Payments and Purchase Payments (including both timely and delinquent payments, any late charges, and regardless of source), prepayments, insurance proceeds, condemnation proceeds, and all interest, profits or other income derived from the investment of amounts in any fund or account established pursuant to the Trust Agreement, but not including any Administrative Fees and Expenses or amounts received or on deposit in the Rebate Fund.

“S&P” means Standard & Poor’s Ratings Services, a Division of The McGraw-Hill Companies, Inc., a corporation organized and existing under the laws of the State of New York, its successors and their assigns, or, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, any other nationally recognized securities rating agency designated by the Institute by notice to the County and the Trustee.

“Sale Agreement” or “Agreement” means the installment sale agreement, dated as of February 1, 2006, between the County and the Institute, as originally executed and as it may from time to time be supplemented, modified or amended in accordance with the terms thereof and of the Trust Agreement.

“Sale Agreement Default” means any of the events of default as specified in the Sale Agreement.

“Serial Certificates” means the Certificates falling due by their terms in specified years, for which no Mandatory Sinking Account Payments are provided.

“Securities Depositories” means: The Depository Trust Company, 55 Water Street, 50th floor, New York 10041-0099, Attention: Call Notification Department; or such other addresses and/or such other securities depositories as the County may designate.

“Sinking Accounts” means the subaccounts in the Principal Account so designated and established pursuant to the Trust Agreement.

“Special Prepayment Account” means the account by that name in the Prepayment Fund established pursuant to the Trust Agreement.

“Special Record Date” means the date established by the Trustee pursuant to the Trust Agreement as a record date for the payment of defaulted interest with respect to Certificates.

“State” means the State of California.

“Statement,” “Request,” “Requisition” and “Order” of the County or the Institute mean, respectively, a written statement, request, requisition or order signed in the name of the County or the Institute by an Authorized Representative of the County or the Institute, respectively.

“Subordinate Debt” means any Indebtedness issued or incurred by the Institute which is either: (a) payable from, but not secured by a pledge of or lien upon, the Gross Revenues; or (b) secured by a pledge of or lien upon the Gross Revenues which is subordinate to the pledge of and lien upon the Gross Revenues under the Sale Agreement for the security of the Sale Agreement and any Parity Debt.

“Supplemental Payments” means the payments so designated and required to be made by the Institute pursuant to the Sale Agreement.

“Supplemental Purchase Agreement” means any installment purchase agreement duly authorized and entered into between the County and the Institute, supplementing, modifying or amending the Purchase Agreement; but only if and to the extent that such Supplemental Purchase Agreement is specifically authorized under the Purchase Agreement and the Trust Agreement.

“Supplemental Sale Agreement” means any sale agreement duly authorized and entered into between the County and the Institute, supplementing, modifying or amending the Sale Agreement; but only if and to the extent that such Supplemental Sale Agreement is specifically authorized under the Sale Agreement and under the Trust Agreement.

“Supplemental Trust Agreement” means any trust agreement duly authorized and entered into among the County, the Institute, and the Trustee supplementing, modifying or amending the Trust Agreement; but only if and to the extent that such Supplemental Trust Agreement is specifically authorized under the Trust Agreement.

“Tax Agreement” or “Tax Certificate and Agreement” means that certain agreement dated as of the date of initial execution and delivery of the Purchase Agreement and the Certificates and executed by the County and the Institute, including any modifications or amendments.

“Term Certificates” means the Certificates payable at or before their specified Certificate Payment Date or Dates from Mandatory Sinking Payments established for that purpose and calculated to retire such Certificates before their specified Certificate Payment Date or Dates.

“Total Unrestricted Fund Balances” means total unrestricted fund balances as determined in accordance with generally accepted accounting principles.

“Trust Agreement” means that certain trust agreement, dated as of February 1, 2006, among the County, the Institute and the Trustee, as originally executed and as it may from time to time be supplemented, modified or amended in accordance with the terms thereof.

“Trustee” means U.S. Bank National Association, a national banking association organized and existing under the laws of United States of America, or its successor, as Trustee thereunder as provided in the Trust Agreement.

PURCHASE AGREEMENT

The Purchase Agreement provides the terms of the purchase of the Real Property by the County and the payment of the Installment Payments from the sources and to the extent required under the Purchase Agreement. Certain of the provisions of the Purchase Agreement are summarized below. This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the Purchase Agreement.

Purchase and Sale of the Real Property. In consideration of the purchase price set forth in the Purchase Agreement, the Institute grants and conveys to the County the Real Property described in an exhibit

thereto. The County purchases the Real Property for such purchase price and accepts the grant and conveyance of the Real Property. The County and the Institute agree that the title to the Real Property shall immediately be deemed conveyed to and vested in the County.

Purchase Price. The purchase price of the Real Property under the Purchase Agreement is \$59,405,000 (the "principal component") plus the interest to accrue on the unpaid balance of such principal component over the term of the Purchase Agreement. All amounts attributable to interest shall be paid by the County as and constitute interest.

Under the Purchase Agreement, the County shall pay the purchase price through the Installment Payments over a period of approximately thirty (30) years; provided, however, that the County's obligation to make the Installment Payments is limited exclusively to the payments and other moneys and assets received by the Trustee on behalf of the County pursuant to the Sale Agreement, and the County is not directly or indirectly or contingently or morally obligated to make Installment Payments from any other moneys or assets of the County. The Installment Payments shall be made to the Trustee at the Corporate Trust Office. In the event the County fails to make any of the Installment Payments, the Installment Payments so unpaid shall continue as an obligation of the County until such amount shall have been fully paid and the County shall pay the same with interest thereon at a rate of interest equal to the rate of interest on the unpaid principal components of such unpaid Installment Payments, subject to the limitation set forth in the Purchase Agreement.

The Institute shall make each Purchase Payment due under the Sale Agreement directly to the Trustee in satisfaction of the County's Installment Payment obligations under the Purchase Agreement. The County grants to the Institute a security interest in the Purchase Payments for the purpose of securing the Installment Payments due from the County under the Purchase Agreement. Pursuant to the Trust Agreement, the Institute shall assign such interest in the Purchase Payments and its rights to receive Installment Payments under the Purchase Agreement to the Trustee for the benefit of the Holders of the Certificates.

The County shall prepay all or any part of the Installment Payments from prepayments received from the Institute pursuant to and subject to the terms of the Sale Agreement and the Trust Agreement.

Obligations of County Unconditional. The obligations of the County to make the Installment Payments and to perform and observe the other agreements on its part contained in the Purchase Agreement shall be absolute and unconditional except as otherwise provided in the Purchase Agreement, and, until such time as all of the Installment Payments have been fully paid (or provision for the payment thereof has been made), the County (i) will not suspend or discontinue any payments provided for in the Purchase Agreement, (ii) will perform and observe all of its other agreements contained in the Purchase Agreement and (iii) will not terminate the Purchase Agreement for any cause including, without limiting the generality of the foregoing, any acts or circumstances that may constitute failure of consideration, destruction of or damage to the Facilities, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State or any political subdivision of either or any failure of the Institute to perform and observe any agreement, whether express or implied, or any duty, liability or obligation arising out of or connected with the Purchase Agreement.

Nothing contained in the provisions of the Purchase Agreement described under this heading shall be construed to release the Institute from the performance of any of the agreements on its part contained in the Purchase Agreement; and in the event the Institute fails to perform any such agreement, the County may institute such action against the Institute as the County may deem necessary to compel performance or recover its damages for nonperformance so long as such action shall not violate the agreements of the County contained in the first paragraph of this section.

Purchase Agreement Defaults Defined. The following shall be "Purchase Agreement Defaults" under the Purchase Agreement and the terms "Purchase Agreement Defaults" or "default" shall mean, whenever they are used in the Purchase Agreement, any one or more of the following events:

(a) Failure by the County to pay or cause to be paid any Installment Payment required to be paid under the Purchase Agreement at the time specified therein.

(b) Failure by the County to observe and perform any covenant, condition or agreement in the Purchase Agreement on its part to be observed or performed for a period of sixty (60) days after written notice, specifying such failure and requesting that it be remedied, has been given to the County by the Institute, unless the Institute shall agree in writing to an extension of such time prior to its expiration.

(c) A Sale Agreement Default under the Sale Agreement and as defined therein.

Remedies on Default. Whenever any Purchase Agreement Default referred to in the Purchase Agreement has happened and is continuing, the Trustee (as assignee of the Institute) may take any one or more of the following remedial steps:

(a) The Trustee (as assignee of the Institute) may, if the Certificates have been accelerated pursuant to the Trust Agreement and upon notice to the County, declare the principal component of all Installment Payments, plus all accrued and unpaid interest with respect thereto, payable under the Purchase Agreement to be immediately due and payable, whereupon the same shall become immediately due and payable; provided, however, that if acceleration of the Certificates has been rescinded and annulled pursuant to the Trust Agreement, acceleration of the Installment Payments shall be rescinded and annulled, but no such rescission and annulment shall extend to or affect any subsequent default or shall impair or exhaust any right or power consequent thereto;

(b) The Trustee (as assignee of the Institute) may exercise and enforce all or any of the rights and remedies provided for in the Sale Agreement; and/or

(c) The Trustee (as assignee of the Institute) may take whatever action at law or in equity may appear necessary or desirable to enforce performance and observance of any obligation, condition or covenant of the County under the Purchase Agreement.

Discharge of Obligations. Under the Purchase Agreement, when (a) all Installment Payments have become due and payable in accordance with the Purchase Agreement or an Order of the County to prepay all of the Installment Payments has been filed with the Trustee; and (b) there has been deposited with the Trustee at or prior to the Interest Payment Dates or prepayment date (or dates) specified for prepayment, in trust for the benefit of the Holders of the Certificates and irrevocably appropriated and set aside for the payment of the Installment Payments, sufficient moneys or Investment Securities required by the Trust Agreement, the principal of and interest on which when due will provide money sufficient to pay all principal components, premium, if any, and interest components of the Installment Payments to the Interest Payment Date or prepayment date (or dates) so specified, as the case may be; and (c) provision has been made for paying all fees and expenses of the Trustee so long as any of the Certificates shall remain unpaid; then and in that event the right, title and interest of the Institute and the Trustee in the Purchase Agreement and the obligations of the County under the Purchase Agreement shall thereupon cease, terminate, become void and be completely discharged and satisfied (except for the right of the Trustee and the obligation of the County to have such moneys and such Investment Securities applied to the payment of the Installment Payments).

SALE AGREEMENT

The Sale Agreement provides the terms of the repurchase of the Real Property by the Institute and the payment of the Purchase Payments and the security for such payments by the Institute. In connection with said repurchase, the Institute is subject to the terms and conditions of the Sale Agreement. Certain of the provisions of the Sale Agreement are summarized below. This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the Sale Agreement.

Purchase and Sale of the Real Property. In consideration of the purchase price set forth in the Sale Agreement, the County grants and conveys to the Institute the Real Property described in an exhibit thereto. The Institute purchases the Real Property for such purchase price and accepts the grant and conveyance of the Real Property. The County and the Institute agree that title to the Real Property shall immediately be deemed conveyed to and vested in the Institute.

Purchase Price.

Under the Sale Agreement, the Institute shall pay the purchase price for the Real Property by making installment payments, to be referred to in the Sale Agreement as "Purchase Payments," which the Institute shall pay to the Trustee, as assignee of the County, for deposit in the Revenue Fund held by the Trustee and which, in the aggregate, shall be in an amount sufficient for the payment in full of all obligations to the Holders of the Certificates from time to time Outstanding under the Trust Agreement, including (i) the total interest components due and payable with respect to the Installment Payments of the County under the Purchase Agreement, (ii) the total principal components of such Installment Payments, and (iii) the prepayment premiums, if any, that shall be payable on the prepayment of Certificates prior to their respective stated Certificate Payment Dates; less the amount of other funds available for such payment as provided in the Trust Agreement. The Purchase Payments shall be due and payable on or before the fifth (5th) day preceding each March 1 and September 1 in an amount necessary for the Trustee to make the transfers and deposits required pursuant to the Trust Agreement. Notwithstanding the foregoing, the Institute agrees to make payments, or cause payments to be made, at the times and in the amounts required to be paid as principal or prepayment price of or interest components of the Certificates from time to time Outstanding under the Trust Agreement, and other amounts required to be paid under the Trust Agreement, as the same shall become due whether at maturity, upon prepayment, by declaration of acceleration or otherwise. Each Purchase Payment due under the Sale Agreement shall be paid in lawful money of the United States of America to the Trustee at the Corporate Trust Office and held, invested, disbursed and applied as provided in the Trust Agreement. The Institute shall make each such Purchase Payment directly to the Trustee in satisfaction of the County's Installment Payment obligations under the Purchase Agreement. In the event the Institute fails to make any of the payments required by the Sale Agreement, the installment so in default shall continue as an obligation of the Institute until the amount in default shall have been fully paid with interest thereon at a rate of interest equal to the rate of interest on the principal components of such unpaid Purchase Payments.

Supplemental Payments. In addition to the Purchase Payments provided for in the Sale Agreement, the Institute shall also pay to the County or the Trustee, as the case may be, "Supplemental Payments," as follows: (a) all taxes and assessments of any type or character charged to the County or the Trustee affecting the amount available to the County or the Trustee from payments to be received under the Purchase Agreement or in any way arising due to the transactions contemplated thereby; (b) the annual (or other regular) fees and expenses of the Trustee, and all fees, charges and expenses of the Trustee for any extraordinary services rendered by the Trustee under the Trust Agreement as and when the same become due and payable; (c) the fees and expenses of such attorneys and other experts as may be engaged by the County or the Trustee to prepare audits, financial statements, reports or opinions or to provide such other services required under the Sale Agreement, the Purchase Agreement, or the Trust Agreement; (d) the annual fee of the County and the reasonable fees and expenses of the County in connection with the Sale Agreement, the

Purchase Agreement, the Certificates or the Trust Agreement, including, without limitation, any and all expenses incurred in connection with the authorization, sale and delivery of the Certificates or in connection with any litigation which may at any time be instituted involving the Sale Agreement, the Purchase Agreement, the Certificates or the Trust Agreement or any of the other documents contemplated thereby or thereby; and (e) all other reasonable and necessary fees and expenses attributable to this Agreement.

Such Supplemental Payments shall be billed to the Institute by the Trustee or the County from time to time.

Gross Revenue Fund. Under the Sale Agreement, the Institute agrees that, as long as any of the Certificates remain Outstanding or any Supplemental Payments remain unpaid, all of the Gross Revenues shall be deposited as soon as practicable upon receipt in a fund designated as the "Gross Revenue Fund" which the Institute shall establish and maintain subject to the provisions described in the next paragraph, in an account or accounts at such banking institution or institutions as the Institute shall from time to time designate in writing to the Trustee for such purpose (referred to as the "Depository Bank(s)"). Subject to the provisions of the Sale Agreement permitting the application thereof for the purposes and on the terms and conditions set forth in the Sale Agreement, the Institute pledges, and to the extent permitted by law grants a security interest to the Trustee, as assignee of the County (for the benefit of the Certificateholders and the holders of any Parity Debt, as and to the extent provided in the Sale Agreement), in the Gross Revenue Fund and all of the Gross Revenues to secure the payment of the Purchase Payments and Supplemental Payments and the performance by the Institute of its other obligations under the Sale Agreement and the payment and performance of all obligations of the Institute under any agreement securing Parity Debt.

Gross Revenues and amounts in the Gross Revenue Fund may be used and withdrawn by the Institute at any time for any lawful purpose, except as provided in the Sale Agreement. In the event that the Institute is delinquent for more than one Business Day in the payment or required prepayment of any Purchase Payment or any payment with respect to Parity Debt, the Trustee shall notify the County, the Institute and the Depository Bank(s) of such delinquency, and, unless such Purchase Payment or payment with respect to Parity Debt is paid within five (5) days after receipt of such notice, the Institute shall cause the Depository Bank(s) to transfer the Gross Revenue Fund to the name and credit of the Trustee, as assignee of the County. All Gross Revenues shall continue to be deposited in the Gross Revenue Fund as provided in the preceding paragraph until the amounts on deposit in said fund are sufficient to pay in full (or have been used to pay in full) all Purchase Payments in default and payments required with respect to Parity Debt in default and until all other Sale Agreement Defaults and events of default with respect to Parity Debt known to the Trustee shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, whereupon the Gross Revenue Fund (except for the Gross Revenues required to make such payments or cure such defaults) shall be transferred by the Depository Bank(s) automatically back to the name and credit of the Institute. During any period that the Gross Revenue Fund is held in the name and to the credit of the Trustee, the Trustee shall use and withdraw from time to time amounts in said fund to make Purchase Payments, Supplemental Payments and the other payments required of the Institute under the Sale Agreement or with respect to any Parity Debt as such payments become due (whether by maturity, prepayment, acceleration or otherwise), and, if such amounts shall not be sufficient to pay in full all such payments due on any date, then to the payment of Purchase Payments and debt service on such Parity Debt, ratably, according to the amounts due respectively for Purchase Payments and such debt service, without any discrimination or preference, and to such other payments in the order which the Trustee, in its sole discretion, shall determine to be in the best interests of the holders of the Certificates and such Parity Debt, without discrimination or preference. During any period that the Gross Revenue Fund is held in the name and to the credit of the Trustee, the Institute shall not be entitled to use or withdraw any of the Gross Revenues unless (and then only to the extent that) the Trustee, in its sole discretion, so directs for the payment of current or past due operating expenses of the Institute; provided, however, that the Institute shall be entitled to use or withdraw any amounts in the Gross Revenue Fund which do not constitute Gross Revenues.

Obligations of the Institute Unconditional. The obligations of the Institute to make the Purchase Payments and Supplemental Payments required under the Sale Agreement and to perform and observe the other agreements on its part contained therein constitute a general obligation of the Institute and shall be absolute and unconditional, and shall not be abated, rebated, set off, reduced, abrogated, terminated, waived, diminished, postponed or otherwise modified in any manner or to any extent whatsoever, while any Certificates remain Outstanding or any Supplemental Payments remain unpaid, regardless of any contingency, act of God, event or cause whatsoever, including, without limiting the generality of the foregoing, any acts or circumstances that may constitute failure of consideration, eviction or constructive eviction, the taking by eminent domain or destruction of or damage to the Facilities or the Real Property, commercial frustration of purpose, any change in the laws of the United States of America or of the State or any political subdivision thereof or in the rules or regulations of any governmental authority, or any failure of the County to perform and observe any agreement, whether express or implied, or any duty, liability or obligation arising out of or connected with the Sale Agreement, the Purchase Agreement or the Trust Agreement.

Prepayment. The Institute shall have the right at any time or from time to time to prepay all or any part of the Purchase Payments, and the County shall accept such prepayments when the same are tendered by the Institute. All such prepayments (and the additional payment of any amount necessary to pay the applicable premiums, if any, payable upon the prepayment of Certificates) shall be deposited upon receipt in the Optional Prepayment Account and, at the request of the Institute, credited against Purchase Payments due from the Institute pursuant to the Sale Agreement in order of their due date or used for the prepayment or purchase of Outstanding Certificates in the manner and subject to the terms and conditions set forth in the Trust Agreement. The Institute also shall have the right to surrender Certificates acquired by it in any manner whatsoever to the Trustee for cancellation, and such Certificates, upon such surrender and cancellation, shall be deemed to be paid and retired and shall be applied as set forth in the Trust Agreement. Notwithstanding any such prepayment or surrender of Certificates, as long as any Certificates remain Outstanding or any Supplemental Payments remain unpaid, the Institute shall not be relieved of its obligations under the Sale Agreement.

Maintenance of Corporate Existence; Consolidation, Merger, Sale or Transfer Under Certain Conditions. Under the Sale Agreement, the Institute shall maintain its existence as a California nonprofit public benefit corporation, and shall not dissolve, sell or otherwise dispose of all or substantially all of its assets nor consolidate with or merge into another corporation or permit one or more other corporations to consolidate with or merge into it; provided, that the Institute may, without violating the covenants contained in the Sale Agreement, consolidate with or merge into another corporation, or permit one or more other corporations to consolidate with or merge into it, or sell or otherwise transfer to another corporation all or substantially all of its assets as an entity and thereafter dissolve, if:

- (a) The surviving, resulting or transferee corporation, as the case may be:
 - (i) assumes in writing, if such corporation is not the Institute, all of the obligations of the Institute under the Sale Agreement; and
 - (ii) is not, after such transaction, otherwise in default under any provision of the Sale Agreement.
- (b) The Institute delivers to the County and the Trustee an Opinion of Bond Counsel to the effect that such merger, consolidation, sale or other transfer will not cause the interest component of the Installment Payments received by the Certificateholders to be included in gross income for federal income tax purposes under Section 103 of the Code;

(c) The Institute delivers to the County and the Trustee an Opinion of Counsel acceptable to the County and the Trustee to the effect that after such merger, consolidation, sale or transfer, the Sale Agreement is a valid and binding obligation of the surviving, resulting or transferee corporation enforceable in accordance with its terms, except as enforcement thereof may be limited by bankruptcy, insolvency or other laws affecting the enforcement of creditors rights generally, or by the application of equitable principles if equitable remedies are sought; and

(d) The Institute files with the Trustee a Statement of the Institute to the effect that: (i) the surviving, resulting or transferee corporation, as the case may be, will have unrestricted fund balances (after giving effect to such transaction) at least equal to ninety percent (90%) or more of the Total Unrestricted Fund Balances of the Institute immediately prior to such transaction; and (ii) immediately following such merger, sale, or transfer, the surviving, resulting or transferee corporation, could incur one dollar of Parity Debt.

Maintenance of Gross Revenues. Under the Sale Agreement, and subject to applicable laws and regulations, the Institute shall promptly collect, or cause to be collected, all Gross Revenues as the same become due, and shall promptly and vigorously enforce, or cause to be enforced, its rights to collect such Gross Revenues as they become due.

Parity Debt; Additional Indebtedness. The Institute shall not issue Parity Debt unless the Trustee receives either of the following: (a) a Statement of the Institute certifying that the Net Cash Flow Available for Debt Service was at least equal to 1.25 times the amount of Maximum Aggregate Annual Debt Service, taking into account all outstanding Parity Debt and the Parity Debt proposed to be incurred, for each of the two most recent Fiscal Years for which audited financial statements are available; or (b) a Statement of the Institute certifying that the forecasted Net Cash Flow Available for Debt Service will be at least equal to 1.25 times the amount of Maximum Aggregate Annual Debt Service, taking into account all outstanding Parity Debt and the Parity Debt proposed to be incurred, for each of two complete Fiscal Years succeeding the date on which the proposed Parity Debt is to be incurred. The projections and forecasts of the Institute with respect to such Statement shall be prepared on a basis consistent with the financial statements prepared by the Institute.

The Institute may issue or incur Non-recourse Debt without limitation in such principal amount as shall be determined by the Institute. The Institute may issue or incur Subordinate Debt without limitation in such principal amount as shall be determined by the Institute.

Accounting Records; Financial Statements and Budget. At all times, the Institute shall keep, or cause to be kept, proper books of record and account, prepared in accordance with generally accepted accounting principles, in which complete and accurate entries shall be made of all transactions of or in relation to the business, properties and operations of the Institute. Such books of record and account shall be available for inspection by the County and the Trustee at reasonable hours and under reasonable circumstances.

The Institute shall furnish the Trustee, the County (if requested by the County) and any Rating Agency, within one hundred twenty (120) days after the end of each Fiscal Year, with copies of its complete audited financial statements (including a balance sheet, a statement of activities, a statement of cash flows and such other financial reports and schedules as may have been delivered to the Institute in connection with such financial statements), together with the report and opinion of an Accountant stating that the financial statements have been prepared in accordance with generally accepted accounting principles and that their examination was performed in accordance with generally accepted auditing standards. The Trustee shall not be responsible for reviewing the financial statements or written reports of the Institute provided to the Trustee under the Sale Agreement.

In order to assure the efficient management and operation of the Institute's Facilities and to assure and protect the Holders of the Certificates, the Institute shall each year prepare, and the Board shall approve, a preliminary budget, within thirty (30) days after the close of the Fiscal Year, setting forth the estimated revenues and expenses anticipated for the ensuing Fiscal Year. This budget shall be transmitted to the County (if requested by the County) and shall be made available for inspection by any Holder at the office of the Institute.

Tax Covenants. The Institute shall not take any action, or fail to take any action, if such action or failure to take action would adversely affect the exclusion from gross income of the interest payable with respect to Certificates under Section 103 of the Code. Without limiting the generality of the foregoing, the Institute agrees to comply with the provisions of the Tax Agreement. This covenant shall survive payment in full or defeasance of the Installment Payments and the Certificates.

Continuing Disclosure. Under the Sale Agreement, the Institute covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Agreement. Notwithstanding any other provision of the Sale Agreement, failure of the Institute to comply with the Continuing Disclosure Agreement shall not be considered a Sale Agreement Default; however, the Trustee may (and, at the request of any Participating Underwriter (as defined in the Continuing Disclosure Agreement) or the Holders of at least twenty-five percent (25%) aggregate principal amount in Outstanding Certificates, shall) or any Certificateholder or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Institute to comply with its obligations under the Sale Agreement.

Consultant Regarding Grant Revenues. Within one hundred twenty (120) days after the end of each Fiscal Year, the Institute shall calculate the total amount of its grant revenues for such Fiscal Year (based on the audited financial statements for such Fiscal Year) and shall promptly furnish to the Trustee a Statement setting forth the results of such calculation. The Institute further covenants and agrees that if at the end of such Fiscal Year the total amount of its grant revenues is less than \$30,000,000, it shall promptly employ an independent consultant of regional or national reputation qualified to report on questions relating to the financial condition of research organizations to make recommendations to management of the Institute that will result in producing grant revenues in excess of \$30,000,000 in each Fiscal Year. Copies of the recommendation of the consultant shall be filed with the Trustee and the County (if requested by the County). Promptly upon its receipt of such recommendations, the Institute shall, to the extent feasible and subject to applicable requirements or restrictions imposed by law, take action in conformity with such recommendations; provided, however, the Institute need not take such actions in conformity with such recommendations if the governing body of the Institute makes a good faith determination that such recommendations, in whole or in part, are not in the best interests of the Institute.

Maintenance and Operation of the Facilities. The Institute shall operate and maintain the Facilities in accordance with all governmental laws, ordinances, approvals, rules, regulations and requirements including, without limitation, such zoning, sanitary, pollution and safety ordinances and laws and such rules and regulations thereunder as may be binding upon the Institute. The Institute shall maintain and operate the Facilities as biomedical research and drug discovery facilities and will maintain and operate the same, and all property of any kind in or that shall be placed in any building or structure now or hereafter at any time constituting part of the Facilities which are material to the operation of the Facilities in good repair, working order and condition, and that it will from time to time make or cause to be made all needful and proper replacements, repairs, renewals and improvements so that the efficiency and value of the Facilities shall not be materially adversely impaired.

Taxes, Assessments, Other Governmental Charges and Utility Charges. The Institute shall pay and discharge all taxes, assessments, governmental charges of any kind whatsoever, water rates, meter charges and other utility charges which may be or have been assessed or which may have become liens upon

the Facilities or the interest therein of the County, the Trustee or the Certificateholders, and will make such payments or cause such payments to be made, respectively, in due time to prevent any delinquency thereon or any forfeiture or sale of the Facilities or any part thereof, and, upon request, will furnish to the County or Trustee receipts for all such payments, or other evidences satisfactory to the County and the Trustee; provided, however, that the Institute shall not be required to pay any tax, assessment, rate or charge as provided in the Sale Agreement as long as it shall in good faith contest the validity thereof, provided that the Institute shall have set aside reserves with respect thereto that, in the opinion of the Board, are adequate.

Insurance Required. Subject to the provisions of the Sale Agreement described in the following paragraph, the Institute shall keep all of its properties and operations adequately insured at all times and carry and maintain such insurance in amounts which are customarily carried and against such risks as are customarily insured against by other organizations in connection with the ownership and operation of facilities of similar character and size in the State (and offering comparable services as those of the Institute) to the extent it is commercially available.

The Institute shall employ an Insurance Consultant to review the insurance requirements of the Institute (including alternative risk management programs and self insurance) from time to time (but not less frequently than every two Fiscal Years). No later than one hundred fifty (150) days after the end of Fiscal Year to which such review pertains, the Institute shall cause the Insurance Consultant to deliver a report to the Trustee stating whether the Institute is in compliance with the requirements of the preceding paragraph as of the last day of such Fiscal Year. If the Insurance Consultant makes recommendations for a change in any of the coverage required by the Sale Agreement, the Institute shall change such coverage in accordance with such recommendations unless the Institute shall provide to the Trustee a Statement of the Institute that such recommendations, in whole or in part, are not in the best interests of the Institute and failure to implement such recommendations, in whole or in part, will not materially adversely affect the Certificateholders. Notwithstanding anything in the provisions of the Sale Agreement described under this heading to the contrary, the Institute shall have the right, without giving rise to a Sale Agreement Default solely on such account, (1) to maintain insurance coverage below that required by the preceding paragraph, if the Institute furnishes to the Trustee a Statement of the Insurance Consultant that the insurance so provided accords the greatest amount of coverage available for the risk being insured against at rates which in the judgment of the Insurance Consultant are reasonable in connection with reasonable and appropriate risk management, or (2) to adopt alternative risk management programs which the Board determines to be reasonable including, without limitation, to self insure in whole or in part (subject to the provisions of the Sale Agreement described in the following paragraph), to participate in programs of captive insurance companies, to participate with other institutions in mutual or other cooperative insurance or other risk management programs, to participate in state or federal insurance programs, or to establish or participate in other alternative risk management programs, all as may be approved as reasonable and appropriate risk management by the Insurance Consultant, as evidenced by a Statement of such Insurance Consultant.

The insurance required under the Sale Agreement may be maintained by the maintenance of a self-insurance plan so long as any such plan provides for (a) the establishment by the Institute of a separate segregated self-insurance fund funded in an amount determined (initially and on at least an annual basis) by an insurance or actuarial consultant (which may be the Insurance Consultant) employing accepted actuarial techniques and (b) the establishment and maintenance of a claims processing and risk management program. No later than one hundred fifty (150) days after the end of each Fiscal Year, the Institute shall cause an insurance or actuarial consultant (which may be the Insurance Consultant) to submit a report to the Trustee to the effect that such self-insurance plan is maintaining adequate reserves and has been adequately funded.

The Institute shall, at all times, comply with the Workers' Compensation Act of the State, or any successor statute or statutes.

Insurers; Policy Forms and Loss Payees. To the extent that the Institute obtains insurance coverage in the form of insurance policies issued by insurance companies, each such insurance policy maintained by the Institute shall be carried by stock, reciprocal or mutual insurance companies authorized to do business (or subject to service of process) in the State which are financially responsible and capable of fulfilling the requirements of such policies; provided, however, such policies shall be provided by carriers rated at least "A-" by A.M. Best Company, Inc. (or an equivalent rating by a recognized equivalent rating service if A.M. Best Company, Inc. is no longer issuing such report). All such policies shall name the Institute, the Trustee and the County as insured parties, beneficiaries or loss payees as their interests may appear. Each policy shall be in such form and contain such provisions as are generally considered standard for the type of insurance involved and shall contain a provision to the effect that the insurer shall not cancel or substantially modify the policy provisions without first giving written notice thereof to the Institute. In lieu of separate policies, the Institute may maintain blanket policies which cover any one or more risks required to be insured against so long as the minimum coverages required under the Sale Agreement are met. Annually within one hundred fifty (150) days after the end of each Fiscal Year, the Institute shall file with the Trustee a Statement setting forth the policies of insurance maintained pursuant to the Sale Agreement, the names of the insurers and insured parties, the amounts of such insurance and applicable deductibles, the risks covered thereby and the expiration dates thereof.

Disposition of Insurance and Condemnation Proceeds. All proceeds of the insurance carried pursuant to the Sale Agreement (except proceeds of the liability portion, if any, of such insurance), and proceeds of any condemnation awards with respect to the Facilities in excess of \$1,000,000 shall be paid immediately upon receipt by the Institute or other named insured parties to the Trustee for deposit in a special fund which the Trustee shall then establish and maintain and hold in trust, to be known as the "Insurance and Condemnation Proceeds Fund." In the event that the proceeds of any loss or damage to or condemnation of the Facilities shall be less than or equal to \$1,000,000 the Institute may retain such proceeds without any formality whatsoever. The Institute shall give written notice to the Trustee within 60 days following the deposit of funds in the Insurance and Condemnation Proceeds Fund that the Institute elects either to use such proceeds to prepay the Certificates or to repair or replace the damaged or lost property. If the Institute elects to repair or replace such property, the Trustee shall pay such proceeds to the Institute upon written direction of the Institute and the Institute shall proceed reasonably promptly to repair or replace such property. In the event the Institute elects to repair or replace the property damaged, destroyed or taken, the Institute shall furnish to the County (if requested by the County) plans of the contemplated repair or replacement, accompanied by a certificate of an architect or other qualified expert estimating the reasonable cost of such repair or replacement and a Statement of the Institute stating that amounts in the Insurance and Condemnation Proceeds Fund, together with investment income reasonably expected to be received with respect thereto and any other funds available or reasonably expected to become available therefor (and which the Institute shall agree to deposit in said fund when so available), shall be sufficient to repair or replace the property damaged, destroyed or taken in accordance with said plans. After deducting therefrom the reasonable charges and expenses of the Trustee in connection with the collection and disbursement of such moneys, moneys in the Insurance and Condemnation Proceeds Fund shall be disbursed by the Trustee for the purpose of repairing or replacing the property damaged, destroyed or taken in the same manner as required in the Trust Agreement for disbursements from the Project Fund.

In the event the Institute elects to apply the proceeds to the prepayment of the Certificates, as provided in the preceding paragraph, the Trustee shall transfer all amounts in the Insurance and Condemnation Proceeds Fund on account of such damage, destruction or condemnation to the Special Prepayment Account in order to prepay the Purchase Payments (and thereby the Installment Payments and the Certificates); provided that if the Trustee receives written notice from the Institute that any Parity Debt is then outstanding and specifying the amount and the person to whom such transfer is to be made, any such transfer from the Insurance and Condemnation Proceeds Fund shall be deposited in part in the Special Prepayment Account and in part in such other fund or account as specified in the written notice from the Institute (and

used for the retirement of such Parity Debt) in the same proportion which the aggregate principal amount of Outstanding Certificates then bears to the aggregate unpaid principal amount of such Parity Debt.

Sale Agreement Defaults. The following events shall be "Sale Agreement Defaults" under the Sale Agreement: (a) failure by the Institute to pay in full any payment required under the Sale Agreement when due, whether at maturity, upon a date fixed for prepayment, by declaration or otherwise pursuant to the terms thereof; (b) if any material representation or warranty made by the Institute under the Sale Agreement or made by the Institute in any document, instrument or certificate furnished to the Trustee or the County in connection with the execution and delivery of the Certificates shall at any time prove to have been incorrect in any respect as of the time made; (c) if the Institute fails to observe or perform any covenant, condition, agreement or provision in the Sale Agreement on its part to be observed or performed, other than as referred to in subsection (a) or (b) of this paragraph, or breaches any warranty by the Institute contained therein, for a period of sixty (60) days after written notice, specifying such failure or breach and requesting that it be remedied, has been given to the Institute by the County or the Trustee; except that, if such failure or breach can be remedied but not within such sixty (60) day period and if the Institute has taken all action reasonably possible to remedy such failure or breach within such sixty (60) day period, such failure or breach shall not become a Sale Agreement Default for so long as the Institute shall diligently proceed to remedy same in accordance with and subject to any directions or limitations of time established by the Trustee; (d) if the Institute files a petition in voluntary bankruptcy, for the composition of its affairs or for its corporate reorganization under any state or federal bankruptcy or insolvency law, or makes an assignment for the benefit of creditors, or admits in writing to its insolvency or inability to pay debts as they mature, or consents in writing to the appointment of a trustee or receiver for itself or for the whole or any substantial part of the Institute's Facilities; (e) if a court of competent jurisdiction enters an order, judgment or decree declaring the Institute an insolvent, or adjudging it bankrupt, or appointing a trustee or receiver of the Institute or of the whole or any substantial part of the Institute's Facilities, or approving a petition filed against the Institute seeking reorganization of the Institute under any applicable law or statute of the United States of America or any state thereof, and such order, judgment or decree is not vacated or set aside or stayed within sixty (60) days from the date of the entry thereof; (f) if, under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction assumes custody or control of the Institute's Facilities, and such custody or control is not terminated within sixty (60) days from the date of assumption of such custody or control; or (g) if any Event of Default under the Trust Agreement or a Purchase Agreement Default occurs.

Remedies on Default. If a Sale Agreement Default occurs, then, and in each and every such case during the continuance of such a Sale Agreement Default, the County and the Trustee may take any one or more of the following remedial steps: (a) the County or the Trustee may, if the Purchase Payments and the Certificates represented thereby have been declared to be due and payable immediately pursuant to the Trust Agreement and upon notice in writing to the Institute, declare all installments of Purchase Payments and Supplemental Payments payable for the remainder of the term of the Sale Agreement to be immediately due and payable, whereupon the same shall be immediately due and payable, anything in the Sale Agreement to the contrary notwithstanding; "all installments" as used in this paragraph shall mean an amount equal to the entire principal components of the Purchase Payments represented by the Certificates then Outstanding, together with any applicable prepayment premiums and all interest components of the Purchase Payments accrued or to accrue on and prior to the next succeeding prepayment date or dates on which the Certificates can be prepaid after giving notice to the Holders thereof as required by the Trust Agreement (less moneys available for such purpose then held by the Trustee) plus any other payments due or to become due under the Sale Agreement, including, without limitation, any unpaid fees and expenses of the Trustee which are then due or will become due prior to the time that the Certificates are paid in full and the trust established by the Trust Agreement is terminated; provided, however, that if acceleration of the Certificates has been rescinded and annulled pursuant to the Trust Agreement, acceleration of the Purchase Payments and the Supplemental Payments shall be rescinded and annulled; (b) the County and the Trustee may take whatever action, at law or in equity, as may appear necessary or desirable to collect the Purchase Payments, Supplemental Payments and any other payments then due and thereafter to become due under the Sale Agreement or to enforce the

performance and observance of any obligation, covenant, agreement or provision contained in the Sale Agreement to be observed or performed by the Institute; (c) the County and the Trustee shall have all the rights and remedies of a secured party or creditor under the Uniform Commercial Code of the State, and the general laws of the State, with respect to the enforcement of the security interests granted or reserved under the Sale Agreement, including without limitation to the extent permitted by law the right to require that all of the Gross Revenues be assembled and delivered to the Trustee, as assignee of the County, as set forth in the Sale Agreement and the County and the Trustee may, to the extent permitted by law, impound books and records evidencing the Institute's accounts, accounts receivable and other similar claims for the payment of money, take possession of all notes and other documents which evidence such accounts, accounts receivable and claims for money and give notice to obligors thereunder of its interest in Gross Revenues and make direct collections on such accounts, accounts receivable and claims for money.

Any such action by the County or the Trustee, however, is subject to the condition that if, at any time after such action and before any judgment or decree for the payment of the moneys due shall have been obtained or entered, there shall be deposited with the Trustee a sum sufficient to pay all Purchase Payments the payment of which is overdue, with interest on such overdue principal component of such overdue Purchase Payments at the rate borne by the respective Certificates, and the reasonable charges and expenses of the Trustee, and any and all other defaults known to the County or the Trustee (other than in the payment of the Purchase Payments due and payable solely by reason of such action) shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, then, and in every such case, the Trustee shall rescind and annul such action and its consequences and waive such default; but no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon.

Remedies Not Exclusive; No Waiver of Rights. No remedy conferred in the Sale Agreement upon or reserved to the County or the Trustee is intended to be exclusive of any other available remedy or remedies, but each and every such remedy, to the extent permitted by law, shall be cumulative and shall be in addition to every other remedy given under the Sale Agreement or now or hereafter existing at law or in equity or otherwise. In order to entitle the County and the Trustee to exercise any remedy, to the extent permitted by law, reserved to it in the Sale Agreement, it shall not be necessary to give any notice, other than such notice as may be expressly required in the Sale Agreement. Such rights and remedies as are given to the County under the Sale Agreement shall also extend to the Trustee and the Trustee may exercise any rights and will be charged with the obligations of the County under the Sale Agreement, and the Trustee and the Holders of the Certificates executed and delivered under the Trust Agreement shall be deemed third party beneficiaries of all covenants and conditions contained in the Sale Agreement. No delay in exercising or omitting to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein, and every such right and power may be exercised from time to time and as often as may be deemed expedient.

Discharge of Obligations. Under the Sale Agreement, when (a) all Purchase Payments shall become due and payable in accordance with the Sale Agreement or an Order of the Institute to prepay all of the Purchase Payments shall have been filed with the Trustee; and (b) there shall have been deposited with the Trustee at or prior to the Interest Payment Dates or other prepayment date (or dates) specified for prepayment, in trust for the benefit of the Holders of the Certificates and irrevocably appropriated and set aside to the payment of the Purchase Payments, sufficient moneys or Investment Securities required by the Trust Agreement, the principal of and the interest on which securities when due will provide moneys sufficient to pay all principal components, premium, if any, and interest components of the Purchase Payments to the Interest Payment Date or prepayment date or dates so specified, as the case may be; and (c) provisions shall have been made for paying all fees and expenses of the Trustee so long as any of the Certificates shall remain unpaid; then and in that event the right, title and interest of the County and the Trustee in the Sale Agreement and the obligations of the Institute under the Sale Agreement shall thereupon cease, terminate, become void and be completely discharged and satisfied (except only that the right of the County to receive and the

obligation of the Institute to pay the Purchase Payments shall continue, but only out of such money or securities deposited with the Trustee for such payment, provided further, however, that the provisions of the Trust Agreement shall apply in all events). In such event, upon Request of the Institute, the Trustee shall cause an accounting for such period or periods as may be requested by the Institute to be prepared and filed with the Institute and shall execute and deliver to the Institute all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee shall pay over to the Institute, as an overpayment of Purchase Payments, all such moneys or such Investment Securities held by it pursuant to the Sale Agreement (other than such moneys and such Investment Securities as are required for the payment or prepayment of the Purchase Payments, which moneys and Investment Securities shall continue to be held by the Trustee in trust and shall be applied by the Trustee to such payment or prepayment of the Purchase Payments of the Institute).

TRUST AGREEMENT

The Trust Agreement sets forth the terms of the Certificates, the nature and extent of the security, various rights of the Holders of the Certificates, rights, duties and immunities of the Trustee and the rights and obligations of the County and the Institute. Certain provisions of the Trust Agreement are summarized below. Other provisions are summarized in this Official Statement under the captions "THE CERTIFICATES" and "SECURITY FOR THE CERTIFICATES." This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the Trust Agreement.

Funds and Accounts. The Trust Agreement creates a Project Fund; a Costs of Delivery Fund; an Insurance and Condemnation Proceeds Fund; a Revenue Fund and an Interest Account, a Principal Account and a Reserve Account thereunder; a Prepayment Fund and an Optional Prepayment Account and Special Prepayment Account thereunder; and a Rebate Fund; all of which are to be held by the Trustee.

Project Fund. The moneys in the Project Fund shall be used and withdrawn by the Trustee to pay the costs of the Project. No moneys in the Project Fund shall be used to pay Costs of Delivery.

When the Project shall have been completed, there shall be delivered to the Trustee a Certificate of the Institute stating the fact and date of such completion and stating that all of the costs thereof have been determined and paid (or that all of such costs have been paid less specified claims that are subject to dispute and for which a retention in the Project Account is to be maintained in the full amount of such claims until such dispute is resolved). Upon the receipt of such Certificate, the Trustee shall, as directed by said Certificate, transfer any remaining balance in such Project Fund, less the amount of any such retention, to the Optional Prepayment Account and the Project Fund shall be closed.

Costs of Delivery Fund. Moneys deposited in the Costs of Delivery Fund shall be used to pay Costs of Delivery with respect to the Certificates upon receipt by the Trustee of a Requisition of the Institute stating the Person to whom payment is to be made, the amount to be paid, the purpose for which the obligation was incurred and that such payment is a proper charge against said fund. At the end of one hundred eighty (180) days from the date of initial execution and delivery of the Certificates, or upon earlier receipt of a Statement of the Institute that amounts in said fund are no longer required for the payment of Costs of Delivery, said fund shall be terminated and any amounts then remaining in said fund shall be transferred to the Revenue Fund.

Insurance and Condemnation Proceeds Fund. The trustee shall establish (when required), maintain and hold in trust a separate fund designated as the "Insurance and Condemnation Proceeds Fund," and administer said fund as set forth in the Sale Agreement.

Revenue Fund. All Revenues shall be promptly deposited by the Trustee upon receipt thereof in a special fund designated as the "Revenue Fund" which the Trustee shall establish, maintain and hold in trust and be applied as provided in the Trust Agreement.

Allocation of Revenues. The Trustee shall transfer from the Revenue Fund and deposit into the following respective accounts (each of which the Trustee shall establish and maintain within the Revenue Fund) and the Rebate Fund, the following amounts, in the following order of priority, the requirements of each such account (including the making up of any deficiencies in any such account resulting from lack of Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any transfer is made to any account subsequent in priority:

First: on or before February 28 and August 31 in each year, to the Interest Account, the aggregate amount of interest becoming due and payable on all Certificates then Outstanding on the next succeeding March 1 or September 1, respectively, until the balance in said account is equal to said aggregate amount of interest;

Second: on or before February 28 and August 31 in each year, to the Principal Account, one-half of the aggregate amount of principal becoming due and payable with respect to the Outstanding Serial Certificates, plus one-half of the aggregate amount of Mandatory Sinking Account Payments required to be paid into the respective Sinking Accounts for Outstanding Term Certificates, in each case on the next succeeding September 1, until the balance in said account is equal to said aggregate amount of principal and Mandatory Sinking Account Payments;

Third: to the Reserve Account, (i) one-half of the aggregate amount of each prior withdrawal from the Reserve Account for the purpose of making up a deficiency in the Interest Account or Principal Account (until deposits on account of such withdrawal are sufficient to fully restore the amount withdrawn) and (ii) the full amount of any deficiency in the Reserve Account resulting from the valuation specified in the Trust Agreement; provided that no deposit need be made into the Reserve Account so long as the balance in said account shall be at least equal to the Reserve Account Requirement; and

Fourth: to the Rebate Fund, such amounts (and on such dates) as are required to be deposited therein by the Trust Agreement (including the Tax Agreement).

Any moneys remaining in the Revenue Fund after the foregoing transfers shall be transferred to the Institute.

Application of Interest Account and Principal Account. All amounts in the Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying the interest component of the Installment Payments of the County as the same become due and payable pursuant to the Purchase Agreement, which interest is payable to the Certificateholders as their respective Certificates become due and payable (including accrued interest on any Certificates purchased or prepaid prior to their Certificate Payment Date pursuant to the Trust Agreement).

All amounts in the Principal Account shall be used and withdrawn by the Trustee solely for the purpose of paying the principal component of the Installment Payments of the County as the same become due and payable pursuant to the Purchase Agreement, which principal component is payable to the Certificateholders as their respective Certificates become due and payable, except that all amounts in the Sinking Account shall be used and withdrawn by the Trustee solely to purchase, prepay or pay Term Certificates on their stated Certificate Payment Dates, as provided in the Trust Agreement.

The Trustee shall establish (when required) and maintain within the Principal Account a separate subaccount for the Term Certificates of each stated Certificate Payment Date, designated as the

“_____ Sinking Account,” inserting therein the stated Certificate Payment Date (if more than one such account is established) designation of such Certificates. With respect to each Sinking Account, on each Mandatory Sinking Account Payment date established for such Sinking Account, the Trustee shall apply the Mandatory Sinking Account Payment required on that date to the prepayment (or payment on their stated Certificate Payment Date, as the case may be) of Term Certificates of the stated Certificate Payment Date for which such Sinking Account was established, upon the notice and in the manner provided in the Trust Agreement; provided that, at any time prior to giving such notice of such prepayment, the Trustee may apply moneys in such Sinking Account to the purchase of Term Certificates of such stated Certificate Payment Date at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as directed in writing by the Institute, except that the purchase price (excluding accrued interest) shall not exceed the Prepayment Price that would be payable for such Certificates upon prepayment by application of such Mandatory Sinking Account Payment. If, during the twelve-month period immediately preceding said Mandatory Sinking Account Payment date, the Trustee has purchased Term Certificates of such stated Certificate Payment Date with moneys in such Sinking Account, or, during said period and prior to giving said notice of prepayment, the Institute has deposited Term Certificates of such stated Certificate Payment Date with the Trustee (together with a Request of the Institute to apply such Certificates so deposited to the Mandatory Sinking Account Payment due on said date with respect to the Term Certificates of such stated Certificate Payment Date), or Term Certificates of such stated Certificate Payment Date were at any time purchased or prepaid by the Trustee from the Prepayment Fund and allocable to said Mandatory Sinking Account Payment, such Certificates so purchased or deposited or prepaid shall be applied, to the extent of the full principal component thereof, to reduce said Mandatory Sinking Account Payment. All Certificates purchased or deposited pursuant to the provisions of the Trust Agreement described under this heading, if any, shall be cancelled by the Trustee to or upon the Order of the Institute. Any amounts remaining in a Sinking Account when all of the Term Certificates for which such account was established are no longer Outstanding shall be withdrawn by the Trustee and transferred to the Revenue Fund. Term Certificates purchased from a Sinking Account, purchased or prepaid from the Prepayment Fund, or deposited by the Institute with the Trustee shall be allocated first to the next succeeding Mandatory Sinking Account Payment for Certificates of such stated Certificate Payment Date, then as a credit against such future Mandatory Sinking Account Payments for Certificates of such Certificate Payment Date as the Institute may specify in writing.

Application of Reserve Account. All amounts in the Reserve Account shall be used and withdrawn by the Trustee solely for the purpose of making up any deficiency in the Principal Account or the Interest Account, or (together with any other moneys available therefor) for the prepayment of all Installment Payments of the County, and thereby the prepayment of all Certificates then Outstanding.

All Investment Securities in the Reserve Account shall be valued pursuant to the provisions of the Trust Agreement described under the heading “Investment of Moneys in Funds” (or more frequently as may be reasonably requested by the Institute), and such valuation shall be reported in a timely manner to the Institute. Any amount in the Reserve Account in excess of 100% of the Reserve Account Requirement shall then be transferred to the Revenue Fund. To the extent that amounts in the Reserve Account are less than 95% of the Reserve Account Requirement on any day following such valuation, the Institute shall, within thirty (30) Business Days after receiving notice from the Trustee of such valuation, pay to the Trustee an amount sufficient to increase the balance in the Reserve Account to the Reserve Account Requirement.

In lieu of maintaining and depositing moneys in the Reserve Account, the Institute may deposit with the Trustee a letter of credit (i) which is issued by a bank with a credit rating at the time of deposit of such letter of credit into the Reserve Account of at least investment grade from each Rating Agency, (ii) the repayment obligation with respect to which is not secured by a lien on assets of the Institute senior to any lien which secures the Certificates and (iii) which has a term of at least five years from the date of issuance thereof. If the credit rating of the bank issuing such letter of credit falls below investment grade, the Institute shall within twelve months of such downgrading either (i) substitute a new letter of credit satisfying the

requirements of this paragraph, (ii) fund the Reserve Account through the deposit of cash or an irrevocable surety bond policy satisfying the requirements of the immediately succeeding paragraph or (iii) fund the Reserve Account through a combination of (i) and (ii). At least six months prior to the expiration date of a letter of credit on deposit in the Reserve Account, the Institute shall either (i) substitute a new letter of credit satisfying the requirements of this paragraph, (ii) fund the Reserve Account through the deposit of cash or an irrevocable surety bond policy satisfying the requirements of the immediately succeeding paragraph or (iii) fund the Reserve Account through a combination of (i) and (ii). Any such letter of credit shall permit the Trustee to draw amounts thereunder for deposit in the Reserve Account which, together with any moneys on deposit in, or surety bond policy available to fund, the Reserve Account, are not less than the Reserve Account Requirement and which may be applied to any purpose for which moneys in the Reserve Account may be applied. The Trustee shall make a drawing on such letter of credit (i) whenever moneys are required for the purposes for which Reserve Account moneys may be applied, and (ii) prior to any expiration or termination thereof; provided, however, that no such drawing need be made if other moneys are available in the Reserve Account in the amount of the Reserve Account Requirement.

In lieu of maintaining and depositing moneys in the Reserve Account, the Institute also may maintain in effect an irrevocable surety bond policy (i) which is issued by a bond insurance company with a claims-paying ability rating at the time of deposit of such surety bond policy into the Reserve Account of at least investment grade from each Rating Agency, (ii) the repayment obligation with respect to which is not secured by a lien on assets of the Institute senior to any lien which secures the Certificates and (iii) has a term of at least five years from the date of issuance thereof. If the credit rating of the bond insurance company issuing such surety bond policy falls below investment grade, the Institute shall either (i) substitute a new surety bond policy satisfying the requirements of this paragraph, (ii) fund the Reserve Account through the deposit of cash or a letter of credit satisfying the requirements of the immediately preceding paragraph or (iii) fund the Reserve Account through a combination of (i) and (ii). At least six months prior to the expiration date of a surety bond policy on deposit in the Reserve Account, the Institute shall either (i) substitute a new surety bond policy satisfying the requirements of this paragraph, (ii) fund the Reserve Account through the deposit of cash or a letter of credit satisfying the requirements of the immediately preceding paragraph or (iii) fund the Reserve Account through a combination of (i) and (ii). Any such surety bond policy shall permit the Trustee to obtain amounts thereunder for deposit in the Reserve Account which, together with any moneys on deposit in, or letter of credit available to fund, the Reserve Account, are not less than the Reserve Account Requirement and which may be applied to any purpose for which moneys in the Reserve Account may be applied. The Trustee shall make a drawing on such surety bond policy (i) whenever moneys are required for the purposes for which Reserve Account moneys may be applied, and (ii) prior to any expiration or termination thereof; provided, however, that no such drawing need be made if other moneys are available in the Reserve Account in the amount of the Reserve Account Requirement.

Application of Prepayment Fund. The Trustee shall establish and maintain within the Prepayment Fund (which fund the Trustee shall establish (when required), maintain and hold in trust) a separate Optional Prepayment Account and a separate Special Prepayment Account. All amounts deposited in the Optional Prepayment Account and in the Special Prepayment Account shall be accepted and used and withdrawn by the Trustee for the purpose of prepaying the principal components of the Installment Payments of the County and thereby prepaying Certificates, in the manner and upon the terms and conditions specified in the Trust Agreement, at the next succeeding date of prepayment for which notice has not been given and at the Prepayment Prices then applicable to prepayments from the Optional Prepayment Account and the Special Prepayment Account, respectively; provided that, at any time prior to giving such notice of prepayment, the Trustee may apply such amounts to the purchase of Certificates at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Revenue Fund) as the Trustee may be directed in writing by the Institute, except that the purchase price (exclusive of accrued interest) may not exceed said applicable Prepayment Price; and provided further that in the case of the Optional Prepayment Account in lieu of prepayment at such next succeeding date of prepayment, or in combination therewith, amounts in such account may be transferred to the Revenue Fund

and credited against the principal components of the Installment Payments in order of their due date as set forth in a Request of the Institute.

Rebate Fund. The Trustee shall establish and maintain a fund separate from any other fund established and maintained under the Trust Agreement designated as the Rebate Fund. Within the Rebate Fund, the Trustee shall maintain such accounts as shall be necessary to comply with the terms of any instructions given by the Institute pursuant to the Tax Agreement. Subject to the transfer provisions of the Trust Agreement, all money at any time deposited in the Rebate Fund shall be held by the Trustee in trust, to the extent required to satisfy the Rebate Amount (as defined in the Tax Agreement), for payment to the government of the United States of America. The County, the Institute or the Holder of any Certificates shall have no rights in or claim to such money. All amounts deposited into or on deposit in the Rebate Fund shall be governed by the Trust Agreement and by the Tax Agreement. The Trustee shall be deemed conclusively to have complied with such provisions if it follows the written directions of the Institute, including supplying all necessary information in the manner provided in the Tax Agreement, and shall have no liability or responsibility to enforce compliance by the Institute with the terms of the Tax Agreement.

Investment of Moneys in Funds. Subject to the limitations provided in the Trust Agreement, all moneys in any of the funds and accounts established pursuant to the Trust Agreement shall be invested by the Trustee at the written direction of the Institute solely in Investment Securities. All Investment Securities shall be acquired subject to the limitations set forth in the Trust Agreement, the limitations as to maturities set forth in and such additional limitations or requirements consistent with the foregoing as may be established by Request of the Institute. In the absence of written investment directions from the Institute, the Trustee shall invest solely in Investment Securities set forth in clause (e) of the definition thereof. Investment Securities shall be valued by the Trustee annually at the market value thereof. Deficiencies in the amount on deposit in any fund or account established pursuant to the Trust Agreement resulting from a decline in market value of such Investment Securities shall be restored no later than the succeeding valuation date.

Moneys in the Reserve Account may be invested in Investment Securities having an average aggregate weighted term to maturity not greater than five (5) years from the date of investment therein; provided, however, moneys in the Reserve Account may be invested in Investment Securities with a nominal maturity date which is greater than five (5) years as long as said Investment Securities by their terms allow the Trustee to obtain (at any time the Trustee is required to draw on the Reserve Account under the Trust Agreement) the corpus thereof at no less than the purchase price thereof without any loss in value.

Moneys in all funds and accounts shall be invested in Investment Securities maturing not later than the dates on which it is estimated that such moneys will be required by the Trustee.

All interest, profits and other income received from the investment of moneys in the Rebate Fund shall be deposited when received in such fund. All interest, profits and other income received from the investment of moneys in any other fund or account established pursuant to the Trust Agreement, shall be deposited when received (1) first, to the Reserve Account to the extent necessary to increase the balance therein to the Reserve Account Requirement and (2) second, to the Revenue Fund. Notwithstanding anything to the contrary contained in this paragraph, an amount of interest received with respect to any Investment Security equal to the amount of accrued interest, if any, paid as part of the purchase price of such Investment Security shall be credited to the fund or account for the credit of which such Investment Security was acquired.

Subject to the Trust Agreement, the Trustee may commingle any of the funds or accounts established pursuant to the Trust Agreement in a separate fund or funds for investment purposes only, provided that all funds or accounts held by the Trustee shall be accounted for separately as required by the Trust Agreement, and provided further that the Trustee shall not be liable or responsible for any loss resulting from such commingling.

Continuing Disclosure. Pursuant to the Sale Agreement, the Institute has undertaken all responsibility for compliance with continuing disclosure requirements, and the County shall have no liability to the Holders of the Certificates or any other person with respect to the Securities and Exchange Commission Rule 15c2-12. Notwithstanding any other provision of the Trust Agreement, failure of the Institute to comply with the Continuing Disclosure Agreement shall not be considered an Event of Default; however, the Trustee may (and, at the request of any Participating Underwriter (as defined in the Continuing Disclosure Agreement) or the Holders of at least twenty-five percent (25%) aggregate principal amount of Outstanding Certificates, shall) or any Certificateholder or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Institute to comply with its obligations under the Sale Agreement.

Events of Default. The following events shall be Events of Default under the Trust Agreement: (a) default in the due and punctual payment of the principal or Prepayment Price (or Purchase Price) or interest with respect to the Certificates when and as the same shall become due and payable; (b) default by the County or the Institute in the observance of any of the covenants, agreements or conditions on its part in the Trust Agreement contained, if such default shall have continued for a period of thirty (30) days after written notice thereof, specifying such default and requiring the same to be remedied, shall have been given to the County and the Institute by the Trustee, or to the County, the Institute and the Trustee by the Holders of not less than twenty-five percent (25%) in aggregate principal amount of the Certificates at the time Outstanding; or (c) a Purchase Agreement Default or a Sale Agreement Default.

Acceleration. If any Event of Default shall occur, then, and in each and every such case during the continuance of such Event of Default, the Trustee may, and upon the written direction of the Holders of a majority in aggregate principal amount of the Certificates then Outstanding, shall, upon notice in writing to the County and the Institute, (a) declare the principal component of all of the Installment Payments and the Certificates by which they are represented then Outstanding, and the interest accrued with respect thereto, to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in the Trust Agreement or in the Certificates contained to the contrary notwithstanding.

Any such declaration, however, is subject to the condition that if, at any time after such declaration and before any judgment or decree for the payment of the moneys due shall have been obtained or entered, there shall be deposited with the Trustee a sum sufficient to pay all Installment Payments the payment of which is overdue, with interest on such overdue principal component of such overdue Installment Payments at the rate borne by the respective Certificates, and the reasonable charges and expenses of the Trustee, and any and all other defaults known to the Trustee (other than in the payment of the Installment Payments due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, then, and in every such case, the Holders of not less than a majority in aggregate principal amount with respect to the Certificates then Outstanding by written notice to the County, the Institute and the Trustee, or the Trustee, if such declaration was made by the Trustee, may, on behalf of the Holders of all of the Certificates, rescind and annul such declaration and its consequences and waive such default; but no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon.

Trustee to Represent Certificateholders. The Trustee is irrevocably appointed (and the successive respective Holders of the Certificates by taking and holding the same, shall be conclusively deemed to have so appointed the Trustee) as trustee and true and lawful attorney-in-fact of the Holders of the Certificates for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to such Holders under the provisions of the Certificates, the Trust Agreement, the Sale Agreement, the Purchase Agreement and applicable provisions of law. Upon the occurrence and continuance of an Event of Default or other occasion giving rise to a right in the Trustee to represent the Certificateholders, the Trustee in its

discretion may, and upon the written request of the Holders of not less than twenty-five per cent (25%) in aggregate principal amount of the Certificates then Outstanding, and upon being indemnified to its satisfaction therefor, shall proceed to protect or enforce its rights or the rights of such Holders by such appropriate action, suit, mandamus or other proceedings as it shall deem most effectual to protect and enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement contained in the Trust Agreement, or in aid of the execution of any power granted under the Trust Agreement, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Trustee or in such Holders under the Trust Agreement, the Sale Agreement, the Purchase Agreement or any law; and upon instituting such proceeding, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver of the Revenues and other assets pledged under the Trust Agreement pending such proceedings. All rights of action under the Trust Agreement or the Certificates or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the Certificates or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in the name of the Trustee for the benefit and protection of all the Holders of such Certificates, subject to the provisions of the Trust Agreement.

The Certificateholders' Direction of Proceedings. Anything in the Trust Agreement to the contrary notwithstanding, the Holders of a majority in aggregate principal amount of the Certificates then Outstanding shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, to direct the method of conducting all remedial proceedings taken by the Trustee in accordance with the Trust Agreement, provided that such direction shall not be otherwise than in accordance with law and the provisions of the Trust Agreement, and that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Certificateholders not parties to such direction or the Trustee.

Limitation on Certificateholders' Right to Sue. No Holder of any Certificate shall have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the Trust Agreement, the Sale Agreement, the Purchase Agreement or any applicable law with respect to such Certificate, unless (1) such Holder shall have given to the Trustee written notice of the occurrence of an Event of Default; (2) the Holders of not less than twenty-five per cent (25%) in aggregate principal amount of the Certificates then Outstanding shall have made written request upon the Trustee to exercise the powers hereinbefore granted or to institute such suit, action or proceeding in its own name; (3) such Holder or said Holders shall have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; and (4) the Trustee shall have refused or omitted to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

Such notification, request, tender of indemnity, refusal or omission and consent are declared, in every case, to be conditions precedent to the exercise by any Holder of Certificates of any remedy under the Trust Agreement or under law; it being understood and intended that no one or more Holders of Certificates shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Trust Agreement or the rights of any other Holders of Certificates, or to enforce any right under the Trust Agreement, the Sale Agreement, the Purchase Agreement or other applicable law with respect to the Certificates, except in the manner provided under the Trust Agreement, and that all proceedings at law or in equity to enforce any such right shall be instituted, had and maintained in the manner provided under the Trust Agreement and for the benefit and protection of all Holders of the Outstanding Certificates, subject to the provisions of the Trust Agreement.

Notwithstanding any other provision in the Trust Agreement, each Certificateholder shall have the right to receive payment of the principal and the premium, if any, and interest represented by said Certificateholder's Certificate at the respective dates on which the same become due and payable in accordance with the terms, from the source and in the manner provided in such Certificate and in the Trust

Agreement, and to institute suit for the enforcement of any such payment, and such rights shall not be impaired without the consent of such Certificateholder.

Amendments Permitted. The Trust Agreement, the Purchase Agreement and the Sale Agreement, and the rights and obligations of the County, the Institute and of the Holders of the Certificates and of the Trustee may be modified or amended from time to time and at any time by a trust agreement(s), installment purchase agreement(s) or installment sale agreement(s), each or all supplemental to the Trust Agreement or thereto, which the County, the Institute and the Trustee may enter into when the written consent of the Holders of at least a majority in aggregate principal amount of the Certificates then Outstanding shall have been filed with the Trustee; provided that if such modification or amendment will, by its terms, not take effect so long as any Certificates of any particular Certificate Payment Date remain Outstanding, the consent of the Holders of such Certificates shall not be required and such Certificates shall not be deemed to be Outstanding for the purpose of any calculation of Certificates Outstanding under this section. No such modification or amendment shall (1) extend the Certificate Payment Date of any Certificate, or reduce the amount of principal represented thereby, or extend the time of payment or reduce the amount of any Mandatory Sinking Account Payment provided in the Trust Agreement for the payment of any Certificate, or reduce the rate of interest with respect thereto, or extend the time of payment of interest with respect thereto, or reduce any premium payable upon the prepayment thereof, without the written consent of the Holder of each Certificate so affected, or (2) reduce the aforesaid percentage of Certificates the consent of the Holders of which is required to effect any such modification or amendment, or permit the creation of any lien on the Revenues and other assets pledged under the Trust Agreement prior to or on a parity with the lien created by the Trust Agreement, or deprive the Holders of the Certificates of the lien created by the Trust Agreement on such Revenues and other assets (except as expressly provided in the Trust Agreement), without the consent of the Holders of all of the Certificates then Outstanding.

The Trust Agreement, the Sale Agreement and the Purchase Agreement and the rights and obligations of the County, of the Institute, of the Trustee and of the Holders of the Certificates may also be modified or amended from time to time and at any time by a Supplemental Trust Agreement, Supplemental Sale Agreement or Supplemental Purchase Agreement, respectively, which the County, the Institute and the Trustee may enter into without the consent of any Certificateholders, but only for any one or more of the following purposes:

(1) to add to the covenants and agreements of the County or the Institute contained in the Trust Agreement, the Sale Agreement or the Purchase Agreement other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Certificates (or any portion thereof), or to surrender any right or power reserved under the Trust Agreement to or conferred upon the County or the Institute, provided, that no such covenant, agreement, pledge, assignment or surrender shall materially adversely affect the interests of the Holders of the Certificates;

(2) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in the Trust Agreement, the Sale Agreement or the Purchase Agreement, or in regard to matters or questions arising under the Trust Agreement, the Sale Agreement or the Purchase Agreement, or to make any other revisions or additions to the Trust Agreement, the Sale Agreement or the Purchase Agreement as the County or the Institute may deem necessary or desirable, and which, in the opinion of the Trustee shall not materially adversely affect the interests of the Holders of the Certificates;

(3) to modify, amend or supplement the Trust Agreement in such manner as to permit the qualification of the Trust Agreement under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute, and which shall not materially adversely affect the interests of the Holders of the Certificates; or

(4) to provide any additional procedures, covenants or agreements to maintain the exclusion from gross income for federal income tax purposes of the interest payable with respect to the Purchase Agreement and the Certificates, including the amendment of any Tax Agreement.

Discharge of Trust Agreement. When the obligations of the County under the Purchase Agreement shall cease pursuant thereto (except for the right of the Trustee and the obligation of the County to have the money and Investment Securities mentioned therein applied to the payment of Installment Payments as therein set forth), then and in that case, the obligations created by the Trust Agreement shall thereupon cease, determine and become void, except for the right of the Trustee to apply such moneys and Investment Securities to the payment of the Certificates as set forth in the Trust Agreement, and the Trustee shall turn over to the Institute upon its written request, as an overpayment of Purchase Payments, any surplus in the Revenue Fund and all balances remaining in any other funds or accounts (except the Rebate Fund which shall be governed by the Tax Agreement) other than moneys and Investment Securities held for the payment of the Certificates on their Certificate Payment Dates or upon prepayment, which moneys and Investment Securities shall continue to be held by the Trustee in trust for the benefit of the Certificate holders and shall be applied by the Trustee to the payment, when due, of the principal and any premium and interest represented by the Certificates, and after such payment, the Trust Agreement shall become void.

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APPENDIX D

FORM OF CONTINUING DISCLOSURE AGREEMENT

This CONTINUING DISCLOSURE AGREEMENT (the “Disclosure Agreement”) is executed and delivered by BURNHAM INSTITUTE FOR MEDICAL RESEARCH (the “Institute”) and U.S. BANK NATIONAL ASSOCIATION, as dissemination agent (the “Dissemination Agent”), in connection with the certificates of participation (the “Certificates”) evidencing proportionate interests in the installment payments to be made by the County of San Diego (the “County”) pursuant to that certain Installment Purchase Agreement, dated as of February 1, 2006, by and between the Institute and the County, executed and delivered pursuant to that certain Trust Agreement, dated as of February 1, 2006, by and among U.S. Bank National Association (the “Trustee”), the Institute and the County (the “Trust Agreement”). The Institute and the Trustee covenant and agree as follows:

Section 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Institute and the Dissemination Agent for the benefit of the holders and beneficial owners of the Certificates and in order to assist the Participating Underwriters in complying with the Rule (defined below). The Institute and the Dissemination Agent acknowledge that the County has undertaken no responsibility with respect to any reports, notices or disclosures provided or required under this Disclosure Agreement, and has no liability to any person, including any holder of the Certificates, with respect to any such reports, notices or disclosures.

Section 2. Definitions. Capitalized terms used herein but not otherwise defined shall have the meanings ascribed to such terms as set forth in that certain Installment Sale Agreement, dated as of February 1, 2006, by and between the County and the Institute (the “Installment Sale Agreement”). The following capitalized terms shall have the following meanings:

“*Annual Report*” shall mean any Annual Report provided by the Institute pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

“*Disclosure Representative*” shall mean the Chief Financial Officer of the Institute or his or her designee, or such other person as the Institute shall designate in writing to the Trustee from time to time.

“*Dissemination Agent*” shall mean U.S. Bank National Association, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the Institute and which has filed with the Trustee a written acceptance of such designation.

“*Listed Events*” shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

“*National Repository*” shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule.

“*Participating Underwriter*” shall mean the original underwriter of the Certificates required to comply with the Rule in connection with offering of the Certificates.

“*Repository*” shall mean each National Repository and each State Repository.

“*Rule*” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“*State Repository*” shall mean any public or private repository or entity designated by the State of California as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Disclosure Agreement, there is no State Repository.

Section 3. Provision of Annual Reports.

(a) The Institute shall, or shall cause the Dissemination Agent to, not later than six months after the end of the Institute’s fiscal year (which currently would be December 31), commencing with the report for the 2006 Fiscal Year, provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of the Institute may be submitted separately from the balance of the Annual Report, and later than the date required above for the filing of the Annual Report if not available by that date. If the Institute’s fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(f).

(b) Not later than fifteen (15) Business Days prior to the date specified in subsection (a) for the providing of the Annual Report to Repositories, the Institute shall provide the Annual Report to the Dissemination Agent and the Trustee (if the Trustee is not the Dissemination Agent). If by such date, the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall contact the Institute and the Trustee to determine if the Institute is in compliance with the first sentence of this subsection (b).

(c) If the Dissemination Agent is unable to verify that an Annual Report has been provided to the Repositories by the date required in subsection (a), the Dissemination Agent shall send a notice to the Municipal Securities Rulemaking Board and each State Repository, in substantially the form attached as Exhibit A.

(d) The Dissemination Agent shall:

- (i) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and each State Repository, if any; and
- (ii) file a report with the Institute, the County and (if the Dissemination Agent is not the Trustee) the Trustee certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided, and listing all the Repositories to which it was provided.

Section 4. Content of Annual Reports. The Institute’s Annual Report shall contain or incorporate by reference the following:

(a) Audited Financial Statements prepared in accordance with generally accepted accounting principles. If the Institute’s audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) Unless otherwise set forth in the audited financial statements filed on or prior to the annual filing deadline for Annual Reports provided for in Section 3 above, the financial information and operating data with respect to the Institute set forth in Appendix A to the official statement prepared for the Certificates under the captions:

- (i) Principal Investigators Hired and Departed;
- (ii) Summary of Grant Revenue;
- (iii) Investments Summary;
- (iv) Contributions Summary;
- (v) Summary of Revenues and Expenditures;
- (vi) Debt Service Coverage; and
- (vii) Employees;

(c) In addition to any of the information expressly required to be provided under paragraphs (a) and (b) of this Section, the Institute shall provide such further information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues with respect to which the Institute is an “obligated person” (as defined by the Rule), which have been filed with each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The Institute shall clearly identify each such other document so included by reference.

Section 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the Institute shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Certificates, if material:

- (i) Principal and interest payment delinquencies.
- (ii) Non-payment related defaults.
- (iii) Unscheduled draws on debt service reserves reflecting financial difficulties.
- (iv) Unscheduled draws on credit enhancements reflecting financial difficulties.
- (v) Substitution of credit or liquidity providers, or their failure to perform.
- (vi) Adverse tax opinions or events affecting the tax-exempt status of the security.
- (vii) Modifications to rights of security holders.

- (viii) Contingent or unscheduled bond calls.
- (ix) Defeasances.
- (x) Release, substitution, or sale of property securing repayment of the securities.
- (xi) Rating changes.

(b) The Dissemination Agent shall, within one (1) Business Day of obtaining actual knowledge of the occurrence of any of the Listed Events contact the Disclosure Representative and the County, inform such persons of the event, and request that the Institute promptly notify the Dissemination Agent in writing whether or not to report the event pursuant to subsection (f).

(c) Whenever the Institute obtains knowledge of the occurrence of a Listed Event, because of a notice from the Dissemination Agent pursuant to subsection (b) or otherwise, the Institute shall as soon as possible determine if such event would be material under applicable Federal securities law.

(d) If the Institute has determined that knowledge of the occurrence of a Listed Event would be material under applicable Federal securities law the Institute shall promptly so notify the Dissemination Agent in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to subsection (f).

(e) If in response to a request under subsection (b), the Institute determines that the Listed Event would not be material under applicable Federal securities law, the Institute shall so notify the Dissemination Agent in writing and instruct the Dissemination Agent not to report the occurrence pursuant to subsection (f).

(f) If the Dissemination Agent has been instructed by the Institute to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the Municipal Securities Rulemaking Board and each State Repository with a copy to the Institute and the County. Notwithstanding the foregoing notice of Listed Events described in subsections (a)(viii) and (ix) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to the holders of affected Certificates pursuant to the Trust Agreement.

Section 6. Electronic Filing. Submission of Annual Reports and notices of Listed Events to DisclosureUSA.org or another “Central Post Office” designated and accepted by the Securities and Exchange Commission shall constitute compliance with the requirement of filing such reports and notices with each Repository hereunder; and the Institute may satisfy its obligations hereunder to file any notice, document or information with a Repository by filing the same with any dissemination agent or conduit, including DisclosureUSA.org or another “Central Post Office” or similar entity, assuming or charged with responsibility for accepting notices, documents or information for transmission to such Repository, to the extent permitted by the Securities and Exchange Commission or Securities and Exchange Commission staff or required by the Securities and Exchange Commission. For this purpose, permission shall be deemed to have been granted by the Securities and Exchange Commission staff if and to the extent the agent or conduit has received an interpretive letter, which has not been revoked, from the Securities and Exchange Commission staff to the effect that using the agent or conduit to transmit information to the Repository will be treated for purposes of the Rule as if such information were transmitted directly to the Repository.

Section 7. Termination of Reporting Obligation. The Institute's obligations under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Certificates. If the Institute's obligations under the Installment Sale Agreement are assumed in full by some other entity, such person shall be responsible for compliance with this Disclosure Agreement in the same manner as if it were the Institute and the original Institute shall have no further responsibility hereunder. If such termination occurs prior to the final maturity of the Certificates, the Institute shall give notice of such termination in the same manner as for a Listed Event under Section 5(f).

Section 8. Dissemination Agent. The Institute may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. If at any time there is not any other designated Dissemination Agent, the Trustee shall be the Dissemination Agent. The initial Dissemination Agent shall be the Trustee.

Section 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Institute and the Dissemination Agent may amend this Disclosure Agreement (and the Dissemination Agent shall agree to any amendment so requested by the Institute) and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(a) if the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the Certificates, or type of business conducted;

(b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the Certificates, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the proposed amendment or waiver either (i) is approved by holders of the Certificates in the manner provided in the Trust Agreement for amendments to the Trust Agreement with the consent of holders, or (ii) does not, in the opinion of the Trustee or nationally recognized bond counsel, materially impair the interests of the holders or beneficial owners of the Certificates.

If the annual financial information or operating data to be provided in the Annual Report is amended pursuant to the provisions hereof, the first annual financial information filed pursuant hereto containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

If an amendment is made to the undertaking specifying the accounting principles to be followed in preparing financial statements, the annual financial information, for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information, in order to provide information to investors to enable them to evaluate the ability of the Institute to meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative. A notice of the change in the accounting principles shall be sent to the Repositories in the same manner as for a Listed Event under Section 5(f).

Section 10. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Institute from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the Institute chooses to include any information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is specifically required by this Disclosure Agreement, the Institute shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 11. Default. In the event of a failure of the Institute or the Dissemination Agent to comply with any provision of this Disclosure Agreement, the Trustee may (and, at the request of any Participating Underwriter or the holders of at least 25% aggregate principal amount of Outstanding Certificates, shall), or any holder or beneficial owner of the Certificates may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Institute or the Dissemination Agent, as the case may be, to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Trust Agreement or the Installment Sale Agreement, and the sole remedy under this Disclosure Agreement in the event of any failure of the Institute or the Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance.

Section 12. Duties, Immunities and Liabilities of Trustee and Dissemination Agent. Article VIII of the Trust Agreement is hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Trust Agreement. The Dissemination Agent (if other than the Trustee or the Trustee in its capacity as Dissemination Agent) shall have only such duties as are specifically set forth in this Disclosure Agreement, and the Institute agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the Institute under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Certificates. Neither the Trustee nor the Dissemination Agent shall have any responsibility to review or verify the accuracy of any of the reports or information provided by the Institute pursuant to this Disclosure Agreement.

Section 13. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the County, the Institute, the Trustee, the Dissemination Agent, the Participating Underwriters, and holders and beneficial owners from time to time of the Certificates, and shall create no rights in any other person or entity.

Section 14. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Dated as of February 1, 2006

**BURNHAM INSTITUTE FOR MEDICAL
RESEARCH**

By: _____
Nicole DeBerg
Chief Financial Officer

U.S. BANK NATIONAL ASSOCIATION,
in its capacity as Dissemination Agent

By: _____
Authorized Officer

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: County of San Diego (the "County")

Name of Issue: \$59,405,000 Certificates of Participation Evidencing Proportionate Undivided Interests in Installment Payments to be made by the County of San Diego pursuant to an Installment Purchase Agreement with the Burnham Institute for Medical Research (the "Certificates")

Name of Borrower: Burnham Institute for Medical Research (the "Institute")

Date of Issuance: March 8, 2006

NOTICE IS HEREBY GIVEN that the Institute has not provided an Annual Report with respect to the above-named Certificates as required by Section 6.08 of the Trust Agreement, dated as of February 1, 2006, by and among U.S. Bank National Association, as Trustee, the County and the Institute (each referenced above) and by Section 5.8 of the Installment Sale Agreement dated as of February 1, 2006, by and between the County and the Institute. The Institute anticipates that the Annual Report will be filed by _____.

Dated: _____

U.S. BANK NATIONAL ASSOCIATION, as
Dissemination Agent, on behalf of the
Institute

cc: Burnham Institute for Medical Research

APPENDIX E

FORM OF FINAL OPINION OF SPECIAL COUNSEL

Upon execution and delivery of the Certificates, Orrick, Herrington & Sutcliffe LLP, Los Angeles, California, Special Counsel, proposes to render its final approving opinion with respect to the Certificates in substantially the following form:

[Date of Delivery]

Board of Supervisors of the
County of San Diego
1600 Pacific Highway
San Diego, California 92101

Certificates of Participation
Evidencing Proportionate Interests of the Holders Thereof
in Installment Payments to be Paid by the
County of San Diego
from Purchase Payments to be Received from the
Burnham Institute for Medical Research

(Final Opinion)

Ladies and Gentlemen:

We have acted as special counsel to the County of San Diego, California (the "County") in connection with the execution and delivery of \$59,405,000 principal amount of certificates of participation (the "Certificates"), each evidencing a proportionate ownership interest of the holders thereof in the rights to receive certain installment payments (the "Installment Payments") to be paid by the County pursuant to an installment purchase agreement, dated as of February 1, 2006 (the "Purchase Agreement"), between the County and the Burnham Institute for Medical Research (the "Institute"), all of which rights to receive such Installment Payments having been assigned without recourse by the Institute to U.S. Bank National Association, as trustee (the "Trustee"). The Certificates have been executed by the Trustee pursuant to the terms of a trust agreement, dated as of February 1, 2006 (the "Trust Agreement"), among the County, the Institute and the Trustee. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in an installment sale agreement, dated as of February 1, 2006 (the "Sale Agreement"), between the County and the Institute.

In such connection, we have reviewed the Purchase Agreement, the Sale Agreement, the Trust Agreement, a Tax Certificate and Agreement, dated the date hereof (the "Tax Agreement"), between the County and the Institute, opinions of counsel to the County, the Institute and the Trustee, certificates of the County, the Institute, the Trustee and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

We have relied on the opinion of Sheppard, Mullin, Richter & Hampton LLP, Counsel to the Institute, regarding, among other matters, the current qualification of the Institute as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986 (the "Code") and use of the facilities financed with the proceeds of the Certificates in activities that are not considered unrelated trade or business activities of the Institute within the meaning of Section 513 of the Code. We note that such opinion is subject to a number of qualifications and limitations. Failure of the Institute to be organized and operated in accordance with the Internal Revenue Service's requirements for the maintenance of its

status as an organization described in Section 501(c)(3) of the Code, or use of the facilities financed by the Certificates in activities that are considered unrelated trade or business activities of the Institute within the meaning of Section 513 of the Code, may result in the interest portion of the Installment Payments to be paid by the County under the Purchase Agreement and received by the Beneficial Owners being included in federal gross income, possibly from the date of execution and delivery of the Certificates.

Certain agreements, requirements and procedures contained or referred to in the Purchase Agreement, the Sale Agreement, the Trust Agreement, the Tax Agreement and other relevant documents may be changed and certain actions (including, without limitation, prepayment of the Certificates) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. No opinion is expressed herein as to any Certificate or the interest component of any Installment Payment if any such change occurs or action is taken or omitted upon the advice or approval of counsel other than ourselves.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur. Our engagement with respect to the Certificates has concluded with their execution and delivery, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the County. We have not undertaken to verify independently, and have assumed, the accuracy of the factual matters represented, warranted or certified in the documents referred to in the first paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Purchase Agreement, the Sale Agreement, the Trust Agreement and the Tax Agreement, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause the interest components of the Installment Payments to be included in gross income for federal income tax purposes.

We call attention to the fact that the rights and obligations under the Certificates, the Purchase Agreement, the Sale Agreement, the Trust Agreement and the Tax Agreement and their enforceability are subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against counties in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the foregoing documents nor do we express any opinion with respect to the state or quality of title to or interest in any of the real or personal property described in or subject to the lien of the Purchase Agreement, the Sale Agreement or the Trust Agreement or the accuracy or sufficiency of the description of any such property contained therein. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Certificates and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Purchase Agreement, the Sale Agreement and the Trust Agreement have been duly executed and delivered, and constitute valid and binding obligations of the County.
2. The obligation of the County to make the Installment Payments during the term of the Purchase Agreement constitutes a valid and binding obligation of the County, payable from funds of the County lawfully available therefore.

3. Assuming due authorization, execution and delivery of the Trust Agreement and the Certificates by the Trustee, the Certificates are entitled to the benefits of the Trust Agreement.

4. The interest component of the Installment Payments to be paid by the County under the Purchase Agreement and received by the registered owners of the Certificates is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code and is exempt from State of California personal income taxes. Such interest component is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding other tax consequences related to the accrual or receipt of such interest or the ownership or disposition of the Certificates.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

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APPENDIX F

BOOK-ENTRY ONLY SYSTEM

The information in this Appendix F concerning The Depository Trust Company, New York, New York, and DTC's book entry system has been obtained from DTC and neither the County nor the Institute takes no responsibility for the completeness or accuracy thereof. The County and the Institute cannot and do not give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Certificates, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Certificates, or (c) prepayment or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Certificates, or that they will do so on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix F. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Certificates. The Certificates will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered security certificate will be issued for each maturity of the Certificates, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation, (respectively, "NSCC," "FICC," and "EMCC," also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org; nothing contained in such websites is incorporated into this Official Statement.

Purchases of the Certificates under the DTC system must be made by or through Direct Participants, which will receive a credit for the Certificates on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of

the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Certificates are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Certificates, except in the event that use of the book-entry system for the Certificates is discontinued.

To facilitate subsequent transfers, all Certificates deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Certificates with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Certificates; DTC's records reflect only the identity of the Direct Participants to whose accounts such Certificates are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Certificates may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Certificates, such as prepayments, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of the Certificates may wish to ascertain that the nominee holding the Certificates for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Prepayment notices shall be sent to DTC. The conveyance of notices and other communications by DTC to DTC Participants, by DTC Participants to Indirect Participants and by DTC Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Any failure of DTC to advise any DTC Participant, or of any DTC Participant or Indirect Participant to notify a Beneficial Owner, of any such notice and its content or effect will not affect the validity of the prepayment of the Certificates called for prepayment or of any other action premised on such notice. Prepayment of portions of the Certificates by the County will reduce the outstanding principal amount of Certificates held by DTC. In such event, DTC will implement, through its book-entry system, a prepayment by lot of interests in the Certificates held for the account of DTC Participants in accordance with its own rules or other agreements with DTC Participants and then DTC Participants and Indirect Participants will implement a prepayment of the Certificates for the Beneficial Owners.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Certificates unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal, premium, if any, and interest evidenced by the Certificates will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the County or the Trustee, on payable date in accordance with their respective holdings

shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the Trustee, or the County, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium, if any, and interest evidenced by the Certificates to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the County or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its Certificates purchased or tendered, through its Participant, to the Remarketing Agent, and shall effect delivery of such Certificates by causing the Direct Participant to transfer the Participant's interest in the Certificates, on DTC's records, to the Remarketing Agent. The requirement for physical delivery of Certificates in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Certificates are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Certificates to the Remarketing Agent's DTC account.

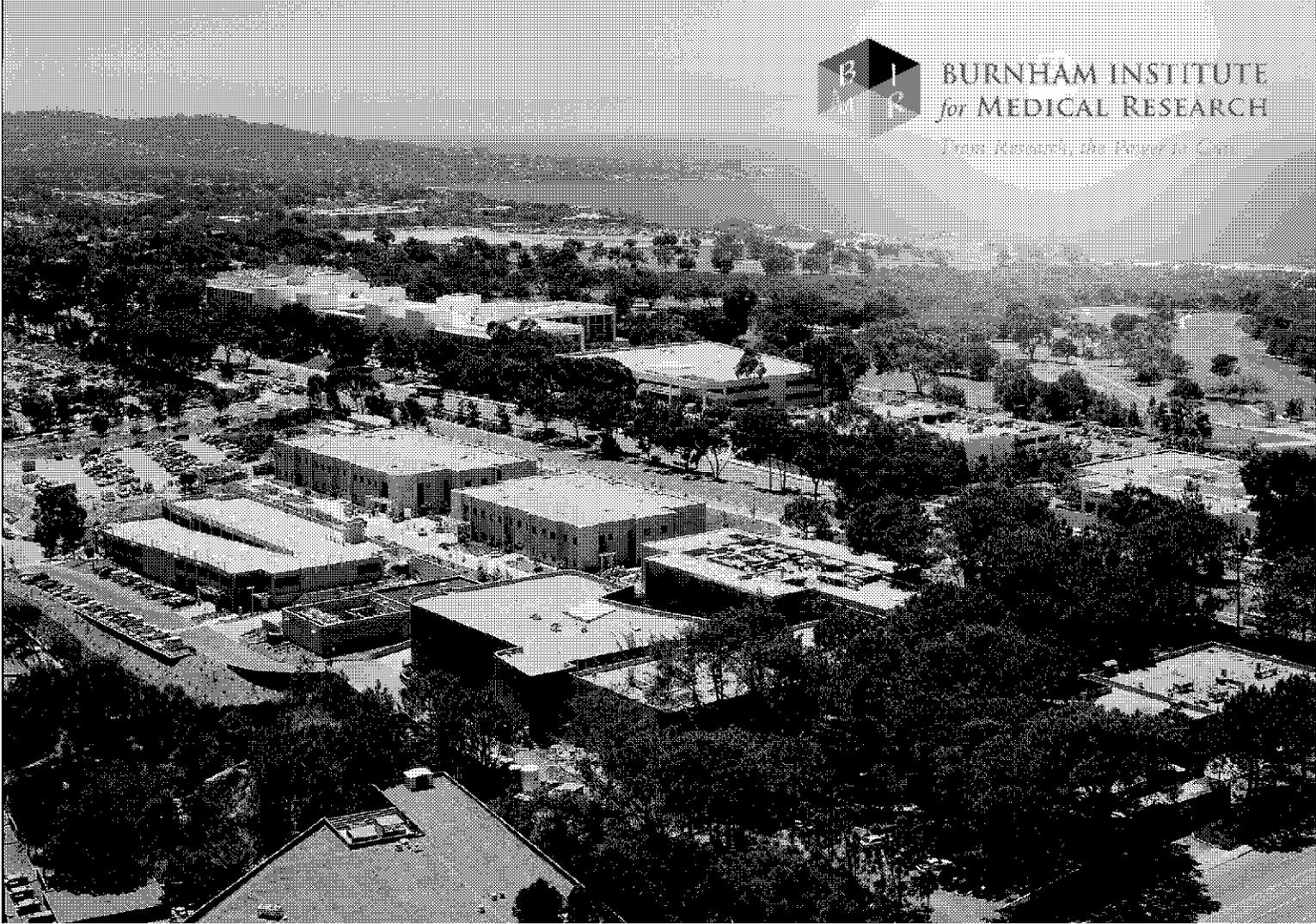
NEITHER THE COUNTY, THE INSTITUTE NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS WITH RESPECT TO THE PAYMENTS OR THE PROVIDING OF NOTICE TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS OR THE SELECTION OF CERTIFICATES FOR PREPAYMENT.

Neither the County, the Institute nor the Trustee can give any assurances that DTC, DTC Participants, Indirect Participants or others will distribute payments of principal, premium, if any, and interest evidenced by the Certificates paid to DTC or its nominee, as the registered Owner, or any prepayment or other notice, to the Beneficial Owners or that they will do so on a timely basis or that DTC will serve and act in a manner described in this Official Statement.

DTC may discontinue providing its services as depository with respect to the Certificates at any time by giving reasonable notice to the County or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

The County may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, certificates will be printed and delivered.

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BURNHAM INSTITUTE
for **MEDICAL RESEARCH**

From Research, the People's Care