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

FORM 20-F

☐ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2013

OR

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

OR

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

DATE OF EVENT REQUIRING THIS SHELL COMPANY REPORT _____

COMMISSION FILE NO. 000-30902

_____

Compugen Ltd.

(Exact name of registrant as specified in its charter and translation of registrant's name into English)

_____

Israel
(Jurisdiction of incorporation or organization)

72 Pinchas Rosen Street, Tel Aviv, 6951294 Israel
(Address of principal executive offices)

_____

Dikla Czaczkes Axselbrad, Chief Financial Officer
Phone: +972-3-765-8585, Fax: +972-3-765-8555
72 Pinchas Rosen Street, Tel Aviv, 6951294 Israel
(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

_____

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
Ordinary shares, par value NIS 0.01 per share	The NASDAQ Stock Market LLC (The NASDAQ Global Market)

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: 41,002,113 Ordinary Shares

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

☐ Yes ☒ No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

☐ Yes ☒ No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days:

☒ Yes ☐ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

☒ Yes ☐ No

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

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP ☒

International Financial Reporting Standards as issued by the International Accounting Standards Board ☐

Other ☐

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 ☐ Item 18 ☐

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

☐ Yes ☒ No

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CAUTIONARY STATEMENT REGARDING

FORWARD-LOOKING STATEMENTS

This annual report on Form 20-F includes "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934 and the Private Securities Litigation Reform Act of 1995. These statements include words such as "may", "assume", "expect", "anticipate", "could", "project", "estimate", "possible", "potential", "believe", and "intend", and describe opinions about future events. We have based these forward-looking statements on information available to us on the date hereof, and on our current assumptions, intentions, beliefs, expectations and projections about future events. We assume no obligation to update any such forward-looking statements. These forward-looking statements involve known and unknown risks and uncertainties that may cause the actual results, performance or achievements of Compugen to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Factors that could cause our actual results to differ materially from those projected in the forward-looking statements include, without limitation, the risk factors set forth under "Item 3. Key Information. Risk Factors", the information about us set forth under "Item 4. Information about the Company" and information related to our financial condition under "Item 5. Operating and Financial Review and Prospects".

All references in this annual report on Form 20-F to "Compugen," the "Company," "we," "us," "our," or similar references refer to Compugen Ltd. and our wholly owned subsidiary Compugen USA, Inc., except where the context otherwise requires or as otherwise indicated.

We have prepared our consolidated financial statements in United States dollars and in accordance with generally accepted accounting principles in the United States, or U.S. GAAP. All references herein to "dollars" or "$" are to United States dollars, and all references to "Shekels" or "NIS" are to New Israeli Shekels.

PART I.

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. SELECTED CONSOLIDATED FINANCIAL DATA

The following selected consolidated financial data are derived from our audited consolidated financial statements which have been prepared in accordance with U.S. GAAP. The selected consolidated financial data as of December 31, 2013 and 2012 and for the years ended December 31, 2013, 2012 and 2011 have been derived from our audited consolidated financial statements and notes thereto included elsewhere in this annual report. The selected consolidated financial data as of December 31, 2011, 2010 and 2009 and for the years ended December 31, 2010 and 2009 have been derived from audited consolidated financial statements not included in this annual report. The selected consolidated financial data set forth below should be read in conjunction with and are qualified by reference to "Item 5. Operating and Financial Review and Prospects" and our consolidated financial statements and notes thereto included elsewhere in this annual report.

Selected Financial Data

	Year ended December 31,				
	2009	**2010**	**2011**	**2012**	**2013**
	(US$ in thousands, except share and per share data)				
Consolidated Statement of Operations Data					
Revenues	$ 250	$ 1,115	$ -	$ 242	$ 3,549
Total operating expenses (1)	7,879	8,769	11,979	13,583	18,083
Operating loss	(7,629)	(7,878)	(11,979)	(13,542)	(17,043)
Financial and other income (expenses), net	3,786	675	(25)	(86)	3,460
Losses before tax expenses	(3,843)	(7,203)	(12,004)	(13,628)	(13,583)
Income tax expenses	-	-	-	-	(500)
Net loss	(3,831)	(7,203)	(12,004)	(13,628)	(14,083)
Realized and unrealized gain (loss) on Investment in Evogene	3,594	2,716	(2,141)	1,103	(739)
Total comprehensive loss	(237)	(4,487)	(14,145)	(12,525)	(14,822)
Basic and diluted net loss per share	$ (0.13)	$ (0.22)	$ (0.35)	$ (0.38)	$ (0.36)
Weighted average number of ordinary shares used in computing basic net loss per share	28,608,317	33,284,017	34,276,697	35,844,496	38,869,438
Weighted average number of ordinary shares used in computing diluted net loss per share	28,608,317	33,284,017	34,276,697	36,249,262	38,869,438

(1) Includes stock based compensation – see Note 9 of our 2013 consolidated financial statements.

	As of December 31,				
	2009	2010	2011	2012	2013
	(US$ in thousands)				
Consolidated Balance Sheet Data					
Cash and cash equivalents, short-term bank deposits, marketable securities and restricted cash	$ 15,800	$ 22,508	$ 22,463	$ 19,685	$ 46,920
Receivables on account of shares and from funding arrangement	7,790	5,000	-	-	-
Investment in Evogene	3,898	6,227	4,093	5,196	4,565
Total assets	30,185	36,458	29,081	28,909	56,711
Deferred Revenues	-	-	-	-	6,772
Research and development funding arrangements and others	-	4,037	6,434	7,872	13,189
Accumulated deficit	(161,284)	(168,487)	(180,491)	(194,119)	(208,202)
Total shareholders' equity	27,398	28,285	19,581	17,672	31,888

For additional financial information, please see “Item 5. Operating and Financial Review and Prospects – A. Operating Results - Results of Operations”.

B. CAPITALIZATION AND INDEBTEDNESS

Not applicable.

C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not applicable.

D. RISK FACTORS

Many factors could affect our financial condition, cash flows and results of operations. We are subject to various risks including all the risks which are inherent in pharmaceutical discovery and development and those risks resulting from changing economic, political, social, industry, business and financial conditions in Israel and the major market countries. If we do not successfully, or cannot, address the risks to which we are subject, we could experience a material adverse effect on our business, results of operations and financial condition, which could include the need to limit or even discontinue our business operations, and accordingly our share price, may decline. We can give no assurance that we will successfully address any of these risks. The principal risks we face are described below.

Risks Related to our Business, Financial Results and Financing Needs

We cannot provide assurance that our business model will succeed in generating substantial revenues.

Our business model is primarily based on receiving revenues in the form of fees, research revenues, milestone payments, royalties and other revenue sharing payments from the commercialization of drug and diagnostic products by third parties based on product candidates (i) discovered by us and then licensed to such third parties, and/or (ii) discovered pursuant to various forms of collaborations with such third parties whereby our discovery platforms or other discovery capabilities target areas of mutual interest. To date, third party arrangements have only been entered into at early validation or pre-clinical stages which have an inherent risk of high failure rate. Following establishment and validation of a sufficiently broad and integrated infrastructure of our individual predictive discovery capabilities into a "therapeutics needs (market) driven" discovery process, during 2010, a program was initiated to predict and select novel molecules in specific areas of high interest in both oncology and immunology. Therapeutic product candidates resulting from this "therapeutics needs (market) driven" effort are being validated and advanced forward in the preclinical stage prior to licensing or other collaborations (our "Pipeline Program"). To date, we have entered into only one commercial arrangement with Bayer Pharma AG ("Bayer") with respect to our Pipeline Program molecules and, other than that, we have received only minimal revenues from limited commercialization efforts with respect to molecules discovered during our infrastructure building period. We cannot be certain this business model will generate a stable or significant revenue stream. The inability to derive adequate revenues from our business model would materially harm our business, financial condition and results of operations and could result in the need to limit or even discontinue our business operations.

We have a history of losses, we expect to incur future losses and we may never achieve or sustain profitability.

As of December 31, 2013, we had an accumulated deficit of approximately $208 million and had incurred net losses of approximately $12.0 million in 2011, approximately $13.6 million in 2012, and approximately $14.1 million in 2013. In addition, we expect to continue to incur net losses in the future due to the costs and expenses associated with our expanding research and development activities, including significantly increasing Pipeline Program activities, our increase in activities in the United States, and the development, validation and integration of additional discovery platforms. To date, we have entered into only one commercial arrangement with respect to our Pipeline Program molecules and, other than that, we have received only minimal revenues from limited commercialization efforts with respect to molecules discovered during our infrastructure building period. We cannot be certain that we will enter into additional arrangements for our Pipeline Program candidates or other discoveries or capabilities, or that such additional arrangements will provide sufficient revenues to achieve profitability. Even if we do achieve profitability, we may not be able to sustain or increase profitability.

We may need to raise additional funds in the future, and if we are unable to raise such additional funds, we may need to curtail or cease operations. To the extent any such funding is based on the sale of equity, our existing shareholders would experience dilution of their shareholdings.

We believe that our existing cash and cash equivalents and short-term bank deposits will be sufficient to fund our operations for at least the next 12 months, taking into consideration the anticipated increase in our R&D expenditures of more than 60% as compared to 2013. However, we cannot predict with any degree of certainty when, or even if, we will achieve profitability and therefore may need additional funds to continue financing our discovery, validation, development and commercialization activities. In addition, we may seek additional capital due to favorable market conditions or strategic considerations even if we believe we have sufficient funds for our current or future operating plans.

Additional funds, including proceeds from commercialization agreements, or from other financings, may not be available to us when needed, on acceptable terms, or at all. In addition, the terms of any financing may adversely affect the holdings or the rights of our existing shareholders. For example, if we raise additional funds by issuing equity securities, our existing shareholders would experience dilution of their shareholdings. Debt financing, if available, may involve restrictive covenants that could limit our flexibility in conducting future business activities. If we are unable to obtain funding on a timely basis, we may be required to significantly curtail one or more of our research or development programs. We also could be required to seek funds through arrangements with collaborators or others that may require us to enter into arrangements on terms that would otherwise not be acceptable to us. Any failure to raise capital when needed would materially harm our business, financial condition and results of operations.

Our Pipeline Program will require additional resources that may not be available.

In 2010 we initiated our Pipeline Program pursuant to which we are both (i) substantially increasing the number of predicted and selected therapeutic candidates being evaluated by us, and (ii) taking certain therapeutic candidates beyond their validation stage (of either disease animal model for Fc fusion proteins or drug target expression profile for monoclonal antibody ("mAb") targets and antibody-drug conjugate ("ADC") targets) into preclinical activities for Fc fusion proteins and to disease animal models for therapeutic mAbs against the targets, and in selected cases, possibly clinical evaluation. Assuming a similar level of success as we experienced in the past in the initial validation stages, this may result in multiple product candidates reaching more costly stages of research and development in parallel. If we are not able to secure the funding or the technologies required for these more advanced activities, we may be required to abandon, postpone, or attempt to license out certain molecules at an earlier than anticipated stage, which may result in a substantial reduction in the potential returns from the Pipeline Program, or even result in the inability to have some or all of such successful "proof of concept" therapeutic candidates further developed and commercialized.

We operate in a rapidly developing field and will be required to allocate substantial additional funds in the future to our research activities.

Our drug and diagnostic product candidate discovery capabilities rely on a proprietary infrastructure of predictive models, algorithms and other computational tools incorporating proprietary knowledge of key biological phenomena. Life science today is a rapidly changing field with substantial research being undertaken on a worldwide basis both by academia and industry. In order to maintain our competitive position in predictive discovery, we must continue to allocate resources to broadening and deepening our scientific infrastructure. Any inability to allocate such resources when needed could materially harm our future business, financial condition and results of operations.

We have a limited operating history with respect to the commercialization aspects of our business model upon which investors can base an investment decision or upon which to predict future revenues.

Our ability to generate revenues from collaboration and licensing activities for current and future product candidate discoveries, primarily in the form of fees, research revenues, milestone payments, royalties and other revenue sharing payments has had limited success to date. In 2013, we entered into our first collaboration with respect to our Pipeline Program activities, and have received only minimal revenues from our earlier collaborations based on discoveries made during our infrastructure building. We recognized $3.5 million in revenue in 2013, $242,000 in 2012 and no revenue in 2011. Furthermore, only in 2010 did we implement our Pipeline Program pursuant to which we are advancing certain therapeutic product candidates past disease animal model proof of concept or other validation studies and therefore we have very limited experience with respect to the financial terms that may be available for our candidates at later stages of validation and development, and financial terms for agreements by other companies, to the degree disclosed, vary greatly. Therefore, our operating history with respect to the commercialization aspects of our business model provides a limited basis to assess our ability to generate significant fees, research revenues, milestone payments, royalties or other revenue sharing payments from the licensing and commercialization of our product candidate discoveries, or from research and development collaborations.

Risks Related to our Discovery and Development Activities

We are focusing our discovery and development activities on, mAb drug targets, mAb therapeutics, and Fc fusion proteins for uses in oncology and immunology, and have chosen novel immune checkpoint proteins as the objective for our first focused discovery program. If we fail to continue to discover and develop product candidates of industry interest in these fields, or to focus our Pipeline Program efforts on the most promising of such discoveries and candidates, our business will likely be materially harmed.

Since late 2010 we have chosen to focus our broadly applicable predictive discovery capability in the areas of oncology and immunology, including both auto-immune and inflammatory conditions, and more specifically on monoclonal antibody therapeutics and Fc fusion protein to address unmet needs in these fields. We have also chosen immune checkpoints as the objective for our first focused discovery program and more recently we have initiated our second focused program for discovery of targets for antibody-drug-conjugate (ADC) therapy. The result of our 2010 focusing decision is that we are not undertaking internal development in other areas, including those where we previously demonstrated discovery capabilities, such as diagnostic products and peptide based drugs, and intend to pursue such opportunities only in collaboration with third parties. With respect to checkpoint proteins, although there have been positive clinical results reported by others with respect to a small number of products based on certain checkpoint proteins, resulting in substantial industry, academic and medical interest, there can be no assurance that our checkpoints, which currently are the basis for the majority of candidates in our Pipeline Program, will provide similar clinical advantages or interest, that no long term adverse effects will be seen, or that a different class of molecules will not be discovered with comparable or superior attributes. In the event of any of these occurrences, the actual and/or perceived value of a substantial portion of our Pipeline Program would likely be reduced in which case our business may be harmed. Additionally, although certain of our initial candidates based on Compugen discovered checkpoint proteins are generating interest from potential partners, to date we have signed only one collaboration involving such discoveries and all such candidates are at early stages of development. There is no assurance that we will be able to consummate additional collaborations or agreements on reasonable terms, if at all. In addition, if we fail to continue to discover product candidates of industry interest in our fields of focus, or to pursue validation and development efforts in our Pipeline Program on the most promising discoveries, our business will likely be materially harmed. There are many risks associated with this decision of focusing in these areas that include, among others:

- not utilizing all of our discovery capabilities

- choosing therapeutic areas with a very high degree of competition
- choosing therapeutic areas of great complexity and with very high failure rates in product development
- failing to successfully focus our discovery infrastructure to discover novel product candidates in our chosen therapeutics areas
- having insufficient relevant knowledge in our chosen therapeutic areas to select the right unmet needs or candidates, or to properly and efficiently further them in development
- the inherent risk of high program failure rate in early stage therapeutic development.

In each case, our failure could be due to lack of experience or applying the wrong criteria, with the possible result that no selected candidates result in licensed or marketable products in these fields. If any of these risks should materialize, our business, financial condition and results of operations would be materially harmed.

Our predictive discovery capabilities remain unproven with respect to yielding marketable products. If in further development and clinical evaluation, all, or a larger percentage than typically seen in industry experience, of our product candidates fail to prove sufficiently safe and effective for regulatory approval and marketing, our business will be significantly harmed.

Our *in silico* (by computer) predictive approach to drug discovery remains unproven with respect to yielding marketable products, and to date, our validation efforts for our initial discoveries have been limited to *in vitro* testing and *in vivo* testing using animal disease models. These discovery capabilities, which are designed to predict and select potential product candidates in many different therapeutic and diagnostic areas of interest, rely on the modeling, by our scientists, of complex biological processes, both physiological and pathological. This modeling is partial and may prove insufficient to result in true predictions of the biological processes as they occur naturally. If in further development and clinical evaluation, all, or a larger percentage than typically seen in industry experience, of our initial product candidates fail to prove sufficiently safe and efficacious for regulatory approval and marketing, our business will be significantly harmed.

Our in silico predictive approach to drug discovery typically results in a significant number of putative discoveries of interest with each discovery program. If we or our partners fail to select the right candidates to validate and/or progress, due to either lack of experience or applying the wrong criteria, the selected candidates may never result in marketable products and our business, financial condition and results of operations will be materially harmed.

Our *in silico* predictive approach to drug discovery typically results in a significant number of putative discoveries of interest with each discovery program. Following each such discovery run, we assess which of such putative discoveries to move forward with initiation of validation based on various scientific and business criteria, and this assessment continues on an on-going basis. In addition, since our research and development resources are limited we are able to progress with only a fraction of our discoveries in parallel. If at any stage in such assessment, we or our partners fail to select the right candidates to validate and/or progress, due to either lack of experience or applying the wrong criteria, the selected candidates may never result in marketable products, and our business, financial condition and results of operations may be materially harmed.

If either the predictive discovery approach in general, or our "therapeutics needs (market) driven" approach, does not prove to be successful, our business will be significantly harmed.

Our method of discovering novel product candidates involves first selecting either on our own or with a partner company an unmet therapeutic need where we believe our predictive capabilities would be relevant, or could be modified to be relevant. In this "therapeutics needs (market) driven" approach, our goal is to harness all of our relevant capabilities in order to address the specific unmet need, rather than obtaining product candidates resulting from the development, validation or initial runs of a single discovery platform, as was the case prior to initiation of our Pipeline Program. After selection of the unmet need we wish to address, we then focus all of our relevant discovery platforms, algorithms and other computational biology capabilities to predict *in silico* (by computer) sequences for a typically large number of possible product candidates. Next we utilize proprietary algorithms and tools and other methodologies to select, from this large number of possibilities, those novel molecules that we believe have the highest probability of success. Selected molecules are then produced and undergo *in vitro* and/or *in vivo* validation testing. Although our initial "therapeutics needs (market) driven" approach has resulted in the discovery of a number of novel molecules in an area of significant industry interest, these molecules are in the very early stages of development. Therefore, we cannot predict whether this "therapeutics needs (market) driven" approach will continue to yield product candidates or that any of our existing discoveries or future discoveries will be suitable for final development into therapeutic products. If either the predictive discovery approach in general does not prove to be successful, or this "therapeutics needs (market) driven" approach does not lead to successful product candidates, our business will be significantly harmed.

Our focus on the Pipeline Program has resulted in a substantial increase in activities, certain of which we will undertake for the first time and may result in product candidate failures, or fewer molecules being available for commercialization.

Until recently, our *in vitro* and *in vivo* validation studies concluded with disease animal model or drug target expression profile analysis. At the completion of such activities, or earlier, we initiated our efforts to enter into collaborations for such molecules. This is at an earlier stage than is typical for licensing in the pharmaceutical industry. Pursuant to the Pipeline Program initiated in 2010, and with a more than 60% planned increase in R&D activities for 2014 in comparison to 2013, we are both advancing more molecules in parallel, and intend to advance certain molecules further towards pre-clinical activities, with the possibility of selected molecules entering clinical evaluation in the future. This decision to advance further with certain molecules is requiring us to undertake certain activities for the first time and may result in product candidate failures during such additional activities, either due to our lack of expertise or due to unsupportive findings or due to the lack of an appropriate technology. Furthermore, due to our limited resources, we must choose which Pipeline Program molecules to advance further in pre-clinical development, and in selected cases possibly clinical development in the future. This could result in fewer molecules being available for commercialization, due to our available resources being insufficient to further advance all programs. In addition, if we fail to select the right molecules to advance further, due to either lack of experience or applying the wrong criteria, the selected candidates may never result in a marketable product. If any of these risks materialize, our business, financial condition and results of operations may be materially harmed.

We have limited experience in the development of therapeutic product candidates.

Our experience in the development of therapeutic product candidates is limited. In order to successfully develop and commercialize therapeutic products, we must either access such expertise via collaborations or service providers or improve our internal expertise, capabilities and facilities. We may not be able to hire the scientists with the required expertise in a timely manner, if at all, and/or engage any or all of the service providers or other experts that we need in order to do so. If we fail to have available, at the appropriate times, the required experience and expertise for the further development and commercialization of our therapeutic product candidates, we may be unsuccessful in these activities, and as a result our business would be materially harmed.

Our establishment of our own therapeutic mAb research and development capabilities contains a number of risks.

In 2012, we announced that we had established our own therapeutic mAb development capabilities in our U.S. based, wholly owned subsidiary, Compugen USA, Inc., in order to develop mAb therapeutics against the target candidates that we discovered. The establishment of such in-house capabilities contains a number of risks, including, without limitation, the need for additional resources and funding in order to maintain such capabilities or to acquire additional technologies and the need to identify additional qualified employees and consultants in order to further advance these capabilities. Furthermore, although the scientists we have hired have prior experience with other organizations in the field of therapeutic mAb research and development, we have no experience as a company in this field and no experience in managing a site in a different geographic location. Therefore, as a result, if we are unsuccessful in any of these required undertakings, our business could be materially harmed. In addition, the chairperson of Compugen USA, Inc. has the additional position of chief executive officer of another mAb discovery and development company, which although not at present directly competitive, could present, in the future, potential conflict of interest issues.

There are risks that are inherent in the development and commercialization of therapeutic products, and if these risks materialize, our business and financial results may be materially harmed.

We and our collaborators face a number of risks of failure that are inherent in the process of developing and commercializing novel therapeutic products. These risks, which typically result in very high failure rates even for successful biopharma companies, include, among others, the possibility that:

- our product candidates will be found to be therapeutically ineffective
- our product candidates will be found to be toxic or to have other unacceptable side effects
- our product candidates will not show added value compared to competing products
- our mAb targets will prove to be inappropriate targets for mAb therapeutics
- we or our collaborators will fail to receive required regulatory approvals
- we will not be able to generate product candidate differentiation between some of our product candidates
- we or our collaborators will fail to manufacture our product candidates in the quantity or quality needed for preclinical studies or clinical trials on a large scale and in a cost effective manner
- our early stage commercialization efforts may provoke competition by potential partners
- the commercialization of our product candidates may infringe third party intellectual property rights
- the development, marketing or sale of our product candidates will fail because of our inability or failure to protect or maintain our own intellectual property rights
- once a product is launched on the market, there will be little or no demand for it for a number of possible reasons including lack of acceptance by the medical community or by patients, lack of or insufficient coverage and payment by third party payors, or as a result of there being more attractive, less risky or less expensive, products available for the same use.

If one or more of these risks or any similar risks should materialize, our business and financial results may be materially harmed.

Under the current funding agreement with Baize Investments (Israel) Ltd., we may have to share in any future economic success of certain product candidates.

Under the current funding agreement with Baize Investments (Israel) Ltd., ("Baize") Baize has the right to receive 10% of the cash consideration received by us or our affiliates from third parties, less certain pass-through amounts, with respect to certain designated product candidates through June 30, 2015. Not later than June 30, 2015 or, if later, 30 days following the receipt by Baize from Compugen of the annual report for 2014 containing a status report with respect to such designated product candidates, Baize has the right to select five of such product candidates for which it will receive such 10% of certain cash consideration received by Compugen or its affiliates as previously described through December 31, 2030. Alternatively, Baize has the right at any time prior to June 30, 2015 to cancel all of its rights to receive any cash consideration for the designated (including the selected) product candidates, in exchange for Compugen ordinary shares. Therefore, to the extent that any of the designated product candidates are successfully licensed, developed or commercialized and Baize has not exercised its right to exchange its right to cash consideration for ordinary shares, we will need to provide Baize with 10% of the cash consideration, as described above, received by us, thus reducing the amount of net revenues we receive from such transactions.

Risks Related to Development, Clinical Trials and Government Regulation

We or our collaborators may be unable to obtain regulatory approval for any product that we or a collaborator may develop.

Any therapeutic product that we or our collaborators may attempt to develop, manufacture or market in the United States will be subject to extensive governmental regulations, including those relating to development, performance of clinical trials, manufacturing and post-approval commercialization. Preclinical testing, manufacturing and clinical trials, among other activities, will be subjected to an extensive regulatory review process before a new therapeutic product can be sold in the United States. Satisfaction of these and other regulatory requirements is costly, time consuming, uncertain and subject to unanticipated delays. The time required to obtain the approval of the U.S. Food and Drug Administration, or FDA, and other approvals for therapeutic products is unpredictable but typically requires several years.

Any therapeutic product that we or our collaborators may wish to develop, manufacture or market in countries other than the United States will also be subject to numerous regulatory requirements governing the conduct of clinical trials, manufacturing and marketing, pricing and third-party reimbursement among other things in such countries. The foreign regulatory approval process includes all of the risks and uncertainties associated with FDA approval described above as well as risks attributable to the satisfaction of local regulations in such foreign jurisdictions.

It is possible that none of the therapeutic products we or our collaborators may develop will obtain the approvals necessary for us or our collaborators to sell them either in the United States or any other country. Furthermore, approval by the FDA of a therapeutic product does not assure approval by regulatory authorities outside the United States or vice versa. Even if approval for a therapeutic product is obtained, such approval may be subject to limitations on the indicated uses or appropriate patient population that could result in a significantly reduced potential market size for the product.

If we or our collaborators fail to obtain the appropriate regulatory approvals necessary for us or our collaborators to sell our products, or if the approvals are more limited than those that we intend to seek, our business, financial condition and results of operations would be materially harmed.

It may be difficult to manufacture therapeutic products based on our technologies.

Our Pipeline Program is focused on mAbs and protein therapeutics in the fields of oncology and immunology and such therapeutic types can be difficult to manufacture. If it should prove to be difficult to manufacture any therapeutics based on our technologies in sufficient quantities or in an economical manner to conduct clinical trials and to commercialize any approved therapeutic candidate, our business, financial condition and results of operations would be materially harmed.

If we or any of our collaborators, or third-party manufacturers, fail to comply with regulatory requirements, we or they could be subject to enforcement actions, which could affect the marketability of Compugen-discovered therapeutics and may significantly harm our financial status and/or reputation.

If we or any of our collaborators or third-party manufacturers with which we may enter into agreements in the future fail to comply with applicable federal, state or foreign laws or regulations, we or they could be subject to enforcement actions. These enforcement actions may include:

- warning letters
- recalls, product seizures or medical product safety alerts
- restrictions on, or prohibitions against, marketing such tests or products
- restrictions on importation of such tests or products
- suspension of review or refusal to accept or approve new or pending applications
- withdrawal of product approvals
- injunctions

- civil and criminal penalties and fines
- debarment or other exclusions from government programs.

If we or our collaborators will be subject to such enforcement actions, these enforcement actions, could affect the ability to successfully develop, market and sell therapeutic products based on our discoveries and could significantly harm our financial status and/or reputation and lead to reduced acceptance of such products by the market or product recall.

If we do not comply with laws regulating the use of human tissues or the conduct of experiments involving animals, our business could be adversely affected.

We use human tissue samples and conduct experiments involving animals for the purpose of development and validation of our technologies and product candidates. Our access to and use of human tissue samples and the conduct of experiments involving animals are subject to government regulation in the United States, Israel and elsewhere and may become subject to additional regulation. For example, the Israeli Ministry of Health requires compliance with the principles of the Helsinki Declaration, the Public Health Regulations (Clinical Trials in Human Subjects) 1980, the Genetic Information Law, 5761-2000, the provisions of the Israel Ministry of Health Guidelines for Clinical Trials in Human Subjects and the provisions of the current Harmonized Tripartite Guideline for Good Clinical Practice. Our failure to comply with these or similar regulations could negatively impact our business and results of operations.

If we do not comply with laws regulating the protection of the environment and health and human safety, our business could be adversely affected.

Our research and development activities involve the use of hazardous materials and chemicals, and we maintain quantities of various flammable and toxic chemicals in our facilities. Although we believe our safety and other procedures for storing, handling and disposing these materials in our facilities comply with applicable governmental regulations and guidelines, the risk to our employees or others of accidental contamination or injury from these materials cannot be eliminated. If an accident occurs, we could be held liable for resulting damages, which could be substantial. We are also subject to numerous environmental, health and workplace safety laws and regulations, including those governing laboratory procedures, exposure to blood-borne pathogens and the handling of biohazardous materials. We may incur substantial costs to comply with, and substantial fines or penalties if we violate any of these laws or regulations.

Risks Related to Our Dependence on Third Parties

We depend significantly on third parties to carry out the development and commercialization of our product candidates, and if we are unable to maintain our existing agreements or to enter into additional agreements with such third parties in the future, our business will likely be materially harmed.

Our primary strategy for the final development and commercialization of products based on our product candidates depends on third parties to carry out and/or finance development and commercialization of such products, principally pharmaceutical, biotechnology and diagnostic companies and other healthcare related organizations. To date, we have entered into one collaboration with Bayer with respect to two molecules from our Pipeline Program and a small number of agreements covering discovery activities to be performed by us, and development and commercialization rights with respect to certain of our discovery stage product candidates. None of the product candidates subject to such agreements has advanced beyond the discovery and early pre-clinical stages and we cannot be sure that any of these agreements will result in the successful development or commercialization of any products. Further, we cannot assure you that we will succeed in identifying additional suitable parties or entering into any other additional agreements on satisfactory terms or at all for the development and/or commercialization of our product candidates. If we are unable to identify such additional suitable parties or enter into new agreements on satisfactory terms, our business will likely be materially harmed.

Our dependence on collaboration agreements with third parties presents a number of risks, and if one or more of these risks materialize, our business may be materially harmed.

The risks that we face in connection with our existing collaborations, licenses and other business alliances as well as those that we may enter into in the future include, among others, the following:

- we may be unable to reach mutually agreeable terms and conditions with respect to potential new collaborations

- we may be unable to comply or fully comply with our obligations under collaboration agreements into which we enter, and as a result, we may not generate royalties or milestone payments from such agreements, and our ability to enter into additional agreements may be harmed
- our obligations under existing or future collaboration agreements may harm our ability to enter into additional collaboration agreements
- our collaborators have significant discretion in electing whether to pursue any of the planned activities and the manner in which it will be done, including the amount and nature of the resources to be devoted to the development and commercialization of our product candidates
- our collaborators have significant discretion in terminating the collaborations for scientific, business or other reasons
- if our collaborators breach or terminate the agreement with us, the development and commercialization of our product candidates could be adversely affected because at such time we may not have sufficient financial or other resources or capabilities to successfully develop and commercialize these therapeutics on our own or find other partners
- our collaborators may fail to design and implement appropriate preclinical and/or clinical trials
- our collaborators may fail to manufacture our product candidates needed for either clinical trials or for commercial purposes on a sufficiently large scale and/or in a cost effective manner
- our collaborators may fail to develop and market products based on our discoveries due to various regulatory restrictions
- our collaborators may fail to develop and market products based on our discoveries prior to the successful marketing of competing products by others or prior to expiry of the patents protecting such products;
- changes in a collaborator's business strategy may negatively affect its willingness or ability to complete its obligations under its arrangement or to continue with its collaboration with us
- ownership of the intellectual property generated under our collaborations may be disputed
- our ownership of rights in any intellectual property or products that may result from our collaborations may depend on additional investment of money that we may not be able or willing to make
- prospective collaborators may pursue alternative products or technologies, by internally developing them or by preferring those of our competitors
- disagreements between us and our collaborators may lead to delays in, or termination of, the collaboration
- our collaborators may fail to develop or commercialize successfully any products based on discoveries or product candidates to which they have obtained rights from us
- our collaboration partners may be acquired by, acquire, or merge with, another pharmaceutical company, and the resulting entity may have different priorities or competitive products to the collaboration product being developed previously by our partner.

If any of these risks should materialize, our business, financial condition and results of operations may be materially harmed.

To date we have entered into only one collaboration agreement with respect to our Pipeline Program candidates and this agreement with Bayer is subject to many risks. If such agreement is terminated by Bayer, particularly in advance of our signing additional collaboration agreements, our business and financial condition may be materially harmed.

In August, 2013, we entered into a Research and Development Collaboration and License Agreement with Bayer for the research, development, and commercialization of antibody-based therapeutics for cancer immunotherapy against two novel, Compugen-discovered immune checkpoint regulators – CGEN 15001T and CGEN 15022. This is our first collaboration arrangement for any of our Pipeline Program candidates.

The collaboration with Bayer is subject to all of the risks as set forth above with respect to our dependence in general on collaboration agreements with third parties. In addition, since this is our first collaboration involving our Pipeline Program candidates, and specifically covering Compugen-discovered immune checkpoint regulators, until such time as we have additional agreements, the effect of any event related to this collaboration will likely have a significantly greater effect on our business and financial condition than otherwise would be the case.

As is customary for pharmaceutical research and licensing agreements, Bayer may terminate the agreement, at any time with or without cause either in whole or only with respect to one of the two programs, and in each case also on a product-by-product and/or country-by country basis, upon prior written notice. Upon any termination of the agreement, depending upon the circumstances, the parties have varying rights and obligations with respect to the continued development and commercialization of any products and or various payment and royalty obligations in the event of such continuation of the development and commercialization. If significant adverse unforeseen events occur in the Bayer collaboration or the agreement is terminated, in whole or in part, particularly in advance of our signing additional collaboration agreements, our business and financial condition may be materially harmed.

Our reliance on third parties for the performance of key research, validation and development activities heightens the risks faced by our businesses.

We invest significant efforts and resources into outsourcing certain key functions with third parties, including certain research, validation and development activities, manufacturing operations, and others. We do not control the third parties to whom we outsource these functions, but we depend on them to undertake activities and provide results which may be significant to us. If these third parties fail to properly perform these activities, or provide us with incorrect or incomplete results this could lead to significant delays in the program or even program failure, along with significant additional costs. In addition, should any of these third parties fail to comply with the applicable laws and regulations and/or research and development or manufacturing accepted standards in the course of their performance of services for us, there is a risk that we could be held responsible for such violations of law as well. Any such failures by third parties could have a material adverse effect on our business, financial condition or results of operations.

We rely on the services of various third party service providers, such as contract research organizations, or CROs, contract manufacturing organizations, or CMOs, technology providers, and academia. If we fail to identify and obtain quality services from such third parties, our discovery, and validation and development capabilities may be harmed.

In carrying out discovery, validation and development activities for our product candidates, we and our partners rely on advice, services and results obtained from various third party service providers, such as CROs, CMOs, technology providers, academia and regulatory and other consultants. This includes, without limitation, production of certain biological reagents and performance of certain *in vitro* and *in vivo* validation of our discoveries and product candidates. We do not always independently verify the results obtained by such third parties and in some cases, rely upon the data provided by the third party. If we fail to identify and obtain accurate and quality services technologies and/or data from such third parties, or if the contractual demands of such third parties become unreasonable and we are not able to reach satisfactory agreements with such third parties, we may not be able to obtain the required services and/or technologies, in which event we may lose our investment in these services, fail to receive the expected benefits from our discoveries, and our validation and development capabilities may be significantly harmed or delayed.

We have limited experience and capabilities in conducting, managing or sponsoring preclinical evaluation of therapeutic drug candidates.

During 2010, we began to focus our discovery efforts primarily in the fields of oncology and immunology, and initiated the Pipeline Program to both substantially increase the number of molecules in our validation pipeline and to increase the value of certain of our candidates by advancing selected molecules to pre-clinical studies and in selected cases, possibly clinical evaluation. We have limited experience and capabilities in conducting, managing or sponsoring the work and efforts required beyond the proof of concept experimental validation stage towards preclinical evaluation, and by doing so we will need to rely on our consultants and third party service providers. If we fail to identify the right consultants or service providers, if the consultants or service providers fail in providing the required services or if we fail to take the necessary steps towards preclinical evaluation, for these or other reasons, our business may be harmed.

We have no experience in conducting or managing clinical trials for potential therapeutic products.

We have no experience in conducting or managing the clinical trials necessary to obtain regulatory approvals for any product, and we intend to rely on our collaborators or third parties, such as CROs, medical institutions and clinical investigators to perform these functions. Our reliance on third parties for clinical development activities reduces our control over these activities. Third-party contractors may not complete activities on schedule, or may not conduct clinical trials in accordance with regulatory requirements or our trial design. If these third parties do not successfully carry out their contractual duties or meet required performance standards or expected deadlines, we might be required to replace them or the data that they provide could be rejected, all of which may result in a delay of the affected trial and additional program costs.

We rely on access to public and commercial databases to feed our discovery capabilities, including our individual discovery platforms. If we are denied access to these databases or if the quality of available information is poor, or if the quantity of the available information is insufficient (both of which have occurred in the past), our operations and business may be harmed.

In the development and validation of our discovery platforms and other tools, as well as in connection with the resulting therapeutic and diagnostic product candidates, we rely on our ability to access and use public and commercially available databases. The quality of our platforms, tools and discoveries is in part dependent on the quality and quantity of the data in these databases. If we are denied access to these databases, or if we are granted access to such databases on terms which are not commercially reasonable, or if the quality of data available from those databases is poor, or if the quantity of the available information is insufficient, each of which has occurred in the past, our business and our results of operations may be materially harmed.

We rely on access to high-quality biological samples supported by detailed clinical records to conduct parts of our discovery and validation activities. If we fail to identify and purchase or otherwise obtain such samples for any reason, if the quality of available biological samples is poor, or if the quantity of the available biological samples is insufficient, which has occurred in the past, our discovery and validation capabilities may be harmed.

In carrying out our discovery and validation of product candidates, we rely on our ability to access and use commercially available biological samples. The quality of our discoveries is in part dependent on the quality and quantity of available biological samples. If we fail to identify and purchase or otherwise obtain such samples for any reason or if the quality of available biological samples is poor, or if the quantity of the available biological samples is insufficient, which has occurred in the past, our discovery and validation capabilities may be harmed.

Risks Related to Competition and Commercialization

Our business model is at an early stage of implementation and to date has not provided significant revenues.

The success of our business model relies on providing, through licensing agreements and other forms of collaboration, product candidates for commercialization by third parties, principally pharmaceutical and biotechnology companies. In all cases, our objective is that these collaborations will be "product oriented", with us having the right to receive fees, research revenues, milestones, royalties and other revenue-sharing payments from all products developed and commercialized based on our product candidates. Additionally, we are continuing to seek research and discovery collaborations either aimed at harnessing our infrastructure capabilities towards the partners' discovery needs, or pursuant to which we can license out our various non-focus specific discoveries of interest. Potential revenue sources in these types of transactions could include fees, research revenues, milestone payments, royalties and revenue sharing profits. Our commercialization efforts are at an early stage of implementation. To date, we have entered into one collaboration with respect to molecules from our Pipeline Program and only a small number of other collaboration agreements, none of which, other than the collaboration with Bayer with respect to molecules from our Pipeline Program, has to date provided significant revenues. There can be no assurance that such agreements will be successful in the future or that we will be able to enter into additional arrangements with respect to other existing or future discoveries. If we are unable to achieve success, primarily by entering into additional license agreements or other collaboration arrangements related to our product candidates, our business will be materially harmed.

In addition, most of our programs are in the discovery, research and validation or early preclinical stage. The data generated so far may not be sufficient for prospective collaborators, and may not fit their strategy. A limited number of companies are interested in early stage collaborations, and some of them will require more data before they enter into a significant collaboration. We are therefore dependent on the fit of the stage of our programs to pharma strategy and we may not be able to identify additional partners interested in programs at the stage we are in. This may adversely affect our ability to enter into additional agreements for the research, development and commercialization of our product candidates, and as a result may harm our business.

In addition, an initial industry trend towards drug combinations in the field of cancer immunotherapy, mainly immune modulating agents such as immune checkpoints, may result in a situation under which our immune checkpoint candidates will serve as a combination product and may therefore be entitled to only a fraction of the anticipated product revenues.

The agreement cycle for potential collaborations is complex and lengthy and as a result, we may expend substantial funds and management resources with no assurance of success.

In general, each potential license agreement or other form of collaboration we may enter into will require negotiating with our potential partner a large number of scientific, legal and business terms and conditions that can vary significantly in each instance due to the specific product candidate or candidates involved, and the potential partner's licensing, development and business operations and strategy. The accommodation of these requirements mandates a thorough consideration of both the scientific and business aspects of each transaction. Furthermore, the diversity and wide applicability of our discovery capabilities and our product candidates, together with the fact that we are mainly located in Israel, adds additional levels of complexity to our business development efforts. As a result, the process of preparing and negotiating our licensing and other agreements may take more than 12 months and will require the input and substantial time and effort of our key scientific and management personnel. Accordingly, we will need to expend substantial funds and substantial key personnel time and effort into these business development activities with no assurance of successfully entering into agreements with potential collaborators and this could harm our business.

The trend towards consolidation in the pharmaceutical, diagnostic and biotechnology industries may adversely affect us.

There is a trend towards consolidation in the pharmaceutical, diagnostic and biotechnology industries. Although this consolidation trend is diminishing, it may still result in the remaining companies having greater financial resources and discovery and technological capabilities, thus intensifying competition in these industries. This trend may also result in fewer potential collaborators or licensees for our therapeutic and diagnostic product candidates. Also, if a consolidating company is already doing business with our competitors, we may lose existing or potential licensees or collaborators as a result of such consolidation. In addition, if a consolidating company is already doing business with us, we may lose the interest of the consolidating parties in our discovery capabilities or individual discoveries as a result of a modified strategy and new priorities of such consolidated entity. This trend may adversely affect our ability to enter into agreements for the development and commercialization of our product candidates, and as a result may harm our business.

The biotechnology and pharmaceutical industries are highly competitive, and we may be unable to compete effectively.

The biotechnology and pharmaceutical industries in general, and the immune checkpoints field in particular, are highly competitive. Numerous entities in the United States, Europe and elsewhere compete with our efforts to discover, validate and partner with licensees and/or collaborators to commercialize therapeutic and diagnostic products or product candidates. Our competitors include pharmaceutical and biotechnology companies, academic and research institutions and governmental and other publicly funded agencies. We face, and expect to continue to face, competition from these entities to the extent they develop products that have a function similar or identical to the function of our therapeutic product candidates in the fields of oncology and immunology that may attract our potential collaborators or that may reach the market sooner. We also face, and expect to continue to face, competition from entities that seek to develop technologies that enable the discovery of novel targets, antibodies and Fc fusion proteins in the fields of oncology and immunology. Many of our competitors have one or more of the following:

- much greater financial, technical and human resources than we have at every stage of the discovery, development, manufacture and commercialization process

- more extensive experience in preclinical testing, conducting clinical trials, obtaining regulatory approvals, and in manufacturing and marketing diagnostics and therapeutics
- more extensive experience in oncology and immunology and in the fields of mAb therapy and fusion protein therapeutics
- products that have been approved or are in late stages of development
- collaborative arrangements in our target markets with leading companies and research institutions

Since we are a small company with limited human and financial resources, we are not able to work with a large number of collaborators in parallel and/or advance a large number of molecules in parallel. Our competitors may develop or commercialize products with significant advantages over any therapeutic products we, our collaborators or third-party licensees may develop. They may also obtain patents and other intellectual property rights before us and thereby prevent us from pursuing the development and commercialization of our discoveries. Our competitors may therefore be more successful in developing and/or commercializing products than we, our collaborators, or third party licensees are, which could adversely affect our competitive position and business. If we are unable to compete successfully against existing or potential competitors, our financial results and business would be materially harmed.

Changes in healthcare policy could increase our expenses, decrease our revenues and impact sales of, and reimbursement for, our products.

Our ability to commercialize our future product candidates successfully, alone or with collaborators, will depend in part on the extent to which coverage and reimbursement for these product candidates will be available from government health programs, such as Medicare and Medicaid in the United States, private health insurers and other third-party payors. At present, significant changes in healthcare policy, in particular the continuing efforts of the U.S. and other governments, insurance companies, managed care organizations and other payors to contain or reduce health care costs are being discussed, considered and proposed.

For example, in the United States, there have been several initiatives implemented to achieve these aims. The Patient Protection and Affordable Care Act, as amended by the Health Care and Education Affordability Reconciliation Act (collectively, the "ACA"), substantially changes the way health care is financed by both governmental and private insurers. The ACA contains a number of provisions that are expected to impact our business and operations, including those governing enrollment in federal healthcare programs and reimbursement changes which will impact existing government healthcare programs and will result in the development of new programs.

In addition to the ACA, there will continue to be proposals by legislators at both the federal and state levels, regulators and third-party payors to keep these costs down. While in general it is too early to predict specifically what effect these acts and their implementation or any future healthcare reform legislation or policies in the United States or other countries will have on our business, including our ability to set prices for our product candidates which we believe are fair, and therefore our ability to generate revenues and achieve and maintain profitability, current and future healthcare reform legislation and policies could have a material adverse effect on our business and financial condition.

Risks Related to our Operations

We may be unable to hire or retain key personnel or sufficiently qualified employees, in which case our business may be harmed.

Our business is highly dependent upon the continued services of our senior management and key scientific and technical personnel. While members of our senior management and other key personnel have entered into employment or consulting agreements and non-competition and non-disclosure agreements, we cannot be sure that these key personnel and others will not leave us or compete with us, which could harm our business activities and operations. It is difficult to find suitable and highly qualified personnel in certain aspects of our industry.

It can also be difficult for us to find employees with appropriate experience for our business, and our plans to increase our R&D budget by over 60% in 2014 in comparison to 2013 will require increased efforts to attract the required personnel. We require a multidisciplinary approach and some of our researchers require an understanding in both exact and biological sciences. On average, our employees have been employed by Compugen Ltd. for approximately eight years (and for approximately 6.5 years when taking Compugen USA, Inc. into account). Our business may be harmed if we are unable to retain our key personnel, or to attract, integrate or retain other highly qualified personnel in the future.

We may be unable to safeguard the integrity, security and confidentiality of our data or third parties' data, and if we are unable to do so, our business may be harmed.

We rely heavily on the use and manipulation of large amounts of data and on the secure and continuous use of our internal computers, communication networks and software and hardware systems. We have implemented and maintain physical and software security measures to preserve and protect our computers, communication, hardware and software systems as well as our data and third parties' data. However, these methods may not fully protect us against fire, storm, flood, power loss, earthquakes, telecommunications failures, physical or software break-ins or similar events. In addition, these measures may not be sufficient to prevent unauthorized access, use or publication of such proprietary data. A party who is able to circumvent our security measures could misappropriate or destroy (partially or completely) proprietary information or cause interruptions in our operations. In addition, a party, including an employee, who obtains unauthorized access to our proprietary data or breaches a confidentiality agreement with us could publish or transfer large portions or all of our proprietary data. Such publication of proprietary data could materially harm our intellectual property position, thereby seriously harming our competitive position. Such security breaches, if significant, could materially harm our operations and even cause our business to cease.

If we are unable to manage the challenges associated with our bi-national operations, the growth of our business could be limited.

In addition to our operations in Israel, our wholly owned subsidiary, Compugen USA, Inc., operates in South San Francisco, California. We are subject to a number of risks and challenges that specifically relate to these bi-national operations. Our combined operations may not be successful if we are unable to meet and overcome these challenges, which could limit the growth of our business and may have a material adverse effect on our business and operating results. These risks include:

- difficulty managing and coordinating operations in multiple locations, which could adversely affect the progress of our research and development programs and business prospects
- local regulations or intellectual property requirements that may restrict or impair our ability to conduct pharmaceutical and biotechnology-based research and development; foreign protectionist laws and business practices that favor local competition
- laws and regulations governing U.S. immigration and entry into the United States that may restrict free movement of our employees between Israel and the United States and employment of Israeli citizens in our U.S. facilities
- fluctuations in foreign currency exchange rates that may increase the U.S. dollar cost of our operations in either country.

Risks Related to Intellectual Property

We may not be able to obtain or maintain patent protection for our inventions and if we fail to do so, our business will likely be materially harmed.

We have applied for patents covering therapeutic and diagnostic product candidates as well as aspects of some of our technologies, and the success of our business depends, to a large extent, on our ability to obtain and maintain such patents and any additional patents covering our future product candidates. As of January 1, 2014 we had a total of 43 issued and allowed patents, of which 32 are U.S. patents. We also have pending patent applications, which as of January 1, 2014, included 21 patent applications that have been filed in the United States, 17 patent applications that have been filed in Europe, 21 patent applications that have been filed in Israel, nine patent applications that have been filed in Australia, seven patent applications that have been filed in Canada, four patent applications that have been filed in Japan, three patent applications that have been filed in India, three patent applications that have been filed in China, one application that has been filed in Brazil, one application that has been filed in Korea, one application that has been filed in New Zealand, one application that has been filed in the Russian Federation, one application that has been filed in Singapore, one application that has been filed in Mexico, one application that has been filed in South Africa and two applications that have been filed under the Patent Cooperation Treaty for which we have not yet designated the countries of filing. We plan to continue to apply for patent protection for our therapeutic and diagnostic inventions, but we cannot be sure that any of our patent applications will be accepted, or that they will be accepted to the extent that we seek. Additionally, we file for patent protection in selected countries and not in all countries of the world. Therefore, we are exposed to competition in those countries in which we have no patent protection. Also, due to our early stage business model, we may be required to seek patent protection at a very early stage. This may cause issuance of a patent at an earlier stage creating a shorter commercialization period under patent protection, possibly enabling others to compete with us.

The process of obtaining patents for inventions that cover our products is uncertain for a number of reasons, including but not limited to:

- the patenting of our inventions involves complex legal issues, many of which have not yet been settled
- legislative and judicial changes, or changes in the examination guidelines of governmental patent offices may negatively affect our ability to obtain molecule-based patents
- in view of the finite number of human proteins, we face intense competition from other biotechnology and pharmaceutical companies who have already sought patent protection relating to proteins and protein based products, as well as therapeutic and diagnostic antibodies specifically binding these proteins, and their utility based discoveries that we may intend to develop and commercialize; such prior patents may negatively affect our ability to obtain protein-based and antibody-based patents, may hinder our ability to obtain sufficiently broad patent claims for our inventions, and/or may limit our freedom to operate
- publication of large amounts of gene and gene products data by non-commercial and commercial entities may hinder our ability to obtain sufficiently broad patent claims for our inventions
- even if we succeed in obtaining patent protection, such protection may not be sufficient to prevent third parties from using our patented inventions
- even if we succeed in obtaining patent protection, we may face FTO issues
- even if we succeed in obtaining patent protection, our patents could be partially or wholly invalidated, including by our competitors
- there are significant costs that may need to be incurred in registering and filing patents
- our data may support others in strengthening their patents
- seeking patent protection at an early stage may prevent us from providing comprehensive data supporting the patent claims and may prevent allowance of the patent or limit the scope of patent coverage

The U.S. Supreme Court, or the Court, has also issued decisions for which the full impact is not yet understood. On June 13, 2013, in *Association for Molecular Pathology v. Myriad Genetics, Inc.* the Court held that claims to isolated genomic DNA were not patentable subject matter, but claims to complementary DNA (cDNA) molecules were patentable subject matter. The effect of the decision on patents for other isolated natural products is uncertain. On March 20, 2012, in *Mayo Collaborative Services, DBA Mayo Medical Laboratories, et al. v. Prometheus Laboratories, Inc.*, the Court held that several claims drawn to measuring drug metabolite levels from patient samples and correlating them to drug doses were not patentable subject matter. The decision has created uncertainty around the ability to patent certain biomarker-related method patents. These decisions have increased the uncertainty with regard to our ability to obtain patents in the future as well as the value of current and future patents, once obtained. Depending on decisions by the U.S. federal courts and the Patent Office, the interpretation of laws and regulations governing patents could change in unpredictable ways that could weaken our ability to obtain new patents or to enforce our existing patents, all of which could have a material adverse effect on our business.

If we do not succeed in obtaining patent protection for our inventions to the fullest extent for which we seek protection, our business and financial results could be materially harmed.

We may not be able to protect our non-patented proprietary data, technologies or discoveries, and that may materially harm our business.

Aside from our patented information, we also rely on our proprietary know-how and trade secrets that we develop and that are not protectable or protected by patents. The protective measures that we employ may not provide adequate protection for our trade secrets and know-how. Our business collaborators, licensees, employees, advisers and consultants may disclose our proprietary know-how or trade secrets in violation of their obligations to us. We may not be able to meaningfully protect our rights in our proprietary know-how or trade secrets against such unauthorized disclosure and any consequent unauthorized publication.

If we are not able to adequately protect our proprietary know-how and trade secrets, competitors may be able to develop technologies and resulting discoveries and inventions that are the same or similar to our own discoveries and inventions. That could erode our competitive advantage and materially harm our business.

The existence of third party intellectual property rights may prevent us from developing our discoveries or require us to expend financial and other resources to be able to continue to do so.

In selecting a therapeutic product candidate for development, we take into account, among other considerations, the existence of third party intellectual property rights that may hinder our right to develop and commercialize that product candidate. The human genomic pool is finite. To our knowledge, third parties, including our competitors, have been filing wide patent applications covering an increasing portion of the human genomic pool and the proteins and peptides expressed therefrom. As a result of the existence of such third party intellectual property rights, we have been and may be further required to:

- forgo the research, development and commercialization of certain therapeutic product candidates that we discover, notwithstanding their promising scientific and commercial merits, or
- invest substantial management and financial resources to either challenge or in-license such third party intellectual property, and we cannot be sure that we will succeed in doing so on commercially reasonable terms, if at all.

We do not always have available to us, in a timely manner, information of the existence of third party intellectual property rights related to our own discoveries. The content of U.S. and other patent applications remains unavailable to the public for a period of approximately 18 months from the filing date. In some instances, the content of U.S. patent applications remains unavailable to the public until the patents are issued. As a result, we can never be certain that programs that we commence will be free of third party intellectual property rights. If we become aware of the existence of third party intellectual property rights only after we have commenced a particular program, we may have to forgo such project after having invested substantial resources in it.

We may infringe third party rights and may become involved in litigation, which may materially harm our business.

If a third party accuses us of infringing its intellectual property rights or if a third party commences litigation against us for the infringement of patent or other intellectual property rights, we may incur significant costs in defending such action, whether or not we ultimately prevail. Typically, patent litigation in the pharmaceutical and biotechnology industry is expensive and prolonged. Costs that we incur in defending third party infringement actions would also result in the diversion of management's and technical personnel's time. In addition, parties making claims against us may be able to obtain injunctive or other equitable relief that could prevent us or our collaborators and licensees from further developing our discoveries or commercializing our products. In the event of a successful claim of infringement against us, we may be required to pay damages or obtain one or more licenses from the prevailing third party, which may not be available to us on commercially reasonable terms, if at all. If we are not able to obtain such a license or not able to obtain such a license at a reasonable cost, we could encounter delays in product introductions and loss of substantial resources while we attempt to develop alternative products. Defense of any lawsuit or failure to obtain any such license could prevent us or our partners from commercializing available products and could cause us to incur substantial expenditures.

Patent reform and other legislative changes in the U.S. and other countries may affect our ability to obtain and enforce our patents.

In 2011, the United States passed comprehensive patent reform laws in the "America Invents Act," or the "Act." These changes may affect our ability to obtain and enforce patents in a number of ways. First, the Act provides for a period of ex parte post-grant review with expanded grounds for challenging validity of a patent for nine months after grant of a patent. If the validity of one of our U.S. patents is successfully challenged, some or all of the claims may be invalidated, such that we could not enforce the patent and hence could not protect one or more of our therapeutic product candidates. Other countries may also pass legislative changes to their patent laws which could materially affect – and even invalidate – one or more of our already filed patent applications, or even granted patents.

Increased progress in our scientific and technological environment may reduce our chances of obtaining a patent.

In order to obtain a patent to protect one of our therapeutic product candidates, we must show that the underlying invention (that is, the candidate itself or its use) is inventive. As an increasing amount of scientific knowledge is becoming available regarding genes, proteins and biological mechanisms, the bar is increasingly raised to show sufficient inventiveness, as inventiveness is judged against all publicly available information available prior to filing of the patent application (the exact date may vary by country or due to other circumstances). We were initially pioneers in a largely unexplored field, but now there are many others working in our area. We may not be able to obtain patents for our product candidates due to the increased information published in this area. Collective patent applications, in which a large number of candidates are included in one patent application, are also challenged due to the raised bar for information that must be included in a patent application, as well as due to the availability of other publications. Our own published patent applications and other publications also serve as prior art against our new inventions and patent applications, and may prevent us from obtaining new patents.

We may become subject to claims for remuneration or royalties for assigned service invention rights by our employees, which could result in litigation and adversely affect our business.

We enter into assignment of invention agreements with our employees pursuant to which such individuals agree to assign to us all rights to any inventions created in the scope of their employment or engagement with us. A significant portion of our intellectual property has been developed by our employees in the course of their employment for us. Under the Israeli Patent Law, 5727-1967, or the Patent Law, inventions conceived by an employee due to and during his or her employment with a company are regarded as "service inventions," which belong to the employer, absent a specific agreement between the employee and employer giving the employee service invention rights or waiver of such rights by employer. The Patent Law also provides that if there is no agreement with respect to whether the employee is entitled to remuneration for his or her service invention, to what extent and under what conditions, such entitlement and terms shall be determined by the Israeli Compensation and Royalties Committee, or the Committee, a body constituted under the Patent Law. A recent decision by the Committee has created uncertainty in this area, as it held that employees may be entitled to remuneration for their service inventions despite having specifically waived any such rights. Further, the Committee has not yet determined the method for calculating such remuneration. Although our employees have agreed to assign to us service invention rights, we may face claims demanding remuneration in consideration for assigned inventions. As a consequence of such claims, we could be required to pay additional remuneration or royalties to our current and/or former employees, or be forced to litigate such claims, which could negatively affect our business.

Confidentiality agreements with employees and others may not adequately prevent disclosure of trade secrets and other proprietary information.

In addition to patents, we rely on trade secrets, know-how and technology, not protected by patents, to maintain our competitive position. In order to protect our proprietary technology and processes, we rely in part on confidentiality agreements with our collaborators, employees, consultants, outside scientific collaborators and sponsored researchers and other advisors. These agreements may not effectively prevent disclosure of confidential information and may not provide an adequate remedy in the event of unauthorized disclosure of confidential information. In addition, others may independently discover trade secrets and proprietary information, and in such cases we could not assert any trade secret rights against such party. Costly and time-consuming litigation could be necessary to enforce and determine the scope of our proprietary rights, and failure to obtain or maintain trade secret protection could adversely affect our competitive business position.

Risks Related to Operations in Israel

Conditions in the Middle East and in Israel may harm our operations.

Our headquarter offices and part of our research and development facilities are located in Israel. Accordingly, political, economic and military conditions in Israel may directly affect our operations. Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its Arab neighbors, as well as incidents of civil unrest, military conflicts and terrorist actions. Future armed conflicts or political instability in the region, as recently seen in Egypt, Syria and other neighboring countries, may negatively affect business conditions and adversely affect our results of operations. In addition, Iran has threatened to attack Israel and is suspected of developing nuclear weapons. Iran is also believed to have a strong influence among extremist groups in the region. These situations may potentially escalate in the future and turn violent which could affect Israel and us.

Furthermore, several countries, principally in the Middle East, restrict doing business with Israel and Israeli companies, and additional countries may impose restrictions on doing business with Israel and Israeli companies if hostilities in the region continue or intensify. Parties with whom we do business have sometimes declined to travel to Israel during periods of heightened unrest or tension, forcing us to make alternative arrangements when necessary. In addition, the political and security situation in Israel may result in parties with whom we have agreements involving performance in Israel claiming that they are not obligated to perform their commitments under those agreements pursuant to force majeure provisions in the agreements. Additionally, some of our employees, including key employees, perform annual military reserve duty and may be called to active military services for extended periods of time which could adversely affect our operations.

Our insurance does not cover losses that may occur as a result of events associated with the security situation in the Middle East. Although the Israeli government is currently committed to covering the reinstatement value of direct damages that are caused by terrorist attacks or acts of war, there can be no assurance that such government coverage will be maintained, or if maintained, will be sufficient to compensate us fully for damages incurred. Any losses or damages incurred by us could have a material adverse effect on our business. Any armed conflicts or political instability in the region would likely negatively affect business conditions and could harm our results of operations.

Holders of our ordinary shares who are U.S. residents may be required to pay additional U.S. income taxes if we are classified as a PFIC for U.S. federal income tax purposes.

There is a risk that we may be classified as a passive foreign investment company, or PFIC. Our treatment as a PFIC could result in a reduction in the after-tax return of U.S. holders of our ordinary shares and may cause a reduction in the value of our shares. For U.S. federal income tax purposes, we will generally be classified as a PFIC for any taxable year in which either: (i) 75% or more of our gross income is passive income or (ii) at least 50% of the average value (determined on a quarterly basis) of our total assets for the taxable year produce or are held for the production of passive income. Based on our analysis of our income, assets, activities and market capitalization, we do not believe that we were a PFIC for the taxable year ended December 31, 2013. However, there can be no assurances that the United States Internal Revenue Service ("IRS") will not challenge our analysis or our conclusion regarding our PFIC status. There is also a risk that we were a PFIC for one or more prior taxable years or that we will be a PFIC in future years, including 2014. If we were a PFIC during any prior years, U.S. holders who acquired or held our ordinary shares during such years generally will be subject to the PFIC rules. The tests for determining PFIC status are applied annually and it is difficult to make accurate predictions of our future income, assets, activities and market capitalization, which are relevant to this determination. If we were determined to be a PFIC for U.S. federal income tax purposes, highly complex rules would apply to U.S. holders owning our ordinary shares and such U.S. holders could suffer adverse U.S. tax consequences. For more information please see "Item 10. Additional Information – E. Taxation - Certain Material U.S. Federal Income Tax Considerations – Passive Foreign Investment Company."

Our results of operations may be adversely affected by the devaluation of the dollar against the New Israeli Shekel.

We hold most of our cash, cash equivalents and short-term bank deposits in U.S. dollars but incur a significant portion of our expenses, principally salaries and related personnel expenses and administrative expenses for our Israeli based operations, in NIS. As a result, we are exposed to the risk that if the U.S. dollar devaluates against the NIS, our NIS denominated expenses will be greater than anticipated when reported in U.S. dollars. In 2011, the dollar appreciated against the NIS by 7.7%, in 2012, the dollar devaluated against the NIS by 2.3%, and in 2013 the dollar devaluated against the NIS by 7.0%, and, as a result, our NIS denominated expenses were affected by these fluctuations. Inflation in Israel may compound the adverse impact of any devaluation by further increasing the amount of our Israeli expenses. Israeli inflation may also (in the future) outweigh the positive effect of any appreciation of the U.S. dollar relative to the NIS, if, and to the extent that, it outpaces such appreciation or precedes such appreciation. The Israeli rate of inflation (2.2%, 1.6% and 1.8% in 2011, 2012 and 2013, respectively) has not had a material adverse effect on our financial condition during 2011, 2012 or 2013.

We may not be entitled to certain tax benefits.

We may be entitled to benefit in the future from certain government programs and tax legislation, particularly as a result of the 'Approved Enterprise' status granted to some of our operations by the Investment Center in the Israeli Ministry of the Economy and the 'Benefiting Enterprise' status that resulted from our eligibility for tax benefits under the Israel Law for Encouragement of Capital Investments, 1959 (an "Approved Enterprise", a "Benefiting Enterprise" and the "Investment Law", respectively). The availability of these tax benefits, however, is subject to certain requirements under the Investment Law including, among other things, making specified investments in fixed assets and equipment. The tax benefits that we anticipate receiving under our current "Approved Enterprises" and "Benefiting Enterprises" programs may not be continued in the future at their current levels or at all. To date, we have not actually received any such tax benefits because we have not yet generated any taxable income.

It may be difficult to enforce a U.S. judgment against us, or our officers and directors or to assert U.S. securities law claims in Israel.

It may be difficult to obtain, within the United States, service of process upon us, since we are incorporated in Israel, and upon our directors and officers and our Israeli auditors, almost all of whom reside outside the United States. In addition, because substantially all of Compugen Ltd.'s assets and almost all of Compugen Ltd.'s directors and officers are located outside the United States, it may be difficult to enforce a judgment obtained in the United States against us or any of our directors and officers in United States or Israeli courts, including a judgment, based on the civil liability provisions of the U.S. federal securities laws. Also, it may be difficult to enforce civil liabilities under United States federal securities laws or to assert original actions instituted in Israel under such United States federal securities laws. Israeli courts may refuse to hear a claim based on an alleged violation of U.S. securities laws reasoning that Israel is not the most appropriate forum in which to bring such a claim. In addition, even if an Israeli court agrees to hear such a claim, it is not certain whether Israeli law or U.S. law will be applicable to the claim. If U.S. law is found to be applicable, the content of applicable U.S. law must be proven as a fact by expert witnesses, which can be a time consuming and costly process. Certain matters of procedure will also be governed by Israeli law. There is little binding case law in Israel that addresses the matters described above. As a result of the difficulty associated with enforcing a judgment against us in Israel, you may not be able to collect any damages awarded by either a U.S. or foreign court.

Provisions of Israeli law may delay, prevent or affect a potential acquisition of all or a significant portion of our shares or assets and therefore depress the price of our shares.

Israeli corporate law regulates mergers, requires that acquisitions of shares above specified thresholds be conducted through tender offers, requires special approvals for transactions involving directors, officers or significant shareholders and regulates other matters that may be relevant to these types of transactions.

In addition, Israeli tax considerations may also make potential transactions unappealing to us or to our shareholders whose country of residence does not have a tax treaty with Israel exempting such shareholders from Israeli tax or who are not exempt under the provisions of Israeli tax laws from Israeli capital gains tax on the sale of our shares.

Furthermore, under the Israeli Encouragement of Research and Development in Industry Law, 1984 as amended (the "R&D Law"), to which we are subject due to our receipt of grants from the Office of the Chief Scientist of the Israeli Ministry of Economy (the "OCS"), a recipient of OCS grants such as us must report to the applicable authority of the OCS any change in the holding of the means of control of our Company as a result of which any non-Israeli citizen or resident or a non-Israeli entity becomes an interested party in our Company and the consideration available to our shareholders in a transaction involving the transfer outside of Israel of technology or know-how developed with OCS funding (such as a merger or similar transaction) may be reduced by any amounts that we are required to pay to the OCS.

These and other similar provisions could delay, prevent or impede an acquisition of us or our merger with another company, even if such an acquisition or merger would be beneficial to us or to our shareholders, and it may therefore limit the price that investors may be willing to pay in the future for our ordinary shares.

We received grants from the OCS that may restrict the transfer of know-how that we develop.

We have received research and development grants from the OCS. Therefore, even following full repayment of any OCS grants, we must nevertheless continue to comply with the requirements of the R&D Law. The transfer to third parties of know-how or technologies developed under the programs submitted to the OCS and as to which we received the grants, manufacturing or rights to manufacture based on and/or incorporating such know-how to third parties, might require the consent of the OCS, and may require certain payments to the OCS. Although such restrictions do not apply to the export from Israel of the Company's products developed with such know-how, they may prevent us from engaging in transactions with our affiliates, customers or other third parties outside Israel, involving product or other asset transfers, which might otherwise be beneficial to us.

Being a foreign private issuer exempts us from certain SEC and NASDAQ requirements.

We are a "foreign private issuer" within the meaning of rules promulgated by the SEC. As such, we are exempt from certain provisions applicable to U.S. public companies including:

- the rules under the Exchange Act requiring the filing with the SEC of quarterly reports on Form 10-Q and current reports on Form 8-K
- the sections of the Exchange Act regulating the solicitation of proxies, consents or authorizations in respect of a security registered under the Exchange Act
- the provisions of Regulation FD aimed at preventing issuers from making selective disclosures of material information
- the sections of the Exchange Act requiring insiders to file public reports of their stock ownership and trading activities and establishing insider liability for profits realized from any "short-swing" trading transaction (a purchase and sale, or sale and purchase, of the issuer's equity securities within less than six months).

In addition, under the rules and regulations of The NASDAQ Stock Market, a foreign private issuer may follow its home country practice in lieu of certain NASDAQ listing requirements. For example, under NASDAQ's rules a company traded on the NASDAQ market is required to select director nominees either by independent directors constituting a majority of the board of directors or by a nominations committee comprised solely of independent directors. Under Israeli law, there is no such requirement to have an independent nominating committee or to have the independent directors of a company select (or recommend for selection) director nominees. We have elected that our board of directors handle this process, as is permitted under our Articles of Association and the Israeli Companies Law, 5759-1999, as amended (the "**Companies Law**"). We also need not adopt a formal board resolution or charter addressing the director nominations process and such related matters as may be required under the U.S. federal securities laws, as Nasdaq requires for a U.S. issuer. In addition, pursuant to Israeli law, we seek shareholder approval for all corporate actions requiring such approval under the requirements of the Companies Law, which are different from the requirements for seeking shareholder approval under NASDAQ Listing Rule 5635. For a description of the transactions requiring shareholder approval under the Companies Law see "Item 10. Additional Information — B. Memorandum and Articles of Association — Conflict of interest" in this annual report. Furthermore, consistent with Israeli law, if a quorum is not present within half an hour from the time stated for an adjourned general meeting of shareholders of the Company, any shareholders present in person or by proxy at such meeting shall constitute a quorum. As such, the quorum requirements for an adjourned meeting are different from the Nasdaq requirement that an issuer listed on Nasdaq have a quorum requirement that in no case be less than 33 1/3% of the outstanding shares of the company's common voting stock. Because of these SEC and NASDAQ exemptions, investors are not afforded the same protections or information generally available to investors holding shares in public companies organized in the United States.

Your rights and responsibilities as a shareholder will be governed by Israeli law which differs in some material respects from the rights and responsibilities of shareholders of U.S. companies.

The rights and responsibilities of the holders of our ordinary shares are governed by our Articles of Association, which we refer to as our "Articles" and by Israeli law. These rights and responsibilities differ in some material respects from the rights and responsibilities of shareholders in U.S.-based corporations. In particular, a shareholder of an Israeli company has a duty to act in good faith and in a customary manner in exercising its rights and performing its obligations towards the company and other shareholders, and to refrain from abusing its power in the company, including, among other things, in voting at a general meeting of shareholders on matters such as amendments to a company's articles of association, increases in a company's authorized share capital, mergers and related party transactions requiring shareholder approval. In addition, a shareholder who is aware that it possesses the power to determine the outcome of a shareholder vote or to appoint or prevent the appointment of a director or other Office Holder (as such term is defined in the Companies Law, see "Item 6 - Directors, Senior Management and Employees – B. Compensation - Approval Required for Directors' and Officers' Compensation") in the company has a duty of fairness toward the company. There is limited case law available to assist us in understanding the nature of this duty or the implications of these provisions. These provisions may be interpreted to impose additional obligations and liabilities on holders of our ordinary shares that are not typically imposed on shareholders of U.S. corporations.

Risks Related to our Ordinary Shares

Sales under our existing shelf registration statement will dilute existing shareholders.

On January 7, 2013, we filed a shelf registration statement on Form F-3 with the SEC under which we may offer and sell from time to time in one or more offerings, our ordinary shares, debt securities, rights, warrants and units having an aggregate offering price of up to $100 million. This registration statement was declared effective by the SEC on January 16, 2013. As of January 31, 2014, no shares have been issued pursuant to this shelf registration statement. While there is no assurance that we will sell any shares, including shares underlying securities convertible into, exchangeable for, exercisable for shares, under this shelf registration statement, any such sales in the future may result in dilution to existing shareholders. In addition, we may seek additional capital by selling shares or other securities under this shelf registration statement due to favorable market conditions or strategic considerations even if we believe we have sufficient funds for our current or future operating plans.

Potential Issuance of ordinary shares pursuant to the funding agreement with Baize Investments (Israel) Ltd. will dilute existing shareholders.

We have received a total of $13 million under our funding arrangements with Baize. Pursuant to the amended funding agreement, Baize has the right to receive 10% of the cash consideration received by Compugen or its affiliates from third parties, less certain pass-through amounts, with respect to certain designated product candidates through December 31, 2030. In addition, Baize has the right, until June 30, 2015, to waive its right to such participation rights in exchange for a number of the Company's ordinary shares to be calculated as the quotient of (i) $13 million less 50% of any cash consideration paid prior to such date to Baize, divided by (ii) the average closing price of the Company's ordinary shares during the 20 trading days prior to the exchange date; provided however that such exchange price shall not be lower than $3.00 per share, and shall not exceed $12.00 per share. Baize has also received a warrant to purchase up to 500,000 of our ordinary shares at an exercise price of $7.50 per share through June 30, 2015. In the event that Baize elects to exchange its participation rights for our ordinary shares or to exercise the warrant it will result in dilution to existing shareholders.

Our ordinary shares are traded on more than one market and this may result in price variations.

In addition to being traded on The NASDAQ Global Market, our ordinary shares are also traded on the Tel Aviv Stock Exchange, or TASE. Trading in our ordinary shares on these markets take place in different currencies (U.S. dollars on NASDAQ and NIS on the TASE), and at different times (resulting from different time zones, trading days and public holidays in the United States and Israel). The trading prices of our ordinary shares on these two markets may differ due to these and other factors. Any decrease in the price of our ordinary shares on one market could cause a decrease in the trading price of our ordinary shares on the other market.

Our share price and trading volume have been volatile and may be volatile in the future and that could limit investors' ability to sell our shares at a profit and could limit our ability to successfully raise funds.

During the calendar years 2012 and 2013, our stock price on NASDAQ has traded from a low of $2.96 to a high of $11.92 and trading volume is volatile from time to time. The volatile price of our shares and periodic volatile trading volume may make it difficult for investors to predict the value of their investment, to sell shares at a profit at any given time, or to plan purchases and sales in advance. A variety of factors may affect the market price of our ordinary shares including:

- global macroeconomic developments

- our success (or lack thereof) in entering into collaboration agreements and achieving certain research and developmental milestones thereunder
- our need to raise additional capital and our success or failure in doing so
- achievement or denial of regulatory approvals by us or our competitors
- announcements of technological innovations or new commercial products by our competitors
- developments concerning proprietary rights, including patents
- developments concerning our existing or new collaborations
- regulatory developments in the United States, Israel and other countries
- delay or failure by us or our partners in initiating, completing or analyzing pre-clinical or clinical trials or the unsatisfactory design or results of such trials
- period to period fluctuations in our results of operations
- changes in financial estimates by securities analysts
- changes in senior management or the board of directors
- our ability (or lack thereof) to disclose the commercial terms of, or progress under, our collaborations;
- our ability (or lack thereof) to show and accurately predict revenues
- transactions with respect to our ordinary shares by insiders or institutional investors.

We are not able to control many of these factors, and we believe that period-to-period comparisons of our financial results will not necessarily be indicative of our future performance.

In addition, the stock market in general, and the market for biotechnology companies in particular, have experienced extreme price and volume fluctuations that may be unrelated or disproportionate to the operating performance of individual companies. These broad market and industry factors may seriously harm the market price of our ordinary shares, regardless of our operating performance.

Furthermore, the market prices of equity securities of companies that have a significant presence in Israel may also be affected by the changing security situation in the Middle East and particularly in Israel. As a result, these companies may experience volatility in their stock prices and/or difficulties in raising additional financing required to effectively operate and grow their businesses. Thus, market and industry-wide fluctuations and political, economic and military conditions in the Middle East may adversely affect the trading price of our ordinary shares, regardless of our actual operating performance.

As a result of the volatility of our stock price, we could be subject to securities litigation, which could result in substantial costs and divert management's attention and company resources from our business.

ITEM 4. INFORMATION ON THE COMPANY

A. HISTORY AND DEVELOPMENT OF THE COMPANY

History

Our legal and commercial name is Compugen Ltd. We were incorporated on February 10, 1993 as an Israeli corporation. The legislative framework within which Compugen Ltd. now operates is the Companies Law, which originally became effective on February 1, 2000, and the Israeli Companies Ordinance (New Version) 1983, as amended. Our principal offices are located at 72 Pinchas Rosen Street, Tel Aviv 6951294, Israel, and our telephone number is +972-3-765-8585. Our primary Internet address is *www.cgen.com*. None of the information on our website is incorporated by reference into this annual report.

We have a wholly owned subsidiary, Compugen USA, Inc., which was incorporated in Delaware in March 1997 and is qualified to do business in California. This subsidiary did not have any significant operations from 2008 to March 2012.

Principal Capital Expenditures

In the years ended December 31, 2013, 2012 and 2011, our capital expenditures were $328,000, $1 million, and $96,000, respectively, and for the year 2013 were spent primarily on laboratory equipment, general computer software and hardware, and leasehold improvements. We have no current significant commitments for capital expenditures.

B. BUSINESS OVERVIEW

Overview

Compugen is a drug discovery and development company utilizing a broadly applicable proprietary infrastructure for the *in silico* (by computer) prediction and selection of human therapeutic product candidates, which are then advanced in its Pipeline Program. The initial fields of focus selected by us are monoclonal antibodies and therapeutic proteins to address major unmet needs in the fields of oncology and immunology. Beginning in late 2010, we established the Pipeline Program, consisting of targets and product candidates for applications in oncology and immunology, based largely on novel immune checkpoint regulator candidates discovered by us during our first focused discovery program. Our business model includes entering into collaborations covering the further development and commercialization of product candidates at various stages from our Pipeline Program and various forms of research and discovery agreements, in both cases providing us with potential fees, research revenues, milestones, royalties and other revenue sharing payments.

Predictive Discovery Infrastructure: Our continuously growing discovery infrastructure, established over more than a decade of pioneering research with respect to key biological phenomena, consists of a multi-dimensional platform integrating proprietary scientific understandings and predictive models, algorithms, machine learning systems and other computational biology capabilities.

Initial Fields of Focus: Oncology and immunology are both areas of complex and challenging diseases with significant unmet medical needs. Therefore, these are areas of high industry interest with numerous efforts to identify novel therapeutic solutions. Our science-driven predictive capabilities are well suited for the identification of novel therapeutic candidates for these complex, multi-factorial and challenging therapeutic fields.

The Pipeline Program: Our Pipeline Program consists of therapeutic product candidates at various stages ranging from target validation to pre-clinical studies. The aim of the Pipeline Program is to advance in our validation pipeline mAb targets and mAbs against such targets, and Fc fusion protein therapeutics, in each case discovered by us, in the fields of oncology and immunology and to further advance selected molecules beyond their animal proof of concept stage. The newly discovered candidates enter the Pipeline Program when they begin experimental evaluation following their *in silico* prediction and selection. These candidates then undergo *in vitro* and *in vivo* experimental validation, with selected candidates eventually being advanced toward pre-clinical, and, in selected cases, possibly future clinical activities. The experimental validation studies are conducted at our facilities, or at expert laboratories, selected specifically for each relevant field. In the case of drug targets for mAbs, target functional characterization and other validation studies, selected based on the nature of the target, confirming the target's therapeutic potential are undertaken, followed by the generation of a therapeutic mAb to be used for *in vitro* and *in vivo* proof of concept studies in disease animal models. mAb candidates, either humanized or fully-human, selected to be advanced to pre-IND studies, will then enter the stage of lead candidate selection and optimization. For specific candidates we may choose to continue development into further clinical activities. With respect to therapeutic protein product candidates that have either been or will be successfully validated *in vitro*, these candidates are further advanced to *in vivo* proof of concept studies in disease animal models and to mechanism of action studies to explore their novel biology, followed by the selection of the final therapeutic form of the molecule to be used at later development stages.

Pipeline Program

Overview

During 2010, we integrated our approach to drug target and drug discovery, moving from a "technology driven" individual platform capability approach to a "therapeutics needs (market) driven" approach. In this "therapeutics needs (market) driven" approach we harness all of our relevant discovery platforms, systems and tools towards a selected unmet need in order to predict and validate novel candidates that we believe have the highest potential to be successful first-in-class drug candidates to address that particular need. Our first focused discovery program under this therapeutics needs (market) driven approach was directed towards the discovery of novel members of the immune checkpoint regulators family of proteins, specifically focusing on B7/CD28 co-stimulatory/co-inhibitory proteins, which are of high interest to the industry and have therapeutic potential in autoimmune diseases and/or cancer.

In late 2010, we initiated our Pipeline Program, pursuant to which we have both (i) accelerated the number of predicted and selected product candidates being evaluated by us, primarily in our fields of focus, and (ii) taken certain product candidates further beyond their proof of concept into preclinical activities, and in selected cases we may elect to take them into future clinical activities.

The Pipeline Program is now focused on mAb and protein therapeutics in the fields of oncology and immunology, and is largely based on novel immune checkpoint regulator candidates discovered by us.

Our initial results in identifying potential immune checkpoint candidates and the high industry interest in this class of proteins, led us to expand our discovery efforts in this area to the identification of additional sets of immunomodulatory proteins beyond the B7/CD28-like family. In 2011, we developed two as yet undisclosed discovery platforms based on new approaches and algorithms to predict such novel immunomodulatory proteins. These platforms completed their *in silico* validation stage and have already predicted several novel immunomodulatory proteins, which have entered initial validation studies.

First Focused Discovery Program – Immune Checkpoints

Oncology and Immunology are two medical fields with significant unmet medical needs. Biological drugs have revolutionized patients' treatment in these areas and have gained the highest commercial successes in the industry. For example, Humira® and Enbrel®, indicated for autoimmune diseases, are the industry's top-selling drugs, with 2012 annual sales of $9.3 billion and about $8.4 billion respectively. Compugen has therefore elected to focus its discovery effort using its proprietary predictive capabilities in these areas.

Modulation of the immune system has shown clinical success in several therapeutic applications, such as treating various types of cancer, inhibiting autoimmune diseases and prolonging graft survival in organ transplant recipients. This initial clinical significance is the basis for the increasing interest in the discovery and development of immunomodulators for therapeutic uses, and the rationale behind Compugen's first therapeutic needs driven efforts: the identification of novel immune checkpoint proteins that can serve as targets for therapeutic mAb discovery or be engineered to produce therapeutic protein candidates. Indeed, recent data presented at the American Society of Clinical Oncology (ASCO) on checkpoint inhibitors for immuno-oncology has continued to excite the industry, proposing a paradigm shift in cancer therapy, with excellent promise for patients' long-term survival, though still for a small fraction of patients. Despite the impressive efficacy observed with current immune checkpoint strategies, there still remains a significant unmet need to be addressed, e.g., by novel immune checkpoints.

Immune checkpoints: Immune checkpoints are inhibitory receptors and their ligands, which are crucial for the maintenance of self-tolerance (that is, the prevention of autoimmunity) and for the protection of tissues from damage when the immune system is responding to pathogenic infection. In several autoimmune diseases, including for example multiple sclerosis and rheumatoid arthritis, self-reactive T cells escape immune checkpoints and autoimmune responses ensue. Therefore, restoring immunologic balance by activating immune checkpoints and regulatory immune cells is a promising avenue for the treatment of autoimmunity.

Immune checkpoints also play critical roles in cancer development as they are "highjacked" by tumors to block the ability of the immune system to destroy the tumor ("immune resistance"). Immune checkpoints have lately emerged as potential "game changers" and promising targets for cancer immunotherapy. Clinical studies employing mAb blockade of immune checkpoints, such as PD-1 and CTLA4, have shown unprecedented durable responses. Antibodies targeting immune checkpoints have been thus termed "the next frontier" in the treatment of cancer and some refer to this approach as 'the beginning of the end of cancer'. Cancer immunotherapy was selected by *Science* magazine as the Breakthrough of the Year 2013. It also came into high focus of the investment community, with multiple analyses, conferences, articles in leading business journals, and investments in new companies. One industry analyst estimates that the cancer immunotherapy market will generate annual sales of up to $35 billion over the next ten years and will be used in the management of up to 60% of all cancers.

Discovery of novel immune checkpoints for oncology and immunology: A key Compugen established capability in this field was the development and use of our Protein Family Members Discovery Platform for the discovery of novel protein members belonging to various known and clinically important protein families. This discovery platform incorporates two key Compugen proprietary infrastructure capabilities: LEADS and MED (described in more detail below). Specialized algorithms designed for identification of the unique characteristics of specific protein families, utilizing LEADS and MED, analyze the entire proteome to search for novel proteins belonging to a desired family. This platform concept was initially developed for the identification of novel immunomodulators which can serve as protein therapeutics for various pathological conditions, and more specifically, the B7/CD28 protein family of costimulators/coinhibitors. The reason we focused initially on this protein family is that B7/CD28 proteins are known to play key roles in regulating immune responses and serve as immune checkpoints. We believe new proteins of this family could have significant therapeutic potential in many pathological conditions, including autoimmune diseases and cancer. Applying the Protein Family Members Discovery Platform resulted in the identification of nine putative immune checkpoint B7/CD28-like membrane proteins. Among those we have disclosed are CGEN-15001T, CGEN-15022 and CGEN-15049.

Our newly discovered immune checkpoints have been shown to be expressed in cancer tumors, thus substantiating their potential as mAb targets for cancer immunotherapy. CGEN-15001T is expressed on numerous types of solid cancers and hematological malignancies, such as prostate cancer, melanoma, Hodgkin's lymphoma and Non-Hodgkin's lymphoma. CGEN-15022 is expressed in numerous types of epithelial cancers with significant unmet clinical needs, such as liver, colorectal, lung and ovarian cancers. The different expression profiles of CGEN-15022 and CGEN-15001T not only provide important differentiating characteristics between these two novel targets, but also offer promising potential to utilize these proteins as mAb targets to treat a broad set of key cancer indications with significant unmet medical needs. In August 2013, we signed a research and discovery collaboration and license agreement with Bayer for the development and commercialization of antibody-based therapeutics for cancer immunotherapy against CGEN-15001T and CGEN-15022.

In September 2013, Compugen disclosed experimental data for CGEN-15049, a novel immune checkpoint mAb target. The experimental data demonstrate CGEN-15049's expression in a wide variety of cancers and its functional effects on the activities of different types of immune cells that play critical roles in the immune system's response against the tumor. These two characteristics identify CGEN-15049 as a promising target for the treatment of various cancers using monoclonal antibody therapy in order to block its inhibition of immune response against the tumor and release the brakes on the immune system.

The immune checkpoint mAb targets' respective fusion proteins were genetically engineered as recombinant proteins consisting of the extracellular region of the immune checkpoint membrane proteins fused to an Fc antibody domain. CGEN-15001 was the first of these predicted candidates to undergo extensive *in vitro* and *in vivo* validation, demonstrating robust efficacy in animal models of multiple sclerosis and rheumatoid arthritis, pointing to its therapeutic potential for treatment of multiple autoimmune diseases. Two additional proteins disclosed in 2011, CGEN-15021 and CGEN-15091, have also been validated and shown to have beneficial effects in animal models of autoimmune diseases. In 2012, we disclosed two additional Fc fusion proteins, CGEN-15031 and CGEN-15051 with positive initial results in animal models of autoimmune diseases. The experimental data on our Fc fusion proteins demonstrate their therapeutic potential in treatment of autoimmune diseases and inflammatory conditions, such as multiple sclerosis and rheumatoid arthritis. In 2013, we disclosed additional results for CGEN-15001 in disease animal models of type 1 diabetes and psoriasis. In addition, we disclosed in 2013 that CGEN-15001 was highly effective in preventing graft rejection in a bone marrow transplantation animal model, suggesting that this drug candidate acts through an induction of immune tolerance. In comparison to current therapeutic approaches that generally suppress the immune system, tolerance induction would provide a sustained resolution of the disease without compromising the immune system's capacity to fight infections and malignancies.

Second Focused Discovery Program – Targets for Antibody Drug Conjugate Technology

Antibody-drug conjugate (ADC) cancer therapy destroys cancer cells through the use of an antibody or antibody fragment linked to a high-potency cytotoxic agent, called the payload. Unlike traditional cancer therapeutics, ADC therapy is designed to target and destroy only the cancer cells. The antibody specifically targets the cancer cell, where the payload is released and selectively kills the cancer cell. ADCs against a number of targets, both in solid and hematologic tumors, have already demonstrated clinical success, with two ADC products gaining FDA approval in the past three years.

Fueled by the success of recent FDA approvals, ADC cancer therapy is an area of increased focus and activity. At least 17 ADCs started clinical trials in 2011 and 2012, up from just eight in 2009 and 2010. There are approximately 30 ADCs in clinical testing, accounting for approximately 15% of the clinical-stage anticancer antibody-based pipeline and outnumbering other modified mAbs such as bispecifics and fragments *(Nature Reviews Drug Discovery 2013)*. Additionally, in recent years the ADC field has been characterized by a very active partnering landscape amongst pharmaceutical companies, signifying the high unmet clinical need in cancer treatment and the high level of interest in developing novel ADC therapies.

Arming antibodies or antibody fragments with cytotoxic agents can be viewed as a means of enhancing tumor cell killing while sparing normal cells. ADCs represent a potential approach to enhance the efficacy of mAbs, by harnessing the mAb specificity to target the delivery of a cytotoxic agent to the tumor. Cancer therapy through ADCs addresses an area of high unmet medical need and is of great interest to the pharma industry. The lack of suitable ADC targets is a major problem, which provides an opportunity for Compugen to serve as a key source of such potential targets and their mAbs.

Compugen's ADC target discovery program, which was initiated in 2013, utilizes our underlying predictive discovery infrastructure which was also used in our earlier immune checkpoint program, with the addition of certain algorithms and other computational capabilities specifically developed for this effort. The additional algorithms enable prediction of membrane proteins having the potential to internalize, which are both expressed on cancer cells and have low expression on healthy cells, in order to allow the ADC drug to selectively attack the tumor and spare healthy tissues. It was additionally enhanced to identify targets associated with advanced cancer stages and poor clinical outcome, in order to provide potential superior first-in-class treatment to patient populations with limited therapeutic options and high unmet need.

The initial results from our second focused *in silico* discovery program were announced at the end of 2013 with the predictive discovery and selection of five potential candidate targets for ADC cancer therapy. These five potential ADC targets are now entering initial experimental validation to be followed by antibody discovery and development activities.

Monoclonal Antibody Therapy

Monoclonal antibody (mAb) therapy relates to a class of biological drugs that bind with high specificity to target cells or proteins. Due to the versatility and specificity of this approach, mAb therapies are being intensively researched and developed as treatments for numerous serious diseases with the belief that they have the potential to be more effective and have fewer side effects compared to traditional chemical drugs. During the past two decades, mAbs have emerged as an important and rapidly growing drug class, with over 20 mAbs already approved for therapeutic use in the U.S. for various clinical indications, including oncology, chronic inflammatory diseases, transplantation, infectious diseases and cardiovascular diseases. For cancer therapy, a mAb may inhibit cellular processes critical for tumor growth, stimulate the patient's immune system to attack the target cancerous cells, or be used for targeted delivery of chemotherapy specifically to the cells identified by the antibodies (known ADC technology). Moreover, according to an analysis by Tufts University, the rate of success for mAb therapeutics from first use in humans to regulatory approval is more than double that of traditional chemical drugs.

Although significant progress has been made in recent years in mAb therapeutics, numerous challenges still remain. One of the main challenges in this extremely promising field is the identification of novel targets for mAb therapy. To this end, we have developed several proprietary target discovery platforms through the focusing and integration of various aspects of our unique predictive discovery capabilities to identify novel drug targets for mAb therapies.

The Pipeline Program consists of mAb targets discovered by our Monoclonal Antibody (mAb) Targets Discovery Platform and our Protein Family Members Discovery Platform. While our computational capabilities can enable target discovery in any number of areas, we have focused our antibody pipeline efforts on two main target classes: Immune checkpoints and targets for ADC technology. Immune checkpoint candidates disclosed by Compugen include CGEN-15001T, CGEN-15022 and CGEN-15049. These three targets have shown immunomodulatory activity on immune cells and expression in a wide variety of cancers. Additional undisclosed immune checkpoint candidates are available in the Pipeline Program. The other class of targets in our Pipeline Program is targets for ADC which are undergoing validation studies. CGEN-671, is a novel potential ADC target. Compugen also has five additional ADC targets in the Pipeline Program that recently began to undergo initial validation studies.

Compugen has secured access to a highly diverse human phage display antibody library to generate antibodies against its novel targets for its Pipeline Program. We will use this library to screen for antibodies that bind to a given target with high specificity and affinity. Those antibodies will then be tested for desired activities, such as the ability to stimulate anti-tumor immune response, or induce tumor cell killing when coupled with a toxin. Lead candidates will then be selected based on their potency and efficacy in animal-based tumor studies, to be further advanced towards clinical development.

Targets for Antibody Drug Conjugate Technology

Ideal targets for ADCs are expressed at high levels in the tumor epithelium, internalize upon antibody binding, and demonstrate minimal expression in normal tissues. This enables specific antibody delivery of toxin to tumor cells, while sparing normal tissues from exposure to and damage from the toxin. Following our second focused target discovery effort, Compugen has a number of potential ADC targets that will serve as the basis for future antibody development programs. Additionally, antibody development efforts have been initiated against a protein previously discovered by Compugen that demonstrates desired ADC target features. Antibodies that bind specifically to the target will be tested for their ability to internalize following binding on the cell surface, and cell killing will be assessed using commercially available reagents commonly used for *in vitro* ADC testing. For proof of concept testing in animal models, candidate antibodies will be conjugated with linkers and toxins that are widely used and well defined in the industry, and used to treat mice bearing tumors that express the target on the cell surface. Lead candidates will be chosen based on their ability to induce tumor destruction, together with biophysical properties that are consistent with use in a therapeutic setting.

Therapeutic Proteins for Immunology in the Pipeline Program

Therapeutic proteins are large biological molecules usually produced by recombinant technologies. Therapeutic proteins are clinically used to treat a wide range of diseases including cancer, autoimmune diseases, infectious diseases, blood-related disorders and others. Compugen's therapeutic proteins candidates are based on novel B7/CD28-like immune checkpoint proteins discovered using the Company's Protein Family Members Discovery Platform. The therapeutic protein candidates in the Pipeline Program were created by fusing the extracellular domain of the newly discovered immune checkpoints to an Fc fragment of an antibody. This class of therapeutic proteins, known as Fc fusion proteins, has achieved significant clinical and commercial success as exemplified by the anti-rheumatic biologics ENBREL® (etanercept) with sales of about $8.4 billion in 2012, and ORENCIA® (abatacept) with about $1.2 billion in sales in 2012. Potential therapeutic proteins for immunology disclosed by Compugen include CGEN-15001, CGEN-15021, CGEN-15091, CGEN-15031 and CGEN-15051. The therapeutic potential of Compugen's Fc fusion drug candidates for immunology was demonstrated in animal models of autoimmune diseases. Specifically CGEN-15001, Compugen's leading Fc fusion program, was successfully tested in disease models of multiple sclerosis, rheumatoid arthritis, psoriasis, type 1 diabetes and bone marrow transplantation. In these disease models, CGEN-15001 provided sustained long-term therapeutic effect and showed immune tolerance induction in the transplantation model. The promise of this class of therapeutic candidates based on immune checkpoints is to potentially affect immunological processes underlying autoimmunity, thereby potentially providing long-term therapeutic solutions for patients.

Our Discovery Infrastructure

Our proprietary underlying and growing predictive discovery infrastructure has been shown to be applicable for the discovery of product candidates in many different therapeutic and diagnostic areas. This infrastructure incorporates predictive understandings of numerous biological phenomena at the molecular level. These predictive understandings were accomplished during a decade-long and ongoing research effort at Compugen and are based on sophisticated analyses of large amounts of data of various types, such as genetic, molecular, structural, clinical, biological pathways and others. This effort is performed on an ongoing basis by an experienced multidisciplinary research team of scientists, who on average have been employed by Compugen Ltd. for approximately 8 years (and 6.5 years when taking Compugen USA, Inc. into account) and over time have generated more than 70 peer reviewed publications of certain of our findings and capabilities in scientific journals.

A key aspect of our capabilities is the increasing set of building block algorithms and other proprietary technologies for the accurate integration of the enormous amount of data from different sources, as well as of specialized data, which form the basis for our infrastructures, such as our core discovery infrastructure platforms, LEADS, MED and NexGen as described below. This has resulted in the ability to utilize this discovery infrastructure to provide output in the form of meaningful biological information, in addition to continuing the development and enhancement of the infrastructure itself. A further requirement of our discovery capabilities is the development of a set of query algorithms specifically designed for the prediction and selection of molecules that should address specific areas or needs. Such query algorithms are different for each of our growing list of individual discovery capabilities.

Following the prediction and selection of potential product candidates through use of this infrastructure, which is accomplished entirely by computer, the resulting predicted candidates are validated utilizing well-accepted laboratory experimental procedures, which in addition to providing validation of the candidates, also provide key information for further refining the query algorithms and other aspects of the infrastructure.

Infrastructure Platforms

An important aspect of our infrastructure development efforts was the creation of our three key infrastructure platforms, LEADS, MED and NexGen, which integrate our scientific understandings and predictive models. These infrastructure platforms serve as key components first in the creation of our individual discovery platforms described below, and then in allowing us to approach unmet clinical needs through the integrated use of these infrastructure platforms with the discovery platforms, systems and tools developed by us during the last decade.

LEADS provides a comprehensive view of the human transcriptome, proteome, and peptidome and serves as a rich infrastructure for the discovery of novel genes, transcripts and proteins. This was the first infrastructure platform developed by us and it has been enhanced and improved for over a decade. LEADS provides precise gene, transcript, protein and peptide prediction through modeling of various biological phenomena such as alternative splicing, antisense, fusion gene, RNA editing and polymorphisms. LEADS serves as a rich and accurate database of thousands of proprietary and novel genes and proteins. The infrastructure is based on mapping of messenger RNAs, or mRNAs, and expressed sequence tags (ESTs) to the genome, followed by clustering of the sequences and assembly of the gene structure and all possible mRNA transcripts and resulting proteins, through a multistep predictive analysis process. LEADS includes proprietary algorithms developed at Compugen and public and proprietary input data. This combination of proprietary algorithm tools and data, public and proprietary, allows us to identify previously unknown proteins and transcripts.

MED is an *in silico* disease expression database integrating more than 70,000 microarray experiments which are grouped into approximately 1,400 sets. Each set is a unification of different experiments of tissues with the same clinical relevance (i.e. normal tissues, malignant tissues, tissues from drug treated patients). In contrast to a commonly used single experiments analysis approach, the results from all 70,000 microarray experiments are integrated by MED via a sophisticated procedure that we developed, and they are then unified into a "virtual" or *in silico* chip. The “virtual” chip allows us to analyze simultaneously the expression of genes across all 1,400 conditions and tissues based on the results from the 70,000 experiments. This integrated analysis allows a broad view of the expression profile of a single gene over thousands of experiments and multiple tissue types. It also allows the identification and elimination of exceptional expression results obtained from various data sources, resulting in a system with an improved signal-to-noise ratio and thus superior accuracy. The fact that the platform integrates data from many sources and experiments gives robust results. MED’s *in silico* discoveries have been experimentally validated repeatedly over the years with expression data obtained in-house by a quantitative expression assay system, qRT-PCR, on established controlled and independent mRNA tissue panels.

NexGen is designed to analyze Next Generation Sequencing data which is now beginning to be generated worldwide through RNA-Seq methodology. RNA-Seq is a new and powerful ultra-high throughput approach to provide raw data for transcriptome analysis and expression profiling. Although this new approach provides a massive amount of data in the form of very short partial transcript sequences, it also creates an extremely challenging environment for obtaining meaningful and accurate information. Our NexGen Platform, which incorporates advanced algorithms and other proprietary tools, is designed to efficiently and accurately integrate and analyze this vast amount of short sequence data. The integration of this capability with our discovery infrastructure, mainly our predictive transcriptome and proteome, is expected to provide us with both enhanced identification of novel genes and splice variants, and a broader view of the expression levels of RNA transcripts, facilitating new associations to pathological or healthy conditions. These new integrated capabilities should provide us with further substantial advantages in predictive discovery of potential drugs and drug targets, and also in the discovery of potential diagnostic product candidates.

Discovery Platforms

Each of our individual discovery platforms targets a specific area or type of molecule and consists of three modules: prediction, selection and validation. The first two modules are accomplished by computer, while the third module involves laboratory based *in vitro* and *in vivo* experimental validation of selected candidates. In general, the prediction and selection modules utilize our discovery infrastructure to predict putative product candidates for a defined unmet need.

Our current key individual discovery capabilities are:

- **mAb Target Discovery**: This platform relies on both the LEADS and MED infrastructure platforms and utilizes query algorithms focused on the discovery of targets suitable for mAb technology based on statistical analysis of expression data provided by these platforms. Compugen's mAb Target Discovery capability has been expanded beyond the initial focus on various solid tumors such as lung, ovarian, breast, colorectal and hematological cancers. New field extension modules have been added, which are now enabling the discovery of drug targets involved in drug response, metastatic stage cancer, and additional cancers such as melanoma, renal, liver, and pancreatic.

- **Protein Family Members Discovery Platform**: This platform incorporates both LEADS and MED infrastructure capabilities for the discovery of novel protein members belonging to various known and clinically important protein families. Since most traditional approaches for identifying such novel members are largely based on sequence homology, we first identify other types of characteristics that are shared between known members of the family of interest, and then the specialized algorithms select proteins from the LEADS proteome that share these characteristics and therefore could potentially be unknown family members.

- **Antibody-Drug Conjugate Cancer Therapy Discovery Platform**: Compugen's discovery infrastructure was expanded by incorporating additional algorithms that enable prediction of membrane proteins having the potential to internalize, that are both expressed on cancer cells and have low expression on healthy cells, in order to allow the ADC drug to selectively attack the tumor and spare healthy tissues. It was additionally enhanced to identify targets associated with advanced cancer stages and poor clinical outcome, in order to provide potential superior first-in-class treatment to patient populations with limited therapeutic options.

- **Predictive Structural Biology Discovery Platform**: This platform leverages previously developed platforms, in particular the PPI blockers platform, and enhances them, to enable the identification of functional interactions sites within proteins of interest, thus increasing the probability of identifying and/or optimizing functional monoclonal antibodies that modulate targets of interest in cancer and immunology

Commercialization

Therapeutic Needs (Market Driven) Discoveries

Although our individual discovery capabilities are in general broad and not limited to a certain indication or therapeutic field, during 2010, we focused our approach upon drug target and drug discovery in the fields of oncology and immunology moving from a "technology driven" individual platform capability approach to a "therapeutics needs (market) driven" approach. In this "therapeutics needs (market) driven" approach we harness all of our relevant discovery platforms, systems and tools towards a selected unmet need in order to predict and validate novel molecules that we believe have the highest potential to be successful first-in-class drug candidates for that need.

In late 2010, we initiated our Pipeline Program, which is now focused on mAbs and protein therapeutics in the fields of oncology and immunology and is largely based on novel immune checkpoint regulator candidates discovered by the Company.

We are currently concentrating our main commercialization efforts on entering into licensing and partnership arrangements with respect to our Pipeline Program product candidates, in which we may also participate in the further development of the partnered candidates. Potential revenue sources in such arrangements could include fees, research revenues, milestones payments, royalties and other revenue sharing payments. In some cases we expect these agreements may include an option for license, option exercise fees and license fees.

Additionally, we intend to seek research and discovery collaborations aimed at harnessing our infrastructure capabilities towards the partners' discovery needs. In these arrangements we would combine our discovery approaches to identify and prioritize novel proteins and/or targets according to the specific unmet need of our partner. Potential revenue sources in these types of transactions could include upfront fees, research funding, option exercise and license fees, milestone payments, royalties and other revenue sharing payments.

Bayer Collaboration

On August 5, 2013, Compugen and Bayer entered into a Research and Development Collaboration and License Agreement (the "Bayer Agreement") for the research, development, and commercialization of antibody-based therapeutics against two novel, Compugen-discovered immune checkpoint regulators, CGEN 15001T and CGEN 15022.

Under the terms of the Bayer Agreement, we received an upfront payment of $10 million, and we are eligible to receive an aggregate of over $500 million in potential milestone payments for both programs, not including aggregate preclinical milestone payments of up to $30 million during the research programs. Additionally, we are eligible to receive mid- to high single digit royalties on global net sales of any approved products under the collaboration.

Under the Bayer Agreement, Compugen and Bayer will jointly pursue a preclinical research program with respect to each of the two immune checkpoint regulators. A joint steering committee consisting of representatives from each party will be responsible for overseeing and directing each such research program pursuant to an agreed upon workplan. Following each such research program, Bayer will have full control over further clinical development of any cancer therapeutic product candidates targeting the Compugen-discovered immune checkpoint regulators and will have worldwide commercialization rights for any approved products.

Bayer may terminate the Bayer Agreement, either in whole or only with respect to one of the programs, and in each case also on a product-by-product and/or country-by country basis, at any time without cause, upon prior written notice. Either party may also terminate the Bayer Agreement, either in whole or with respect to only one of the programs, if the other party is in material breach and such breach has not been cured within the applicable cure period. Upon any termination of the Agreement, depending upon the circumstances, the parties have varying rights and obligations with respect to the continued development and commercialization of any products and certain payment and royalty obligations.

Validation Based (Technology Driven) Discoveries

A result of the decade long and continuing establishment of our discovery infrastructure was the validation of each of our discovery platforms described above. This validation, and in some cases the initial runs of the discovery platform, resulted in the "technology driven" discovery of multiple novel molecules in a broad range of therapeutic and diagnostic fields, such as oncology, immunology, cardiovascular, ocular diseases and more.

In view of the wide applicability of our predictive biology capabilities, we have in the past formed, or participated in the formation, of companies to utilize certain of these capabilities in other fields. We have also entered into other arrangements for the further development and commercialization of various non-focus area specific discoveries of interest, most of which resulted from our infrastructure development and validation activities. In all such cases, these arrangements provide the potential for future financial gain to Compugen without any further financial commitment for either development or commercialization from us. This commercialization pathway is anticipated to be of lesser importance in the future.

In 2012, we entered into two such arrangements: (i) the joint establishment of a new Israeli company, Neviah Genomics Ltd., with Merck Serono, a division of Merck, Darmstadt, Germany, in the field of toxicity biomarkers, and (ii) a financing arrangement with a United States investment company to allow the further development of Keddem Bioscience Ltd., previously a wholly owned, but inactive, subsidiary of Compugen, in the field of small molecule drugs.

In December 2011, we entered into a framework agreement with BiolineRx pursuant to which we suggest potential drug candidates for consideration by BiolineRX, primarily peptides, which were identified by us in the past using our predictive drug discovery platforms. The field of peptide therapeutics is not currently in our areas of focus, and the agreement provides that, any such potential drug candidates, if accepted by BioLineRx, will be developed by BioLineRx at its expense through Phase II clinical trials, with the goal of ultimately licensing them to pharmaceutical companies for advanced clinical development and commercialization, with any proceeds subject to pre-agreed sharing by the parties. Under this framework agreement, three peptides were initially accepted by BiolineRx to be of possible interest and entered into the BiolineRx pipeline. Subsequently it was determined that there was insufficient market opportunity for those candidates, and currently there are no active programs under this arrangement.

In October 2011, we entered into an agreement through December 31, 2013 with the Pulmonary Fibrosis Foundation and the University of Pittsburgh, according to which the Pulmonary Fibrosis Foundation has agreed to provide a grant to scientists at the University of Pittsburgh to further evaluate the therapeutic potential of CGEN-25009 for the treatment of idiopathic pulmonary fibrosis (IPF), a devastating disease with no current effective treatment and which is estimated to affect more than five million people worldwide. The parties are currently discussing an extension to that agreement.

Competition

The biotechnology and pharmaceutical industries are highly competitive. Numerous entities in the United States and elsewhere compete with our efforts to make discoveries and out-license them to pharmaceutical and biotech companies. Our competitors include biotechnology companies, the research and discovery groups of pharmaceutical companies, academic and research institutions and governmental and other publicly funded agencies.

We face, and expect to continue to face, competition from entities that discover and develop products that have a function similar or identical to the function of our therapeutic product candidates or a product that acts in a different, but successful, manner addressing the same unmet need. With respect to our therapeutic product candidates, our potential competitors comprise of companies that discover and develop novel targets and/or therapeutic proteins for monoclonal antibody therapy. Specifically in the immune checkpoint field for cancer immunotherapy, there are several leading pharmaceutical and biotechnology companies as well as smaller biotechnology companies and academic institutions that are developing biological therapies to enhance immune response towards tumors. The product candidates being developed by the smaller companies and/or academic institutions are expected to compete with our product candidates on licensing and collaboration opportunities. If approved, such cancer immunotherapy products would compete with our approved products in the respective field.

Our discovery program depends, in large part, on our discovery platforms and other technologies and our proprietary data to make inventions and establish intellectual property rights in genes and gene-based products, including mRNAs and proteins. There are a number of other means by which such inventions and intellectual property can be generated. We believe that our computational technologies, and specifically our discovery platforms, provide us with a competitive advantage in the field of predicting gene-based products. We believe that this advantage is made possible by building an infrastructure for predictive discovery based on the incorporation of ideas and methods from exact sciences into biology, and by the modeling of significant biological phenomena and the resultant better research capabilities that we have developed, as well as our unique team of scientists from both biology and exact sciences disciplines who have worked together for approximately eight years on average.

Many of our potential competitors, either alone or with their collaborative partners, have substantially greater financial, technical and human resources than we do and significantly greater experience in the discovery and development of therapeutics, obtaining FDA and other regulatory approvals, and commercialization. Accordingly, our competitors may be more successful than we may be in identifying product candidates, protecting them with patent applications, developing them, obtaining FDA approval and achieving widespread market acceptance. We anticipate that we will face intense and increasing competition as advanced technologies become available.

Intellectual Property Rights

Our intellectual property assets are our principal assets. These assets include the intellectual property rights subsisting in our proprietary know-how and trade secrets underlying our predictive biology capabilities and discovery platforms, our patents and patent applications, particularly with respect to Compugen discovered molecules and utilities, and the copyrights subsisting in our software and related documentation. We seek to vigorously protect our rights and interests in our intellectual property. We expect that our commercial success will depend on, among other things, our ability to obtain commercially valuable patents, especially for our product candidates, maintain the confidentiality of our proprietary know-how and trade secrets, and otherwise protect our intellectual property.

We seek patent protection for certain promising inventions that relate to our product candidates. As of January 1, 2014, we had a total of 43 issued and allowed patents, of which 32 are U.S. patents, five are Australian patents, three are Israeli patents, two are European patents and one is a Japanese patent. Our issued patents expire between 2020 and 2029. We also have 94 pending patent applications, which as of January 1, 2014, included 21 patent applications that have been filed in the United States, 17 patent applications that have been filed in Europe, 21 patent applications that have been filed in Israel, nine patent applications that have been filed in Australia, seven patent applications that have been filed in Canada, four patent applications that have been filed in Japan, three patent applications that have been filed in India, three patent applications that have been filed in China, one application that has been filed in Brazil, one application that has been filed in Korea, one application that has been filed in New Zealand, one application that has been filed in the Russian Federation, one application that has been filed in Singapore, one application that has been filed in Mexico, one application that has been filed in South Africa and two applications that have been filed under the Patent Cooperation Treaty for which we have not yet designated the countries of filing.

Our general policy is to continue patent filings and maintenance for our product candidates, only with respect to candidates or projects that are being actively pursued internally or with partners, or that we believe to have future commercial value. We routinely abandon patent applications and may choose to abandon maintenance of patents supporting candidates or projects that do not meet these criteria.

We also seek protection for our proprietary know-how and trade secrets that are not protectable or protected by patents, by way of safeguarding them against unauthorized disclosure. This is done through the extensive use of confidentiality agreements and assignment agreements with our employees, consultants and third parties as well as by technological means. We use license agreements both to access third party technologies and to grant licenses to third parties to exploit our intellectual property rights.

Manufacturing

We currently intend to rely on contract manufacturers or our collaborative partners to produce materials and drug substances for drug products required for preclinical studies and clinical trials. We plan to continue to rely upon contract manufacturers and collaboration partners to manufacture commercial quantities of these materials for any marketed therapeutic products.

Government Regulation

Environmental Regulation

Some of our research and development activities involve the controlled use of biological and chemical materials, a small amount of which could be considered to be hazardous. We are subject to laws and regulations in the U.S. and Israel governing the use, storage, handling and disposal of all these materials and resulting waste products. We store relatively small amounts of biological and chemical materials. To our knowledge, we substantially comply with these laws and regulations. However, the risk of accidental contamination or injury from these materials cannot be entirely eliminated. In the event of an accident, we could be held liable for any resulting damages, and any liability could exceed our resources.

Regulation of Use of Human Tissue

We need to access and use various human or other organisms' tissue samples for the purpose of development and or validation of some of our product candidates. Our access and use of these samples is subject to government regulation, in the United States, Israel and elsewhere and may become subject to further regulation. United States and other governmental agencies may also impose restrictions on the use of data derived from human or other tissue samples. To our knowledge, we substantially comply with these regulatory requirements.

Regulations Concerning the Use of Animals in Research

We also are subject to various laws and regulations regarding laboratory practices and the use of animals in our research. In the United States, the FDA regulations describe good laboratory practices, or GLPs, for various types of nonclinical laboratory studies that support or are intended to support applications for research or marketing permits for products regulated by the FDA, including investigational new drug applications, or INDs. Further, preclinical animal studies conducted by us or third parties on our behalf may be subject to the U.S. Department of Agriculture regulations for certain animal species. In Israel, the Council on Animal Experimentation has regulatory and enforcement powers, including the ability to suspend, change or withdraw approvals, among other powers. To our knowledge, the Company and the third party service providers we work with, as applicable, substantially comply with these regulatory requirements.

Regulation of Products Developed with the Support of Research and Development Grants

For a discussion of regulations governing products developed with research and development grants from the Government of Israel, see "Item 5. Operating and Financial Review and Prospects. C - Research and Development, Patents and Licenses – The Office of the Chief Scientist."

Regulation of Therapeutic Product Candidates

In the United States, the FDA regulates drugs under the Federal Food, Drug, and Cosmetic Act, or FDCA, biologics under the Public Health Service Act, and implementing regulations. The process of obtaining regulatory approvals and the subsequent compliance with applicable federal, state and local statutes and regulations require the expenditure of substantial time and financial resources. Failure to comply with the applicable United States requirements at any time during the product development process, approval process or after approval, may subject an applicant to administrative or judicial sanctions. The process required by the FDA before a drug may be marketed in the United States generally involves the following:

- completion of preclinical laboratory tests and animal studies in compliance with the FDA's Good Laboratory Practices or other applicable regulations;
- submission to the FDA of an IND, which must become effective before human clinical trials may begin;
- performance of adequate and well-controlled human clinical trials in accordance with Good Clinical Practices, or GCPs, to establish the safety and efficacy of the proposed drug for its intended use;
- submission to the FDA of a new drug application, or NDA if the drug is a small molecule, or a biologics license application, or BLA, if the drug is a biologic;
- satisfactory completion of an FDA inspection of the manufacturing facility or facilities at which the drug or biologic is produced to assess compliance with current Good Manufacturing Practice, or cGMP, to assure that the facilities, methods and controls are adequate to preserve the drug's identity, strength, quality and purity; and
- FDA review and approval of the NDA or BLA.

Once a pharmaceutical candidate is identified for development it enters the preclinical testing stage. Preclinical tests include laboratory evaluations of product chemistry, toxicity and formulation, as well as animal studies. An IND sponsor must submit the results of the preclinical tests, together with manufacturing information and analytical data, and applicable clinical data or literature, among other things, to the FDA as part of the IND. The sponsor will also include a protocol detailing, among other things, the objectives of the first phase of the clinical trial, the parameters to be used in monitoring safety, and the effectiveness criteria to be evaluated, if the first phase lends itself to an efficacy evaluation. The IND automatically becomes effective 30 days after receipt by the FDA, unless the FDA, within the 30-day time period, places the clinical trial on a clinical hold. In such a case, the IND sponsor and the FDA must resolve any outstanding concerns before the clinical trial can begin. Clinical holds also may be imposed by the FDA at any time before or during studies due to, among other things, safety concerns or non-compliance.

All clinical trials must be conducted under the supervision of one or more qualified investigators in accordance with GCPs. An IRB at each institution participating in the clinical trial must review and approve the plan for any clinical trial before it commences at that institution. An IRB considers, among other things, whether the risks to individuals participating in the trials are minimized and are reasonable in relation to anticipated benefits. The IRB also approves the information regarding the trial and the consent form that must be provided to each trial subject or his or her legal representative and must monitor the study until completed.

Each new clinical protocol must be submitted to the FDA, and to the IRBs for approval. Protocols detail, among other things, the objectives of the study, dosing procedures, subject selection and exclusion criteria, and the parameters to be used to monitor subject safety.

Human clinical trials are typically conducted in three sequential phases that may overlap or be combined:

- *Phase 1:* The drug is initially introduced into healthy human subjects and tested for safety, dosage tolerance, absorption, metabolism, distribution and excretion. In the case of some products, usually for severe or life-threatening diseases, especially when the product may be too inherently toxic to ethically administer to healthy volunteers, the initial human testing is often conducted in patients.
- *Phase 2:* Involves studies in a limited patient population to identify possible adverse effects and safety risks, to preliminarily evaluate the efficacy of the product for specific targeted diseases and to determine dosage tolerance and optimal dosage.
- *Phase 3:* Involves studies undertaken to further evaluate dosage, clinical efficacy and safety in an expanded patient population at geographically dispersed clinical study sites. These studies are intended to establish the overall risk-benefit ratio of the product and provide an adequate basis for product labeling and approval.

Progress reports detailing the results of the clinical trials must be submitted at least annually to the FDA and safety reports must be submitted to the FDA and the investigators for serious and unexpected adverse events. The FDA or the sponsor may suspend or terminate a clinical trial at any time on various grounds, including a finding that the research subjects or patients are being exposed to an unacceptable health risk. Similarly, an IRB can suspend or terminate approval of a clinical trial at its institution if the clinical trial is not being conducted in accordance with the IRB's requirements or if the drug has been associated with unexpected serious harm to patients.

Concurrent with clinical trials, companies usually complete additional nonclinical studies and must also finalize a process for manufacturing the product in commercial quantities in accordance with cGMP requirements. The manufacturing process must be capable of consistently producing quality batches of the drug within required specifications and, among other things, the manufacturer must develop methods for testing the identity, strength, quality and purity of the final drug. Additionally, appropriate packaging must be selected and tested and stability studies must be conducted to demonstrate that the drug does not undergo unacceptable deterioration over its shelf life.

United States Review and Approval Processes

The results of product development, preclinical studies and clinical trials, along with descriptions of the manufacturing process, analytical tests conducted on the chemistry of the drug, proposed labeling, and other relevant information are submitted to the FDA as part of an NDA or BLA requesting approval to market the product for one or more indications. The FDA initially reviews all NDAs or BLAs submitted to ensure that they are sufficiently complete for substantive review before it accepts them for filing. The FDA may request additional information rather than accept an NDA or BLA for filing. Once the submission is accepted for filing, the FDA begins an in-depth substantive review. The FDA may refer the NDA or BLA to an advisory committee for review, evaluation and recommendation as to whether the application should be approved and under what conditions. The FDA is not bound by the recommendation of an advisory committee.

The review process is lengthy and the FDA may refuse to approve an NDA or BLA if the applicable regulatory criteria are not satisfied or may require additional clinical or other data and information. Even if such data and information are submitted, the FDA may ultimately decide that the NDA or BLA does not satisfy the criteria for approval.

If a product receives regulatory approval, the approval may be limited to specific diseases and dosages or the approved indications for use may otherwise be limited, which could restrict the commercial value of the product. In addition, the FDA may require a company to conduct post-approval testing, including Phase 4 clinical trials, to further assess a drug's safety and effectiveness after NDA or BLA approval, and may require testing and surveillance programs to monitor the safety of approved products which have been commercialized including Risk Evaluation and Mitigation Strategy (REMS) to ensure that the benefits of a drug outweigh its risks.

Post-approval Requirements

Approved drugs are subject to extensive and continuing regulation by the FDA, including, among other things, cGMP compliance, record-keeping requirements, reporting of adverse experiences with the drug, providing the FDA with updated safety and efficacy information, and complying with FDA promotion and advertising requirements. After an approval is granted, the FDA may withdraw the approval if compliance with regulatory requirements is not maintained or if serious problems occur after the product reaches the market. Drugs may be promoted for use only for the approved indication or indications and in accordance with the provisions of the approved label. The FDA and other federal and state agencies actively enforce the laws and regulations prohibiting the promotion of off-label uses, and a company that is found to have improperly promoted off-label uses may be subject to criminal and civil penalties.

Diagnostic Products

In the United States, IVDs are regulated by the FDA as medical devices. Medical devices are classified into one of three classes on the basis of the controls deemed by the FDA to be necessary to reasonably ensure their safety and effectiveness. Class I devices are subject to general controls, including labeling, premarket notification and adherence to FDA's quality system regulations, which are device-specific good manufacturing practices. Class II devices are subject to general controls and special controls, including performance standards and post market surveillance. Class III devices are subject to most of the previously identified requirements as well as to premarket approval. Class I devices are exempt from premarket submissions to the FDA; most Class II devices require the submission of a 510(k) premarket notification to the FDA; and Class III devices require submission of a premarket approval application, or PMA. Most *in vitro* diagnostic kits are regulated as Class I or Class II devices and are either exempt from premarket notification or require a 510(k) submission.

A 510(k) notification must demonstrate that a medical device is substantially equivalent to another legally marketed device, termed a "predicate device," that is legally marketed in the United States and for which a PMA was not required. A device is substantially equivalent to a predicate device if it has the same intended use and technological characteristics as the predicate, or has the same intended use but different technological characteristics, where the information submitted to the FDA does not raise new questions of safety and effectiveness and demonstrates that the device is at least as safe and effective as the legally marketed device. Most 510(k)s do not require clinical data for clearance, but a minority will. The FDA is supposed to issue a decision letter within 90 days of receipt of the 510(k) if it has no additional questions or send a first action letter requesting additional information within 75 days. Requests for additional data, including clinical data, will increase the time necessary to review the notice. If the FDA does not agree that the new device is substantially equivalent to the predicate device, the new medical device is automatically classified as a Class III device for which a PMA will be required. However, the sponsor may petition the FDA to make a risk-based determination that the device does not pose the type of risk associated with Class III devices and down-classify the device to Class I or Class II.

Class III devices require the submission and approval of a PMA prior to product sale. The PMA process is more complex, costly and time consuming than the 510(k) process. A PMA must be supported by more detailed and comprehensive scientific evidence, including clinical data, to demonstrate the safety and efficacy of the medical device for its intended purpose. If the device is determined to present a "significant risk," the sponsor may not begin a clinical trial until it submits an investigational device exemption, or IDE, to the FDA and obtains approval from the FDA to begin the trial. After the PMA is submitted, the FDA has 45 days to make a threshold determination that the PMA is sufficiently complete to permit a substantive review. If the PMA is complete, the FDA will file the PMA. The FDA is subject to a performance goal review time for a PMA of 180 days from the date of filing, although in practice this review time is longer. Questions from the FDA, requests for additional data and referrals to advisory committees may delay the process considerably. The total process may take several years, and the FDA may also request additional clinical data as a condition of approval or after the PMA is approved. Product changes after approval typically require a supplemental submission with FDA review cycles ranging from 30 to 180 days.

Any products manufactured or distributed pursuant to FDA clearances or approvals are subject to pervasive and continuing regulation by the FDA, including recordkeeping requirements, reporting of adverse experiences with the use of the device, and restrictions on advertising and promotion. Device manufacturers are required to register their establishments and list their devices with the FDA and are subject to periodic inspections by the FDA and certain state agencies. Noncompliance with applicable FDA requirements can result in, among other things, warning letters, fines, injunctions, civil penalties, recalls or seizures of products, total or partial suspension of production, refusal of the FDA to grant 510(k) or PMA approval for devices, withdrawal of 510(k) clearances and/or PMA approvals, or criminal prosecution.

Non-U.S. Regulations

In addition to regulations in the United States, drugs are subject to a variety of foreign laws and regulations governing clinical trials and commercial sales and distribution before they may be sold outside the United States. Whether or not we obtain FDA approval for a product, we must obtain the necessary approvals by the comparable regulatory authorities of foreign countries before we can commence clinical trials or marketing of the product in those countries. The approval process varies from country to country and the time may be longer or shorter than that required for FDA approval. The requirements governing the conduct of clinical trials, the approval process, product licensing, pricing and reimbursement vary greatly from country to country.

C. ORGANIZATIONAL STRUCTURE

We were incorporated under the laws of the State of Israel on February 10, 1993 as Compugen Ltd., which is both our legal and commercial name. Compugen USA, Inc., a wholly owned subsidiary, was incorporated in Delaware in March 1997 and is qualified to do business in California.

D. PROPERTY, PLANTS AND EQUIPMENT

We currently lease an aggregate of approximately 15,380 square feet of office and biology laboratory facilities in Tel Aviv, Israel, under a lease that expires on December 31, 2015. In addition, Compugen USA, Inc. currently subleases an aggregate of approximately 4,410 square feet of office and biology laboratory facilities in South San Francisco, California, under a sublease that expires on June 30, 2014. Compugen USA, Inc. signed on December 12, 2013 a new lease agreement, pursuant to which, as of approximately June 1, 2014, it will lease 12,560 square feet for four years. We believe that the facilities that we currently lease are sufficient for at least the next 12 months. There are no encumbrances on our rights in these leased properties or on any of the equipment that we own.

To our knowledge, there are no environmental issues that affect our use of the properties that we lease.

ITEM 4A. UNRESOLVED STAFF COMMENTS

None

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion of our critical accounting policies and our financial condition and operating results should be read in conjunction with our consolidated financial statements and related notes, prepared in accordance with U.S. GAAP as of December 31, 2013, and with any other selected financial data included elsewhere in this annual report.

Background

We are a drug discovery and development company utilizing a broadly applicable proprietary infrastructure for the *in silico* (by computer) prediction and selection of human therapeutic product candidates which are then advanced in its Pipeline Program. The initial fields of focus selected by us are monoclonal antibodies and therapeutic proteins to address major unmet needs in the fields of oncology and immunology. Beginning in late 2010, we established the Pipeline Program, consisting of targets and product candidates for applications in oncology and immunology, based largely on novel immune checkpoint regulator candidates discovered by us. Our business model includes entering into collaborations covering the further development and commercialization of product candidates at various stages from our Pipeline Program and various forms of research and discovery agreements, in both cases providing us with potential fees, research revenues, milestones, royalties and other revenue sharing payments.

A. OPERATING RESULTS

Overview

Since our inception, we have incurred significant losses and, as of December 31, 2013, we had an accumulated deficit of $208 million. We may continue to incur net losses in the foreseeable future.

Prior to 2010, we began to focus a significant portion of our research and discovery efforts on the creation of area specific discovery platforms intended to identify novel drug and diagnostic product candidates and discontinued commercialization of our computational biology software products, with a resulting decrease in revenues. By year-end 2010 we had (i) largely integrated the various area specific discovery platforms and other computational biology tools and systems into a multi-dimensional and broadly applicable predictive discovery infrastructure, (ii) selected oncology and immunology as our areas of focus, (iii) selected the field of checkpoint proteins as our first focused discovery program, and (iv) initiated our Pipeline Program to advance selected candidates beyond their research proof of concept stage. In 2012 we initiated activities in Compugen USA, Inc. for mAb discovery and development against certain targets we had discovered. In 2013, we entered into our first collaboration based on our Pipeline Program candidates with Bayer.

We incurred net losses of approximately $12.0 million in 2011, approximately $13.6 million in 2012 and approximately $14.1 million in 2013. We may continue to incur net losses in the future due in part to the costs and expenses associated with our research, development and discovery activities. Our business model primarily involves collaborations covering the further development and commercialization of our discovered product candidates and various forms of research and discovery agreements, in both cases providing us with potential milestone payments and royalties on product sales or other forms of revenue sharing.

Our net research and development expenses are expected to be our major operating expense in 2014, accounting for more than 70% of our expected total 2014 operating expenses. Our research and development expenditures have always comprised a significant portion of our total cash expenditures, and are budgeted to increase by more than 60% in 2014 compared to 2013.

We currently have sufficient working capital in order to sustain our operations for at least the next 12 months. For a detailed description of our cash and cash equivalents position, see "Item 5. Operating and Financial Review and Prospects – B. Liquidity and Capital Resources".

Critical Accounting Policies

The preparation of our consolidated financial statements and other financial information appearing in this annual report requires our management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We evaluate on an on-going basis these estimates, mainly related to share based payments, embedded derivatives and fair value measurements related to research and development funding arrangements, revenue recognition and commitments and contingencies.

We base our estimates on our experience and on various assumptions that we believe are reasonable under the circumstances. The results of our estimates form the basis for our management's judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Share Based Payments

We account for stock-based compensation in accordance with ASC 718, "Compensation – Stock Compensation" ("ASC 718"), which requires companies to estimate the fair value of equity-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as an expense over the requisite service periods in our consolidated statement of comprehensive income.

We primarily selected the Black-Scholes-Merthon model, which is the most common model in use in evaluating stock options. This model evaluates the options as if there is a single exercise point, and thus considers and expected option life (expected term). The input factored in this model is constant for the entire expected life of the option.

We recognize compensation expenses for the value of awards which have graded vesting based on the straight line method over the requisite service period of each of the awards, net of estimated forfeitures. ASC 718 requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

The computation of expected volatility is based on historical volatility of our stock. The risk-free interest rate assumption is the implied yield currently available on United States treasury zero-coupon issues with a remaining term equal to the expected life term of the options. We determined the expected life of the options based on historical experience, representing the period of time that options granted are expected to be outstanding.

We apply ASC 718 and ASC 505-50, "Equity-Based Payments to Non-Employees" with respect to options and warrants issued to non-employees. ASC 718 requires the use of option valuation models to measure the fair value of the options and warrants at the measurement date.

Share-based compensation expense recognized under ASC 718 and ASC 505-50 were approximately, $3.4 million $2.5 million and $3.5 million for the years ended December 31, 2011, 2012 and 2013, respectively.

Embedded Derivatives and Fair Value Measurements related to research and development funding arrangements

Under the funding agreements with Baize we entered into on December 29, 2010 ("Pipeline funding agreement"), as amended on April 21 2013 ("Amended Pipeline Funding Agreement") and December 20, 2011 ("mAb funding agreement"), in accordance with ASC 730-20, "Research and Development Arrangements" and ASC 815, "Derivative and Hedging" we considered the Participation Rights under the Pipeline funding agreement and the mAb Participation Interest under the mAb funding agreement to be a research and development arrangement ("Research and Development Component") coupled with embedded derivatives (the Exchange Option and the Company Option) as those instruments do not have fixed settlement provisions. Consequently, we determined that the embedded derivatives in the Research and Development Component should be accounted for as a liability to be measured at fair value at inception. The embedded derivatives will be re-measured to fair value at each reporting period until their exercise or expiration with the change in such calculated value reported in the statement of operations (as part of financial income or expenses). We determined the fair value of the Pipeline Funding Agreement embedded derivatives using a multi period binomial model with monthly observations, while the exercise price used in the binomial model is the expected cash consideration from certain molecules which value was estimated using the income approach. Following the second amendment to the mAb Funding Agreement and the third amendment to the Pipeline Funding agreement and the need to calculate the mean average closing market price of the shares on NASDAQ within the twenty trading days prior or the actual exchange date we used Monte Carlo simulation paths of our stock prices when determine the fair value of the mAb Funding Agreement and the Pipeline Funding agreement embedded derivatives, respectively. The income approach that was used to estimate the exercise price of the embedded derivatives for the original two agreements and later for the Amended Pipeline Funding Agreement utilizes a discounted cash flow model, as we believe that this approach best approximates the fair value of the expected income from certain molecules in the pipeline program that are underlying the Pipeline Funding Agreement and certain therapeutic mAb products that are underlying the mAb Funding Agreement, all included under the Amended Pipeline Funding Agreement. Judgments and assumptions related to revenues, future short-term and long-term growth rates, weighted average cost of capital, interest, capital expenditures, cash flows, and market conditions are inherent in developing the discounted cash flow model. The material assumptions used for the income approach for 2011, 2012 and 2013 were years of projected net cash flows, a discount rate and the market growth rate. We considered historical and current market research and conditions when determining the discount and growth rates to use in our analyses. If these estimates or their related assumptions change in the future it may affect the fair value of our results. We determine that the fair value of the embedded derivatives is to be classified under Level 3 according to the fair value hierarchy mentioned above.

We determine the fair value of the Amended Pipeline Funding Agreement detachable warrants using Monte Carlo simulation paths of the Company's stock prices. The Monte Carlo Model was chosen following the need to calculate the mean average closing market price of the shares on NASDAQ within the ten consecutive trading days.

The above approached to valuation uses estimations, which are consistent with the plans, and estimates that we use to manage our business. There is inherent uncertainty in making these estimates.

Revenue recognition

We recognize revenue pursuant to the Bayer Agreement in accordance with ASC 605-25, "Revenue Recognition, Multiple-Element Arrangements" and ASC 605-10, "Revenue Recognition". Revenues from the non-refundable upfront license fee of $10 million has no stand-alone value based on the conclusion of an analysis we performed for segregation criteria under ASC 605-25, "Multi-elements arrangement". The segregation criteria is defined by two consecutive criterions: (1) the delivered item has value to the customer on a standalone basis, and (2) in situations in which a general right of return exists for the delivered item, delivery or performance of the undelivered item(s) is considered probable and is substantially within the control of a company. These revenues are recognized on proportional performance method over the estimated development period in which research and development services will be performed. Based on this method we have deferred the revenue of $ 6.7 million as of December 31, 2013. The development period for the Bayer agreement is estimated using the current project progress. As of December 31, 2013, we assessed that there is no impact on the performance period of the Bayer agreement and concluded that it should remain as the original work plan.

Selected Financial Data

The following discussion and analysis is based on and should be read in conjunction with our audited consolidated financial statements, including the related notes, contained in "Item 18 – Financial Statements" and the other financial information appearing elsewhere in this annual report.

	Year ended December 31,		
	2011	2012	2013
	(US$ in thousands, except share and per share data)		
Consolidated Statements of Operations Data			
Revenues	$ -	$ 242	$ 3,549
Cost of revenues	-	201	2,509
Gross profit	-	41	1,040
Research and development expenses, net	6,778	9,442	12,275
Marketing and business development expenses	610	684	962
General and administrative expenses	4,591	3,457	4,846
Total operating expenses (*)	11,979	13,583	18,083
Operating loss	(11,979)	(13,542)	(17,043)
Financial income (loss), net	(25)	(86)	3,460
Loss before income tax	(12,004)	(13,628)	(15,583)
Income tax expenses	-	-	(500)
Net loss	$ (12,004)	$ (13,628)	$ (14,083)
Realized and unrealized gain (loss) on Investment in Evogene	(2,141)	1,103	(739)
Total comprehensive loss	$ (14,145)	$ (12,525)	$ (14,822)
Basic and diluted net loss per share	$ (0.35)	$ (0.38)	$ (0.36)
Weighted average number of shares used in computing basic net loss per share	34,276,697	35,844,496	38,869,438
Weighted average number of shares used in computing diluted net loss per share	34,276,697	36,249,262	38,869,438

(*) Includes stock based compensation – see Note 9 of our 2013 consolidated financial statements.

	As of December 31,		
	2011	2012	2013
	(US$ in thousands)		
Consolidated Balance Sheet Data:			
Cash and cash equivalents, short-term bank deposits and restricted cash	$ 22,463	$ 19,685	$ 46,920
Investment in Evogene	4,093	5,196	4,565
Trade receivables, other accounts receivable and pre-paid expenses	546	690	1,731
Total assets	29,081	28,909	56,711
Research and development funding arrangements and others	6,434	7,872	13,189
Deferred revenues	-	-	6,772
Accumulated deficit	(180,491)	(194,119)	(208,202)
Total shareholders' equity	19,581	17,672	31,888

Years Ended December 31, 2013 and 2012

Revenues. Revenues totaled approximately $3.5 million in 2013 and $242,000 in 2012. The increase in revenues for 2013 is due to the portion of the non-refundable upfront payment received under the August 2013 Research and Development Collaboration and License Agreement with Bayer that was recognized in 2013 accordance with revenue recognition policy over the performance period in which the research and development service are provided.

Cost of Revenues. Cost of revenues attributable to product candidate research and collaboration agreements totaled approximately $2.5 million for 2013 and $201,000 for 2012. The increase in the cost of revenues in 2013 is primarily due to an increase in research and development expenses attributed to the Bayer Agreement. In addition, there were certain payments that occurred in the third quarter of 2013 attributed to the Bayer Agreement and other deductions from the Bayer cash payment pursuant to our funding arrangement with Baize.

Research and Development Expenses, Net. Research and development expenses, net increased by 31%, to approximately $12.3 million for 2013, from approximately $9.4 million for 2012. The increase was primarily due to the increasing levels of activities in support of our Pipeline Program, including a substantial increase in activities relating to the research and development of monoclonal antibody therapeutic candidates at our U.S. subsidiary. Research and development expenses, net, as a percentage of total operating expenses, were 68% in 2013 compared to 70% in 2012.

Marketing and Business Development Expenses. Marketing and business development expenses increased by 41% to approximately $962,000 in 2013 from approximately $684,000 in 2012. The increase was primarily due to payments made to a strategic advisor in connection with the Bayer Agreement. Marketing and business development expenses, as a percentage of total operating expenses, were 5% for both 2013 and 2012.

General and Administrative Expenses. General and administrative expenses increased by 37% to approximately $4.8 million for 2013 from approximately $3.5 million for 2012. The increase was primarily due to legal fees related to the Bayer transaction, an increase in non-cash expense related to stock based compensation and the expenses related with the establishment of our scientific advisory board in 2013. General and administrative expenses, as a percentage of total operating expenses, were 27% in 2013 and 25% in 2012.

Financial Income (loss), Net. Financial income, net was $3.5 million for 2013 compared to a financial loss, net of approximately $86,000 for 2012. This change was mainly due to realized gain derived from the sale of a portion of our holdings of Evogene ordinary shares in the amount of $3.7 million.

Income taxes. Incomes taxes expenses were $500,000 in 2013. These expenses were attributed to withholding tax related to the Bayer agreement.

Years Ended December 31, 2012 and 2011

Revenues. Revenues totaled approximately $242,000 in 2012. No revenues were recognized in 2011. The revenues for 2012 were due to product candidate research and collaboration agreement under which we performed research services and recognized revenues according to the proportional performance method.

Cost of Revenues. Cost of revenues attributable to product candidate research and collaboration agreements totaled approximately $201,000 for 2012 and $0 for 2011.

Research and Development Expenses, Net. Research and development expenses, net increased by 38%, to approximately $9.4 million for 2012, from approximately $6.8 million for 2011. The increase was primarily due to the establishment and initiation of activities at our U.S. based operation as well as an increase in lab activity related expenses associated with our Pipeline Program. Governmental and other research and development grants received by us, which are subtracted from research and development expenses in the calculation of research and development expenses, net decreased to approximately $93,000 for 2012 from approximately $424,000 for 2011. Research and development expenses, net, as a percentage of total operating expenses, increased to 70% in 2012 from 57% in 2011.

Marketing and Business Development Expenses. Marketing and business development expenses increased by 12% to approximately $684,000 in 2012 from approximately $610,000 in 2011. This increase was primarily due to new engagements we entered into with public relations and investors relations firms to support our marketing and business development activities worldwide and especially in the U.S. Marketing and business development expenses, as a percentage of total operating expenses, were 5% for both 2012 and 2011.

General and Administrative Expenses. General and administrative expenses decreased by 24% to approximately $3.5 million for 2012 from approximately $4.6 million for 2011. The decrease was primarily due to non-cash expense related to stock based compensation which totaled approximately $979,000 for 2012 compared with approximately $2.2 million for 2011. Included in the non-cash expense of $2.2 million for 2011 was a $1.3 million one-time charge relating to an extension of the time to exercise certain previously outstanding and vested options previously issued to a director, which extension was approved by our shareholders. General and administrative expenses, as a percentage of total operating expenses, decreased to 25% in 2012 from 38% in 2011.

Financial loss, Net. Financial loss, net, increased to $86,000 for 2012 from a financial loss, net of approximately $25,000 for 2011. This increase was primarily due to non-cash finance expenses mainly derived from the re-measurement of the embedded derivatives and exchange options components under the research and development funding arrangements signed in late 2010 and 2011 and the effect of changes in currency rates. This increase was partially offset by realized gain derived from the sale of a portion of our holdings of Evogene ordinary shares in 2011.

Governmental Policies that Materially Affected or Could Materially Affect Our Operations

Our income tax obligations consist of those of Compugen Ltd. in Israel and of Compugen USA, Inc. in its taxing jurisdictions.

The corporate tax rate in Israel from January 1, 2014 is 26.5%, compared to 25% in 2012 and 2013 and 24% in 2011. In the future, if and when we generate taxable income, our effective tax rate will be primarily influenced by: (a) the split of taxable income between the various tax jurisdictions; (b) the availability of tax loss carry forwards and the extent to which valuation allowance has been recorded against deferred tax assets; (c) the portion of our income which is entitled to tax benefits pursuant to the Investment Law; and (d) the changes in the exchange rate of the U.S. dollar to the NIS. We may benefit from certain government programs and tax legislation, particularly as a result of the Approved Enterprise status granted to some of our operations by the Investment Center in the Israeli Ministry of Economy and the Benefiting Enterprise status that resulted from our eligibility for tax benefits under the Investment Law. To be eligible for these benefits, we need to meet certain conditions. Should we fail to meet such conditions, these benefits could be cancelled and we might be required to refund the amount of the benefits previously received, if any, in whole or in part, together with interest and linkage differences to the Israeli CPI, or other monetary penalty. We also benefit from a Government of Israel program under which we receive grants from the OCS. For more information please see “Item 5 Operating and Financial Review and Prospects– C. Research and Development, Patents and Licenses - Research and Development Grants; The Office of the Chief Scientist”. There can be no assurance that these programs and tax legislation will be continued in the future or that the available benefits will not be reduced.

The termination or curtailment of these programs or the loss or reduction of benefits under the Investment Law could have a material adverse effect on our business, financial condition and results of operations.

Currently we have two Approved Enterprises and two Benefiting Enterprises programs under the Investment Law. The tax benefits period with respect to all of these programs has not yet begun as we have not yet generated any taxable income. These benefits should result in income recognized by us being tax exempt or taxed at a lower rate for a specified period of time after we begin to report taxable income and exhaust any net operating loss carry-forwards. However, these benefits may not be applied to reduce the U.S. federal tax rate for any income that our U.S. subsidiary may generate.

We have elected the alternative benefits route under the Investment Law with respect to our Approved Enterprises. Under this route we waived government grants in return for a tax exemption on undistributed income. Due to the geographic location of our facilities, such tax exemption on undistributed income will apply for a limited period of two years. In the event that such tax exempt income is thereafter distributed as a dividend or a deemed dividend, we will be required to pay the applicable corporate tax that would otherwise have been payable on such income. During the remainder of the benefits period applicable to us (generally until the expiration of ten years), a corporate tax rate not exceeding 25% will apply.

In April 2005, substantive amendments to the Investment Law came into effect. Under these amendments, eligible investment programs of the type in which we participated prior to the amendment were eligible to qualify for substantially similar benefits as a 'Benefiting Enterprise', subject to meeting certain criteria. This replaced the previous terminology of 'Approved Enterprise', which required pre-approval from the Investment Center of the Ministry of the Economy of the State of Israel. As a result of these amendments, tax-exempt income generated from Benefiting Enterprises under the provisions of the amended law will, if distributed upon liquidation or if paid to a shareholder for the purchase of his or her shares, be deemed distributed as a dividend and will subject the Company to the applicable corporate tax that would otherwise have been payable on such income. Therefore, a company may be required to record deferred tax liability with respect to such tax-exempt income, which would have an adverse effect on its results of operations.

Additional amendments to the Investment Law became effective in January 2011 and were further amended in August 2013 (the "2011 Amendment"). Under the 2011 Amendment, income derived by 'Preferred Companies' from 'Preferred Enterprises' (both as defined in the 2011 Amendment) would be subject to a uniform rate of corporate tax for an unlimited period as opposed to the incentives prior to the 2011 Amendment that were limited to income from Approved or Benefiting Enterprises during their benefits period. According to the 2011 Amendment, the uniform tax rate on such income, referred to as 'Preferred Income', would be 10% in areas in Israel that are designated as Development Zone A and 15% elsewhere in Israel during 2011-2012, 7% and 12.5%, respectively, in 2013, and 9% and 16%, respectively, thereafter. Income derived by a Preferred Company from a 'Special Preferred Enterprise' (as defined in the Investment Law) would enjoy further reduced tax rates for a period of ten years of 5% in Development Zone A and 8% elsewhere. Under the transitional provisions of the 2011 Amendment, companies may elect to irrevocably implement the 2011 Amendment with respect to their existing Approved and Benefiting Enterprises while waiving benefits provided under the legislation prior to the 2011 Amendment or keep implementing the legislation prior to the 2011 Amendment. Should a company elect to implement the 2011 Amendment with respect to its existing Approved Enterprises and Benefiting Enterprises prior to June 30, 2015 dividends distributed from taxable income derived from Approved or Benefiting Enterprises to another Israeli company would not be subject to tax. We have not elected to implement the 2011 Amendment and we do not currently have any Preferred Enterprises. While a company may incur additional tax liability in the event of distribution of dividends from tax exempt income generated from its Approved and Benefiting Enterprises, as previously described, no additional tax liability will be incurred by a company in the event of distribution of dividends from Preferred Income.

Pursuant to an amendment to the Investment Law which became effective on November 12, 2012 (the "2012 Investment Law Amendment"), companies that have retained earnings from Approved or Benefiting Enterprises were able to elect by November 11, 2013 to pay a reduced corporate tax rate as set forth in the 2012 Investment Law Amendment on such undistributed income as of December 31, 2011 and thereafter distribute a dividend from such income without being required to pay additional corporate tax with respect to such income as the case would otherwise be, as previously described. A company that made this election, will be required to make certain investments in its Approved or Benefiting Enterprise, as prescribed in the 2012 Investment Law Amendment, and cannot withdraw from its election.

The Company does not have any retained earnings from its Approved or Benefiting Enterprises and, accordingly, did not make such election.

As of December 31, 2013, our net operating loss carry-forwards for Israeli tax purposes amounted to approximately $178 million. Under Israeli law, these net operating losses may generally be carried forward indefinitely and offset against certain future taxable income.

At December 31, 2013, the net operating loss carry-forwards of our U.S. subsidiary for federal income tax purposes amounted to approximately $15 million. These losses are available to offset any future U.S. taxable income of our U.S. subsidiary and will expire between the years 2018 and 2032.

Use of our U.S. net operating losses may be subject to substantial annual limitation due to the "change in ownership" provisions of the Internal Revenue Code of 1986 and similar state provisions. The annual limitation may result in the expiration of net operating losses before utilization.

For a description of Israel government policies that affect our research and development expenses, and the financing of our research and development, see "Item 5. Operating and Financial Review and Prospects -C - Research and Development, Patents and Licenses - Research and Development Grants; The Office of the Chief Scientist".

B. LIQUIDITY AND CAPITAL RESOURCES

Funding Agreements

Baize Pipeline and mAb Funding Agreements

On December 29, 2010, we entered into a Funding Agreement with Baize (the "Original Pipeline Funding Agreement"), pursuant to which Baize provided us with $5 million in support of the Pipeline Program. In exchange, Baize had the right to receive 10% (which amount would be reduced under certain circumstances) of certain cash consideration received by us pursuant to any licenses covering the development and commercialization of products developed from five designated product candidates in the Pipeline Program (the "Pipeline Program Participation Rights), provided that, in all cases, any such Pipeline Program Participation Rights were to be reduced by certain pass-through amounts. Baize also received a warrant to purchase up to 500,000 of our ordinary shares, exercisable at $6.00 per share through June 30, 2013 (the "Original Warrant"). In addition, under the Original Pipeline Funding Agreement, Baize had the right, until June 30, 2013, to waive its right to receive Pipeline Program Participation Rights, in exchange for 833,334 of the Company's ordinary shares.

On December 20, 2011, we entered into an additional Funding Agreement with Baize (the "Original mAb Funding Agreement"), pursuant to which Baize agreed to invest $8 million (the "Investment Amount") in Compugen in connection with certain research funding in exchange for a "mAb Participation Interest" in certain mAb product candidates that achieve specific milestones or have been licensed out by December 31, 2014. Under the Original mAb Funding Agreement, Baize had the right, during the first quarter of 2014, to waive its rights to the mAb Participation Interest in exchange for 1,455,000 of the Company's ordinary shares. The original mAb Funding Agreement was amended on July 24, 2012 and on December 27, 2012.

On April 21, 2013, upon receipt of the final $5 million Investment Amount under the Original mAb Funding Agreement, as amended, Baize and the Company entered into an amendment to the Original Pipeline Agreement, pursuant to which the Original mAb Funding Agreement, as amended, has been terminated and the Original Pipeline Funding Agreement has been amended as follows (the "Amended Pipeline Funding Agreement"):

- Until June 30, 2015, Baize has the right to receive 10% of the cash consideration received by Compugen or its affiliates from third parties, less certain pass-through amounts, with respect to the Combined Program Initial Candidates ("Amended Initial Participation Rights"). The Combined Program Initial Candidates include (i) the five designated product candidates from the Original Pipeline Funding Agreement and (ii) all mAb product candidates to be developed against the eight specified Targets from the Original mAb Funding Agreement, as amended on July 24, 2012.

- Not later than June 30, 2015 or, if later, 30 days following the receipt by Baize from Compugen of the annual report for 2014 containing a status report with respect to the Combined Program Initial Candidates Baize must select five product candidates from the Combined Program Initial Candidates, as "Selected Products". Combined Program Initial Candidates not selected by Baize as one of the five Selected Products shall no longer be subject to the Amended Pipeline Funding Agreement.

- Beginning July 1, 2015 through December 31, 2030, Baize has the right to receive 10% of the cash consideration received by Compugen or its affiliates from third parties, less certain pass-through amounts, with respect to the five Selected Products (the "Amended Final Participation Rights", together with the Amended Initial Participation Rights – the "Amended Participation Rights").

- Baize has the right at any time until June 30, 2015 to elect to exchange the Amended Participation Rights for a number of our ordinary shares (the "Exchange Shares") to be calculated as the quotient of (i) $13 million less 50% of any cash consideration paid to Baize as Amended Participation Rights, divided by (ii) the average closing price of the Company's ordinary shares during the twenty (20) trading days prior to the Actual Exchange Date (as defined below) (the "Exchange Price"); provided however that the Exchange Price shall not be lower than $3.00 per share, and shall not exceed $12.00 per share. The Actual Exchange Date is to be selected by Baize and set forth in written notice of exercise delivered to Compugen and shall not be earlier than 61 trading days after delivery of such notice, nor later than the 62nd trading day after June 30, 2015.

- The Original Warrant granted to Baize to purchase up to 500,000 of the Company's ordinary shares under the Original Pipeline Funding Agreement has been terminated, and Compugen has issued Baize a new warrant to purchase up to 500,000 of the Company's ordinary shares, exercisable at $7.50 per share through June 30, 2015.

To the extent that Baize is not able to rely upon Rule 144 for the resale of the Exchange Shares, we are required to use commercially reasonable efforts to promptly file a resale registration within 90 days to enable the resale of the Exchange Shares.

Cantor Sales Agreement

On August 30, 2011, we entered into a sales agreement with Cantor Fitzgerald & Co. (the "Cantor Sales Agreement"), which enables us to offer and sell an aggregate of up to 6,000,000 of our ordinary shares, from time to time through Cantor Fitzgerald & Co., as our sales agent. The gross proceeds from all sales made pursuant to the Cantor Sales Agreement may not exceed $40 million in the aggregate. Sales of our ordinary shares under the Cantor Sales Agreement were made in sales deemed to be "at-the-market" equity offerings as defined in Rule 415 promulgated under the Securities Act of 1933, as amended. Cantor Fitzgerald & Co. is entitled to receive a commission rate of 3.0% of gross sales in connection with the sale of our ordinary shares on our behalf.

As of the date of filing of this annual report on Form 20-F, we had sold through the Cantor Sales Agreement an aggregate of 4,174,120 of our ordinary shares, and received gross proceeds of approximately $30.8 million, before deducting issuance expenses. On January 21, 2014, the registration statement on Form F-3 under which we had been selling ordinary shares pursuant to the Cantor Sales Agreement terminated.

In 2013, our primary sources of cash were:

- cash held in our bank accounts
- cash generated from the sale and issuance of ordinary shares under the Cantor Sales Agreement
- the non-refundable upfront payment from the Bayer agreement
- proceeds from the Original mAb Funding Agreement with Baize
- exercise of employee stock options
- sales of Evogene shares

We used these funds primarily to finance our business operations.

We expect that our sources of cash for 2014 will include cash held in our bank accounts, and may include proceeds generated from license, collaborative and/or research agreements, proceeds from possible sale of Evogene shares and proceeds from issuance of ordinary shares as a result of the exercise of stock options or from financing transactions.

Net Cash Used in Operating Activities

Net cash used in operating activities was approximately $9.2 million in 2011, approximately $10.8 million in 2012 and approximately $6.4 million in 2013. The decrease in 2013 as compared to 2012 was mainly attributed to the non-refundable upfront payment from the Bayer agreement, which was partially offset by realized gain from sale of Evogene shares and an increase in research and development expenses between the periods and related primarily to the continuation of the growth in the activities at our U.S.-based operation and increased activities under our Pipeline Program.

Net Cash Provided By (Used In) Investing Activities

Net cash used in investing activities was approximately $1.2 million in 2011 and approximately $11.6 million in 2013; net cash provided by investing activities was approximately $12.3 million in 2012. Changes in net cash during 2013 as compared to 2012 were primarily attributed to the investment in short-term bank deposits offset by proceeds from maturity of short-term bank deposits and proceeds from sale of Evogene shares.

Net Cash Provided by Financing Activities

Net cash provided by financing activities was approximately $9.0 million in 2011 approximately $9.1 million in 2012 and approximately $30.4 million in 2013. The principal sources of cash provided by financing activities in 2013 were proceeds received from sale and issuance of ordinary shares in an "at the market" under the Cantor Sales Agreement, proceeds received from the research and development funding arrangement signed in December 2011 and proceeds received from the issuance of ordinary shares as a result of the exercise of stock options.

Net Liquidity

Liquidity refers to the liquid financial assets available to fund our business operations and pay for near-term obligations. These liquid financial assets mostly consist of cash and cash equivalents as well as short-term bank deposits. As of December 31, 2013, we had total cash and cash equivalents and short-term bank deposits of approximately $46.8 million, not including the market value of the Evogene ordinary shares owned by us. We believe that our existing cash and cash equivalents, and short-term bank deposits will be sufficient to fund our operations for at least the next 12 months.

On January 7, 2013, we filed a shelf registration statement on Form F-3 with the SEC under which we may offer and sell from time to time in one or more offerings, our ordinary shares, debt securities, rights, warrants and units having an aggregate offering price of up to $100 million. This registration statement was declared effective by the SEC on January 16, 2013. We may seek additional capital due to favorable market conditions or strategic considerations even if we believe we have sufficient funds for our current or future operating plans.

C. RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES

We invest heavily in research and development. Research and development expenses, net, were our major operating expenses representing between 56% to 70% of total operating expenses for 2011, 2012 and 2013. Our research and development expenses, net, were approximately $12.3 million in 2013, compared to approximately $9.4 million in 2012, and approximately $6.8 million in 2011. As of December 31, 2013, 42 of our employees were engaged in research and development on a full-time basis. This represents approximately 74% of our entire work force**.**

We focus our research efforts on the development of our discovery platforms and related technologies, and the discovery validation and early stage development of our mAb therapy and therapeutic proteins product candidates. During 2010 we initiated the Pipeline Program to substantially expand the number of product candidates undergoing *in vitro* and *in vivo* validation and to significantly enhance the commercial value of our product candidate pipeline by advancing certain candidates beyond the successful animal disease model proof of concept stage, towards pre-IND studies. We expect that in 2014 our research and development expenses, will continue to be our major operating expense, representing more than 70% of our total operating expenses.

We believe that our future success will depend, in large part, on our ability to discover promising therapeutic product candidates and to successfully advance the research and development of certain of our product candidates under our internal Pipeline Program towards pre-IND studies and thereafter to successfully license such product candidates to pharmaceutical companies. In addition, we expect to continue to expand our inventory of proprietary algorithms, predictive models and discovery infrastructure and platforms which provide opportunities for the discovery of promising therapeutic candidates for inclusion in our Pipeline Program and pursuant to research and discoveries collaborations.

Research and Development Grants

We have participated in programs offered by the OCS that support research and development activities, and by the European Community, under the European Union's 6th Framework Program ("European Union") and under BIRD. We also received certain investment amounts under the Original mAb Funding Agreement to support our research and development activities. We received grants from the OCS, the European Union, and BIRD as well as other forms of consideration from Baize totaling approximately $424,000 in 2011, approximately $93,000 in 2012, and approximately $215,000 in 2013. We did not apply for additional grants from the OCS for research and technological development in 2013.

The Office of the Chief Scientist

We received or may receive grants from the OCS for several projects. Under the terms of these grants, we will be required to pay royalties ranging between 3% to 5% of the revenues we generate from our products developed with funds received from the OCS, beginning with the sale of the first product developed with funds received from the OCS and ending when 100% of the dollar value of the grant is repaid (plus LIBOR interest applicable to grants received on or after January 1, 1999). As of December 31, 2013, our contingent obligation for royalties, based on royalty-bearing government grants, net of royalties already paid, totaled approximately $9 million.

The R&D Law requires that the manufacture of products developed with government grants will be carried out in Israel, unless the OCS provides its approval to the contrary. This approval, if provided, is generally conditioned on an increase in the total amount to be repaid to the OCS, to up to 300% of the dollar value of the grant plus applicable interest. The specific increase within this ceiling would depend on the extent of the manufacturing to be conducted outside of Israel. Transfer of the know-how developed with funds received from the OCS and any right derived therefrom to third parties is prohibited, unless conducted in accordance with the restrictions set forth under Israeli law. Approval for such transfer outside of Israel, if provided, is generally conditioned on a redemption payment which is calculated according to a formula set forth in the R&D Law up to an amount equal to six (6) times the total amount of grants received under the R&D Law and from the OCS in general plus applicable interest. Therefore, our flexibility in commercializing some of our technologies may be reduced. We believe that this restriction does not apply to the commercialization through licensing of product candidates that we discover by using our knowhow developed with funds received from the OCS.

D. TREND INFORMATION

Trend towards consolidation

There is a trend towards consolidation in the pharmaceutical, diagnostic and biotechnology industries, which may negatively affect our ability to enter into agreements and may cause us to lose existing licensees or collaborators as a result of such consolidation. This trend often involves larger companies acquiring smaller companies, and this may result in the larger companies having greater financial resources and technological capabilities. This trend towards consolidation in the pharmaceutical diagnostic and biotechnology industries may also result in there being fewer potential companies to license our products and services.

Trend towards reduction of in-house research and development programs within major pharmaceutical companies.

Recently, a number of major pharmaceutical companies have announced cutbacks in their in-house research and development programs. The effects of these cutbacks on our business opportunities could be positive or negative, and are likely to vary on a company by company basis.

Trend towards reliance by major pharmaceutical companies on smaller company's product candidates to support their pipelines.

There appears to be a trend towards larger companies relying on smaller companies' product candidates. However, this trend usually applies to product candidates that have reached a further stage of development than our candidates. However, in certain fields, pharmaceutical and biotechnological companies are becoming more open to in-licensing product candidates at earlier stages of development, including at early pre-clinical stages. As a result, there may be more interest in entering into agreements with us for further development and commercialization of our early stage product candidates.

However, if this is not correct we may be required to invest a substantial amount of money and other resources to advance each of our product candidates prior to licensing, without assurance that any such product candidates will be commercialized, and limiting the number of product candidates that we are able to so advance, while reducing resources available for our discovery activities, due to resource constraints.

If, consistent with our strategy for commercialization of our therapeutic product candidates, we are successful in commercializing our product candidates at an early stage, our licensees may propose terms that we may not consider commercially desirable and the consideration that we may receive for each individual product may be relatively low. The consideration that we would expect to receive for commercializing our product candidates increases commensurately with the number of such products commercialized and the stage of development that we attain for them. Furthermore, considerations regarding our willingness to advance the product candidate at our risk would likely be of much less importance in research and discovery collaborations.

E. OFF-BALANCE SHEET ARRANGEMENTS

We are not a party to any material off-balance-sheet arrangements.

F. TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

The table below summarizes our contractual obligations as of December 31, 2013, and should be read together with the accompanying comments that follow.

	Payments due by period (US$ in thousands)				
	Total	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
Operating Lease Obligations[1]	$ 3,170	$ 856	$ 1,514	$ 800	$ -
Purchasing Obligations[2]	927	927	-	-	-
Accrued Severance Pay, net	312	-	-	-	312
Total	$ 4,409	$ 1,783	$ 1,514	$ 800	$ 312

[1] Consists of operating leases for our facilities and for motor vehicles.

[2] Consists of outstanding purchase orders for materials and services from our vendors.

The above table does not include royalties that we may be required to pay to the OCS or to Baize under the Amended Pipeline Funding Agreement. For more information, see “Item 5. Operating and Financial Review and Prospects – C. Research and Development, Patents and Licenses”.

The above table also does not include contingent contractual obligations or commitments that may crystallize in the future, such as contractual undertakings to pay royalties subject to certain conditions occurring.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. DIRECTORS AND SENIOR MANAGEMENT

The following table sets forth information with respect to Compugen Ltd.'s directors and senior management as of January 31, 2014:

Name	Age	Positions
Prof. Yair Aharonowitz(1)(2)	73	Director
Prof. Ruth Arnon	79	Director
Anat Cohen-Dayag, Ph.D.	46	President and Chief Executive Officer, Director
Martin S. Gerstel	72	Chairman of the board of directors
Dov Hershberg	74	Director
Arie Ovadia, Ph.D. (1)(2)	64	Director (Chairman of the Audit Committee)
Prof. Joshua Shemer(1)(2)	66	Director (Chairman of the Compensation Committee)
Dikla Czaczkes Axselbrad	40	Chief Financial Officer
John Hunter	51	Vice President Antibody Research and Development

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(1) An external director pursuant to the Israeli Companies Law

(2) Member of our Audit Committee and our Compensation Committee

Prof. Yair Aharonowitz joined Compugen's board of directors as an external director in July 2007 and was reappointed as an external director in April 2010 and in April 2013. He is a Professor (Emeritus) of Microbiology and Biotechnology at Tel Aviv University (TAU). He was a visiting scientist at Oxford University, an Alberta Heritage Fellow at the University of Alberta, Edmonton, and a visiting professor at the Karolinska Institute and at the University of British Columbia. Professor Aharonowitz's research interests include the molecular genetics and biosynthesis of antibiotics, molecular biology of microbial pathogens and the development of new targets for new antibiotics. He served as TAU Vice President and Dean for R&D (1997-2001), Chairman of the Department of Microbiology and Biotechnology and Chairman of the Institute of Biotechnology and served as a member of the TAU Executive Council. He served as the Chairman of Ramot Fund for Applied Research, as a member of TAU committee for strategic planning, on the TAU patent committee and was a member of the National Committee for Biotechnology. He is a Fellow of the American Academy of Microbiology.

Prof. Ruth Arnon joined Compugen's board of directors in May 2007. Formerly the Vice-President of the Weizmann Institute of Science (1988-1997), she is a noted immunologist, having joined the Institute in 1960. She served as Head of the Department of Chemical Immunology, Dean of the Faculty of Biology and Director of the Institute's MacArthur Center for Molecular Biology of Tropical Diseases. Prof. Arnon has made significant contributions to the fields of vaccine development, cancer research and to the study of parasitic diseases. Along with Prof. Michael Sela, she developed Copaxone® a drug for the treatment of multiple sclerosis which is presently marketed worldwide. Prof. Arnon is a member of the Israel Academy of Sciences and presently serves as its President. She is an elected member of the European Molecular Biology Organization, served as President of the European Federation of Immunological Societies and as Secretary-General of the International Union of Immunological Societies. Her awards include the Robert Koch Prize in Medical Sciences, Spain's Jiminez Diaz Memorial Prize, France's Legion of Honor, the Hadassah World Organization's Women of Distinction Award, the Wolf Prize for Medicine, the Rothschild Prize for Biology, the Israel Prize and she received an Honorary Doctorate from Ben-Gurion University and from Tel Aviv University. In addition, Prof. Arnon is the incumbent of the Paul Ehrlich Chair in Immunochemistry at the Weizmann Institute.

Anat Cohen-Dayag, Ph.D. At its meeting held on February 10, 2013, the board of directors appointed Dr. Anat Cohen-Dayag as a member of the board of directors, effective as of such date, to hold office until the 2014 annual general meeting of shareholders. Dr. Anat Cohen-Dayag joined Compugen in 2002 as Director of Diagnostics, a position she held until 2005 at which time she became Vice President Diagnostic Biomarkers, a position she held until January 2007. From January 2007 until November 2008, Dr. Cohen-Dayag served as Compugen's Vice President, Biomarkers and Drug Targets, at which point she was appointed Vice President, Research and Development. In June 2009, Dr. Cohen-Dayag was appointed, together with Mr. Martin Gerstel, as co-Chief Executive Officer of Compugen. In March 2010, upon Mr. Gerstel's election as Chairman of the board of directors, Dr. Cohen-Dayag was appointed as Compugen's President and Chief Executive Officer. Prior to joining Compugen, she was head of research and development and member of the Executive Management at Mindsense Biosystems Ltd. Prior to Mindsense Biosystems Ltd., Dr. Cohen-Dayag served as a scientist at the R&D department of Orgenics Ltd. Dr. Cohen-Dayag holds a B.Sc. in Biology from the Ben-Gurion University, Israel, and an M.Sc. in Chemical Immunology and a Ph.D. in Cellular Biology, both from the Weizmann Institute of Science, Israel. Additionally, Dr. Cohen-Dayag is an external director of Ramot at Tel Aviv University Ltd., and a director of the IATI (Israeli Advanced Technologies Industries).

Martin S. Gerstel joined Compugen's board of directors in 1997, and has served as the Chairman of the board of directors, since that time, other than from February 2009 to February 2010, during which time he served as either Chief Executive Officer or co-Chief Executive Officer and, in both cases, as a member of the board of directors. Prior to Compugen, Mr. Gerstel was co-chairman and Chief Executive Officer of ALZA Corporation, which he helped found in 1968. Mr. Gerstel is the Chairman of Evogene Ltd., Keddem Bioscience Ltd., the co-founder and co-chairman of Itamar Medical Ltd., and serves as a director of Yissum Ltd., Yeda Ltd. and the U.S. Foundation for the National Medals of Science and Technology. He is a member of the Board of Governors and the Executive Committee of the Weizmann Institute of Science and the Board of Governors of The Hebrew University of Jerusalem, and is an advisor to the Burrill Life Science Funds and the board of the Israel-U.S. Binational Industrial Research and Development ("BIRD") Foundation. Mr. Gerstel holds a B.S. from Yale University and an MBA from Stanford University.

Dov Hershberg joined Compugen's board of directors in February 2009, prior to which he served as a consultant to the board of directors. From February 2009 through February 2010, Mr. Hershberg served as Chairman of the board of directors. Mr. Hershberg previously managed BIRD Foundation from 1997 through 2006. Mr. Hershberg is currently a founder and management member of Powermat Technologies Ltd., a wireless electricity company. Prior to joining BIRD, Mr. Hershberg held various senior management positions in software development, marketing and sales. He was the founder and CEO, with colleagues from Stanford University, of Molecular Applications Group which created software in biomedical research. Mr. Hershberg spent eleven years at Digital Equipment Corporation in various senior management positions in product development, marketing and sales and worked as a mathematician in the Israeli Aircraft Industry. Mr. Hershberg holds graduate degrees in Mathematics, from the Hebrew University in Jerusalem, Israel and in Applied Mathematics and Operations Research from Columbia University in New York City.

Arie Ovadia, Ph.D. joined Compugen's board of directors as an external director in July 2007 and was reappointed as an external director in April 2010 and in April 2013. He advises major Israeli companies on finance, accounting and valuations, and is a member of the board of directors of several corporations, including Strauss Ltd., Israel Petrochemical Industries Ltd., ViryaNet Ltd., Bazan Ltd., Scailex Corporation Ltd., Maxtech Technologies Ltd., Carmel Olefins Ltd. and Elron Electronic Industries Ltd. He has taught at New York University, Temple University and, in Israel, at Tel Aviv and Bradford Universities and The College of Management. Dr. Ovadia served as a member of the Israeli Accounting Board, and is a 14-year member of the Israel Securities Authority. Dr. Ovadia holds an undergraduate degree and an MBA from Tel Aviv University, and earned his Ph.D. in economics from the Wharton School at the University of Pennsylvania.

Prof. Joshua Shemer joined Compugen's board of directors as an external director in July 2007 and was reappointed as an external director in April 2010 and in April 2013. Prof. Shemer is Full Professor of Medicine at the Tel Aviv University. In addition, Prof. Shemer is the Chairman of Assuta Medical Centers in Israel and a member of the Board of Directors of Maccabi Healthcare Services in Israel. Prof. Shemer is a director of the Israeli center for medical technology assessment in healthcare in Gertner Institute, Tel Hashomer. Prof. Shemer is an Associate Editor at IMAJ and Harefuah, and a member of the Editorial Board of the International Journal of Technology Assessment in Health Care. Prof. Shemer teaches Medical Technology Management at the Faculty of Business Administration at Tel Aviv University. He was a member and former chairman of the National Public Committee for Updating the National List of Health Services in Israel and the National Council for Trauma of the Israeli Ministry of Health. Most recently, Prof. Shemer was the Director-General of Maccabi Healthcare Services. Prof. Shemer was formerly Director-General of the Ministry of Health and Surgeon General of the Israel Defense Forces Medical Corps. Prof. Shemer has published five books and more than 200 peer reviewed articles. Additionally, Prof. Shemer is an external director of El-Al Airlines Ltd. Prof. Shemer is a graduate of the Hebrew University and Hadassah School of Medicine and Board certified in Internal Medicine in Israel.

Dikla Czaczkes Axselbrad became Chief Financial Officer of Compugen in 2008. Prior to her current position, Ms. Czaczkes Axselbrad served as director of finance for Compugen from 2002 through 2007. Before joining Compugen, Ms. Czaczkes Axselbrad was chief financial officer of Packet Technologies Ltd., a mobile internet security hardware and software startup company and before that an audit manager at Ernst & Young Israel. She holds an MBA in finance and a BA in accounting and economics, both from Tel Aviv University, and is a certified public accountant in Israel.

John Hunter, Ph.D joined Compugen in 2012 as Site Head at our U.S. subsidiary, Compugen USA, Inc., and VP Antibody Research and Development. Dr. Hunter has worked for 16 years on different aspects of oncology drug development. Following graduation from UCSF, from 1996 to 2003, Dr. Hunter worked for Millennium Pharmaceuticals Inc., where he employed genomic approaches to identify novel drug targets in lung cancer. As a founding member of Millennium's Translational Medicine group he worked to develop clinical biomarkers for their Aurora kinase small molecule inhibitors. Following Dr. Hunter's employment at Millennium, Dr. Hunter joined Xenogen Corp., where he worked as Senior Scientist in Oncology from 2004 to 2005. Dr. Hunter later joined XOMA Ltd., where from 2005 to 2012 he managed early stage antibody discovery for multiple therapeutic programs in oncology and inflammation. Dr. Hunter currently leads therapeutic antibody research and development efforts for Compugen's portfolio of novel oncology targets.

Arrangements Involving Directors and Senior Management

There are no arrangements or understandings of which we are aware pursuant to which any of our directors or other Office Holders have been selected for their positions with our Company. In addition, there are no family relationships among any of our directors and other Office Holders.

B. COMPENSATION

The aggregate compensation paid or accrued by us to all persons who were, at any time during 2013, Office Holders (as defined below in "- Approval Required for Directors' and Officers' Compensation") of the Company in respect of the fiscal year ended December 31, 2013 (15 persons, one of whom is no longer an Office Holder as of December 31, 2013) was approximately $2.1 million. This amount includes approximately $231,000 set aside or accrued to provide pension, severance, retirement or similar benefits.

During 2013, we granted a total of 624,000 options to purchase ordinary shares to persons who are currently, or who were at any time during 2013 Office Holders, as a group. These options are exercisable at a range between $4.92 and $5.445 per share, and generally expire ten years after their respective dates of grant. As of December 31, 2013, there were a total of 3,474,863outstanding options to purchase ordinary shares that were held by persons who are currently, or who were at any time during 2013, Office Holders.

All non-management members of our board of directors are entitled to receive fees in connection with their participation in board meetings as well as meetings of committees of the board and are also eligible to receive options to purchase ordinary shares on an annual basis. The aggregate amount paid or accrued to all persons who are currently, or who were at any time during 2013 non-management directors in respect of the fiscal year ended December 31, 2013 was approximately $125,000. For additional information on the compensation paid to our non-management directors please see "Item 6. Directors Senior Management and Employees - B. Compensation - Compensation to our Non-Management Directors".

Approval Required for Directors' and Officers' Compensation

Prior to an amendment to the Companies Law which became effective on December 12, 2012 (the "2012 Amendment"), arrangements with respect to the terms of office and employment of Office Holders required the approval of the audit committee and of the board of directors and, with respect to the terms of office and employment of directors, also the approval of the shareholders by a simple majority. Following the 2012 Amendment, public companies are required to appoint a compensation committee that meets certain independence criteria as described below, and that replaces the audit committee with respect to the approval of these matters.

The term "Office Holder" as defined in the Companies Law includes a general manager, chief executive officer, executive vice president, vice president, any other person fulfilling or assuming any of the foregoing positions without regard to such person's title, as well as a director or a manager directly subordinate to the general manager or the chief executive officer ("Office Holder"). In addition to each person listed in the table under "Item 6. Directors, Senior Management and Employees – A. Directors and Senior Management", and Alex Kotzer, who was a director during 2013 but did not stand for reelection at the Company's 2013 annual meeting of shareholders, the Company considers five other individuals to have been Office Holders in 2013.

Pursuant to the 2012 Amendment, any arrangement between a public company and an Office Holder of the company as to such Office Holder's terms of office and employment, including exemption and release of the Office Holder from liability for breach of his or her duty of care to the company, an undertaking to indemnify the Office Holder, post factum indemnification or insurance; any grant, payment, remuneration, compensation, or other benefit provided in connection with termination of service; and any benefit, other payment or undertaking to provide any payment as aforesaid ("Terms of Office and Employment"), now generally requires the approval of the company's compensation committee and the board of directors and, with respect to directors and the chief executive officer, also the company's shareholders.

In addition, pursuant to the 2012 Amendment, public companies are required to adopt a compensation policy meeting the provisions of the Companies Law, and any arrangements with respect to the Terms of Office and Employment of Office Holders must generally be consistent therewith. The compensation policy must be approved by the company's board of directors, after considering the recommendations of the compensation committee. In addition, the compensation policy needs to be approved by the company's shareholders by a simple majority, provided that (i) such majority includes a majority of the votes cast by shareholders who are not controlling shareholders and who do not have a personal interest in the matter, present and voting (abstentions are disregarded), or (ii) the votes cast by shareholders who are not controlling shareholders and who do not have a personal interest in the matter who were present and voted against the policy, constitute two percent or less of the voting power of the company (such majority determined in accordance with clause (i) or (ii), the "Compensation Majority").

To the extent not approved by shareholders, the board of directors may subsequently override the resolution of the shareholders following a new discussion of the matter by the board of directors and the compensation committee and for specified reasons.

On September 17, 2013, the Company's shareholders adopted a compensation policy with respect to the Terms of Office and Employment of the Company's Office Holders (the "Compensation Policy").

The term of the Compensation Policy is not limited. However, pursuant to the Companies Law, a compensation policy that is for a period of more than three years generally needs to be brought for approval in accordance with the above procedure every three years.

Notwithstanding the above, amending the existing Terms of Office and Employment of Office Holders (other than directors) requires the approval of the compensation committee only, if the committee determines that the amendment is not material.

Directors

Pursuant to the 2012 Amendment, any arrangement between a company and a director (including a chief executive officer who is also a director) as to his or her Terms of Office and Employment must be consistent with the compensation policy and requires the approval of the compensation committee, the board of directors and the shareholders by a simple majority.

Under certain circumstances and conditions, the compensation committee and the board of directors may approve an arrangement that deviates from the compensation policy, provided that such arrangement is approved by the company's shareholders by the Compensation Majority.

Under the Companies Law and regulations promulgated pursuant thereto, the compensation payable to external directors and independent directors is subject to certain further limitations. See "Item 6 – Directors, Senior Management and Employees – C. Board Practices – External Directors"

Chief Executive Officer

Pursuant to the 2012 Amendment, any arrangement between a company and its chief executive officer as to his or her Terms of Office and Employment must be consistent with the compensation policy and requires the approval of the compensation committee, the board of directors and the company's shareholders. If the chief executive officer is not also a director of the company, shareholder approval must be made by the Compensation Majority.

Under certain circumstances and conditions, the compensation committee and the board of directors may approve an arrangement that deviates from the compensation policy provided it is approved by the shareholders by the Compensation Majority. In addition, under certain circumstances, a company may be exempt from receiving the shareholders' approval with respect to the Terms of Office and Employment of a candidate for chief executive officer.

In special circumstances, and provided that the chief executive officer is not also a director of the company, to the extent not approved by shareholders, the board of directors and the compensation committee may subsequently override the resolution of the shareholders following a new discussion of the matter and for specified reasons.

Other Office Holders

Pursuant to the 2012 Amendment, any arrangement between a company and an Office Holder (other than a director or the chief executive officer) as to his or her Terms of Office and Employment must be consistent with the compensation policy and requires the approval of the compensation committee and the board of directors.

Under certain circumstances and conditions, the compensation committee and the board of directors may approve an arrangement that deviates from the compensation policy, provided that such arrangement is approved by the company's shareholders by the Compensation Majority. In addition, in special circumstances and to the extent not approved by shareholders, the board of directors and the compensation committee may subsequently override the resolution of the shareholders following a new discussion of the matter and for specified reasons.

Compensation to our Non-Management Directors

Under arrangements previously approved by the Audit Committee, the board of directors and the shareholders of the Company, and ratified and approved by the Compensation Committee, the board of directors and the shareholders following the approval of the Compensation Policy, each of the Company's current directors and each additional or other director who may be appointed from time to time in the future and who is not, or who ceases to be, an employee of the Company and who does not, or ceases to, hold a management position with the Company or provide services to the Company in addition to his or her office as a director (each a "non-management director") is compensated as of April 22, 2013, as follows:

(i) an annual fee of NIS 36,452 and an additional annual amount of NIS 17,985 to be paid to non-management directors who serve on one or more committees of the board of directors (the"Annual Fees");

(ii) a per meeting fee of NIS 3,597 for participation in any board of directors and/or committee meetings (the "Participation Compensation"), provided that (a) if such participation is by means of communication pursuant to Section 101 of the Companies Law, then such "per meeting" fee shall be 60% of the Participation Compensation; (b) in the event a resolution is adopted by the board of directors without a meeting pursuant to Section 103 of the Companies Law, then such "per meeting" fee shall be 50% of the Participation Compensation;

(iii) the Annual Fees and the Participation Compensation will be adjusted bi-annually to reflect changes in the Israeli Consumer Price Index in the manner provided in the regulations promulgated pursuant to the Companies Law governing the terms of compensation payable to external directors (the "Compensation Regulations");

(iv) the Annual Fees shall be paid in four equal installments, and the Participation Compensation shall be remitted to such directors on a quarterly basis, in each case at the beginning of each calendar quarter with respect to the previous quarter, all as provided for in the Compensation Regulations; and

(v) a grant of options to purchase 10,000 of the Company's ordinary shares on July 31 of each calendar year (including on July 31, 2013) to each non-management director then serving on the board of directors, at an exercise price equal to the closing price on the date of such grant on the principal securities exchange on which the Company's shares are then traded and subject (other than as described herein) to the terms and conditions of the Company's 2010 Share Incentive Plan (the "2010 Plan") or any other equity-based incentive plan the Company may adopt in the future and pursuant to which these equity awards would be granted. 3,333 of such options will vest on each of the first two anniversary dates of such grant and 3,334 on the third anniversary date. Notwithstanding the terms of the relevant plan, all options granted to non-management directors shall be fully vested immediately upon the completion of one or more of the following events, whether by way of a consolidation, merger or reorganization of the Company or otherwise: (a) a sale of all or substantially all of Company's issued share capital or assets to any other company, entity, person or a group of persons, or (b) the acquisition of more than 50% of Company's equity or voting power by any shareholder or group of shareholders. Notwithstanding the terms of the relevant plan, all options granted which shall be vested as of the date of final termination of office as a non-management director of the Company may be exercised within one year following such termination of office. To the extent legally available and applicable, such equity-based awards will be granted to the non-management directors through a trustee under Section 102 of the Israel Income Tax Ordinance [New Version], 5721-1961 (the "Tax Ordinance"), under the capital gains route.

VAT is added to the above compensation in accordance with applicable law.

On February 14, 2014, after adjustment as described in (iii) above, the annual payment to each non-employee director stood at NIS 37,114 and the additional payment to be paid to non-management directors who serve on one or more committees of the board of directors stood at NIS 18,311.62 (approximately $10,586 and $5,223, respectively, according to the representative rate of exchange on February 14, 2014, of $1.00 = NIS 3.506); and the Participation Compensation to each non-employee director stood at NIS 3,662.32 (approximately $1,045 according to the representative rate of exchange on February 14, 2014, of $1.00 = NIS 3.506).

Compensation to our External Directors

Under arrangements previously approved by the Audit Committee, the board of directors and the shareholders of the Company, and ratified and approved by the Compensation Committee, the board of directors and the shareholders following the approval of the Compensation Policy, in accordance with the Companies Law and the Compensation Regulations, each of our external directors shall be entitled to receive fees in connection with their service as external directors and their participation in board of directors meetings as well as meetings of committees of the board of directors equivalent to the compensation payable to other non-management directors, and shall also be eligible to receive options to purchase ordinary shares on an annual basis equal to the number of ordinary shares subject to the options being granted to each non-management director on terms substantially similar to those described above, provided however that the compensation paid to the Company's external directors shall be no less than the minimum amount that must be paid to external directors of the Company in accordance with the Compensation Regulations. According to the Compensation Regulations, the minimum amounts are adjusted twice annually based on the Israeli Consumer Price Index and are a function of the Company's shareholders' equity.

In addition, under arrangements previously approved by the Audit Committee, the board of directors and the shareholders of the Company, and ratified and approved by the Compensation Committee, the board of directors and the shareholders, following the approval of the Compensation Policy, in accordance with the Companies Law and the Compensation Regulations, in the event that, during their term as external directors, the Company increases the remuneration payable, whether the annual payment or the participation compensation, to any 'other directors', as such term is defined in the Compensation Regulations, or grants additional options to purchase ordinary shares or other stock-based remuneration to 'other directors', each external director will be entitled, without further approval, to receive additional remuneration, if necessary, so that his or her annual compensation and/or compensation for participation in meetings, as the case may be, will be equivalent to the average compensation payable to such 'other directors' as annual payment or as participation compensation, or be granted additional options to purchase such number of additional ordinary shares as is equal to the average number of additional ordinary shares subject to the options being granted to such 'other directors' and on substantially similar terms, or receive such other stock-based remuneration required in order to align their compensation with the average compensation payable, including average stock-based remuneration awarded, to 'other directors', as applicable.

Compensation to our Active Chairman of the Board of Directors

Mr. Martin Gerstel, our active chairman of the board of directors, is not entitled to receive the above cash or stock option compensation granted to non-management directors. Effective as of March 1, 2010, and following the approval of our Audit Committee, board of directors and shareholders, we entered into an employment agreement with Mr. Gerstel, pursuant to which he serves as Active Chairman of the board of directors. The terms of Mr. Gerstel's employment and service were approved prior to the effective date of the 2012 Amendment. Any change to such terms will be subject to the approval process and other conditions set forth in the 2012 Amendment.

Pursuant to Mr. Gerstel's employment agreement he is entitled to a gross monthly salary of NIS 42,000 (approximately $ 11,980 according to the representative rate of exchange on February 14, 2014, of $1.00=NIS 3.506) which will remain at NIS 42,000 regardless of exchange rate fluctuations and certain other employment terms customary in Israel. The employment agreement may be terminated by either party by providing 90 days prior written notice.

Mr. Gerstel currently holds options to purchase a total of 747,500 ordinary shares, of which options to purchase 60,000 ordinary shares were granted during 2013. Out of the options to purchase 747,500 ordinary shares (i) options to purchase 625,000 ordinary shares, with a weighted average exercise price of $1.40 per share, were exercisable as of December 31, 2013; and (ii) options to purchase 122,500 ordinary shares, with a weighted average exercise price of $4.71 per share, had not vested as of December 31, 2013. Of the unvested options, options to purchase 62,500 ordinary shares are expected to vest during 2014; options to purchase the remaining 60,000 ordinary shares are expected to vest during 2016. These options were granted under the Company's 2000 Option Plan and under the Company's 2010 Plan. For additional information on Mr. Gerstel's holdings see “Item 6. E - Share Ownership - Share Ownership by Directors and Other Office Holders”.

Consistent with our Compensation Policy, our Compensation Committee and board of directors approved in September 2013 the payment of a special bonus to Mr. Gerstel for his exceptional contribution in connection with the Bayer collaboration, in a total amount of approximately $59,000. The payment of this bonus is subject to the approval of our shareholders and is expected to be brought for their approval at the Company's 2014 annual meeting of shareholders.

Consistent with our Compensation Policy, our Compensation Committee and board of directors approved in February 2014 the target and maximum annual bonus amounts, its objectives and payment terms for year 2014 for Mr. Gerstel. The terms of the 2014 annual bonus are subject to the approval of our shareholders and are expected to be brought for their approval at the Company's 2014 annual meeting of shareholders. Subject to such shareholders' approval and in accordance with the terms approved, our Compensation Committee and board of directors will determine, following the end of 2014, the actual bonus to be paid, if any, to Mr. Gerstel with respect to 2014.

Compensation to our Chief Executive Officer

Dr. Anat Cohen-Dayag, our chief executive officer, has been employed by the Company since September 2, 2002 and has served as our co-chief executive officer or chief executive officer since June 2009. Beginning February 10, 2014, Dr. Anat Cohen-Dayag is also a member of our board of directors. The terms of Dr. Anat Cohen-Dayag's employment and service were approved prior to the effective date of the 2012 Amendment. Any change to such terms will be subject to the approval process and other conditions set forth in the 2012 Amendment.

Pursuant to Dr. Cohen-Dayag's employment agreement she is entitled to a gross monthly salary of NIS 82,500 (approximately $23,500 according to the representative rate of exchange on February 14, 2014, of $1.00=NIS 3.506) adjusted from time to time in accordance with periodic cost of living increases (“Tosefet Yoker”), and to certain other employment terms customary in Israel. Dr. Cohen-Dayag's employment agreement may be terminated by either party by providing four months prior written notice. In the event of a change of control, Dr. Anat Cohen-Dayag will be entitled, under certain circumstances, to acceleration of unvested options and increased termination payments.

Dr. Cohen-Dayag currently holds options to purchase a total of 948,371 ordinary shares, of which options to purchase 120,000 ordinary shares were granted during 2013. Out of the options to purchase 948,371 ordinary shares: (i) options to purchase 583,371 ordinary shares, with a weighted average exercise price of $2.97 per share, were exercisable as of December 31, 2013; and (ii) options to purchase 365,000 ordinary shares, with a weighted average exercise price of $4.29 per share, had not vested as of December 31, 2013. Of the unvested options, options to purchase 125,000 ordinary shares are expected to vest during 2014, options to purchase 120,000 ordinary shares are expected to vest during 2015 and options to purchase the remaining 120,000 ordinary shares are expected to vest during 2016. These options were granted under the Company's 2000 Option Plan and the Company's 2010 Plan. For additional information on Dr. Cohen-Dayag's holdings see “Item 6. E - Share Ownership - Share Ownership by Directors and Other Office Holders”.

Consistent with our Compensation Policy, our Compensation Committee and board of directors approved in September 2013 the payment of a special bonus to Dr. Cohen-Dayag for her exceptional contribution in connection with the Bayer collaboration, in a total amount of $116,000. The payment of this bonus is subject to the approval of our shareholders and is expected to be brought for their approval at the Company's 2014 annual meeting of shareholders.

Consistent with our Compensation Policy, our Compensation Committee and board of directors approved in February 2014 the target and maximum annual bonus, its objectives and payment terms for year 2014 for Dr. Cohen-Dayag. The terms of the 2014 annual bonus are subject to the approval of our shareholders and are expected to be brought for their approval at the Company's 2014 annual meeting of shareholders. Subject to such shareholders' approval and in accordance with the terms approved, our Compensation Committee and board of directors will determine, following the end of 2014, the actual bonus to be paid, if any, to Dr. Cohen-Dayag with respect to 2014.

Indemnification, Exemption and Insurance

Our Compensation Committee, the board of directors and the shareholders have resolved, consistent with our Compensation Policy, to ratify and approve (i) to exempt and release to the maximum extent permitted by law all of the directors and the chief executive officer of the Company currently in office, and any additional or other directors and chief executive officer(s) as may be appointed from time to time, from and against all liability for monetary or other damages due to, or arising or resulting from, a breach of their duty of care to the Company, including, with respect to directors, in their capacity as officers of the Company to the extent they also serve as officers of the Company, and to provide them with letters in this regard; and (ii) to undertake to indemnify in advance all directors and the chief executive officer of the Company currently in office, and any additional or other directors and chief executive officer(s) as may be appointed from time to time to the extent and for certain matters, costs and expenses as set forth in a letter of indemnification and exemption and release approved for issuance to them. See "Item 7 – Major Shareholders and Related Party Transactions – B. Related Party Transactions - Indemnification of Our Directors and Officers".

Following the adoption of the Compensation Policy, and consistent therewith, the Compensation Committee and the board of directors resolved to similarly undertake in advance to indemnify all Office Holders of the Company (in addition to the directors and the chief executive officer of the Company) currently in office and any additional or other Office Holders as may be appointed from time to time; and to similarly exempt and release to the maximum extent permitted by law all such other Office Holders of the Company currently in office and any additional or other Office Holders as may be appointed from time to time, from and against all liability for monetary or other damages due to, or arising or resulting from, a breach of their duty of care to the Company and to provide them with letters in this regard.

Consistent with our Compensation Policy and pursuant to the Companies Law and regulations promulgated pursuant thereunder, our Compensation Committee has approved the purchase of insurance coverage in respect of the liability of our Office Holders and any additional or other Office Holders as may be appointed from time to time, to the maximum extent permitted by law, that will provide for up to $25 million in coverage.

C. BOARD PRACTICES

We are incorporated in Israel, and, therefore, are subject to various corporate governance practices under Israeli law such as with respect to external directors, independent directors, audit committee, compensation committee and an internal auditor. These matters are in addition to the requirements of the NASDAQ Global Market and other relevant provisions of U.S. securities laws applicable to us. Under the NASDAQ Listing Rules of the NASDAQ Stock Market, which we refer to as the NASDAQ Listing Rules, a foreign private issuer may generally follow its home country practices for corporate governance in lieu of the comparable NASDAQ Global Market requirements, except for certain matters such as composition and responsibilities of the audit committee and the SEC-mandated standards for the independence of its members. For U.S. domestic companies, the NASDAQ Listing Rules specify that the majority of the members of the board of directors must be independent. We currently comply with this requirement. In addition, under the Companies Law, we are required to appoint at least two external directors, with which we comply, as described below under "External Directors".

Board of Directors

Compugen Ltd.'s board of directors consists of seven members, three of whom were elected as external directors under the provisions of the Companies Law (discussed below). Other than our three external directors, who are elected for a fixed term of three years, our directors are elected by our shareholders by a simple majority of the voting power presented and voting at an annual general meeting of shareholders for a term of approximately one year, ending at the annual general meeting immediately following the annual general meeting at which they were elected and until their successors have been duly elected or until any such directors' term of office terminates as provided in the Companies Law or due to any of the circumstances set forth in our Articles. Our Articles, provide that we may have no less than five, nor more than fourteen directors. At its meeting held on February 10, 2013, the board of directors appointed Dr. Anat Cohen-Dayag as a member of the board of directors, effective as of such date, to hold office until the 2014 annual general meeting of shareholders.

None of our directors is party to a service contract with us that provides for any severance or similar benefits upon termination of his or her service other than our active chairman of the board of directors, Mr. Martin Gerstel, and to our chief executive officer, Dr. Anat Cohen-Dayag, with each of whom we have entered into an employment agreement, according to which they are entitled to employment terms required by Israeli law and as provided for in the agreements, including severance payments. For additional information on the employment agreement entered into with Mr. Gerstel and with Dr. Cohen-Dayag, please see "Item 6 – Directors, Senior Management and Employees – B. Compensation - Compensation to our Active Chairman of the Board of Directors; - Compensation of our Chief Executive Officer."

External Directors

Qualifications of External Directors

Under the Companies Law and the regulations promulgated pursuant thereto, Israeli public companies are required to appoint at least two natural persons as external directors. No person may be appointed as an external director of a company if (a) such person is a relative of a controlling shareholder; or (b) such person, a relative, partner or employer, of such person or anyone to whom such person is directly or indirectly subordinate, or any entity under such person's control, has or had, on or within the two years preceding the date of the person's appointment to serve as an external director: (i) any affiliation with the company to whose board the external director is proposed to be appointed, with any controlling shareholder of the company, with a relative of such controlling shareholder at the time of the appointment, or with any entity that, on or within the two years preceding the date of the person's appointment to serve as external director is, or was, controlled by the company or by a controlling shareholder of the company; or (ii) if the company has no controlling shareholder or a shareholder holding 25% or more of the company's voting rights, any affiliation, at the time of the appointment, to the relevant company, to its chairman of the board of directors, its chief executive officer or its most senior financial officer , or to a shareholder holding 5% or more of the outstanding shares or voting rights of the company or to any entity that, on or within the two years preceding the date of the person's appointment to serve as external director is, or was, controlled by the company. The term affiliation includes an employment relationship, a business or professional relationship, maintained on a regular basis, or control, as well as service as an Office Holder.

In addition, no person may serve as an external director if: (a) the person's other positions or activities create, or may create, a conflict of interest with the person's responsibilities as an external director or interfere with the person's ability to serve as an external director; (b) at the time such person serves as a non-external director of another company on whose board of directors a director of the reciprocal company serves as an external director; (c) the person is an employee of the Israel Securities Authority or of an Israeli stock exchange; (d) such person or such person's relative, partner, employer or anyone to whom such person is directly or indirectly subordinate, or any entity under such person's control, has business or professional relations with any person or entity he or she should not be affiliated with, as described in the previous paragraph, unless such relations are negligible; or (e) such person received compensation directly or indirectly, in connection with such person's services as an external director, other than as permitted under the Companies Law and the Compensation Regulations. If, at the time of election of an external director, all other directors who are not controlling shareholders of such company or their relatives are of the same gender, then the external director to be elected must be of the other gender.

External directors may receive compensation solely as provided for in the Companies Law and the Compensation Regulations.

Pursuant to the Companies Law an external director is required to have either accounting and financial expertise or professional qualifications according to criteria set forth in regulations promulgated under the Companies Law, provided that, subject to certain exceptions, at least one of the external directors has accounting and financial expertise. The board of directors must make the determinations as to the financial and accounting expertise, and as to the professional qualifications, of a director taking into consideration those criteria and matters set forth in the regulations. In addition, the boards of directors of publicly traded companies are required to make a determination as to the minimum number of directors who must have financial and accounting expertise as aforesaid based, among other things, on the type of company, its size, the volume and complexity of the company's activities and the number of directors. Our board of directors has determined that the minimum number of directors with financial and accounting expertise is one and that Dr. Arie Ovadia, one of the Company's external directors, qualifies as such.

Election of External Directors

External directors are elected for a term of three years at the general meeting of shareholders by a simple majority, provided that, for their initial appointment, such majority includes at least a majority of the votes cast by shareholders who are not controlling shareholders and who do not have a personal interest in the matter (other than a personal interest which is not the result of a relationship with a controlling shareholder) who are present and voting (abstentions are disregarded) or that votes cast by shareholders who are not controlling shareholders and who do not have a personal interest in the matter (other than a personal interest which is not the result of an affiliation with a controlling shareholder), who are present and voted against the election constitute two percent or less of the voting power of the company.

External directors may be re-elected to two additional terms of three years each, provided that with respect to the appointment for each such additional three - year term one of the following has occurred: (a) the reappointment of the external director has been proposed by one or more shareholders holding together one percent or more of the aggregate voting rights in the company and the appointment was approved at the general meeting of the shareholders by a simple majority, provided that: (i) in calculating the majority, votes of controlling shareholders or of shareholders having a personal interest in the appointment (other than a personal interest which is not the result of a relationship with a controlling shareholder) and abstentions are disregarded, (ii) the total number of votes cast by shareholders who do not have a personal interest in the appointment (other than a personal interest which is not the result of an affiliation with a controlling shareholder) and who are not controlling shareholders, present and voting in favor of the appointment exceed, two percent of the aggregate voting rights in the company, and (iii) the external director is not a related or competing shareholder or a relative of such shareholder, at the time of the appointment, and does not and did not have, any affiliation with a related or competing shareholder, at the time of the appointment or within the two years preceding the appointment. A "related or competing shareholder" is a shareholder proposing the reappointment or a shareholder holding 5% or more of the outstanding shares or voting rights of the company, if at the time of the appointment, such shareholder, a controlling shareholder thereof or a company controlled by such shareholder or by a controlling shareholder thereof, have business relationships with the company or are competitors of the company; or (b) the reappointment of the external director has been proposed by the board of directors and the appointment was approved by the majority of shareholders required for the initial appointment of an external director as described in the previous paragraph.

However, under regulations promulgated pursuant to the Companies Law, companies, such as the Company, whose shares are also listed for trading on specified exchanges outside of Israel, including the NASDAQ Global Market, the NASDAQ Global Select Market, and the NASDAQ Capital Market may elect external directors for additional terms that do not exceed three years each, beyond the three three-year terms generally applicable, provided that, if an external director is being re-elected for an additional term or terms beyond the three three-year terms: (i) the audit committee and board of directors must determine that, in light of the external director's expertise and special contribution to the board of directors and its committees, the re-election for an additional term is to the company's benefit; (ii) the external director must be re-elected by the majority of shareholders described in the previous paragraph and subject to the terms specified in the Companies Law; and (iii) the term during which the nominee has served as an external director and the reasons given by the audit committee and board of directors for extending his or her term of office must be presented to the shareholders prior to their approval.

Each committee of a company's board of directors that has the right to exercise powers of the board of directors is required to include at least one external director, and the audit committee and the compensation committee are required to include all of the external directors.

Under the Companies Law, an external director cannot be dismissed from office unless: (i) the board of directors determines that the external director no longer meets the statutory requirements for holding the office, or that the external director is in breach of his or her fiduciary duty of loyalty, and the shareholders vote, by the same majority required for his or her appointment, to remove the external director after the board of directors' reasoning has been brought before the shareholders and the external director has been given the opportunity to present his or her position; (ii) a court decides, to dismiss the external director upon a request of a director or a shareholder, after finding that the external director no longer meets the statutory requirements as an external director or that the external director is in breach of his or her fiduciary duty of loyalty to the company; or (iii) a court decides to dismiss the external director, upon a request of the company or a director, shareholder or creditor of the company, after finding that the external director is unable to fulfill his or her duty, or has been convicted of specified crimes. If an external directorship becomes vacant and the number of external directors serving in the company is less than two, then a company's board of directors is required under the Companies Law to call a shareholders' meeting as soon as possible to appoint a new external director.

Following the termination of service of an external director, a public company, a controlling shareholder thereof and any entity controlled by a controlling shareholder, may not grant any benefit, directly or indirectly, to such external director, or to his or her relative, including, not appointing such external director or his or her relative, as an Office Holder of such public company or of any entity controlled by a controlling shareholder of such public company, not employing such external director or his or her relative and not receiving professional services for pay from such external director or his or her relative, either directly or indirectly, including through a corporation controlled by such external director or his or her relative, in each case, until the lapse of two years from termination of office with respect to the external director, his or her spouse or child and until the lapse of one year from termination of office with respect to other relatives of the former external director.

Professor Yair Aharonowitz, Dr. Arie Ovadia and Professor Joshua Shemer currently serve as our external directors, each of whom is also independent under the NASDAQ Listing Rules. The initial election of each of Professor Yair Aharonowitz, Dr. Arie Ovadia and Professor Joshua Shemer for a term of three years was approved by our shareholders at our annual general meeting of shareholders held on July 31, 2007. They were each re-elected by our shareholders on April 15, 2010 and again on April 22, 2013 for an additional three year-term that expires on April 21, 2016.

Independent Directors under the Companies Law

Under the Companies Law, an 'independent director' is either an external director or a director appointed or classified as such who meets the same non-affiliation criteria as an external director, as determined by the company's audit committee, and who has not served as a director of the company for more than nine consecutive years. For these purposes, ceasing to serve as a director for a period of two years or less would not be deemed to sever the consecutive nature of such director's service. An independent director may be removed from office in the same manner that an external director may be removed, may receive compensation solely as provided for under the Companies Law and the Compensation Regulations and, upon termination of service as an independent director, is subject to the same restrictions with respect to receipt of benefits, service as an Office Holder, employment and provision of professional services as are applicable to external directors.

Regulations promulgated pursuant to the Companies Law provide that a director in a company, such as the Company, whose shares are listed for trading on specified exchanges outside of Israel, including the NASDAQ Global Market who qualifies as an independent director under the relevant non-Israeli rules relating to independence standards and who meets certain non-affiliation criteria, which are less stringent than those applicable to external directors, could be considered an 'independent' director pursuant to the Companies Law, provided that (i) he or she has been approved as such by the audit committee; (ii) he or she has not served as a director for more than nine consecutive years; and (iii) his or her remuneration shall be the same as that applicable to external directors. For these purposes, ceasing to serve as a director for a period of two years or less would not be deemed to sever the consecutive nature of such director's service. Furthermore, pursuant to these regulations, such company may reappoint a person as an independent director for additional terms, beyond nine years, which do not exceed three years each, if the audit committee and the board of directors determine that in light of the independent director's expertise and special contribution to the board of directors and its committees, the reappointment for an additional term is to the company's benefit.

Pursuant to the Companies Law, a public company, such as the Company, may include in its articles of association a provision providing that a specified number of its directors be independent directors or may adopt a standard provision providing that a majority of its directors be independent directors or, if there is a controlling shareholder or a 25% or more shareholder, that at least one-third of its directors be independent directors. While the Company has not included such a provision in its Articles, it believes that three of its current seven directors qualify as independent directors under the Companies Law and an additional two of its current seven directors could qualify as independent directors under the Companies Law if its Audit Committee and board were to make the determination as aforesaid.

Directors under the Companies Law - General

A nominee for service as a director in a public company may not be elected without submitting a declaration to the company, prior to his or her election, specifying that he or she has the requisite qualifications to serve as a director, an external director or an independent director, as applicable, and the ability to devote the appropriate time to performing his or her duties as such.

A director, including an external director or an independent director, who ceases to meet the statutory requirements to serve as a director, external director or independent director, as applicable, must notify the company to that effect immediately and his or her service as a director will expire upon submission of such notice.

Independent Directors under the NASDAQ Listing Rules

In addition to the requirements of the Companies Law as described above, since our shares are listed on the NASDAQ Global Market, pursuant to the NASDAQ Listing Rules, a majority of our directors must be independent (as defined under the NASDAQ Listing Rules). We comply with such NASDAQ independence requirement, as five of the seven members of our board of directors - Professor Yair Aharonowitz, Dov Hershberg, Dr. Arie Ovadia, Professor Joshua Shemer and Professor Ruth Arnon- have been determined by our board of directors to meet the NASDAQ independence requirements.

Board Committees

Audit Committee

Under the listing requirements of The NASDAQ Global Market, a foreign private issuer is required to maintain an audit committee that operates under a formal written charter and has certain responsibilities and authority, including being directly responsible for the appointment, compensation, retention and oversight of the work of the issuer's independent auditors. According to the NASDAQ Listing Rules, the audit committee is required to consist of at least three members, all of whom must be financially literate and also meet the independence requirements established by the SEC under Rule 10A-3 of the Exchange Act and the independence criteria set forth in the NASDAQ Listing Rules. The NASDAQ Listing Rules also require that at least one member of the audit committee be financially sophisticated (as defined in such listing rules).

The Companies Law also requires public companies such as ours to appoint an audit committee comprised of at least three directors, including all of the external directors and, the majority of its members must be independent directors (as described above under "- Independent Directors under the Companies Law").

The Companies Law further stipulates that the following may not be members of the audit committee: (a) the chairman of the board of directors; (b) any director employed by or providing services on an ongoing basis to the company, to a controlling shareholder of the company or an entity controlled by a controlling shareholder of the company; (c) a director whose livelihood depends on a controlling shareholder; and (d) a controlling shareholder or any relative of a controlling shareholder.

The Companies Law further requires that: (i) the chairperson of the audit committee must be an external director; (ii) generally, any person who is not entitled to be a member of the audit committee may not attend the audit committee's meetings; and (iii) the quorum required for the convening of meetings of the audit committee and for adopting resolutions by the audit committee be a majority of the members of the audit committee, provided that the majority of the members present are independent directors and at least one of them is an external director.

The responsibilities of the audit committee under the Companies Law include: (i) identifying flaws in the management of a company's business and making recommendations to the board of directors as to how to correct them, (ii) with respect to certain actions involving conflicts of interest and with respect to certain related party transactions, deciding whether such actions are material actions and whether such transactions are extraordinary transactions, respectively, all for the purpose of approving such actions or transactions, (iii) reviewing and deciding whether to approve certain related party transactions and certain actions involving conflicts of interest, (iv) reviewing the internal auditor's work program, (v) examining the company's internal control structure and processes, the performance of the internal auditor and whether the internal auditor has at his or her disposal the tools and resources required to perform his or her duties, considering, *inter alia*, the special needs of the company and its size, (vi) examining the external auditor's scope of work as well as the external auditor's fees and providing its recommendations to the appropriate corporate organ, (vii) providing for arrangements as to the manner in which the company will deal with employee complaints with respect to deficiencies in the management of the company's business and the protection to be provided to such employees, and (viii) other matters relevant only to companies with controlling shareholders. As of the date of this report, the Company is not aware of any controlling shareholders as such term is defined for the purposes of the Companies Law.

Our Audit Committee oversees our accounting and financial reporting processes. It also provides assistance to our board in fulfilling its legal and fiduciary obligations with respect to matters involving the accounting, auditing, financial reporting and internal control functions of the Company. In carrying out its duties, the Audit Committee meets with management at least once in each fiscal quarter at which time, among other things, it reviews, and either approves or disapproves, the financial results of the Company for the immediately preceding fiscal quarter and conveys its conclusions in this regard to the board of directors. The Audit Committee also generally monitors the services provided by the Company's external auditors to ensure their independence, and reviews all audit and non-audit services provided by them. The Company's external and internal auditors also report regularly to the Audit Committee at its meetings and the Audit Committee discusses with the Company's external auditors the quality, not just the acceptability, of the accounting principles, the reasonableness of significant judgments and the clarity of disclosures in the Company's financial statements, as and when it deems it appropriate to do so.

Under the NASDAQ Listing Rules the audit committee is directly responsible for the appointment, compensation, retention and oversight of the work of the company's independent auditors, among other things. However, under Israeli law and our Articles, the appointment of independent auditors requires the approval of the shareholders and their compensation requires the approval of our board of directors. In addition, pursuant to the Companies Law, the audit committee is required to examine the independent auditors' scope of work as well as the external auditors' fees and to provide its recommendations with respect thereto to the appropriate corporate organ. Accordingly, the appointment of the independent auditors will be required to be approved and recommended to the shareholders by the Audit Committee and approved by the shareholders. The compensation of the independent auditors for audit services and non-audit services will be required to be approved by the Audit Committee and recommended to the board of directors and approved by the board of directors.

We have an Audit Committee consisting of three independent directors, all of whom are financially literate and one of whom has accounting or related financial management expertise. The members of the Audit Committee are Dr. Arie Ovadia, who serves as the chairman of our Audit Committee, Professor Yair Aharonowitz, and Professor Joshua Shemer. All of the members of our Audit Committee qualify as independent directors under the NASDAQ Listing Rules and as external directors under the Companies Law. We have adopted a charter for the audit committee, which sets forth the purpose and responsibilities of such committee under the above-described legal requirements.

Compensation Committee

Under the 2012 Amendment, public companies are required to appoint a compensation committee comprised of at least three directors, including all of the external directors, who must generally also constitute a majority of the members. All other members of the compensation committee, who are not external directors, must be directors who receive compensation that is in compliance with the Compensation Regulations. In addition, the chairperson of the compensation committee must be an external director.

The Companies Law further stipulates that directors who are not qualified to serve on the audit committee, as described above, may not serve on the compensation committee and that similar to the audit committee, generally, any person who is not entitled to be a member of the compensation committee may not attend the compensation committee's meetings.

The responsibilities of the compensation committee under the Companies Law include: (i) making recommendations to the board of directors with respect to the approval of the compensation policy and any extensions thereto, (ii) periodically reviewing the implementation of the compensation policy and providing the board of directors with recommendations with respect to any amendments or updates thereto, (iii) reviewing and resolving whether or not to approve arrangements with respect to the Terms of Office and Employment of Office Holders or a controlling shareholder or such controlling shareholder's relative, and (iv) resolving whether or not to exempt a transaction with a candidate for chief executive officer from shareholder approval.

The Company's Compensation Committee also oversees, subject to applicable law, the administration of the Company's various compensation plans and arrangements, in particular, the incentive compensation, deferred compensation and equity based plans of the Company (and to the extent appropriate, the subsidiaries of the Company) and assists the board of directors in fulfilling its responsibilities relating to the compensation of directors, the chief executive officer and other Office Holders of the Company. In carrying out these duties, the Compensation Committee meets on an ad hoc basis (usually several times during each fiscal year). Under the Companies Law, the compensation committee may need to seek the approval of the board of director and the shareholders for certain compensation related decisions as described above (see Item 6 - Directors, Senior Management and Employees – B. Compensation - Approval Required for Directors' and Officers' Compensation). Each member of our Compensation Committee is an 'independent director' in accordance with the NASDAQ listing standards. Dr. Arie Ovadia, who serves as the chairman of our Compensation Committee, Professor Yair Aharonowitz, and Professor Joshua Shemer are the members of our Compensation Committee. We have adopted a charter for the compensation committee, which sets forth the purpose and responsibilities of such committee.

Other Committees

Our board of directors does not maintain a nominating committee. The functions of such committee are performed by the full board of directors. This practice is compliant with Israeli law and, as a foreign private issuer, we have elected, pursuant to NASDAQ Listing Rule 5615(a) (3), to follow Israeli practice, in lieu of compliance with the NASDAQ Listing Rule 5602(e).

Internal Auditor

Under the Companies Law, the board of directors must appoint an internal auditor, recommended by the audit committee. The role of the internal auditor is to examine, among other matters, whether the company's actions comply with the law and orderly business procedures. Under the Companies Law, an interested party or an Office Holder of a company, or a relative of an interested party or of an Office Holder of a company, as well as the company's independent auditors or any one on behalf of the independent auditors may not serve as a company's internal auditor. The internal auditor's tenure cannot be terminated without his or her consent, nor can he or she be suspended from such position unless the board of directors has so resolved after hearing the opinion of the audit committee and after providing the internal auditor with the opportunity to present his or her position to the board of directors and to the audit committee. An interested party is defined in the Companies Law as a holder of 5% or more of the company's outstanding shares or voting rights, any person or entity who has the right to designate one or more directors or the chief executive officer of the company or any person who serves as a director or as a chief executive officer of the company.

On February 8, 2010, our board of directors appointed Hila Barr of Brightman Almagor Zohar & Co., a member company of Deloitte Touche Tohmatsu, as its internal auditor. Hila Barr is not an employee, affiliate or Office Holder of the Company, or affiliated with the Company's independent auditors.

D. EMPLOYEES

The following table sets out the number of our employees engaged in specified activities, at the end of the fiscal years 2013, 2012 and 2011 (the numbers include employees of our wholly owned U.S. subsidiary Compugen USA, Inc.:

	December 31, 2013	December 31, 2012	December 31, 2011
Research & Development	42	*38	28
Administration, Accounting and Operations	13	*12	10
Marketing and Business Development	2	2	1
Total	57	52	39

* includes one employee on a part-time basis

For the year ended December 31, 2011 all of our employees were based in Israel. In April 2012 we established a new monoclonal antibody (mAb) research and development operation in South San Francisco, California. For the year ended December 31, 2012, 43 of our employees were located in Israel and nine were located in the U.S, and for the year ended December 31, 2013, 48 of our employees were located in Israel and nine were located in the U.S.

We consider our relations with our employees to be satisfactory and we have not experienced a significant labor dispute or strike. We are not a party to any collective bargaining agreement with respect to our Israeli employees. However, we are subject to certain labor related statutes and to certain provisions of collective bargaining agreements between the Histadrut (General Federation of Labor in Israel) and the Coordinating Bureau of Economic Organizations and/or the Industrialists' Association, which are applicable to our Israeli employees by virtue of expansion orders of the Israeli Minister of the Economy. These statutes and provisions cover a wide range of subjects and provide certain minimum employment standards, including the length of the work day and work week, minimum wages, travel expenses, contributions to a pension fund, insurance for work-related accidents, procedures for dismissing employees, determination of severance pay, annual and other vacations, sick pay and other conditions of employment. We generally provide our employees with benefits and working conditions beyond the required minimum. An additional provision applicable to all employees in Israel under collective bargaining agreements and expansion orders is the automatic adjustment of wages in relation to increases in the Israeli CPI. The amount and frequency of these adjustments are modified from time to time; however, no such adjustments have been made in recent years pursuant to expansion orders due to the relatively low prevailing inflation rates.

Our severance pay liability to our Israeli employees, based upon the number of years of service and the latest monthly salary, is in large part covered by regular deposits with recognized pension funds, deposits with severance pay funds and purchases of insurance policies. Pursuant to Section 14 of the Israeli Severance Pay Law, certain of our liabilities for employee rights upon retirement are covered by regular contributions to defined contribution plans so that upon termination of employment of the relevant employees, we are only required to release the payments made by us to such funds on account of severance and by doing so are deemed to have complied with all of our severance payment obligations relating to the service of applicable employees with respect to the period during which the provisions of such section apply. For information concerning our liability for severance pay, see Note 2m to our consolidated financial statements.

Our employees are not represented by a labor union. We have written employment contracts with each of our employees.

E. SHARE OWNERSHIP

Share Ownership by Directors and Other Office Holders

The following table sets forth certain information as of January 31, 2014, regarding the beneficial ownership by our directors and other Office Holders. Except as set forth in the table below, none of the directors or other Office Holders beneficially owns ordinary shares and/or ordinary shares underlying options amounting to 1% or more of the outstanding ordinary shares. All numbers quoted in the table are inclusive of options to purchase shares that are exercisable within 60 days after January 31, 2014. The information in this table is based on 41,407,305 ordinary shares outstanding as of January 31, 2014.

Beneficial Owner	Amount Owned	Percent of Class
Martin S. Gerstel (1)	2,499,604	5.9%
Anat Cohen-Dayag (2)	606,435	1.4%
All current directors and Office Holders as a group (14 persons) (3)	3,859,624	8.9%

(1) Includes (i) 119,240 shares held by Mr. Gerstel, (ii) 500,000 shares held by Shomar Corporation, an affiliate of Mr. Gerstel, (iii) 619,033 shares held by Merrill Lynch IRA for Martin S. Gerstel, of which Mr. Gerstel is the beneficiary, and (iv) 615,495 shares held in a trust for which Mr. Gerstel is trustee and a member his immediate family is the beneficiary. Also includes 645,836 shares subject to options that are currently exercisable or that become exercisable within 60 days after January 31, 2014 with a weighted average exercise price of $1.48 per share and which expire between January 2019 and July 2022.

(2) Consists of 606,435 shares subject to options that are exercisable within 60 days after January 31, 2014 with a weighted average exercise price of $3.08 per share, and which expire between March 2016 and July 2021.

(3) See Notes 1 and 2 above, Also includes (i) a total of 748,585 shares subject to options that are beneficially owned by directors and other Office Holders that are exercisable within 60 days after January 31, 2014 with a weighted average exercise price of $2.90 per share and which expire between December 2014 and February 2023 and (ii) a total of 5,000 ordinary shares held by directors.

Share Option Plans

We maintain one active share option plan, plus one additional share option plan under which prior grants remain outstanding, for our employees, directors and consultants. In addition to the discussion below, see Note 9 of our 2013 consolidated financial statements.

Compugen Ltd.'s board of directors administered our share option plans until February 2014 and as of such date subject to applicable law (including with respect to the required approval procedure of compensation to Office Holders under the Companies Law (for additional information on the approval procedure of compensation to Office Holders, see Item 6. Directors, Senior Management and Employees – B. Compensation Approval Required for Directors' and Officers' Compensation), Compugen Ltd.'s Compensation Committee administers our share option plans and has the authority to designate terms of the options granted under our plans including the grantees, exercise prices, grant dates, vesting schedules and expiration dates, which may be no more than ten years after the grant date. Options may not be granted with an exercise price of less than the fair market value of our ordinary shares on the date of grant, unless otherwise determined by our board of directors.

Compugen Share Option Plan (2000)

The Compugen Share Option Plan (2000), or the "2000 Option Plan", enabled granting options for up to an aggregate of 10,191,511 ordinary shares of the Company to our and our subsidiaries' employees, directors and consultants. No further options are being granted under this plan following a July 25, 2010 decision of our board of directors which resolved to cancel the shares then remaining available for grant under the 2000 Option Plan. As of December 31, 2013, options to purchase 2,377,516 ordinary shares at a weighted average exercise price of approximately $2.54 per share were outstanding (i.e., were granted but not canceled, expired or exercised) under the 2000 Option Plan. Options to purchase 5,305,288 ordinary shares under the plan have previously been exercised at a weighted average exercise price of approximately $2.85.

Compugen 2010 Share Incentive Plan

On July 25, 2010, our board of directors adopted the Compugen 2010 Share Incentive Plan or the "2010 Plan", and determined to cease making grants under the 2000 Option Plan. The adoption of the 2010 Plan was approved by our shareholders on May 12, 2011. In addition, the board of directors and shareholders resolved that the options available for grants under the 2000 Option Plan, at such time, as well as any options that may return to such pool in connection with terminated options, will be made available for future grants under the 2010 Plan. 1,953,851 shares were initially reserved for the grant under the 2010 Plan. In keeping with our board of directors' and shareholders' resolution any shares subject to options granted under the 2000 Option Plan prior to the adoption of the 2010 Plan which terminate unexercised, will also be made available for future grants under the 2010 Plan. On August 6, 2012 our board of directors adopted certain amendments to the 2010 Plan which, among other things, provided for additional types of awards, namely restricted share and restricted share unit awards.

If a grantee leaves his or her employment or other relationship with us, or if his or her relationship with us is terminated without cause (and other than by reason of death or disability, as defined in the 2010 Plan), the term of his or her unexercised options will generally expire in 90 days, unless determined otherwise by our board of directors. As of December 31, 2013, options to purchase 3,667,637 ordinary shares at a weighted average exercise price of approximately $4.72 per share were outstanding (i.e., were granted but not canceled, expired or exercised) under the 2010 Plan. Options to purchase 117,409 ordinary shares under the plan have previously been exercised at a weighted average exercise price of approximately $4.21. Options to purchase 1,814,207 ordinary shares remain available for future grant as of December 31, 2013.

Administration of our Share Options Plans

Our board of directors has elected the "Capital Gains Track" (as defined in Section 102(b) (2) of the Tax Ordinance for the grant of options to Israeli grantee.

Pursuant to Section 102 of the Tax Ordinance, and pursuant to an election made by the Company thereunder, gains derived by employees (which term includes directors) in Israel arising from the sale of shares acquired pursuant to the exercise of options granted to them through a trustee under Section 102 of the Tax Ordinance after January 1, 2003, will generally be subject to a flat capital gains tax rate of 25%, although these gains may also include a salary income component. As a result of this election under Section 102, the Company will not, in the case of equity awards made on or after January 1, 2003, be allowed to claim as an expense for tax purposes in Israel the amounts credited to the employee as capital gains, although it will generally be entitled to do so in respect of the salary income component (if any) of such awards when the related tax is paid by the employee.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. MAJOR SHAREHOLDERS

The following table sets forth certain information regarding beneficial ownership of our ordinary shares as of January 31, 2014 by each person who is known by us to own beneficially more than 5% of our outstanding ordinary shares. The voting rights of our major shareholders do not differ from the voting rights of other holders of our ordinary shares.

Beneficial Owner	**Number of Ordinary Shares Beneficially Owned**	**Percent of Ownership**
Martin Gerstel [2]	2,499,604	5.9%

_____

(1) Includes (i) 119,240 shares held by Mr. Gerstel, (ii) 500,000 shares held by Shomar Corporation, an affiliate of Mr. Gerstel, (iii) 619,033 shares held by Merrill Lynch IRA for Martin S. Gerstel, of which Mr. Gerstel is the beneficiary, and (iv) 615,495 shares held in a trust for which Mr. Gerstel is trustee and a member his immediate family is the beneficiary. Also includes 645,836 shares subject to options that are currently exercisable or that become exercisable within 60 days after January 31, 2014 with a weighted average exercise price of $1.48 per share and which expire between January 2019 and July 2022.

As of January 31, 2014, there were a total of 67 holders of record of our ordinary shares, of which 47 were registered with addresses in the United States. Such United States holders were, as of such date, the holders of record of approximately 99.7% of the outstanding ordinary shares. Our ordinary shares are traded on the NASDAQ Global Market in the United States and on the TASE in Israel. A significant portion of our shares are held in street name, therefore we cannot determine who our shareholders are, their geographical location or how many shares a particular shareholder owns.

Significant Changes in Share Ownership

The following table shows changes over the last three years in the percentage ownership by major shareholders:

	Ordinary Shares Owned as of February 29, 2012		Ordinary Shares Owned as of February 28, 2013		Ordinary Shares Owned as of February 28, 2014	
	Number of shares	Percentage of ownership	Number of shares	Percentage of ownership	Number of shares	Percentage of ownership
Martin Gerstel	2,260,015	6.3%	2,385,015	6.3%	2,499,604	5.9%
Clearbridge Advisors LLC (2)	2,211,586	6.2%	1,273,245	3.6%	(1)	(1)
Morgan Stanley (3)	1,912,327	5.4%	(1)	(1)	(1)	(1)

(1) Number and percentage of shares outstanding as of such date is unknown, but is less than 5%.

(2) Percentage of shares outstanding as of February 29, 2012 is based solely on a Schedule 13G/A filed with the SEC on February 14, 2012. Percentage of shares outstanding as of February 28, 2013 is based solely on a Schedule 13G/A filed with the SEC on February 14, 2013.

(3) Percentage of shares outstanding as of February 29, 2012 is based solely on a Schedule 13G/A filed with the SEC on February 10, 2012.

B. RELATED PARTY TRANSACTIONS

Other than as set forth below and transactions related to compensation of our officers and directors as described under "Item 6. Directors, Senior Management and Employees—B. Compensation," since January 1, 2013, we have not entered into any related party transactions.

Keddem Bioscience Ltd.

In 1999, we established a chemistry division to carry out a research program in which we integrated the disciplines of organic chemistry with physics and advanced computational technologies for the development of a method to substantially increase the predictability and success rates of small molecule drug discovery. These operations were subsequently transferred in 2004 to our then wholly owned subsidiary Keddem Bioscience Ltd ("Keddem"), where such operations were later suspended for financial reasons in 2007. On November 19, 2012 we signed an agreement with a private U.S.-based investment company pursuant to which up to $15 million in milestone related equity financing will be made available to Keddem. This financing will be used to further develop and commercialize Keddem's unique technology platform. Under the agreement, the new investor will obtain a majority equity interest in Keddem, with Compugen maintaining a minority interest and certain future preferential access rights to utilize the Keddem technology with Compugen discovered drug targets. Martin Gerstel, our Chairman of the Board of Directors is also Chairman of the Board of Keddem, and as of the date of this annual report, we owned approximately 36% of the outstanding securities of Keddem. See also Note 1 to the 2013 financial statements.

Neviah Genomics Ltd.

In June 2012, we established together with Merck KGaA and Merck Holdings Netherlands B.V. (collectively, "Merck") a new start-up company, Neviah Genomics Ltd. ("Neviah"), which is focused on the discovery and development of novel biomarkers for the prediction of drug-induced toxicity. Neviah operates out of the Merck Serono Israel Bioincubator. Pursuant to our agreement, Merck is providing the initial funding for Neviah and its expertise in the validation and development of biomarkers into a diagnostic test, and we are utilizing certain proprietary predictive discovery technologies and receiving research revenues for our efforts. The agreement provides Compugen with an equity ownership in the new company and a right to royalties from potential future sales. In 2013, we received $260,000 in research revenues under this agreement. As of the date of this annual report, we owned approximately 28% of the securities of Neviah on a fully diluted basis. See also Note 1 and Note 14 to the 2013 financial statements.

Indemnification of Our Directors and Officers

At a special meeting of shareholders held in September 2013, our shareholders resolved to amend the Articles. Our Articles, as amended, provide as follows:

EXEMPTION, INDEMNIFICATION AND INSURANCE

57. Indemnity and Insurance

57.1 Insurance. Subject to the provisions of the Companies Law, the Company may enter into contracts to insure the liabilities of its Office Holders for any liabilities or expenses incurred by or imposed upon them arising from or as a result of any act (or omission) carried out by them as Office Holders of the Company, to the fullest extent permitted by law, including in respect of any liability imposed on any Office Holder with respect to any of the following:

(a) A breach of the duty of care owed to the Company or to any other person;

(b) A breach of the duty of loyalty owed to the Company, provided that, the Office Holder acted in good faith and had reasonable grounds to assume that such act would not prejudice the interests of the Company;

(c) Monetary liabilities or obligations imposed on him in favor of another person;

(d) A payment which the Office Holder is obligated to make to an injured party as set forth in Section 52(54)(a)(1)(a) of the Israel Securities Law, 5728-1968 (the "**Securities Law**") and expenses that the Office Holder incurred in connection with a proceeding under Chapters H'3, H'4 or I'1 of the Securities Law, including reasonable litigation expenses, including attorney's fees, or in connection with Article D of Chapter Four of Part Nine of the Companies Law;

(e) Expenses incurred by the Office Holder in connection with a proceeding under Chapter G'1, of the Israel Restrictive Trade Practices Law, 5748-1988 (the "**Restrictive Trade Law**"), including reasonable litigation expenses, including attorney's fees.

57.2 Indemnification. Subject to the provisions of the Companies Law, the Company may indemnify any of its Office Holders for all liabilities and expenses incurred by them arising from or as a result of any act (or omission) carried out by them as Office Holders of the Company and which is indemnifiable pursuant to applicable law, to the fullest extent permitted by law, including, as follows:

(a) retrospectively; and

(b) undertake in advance to indemnify the Office Holders to the fullest extent permitted by law, including, as follows:

(i) for any monetary liabilities or obligations imposed on the Office Holder in favor of another person pursuant to a court judgment, including a compromise judgment or an arbitrator's decision approved by a court;

(ii) for any payments which the Office Holder is obligated to make to an injured party as set forth in Section 52(54)(a)(1)(a) of the Securities Law and expenses the Office Holder incurred in connection with a proceeding under Chapters H'3, H'4 or I'1 of the Securities Law, including reasonable litigation expenses, including attorney's fees, or in connection with Article D of Chapter Four of Part Nine of the Companies Law;

(iii) for reasonable litigation expenses, including attorney’s fees, incurred by the Office Holder in consequence of an investigation or proceeding instituted against the Office Holder by an authority that is authorized to conduct such investigation or proceeding, and which was concluded without filing of an indictment against the Office Holder and without imposing on the Office Holder a financial obligation in lieu of criminal proceedings, or which was concluded without filing of an indictment against the Office Holder but with imposing on such Office Holder a financial obligation in lieu of criminal proceedings in respect of an offense that does not require proof of criminal intent or in connection with a financial sanction;

For the purposes hereof: (i) “a proceeding that concluded without filing an indictment in a matter in respect of which an investigation was conducted”; and (ii) “financial obligation in lieu of a criminal proceeding”, shall have the meanings specified in Section 260(a)(1A) of the Companies Law;

(iv) for reasonable litigation expenses, including attorney’s fees, incurred by the Office Holder or which the Office Holder is ordered to pay by a court, in a proceeding filed against the Office Holder by the Company or on its behalf or by another person, or in a criminal action of which the Office Holder is acquitted, or in a criminal action in which the Office Holder is convicted of an offense that does not require proof of criminal intent.

(v) for expenses incurred by the Office Holder in connection with a proceeding under Chapter G'1, of the Restrictive Trade Law, including reasonable litigation expenses, including attorney's fees.

(vi) for any other liability, obligation or expense indemnifiable or which may from time to time be indemnifiable by law.

provided that: (x) an undertaking in advance to indemnify an Office Holder with respect to the matters specified in Article 57.2(b)(i) above is limited to types of occurrences, which in the opinion of the board of directors, in light of the Company's actual activities at the time of the undertaking, are foreseeable and to an amount or to criteria the board of directors has determined to be reasonable in the circumstances; and (y) in the undertaking in advance to indemnify an Office Holder, the types of occurrences that the board of directors believes to be foreseeable in light of the Company's actual activities at the time the undertaking to indemnify was given are mentioned, as is the amount or criteria that the board of directors determined to be reasonable under the circumstances.

57.3 Exemption of Office Holders. Subject to the provisions of the Companies Law, the Company may, to the fullest extent permitted by law, exempt and release its Office Holders, including in advance, from and against all or part of such Office Holders’ liability for monetary or other damages due to, or arising or resulting from, a breach of their duty of care to the Company. The Directors of the Company are released and exempt from any and all liability as aforesaid to the fullest extent permitted by law with respect to any such breach, which has been or may be committed.

57.4 The provisions of this Article 57 are not intended, and shall not be interpreted so as to restrict the Company, in any manner, in respect of the procurement of insurance and/or indemnification and/or exculpation, in favor of any person who is not an Office Holder, including, without limitation, any employee, agent, consultant or contractor of the Company who is not an Office Holder.

57.5 The Company may, as aforesaid, indemnify, insure and exempt from liability any Office Holder to the fullest extent permitted by applicable law. Accordingly: (i) any amendment to the Companies Law, the Securities Law, the Restrictive Trade Law or any other applicable law expanding the ability of the Company to indemnify, insure or exempt from liability any Office Holder, or expanding the right of any Office Holder to be indemnified, insured or exempted from liability, beyond or in addition to the provisions of these Articles, shall, to the fullest extent possible, automatically and immediately apply to the Office Holders of the Company and be deemed as included in these Articles to the fullest extent permitted by applicable law; and (ii) any amendment to the Companies Law, the Securities Law, the Restrictive Trade Law or any other applicable law adversely affecting the ability of the Company to indemnify, insure or exempt from liability any Office Holder or adversely affecting the right of any Office Holder to be indemnified, insured or exempted from liability as provided for in these Articles shall have no effect post factum and shall not affect the Company's obligations or ability to indemnify, insure or exempt from liability an Office Holder for any act (or omission) carried out prior to such amendment, unless otherwise provided by applicable law.

The Companies Law provides that a company may, if its articles of association include provisions which allow it to do so:

(1) enter into a contract to insure the liability of an Office Holder of the company by reason of acts or omissions carried out by him or her as an Office Holder of the company for:

(a) the breach of his or her duty of care to the company or to any other person;

(b) the breach of his or her duty of loyalty to the company, provided that, he or she acted in good faith and had reasonable grounds to assume that the act would not prejudice the interests of the company; and

(c) monetary liabilities which may be imposed upon him or her in favor of another person.

(2) indemnify an Office Holder of the company for the following liabilities or expenses that may be imposed upon him or her or that he or she may incur as a result of acts or omissions carried out by him or her as an Office Holder of the company, for:

(a) monetary liabilities imposed upon him or her in favor of another person pursuant to a court judgment, including a compromise judgment or an arbitrator's decision approved by a court;

(b) reasonable litigation expenses, including attorney's fees, incurred by the Office Holder in consequence of an investigation or proceeding instituted against him or her by an authority that is authorized to conduct such investigation or proceeding, and which was concluded without filing of an indictment against him or her and without imposing on him or her a monetary liability in lieu of a criminal proceeding, or which was concluded without filing of an indictment against him or her but with imposing on him or her a monetary liability in lieu of a criminal proceeding in respect of an offense that does not require proof of criminal intent or in connection with a financial sanction;

In this subsection: (i) a proceeding that concluded without filing of an indictment in a matter in respect of which a criminal investigation was initiated shall mean the relevant case against him or her being closed in accordance with the provisions of Section 62 of the Israeli Criminal Procedure Law, 5742-1982, or by virtue of a stay of proceedings by the Attorney General in accordance with the provisions of Section 231 of the Israeli Criminal Procedure Law, 5742-1982; and (ii) "a monetary liability in lieu of a criminal proceeding" means a monetary liability imposed by law as an alternative to a criminal proceeding, including an administrative fine in accordance with the Israeli Administrative Crimes Law, 5746-1985, a fine for an offense that is considered an offense in respect of which a fine may be imposed, in accordance with the provisions of the Israeli Criminal Procedure Law, 5742-1982, a financial sanction or a penalty; and

(c) reasonable litigation expenses, including attorney's fees, incurred by the Office Holder or which the Office Holder is ordered to pay by a court, in a proceeding filed against him or her by the company or on its behalf or by another person, or in a criminal action of which he or she was acquitted, or in a criminal action in which he or she was convicted of an offense that does not require proof of criminal intent.

(3) exempt an Office Holder, in advance, from and against all or part of his or her liability for damages due to a breach of his or her duty of care to it, provided that a company may not exempt a director in advance from his or her liability to it due to a breach of his or her duty of care with respect to a 'Distribution' (as defined in Section 1 of the Companies Law).

The Companies Law provides that a company's articles of association (X) may provide for indemnification of an Office Holder retrospectively; and (Y) may also provide that a company may undertake to indemnify an Office Holder in advance as follows: (i) as detailed in section 2(a) above, provided that the undertaking is limited to occurrences, which in the opinion of the company's board of directors, are foreseeable in light of the company's activities at the time of the undertaking, and to an amount or to criteria that the board of directors has determined to be reasonable in the circumstances, and that in such undertaking, the occurrences that the board of directors believes to be foreseeable in light of the company's activities at the time of the undertaking, and the amount or criteria that the board of directors determined to be reasonable under the circumstances, are mentioned, and (ii) as detailed in sections 2(b) and 2(c) above.

The Companies Law provides that a provision in a company's articles of association which permits the company to enter into a contract to insure the liability of or to indemnify an Office Holder or to exempt an Office Holder from his or her liability to the company, or a resolution of a company's board of directors to indemnify an Office Holder with respect to the following, will not be valid:

- a breach of his or her duty of loyalty, other than, in respect of indemnification and insurance, to the extent described in Section 1(b) above;
- a breach of his or her duty of care that was done intentionally or recklessly, unless the breach was done only in negligence;
- an act or omission done with the intent to unlawfully realize personal gain; or
- a fine, forfeit, financial sanction or penalty imposed upon him or her.

The Company's Office Holders are currently covered by a directors' and officers' liability insurance policy. The Company has also resolved to exempt and release to the maximum extent permitted by law the Company's Office Holders and to indemnify them in advance for certain matters, costs and expenses as set forth in a letter of indemnification and exemption and release approved for issuance to them. For more information see "Item 6. Directors, Senior Management and Employees—B. Compensation, Indemnification, Exemption and Insurance".

C. INTERESTS OF EXPERTS AND COUNSEL

Not applicable.

ITEM 8. FINANCIAL INFORMATION

A. CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION

Consolidated Financial Statements

Our consolidated financial statements are included beginning on page F-1 of this annual report. See also "Item 18. Financial Statements."

Legal Proceedings

Currently, we are not a party to any legal or arbitration proceedings, including governmental proceedings that are pending or known to be contemplated, that our management believes, individually or in the aggregate, may have, or have had in the recent past, a significant effect on our financial position or profitability, nor are we party to any material proceeding in which any director, member of our senior management or affiliate is a party adverse to us or our subsidiaries or has a material interest adverse to us or our subsidiaries.

Dividend Distribution Policy

We have never paid any cash dividends on our ordinary shares, and we do not intend to pay cash dividends on our ordinary shares in the foreseeable future. Our current policy is to retain earnings for use in our business.

In the event that we decide to pay a cash dividend from income that is tax exempt under our Approved Enterprises and/or Benefiting Enterprises programs, we would be required to pay the applicable corporate tax that would otherwise have been payable on such income which would be in addition to the tax payable by the dividend payee. See Note 10 of our 2013 consolidated financial statements and "Item 10. Taxation."

B. *SIGNIFICANT CHANGES*

Not applicable.

ITEM 9. THE OFFER AND LISTING

A. OFFER AND LISTING DETAILS

Our ordinary shares were listed on The NASDAQ Global Market through June 16, 2009. On June 17, 2009, we transferred the listing of our ordinary shares from The NASDAQ Global Market to The NASDAQ Capital Market, and on January 27, 2014 we transferred the listing of our ordinary shares from The NASDAQ Capital Market back to The NASDAQ Global Market. The high and low sales prices per share of our ordinary shares for the periods indicated are set forth below:

Year Ended	**High**	**Low**
December 31, 2009	$ 5.86	$ 0.39
December 31, 2010	$ 5.32	$ 3.04
December 31, 2011	$ 5.80	$ 3.32
December 31, 2012	$ 6.47	$ 2.96
December 31, 2013	$ 11.92	$ 4.56
Quarter Ended		
March 31, 2012	$ 6.47	$ 4.96
June 30, 2012	$ 6.19	$ 3.33
September 30, 2012	$ 4.50	$ 2.96
December 31, 2012	$ 5.86	$ 3.53
March 31, 2013	$ 6.32	$ 4.84
June 30, 2013	$ 6.60	$ 4.56
September 30, 2013	$ 10.60	$ 5.04
December 31, 2013	$ 11.92	$ 7.92
Month Ended		
August 31, 2013	$ 10.60	$ 5.21
September 30, 2013	$ 10.31	$ 8.75
October 31, 2013	$ 11.92	$ 9.20
November 30, 2013	$ 10.86	$ 9.45
December 31, 2013	$ 10.33	$ 7.92
January 31, 2014	$ 11.47	$ 8.76

The high and low sales prices per share of our ordinary shares on the Tel Aviv Stock Exchange for the periods indicated are set forth below. The currency in which our stock is traded on the Tel Aviv Stock Exchange is the New Israeli Shekel, or NIS. The below dollar amounts represent a conversion from NIS to dollar amounts in accordance with the dollar NIS conversion rate as of the relevant date.

Year Ended	**High***	**Low***
December 31, 2009	$ 6.06	$ 0.42
December 31, 2010	$ 5.64	$ 3.08
December 31, 2011	$ 5.92	$ 3.27
December 31, 2012	$ 6.35	$ 3.03
December 31, 2013	$ 11.79	$ 4.57
Quarter Ended		
March 31, 2012	$ 6.25	$ 4.95
June 30, 2012	$ 6.35	$ 3.30
September 30, 2012	$ 4.47	$ 3.03
December 31, 2012	$ 5.81	$ 3.59
March 31, 2013	$ 6.31	$ 4.87
June 30, 2013	$ 6.52	$ 4.57
September 30, 2013	$ 10.57	$ 5.18
December 31, 2013	$ 11.79	$ 7.98
Month Ended		
August 31, 2013	$ 10.57	$ 5.34
September 30, 2013	$ 10.33	$ 8.88
October 31, 2013	$ 11.79	$ 9.26
November 30, 2013	$ 10.96	$ 9.45
December 31, 2013	$ 10.34	$ 7.98
January 31, 2014	$ 11.55	$ 8.79

B. PLAN OF DISTRIBUTION

Not applicable

C. MARKETS

Our ordinary shares are traded in the United States on The NASDAQ Global Market and in Israel on the Tel Aviv Stock Exchange (TASE).

D. SELLING SHAREHOLDERS

Not applicable

E. DILUTION

Not applicable

F. EXPENSES OF THE ISSUE

Not applicable

ITEM 10. ADDITIONAL INFORMATION

A. SHARE CAPITAL

Not applicable

B. MEMORANDUM AND ARTICLES OF ASSOCIATION

Set forth below is a summary of certain provisions of the Memorandum of Association, the Articles and the Companies Law. This description does not purport to be complete and is qualified in its entirety by reference to the full text of the Memorandum of Association and Articles and by Israeli law.

Objects and Purposes

We are incorporated under the Companies Law under the name Compugen Ltd., public company number 51-177-963-9. The Memorandum of Association of Compugen Ltd. (the "Memorandum") was registered on January 29, 1993. On September 17, 2013, our shareholders adopted new articles of association which constitute the Company's effective Articles of Association as of such date. The purpose of the Company as stated in our incorporation documents is to engage in any lawful act or activity for which companies may be organized under the Companies Law.

Fiduciary Duties of Office Holders

The Companies Law imposes on all Office Holders of a company fiduciary duties which consist of a duty of care and a duty of loyalty. The duty of care requires an Office Holder to act with the standard of skills with which a reasonable Office Holder in the same position would have acted under the same circumstances. The duty of care includes a duty to use reasonable means to obtain:

- information regarding the business advisability of a given action brought for the Office Holder's approval or performed by the Office Holder by virtue of his or her position; and
- all other information of importance pertaining to the aforesaid actions.

The duty of loyalty requires an Office Holder to act in good faith and for the benefit of the company and includes the duty to:

- refrain from any act involving a conflict of interest between the fulfillment of his or her position in the company and the fulfillment of any other position or his or her personal affairs;
- refrain from any act that is competitive with the business of the company;
- refrain from exploiting any business opportunity of the company with the aim of obtaining a personal gain for himself or herself or for others; and
- disclose to the company all information and provide it with all documents relating to the company's affairs which the Office Holder obtained due to his or her position in the company.

Conflict of interest

Approval of Related Party Transactions

The Companies Law requires that transactions between a company and its Office Holders or in which an Office Holder has a personal interest be approved as provided for in the Companies Law and the company's articles of association. The approval of a majority of the disinterested members of the audit committee and of the board of directors is generally required and, in some circumstances, shareholder approval may also be required. With respect to the Terms of Office and Employment of Office Holders, the approval of the compensation committee would be required in lieu of that of the audit committee. See "Item 6. Directors, Senior Management and Employees – B. Compensation Approval Required for Directors' and Officers' Compensation."

Disclosure by Office Holders

The Companies Law requires that an Office Holder of a company promptly disclose to the company any personal interest that the Office Holder may have in an existing or proposed transaction by the company. The Office Holder must also disclose related material information and documents about the existing or proposed transaction. Disclosure of personal interest includes disclosure of the interests of any entity in which the person with respect to which the disclosure is made is a 5% or greater shareholder, director or general manager, or in which such person has the power to appoint one or more directors or the general manager. If the transaction is an extraordinary transaction, the Office Holder must also disclose any personal interest of his or her spouse, siblings, parents, grandparents, descendants, spouse's descendants, siblings and parents and the spouses of any of these people. This disclosure must be made no later than the first meeting of the board of directors at which the transaction is discussed. The disclosure is made to the board of directors and to the audit committee or compensation committee if it must approve the transaction. In those circumstances in which shareholder approval is also required, shareholders have the right to review any documents in the company's possession related to the proposed transaction. However, the company may prohibit a shareholder from reviewing the documents if the company believes the request was made in bad faith, the documents include trade secrets or patents or their disclosure could otherwise harm the company's interests.

Approval procedure

After the Office Holder complies with these disclosure requirements, the company may approve the transaction under the provisions of applicable law and its articles of association. If the transaction is with an Office Holder or with a third party in which the Office Holder has a personal interest, the approval must confirm that the transaction is for the benefit of the company. If the transaction is an extraordinary transaction, it must be approved as required by the articles of association and must also be approved by the audit committee and the board of directors. An extraordinary transaction is a transaction: (i) other than in the ordinary course of business; (ii) on terms other than on market terms; or (iii) that is likely to have a material impact on the company's profitability, assets or liabilities. The audit committee is responsible for determining if a transaction is extraordinary or not. If the transaction is not an extraordinary transaction, it must be approved by the board of directors, unless a different approval procedure is set forth in the articles of association. Pursuant to the Company's Articles, the board of directors may delegate its authority to approve transactions that are not extraordinary transactions, to one or more committees of the board of directors, and it may from time to time revoke such delegation. As of the date of this report, no such delegation has been made.

The Terms of Office and Employment of Office Holders are subject to the approval of the compensation committee and the board of directors, and must generally be consistent with the company's compensation policy. In some circumstances, shareholder approval is required. See Item 6 - Directors', Senior Management and Employees – B. Compensation Approval Required for Directors' and Officers' Compensation.

A person with a personal interest in any matter may not generally be present at any audit committee, compensation committee or board of directors meeting where the matter is being considered, and if a member of the committee or a director, may not generally vote on the matter.

Transactions with controlling shareholders

The Companies Law extends the disclosure requirements applicable to an Office Holder to a controlling shareholder in a public company. A shareholder that holds 25% or more of the voting rights in a company would be considered a controlling shareholder for the purposes of these disclosure requirements if no other shareholder holds more than 50% of the voting rights. If two or more shareholders are interested parties in the same transaction, their shareholdings are aggregated for these purposes. Extraordinary transactions of a public company with a controlling shareholder or in which a controlling shareholder has a personal interest, as well as any engagement by a public company of a controlling shareholder or of such controlling shareholder's relative, directly or indirectly, with respect to the provision of services to the company, and, if such person is also an Office Holder of such company, with respect to such person's Terms of Office and Employment as an Office Holder, and if such person is an employee of the company but not an Office Holder, with respect to such person's employment by the company, generally require the approval of the audit committee (or with respect to Terms of Office and Employment the compensation committee), the board of directors and the shareholders of the company. If required, shareholder approval must include at least a majority of the shareholders who do not have a personal interest in the transaction and are present and voting at the meeting (abstentions are disregarded). Alternatively, the total shareholdings of the disinterested shareholders who vote against the transaction must not represent more than two percent of the voting rights in the company. Transactions that are for a period of more than three years generally need to be brought for approval in accordance with the above procedure every three years.

Pursuant to regulations promulgated under the Companies Law, certain transactions with a controlling shareholder or his or her relative, or with directors, that would otherwise require approval of a company's shareholders may be exempt from shareholder approval upon certain determinations of the audit committee or the compensation committee and board of directors, unless a shareholder holding at least 1% of the issued share capital or of the voting rights of the company informs the company in writing, within 14 days of the day such determination is reported to its shareholders, of its objection to such exemption.

For information concerning the direct and indirect personal interests of certain of our Office Holders and principal shareholders in certain transactions with us, see Item 7 Major Shareholders and Related Party Transactions B. Related Party Transactions.

Rights Attached To Our Shares

Our authorized share capital is NIS 1,000,000 divided into 100,000,000 ordinary shares of nominal (par) value NIS 0.01 each.

Subject to our Articles, fully paid ordinary shares of the company confer on the holders thereof rights to attend and to vote at general meetings of the shareholders. Subject to the rights of holders of shares with limited or preferred rights which may be issued in the future, the ordinary shares of the Company confer upon the holders thereof equal rights to receive dividends and to participate in the distribution of the assets of the Company upon its winding-up, in proportion to the amount paid up or credited as paid up on account of the nominal value of the shares held by them respectively and in respect of which such dividends are being paid or such distribution is being made, without regard to any premium paid in excess of the nominal value, if any. No preferred shares are currently authorized. All outstanding ordinary shares are validly issued and fully paid.

Transfer of Shares

Our ordinary shares which have been fully paid-up are transferable by submission of a proper instrument of transfer together with the certificate of the shares to be transferred and such other evidence of title, as the board of directors may require, unless such transfer is prohibited by another instrument or by applicable securities laws.

Dividends

Under the Companies law, dividends may be distributed only out of profits available for dividends as determined by the Companies Law, provided that there is no reasonable concern that the distribution will prevent the Company from being able to meet its existing and anticipated obligations when they become due. If the company does not meet the profit requirement, a court may nevertheless allow the company to distribute a dividend, as long as the court is convinced that there is no reasonable concern that such distribution will prevent the company from being able to meet its existing and anticipated obligations when they become due. Pursuant to our Articles, no dividend shall be paid otherwise than out of the profits of the Company. Generally, under the Companies Law, the decision to distribute dividends and the amount to be distributed is made by a company's board of directors.

Our Articles provide that our board of directors, may, subject to the Companies Law, from time to time, declare and cause the Company to pay such dividends as may appear to the board of directors to be justified by the profits of our Company. Subject to the rights of the holders of shares with preferential special or deferred rights that may be authorized in the future, our profits which shall be declared as dividends shall be distributed according to the proportion of the nominal (par) value paid up or credited as paid up on account of the shares held at the date so appointed by the Company and in respect of which such dividend is being paid, without regard to the premium paid in excess of the nominal (par) value, if any.

Under the Companies Law, the declaration of a dividend does not require the approval of the shareholders of the company, unless the company's articles of association require otherwise. Our Articles provide that the board of directors may declare and distribute dividends without the approval of the shareholders.

To date, we have not declared or distributed any dividend and we do not intend to pay cash dividends on our ordinary shares in the foreseeable future.

Voting Rights

Subject to the provisions of our Articles, holders of ordinary shares have one vote for each ordinary share held by such shareholder of record, on all matters submitted to a vote of shareholders. Shareholders may vote in person or by proxy. These voting rights may be affected by the grant of any special voting rights to the holders of a class of shares with preferential rights that may be authorized in the future. Our ordinary shares do not have cumulative voting rights in the election of directors. As a result, the holders of the majority of the shares present and voting at a shareholders meeting generally have the power to elect all of our directors, except the external directors whose election requires a special majority as described under the section entitled "Item 6. Directors, Senior Management and Employees - C. Board Practices - External Directors."

Liquidation Rights

In the event of our winding up on liquidation or dissolution, subject to applicable law, our assets available for distribution among the shareholders shall be distributed to the holders of ordinary shares in proportion to the amount paid up or credited as paid up on account of the nominal value of the shares held by them respectively and in respect of which such distribution is being made, without regard to any premium paid in excess of the nominal value, if any. This liquidation right may be affected by the grant of limited or preferential rights as to liquidation to the holders of a class of shares that may be authorized in the future.

Redemption Provisions

We may, subject to applicable law and to our Articles, issue redeemable shares and redeem the same upon such terms and conditions as determined by our board of directors.

Capital Calls

Under our Articles, the liability of each shareholder for the Company's obligations is limited to the unpaid sum, if any, owing to the Company in consideration for the issuance of the shares held by such shareholder.

Modification of Rights

Pursuant to our Articles, if at any time our share capital is divided into different classes of shares, the rights attached to any class, unless otherwise provided by our Articles, may be modified or abrogated by the Company, subject to the consent in writing of, or sanction of a resolution passed by, the holders of a majority of the issued shares of such class at a separate general meeting of the holders of the shares of such class.

Shareholders Meetings and Resolutions

Our Articles provide that our annual general meeting shall be held once in every calendar year at such time (within a period of not more than fifteen months after the last preceding annual general meeting), and place determined by our board of directors. Our board of directors may, in its discretion, convene additional shareholder meetings and, pursuant to the Companies Law, must convene a meeting upon the demand of: (a) two directors or one quarter of the directors in office; or (b) the holder or holders of (i) 5% or more of the Company's issued share capital and one percent or more of its voting rights; or (ii) 5% or more of the Company's voting rights.

The chairman of the board of directors shall preside as chairman at each of our general meetings. If there is no such chairman, or if the appointed chairman is unwilling to take the chair, or if he shall have indicated in advance that he will not be attending, or if at any meeting such chairman is not present within fifteen (15) minutes after the time fixed for holding the meeting, then those present at the meeting shall choose someone present to be chairman of the meeting. The office of chairman shall not, by itself, entitle the holder thereof to vote at any general meeting nor shall it entitle a second or casting vote. Pursuant to the Companies Law, the holder or holders of one percent of the Company's voting rights may request the inclusion of an item on the agenda of a future shareholder meeting, provided the item is appropriate for discussion at a shareholder meeting. The agenda for a shareholder meeting is determined by the board of directors and must include matters in respect of which the convening of a shareholder meeting was demanded and any matter requested to be included by holder(s) of one percent of the Company's voting rights, as detailed above.

Pursuant to the Companies Law and regulations promulgated thereunder with respect to the convening of general meetings in a public company, shareholder meetings generally require prior notice of not less than 21 days. Pursuant to the Articles, the Company is not required to deliver or serve notice of a general meeting or of any adjournments thereof to any shareholder. However, subject to applicable law and stock exchange rules and regulations, the Company will publicize the convening of a general meeting in any manner reasonably determined by the Company, such as posting a notice on the Company's website, filing an appropriate periodic report with the SEC, or publishing on one or more international wire services or in one or more newspapers, and any such publication shall be deemed duly made, given and delivered to all shareholders on the date on which it is first made, posted, filed or published in the manner so determined by the Company in its sole discretion. The function of the annual general meeting is to elect directors, receive and consider the profit and loss account, the balance sheet and the ordinary reports and accounts of the directors and auditors, appoint auditors and transact any other business which under our Articles or applicable law may be transacted by the shareholders of the Company in a general meeting.

Pursuant to our Articles, the quorum required for a meeting of shareholders consists of at least two shareholders, present in person, by proxy or by proxy card and holding shares conferring in the aggregate thirty-three and a third percent (33.3%) or more of the voting power of the Company. If within half an hour from the time appointed for the meeting a quorum is not present, the meeting, if convened by the board of directors upon the demand of shareholders or upon the demand of less than 50% of the directors then in office or directly by such shareholders or directors, shall be cancelled. Otherwise, if a meeting is otherwise called and no quorum is present within half an hour from the time appointed for such meeting it shall stand adjourned to the same day in the following week at the same time and place or to such other day, time and place as the board of directors may determine. At the adjourned meeting, the required quorum consists of any two shareholders present, in person, by proxy or by proxy card.

Generally, under the Companies Law and our Articles, shareholder resolutions are deemed adopted if approved by the holders of a simple majority of the voting rights represented at the meeting, in person, by proxy or by proxy card, and voting on the matter, unless a different majority is required by law or pursuant to the Articles such as a resolution for the voluntary winding up of our Company which requires the approval of holders of 75% of the voting power presented and voting, in person or by proxy at the meeting. Pursuant to the Companies Law, resolutions with respect to certain matters included in our Memorandum of Association, such as a resolution with respect to a change in the Company's name, the Company's objective or the Company's capital, could require a special majority of 75% of the shareholders present and voting (abstentions are disregarded).

Limitations on the Rights to Own Securities

Our Articles and Israeli law do not restrict the ownership or voting of ordinary shares by non-residents or persons who are not citizens of Israel, except with respect to subjects of nations which are in a state of war with Israel.

Changes in Control

Under the Companies Law, a merger is generally required to be approved by the shareholders and board of directors of each of the merging companies. If the share capital of the company that will not be the surviving company is divided into different classes of shares, the approval of each class is also required, unless determined otherwise by the court. Similarly, unless an Israeli court determines otherwise, a merger will not be approved if it is objected to by shareholders holding a majority of the voting rights participating and voting at the meeting (abstentions are disregarded), after excluding the shares held by the other party to the merger, by any person who holds 25% or more of the other party to the merger or by anyone on their behalf, including by the relatives of, or corporations controlled by, these persons. In addition, upon the request of a creditor of either party to the proposed merger, an Israeli court may delay or prevent the merger, if it concludes that there exists a reasonable concern that, as a result of the merger, the surviving company will be unable to satisfy the obligations of any of the parties to the merger. Further, a merger can be completed only after all approvals have been submitted to the Israeli Companies Registrar and 30 days have passed from the time that shareholder resolutions were adopted in each of the merging companies and 50 days have passed from the time that a proposal for approval of the merger was filed with the Israeli Companies Registrar.

In addition, subject to certain exceptions, an acquisition of shares in a public company must be made by means of a tender offer to the extent that as a result of such acquisition the acquirer will hold 25% or more of the voting rights in the company if there is no other holder of 25% or more of the company's voting rights, or hold more than 45% of the voting rights in the company if there is no other holder of more than 45% of the company's voting rights. These tender offer requirements do not apply to companies whose shares are listed for trading outside of Israel if, under local law or the rules of the stock exchange on which their shares are traded, there is a limitation on the percentage of control which may be acquired or the purchaser is required to make a tender offer to the public.

Under the Companies Law, a person may not acquire shares in a public company if, after the acquisition, the acquirer will hold more than 90% of the shares or more than 90% of any class of shares of that company, unless a tender offer is made to purchase all of the shares or all of the shares of the particular class. The Companies Law also generally provides that as long as a shareholder in a public company holds more than 90% of the company's shares or of a class of shares, that shareholder shall be precluded from purchasing any additional shares. In order that all of the shares that the purchaser offered to purchase be transferred to him by operation of law, one of the following needs to have occurred: (i) the shareholders who declined or do not respond to the tender offer hold less than 5% of the company's outstanding share capital or of the relevant class of shares and the majority of offerees who do not have a personal interest in accepting the tender offer accepted the offer, or (ii) the shareholders who declined or do not respond to the tender offer hold less than 2% of the company's outstanding share capital or of the relevant class of shares.

A shareholder that had his or her shares so transferred, whether he or she accepted the tender offer or not, has the right, within six months from the date of acceptance of the tender offer, to petition the court to determine that the tender offer was for less than fair value and that the fair value should be paid as determined by the court. However, the purchaser may provide in its offer that shareholders who accept the tender offer will not be entitled to such rights.

If the conditions set forth above are not met, the purchaser may not acquire additional shares of the company from shareholders who accepted the tender offer to the extent that following such acquisition, the purchaser would own more than 90% of the company's issued and outstanding share capital. The above restrictions apply, in addition to the acquisition of shares, to the acquisition of voting power.

Changes in Capital

Our Articles enable us to increase or reduce our share capital. Any such changes are subject to the provisions of the Companies Law and must be approved by a resolution duly passed by our shareholders at a general meeting by voting on such change in the capital.

C. MATERIAL CONTRACTS

Please see "Item 4. Information on the Company — B. Business Overview — Commercialization — Bayer Collaboration" and "Item 5. Operating and Financial Review and Prospects — B. Liquidity and capital Resources —Funding Agreements" for a discussion of our material contracts.

D. EXCHANGE CONTROLS

There are currently no exchange controls in effect in Israel that restrict the repatriation by non-residents of Israel in non-Israeli currency of any dividends, if any are declared and paid, and liquidation distributions or the Company's ability to import and export capital.

E. TAXATION

The following is a brief summary of certain material tax consequences concerning the ownership and disposition of our ordinary shares by purchasers or holders of our ordinary shares. Because parts of this discussion are based on new or existing tax or other legislation that has not been subject to judicial or administrative interpretation, there can be no assurance that the views expressed herein will be accepted by the tax or other authorities in question. The summary below does not address all of the tax consequences that may be relevant to all purchasers or holders of our ordinary shares in light of each purchaser's or holder's particular circumstances and specific tax treatment. For example, the summary below does not address the tax treatment of residents of Israel and traders in securities who are subject to specific tax regimes. As individual circumstances may differ, holders of our ordinary shares should consult their own tax advisors as to United States, Israeli or other tax consequences of the purchase, ownership and disposition of our ordinary shares. This discussion is not intended, nor should it be construed, as legal or professional tax advice and it is not exhaustive of all possible tax considerations. Each individual should consult his or her own tax or legal advisor.

Israeli Taxation

(i) Taxation of Capital Gains Applicable to Non-Israeli Shareholders

Israeli law generally imposes a capital gains tax on the sale of securities of an Israeli company traded on the TASE, on an authorized stock exchange outside Israel or on a regulated market (which includes a system through which securities are traded pursuant to rules prescribed by the competent authority in the relevant jurisdiction) in or outside Israel (a "Recognized Exchange"). Pursuant to amendments to the Tax Ordinance, effective as of January 1, 2012, the capital gains tax rate applicable to individuals upon the sale of such securities is such individual's marginal tax rate but not more than 25% (or 30% with respect to a Substantial Shareholder). A tax rate of up to 30% will apply to an individual who meets the definition of a 'Substantial Shareholder' on the date of the sale of the securities or at any time during the 12 months preceding such date. A 'Substantial Shareholder' is defined as a person who, either alone or together with any other person, holds, directly or indirectly, at least 10% of any of the means of control of a company (including, among other things, the right to receive profits of the company, voting rights, the right to receive the company's liquidation proceeds and the right to appoint a director). Different tax rates may apply to capital gains accrued from the sale by individuals of securities that are not publicly traded as aforesaid.

With respect to corporate investors, effective January 1, 2012, capital gain tax equal to the corporate tax rate (as of January 1, 2014 – 26.5%) will generally be imposed on the sale of traded shares.

In addition, if our ordinary shares are traded on a Recognized Exchange gains on the sale of our ordinary shares held by non-Israeli tax resident investors will generally be exempt from Israeli capital gains tax. Notwithstanding the foregoing, dealers in securities in Israel are taxed at regular tax rates applicable to business income.

In addition, persons paying consideration for shares, including purchasers of shares, Israeli securities dealers effecting a transaction, or a financial institution through which securities being sold are held, are required, subject to any applicable exemptions and the demonstration by the selling shareholder of its non-Israeli residency, to withhold tax upon the sale of publicly traded securities at a rate of 25% for individuals and at the corporate tax rate (currently 26.5%) for corporations.

Israeli law also generally exempts non-resident individuals and entities from capital gains tax on the sale of securities of Israeli companies, provided that such securities are not traded on a stock exchange in Israel when sold and that the securities were acquired on or after January 1, 2009.

(ii) Income Taxes on Dividend Distribution to Non-Israeli Shareholders

Non-Israeli residents (whether individuals or corporations) are generally subject to Israeli income tax on the receipt of dividends paid on the shares of companies that are not publicly traded at the rate of 25% (30% if the dividend recipient is a Substantial Shareholder at the time of distribution or at any time during the preceding 12 month period), which tax is to be withheld at source, unless a different rate is provided under an applicable tax treaty. Dividends paid on the shares of companies that are publicly traded, like our ordinary shares, to non-Israeli residents, although generally subject to the same tax rates applicable to dividends paid on the shares of companies that are not publicly traded, are generally subject to Israeli withholding tax at a rate of 25% (whether or not the recipient is a Substantial Shareholder), unless a different rate is provided under an applicable tax treaty. The distribution of dividends to non-Israeli residents (either individuals or corporations) from income derived from the Company's Approved Enterprises or Benefiting Enterprises during the applicable benefits period is subject to withholding tax at a rate of 15% unless a different tax rate is provided under an applicable tax treaty. The distribution of dividends to non-Israeli residents (either individuals or corporations) from income derived from Preferred Income is subject to withholding tax at a rate of 20%, unless a different tax rate is provided under an applicable tax treaty. The Company does not currently have any Preferred Enterprises.

A non-resident of Israel who has dividend income derived from or accrued in Israel, from which the full amount of tax was withheld at source, is generally exempt from the duty to file tax returns in Israel in respect of such income, provided that: (i) such income was not derived from a business conducted in Israel by the taxpayer; and (ii) the taxpayer has no other taxable sources of income in Israel with respect to which a tax return is required to be filed.

Residents of the United States generally will have withholding tax in Israel deducted at source. As discussed below, they may be entitled to a credit or deduction for U.S. federal income tax purposes for all or part of the amount of the taxes withheld, subject to detailed rules contained in U.S. tax legislation.

(iii) U.S. Israel Tax Treaty

The Convention between the Government of the State of Israel and the Government of the United States of America With Respect to Taxes on Income (the "Treaty") is generally effective as of January 1, 1995. Under the Treaty, the maximum Israeli withholding tax on dividends paid to a holder of our ordinary shares who is a Treaty U.S. Resident (as defined below) is generally 25%. However, pursuant to the Investment Law, dividends distributed by an Israeli company and derived from income eligible for benefits under the Investment Law will generally be subject to a reduced dividend withholding tax rate, as detailed above, subject to the conditions specified in the Treaty. The Treaty further provides that a 15% or a 12.5% Israeli dividend withholding tax will apply to dividends paid to a U.S. corporation owning 10% or more of an Israeli company's voting shares during, in general, the current and preceding tax year of the Israeli company. The 15% rate applies to dividends distributed from income derived from an Approved Enterprise or, presumably, from a Benefiting Enterprise, in each case within the applicable period or, presumably, from a Preferred Enterprise, and the lower 12.5% rate applies to dividends distributed from income derived from other sources. However, these provisions do not apply if the company has certain amounts of passive income.

Pursuant to the Treaty, the sale, exchange or disposition of our ordinary shares by a person who qualifies as a resident of the United States within the meaning of the Treaty and who is entitled to claim the benefits afforded to such residents under the Treaty (a "Treaty U.S. Resident") generally will not be subject to the Israeli capital gains tax unless such Treaty U.S. Resident holds, directly or indirectly, shares representing 10% or more of the voting power of the Company during any part of the 12-month period preceding such sale, exchange or disposition subject to certain conditions. A sale, exchange or disposition of our ordinary shares by a Treaty U.S. Resident who holds, directly or indirectly, shares representing 10% or more of the voting power of the Company at any time during such preceding 12-month period would not be exempt under the Treaty from such Israeli tax; however, under the Treaty, such Treaty U.S. Resident would be permitted to claim a credit for such taxes against U.S. federal income tax imposed on any gain from such sale, exchange or disposition, under the circumstances and subject to the limitations specified in the Treaty and U.S. domestic law. As mentioned above, gains on the sale of ordinary shares held by non-Israeli tax resident investors will generally be exempt from Israeli capital gains tax if the ordinary shares are traded on a Recognized Exchange. This exemption would generally apply notwithstanding the Treaty.

(iv) Estate Taxes

Israel presently has no estate tax.

(v) Israeli Transfer Pricing Regulations

On November 29, 2006, Income Tax Regulations (Determination of Market Terms), 2006, promulgated under Section 85A of the Tax Ordinance, came into effect (the "TP Regs"). Section 85A of the Tax Ordinance and the TP Regs generally requires that all cross-border transactions carried out between related parties be conducted on an arm's length principle basis and will be taxed accordingly. The TP Regs have not had a material effect on the Company.

Certain Material U.S. Federal Income Tax Considerations

General

The following is a summary of certain material U.S. federal income tax consequences to U.S. holders (as defined below) of purchasing, owning, and disposing of our ordinary shares. For this purpose, a U.S. holder is, in each case as defined for U.S. federal income tax purposes: (a) an individual who is a citizen or resident of the United States; (b) a corporation (or other entity taxable as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States, any state thereof or the District of Columbia; (c) an estate the income of which is subject to U.S. federal income tax regardless of its source; or (d) a trust that is subject to the primary supervision of a court over its administration and one or more U.S. persons control all substantial decisions, or a trust that has validly elected to be treated as a domestic trust under applicable Treasury Regulations. This summary does not address any tax consequences to persons other than U.S. holders.

This discussion is a general summary and does not address all aspects of U.S. federal income taxation that may be relevant to particular U.S. holders based on their particular investment or tax circumstances. Except where noted, this summary deals only with ordinary shares held as capital assets. It does not address any tax consequences to certain types of U.S. holders that are subject to special treatment under the U.S. federal income tax laws, such as insurance companies, tax-exempt organizations, financial institutions, broker-dealers, dealers in securities or currencies, traders in securities that elect to use the mark-to-market method of accounting for their securities, partnerships or other pass-through entities for U.S. federal tax purposes, regulated investment companies, real estate investment trusts, expatriates, persons liable for alternative minimum tax, persons owning, directly or by attribution, 10% or more, by voting power or value, of our ordinary shares, persons whose "functional currency" is not the U.S. dollar, persons holding ordinary shares as part of a hedging, constructive sale or conversion, straddle, or other risk-reducing transaction, or persons acquiring an interest in our ordinary shares in exchange for services.

This summary relates only to U.S. federal income taxes. It does not address any other tax, including but not limited to, state, local, or foreign taxes, or any other U.S. federal taxes other than income taxes.

If a partnership holds our ordinary shares, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. A partner of a partnership holding our ordinary shares should consult its tax advisors.

The statements in this summary are based on the current U.S. federal income tax laws as contained in the Internal Revenue Code, Treasury Regulations, and relevant judicial decisions and administrative guidance. The U.S. federal tax laws are subject to change, and any such change may materially affect the U.S. federal income tax consequences of purchasing, owning, or disposing of our ordinary shares. We cannot assure you that new laws, interpretations of law or court decisions, any of which may take effect retroactively, will not cause any statement in this summary to be inaccurate. No ruling or opinions of counsel will be sought in connection with the matters discussed herein. There can be no assurance that the positions we take on our tax returns will be accepted by the Internal Revenue Service.

This summary is not a substitute for careful tax planning. Prospective investors are urged to consult their own tax advisors regarding the specific U.S. federal, state, foreign and other tax consequences to them, in light of their own particular circumstances, of the purchase, ownership and disposition of our ordinary shares and the effect of potential changes in applicable tax laws.

Dividends

Subject to the discussion under "Item 10. Additional Information – E. Taxation - Certain Material U.S. Federal Income Tax Considerations – Passive Foreign Investment Company." below, the gross amount of any distributions with respect to our ordinary shares (including any amounts withheld to reflect Israeli withholding taxes) will be taxable as dividends, to the extent paid out of our current or accumulated earnings and profits, as determined under U.S. federal income tax principles. Such income (including any withheld taxes) will be includable in a U.S. holder's gross income as ordinary income on the day actually or constructively received. The dividends received deduction will not be available to a U.S. holder that is taxed as a corporation.

With respect to non-corporate U.S. holders, certain dividends received from a qualified foreign corporation may be subject to reduced rates of taxation. A qualified foreign corporation includes a foreign corporation that is eligible for the benefits of a comprehensive income tax treaty with the United States which the United States Treasury Department determines to be satisfactory for these purposes and which includes an exchange of information provision. The United States Treasury Department has determined that the Treaty meets these requirements. A foreign corporation is also treated as a qualified foreign corporation with respect to dividends paid by that corporation on shares that are readily tradable on an established securities market in the United States. United States Treasury Department guidance indicates that our ordinary shares, which are listed on the NASDAQ, are readily tradable on an established securities market in the United States. There can be no assurance that our ordinary shares will be considered readily tradable on an established securities market in later years. Non-corporate holders that do not meet a minimum holding period requirement during which they are not protected from the risk of loss or that elect to treat the dividend income as "investment income" pursuant to Section 163(d)(4) of the Code will not be eligible for the reduced rates of taxation regardless of our status as a qualified foreign corporation. In addition, the rate reduction will not apply to dividends if the recipient of a dividend is obligated to make related payments with respect to positions in substantially similar or related property. This disallowance applies even if the minimum holding period has been met.

Notwithstanding the above, dividends received by a non-corporate U.S. holder during a year in which the Company is a Passive Foreign Investment Company (a "PFIC Year") or in a year following a PFIC Year generally will not be eligible for the reduced rates of taxation. Dividends will generally be from a non-U.S. source and treated as "passive income" for U.S. foreign tax credit purposes.

Although, to the extent we pay dividends in the future, we intend to pay dividends to U.S. holders in U.S. dollars, the amount of any dividend paid in Israeli currency will equal its U.S. dollar value for U.S. federal income tax purposes, calculated by reference to the exchange rate in effect on the date the dividend is received by the U.S. holder, regardless of whether the Israeli currency is converted into U.S. dollars. If the Israeli currency received as a dividend are converted into United States dollars on the date they are received, the U.S. holder generally will not be required to recognize foreign currency gain or loss in respect of the dividend income. If the Israeli currency is not converted into U.S. dollars on the date of receipt, the U.S. holder will have a basis in the Israeli currency equal to its U.S. dollar value on the date of receipt. Any subsequent gain or loss upon the conversion or other disposition of the Israeli currency will be treated as ordinary income or loss, and generally will be income or loss from U.S. sources.

Subject to certain conditions and limitations, Israeli withholding taxes on dividends may be treated as foreign taxes eligible for credit against a U.S. holder's U.S. federal income tax liability. For purposes of calculating the foreign tax credit, dividends paid on our ordinary shares will be treated as income from sources outside the United States and will generally constitute passive category income. Further, in certain circumstances, if a U.S. holder has held ordinary shares for less than a specified minimum period during which the U.S. holder is not protected from risk of loss, or is obligated to make payments related to the dividends, such U.S. holder will not be allowed a foreign tax credit for foreign taxes imposed on dividends paid on our ordinary shares. The rules governing the foreign tax credit are complex. U.S. holders are urged to consult their tax advisors regarding the availability of the foreign tax credit under their particular circumstances.

A U.S. holder will not incur tax on a distribution with respect to our ordinary shares in excess of our current and accumulated earnings and profits if the distribution does not exceed the adjusted basis of the U.S. holder's ordinary shares. Instead, the distribution will reduce the adjusted basis of the shares. Any such distribution in excess of both our current and accumulated earnings and profits and the U.S. holder's adjusted basis will be treated as capital gain, long-term if the U.S. holder has held the shares for more than one year, and generally will be gain or loss from U.S. sources. See "Disposition of Ordinary Shares" below for a discussion of capital gains tax rates and limitations on deductions for losses. We do not expect to determine earnings and profits in accordance with U.S. federal income tax principles. Therefore, U.S. holders should expect that a distribution will generally be treated as a dividend (as discussed above).

Disposition of Ordinary Shares

In general, subject to the discussion under—"Item 10. Additional Information – E. Taxation - Certain Material U.S. Federal Income Tax Considerations – Passive Foreign Investment Company.", a U.S. holder must treat any gain or loss recognized upon a taxable disposition of our ordinary shares as capital gain or loss, long-term if the U.S. holder has held the shares for more than one year. In general, a U.S. holder will recognize gain or loss in an amount equal to the difference between the sum of the fair market value of any property and the amount of cash received in such disposition and the U.S. holder's adjusted tax basis in such shares. A U.S. holder's adjusted tax basis generally will equal the U.S. holder's acquisition cost less any return of capital. Subject to certain exceptions (including but not limited to those described under "Passive Foreign Investment Company" below), long-term capital gain realized by a non-corporate U.S. holder generally will be subject to a reduced maximum rate of 20%. The deduction of capital losses is subject to limitations, as are losses upon a taxable disposition of our ordinary shares if the U.S. holder purchases, or enters into a contract or option to purchase, substantially identical stock or securities within 30 days before or after any disposition. Gain or loss from the disposition of our ordinary shares will generally be from U.S. sources, but such gain or loss may be from a non-U.S. source under some circumstances under the Treaty. If such gain or loss is treated as U.S. source gain or loss, a U.S. holder may not be able to use the foreign tax credit arising from any Israeli tax imposed on the disposition of an ordinary share unless such credit can be applied (subject to applicable limitations) against tax due on other income treated as derived from foreign sources.. U.S. holders should consult their own independent tax advisors regarding the sourcing of any gain or loss on the disposition of our ordinary shares, as well as regarding any foreign currency gain or loss in connection with such a disposition.

Credit for Foreign Taxes Paid or Withheld

Payments to U.S. holders as dividends or consideration for ordinary shares may in some circumstances be subject to Israeli withholding taxes. See ""Item 10. Additional Information – E. Taxation - Certain Material U.S. Federal Income Tax Considerations –Israeli Taxation. U.S. – Israel tax Treaty" above. Generally, such withholding taxes in lieu of Israeli income taxes imposed on such transactions are creditable against the U.S. holder's U.S. tax liability, subject to numerous U.S. foreign tax credit limitations, including additional limitations in the case of qualified dividends eligible for the maximum rate accorded to capital gains. A corporate U.S. holder may also be eligible for an "indirect" foreign tax credit on dividends to take account of certain Israeli taxes we previously paid to Israel. A U.S. holder should consult its own independent tax advisor regarding use of the U.S. foreign tax credit and its limitations. A U.S. holder (except an individual who does not itemize deductions) may elect to take a deduction rather than a credit for foreign taxes paid.

Controlled Foreign Corporation

For U.S. federal income tax purposes, a "controlled foreign corporation" is a foreign corporation in which U.S. holders who own at least 10% of the voting power (directly or by constructive ownership through certain related persons) collectively own more than 50% of the voting power or value. If we are or become a controlled foreign corporation, such 10% U.S. holders must include in their current U.S. taxable income their share of the corporation's undistributed "Subpart F income" (i.e., certain passive income, sales or service income, insurance, shipping, ocean activity, or oil-related income, and income from specified disfavored activities or from ostracized foreign countries) and the amount of the corporation's investments in U.S. property. These income inclusions are not eligible for the maximum capital gains tax rate on qualified dividends to non-corporate tax payers. We believe that the corporation is not and has not been, and we expect that the corporation will not become, a controlled foreign corporation. There can be no assurance, however, that the corporation will not become a controlled foreign corporation in the future.

Passive Foreign Investment Company

Based on our financial statements and the projected composition of our income and valuation of our assets, including goodwill, we do not believe we were a passive foreign investment company, or PFIC, for 2013. There can be no assurance that we will not become a PFIC in the future.

In general, we will be a PFIC for any taxable year in which:

- at least 75% of our gross income is passive income, or
- at least 50% of the value (determined on a quarterly basis) of our assets is attributable to assets,

that produce or are held for the production of passive income.

For this purpose, passive income generally includes dividends, interest, royalties and rents (other than royalties and rents derived in the active conduct of a trade or business and not derived from a related person). If we own at least 25% (by value) of the stock of another corporation, we will be treated, for purposes of the PFIC tests, as owning our proportionate share of the other corporation's assets and receiving our proportionate share of the other corporation's income.

PFIC status is determined annually and cannot be definitively determined until the close of the year in question. Accordingly, it is possible that we may become a PFIC in the current or any future taxable year due to changes in our asset or income composition. Because we have valued our goodwill based on the market value of our equity, a decrease in the price of our ordinary shares may also result in our becoming a PFIC. If we are a PFIC for any taxable year during which a U.S. holder holds our ordinary shares, such U.S. holder will be subject to special tax rules discussed below.

If we qualify as a PFIC at any time during a U.S. holder's holding period of our ordinary shares, any subsequent distributions to, or disposition of the shares by, the U.S. holder will be subject to the excess distribution rules (described below), regardless of whether we are a PFIC in the year of distribution or disposition, unless the U.S. holder: (1) made the qualified electing fund ("QEF") election (described below); (2) made the mark-to-market election (described below); or (3) during a year in which the corporation is no longer a PFIC, elected to recognize all gain inherent in the shares on the last day of the last taxable year in which the corporation was a PFIC. If a U.S. holder holds our ordinary shares in a PFIC Year, such ordinary shares will henceforth be considered shares in a PFIC, regardless of whether we meet the PFIC tests in future years, unless the U.S. holder makes a timely QEF or mark-to-market election, or makes the deemed-gain election in a year in which the corporation is no longer a PFIC.

If we are a PFIC, each U.S. holder, upon certain "excess distributions" by us and upon disposition of our ordinary shares at a gain, would be liable to pay tax at the highest then-prevailing income tax rate on ordinary income plus interest on the tax, as if the distribution or gain had been recognized ratably over the holder's holding period for the ordinary shares. Additionally, if we are a PFIC, a U.S. holder who acquires ordinary shares from a deceased person who was a U.S. holder would not receive the step-up of the income tax basis to fair market value for such ordinary shares. Instead, such U.S. holder would have a tax basis equal to the deceased's tax basis, if lower.

If a U.S. holder has made a QEF election covering all taxable years during which the holder holds ordinary shares and in which we are a PFIC, distributions and gains will not be taxed as described above, nor will denial of a basis step-up at death described above apply. Instead, a U.S. holder that makes a QEF election is required for each taxable year to include in income the holder's pro rata share of the ordinary earnings of the QEF as ordinary income and a pro rata share of the net capital gain of the QEF as capital gain, regardless of whether such earnings or gain have in fact been distributed. Undistributed income is subject to a separate election to defer payment of taxes. If deferred, the taxes will be subject to an interest charge. Where earnings and profits that were included in income under this rule are later distributed, the distribution is not a dividend. The basis of a U.S. shareholder's shares in a QEF is increased by amounts that are included in income, and decreased by amounts distributed but not taxed as dividends. In addition, if a U.S. holder makes a timely QEF election, our ordinary shares will not be considered shares in a PFIC in years in which we are not a PFIC, even if the U.S. holder had held ordinary shares in prior years in which we were a PFIC.

In order to comply with the requirements of a QEF election, a U.S. holder must receive certain information from us. The QEF election is made on a shareholder-by-shareholder basis and can be revoked only with the consent of the IRS. A shareholder makes a QEF election by attaching a completed IRS Form 8621, including the information provided in the PFIC annual information statement, to a timely filed U.S. federal income tax return and by filing a copy of the form with the IRS. There is no assurance that we will provide such information as the IRS may require in order to enable U.S. holders to make the QEF election. Moreover, there is no assurance that we will have timely knowledge of our status as a PFIC in the future. Even if a shareholder in a PFIC does not make a QEF election, if such shareholder is a U.S. holder, such shareholder must annually file with the shareholder's tax return and with the IRS a completed Form 8621.

If our ordinary shares are "regularly traded" on a "qualified exchange or other market," as provided in applicable Treasury Regulations, a U.S. holder of our shares may elect to mark the shares to market annually, recognizing as ordinary income or loss each year an amount equal to the difference between the shareholder's adjusted tax basis in such shares and their fair market value. Losses would be allowed only to the extent of net mark-to-market gain previously included by the U.S. holder under the election in previous taxable years. The adjusted tax basis of a U.S. holder's ordinary shares is increased by the amount included in gross income under the mark-to-market regime, or is decreased by the amount of the deduction allowed under the regime. As with the QEF election, a U.S. holder who makes a mark-to-market election would not be subject to the general excess distribution rules and the denial of basis step-up at death described above.

If we are a PFIC and, at any time, have a non-U.S. subsidiary that is classified as a PFIC, U.S. holders of our ordinary shares generally would be deemed to own, and also would be subject to the PFIC rules with respect to, their indirect ownership interests in that lower-tier PFIC. If we are a PFIC and a U.S. holder of our ordinary shares does not make a QEF election in respect of a lower-tier PFIC, the U.S. holder could incur liability for the deferred tax and interest charge described above if either (1) we receive a distribution from, or dispose of all or part of our interest in, the lower-tier PFIC or (2) the U.S. holder disposes of all or part of its ordinary shares. There is no assurance that any lower-tier PFIC will provide to a U.S. holder the information that may be required to make a QEF election with respect to the lower-tier PFIC. A mark-to-market election under the PFIC rules with respect to our ordinary shares would not apply to a lower-tier PFIC, and a U.S. holder would not be able to make such a mark-to-market election in respect of its indirect ownership interest in that lower-tier PFIC. Consequently, U.S. holders of our ordinary shares could be subject to the PFIC rules with respect to income of the lower-tier PFIC the value of which already had been taken into account indirectly via mark-to-market adjustments. Similarly, if a U.S. holder made a mark-to-market election under the PFIC rules in respect of our ordinary shares and made a QEF election in respect of a lower-tier PFIC, that U.S. holder could be subject to current taxation in respect of income from the lower-tier PFIC the value of which already had been taken into account indirectly via mark-to-market adjustments. U.S. holders are urged to consult their own tax advisors regarding the issues raised by lower-tier PFICs.

THE RULES DEALING WITH PFICS AND WITH THE QEF AND MARK-TO-MARKET ELECTIONS ARE VERY COMPLEX AND ARE AFFECTED BY VARIOUS FACTORS IN ADDITION TO THOSE DESCRIBED ABOVE, INCLUDING OUR OWNERSHIP OF ANY NON-U.S. SUBSIDIARIES. AS A RESULT, U.S. HOLDERS OF ORDINARY SHARES ARE STRONGLY ENCOURAGED TO CONSULT THEIR TAX ADVISORS ABOUT THE PFIC RULES IN CONNECTION WITH THEIR PURCHASING, HOLDING OR DISPOSING OF ORDINARY SHARES.

Backup Withholding and Information Reporting

In general, information reporting will apply to dividends in respect of our ordinary shares and the proceeds from the sale, exchange or redemption of our ordinary shares that are paid to a U.S. holder within the United States (and in certain cases, outside the United States), unless such holder is an exempt recipient. A backup withholding tax generally would apply to such payments if the U.S. holder fails to provide a taxpayer identification number or certification of other exempt status or, in the case of dividend payments, fails to report in full dividend and interest income.

Any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against a U.S. holder's U.S. federal income tax liability provided the required information is furnished to the Internal Revenue Service in a timely manner.

Under the Hiring Incentives to Restore Employment Act of 2010, individuals that own "specified foreign financial assets" with an aggregate value in excess of US$50,000 are required to file an information report with respect to such assets with their tax returns. "Specified foreign financial assets" include any financial accounts maintained by foreign financial institutions, as well as any of the following, but only if they are not held in accounts maintained by financial institutions: (i) stocks and securities issued by non-U.S. persons; (ii) financial instruments and contracts held for investment that have non-U.S. issuers or counterparties; and (iii) interests in foreign entities. U.S. holders that are individuals are urged to consult their tax advisors regarding the application of this legislation to their ownership of our ordinary shares.

Tax on Net Investment Income

For tax years beginning after December 31, 2012, certain U.S. holders that are individuals, estates or trusts whose income exceeds certain thresholds will be required to pay an additional 3.8% tax on "net investment income", which includes, among other things, dividends and net gain from the sale or other disposition of property (other than property held in a trade or business), which may include our ordinary shares. U.S. holders should consult their own tax advisors regarding the application of the tax on net investment income to their particular circumstances.

F. DIVIDENDS AND PAYING AGENTS

Not applicable.

G. STATEMENT BY EXPERTS

Not applicable.

H. DOCUMENTS ON DISPLAY

We are required to file reports and other information with the SEC under the Securities Exchange Act of 1934 (the "Exchange Act") and the regulations thereunder applicable to foreign private issuers. You may inspect and copy reports and other information filed by us with the SEC at the SEC's public reference facilities described below. Although as a foreign private issuer we are not required to file periodic information as frequently or as promptly as United States companies, we generally announce publicly our quarterly and year-end results promptly and furnish periodic information to the SEC under cover of Form 6-K. As a foreign private issuer, we are also exempt from the rules under the Exchange Act prescribing the furnishing and content of proxy statements and our officers, directors and principal shareholders are exempt from the reporting, short-swing profit and other rules and provisions under Section 16 of the Exchange Act.

You may review a copy of our filings with the SEC, including any exhibits and schedules, at the SEC's public reference facilities in 100 F Street N.E., Washington, D.C. 20549 and at offices of the Israel Securities Authority at 22 Kanfei Nesharim St., Jerusalem, Israel. You may also obtain copies of such materials by writing to the Public Reference Section of the SEC, 100 F Street, N.E., Washington, D.C. 20549, at prescribed rates. You may call the SEC at 1-800-SEC-0330 for further information on the public reference rooms. As a foreign private issuer we were only required to file through the SEC's EDGAR system as of November 2002. Our periodic filings are therefore available on the SEC's Website *www.sec.gov* from that date. You may read and copy any reports, statements or other information that we file with the SEC, through the SEC's EDGAR system available on the SEC's website and at the SEC facilities listed above. These SEC filings are also available to the public on the Israel Securities Authority's website at *www.isa.gov.il* and from commercial document retrieval services.

Any statement in this annual report about any of our contracts or other documents is not necessarily complete. If the contract or document is filed as an exhibit to this annual report, the contract or document is deemed to modify the description contained in this annual report. We urge you to review the exhibits themselves for a complete description of the contract or document.

I. SUBSIDIARY INFORMATION

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to a variety of risks, including changes in interest rates and foreign currency exchange risk and inflation.

Interest Rate Risk

As of December 31, 2013, we had $46.8 million in cash, cash equivalents and short-term bank deposits. We mostly invest our cash surplus in bank deposits. Since these investments typically carry fixed interest rate, financial income over the holding period is not sensitive to changes in interest rates. For more information, see Note 3 of our 2013 consolidated financial statements.

Foreign Currency Exchange Risk and Inflation

The cost of our Israel operations, as expressed in U.S. dollars, is influenced by the extent to which any increase in the rate of inflation in Israel is not offset (or is offset on a lagging basis) by a devaluation of the NIS in relation to the U.S. dollar. The inflation rate in Israel was 1.8%, 1.6%, and 2.2% in 2013, 2012 and 2011, respectively. The appreciation (devaluation) of the NIS against the U.S. dollar amounted to 7%, 2.3%, and (7.7%) in 2013, 2012 and 2011, respectively. For 2013 assuming a 10% appreciation of the NIS against the U.S. dollar, we would experience exchange rate losses of approximately $1.2 million, while assuming a 10% devaluation of the NIS against the U.S. dollar, we would experience an exchange rate gain of approximately $1 million. A significant portion of our expenditures is employee compensation-related. Salaries for Israel-based employees are paid in NIS and may be adjusted for changes in the Israeli consumer price index, or CPI, through salary increases or adjustments. These upward adjustments increase salary expenses in U.S. dollar terms. The devaluation/appreciation of the NIS against the U.S. dollar decreases/increases employee compensation expenditures as expressed in dollars proportionally. Some of our other NIS-based expenses are either currently adjusted to U.S. dollars or are adjusted to the CPI. Starting July 2011, following a board decision we maintain available NIS cash for between six to ten months of expected NIS expenditures (depending on the then existing exchange rates).

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

Material Modifications to the Rights of Security Holders

At a special meeting of shareholders held in September 2013, the Company's shareholders resolved to amend the Company's Articles. The amended Articles adopted incorporated non-substantive changes and clarifications to the then current Articles as well as a number of substantive changes. These consisted of the following:

(a) updating the insurance, indemnification and exemption provisions to reflect recent changes in Israeli law by allowing the Company to insure and indemnify directors and other Office Holders for certain legal fees and expenses and certain payments incurred or imposed in administrative proceedings, as well as allowing insurance, indemnification and release of the Company's directors and other Office Holders to the fullest extent permitted by law;

(b) allowing the Company to convene a general meeting of shareholders without sending notice to the shareholders but rather by publicizing the convening of general meetings in a manner reasonably determined by the Company;

(c) clarifying certain notice and publication procedures;

(d) clarifying that the board of directors has the authority (without the need to receive shareholder approval) to determine the remuneration of the Company's independent auditors, as commonly practiced by companies in Israel and in the United States;

(e) clarifying that all resolutions of shareholders, except with respect to those matters which require a special majority under the Companies Law, but including with respect to those matters which require a special majority under the Companies Law due only to the Company's status as a company that was incorporated prior to the effective date of the Companies Law, require a simple majority of the voting power present and voting at any general meeting of shareholders, as the Company has conducted itself to date;

(f) providing that certain related party transactions may be approved by committees of the board of directors if so authorized by the board of directors; and

(g) implementing certain other non-substantive changes to the Articles, including correcting certain linguistic inconsistencies and ambiguities.

This description does not purport to be complete and is qualified in its entirety by reference to the full text of the Articles.

Use of Proceeds

Not applicable.

ITEM 15. CONTROLS AND PROCEDURES

A. DISCLOSURE CONTROLS AND PROCEDURES

Our disclosure controls and procedures are designed to ensure that information required to be disclosed in the reports we are required to file are recorded, processed, summarized and reported on a timely basis. Under the supervision of our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) and 15d-15(e) promulgated under the Exchange Act. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this annual report.

B. MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management, with the involvement of our board of directors and Audit Committee, is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control system has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our consolidated financial statements for external purposes in accordance with generally accepted accounting principles.

Under the supervision of our Chief Executive Officer and Chief Financial Officer, our management conducted an evaluation of the effectiveness of our internal control over financial reporting, as such term is defined under Rules 13a-15(f) and 15d-15(f) promulgated under the Exchange Act. In making this assessment, our management used the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our internal control over financial reporting was effective as of the end of the period covered by this annual report.

Notwithstanding the foregoing, all internal control systems no matter how well designed have inherent limitations. Therefore, even those systems determined to be effective may not prevent or detect misstatements and can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Kost Forer Gabbay & Kasierer, a member of Ernst & Young Global, an independent registered public accounting firm in Israel, which has audited our financial statements for the year ended December 31, 2013 that are included in this annual report, has issued an attestation report on our internal control over financial reporting as of December 31, 2013.

C. ATTESTATION REPORT OF THE REGISTERED PUBLIC ACCOUNTING FIRM

The attestation report of Kost Forer Gabbay & Kasierer, a member of Ernst & Young Global, an independent registered public accounting firm in Israel, on internal control over financial reporting as of December 31, 2013 is provided on page F-3, as included under Item 18 of this annual report.

D. CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

Based on the evaluation conducted by our management, with the participation of our Chief Executive Officer and Chief Financial Officer, pursuant to Rules 13a-15(d) and 15d-15(d) promulgated under the Exchange Act, our management (including such officers) have concluded that, there were no changes in our internal control over financial reporting that occurred during the period covered by this annual report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 16. RESERVED

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our board of directors has determined that Mr. Arie Ovadia, who serves on the audit committee of our board of directors and who meets the "independence" definition under the NASDAQ Listing Rules, qualifies as an "audit committee financial expert" as defined in the instructions to this Item 16A of Form 20-F.

ITEM 16B. CODE OF ETHICS

We have adopted a Code of Conduct that applies to all of our employees, officers and directors as well as a Code of Ethics for Senior Financial Officers that applies to our chief executive officer, chief financial officer, director of finance, controller, assistant controller and subsidiaries' controllers.

The Code of Ethics and the Code of Conduct of Ethics for Senior Financial Officers are posted on our website, *www.cgen.com*.

Disclosure regarding any amendments to, or waivers from, provisions of the Code of Ethics for Senior Financial Officers will be included in a Form 6-K following the date of the amendment or waiver, unless website posting of such amendments or waivers is then permitted by the rules of the NASDAQ Listing Rules, in which case we will post it on our website. No such amendment was adopted, nor waiver provided, by us during the fiscal year ended December 31, 2012

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table presents the fees billed to us by our principal accountant for professional services rendered in the years ended December 31, 2013 and 2012:

	2013	2012
Audit Fees	$ 106,000	$ 104,000
Audit Related Fees	$ -	$ -
Tax Fees	$ 17,000	$ 15,000
All Other Fees	$ 10,000	$ 51,000
Total	**$ 133,000**	**$ 170,000**

"Audit Fees" are fees for professional services rendered by our principal accountant in connection with the integrated audit (including review of internal control over financial reporting) of our consolidated annual financial statements and review of our unaudited interim financial statements;

"Audit Related Fees" are fees for professional services rendered by our principal accountant in connection with the audit and other assignments.

"Tax Fees" are fees for services rendered by our principal accountant in connection with tax compliance tax advice and tax planning which in year 2013 and 2012 were consultancy relating to international tax aspect of the Bayer agreement, Annual Israeli tax reports, Approved Enterprise request submission, Foreign vendors withholding tax exempt request and consultancy relating to Israeli tax withholding assessment; and

"All Other Fees" are fees for other consulting services rendered by our principal accountant to us including consultancy and consents with respect to Forms F-3 filed with the SEC.

Policy on Audit Committee Pre-Approval of Audit and Non-Audit Services of Independent Auditors

The Audit Committee is responsible for the oversight of our independent auditors' scope of work. The Audit Committee pre-approves all audit and non-audit services provided by our independent auditors, Kost Forer Gabbay & Kasierer, a member of Ernst & Young Global. These services may include audit services, tax services and other consulting services, as described above. Our Audit Committee sets forth the basis for its pre-approval in detail, listing the particular services or categories of services which are pre-approved, and setting forth a specific budget for such services. Additional services may be pre-approved by the Audit Committee on an individual basis. Once services have been pre-approved, our independent auditor and management then report to the Audit Committee on a periodic basis regarding the extent of services actually provided in accordance with the applicable pre-approval, and regarding the fees for the services performed. Such fees for 2012, 2013 and the first quarter of 2014 were pre-approved by the Audit Committee in accordance with these procedures.

On April 22, 2013, our shareholders approved the engagement of Kost Forer Gabbay & Kasierer, a member of Ernst & Young Global, as our independent auditors for the fiscal year ended December 31, 2013 and until the next annual shareholder meeting. Such approval followed the pre-approval by our audit committee and board of directors of such engagement (in the case of the audit committee, as described above).

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Not Applicable.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

Not applicable.

ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT

Not applicable.

ITEM 16G. CORPORATE GOVERNANCE

The NASDAQ Listing Rules require companies with securities listed thereon to comply with its corporate governance standards. As a foreign private issuer, whose shares are listed on Nasdaq we are permitted to follow certain home country corporate governance practices instead of those followed by U.S. companies under The NASDAQ Listing Rules, including:

Independent Director Oversight of Nominations: Under Israeli law, there is no requirement to have an independent nominating committee or the independent directors of a company select (or recommend for selection) director nominees, as is required under NASDAQ Listing Rule 5605(e) for a U.S. domestic issuer. Our board of directors handles this process, as is permitted under our Articles and the Companies Law. We also need not adopt a formal board resolution or charter addressing the director nominations process and such related matters as may be required under the U.S. federal securities laws, as NASDAQ requires for a U.S. issuer.

Shareholder Approval: Pursuant to Israeli law, we seek shareholder approval for all corporate actions requiring such approval under the requirements of the Companies Law, which are different from the requirements for seeking shareholder approval under NASDAQ Listing Rule 5635. See "Item 10. Additional Information — B. Memorandum and Articles of Association — Conflict of interest" in this annual report for a description of the transactions requiring shareholder approval under the Companies Law.

Quorom at an Adjourned General Meeting of Shareholders: If a quorum is not present within half an hour from the time stated for an adjourned general meeting of shareholders of the Company, any shareholders present in person or by proxy at such meeting shall constitute a quorum, consistent with Israeli law. As such, the quorum requirements for an adjourned meeting are different from the NASDAQ requirement that an issuer listed on NASDAQ have a quorum requirement that in no case be less than 33 1/3% of the outstanding shares of the company's common voting stock.

ITEM 16H. MINE SAFETY DISCLOSURE

Not applicable.

PART III

ITEM 17. FINANCIAL STATEMENTS

See Item 18.

ITEM 18. FINANCIAL STATEMENTS

Our consolidated financial statements and related notes are included in this Annual Report beginning on page F-1.

ITEM 19. EXHIBITS

Index to Exhibits

Exhibit Number	Description
1.1	Articles of Association of Compugen, as amended (incorporated by reference to Exhibit 1.1 to Compugen's report on Form 6-K filed with the SEC on September 23, 2014 (File No. 000-30902)).
1.2	Memorandum of Association of Compugen, as registered on January 29, 1993 (incorporated by reference to Exhibit 1.2 to Compugen's annual report on Form 20-F for the year ended December 31, 2012, filed with the SEC on March 21, 2013 (File No. 000-30902)).
4.1	Funding Agreement entered into on December 29, 2010 between Compugen and Baize Investments (Israel) Ltd. (incorporated by reference to Exhibit 10.1 to Compugen's annual report on Form 20-F for the year ended December 31, 2010 filed with the SEC on March 21, 2011 (File No. 000-30902)).
4.2	Funding Agreement entered into on December 20, 2011 between Compugen and Baize Investments (Israel) Ltd. (incorporated by reference to Exhibit 1 to Compugen's Form 6-K filed with the SEC on December 22, 2011 (File No. 000-30902)).
4.2.1	Amendment, dated July 24, 2012, to the Funding Agreement entered into on December 20, 2011 between Compugen and Baize Investments (Israel) Ltd. (incorporated by reference to Exhibit 10.1 to Compugen's Form 6-K filed with the SEC on July 25, 2012 (File No. 000-30902)).
4.2.2	Amendment No. 2, dated December 27, 2012, to the Funding Agreement entered into on December 20, 2011 between Compugen and Baize Investments (Israel) Ltd. (incorporated by reference to Exhibit 10.1 to Compugen's Form 6-K filed with the SEC on December 27, 2012 (File No. 000-30902)).
4.2.3@	Amendment to Funding Agreement, dated April 21, 2013, between Compugen and Baize Investments (Israel) Ltd. (incorporated by reference to Exhibit 10.1 to Compugen's 6-K filed with the SEC on August 2, 2013 (File No. 000-30902)).
4.3	Unprotected Lease Agreement, dated April 21, 1998, by and between Ofer Miretsky (Shikun Dan) Ltd. and Compugen Ltd., as amended by addenda dated December 16, 2002, March 5, 2003, May 2004, August 31, 2005, April 23, 2006, August 2009, April 30, 2012 and May 14, 2012 (incorporated by reference to Exhibit 4.3 to Compugen's annual report on Form 20-F for the year ended December 31, 2012, filed with the SEC on March 21, 2013 (File No. 000-30902)).

4.4	Sublease, dated March 1, 2012, by and between Kalobios Pharmaceuticals, Inc. and Compugen USA, Inc. (incorporated by reference to Exhibit 4.4 to Compugen's annual report on Form 20-F for the year ended December 31, 2012, filed with the SEC on March 21, 2013 (File No. 000-30902)).
4.5	Compugen Ltd. Share Option Plan (2000) (incorporated by reference to Exhibit 10.17 to Compugen's Registration Statement on Form F-1 filed on August 2, 2000 (File No. 333-12316)).
4.6	Compugen Ltd. 2010 Share Incentive Plan (incorporated by reference to Exhibit 1.2 to Compugen's annual report on Form 20-F for the year ended December 31, 2012, filed with the SEC on March 21, 2013 (File No. 000-30902)).
4.7*@	Research and Development Collaboration and License Agreement, dated August 5, 2013, by and between Compugen Ltd. and BayerPharma AG.
4.8*	Lease, dated December 12, 2013, by and between Britannia Pointe Grand Limited Partnership and Compugen USA, Inc.
4.9	Form of Indemnification Undertaking and Exemption and Release between Compugen Ltd. and its directors and office holders (incorporated by reference to Exhibit C to Exhibit 99.3 to Compugen's 6-K filed with the SEC on August 2, 2013 (File No. 000-30902)).
8.1*	Subsidiaries.
12.1*	Certification by Principal Executive Officer pursuant to Rule 13a-14(a)/Rule 15d-14(a) under the Exchange Act and Section 302 of the Sarbanes-Oxley Act of 2002.
12.2*	Certification by Principal Financial and Accounting Officer pursuant to Rule 13a-14(a)/Rule 15d-14(a) under the Exchange Act and Section 302 of the Sarbanes-Oxley Act of 2002.
13.1*	Certification by Principal Executive Officer and Principal Financial and Accounting Officer pursuant to Rule 13a-14(b)/Rule 15d-14(b) under the Exchange Act and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
15.1*	Consent of Kost Forer Gabbay & Kasierer, a member of Ernst & Young Global.
101*#	The following financial information from Compugen Ltd.'s Annual Report on Form 20-F for the year ended December 31, 2013, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Statements of Operations for the years ended December 31, 2013, 2012 and 2011; (ii) Consolidated Balance Sheets at December 31, 2013 and 2012; (iii) Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2013, 2012 and 2011; (iv) Consolidated Statements of Cash Flows for the years ended December 31, 2013, 2012 and 2011; and (v) Notes to Consolidated Financial Statements.

* Filed herewith.

@ Confidential portions of this document have been filed separately with the SEC pursuant to a request for confidential treatment.

Users of this data are advised, in accordance with Rule 406T of Regulation S-T promulgated by the SEC, that this Interactive Data File is deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of Section 18 of the Exchange Act, and otherwise is not subject to liability under these sections.

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

COMPUGEN LTD.

By: /s/ Dr. Anat Cohen-Dayag
Name: Dr. Anat Cohen-Dayag
Title: President and Chief Executive Officer, Director

Date: February 18, 2014

COMPUGEN LTD. AND ITS SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2013

U.S. DOLLARS IN THOUSANDS

INDEX

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of

COMPUGEN LTD.

We have audited the accompanying consolidated balance sheets of Compugen Ltd. (the "Company") and its subsidiary as of December 31, 2013 and 2012, and the related consolidated statements of comprehensive loss, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2013. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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, the consolidated financial statements referred to above, present fairly, in all material respects, the consolidated financial position of the Company and its subsidiary as of December 31, 2013 and 2012, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 18, 2014 expressed an unqualified opinion thereon.

/s/ Kost Forer Gabbay & Kasierer
KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

Tel-Aviv, Israel
February 18, 2014

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Shareholders and Board of Directors of

COMPUGEN LTD.

We have audited Compugen Ltd.'s (the "Company") and its subsidiary internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO criteria"). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying management's report on internal control over financial reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company and its subsidiary maintained in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company and subsidiary as of December 31, 2013 and 2012, and the related consolidated statements of comprehensive loss, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2013 and our report dated February 18, 2014 expressed an unqualified opinion thereon.

/s/ Kost Forer Gabbay & Kasierer
KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

Tel-Aviv, Israel
February 18, 2014

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	Note	December 31, 2013	December 31, 2012
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	3	$ 28,751	$ 16,374
Restricted cash	8b	154	96
Short-term bank deposits		18,015	3,215
Investment in Evogene		4,565	5,196
Other accounts receivable and prepaid expenses	4, 8d	1,731	690
Total current assets		53,216	25,571
NON-CURRENT INVESTMENTS:			
Severance pay fund		2,129	1,728
Total non- current investments		2,129	1,728
NON-CURRENT PREPAID EXPENSES	8d	158	360
PROPERTY AND EQUIPMENT, NET	5	1,208	1,250
Total assets		$ 56,711	$ 28,909

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands (except share and per share data)

	Note	December 31, 2013	December 31, 2012
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Trade payables		$ 693	$ 443
Deferred revenue	2k	5,318	-
Other accounts payable and accrued expenses	6	1,728	941
Total current liabilities		7,739	1,384
NON- CURRENT LIABILITIES:			
Research and development funding arrangements and others	7	13,189	7,872
Deferred revenue	2k	1,454	-
Accrued severance pay		2,441	1,981
Total non-current liabilities		17,084	9,853
COMMITMENTS AND CONTINGENT LIABILITIES	8		
SHAREHOLDERS' EQUITY:	9		
Share capital:			
Ordinary shares of NIS 0.01 par value: 100,000,000 shares authorized at December 31, 2013 and 2012; 41,002,113 and 36,590,478 shares issued and outstanding at December 31, 2013 and 2012, respectively		111	99
Additional paid-in capital		235,351	206,325
Accumulated other comprehensive income		4,628	5,367
Accumulated deficit		(208,202)	(194,119)
Total shareholders' equity		31,888	17,672
Total liabilities and shareholders' equity		$ 56,711	$ 28,909

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

U.S. dollars in thousands (except share and per share data)

	Note	Year ended December 31, 2013	2012	2011
Revenue	12, 14	$ 3,549	$ 242	$ -
Cost of revenue		2,509	201	-
Gross profit		1,040	41	-
Operating expenses:				
Research and development expenses, net	7b, 8c	12,275	9,442	6,778
Marketing and business development expenses		962	684	610
General and administrative expenses		4,846	3,457	4,591
Total operating expenses		18,083	13,583	11,979
Operating loss		(17,043)	(13,542)	(11,979)
Financial income (loss), net	13	3,460	(86)	(25)
Loss before tax expenses		(13,583)	(13,628)	(12,004)
Income taxes	10g	(500)	-	-
Net loss		$ (14,083)	$ (13,628)	$ (12,004)
Unrealized gain (loss) arising during the period on Investment in Evogene		$ 2,972	$ 1,103	$ (1,902)
Realized gain (loss) arising during the period on Investment in Evogene		$ (3,711)	$ -	$ (239)
Total comprehensive loss		$ (14,822)	$ (12,525)	$ (14,145)
Basic net loss per share		$ (0.36)	$ (0.38)	$ (0.35)
Weighted average number of ordinary shares used in computing basic net loss per share		38,869,438	35,844,496	34,276,697
Diluted net loss per share		$ (0.36)	$ (0.38)	$ (0.35)
Weighted average number of ordinary shares used in computing diluted net loss per share		38,869,438	36,249,262	34,276,697

The accompanying notes are an integral part of the consolidated financial statements.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

U.S. dollars in thousands (except share data)

	Ordinary shares		Additional paid-in capital	Accumulated other comprehensive income	Accumulated deficit	Total shareholders' equity
	Number	Amount				
Balance as of January 1, 2011	33,915,545	$ 92	$ 190,275	$ 6,405	$ (168,487)	$ 28,285
Employee options exercised	792,077	2	2,039	-	-	2,041
Stock-based compensation relating to options and warrants issued to non-employees	-	-	457	-	-	457
Stock-based compensation relating to options issued to employees and directors	-	-	2,943	-	-	2,943
Other comprehensive loss	-	-	-	(2,141)	-	(2,141)
Net loss	-	-	-	-	(12,004)	(12,004)
Balance as of December 31, 2011	34,707,622	94	195,714	4,264	(180,491)	19,581
Employee options exercised	696,988	2	1,878	-	-	1,880
Issuance of shares	1,185,868	3	6,264	-	-	6,267
Stock-based compensation relating to options and warrants issued to non-employees	-	-	145	-	-	145
Stock-based compensation relating to options issued to employees and directors	-	-	2,324	-	-	2,324
Other comprehensive income	-	-	-	1,103	-	1,103
Net loss	-	-	-	-	(13,628)	(13,628)
Balance as of December 31, 2012	36,590,478	$ 99	$ 206,325	$ 5,367	$ (194,119)	$ 17,672
Employee options exercised	1,786,473	5	5,626	-	-	5,631
Issuance of shares	2,625,162	7	19,697	-	-	19,704
Stock-based compensation relating to options and warrants issued to non-employees	-	-	164	-	-	164
Stock-based compensation relating to options issued to employees and directors	-	-	3,379	-	-	3,379
Classification of liability with respect to outstanding options to non-employee to equity	-	-	160	-	-	160
Other comprehensive loss	-	-	-	(739)	-	(739)
Net loss	-	-	-	-	(14,083)	(14,083)
Balance as of December 31, 2013	41,002,113	$ 111	$ 235,351	$ 4,628	$ (208,202)	$ 31,888

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31,		
	2013	**2012**	**2011**
Cash flows from operating activities:			
Net loss	$ (14,083)	$ (13,628)	$ (12,004)
Adjustments required to reconcile net loss to net cash used in operating activities:			
Non-cash stock-based compensation	3,543	2,469	3,400
Depreciation	370	299	179
Severance pay, net	59	75	(7)
Gain from sale of Evogene shares	(3,711)	-	(239)
Change in fair value of exchange option and embedded derivatives within research and development funding arrangements	811	588	113
Amortization of the Research and Development Component within research and development funding arrangement	(230)	(130)	-
Change in the fair value of liability with respect to outstanding options to non-employee	(104)	(20)	-
Decrease (increase) in trade receivables and other accounts receivable and prepaid expenses	(1,105)	(112)	43
Decrease (increase) in long-term prepaid expenses	202	(301)	-
Increase (decrease) in trade payables and other accounts payable and accrued expenses	1,037	(86)	(734)
Increase in deferred revenue	6,772	-	-
Net cash used in operating activities	(6,439)	(10,846)	(9,249)
Cash flows from investing activities:			
Proceeds from maturity of short-term bank deposits	3,215	16,525	14,524
Investment in short-term bank deposits	(18,015)	(3,215)	(16,525)
Changes in restricted cash	(50)	-	592
Purchase of property and equipment	(328)	(1,005)	(96)
Decrease (increase) in long-term lease deposits	-	(42)	47
Proceeds from sale of investment in Evogene	3,603	-	232
Net cash provided by (used in) investing activities	(11,575)	12,263	(1,226)

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31,		
	2013	**2012**	**2011**
Cash flows from financing activities:			
Proceeds from issuance of ordinary shares, net	19,760	6,211	-
Proceeds from research and development funding arrangements	5,000	1,000	7,000
Proceeds from exercise of options	5,631	1,900	2,021
Net cash provided by financing activities	30,391	9,111	9,021
Increase (decrease) in cash and cash equivalents	12,377	10,528	(1,454)
Cash and cash equivalents at the beginning of the year	16,374	5,846	7,300
Cash and cash equivalents at the end of the year	$ 28,751	$ 16,374	$ 5,846
Supplemental disclosure of non-cash investing and financing activities:			
Receivables on account of shares	$ -	$ 56	$ 20
Purchase of property and equipment	$ -	$ 47	$ -
Cash paid (received) during the year for:			
Income taxes	$ 500	$ -	$ -
Interest payments from bank short-term deposits and cash equivalents	$ (112)	$ (297)	$ (351)

The accompanying notes are an integral part of the consolidated financial statements.

NOTE 1:- GENERAL

a. Compugen Ltd. (the "Company") is a drug discovery company utilizing a broadly applicable proprietary infrastructure for the in silico (by computer) prediction and selection of human focused on therapeutic product candidates, which are then advanced in its Pipeline Program. The initial fields of focus selected by us are monoclonal antibodies and therapeutic proteins to address major unmet needs in the fields of oncology and immunology. Beginning in late 2010, the Company established the Pipeline Program, consisting of targets and product candidates for applications in oncology and immunology, based largely on novel immune checkpoint regulator candidates discovered by the Company. The Company's business model includes entering into collaborations covering the further development and commercialization of product candidates at various stages from its Pipeline Program and various forms of research and discovery agreements, in both cases providing Compugen with potential milestone payments and royalties on product sales or other forms of revenue sharing.

The Company's headquarters are located in Israel, with research and development facilities in Israel and California through its wholly-owned U.S. subsidiary, Compugen USA, Inc. ("Compugen Inc.").

b. In March 2012, the Company renewed Compugen Inc. activity by establishing a new monoclonal antibody (mAb) research and development operation in South San Francisco, California for the development of oncology and immunology mAb drug candidates against the Company's identified targets.

c. Following a shelf registration on Form F-3 filed and declared effective in January 2011, the Company signed in August 2011 an agreement with an underwriter, to issue and sell up to 6,000,000 ordinary shares under an At-the-Market equity offering ("ATM") program with gross proceeds not to exceed $ 40,000. During the year ended December 31, 2013 and 2012 the Company had raised approximately $ 19,704 and $ 6,267, net of issuance expenses, under this program from the issuance of 2,625,162 and 1,185,868 of its Ordinary shares, respectively.

Subsequent to December 31, 2013 the Company has raised additional gross proceeds of $ 3,919 through the sale of 363,090 Ordinary shares under the ATM program. On January 21, 2014, the registration statement on Form F-3 under which the Company had been selling ordinary shares pursuant to the agreement with the underwriter terminated.

d. The Company established together with Merck KGaA ("Merck") and Merck Holdings Netherlands B.V. ("Merck Holdings") on June 25, 2012 ("Initial Date"), a start-up company, Neviah Genomics ("Neviah"), focused on the discovery and development of novel biomarkers for the prediction of drug-induced toxicity. According to the agreement with Merck and Merck Holdings, Neviah is expected to receive its initial funding from Merck Holdings in three installments subject to milestones as defined in the agreement. According to the agreement, concurrent with the establishment of Neviah, the Company licensed to Neviah biomarker candidates and in consideration received an equity ownership and a right for future royalties from potential successful commercialization of the product candidates.

NOTE 1:- GENERAL (Cont.)

Pursuant to the collaboration agreement between the parties, Neviah shall pay the Company royalties on net sales (as defined in the agreement) of a licensed product ("Licensed Product"), until the later of (a) the date on which such Licensed Product ceases to be covered by a claim in the country in which such Licensed Product is made and in the country in which such Licensed Product is sold; and (b) fifteen years following the date of the first commercial sale of such Licensed Product in such country.

In addition, Neviah will pay Compugen a certain amount of all sublicense income arising by Neviah from any Licensed Product.

Based on ASC 845, "Nonmonetary Transactions", ("ASC 845"), the Company has elected the carryover basis at the Initial Date of the biomarker candidates in consideration of a non-controlling ownership interest in Neviah.

The Company does not have control over Neviah, however the Company has significant influence over Neviah. Therefore, subject to ASC 323, "Investments-Equity Method and Joint Ventures", ("ASC 323"), the Company accounts for its investment in Neviah under the equity method. For the period since its establishment until December 31, 2013 Neviah has accumulated losses and because the Company has no commitment to fund Neviah's operation, no investment account was recorded in the Company's consolidated financial statements.

In addition, according to the agreement, the Company is providing research and development services to Neviah in consideration for a fee as defined in the agreement (see also Note 14).

e. In August 2004, the Company spun off its computational chemistry activity into a wholly-owned subsidiary, Keddem BioScience Ltd. ("Keddem") which was, until mid-2007, in the phase of validating its technology and building the extensive infrastructure required to implement it. In 2007, Keddem operations were terminated and it became a dormant entity.

On November 19, 2012 ("Effective Date"), the Company signed an agreement with a private U.S.-based investment company pursuant to which up to $ 15,000 in milestone related equity financing will be made available to Keddem. Under the agreement, the new investor will obtain a majority equity interest in Keddem, with the Company maintaining a minority interest and certain future preferential access rights to utilize the Keddem technology with the Company's discovered drug targets.

As of December 31, 2013 and based on initial investment of $ 3,000, the holding rights of the Company in Keddem's ordinary share were reduced to less than 50% interest.

As part of the above transaction, warrants have been granted to the Company to purchase from Keddem up to 83,333 ordinary shares of a nominal value of NIS 0.01 each, at an exercise price which might be adjusted subject to terms set forth in the warrant agreement, during the exercise period which expires on the ten-year anniversary of the Effective Date. As of December 31, 2013 the Company did not exercise any of the above warrants.

NOTE 1:- GENERAL (Cont.)

Based on ASC 845 the Company has elected the carryover basis for its investment in Keddem. Since the Company does not have control over Keddem, and subject to ASC 323, the Company accounts for its investment in Keddem under the equity method. For the period since Effective Date until December 31, 2013 Keddem has accumulated losses and because the Company has no commitment to fund Keddem's operation, no investment account was recorded in the Company's consolidated financial statements.

f. On August 5, 2013, the Company entered into a Research and Development Collaboration and License Agreement ("Agreement") with Bayer Pharma AG (“Bayer”) for the research, development, and commercialization of antibody-based therapeutics for antibody based therapeutics against two novel, Compugen-discovered immune checkpoint regulators.

Under the terms of the Agreement, the Company received an upfront payment of $ 10,000, and is eligible to receive an aggregate of over $ 500,000 in potential milestone payments for both programs, not including aggregate preclinical milestone payments of up to $ 30,000 during the research programs. Additionally, the Company is eligible to receive mid to high single digit royalties on global net sales of any approved products under the collaboration.

Under the Agreement, the Company and Bayer will jointly pursue a preclinical research program with respect to each of the two immune checkpoint regulators. A joint steering committee consisting of an equal number of representatives from each party will be responsible for overseeing and directing each such research program pursuant to agreed upon work-plans. Each party will be responsible for the costs and expenses incurred by it in performing its designated activities under the work-plans during the research programs. Following each such research program, Bayer will have full control over further clinical development of any cancer therapeutic product candidates targeting the Company-discovered immune checkpoint regulators and will have worldwide commercialization rights for any approved products.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States ("U.S. GAAP").

a. Use of estimates:

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

b. Financial statements in U.S. dollars:

The functional currency of the Company is the U.S. dollar, as the Company's management believes that the U.S. dollar is the primary currency of the economic environment in which the Company and Compugen Inc. have operated and expect to continue to operate in the foreseeable future. The majority of the Company's revenues and 2013 financing transactions were made outside Israel in U.S. dollars. The majority of the Company operations are currently conducted in Israel and most of the expenses in Israel are currently paid in new Israeli shekels ("NIS").

Transactions and balances denominated in U.S. dollars are presented at their original amounts. Monetary accounts denominated in currencies other than the dollar are re-measured into dollars in accordance with ASC No. 830, "Foreign Currency Matters". All transaction gains and losses of the re-measurement of monetary balance sheet items are reflected in the consolidated statement of loss as financial income or expenses, as appropriate.

c. Basis of consolidation:

The consolidated financial statements include the accounts of the Company and Compugen Inc. intercompany transactions and balances have been eliminated upon consolidation.

d. Cash and cash equivalents:

The Company and Compugen Inc. consider all highly liquid investments that are convertible to cash with original maturities of three months or less at their acquisition date as cash equivalents.

e. Restricted cash:

Restricted cash is an interest bearing saving account which is used as a security for the Company's Israeli facilities leasehold bank guarantee and credit card security for its U.S. subsidiary.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

f. Short-term bank deposits:

Bank deposits with maturities of more than three months but less than one year are included in short-term bank deposits. Such short-term bank deposits are stated at cost which approximates market values.

Bank deposits in U.S. dollars for the years ended December 31, 2013 and 2012 bear an annual average interest rate of 0.63% and 1.32%, respectively.

Bank deposits in NIS for the years ended December 31, 2013 and 2012 bear an annual average interest rate of 0% and 2.40%, respectively.

g. Marketable securities:

The Company accounts for its investment in Evogene in accordance with ASC No. 320, "Investments - Debt and Equity Securities".

Management determines the appropriate classification of its investments at the time of purchase and reevaluates such determinations at each balance sheet date.

The Company classifies its investment in Evogene as available-for-sale securities which are carried at fair value, with the unrealized gains and losses, net of tax, reported in "accumulated other comprehensive income (loss)" in shareholders' equity. Realized gains and losses on sale of investments are included in "financial income (loss), net" and are derived using the specific identification method for determining the cost of securities.

The Company recognizes an impairment charge when a decline in the fair value of its investments in debt securities is below the cost basis of such securities and is judged to be other-than-temporary. Factors considered in making such a determination include the duration and severity of the impairment, the reason for the decline in value, the potential recovery period and the Company's intent to sell, including whether it is more likely than not that the Company will be required to sell the investment before recovery of cost basis.

The Company periodically reviews its marketable securities for impairment. If the Company concludes that any of these investments are impaired, the Company determines whether such impairment is "other-than-temporary" as defined under ASC 320-10-35. On April 1, 2009, the Company adopted a new guidance, ASC 320-10-65-1, "Recognition and Presentation of Other-Than-Temporary Impairments", that changed the impairment and presentation model for debt securities. Under the amended impairment model, an other-than-temporary impairment loss is recognized in earnings if the entity has the intent to sell the debt security, or if it is more likely than not that it will be required to sell the debt security before recovery of its amortized cost basis. However, if an entity does not expect to sell a debt security, it still needs to evaluate expected cash flows to be received and determines if a credit loss exists. In the event of a credit loss, only the amount of impairment associated with the credit loss is recognized currently in earnings. During 2013, 2012 and 2011, no other-than-temporary impairment was recorded.

U.S. dollars in thousands (except share and per share data)

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

As of December 31, 2013, the Company holds 232,292 shares representing less than 1% of Evogene outstanding Ordinary shares.

h. Non-current prepaid expenses:

Non-current prepaid expenses consist of non-current lease deposits as security for the Compugen Inc.'s facility lease, motor vehicles leases and non-refundable payments for research and developments services (see also Note 8d).

i. Property and equipment, net:

Property and equipment are stated at cost, net of related investment grants and accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets at the following annual rates:

	%
Computers, software and related equipment	33
Laboratory equipment and office furniture	6 - 30 (mainly 30)
Leasehold improvements	shorter of the term of the lease or useful life

j. Impairment of long-lived assets:

The long-lived assets of the Company and Compugen Inc. are reviewed for impairment in accordance with ASC 360, "Property, Plant, and Equipment", whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset with the future undiscounted cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. During the years 2013, 2012 and 2011, no impairment losses have been identified.

k. Revenue recognition:

The Company generates revenue mainly from its Research and Development Collaboration and License Agreement.

The Company recognizes revenue in accordance with ASC 605-25, "Multiple-Element Arrangements" pursuant to which each required deliverable is evaluated to determine whether it qualifies as a separate unit of accounting based on whether the deliverable has “stand-alone value” to Bayer. The arrangement’s consideration that is fixed or determinable is then allocated to each separate unit of accounting based on the relative selling price of each deliverable which is not contingent based on its vendor specific objective evidence ("VSOE") if available, third party evidence ("TPE") if VSOE is not available, or estimated selling price ("ESP") if neither VSOE nor TPE is available.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Under the related Agreement as referred to under Note 1f, the Company considered the novel product candidates license and the related research and development services as single unit of accounting since the license has no value to Bayer on a stand-alone basis. As a consequence, an amount of $ 6,711 out of the Agreement non-refundable upfront payment has been deferred and is being recognized based on the proportionate performance of research and development services under the Agreement will be performed, in accordance with ASC 605-10, "Revenue Recognition" (See also Note 12).

Contingent payments related to milestones achievement and royalties will be recognized immediately upon the accomplishment of futures events, in accordance with ASC 605-28.

Furthermore, the Company also generated revenue from research and development services for another client. The related revenue is being recognized according to the proportional performance method (See also Note 15).

l. Research and development expenses, net:

Research and development expenses are charged to the statement of comprehensive loss as incurred.

Royalty and non-royalty bearing grants from the Office of the Chief Scientist of the Israel Ministry of Industry, Trade & Labor ("OCS") and the Bi-national Industrial Research ("BIRD") for funding approved research and development projects, are recognized at the time the Company is entitled to such grants, on the basis of the research and development expenses incurred. Such grants are presented as a reduction from research and development expenses in the consolidated statements of comprehensive loss.

The Research and Development component are recognized at the time the Company received the payments under research and development arrangement, which calculated as residual between the payments received and the embedded derivatives, are amortized over the period in which the development is being provided in connection with the relevant designated product candidates. Such component is deducted from research and development expenses in the consolidated statements of comprehensive loss (see also Note 7b).

m. Severance pay:

The Company's liability for severance pay for its Israeli employees is calculated pursuant to Israeli Severance Pay Law based on the most recent salary of the employees multiplied by the number of years of employment as of the balance sheet date , and is in large part covered by regular deposits with recognized pension funds, deposits with severance pay funds and purchases of insurance policies The value of these policies is recorded as an asset in the Company's balance sheet.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Pursuant to Section 14 of the Israeli Severance Pay Law, certain of the Company's liabilities for employee rights upon retirement are covered by regular contributions to defined contribution plans so that upon termination of employment of the relevant employees, the Company is only required to release the payments made by the Company to such funds on account of severance and by doing so are deemed to have complied with all of the Company's severance payment obligations relating to the service of applicable employees with respect to the period during which the provisions of such section apply.

Severance expenses for the years ended December 31, 2013, 2012 and 2011 amounted to approximately $ 294, $ 252 and $ 257, respectively.

n. Stock-based compensation:

The Company accounts for stock-based compensation in accordance with ASC 718, "Compensation - Stock Compensation", ("ASC 718"), which requires companies to estimate the fair value of equity-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as an expense over the requisite service periods in the Company's consolidated statement of comprehensive loss.

The Company recognizes compensation expenses for the value of its awards granted based on the straight-line method over the requisite service period of each of the awards, net of estimated forfeitures. ASC 718 requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Estimated forfeitures are based on actual historical pre-vesting forfeitures.

The Company selected the Black-Scholes-Merton ("Black-Scholes") option-pricing model (except as mentioned in Note 9f) as the most appropriate fair value method for the majority of its share-options awards and values share based on the market value of the underlying shares at the date of grant. The option-pricing model requires a number of assumptions, of which the most significant are the expected share price volatility and the expected option term. Expected volatility was calculated based on actual historical share price movements over a term that is equivalent to the expected term of granted options. The expected term of options granted is based on historical experience and represents the period of time that options granted are expected to be outstanding. The risk-free interest rate is based on the yield from U.S. treasury bonds with an equivalent term. The Company has historically not paid dividends and has no foreseeable plans to pay dividends.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Company applies ASC 505-50, "Equity-Based Payments to Non-Employees" ("ASC 505") with respect to options and warrants issued to non-employees which requires the use of option valuation models to measure the fair value of the options and warrants at the measurement date.

o. Concentration of credit risks:

Financial instruments that potentially subject the Company and Compugen Inc. to concentration of credit risk consist principally of cash and cash equivalents, short-term bank deposits, marketable securities and non-current lease deposits.

Cash and cash equivalents are invested in U.S. dollar deposits with major banks in Israel. Generally, these deposits may be redeemed upon demand and bear minimal risk. The Company has no significant off-balance-sheet concentration of credit risk such as foreign exchange contracts, option contracts or other foreign hedging arrangements.

p. Net loss per share:

Basic net loss per share is calculated based on the weighted average number of Ordinary shares outstanding during each year. Diluted net loss per share is calculated based on the weighted average number of Ordinary shares outstanding during each year, plus dilutive potential in accordance with ASC 260, "Earnings per Share."

All outstanding share options, warrants and shares under the exchange option under the second research and development funding arrangement, as amended (see also Note 8) have been excluded from the calculation of the diluted net loss per share because all such securities are anti-dilutive for all periods presented. As of December 31, 2013, 2012 and 2011 the total weighted average number of shares related to outstanding options excluded from the calculations of diluted net loss per share was 6,271,819, 6,170,554 and 5,722,251, respectively. The total weighted average number of shares related to warrants under the research and development funding arrangements excluded from the calculations of diluted net loss per share was 500,000 for the years ended December 31, 2013, 2012 and 2011. As of December 31, 2013 and 2012 the total weighted average number of shares related to the exchange option under the amended research and development funding arrangement excluded from the calculations of diluted net loss per share was 2,157,293, and 613,350, respectively.

q. Income taxes:

The Company accounts for income taxes in accordance with ASC No. 740, "Income Taxes", ("ASC 740") which prescribes the use of the liability method whereby deferred tax asset and liability account balances are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company provides a valuation allowance, if necessary, to reduce deferred tax assets to their estimated realizable value. As of December 31, 2013 and 2012, a full valuation allowance was provided by the Company.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

ASC 740 contains a two-step approach to recognizing and measuring a liability for uncertain tax positions. The first step is to evaluate the tax position taken or expected to be taken in a tax return by determining if the weight of available evidence indicates that it is more likely than not that, on an evaluation of the technical merits, the tax position will be sustained on audit, including resolution of any related appeals or litigation processes. The second step is to measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement. As of December 31, 2013 and 2012 no liability for unrecognized tax benefits was recorded as a result of ASC 740.

r. Fair value of financial instruments:

The Company applies ASC 820, "Fair Value Measurements and Disclosures" ("ASC 820"), pursuant to which fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date.

In determining fair value, the Company uses various valuation approaches. ASC 820 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The hierarchy is broken down into three levels based on the inputs as follows:

Level 1 - Valuations based on quoted prices in active markets for identical assets that the Company has the ability to access. Valuation adjustments and block discounts are not applied to Level 1 instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.

Level 2 - Valuations based on one or more quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The availability of observable inputs can vary from investment to investment and is affected by a wide variety of factors, including, for example, the type of investment, the liquidity of markets and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment and the investments are categorized as Level 3.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The carrying amounts of cash and cash equivalents, restricted cash, short-term bank deposits, other accounts receivable, trade payables, and other accounts payable and accrued payables approximate their fair values due to the short-term maturities of such instruments.

The Company measures its investment in Evogene, embedded derivatives with respect to research and development funding arrangements and the liability with respect to outstanding options to non-employee at fair value (see also Note 11).

s. Derivative instruments:

As of the balance sheet date, none of the Company's derivatives qualify for hedge accounting under ASC 815, "Derivatives and Hedging" ("ASC 815"). As a result all derivatives are recognized on the balance sheet at their fair value, with changes in the fair value carried to the statement of loss and included in financial income (loss), net.

In the year ended December 31, 2013 and 2012, the Company did not record net gain or loss from derivatives transactions compared with net gain in the year ended December 31, 2011 in the amount of $ 134.

t. Investment in affiliates:

The Company accounts for its investment in affiliated companies under the equity method in accordance with ASC 323, "Investments-Equity Method".For the purpose of these financial statements, an affiliated company is a company held to the extent of 20% or more, or a company less than 20% held, in which the Company can exercise significant influence over operating and financial policy of the affiliate.

u. Comprehensive income:

The Company accounts for comprehensive income in accordance with ASC topic 220, "Comprehensive Income". This statement establishes standards for the reporting and display of comprehensive income and its components in a full set of general purpose financial statements. Comprehensive income generally represents all changes in shareholders' equity during the period except those resulting from investments by, or distributions to, shareholders.

v. Reclassification:

Certain amounts in prior years consolidated balance sheets and consolidated statements of comprehensive loss have been reclassified to conform to the current year presentation. In 2011, the fair value of liability with respect to outstanding options to a non-employee related to Research and Development funding arrangement was presented as a current liability while in 2012 it was decided to reclassify it and present it as a non-current liability. In addition, in 2011, gain from sales of marketable securities was presented other income, net which was reclassified and presented as financial income (loss), net in the same year.

U.S. dollars in thousands (except share and per share data)

NOTE 3:- CASH AND CASH EQUIVALENTS

	December 31,	
	2013	2012
Bank deposits in U.S. dollars (bearing an annual average interest rate of 0.22% and 1.19% for 2013 and 2012, respectively)	$ 24,731	$ 9,091
Bank deposits in NIS (bearing an annual average interest rate of 1.32% and 2.19% for 2013 and 2012, respectively)	1,441	6,575
Cash in banks	2,579	708
	$ 28,751	$ 16,374

NOTE 4:- OTHER ACCOUNTS RECEIVABLE AND PREPAID EXPENSES

	December 31,	
	2013	2012
Prepaid expenses	492	516
Government authorities	1,172	60
Accrued interest	57	26
Other	10	88
	$ 1,731	$ 690

NOTE 5:- PROPERTY AND EQUIPMENT, NET

	December 31,	
	2013	2012
Cost:		
Computers, software and related equipment	$ 5,139	$ 5,023
Laboratory equipment and office furniture	4,219	4,032
Leasehold improvements	668	643
	10,026	9,698
Accumulated depreciation:		
Computers, software and related equipment	4,978	4,885
Laboratory equipment and office furniture	3,281	3,060
Leasehold improvements	559	503
	8,818	8,448
Depreciated cost	$ 1,208	$ 1,250

For the years ended December 31, 2013, 2012 and 2011, depreciation expenses were approximately $ 370, $ 299 and $ 179, respectively.

U.S. dollars in thousands (except share and per share data)

NOTE 6:- OTHER ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	December 31,	
	2013	2012
Employees and related accruals	$ 626	$ 442
Consultants and board of directors members	314	298
Accrual for OCS royalties payment	120	-
Accrued expenses	663	148
Other	5	53
	$ 1,728	$ 941

NOTE 7:- RESEARCH AND DEVELOPMENT FUNDING ARRANGEMENTS AND OTHERS

The following table summarizes the balances recorded on the Company's financial statements with respect to the research and development funding arrangements:

	December 31,	
	2013	2012
Embedded Derivatives (a) (b)	$ 12,431	$ 6,864
mAb Participation Interest (b)	758	744
Liability with respect to outstanding options to non-employee (c)	-	264
	$ 13,189	$ 7,872

a. On December 29, 2010 (the "Issuance Date") the Company signed a funding arrangement (the “Pipeline Funding Arrangement”) with an investor in partial support of its research and development activities with respect to novel therapeutic product candidates. According to the Pipeline Funding Arrangement the Company received $ 5,000 in consideration of:

(1) Warrants to purchase 500,000 Ordinary shares at a fixed exercise price of $ 6.00 per share until June 30, 2013 ("Detachable Warrants") and,

(2) An entitlement to receive a portion of future income received by Compugen related to possible commercialization and post-marketing fees related to certain designated product candidates ("Participation Rights").

(3) An option to exchange its Participation Rights for a fixed amount of 833,334 Ordinary shares at any time through June 30, 2013 (the "Conversion Alternative").

NOTE 7:- RESEARCH AND DEVELOPMENT FUNDING ARRANGEMENTS AND OTHERS (Cont.)

As of the Issuance Date, all of the five designated product candidates were pursued in the Company's validation pipeline. Furthermore, the Company had an obligation to continue the research and developments activities on a best effort basis and to issue to the investor an "Annual Report" containing a summary report for each such designated product candidate, providing general information with respect to what research was conducted by Compugen since the Issuance Date or the prior Annual Report (as applicable).

In accordance with ASC 730-20, "Research and Development Arrangements" and ASC 815, "Derivative and Hedging" the Company considered the Participation Rights as well as the New Arrangement Rights of the instrument issued to be a research and development arrangement ("Research and Development Component") coupled with embedded derivatives (that are the Conversion Alternative and the New Arrangement Rights) as those instruments do not have fixed settlement provisions.

Consequently, the Company determined that the embedded derivatives in the Research and Development Component should be accounted for as a liability to be measured at fair value at inception. The embedded derivatives will be re-measured to fair value at each reporting period until their exercise or expiration with the change in such calculated value reported in the statement of operations (as part of financial income or expenses). As a result, the fair value of those embedded derivatives would be bifurcated out of the amount to be allocated to the Research and Development Component.

The Company has further determined that the Detachable Warrants should be accounted for and classified as an equity component since the warrants have fixed settlement provisions as stated above.

As per the above, at the issuance date the consideration of $ 5,000 was allocated as determined by the Company assisted by the work of a third party valuator:

(1) An amount of $ 999 was allocated to the equity component net of $ 61 issuance expenses.

(2) An amount of $ 3,940 was allocated to the Research and Development Component and it was entirely assigned to the Participation Rights and the Conversion Alternative measured at fair value. Issuance expenses that were allocated to this component, amounted to $ 228, were expensed immediately and are included as part of financial expenses in the consolidated statements of operations.

NOTE 7:- RESEARCH AND DEVELOPMENT FUNDING ARRANGEMENTS AND OTHERS (Cont.)

b. On December 20, 2011 (the "Effective Date"), the Company entered into an additional funding arrangement ("mAb Funding Arrangement and, together with the Pipeline Funding Arrangement, the "Funding Arrangements") with the same investor, pursuant to which the Company was to receive a total of $ 8,000 (the "Funding Amount") in order to fund certain research and development activities preformed on a best effort basis, in consideration for an entitlement to receive a portion of future income derived from certain monoclonal antibody ("mAb") product candidates ("Products") that are successfully commercialized or are licensed out as defined in the agreement ("mAb Participation Interest").

According to the mAb Funding Arrangement the Funding Amount should have been paid in three installments, $ 2,000 was paid on December 21, 2011. The investor was committed to invest additional $ 3,000 on or before June 30, 2012 and additional $ 3,000 on or before September 30, 2012.

Pursuant to the mAb Funding Arrangement, in the event the remaining funds are not transferred, the Company had the right to exchange the relative Funding Amount for Company's Ordinary Shares, at the price of $ 6.00 per share (the "Company Option"), and the Company would then have no obligations towards the investor under the mAb Funding Arrangement.

The mAb Participation Interest from the Products, was calculated on a sliding scale mainly as fraction of the Funding Amount, relative to total amount invested both by the investor and the Company in the Products, provided that the investor will be entitled to no less than ten percent of such future payments related to any qualifying Products. The investor had the right, during the first quarter of 2014, to waive its rights to the mAb Participation Interest in exchange for a fixed amount of 1,455,000 Ordinary shares (the "Exchange Option").

On July 24, 2012 the Company entered into an amendment ("First Amendment") to the mAb Funding Agreement, pursuant to which the number of specified Compugen-identified targets in the field of oncology against which mAb product candidates that are subject to the mAb Participation Interest was reduced from twelve to eight, and the payment dates for the $ 6,000 of the Funding Amount remaining to be paid were amended such that $ 1,000 was to be paid on or before July 31, 2012 and $ 5,000 was to be paid on or before December 31, 2012. $ 1,000 was paid on July 27, 2012.

On December 27, 2012, the Company entered into a second amendment ("Second Amendment") to the mAb Funding Arrangement, pursuant to which:

(1) The number of specified Compugen-identified targets in the field of oncology against which mAb product candidates that are subject to the mAb Participation Interest was reduced from eight to six. However, according to this Amendment, in the event the investor increases its funding in the Company's research and development activities to an aggregate of $ 10,500 the number of targets that are subject to the mAb Participation Interest will revert to eight.

NOTE 7:- RESEARCH AND DEVELOPMENT FUNDING ARRANGEMENTS AND OTHERS (Cont.)

(2) The term for the remaining payment of between $ 5,000 and $ 7,500 has been revised and this amount is due to be paid no later than April 30, 2013.

(3) The Exchange Option was postponed to the first quarter of 2015. In addition, the exchange shares amount has been modified and will now be determined by dividing the funding amount that was paid by the investor and the average closing price of the Company's Ordinary shares during twenty trading days prior the actual exchange date as described in the Second Amendment.

On April 19, 2013, the Company received from the research and development funding arrangements investor the remaining final funding amount of $ 5,000 under the mAb Funding Arrangement. In connection with the payment of the final $ 5,000 payment under the mAb Funding Arrangement, as amended the Company entered into an amendment ("Third Amendment") to the Funding Arrangements, pursuant to which the following terms would apply to all investments under the Funding Arrangement as amended:

(1) The mAb Funding Arrangement was terminated.

(2) Until June 30, 2015, the investor has the right to receive 10% of the Research and Development Component received by the Company or its affiliates from third parties, less certain pass-through amounts, with respect to certain designated product candidates (the “Amended Participation Rights”).

(3) The term of the Conversion Alternative under the Pipeline Funding Arrangement has been extended to June 30, 2015 and the exchange shares amount will be determined based on the aggregate funding amount of $ 13,000 paid by the investor in connection to the Funding Arrangements, less 50% of any Amended Participation Rights paid to the investor by Compugen, divided by the average closing price of the Company's Ordinary shares during twenty (20) trading days prior the actual exchange date provided however that the exchange price shall not be lower than $ 3.00 per share, and shall not exceed $ 12.00 per share.

(4) The warrants granted to the investor under the Pipeline Funding Arrangements to purchase up to 500,000 of the Company’s Ordinary shares has been replaced with a new warrant to purchase up to 500,000 of the Company’s Ordinary shares, exercisable at $ 7.50 per share through June 30, 2015.

In accordance with ASC 730-20, "Research and Development Arrangements" and ASC 815, "Derivative and Hedging" the Company considered the mAb Participation Interest to be a research and development arrangement ("Research and Development Component") coupled with embedded derivatives (the Exchange Option and the Company Option) as those instruments do not have fixed settlement provisions. Consequently, the Company determined that the embedded derivatives in the Research and Development Component should be accounted for as a liability to be measured at fair value at inception. The embedded derivatives are being re-measured to fair value at each reporting period until their exercise or expiration with the change in such calculated value reported in the statement of operations (as part of financial income or expenses).

NOTE 7:- RESEARCH AND DEVELOPMENT FUNDING ARRANGEMENTS AND OTHERS (Cont.)

The Research and Development component was calculated as residual between the payments received and the embedded derivatives (as mentioned below), recorded at cost and has been amortized over the period in which the development is being provided in connection with the relevant designated product candidates as deduction from research and development expenses in the consolidated statements of comprehensive loss. As of December 31, 2013 and 2012 the Research and Development Component amounted of $ 758 and $ 744. During the years ended December 31, 2013 and 2012 the Company has amortized of the Research and Development Component within research and development funding arrangement amounted of $ 230 and $ 130, respectively.

As a result, the fair value of those embedded derivatives would be bifurcated out of the amount to be allocated to the Research and Development Component.

In measuring the fair value the Company considered the various amendments in the terms of the embedded derivatives.

As per the above, the first payment in 2011 of $ 2,000 was allocated as determined by the Company assisted by the work of a third party valuator:

- An amount of $ 443 was allocated as Research and Development Component to liability component.
- An amount of $ 1,557 was allocated to the Research and Development Component and it was entirely assigned to the mAb Participation Interest and the Exchange Option measured at fair value. Issuance expenses that were allocated to this component, amounted to $ 463, were expensed immediately and are included as part of financial expenses in the consolidated statements of operations.

The second payment in 2012 of $ 1,000 was allocated as determined by the Company assisted by the work of a third party valuator:

- An amount of $ 431 was allocated as Research and Development Component to liability component.
- An amount of $ 569 was allocated to the Research and Development Component and it was entirely assigned to the mAb Participation Interest and the Exchange Option measured at fair value. No additional Issuance expenses were allocated to this component.

The third payment in 2013 of $ 5,000 was allocated as determined by the Company assisted by the work of a third party valuator:

- An amount of $ 244 was allocated as Research and Development Component to liability component.

U.S. dollars in thousands (except share and per share data)

NOTE 7:- RESEARCH AND DEVELOPMENT FUNDING ARRANGEMENTS AND OTHERS (Cont.)

- An amount of $ 4,756 was allocated to the Research and Development Component and it was entirely assigned to the mAb Participation Interest and the Exchange Option measured at fair value. No additional issuance expenses were allocated to this component.

As of December 31, 2013, the Company re-measured the embedded derivatives in the Research and Development Component and recorded an accumulated $ 811 as financial expenses in the consolidated statements of comprehensive loss.

Following the First, Second and Third Amendments, as of December 31, 2013 and 2012, the Company selected the Monte Carlo Simulation model as the methodology for determining the fair value for the embedded derivatives.

These option-pricing models require a number of assumptions, of which the most significant are the expected share price volatility and the expected term.

In estimating the Participation Rights' fair value, the Company used the following assumptions:

	Year ended December 31, 2013	Year ended December 31, 2012	
	Amended Funding Arrangement	mAb Funding Arrangement	Pipeline Funding Arrangement
Risk-free interest rate (1)	0.25%	0.28%	0.11%
Expected volatility (2)	55.65%	47.46%	48.02%
Expected life (in years) (3)	1.5	2.25	0.5
Expected dividend yield (4)	0	0	0

(1) Risk-free interest rate - based on the yields from U.S. treasury bonds with different periods to maturity (according to different projection periods).

(2) Expected volatility - was calculated based on actual historical share price movements of the Company over a term that is equivalent to the expected term of the option.

(3) Expected life - the expected life of the conversion feature was based on the term of the derivative.

(4) Expected dividend yield - was based on the fact that the Company has not paid dividends to Ordinary shareholders in the past and does not expect to pay dividends to Ordinary shareholders.

U.S. dollars in thousands (except share and per share data)

NOTE 7:- RESEARCH AND DEVELOPMENT FUNDING ARRANGEMENTS AND OTHERS (Cont.)

c. As part of issuance expenses the Company granted, and committed to grant upon execution of the remaining payments by the investor, up to 100,000 options to an agent and cash payment of $ 80. As of December 31, 2011, the Company recorded $ 453 as finance expenses, net related to these awards, based on its fair value, $ 284 out of which were classified as part of research and development funding arrangements and others account. Based on ASC 505, the Company re-measured the options which are classified as liability and recorded $ 104 and $ 20 as financial income in the consolidated statements of comprehensive loss during the year ended December 31, 2013 and 2012 (See also Note 13), respectively.

Subject to the final $ 5,000 payment under the mAb Funding Arrangement the liability related to the options of non-employee amounted of $ 160 was classified to equity.

In April 2013, following receipt of the final funding amount of $ 5,000 under the mAb Funding Arrangement and grant of the remaining options to an agent, the remaining re-measured outstanding liability was classified to the Company's additional-paid-in-capital (See also Note 11).

NOTE 8:- COMMITMENTS AND CONTINGENCIES

a. The Company and Compugen Inc. lease their facilities and motor vehicles under various operating lease agreements that expire on various dates.

Annual minimum future rental commitments under non-cancelable operating leases are approximately as follows:

December 31,	
2014	$ 856
2015	945
2016	569
2017	531
2018	269
	$ 3,170

Operating lease expenses for the Company and Compugen Inc. were approximately $ 637, $ 551 and $ 383 in the years ended December 31, 2013, 2012 and 2011, respectively.

b. The Company provided bank guarantees in the amount of $ 154 in favor of its offices' lessor in Israel and credit card security for its U.S. subsidiary and check deposit in the amount of $ 40 in favor of its offices' lessor in California, U.S.

NOTE 8:- COMMITMENTS AND CONTINGENCIES

c. Under the OCS royalty-bearing programs, the Company is not obligated to repay any amounts received from the OCS if it does not generate any income from the results of the funded research program. If income is generated from a funded research program, the Company is committed to pay royalties at a rate of between 3% to 5% of future revenue arising from such research programs, and up to a maximum of 100% of the amount received, linked to the U.S. dollar (for grants received under programs approved subsequent to January 1, 1999, the maximum to be repaid is 100% plus interest at LIBOR). For the year ended December 31, 2013, the Company has an aggregate of paid and accrued royalties to the OCS recorded as cost of revenue in the consolidated statement of comprehensive loss in the amount of $ 120. For the years ended December 31, 2012 and 2011 the Company incurred no obligation to pay or accrue any amounts to the OCS.

As of December 31, 2013, the Company's aggregate contingent obligations for payments to OCS, based on royalty-bearing participation received or accrued, net of royalties paid or accrued, totaled approximately to $ 8,765.

Under the BIRD plan, the Company is not obligated to repay any amounts previously received from BIRD if it does not generate any income from the outcome of the funded research program. As of December 31, 2013 the Company received proceeds under BIRD plan in total aggregate amount of approximately $ 500. As of December 31, 2013 and 2012 the Company does not expect any income to be generated from the outcome of the funded research BIRD plan and as such no correlated contingent obligation was recorded (see also Note 2l).

d. On June 25, 2012 the Company and Compugen Inc. added to its mAb enabling technology base by entering into an Antibodies Discovery Collaboration Agreement (the "Agreement") with a U.S. antibody technology company ("mAb Technology Company"), providing an established source for fully human mAbs. The agreement includes time based research and commercial licenses to use specific mAb Technology Company proprietary collections of polynucleotides encoding antibodies, and their associated biological materials, together with the systems and/or licensed know how and/or to practice patent rights to identify, isolate, and modify discovery Fabs (the "Technology"), and to develop and exploit discovery products. According to the Agreement (i) the Company paid $ 600 in consideration for a three-year access right to the Technology, of which $ 400 was recorded as long-term prepaid expenses and is being charged to the statement of comprehensive loss over three years, (ii) $ 150 in consideration for the associated biological materials which was recorded as other accounts receivables and prepaid expenses and will be charged to the statement of comprehensive loss in accordance with actual use of materials during each measured period and (iii) in the event any Compugen mAb programs utilize the Technology, the Company would pay additional fees upon the occurrence of certain development and commercialization milestone up to a maximum cumulative total of $ 3,250 for each antibody drug product that achieved all such milestone events. In addition, the mAb Technology Company will be entitled to certain royalties that could be eliminated, upon payment of certain one-time fees (all payments referred together as "Contingent Fees"). As of December 31, 2013 and 2012 the Company did not incur any obligation for such Contingent Fees.

NOTE 8:- COMMITMENTS AND CONTINGENCIES (Cont.)

During the year ended December 31, 2012, the Company replenished additional associated biological materials to support the research and development activities performed under the Agreement in the amount of $ 100, which was recorded as other accounts receivables and prepaid expenses. During the year ended December 31, 2013 the Company did not purchase additional biological materials to support research and development activities under the Agreement.

During the year ended December 31, 2013 and 2012, the Company charged research and development expenses to the statement of comprehensive loss in the amount of $ 294 and $ 109 related to the Agreement, respectively.

e. As mentioned in Note 7 as of December 31, 2013 under the Third Amendment the investor is entitled to receive Amended Participation Rights, under the Pipeline Funding Arrangement. For the year ended December 31, 2013, the Company has an aggregate of paid and accrued payments under these arrangements recorded as cost of revenue in the consolidated statement of comprehensive loss in the amount of $ 616.

f. In May 2012 the Company entered into agreement with a U.S. Business Development Strategic Advisor (“Advisor”) for the purpose of entering into transactions with Pharma companies related to selected Pipeline Program Candidates. Under the agreement the Advisor shall be entitled for certain payments from cash considerations that may be received under such transactions.

For the year ended December 31, 2013 and 2012, the Company has an aggregate of paid and accrued payments under this agreement recorded as marketing and business development expenses in the consolidated statement of comprehensive loss in the amount of $ 267 and $ 0, respectively.

g. On September 29, 2013, the Company's Board of Directors resolved to recommend before the shareholders to approve the grant of bonus payments totaling approximately $175 to the chairman of the Board of Directors and the Chief Executive Officer ("CEO"). Since such bonus payments remain subject to shareholders' approval, which is expected to take place after the filing date, they were not accounted for during 2013.

NOTE 9:- SHAREHOLDERS' EQUITY

a. Ordinary shares:

The ordinary shares confer upon their holders the right to attend and vote at general meetings of the shareholders . Subject to the rights of holders of shares with limited or preferred rights which may be issued in the future, the ordinary shares of the Company confer upon the holders thereof equal rights to receive dividends, and to participate in the distribution of the assets of the Company upon its winding-up, in proportion to the amount paid up or credited as paid up on account of the nominal value of the shares held by them respectively and in respect of which such dividends are being paid or such distribution is being made, without regard to any premium paid in excess of the nominal value, if any.

b. Share option plans:

In March 2000, the Company adopted the Compugen Ltd. Share Option Plan (2000) (the "2000 Options Plan"), which provides for the grant of options to purchase up to 1,500,000 ordinary shares to employees and non-employees of the Company and its subsidiaries.

The number of shares authorized for issuance under the 2000 Options Plan automatically increased each January 1 by the lesser of 1,500,000 or 4% of the total number of the Company's then outstanding shares or such lower amount as shall be determined by the Board. On July 25, 2010, the Board resolved to cease making grants under the 2000 Options Plan.

U.S. dollars in thousands (except share and per share data)

NOTE 9:- SHAREHOLDERS' EQUITY (Cont.)

In July 2010, the Company adopted the Compugen Ltd. 2010 Share Incentive Plan (the "2010 Options Plan"), and determined to cease making grants under the 2000 Option Plan. In addition, the board of directors and shareholders resolved that the options available for grants under the 2000 Option Plan, at such time, as well as any options that may return to such pool in connection with terminated options, will be made available for future grants under the 2010 Plan. Up to 1,953,851 shares were initially reserved for grant, under the 2010 Options Plan . In keeping with the Company's resolution any shares subject to options granted under the 2000 Option Plan prior to the adoption of the 2010 Plan which terminate unexercised, will also be made available for future grants under the 2010 Plan. On August 6, 2012 the Company adopted certain amendments to the 2010 Plan which, among other things, provided for additional types of awards, namely restricted share and restricted share unit awards.

In general, options granted under the 2000 Options Plan and the 2010 Options Plan vest over a four-year period and expire 10 years from the date of grant and are granted at an exercise price of not less than the fair market value of the Company's ordinary shares on the date of grant, unless otherwise determined by the board of directors. The exercise price of the options granted under the plans may not be less than the nominal value of the shares into which such options are exercised and the expiration date may not be later than 10 years from the date of grant. If a grantee leaves his or her employment or other relationship with the Company, or if his or her relationship with the Company is terminated without cause (and other than by reason of death or disability, as defined in the 2010 Plan), the term of his or her unexercised options will generally expire in 90 days, unless determined otherwise by the Company's board of directors.

Any options that are cancelled or forfeited before expiration become available for future grants. Under the 2010 Options Plan, there were 1,828,885 options to purchase shares available for future grant as of December 31, 2013.

Transactions related to the grant of options to employees, directors and non-employees under the above plans during the year ended December 31, 2013, were as follows:

	Number of options	Weighted average exercise price	Weighted average remaining contractual life	Intrinsic value
		$	Years	$
Options outstanding at beginning of year	6,589,215	3.34	6.63	10,958,989
Options granted	1,335,200	5.54		4,569,139
Options exercised	(1,786,473)	3.15		8,843,331
Options expired	(16,076)	4.21		76,131
Options forfeited	(76,713)	4.71		325,257
Options outstanding at end of year	6,045,153	3.86	6.83	30,789,923
Options vested and expected to vest at end of year	5,863,150	3.84	6.78	29,989,767
Exercisable at end of year	3,010,708	3.12	5.13	17,544,083

Weighted average fair value of options granted during the years 2013, 2012 and 2011 was $ 3.79, $ 2.72 and $ 2.33 per share, respectively.

U.S. dollars in thousands (except share and per share data)

NOTE 9:- SHAREHOLDERS' EQUITY (Cont.)

The aggregate intrinsic value in the table above represents the total intrinsic value (the difference between the Company's closing share price on the last trading day of fiscal 2013 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on December 31, 2013. This amount is impacted by the changes in the fair market value of the Company's shares.

As of December 31, 2013, the total unrecognized estimated compensation cost related to non-vested share options granted prior to that date was $ 6,303 which is expected to be recognized over a weighted average period of approximately 2.49 years.

The Company used the following weighted-average assumptions for granted options:

	Year ended December 31,		
	2013	2012	2011
Volatility	67%	82%	83%
Risk-free interest rate	1.20%	0.69%	1.49%
Dividend yield	0%	0%	0%
Expected life (years)	4.2	4.5	4.7

The stock-based compensation expenses are included as follows in the expense categories:

	Year ended December 31,		
	2013	2012	2011
Cost of revenue	$ 320	$ 59	$ -
Research and development expenses, net	1,724	1,239	1,003
Marketing and business development expenses	151	192	178
General and administrative expenses	1,348	979	2,219
	$ 3,543	$ 2,469	$ 3,400

U.S. dollars in thousands (except share and per share data)

NOTE 9:- SHAREHOLDERS' EQUITY (Cont.)

c. Options to non-employees:

	Year ended December 31, 2013		
	Number of options	Weighted average exercise price	Weighted average remaining contractual life
		$	Years
Options outstanding at beginning of year	321,500	4.71	3.52
Options granted	135,000	5.75	
Options exercised	(40,000)	2.80	
Options expired	-	-	
Options outstanding at end of year	416,500	5.23	3.60
Options vested and expected to vest at end of year	416,500	5.23	3.60
Exercisable at end of year	392,343	5.14	3.47

The options are re-measured using a Black-Scholes option-pricing model at their then-current fair value at the last date of each reporting period and compensation cost is adjusted for the changes for those fair values. The Company recognized the compensation cost using the straight-line method.

The Company used the following weighted-average assumptions for general options:

	Year ended December 31,		
	2013	2012	2011
Volatility	67%	75%	78%
Risk-free interest rate	1.03%	0.66%	2.56%
Dividend yield	0%	0%	0%
Expected life (years)	4.5	4.3	6.0

As for compensation expenses, see also Note 9b.

NOTE 9:- SHAREHOLDERS' EQUITY (Cont.)

d. On May 12, 2011, the shareholders approved a new grant to the former CEO and a former director on the Company's board of directors of a fully vested option to purchase 380,000 shares, exercisable until the earlier to occur of: (i) 180 days after the former CEO and current board member terminates his service as board member for any reason (ii) the date when the options expire had he remained CEO (i.e. after April 19, 2015). The total compensation cost related to this new grant was $ 1,264 and recorded in the year ended December 31, 2011. As of December 31, 2013, the Company fully recognized those compensation costs.

e. On December 12, 2011, the Board approved to extend the exercise period of options vested as of December 15, 2010, which were previously granted to the Company's CEO, until October 24, 2016. The Company accounted for the extension of options' terms pursuant to ASC 718 as a modification. Accordingly, additional compensation was calculated by the Company as the fair value of the modified award in excess of the fair value of the original award measured immediately before its terms have been modified based on current circumstances. The total incremental compensation cost related to this modification was $ 61 and recorded in the year ended December 31, 2011. As of December 31, 2013, the Company fully recognized those compensation costs.

f. On July 15, 2013, the Board resolved to recommend before the shareholders to grant to its Chairman of the Board and its CEO options to purchase 60,000 and 120,000 shares, respectively, at an exercise price of $ 5.445 per share, which was the market share price at such date.

On September 17, 2013 the shareholders of the Company approved this grant. The options shall vest on a monthly basis over a period of 12 months commencing January 1, 2016.

The pricing model for the award was estimated using a Binomial model with the following assumptions: risk-free interest rate of 2.96%, dividend yields of 0%, expected volatility of 70%, expected term of the options range between 3.78 – 5.46 years, post-vesting termination rate of 0.51% and suboptimal exercise factor range between 1 -2.11 factoring rate.

Consequently, during the year ended December 31, 2013 the Company recorded stock-based compensation expenses amounted of $ 108 as part of its general and administrative expenses.

NOTE 10:- INCOME TAXES

a. Tax rates applicable to the income of the Company:

1. Taxable income of the Company is subject to the Israeli corporate at the tax rate as follows: 2011 - 24%, 2012 - 25% and 2013 – 25%.

2. On July 29, 2013, the Israeli Parliament (the Knesset) approved the second and third readings of the Economic Plan for 2013-2014 ("Amended Budget Law") which includes, among others, raising the Israeli corporate tax rate from 25% to 26.5%.

b. Measurement of taxable income under the Income Tax (Inflationary Adjustments) Law, 1985:

Results for tax purposes are measured in terms of earnings in NIS after certain adjustments for increases in Israeli Consumer Price Index (the "Israeli CPI"). As explained in Note 2b, the financial statements are measured in U.S. dollars. The difference between the annual change in Israeli CPI and in the NIS/dollar exchange rate causes a further difference between taxable income and the income before taxes shown in the financial statements. In accordance with paragraph 9(f) of ASC 740, the Company has not provided deferred income taxes on the difference between the functional currency and the tax basis of assets and liabilities.

According to the law, until 2007 the results for tax purposes were adjusted for changes in the Israeli CPI.

In February 2008 the "Knesset" (Israeli parliament) passed an amendment to the Income Tax (Inflationary Adjustments) Law, 1985, which limits the scope of the law starting 2008 and thereafter. Starting 2008 the results for tax purposes are measured in nominal values, excluding certain adjustments for changes in the Israeli CPI carried out in the period up to December 31, 2007. The amendment to the law includes, inter alia, the elimination of the inflationary additions and deductions and the additional deduction for depreciation starting 2008.

c. Tax benefits under the Law for the Encouragement of Capital Investments, 1959 (the "Law"):

According to the Law, the Company is entitled to various tax benefits by virtue of the "approved enterprise" and/or "beneficiary enterprise" status granted to part of their enterprises, as implied by this Law. The principal benefits by virtue of the Law are:

According to the provisions of the Law, the Company has chosen to enjoy the "Alternative" track. Under this track, the Company is tax exempt in the first two years of the benefit period and subject to tax at the reduced rate of 10%-25% for a period of several years for the remaining benefit period.

NOTE 10:- INCOME TAXES (Cont.)

Another condition for receiving the benefits under the alternative track is a minimum qualifying investment. This condition requires an investment in the acquisition of productive assets such as machinery and equipment which must be carried out within three years. The minimum qualifying investment required for setting up a plant is NIS 300 thousand. As for plant expansions, the minimum qualifying investment is the higher of NIS 300 thousand and an amount equivalent to the "qualifying percentage" of the value of the productive assets. Productive assets that are used by the plant but not owned by it will also be viewed as productive assets. The Company was eligible under the terms of minimum qualifying investment and elected 2008 and 2012 as its "years of election".

The qualifying percentage of the value of the productive assets is as follows:

The value of productive assets before the expansion (NIS in millions)	The new proportion that the required investment bears to the value of productive assets
Up to NIS 140	12%
NIS 140 - NIS 500	7%
More than NIS 500	5%

The income qualifying for tax benefits under the alternative track is the taxable income of a company that has met certain conditions as determined by the Law ("a beneficiary company"), and which is derived from an industrial enterprise. The Law specifies the types of qualifying income that is entitled to tax benefits under the alternative track with respect of an industrial enterprise, whereby income from an industrial enterprise includes, among others, revenue from the production and development of software products and revenue from industrial research and development activities performed for a foreign resident (and approved by the Head of the Administration of Industrial Research and Development).

The benefit period starts with the first year the beneficiary enterprise earns taxable income, provided that 14 years have not passed since the approval was granted and 12 years have not passed since the enterprise began operating. In respect of expansion programs pursuant to Amendment No. 60 to the Law, the benefit period starts at the later of the year elected and the first year the Company earns taxable income provided that 12 years have not passed since the beginning of the year of election. The respective benefit period has not yet begun.

The above benefits are conditional upon the fulfillment of the conditions stipulated by the Law, regulations published thereunder and the letters of approval for the investments in the approved enterprises, as above.

Non-compliance with the conditions may cancel all or part of the benefits and refund of the amount of the benefits, including interest. The management believes that the Company is meeting the aforementioned conditions.

NOTE 10:- INCOME TAXES (Cont.)

The Company is also a "foreign investors' company", as defined by the Capital Investments Law, and, as such, is entitled to a 10-year period of benefits and may be entitled to reduced tax rates of between 10% to 25% (depending on the percentage of foreign ownership in each tax year).

Income from sources other than the "Approved Enterprise" and "Beneficiary Enterprise" during the benefit period will be subject to the tax at the regular tax rate.

Amendments to the Law:

In December 2010, the "Knesset" (Israeli Parliament) passed the Law for Economic Policy for 2011 and 2012 (Amended Legislation), 2011, which prescribes, among others, amendments to the Law. The amendment became effective as of January 1, 2011. According to the amendment, the benefit tracks in the Law were modified and a flat tax rate applies to a company's preferred income. The Company will be able to opt to apply (the waiver is non-recourse) the amendment and from then on it will be subject to the amended tax rates that are: 2011 and 2012 - 15% (in development area A - 10%), 2013 and 2014 - 12.5% (in development area A - 7%) and in 2015 and thereafter - 12% (in development area A - 6%).

On July 29, 2013, the Israeli Parliament (the "Knesset") approved the second and third readings of the Economic Plan for 2013-2014 ("Amended Budget Law") which, among others, canceling the lowering of the tax rates applicable to preferred enterprises (9% in development area A and 16% in other areas), taxing revaluation gains and increasing the tax rates on dividends within the scope of the Law for the Encouragement of Capital Investments to 20% effective from January 1, 2014.

The Company estimates that the effect of the change in tax rates will not lead to material change in the amounts on the consolidated financial statements.

d. Tax benefits under the Law for the Encouragement of Industry (Taxation), 1969:

Management believes that the Company currently qualifies as an "industrial company" under the above law and as such, enjoys tax benefits, including:

(1) Deduction of purchase of know-how and patents and/or right to use a patent over an eight-year period;

(2) The right to elect, under specified conditions, to file a consolidated tax return with additional related Israeli industrial company and an industrial holding company; and

(3) Accelerated depreciation rates on equipment and buildings.

U.S. dollars in thousands (except share and per share data)

NOTE 10:- INCOME TAXES (Cont.)

The Company believes currently is qualified as an "industrial company" under the above law and, as such, is entitled to certain tax benefits, mainly accelerated depreciation of machinery and equipment, and the right to claim public issuance expenses over three years, as a deduction for tax purposes.

e. Net operating losses carryforward and capital loss:

As of December 31, 2013, the Company's net operating losses carryforward and capital loss for tax purposes in Israel amounted to approximately $ 177,952 and $ 727, respectively. These net operating losses may be carried forward indefinitely and may be offset against future taxable income. The Company expects that during the period in which these tax losses are utilized its income will be substantially tax-exempt.

Compugen Inc. is subject to U.S. income taxes. As of December 31, 2013, Compugen Inc. has net operating loss carryforwards for federal income tax purposes of approximately $ 14,511 which expires in the years 2018 to 2032. Compugen Inc. also has net operating loss carryforwards for state income tax purposes of approximately $ 15 which expires in the years 2013 to 2032. Utilization of the U.S. net operating losses may be subject to substantial annual limitation due to the "change in ownership" provisions of the Internal Revenue Code of 1986 and similar state provisions. The annual limitation may result in the expiration of net operating losses before utilization.

f. Loss (income) before taxes is comprised as follows:

	Year ended December 31,		
	2013	2012	2011
Domestic (Israel)	$ 13,859	$ 13,370	$ 12,004
Foreign	(276)	258	-
	$ 13,583	$ 13,628	$ 12,004

g. Taxes on income are comprised from withholding tax payment amounted of $ 1,585 which was deducted from non-refundable upfront payment of $ 10,000 (see also Note 1f) by the German tax authorities and from tax receivables as refund from authorities in total amount of $ 1,085 that the Company expect to receive in the foreseeable future under ASC 450-30-25, “Gain Contingencies.

U.S. dollars in thousands (except share and per share data)

NOTE 10:- INCOME TAXES (Cont.)

h. Deferred taxes:

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The Company and Compugen Inc.'s deferred tax assets are comprised of operating loss carryforward and other temporary differences. Significant components of the Company and Compugen Inc. deferred tax assets are as follows:

	December 31,	
	2013	2012
Operating loss carryforward	$ 52,092	$ 43,297
Research and development credit	3,265	2,300
Accrued social benefits and other	182	136
Deferred tax asset before valuation allowance	55,539	45,733
Valuation allowance	(55,539)	(45,733)
Net deferred tax asset	$ -	$ -

The Company and Compugen Inc. have provided full valuation allowances in respect of deferred tax assets resulting from operating loss carryforward and other temporary differences. Management currently believes that since the Company and Compugen Inc. have a history of losses it is more likely than not that the deferred tax regarding the operating loss carryforward and other temporary differences will not be realized in the foreseeable future.

i. Reconciliation of the theoretical tax expense (benefit) to the actual tax expense (benefit):

The main reconciling items between the statutory tax rate of the Company and the effective tax rate are the non-recognition of tax benefits from accumulated net operating losses carryforward among the Company and Compugen Inc. due to the uncertainty of the realization of such tax benefits and the effect of "approved" and "beneficiary" enterprise.

U.S. dollars in thousands (except share and per share data)

NOTE 11:- FAIR VALUE MEASUREMENTS

In accordance with ASC 820 "Fair Value Measurements and Disclosures", the Company measures its Investment in Evogene and embedded derivatives in connection with research and development funding arrangement at fair value. Investment in Evogene is classified within Level 1 because this asset is valued using quoted market prices or alternative pricing sources and models utilizing market observable inputs. Embedded derivatives are classified within Level 3 because they are valued using valuation techniques. Some of the inputs to these models are unobservable in the market and are significant.

The Company's financial assets measured at fair value on a recurring basis, excluding accrued interest components, consisted of the following types of instruments as of the following dates:

	December 31, 2013			
	Fair value measurements			
Description	Fair value	Level 1	Level 2	Level 3
Investment in Evogene	$ 4,565	$ 4,565	$ -	$ -
Embedded Derivatives	12,431	-	-	12,431
Total financial assets	$ 16,996	$ 4,565	$ -	$ 12,431

	December 31, 2012			
	Fair value measurements			
Description	Fair value	Level 1	Level 2	Level 3
Investment in Evogene	$ 5,196	$ 5,196	$ -	$ -
Embedded Derivatives	6,864	-	-	6,864
Liability with respect to outstanding options to non- employee	264	-	-	264
Total financial assets	$ 12,324	$ 5,196	$ -	$ 7,128

U.S. dollars in thousands (except share and per share data)

NOTE 11:- FAIR VALUE MEASUREMENTS (Cont.)

Fair value measurements using significant unobservable inputs (Level 3):

	Fair value of Embedded Derivatives
Balance at January 1, 2012	$ 5,707
Fair value of Exchange Option within the 2012 proceeds under the mAb research and development arrangement	569
Change in fair value of Exchange Option and embedded derivatives within research and development arrangements	588
Balance at December 31, 2012 *)	6,864
Fair value of Exchange Option within the 2013 proceeds under the mAb research and development arrangement	4,756
Change in fair value of Exchange Option and embedded derivatives within research and development arrangements	811
Balance at December 31, 2013 *)	$ 12,431

*) The amount on the balance sheet of the research and development funding arrangements and others includes also Research and Development Component of $ 758 and $ 744 as of December 31, 2013 and 2012, respectively, and fair value of liability with respect to outstanding options to non-employee, as mentioned below, in amount of $ 0 and $ 264 as of December 31, 2013 and 2012, respectively.

	Fair value of outstanding options to non-employee
Balance at January 1, 2012	$ 284
Change in fair value of liability with respect to outstanding options to non- employee	(20)
Balance at December 31, 2012	264
Change in fair value of liability with respect to outstanding options to non- employee	(104)
Classification of portion liability with respect to outstanding options to non-employee to additional paid in capital	(160)
Balance at December 31, 2013	$ -

U.S. dollars in thousands (except share and per share data)

NOTE 12:- GEOGRAPHIC INFORMATION AND MAJOR CUSTOMERS

The Company's business is currently comprised of one operating segment, the research, development and commercialization of therapeutic and product candidates. The nature of the products and services provided by the Company and the type of customers for these products and services are similar. Operations in Israel and the United States include research and development, sales and business development. The Company follows ASC 280, "Segment Reporting." Total revenues are attributed to geographic areas based on the location of the end customer.

The following represents the total revenue for the years ended December 31, 2013, 2012 and 2011 and long-lived assets as of December 31, 2013 and 2012:

	Year ended December 31,		
	2013	2012	2011
Revenue from sales to customers:			
Israel	$ 260	$ 242	$ -
Europe	3,289	-	-
Total revenue	$ 3,549	$ 242	$ -

	December 31,	
	2013	2012
Long-lived assets:		
Israel	$ 567	$ 483
United States	641	767
Total long-lived assets	$ 1,208	$ 1,250

	Year ended December 31,		
	2013	2012	2011
Sales to a single customer exceeding 10%:			
Customer A	93%	100%	-

U.S. dollars in thousands (except share and per share data)

NOTE 13:- FINANCIAL INCOME (LOSS), NET

	Year ended December 31,		
	2013	2012	2011
Interest income	$ 169	$ 301	$ 421
Bank fees and other finance income (expenses)	(28)	(61)	27
Change in fair value of research and development funding arrangements	(811)	(588)	(113)
Change in fair value of liability with respect to outstanding options to non-employee	104	20	-
Funding arrangements issuance expenses	-	-	(463)
Gain from sales of marketable securities	3,711	-	239
Gain from derivatives transactions	-	-	134
Foreign currency translation adjustments	315	242	(270)
Financial income (loss), net	$ 3,460	$ (86)	$ (25)

NOTE 14:- RELATED PARTY BALANCES AND TRANSACTIONS

The Company provides research and development services to Neviah in consideration for pre-scheduled determined fees. As of December 31, 2013 and 2012 the Company recognized revenue from the agreement with Neviah in total amount of $ 260 and $ 242, respectively (see also Note 1d).

Exhibit 4.7

CONFIDENTIAL TREATMENT REQUESTED

Research and Development Collaboration and License Agreement

This Research and Development Collaboration and License Agreement (the "**Agreement**"), effective as of 5 August, 2013 (the "**Effective Date**"), is entered into by and between Bayer Pharma AG, a company formed under the laws of Germany, having a place of business at Muellerstrasse 178, 13353 Berlin, Germany ("**Bayer**") and Compugen Ltd a company formed under the laws of Israel, having a place of business at 72 Pinchas Rosen Street, Tel Aviv 69512, Israel ("**Compugen**"). Bayer and Compugen each shall be referred to herein as a "Party" and they shall be referred to together as the "Parties."

WHEREAS, Bayer is a global leader in the development, manufacture, marketing and sale of healthcare products; and

WHEREAS, Compugen is a leading drug discovery company, with a focus on the discovery of protein and antibody therapeutic candidates for the fields of oncology and immunology; and

WHEREAS, the Parties wish to enter into a collaboration for the research, development and commercialization of antibody-based therapeutics against certain targets with respect to which Compugen has intellectual property rights; and

WHEREAS, the Parties further desire that Bayer develop, obtain regulatory approval for and commercialize such products, all subject to and in accordance with the terms herein.

NOW, THEREFORE, in consideration of the promises and mutual covenants set forth herein, Bayer and Compugen agree as follows:

1. Definitions.

Whenever used in this Agreement with an initial capital letter, the terms defined in this Section 1, whether used in the singular or the plural, shall have the meanings specified below.

1.1. **"Affiliate"** means, with respect to a person, organization or other entity, any person, organization or other entity controlling, controlled by or under common control with, such person, organization or entity. For purposes of this definition, an entity shall be deemed to "control" another entity if it (i) owns directly or indirectly fifty percent (50%) or more of the outstanding voting securities, capital stock or other comparable equity or ownership interest of such entity having the power to vote on or direct the affairs of such entity, as applicable (or such lesser percentage which is the maximum allowed to be owned by a foreign corporation in a particular jurisdiction), or (ii) possesses, directly or indirectly, the power to direct or cause the direction of the policies and management of such entity, as applicable, whether by the ownership of stock, by contract or otherwise.

1.2. **"Bayer Competitor"** means any person, organization or other entity that is active in the field of clinical development and/or commercialization of prescription pharmaceuticals for indications in the area of oncology.

1.3. **"Bayer Development Process"** means Bayer's [***] internal process for the research and development of therapeutic candidates described in **Exhibit 1.3**, or any similar internal process implemented by Bayer for its therapeutic development activities in general (i.e. not just for a Target Program) that succeeds or amends the process described in Exhibit 1.3.

***Portions of the exhibit, indicated by the mark "[***],"* were omitted and have been filed separately with the Securities and Exchange Commission pursuant to the Registrant's application requesting confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended.**

1.4. **"Bayer Intellectual Property"** means (a) any Bayer Know-How, (b) any Bayer Product Patent Rights and (c) any other Program Know-How and/or Program Inventions owned by Bayer in accordance with Section 8.1.2.1.

1.5. **"Bayer Know-How"** means any and all Know How with respect to [***], Products and/or [***]developed or generated by Bayer or an Affiliate of Bayer in the performance of a [***] and, [***] or [***] for the [***] of the licenses granted by Bayer to Compugen under Section 3, including but not limited to [***] information relating to [***], Products and/or Product Companion Diagnostics, but for clarity specifically excluding any [***] and/or [***] not specific to [***] or [***]. For the avoidance of doubt, the Bayer Know-How includes Program Know-How owned by Bayer to the extent that such Program Know-How relates to [***], Products and/or [***].

1.6. **"Bayer Product Patent Rights"** means any Patents with respect to an invention developed or generated by Bayer or an Affiliate of Bayer in the performance of a [***] and that claim, in each case solely to the extent they claim, (a) a Product or [***]Product(s) or (b) a [***] or [***]. For clarity, "Bayer Product Patent Rights" do not include Patents that claim [***] that [***] Product(s) nor [***] (e.g. [***]), except to the extent they include claims that are [***] Product(s) or [***].

1.7. **"Biologic"** means any [***] or a [***].

1.8. **"Biomarker"** means a distinctive biological or biologically derived indicator (including, without limitation, DNA, RNA, protein, peptide, antibodies and cells) by which particular normal biologic processes, pathogenic processes or pharmacologic responses to therapeutic intervention can be identified, quantified or predicted.

1.9. **"BLA"** means (a) an FDA Biologics License Application, Product License Application or similar application filed with the United States FDA for approval to market a Product for use in the Field and (b) any comparable application filed with a Regulatory Authority in any other country or jurisdiction.

1.10. **"Business Day(s)"** shall mean a day other than a Friday, Saturday, Sunday and any day on which commercial banks located in Berlin, Germany or in Tel Aviv, Israel, are authorized or obligated by law to be closed.

1.11. **"Calendar Quarter"** means each of the periods of three (3) consecutive calendar months ending on March 31, June 30, September 30 and December 31, for so long as this Agreement is in effect.

1.12. **"CGEN-15001T Research Program"** means the research and preclinical development program to be performed by the Parties until the end of the Research Period, i.e. until [***] or such other date as may be agreed in any amendment or change to the CGEN-15001T Workplan.

1.13. **"CGEN-15001T Target"** means any protein encoded by the gene locus on [***] with the official gene symbol [***] as provided by HGNC consortium, and any [***]. For purposes of this definition "[***]" means all [***] from that [***] (including any [***]) with an [***] of at least [***], in which overlap there is a [***] of at least [***].

1.14. **"CGEN-15001T Target Biologic"** means any Target Biologic [***] a CGEN-15001T Target.

1.15. **"CGEN-15001T Target Program"** means the program for the research, development and commercialization of Products containing CGEN-15001T Target Biologics and Product Companion Diagnostics for such Products as contemplated by this Agreement.

1.16. **"CGEN-15001T Workplan"** means the workplan attached hereto as **Exhibit 1.16**, which sets forth the research and preclinical development work to be performed by each of the Parties with respect to the CGEN-15001T Target Program during the relevant Research Period, as such workplan may be amended by Bayer and Compugen in accordance with Section 2.4.

1.17. **"CGEN-15022 Research Program"** means the research and preclinical development program to be performed by the Parties until the end of the Research Period, i.e. until [***] or such other date as may be agreed in any amendment or change to the CGEN-15022 Workplan.

1.18. **"CGEN-15022 Target"** means any protein encoded by the gene locus on [***] with the official gene symbol [***] as provided by HGNC consortium, and any [***] For purposes of this definition, "[***]" means all proteins derived from that [***] (including any [***]) with an [***] of at least [***] amino acids, in which overlap there is a [***] of at least [***].

1.19. **"CGEN-15022 Target Biologic"** means any Target Biologic [***] a CGEN-15022 Target.

1.20. **"CGEN-15022 Target Program"** means the program for the research, development and commercialization of Products containing CGEN-15022 Target Biologics and Product Companion Diagnostics for such Products as contemplated by this Agreement.

1.21. **"CGEN-15022 Workplan"** means the workplan attached hereto as **Exhibit 1.21**, which sets forth the research and preclinical development work to be performed by each of the Parties with respect to the CGEN-15022 Target Program during the relevant Research Period, as such workplan may be amended by Bayer and Compugen in accordance with Section 2.4.

1.22. **"Commercially Reasonable Efforts"** means efforts and resources, with respect to a particular Party, that are [***] by that Party (together with its Affiliates) in the exercise of its [***] with respect to programs it is [***] on relating to other [***] or [***] by it (and/or its Affiliates) or to which it (together with its Affiliates) has [***], which have a [***] and are at a [***] or [***], as appropriate, taking into account issues of [***] of the [***] and [***], the [***] or [***] of the product, and other relevant factors, including without limitation, [***], and/or [***], where such level of efforts and resources, in any event, shall be [***] than [***] with [***] of a [***]. For clarity, in the event Bayer grants a Sublicense, the efforts exerted by Bayer and/or its Sublicensee to develop and commercialize Products will continue to be compared to those efforts generally exerted by a [***] of a [***] in active programs relating to other [***] or [***] by it (and/or its Affiliates) or to which it (together with its Affiliates) has [***] for purposes of this definition.

1.23. **"Companion Diagnostic"** means any Product Companion Diagnostic and any Other Companion Diagnostic.

1.24. **"Composition Of Matter Claim"** means a Valid Claim that covers one or more Target Biologic(s) and/or Target Biomarker(s) as composition of matter, regardless of whether the [***] of such Target Biologic(s) or Target Biomarker(s) is claimed. For clarity, "Composition of Matter Claims" includes, without limitation, Valid Claims covering [***] Target Biologics against a Target, a [***] of a Target or [***] of a Target.

1.25. **"Composition Of Matter Patent Rights"** means any Compugen Patent Rights or Joint Patent Rights that include one or more Composition Of Matter Claim(s).

1.26. **"Compugen Intellectual Property"** means (a) any Compugen Know-How, (b) any Compugen Patent Rights and (c) any other Program Know-How and/or Program Inventions owned by Compugen in accordance with Section 8.1.2.2 (other than [***], which are specifically excluded from this definition).

1.27. **"Compugen Know-How"** means any and all Know How with respect to [***] (alone or together with another composition, e.g. conjugate), [***] or [***] that is [***] and is, in Compugen's [***] or [***] for the [***] of the licenses granted by Compugen to Bayer under Section 3, including but not limited to [***] and [***] information relating to [***] or [***] but for clarity specifically excluding: (i) any and all [***] and [***] and (ii) other [***] and/or [***] to [***] or [***]. For the avoidance of doubt, the Compugen Know-How includes Program Know-How owned by Compugen to the extent that such Program Know-How relates to [***] and/or [***]. Notwithstanding the foregoing, "Compugen Know-How" does not include Know How with respect to [***] and/or [***] that was [***] before the date of [***], but (a) was [***] before such date by the [***] or the [***], as applicable or (b) is/was developed by such [***] in independent activities without the use of or reference to [***] by persons who were [***], provided that those independent activities are/were made within a project that was started by [***] with respect to [***][***] and/or [***] in connection with the evaluation of the [***]. The Parties agree that in case of dispute, Compugen will have the burden of proof to demonstrate that all requirements of lit. (a) or lit. (b) are fulfilled.

1.28. **"Compugen Patent Rights"** means any Patents Controlled by Compugen or any of its Affiliates [***] or [***] that claim, in each case solely to the extent they claim, [***], Products (but excluding, if and to the extent that such Patents claim Products, any composition of matter that is [***] and [***]) and/or [***], or their use, or a manufacturing process [***] and/or one or more [***] including without limitation the Patents set forth in **Exhibit 1.28**. For clarity, "Compugen Product Patent Rights" do not include patents or patent applications that claim [***] that [***] to [***] (e.g. [***]), except to the extent they include claims that are [***]or [***]. Notwithstanding the foregoing, "Compugen Patent Rights" does not include Patents to the extent they claim [***] and/or [***], or a manufacturing process specific to one or more [***] and/or one or more [***], that were not Controlled by Compugen before the date of [***] or [***], but (a) were Controlled before such date by the [***] or the [***], as applicable or (b) claim inventions conceived and reduced to practice by such [***] after such [***] in independent activities without the use of or reference to [***] by persons who were [***], provided that those independent activities are/were made within a project that was started by the [***] with respect to [***] and/or [***] in connection with the evaluation of the [***]. The Parties agree that in case of dispute, Compugen will have the burden of proof to demonstrate that all requirements of lit. (a) or lit. (b) are fulfilled.

1.29. **"Control"** means, with respect to intellectual property or intellectual property rights that is/are owned or in-licensed by a Party and/or its Affiliate(s), the right, whether directly or indirectly, and whether by ownership, license or otherwise, to assign or to grant a license or sublicense as provided for herein without violating the terms of any agreement or other arrangement with any Third Party (including the terms of any such in-license agreement) or any applicable law and without the need for any consent (or further consent) from such Third Party.

1.30. **[***]** means [***] as set forth in [***].

1.31. **[***]** means [***] and a [***]. [***] will entail [***] of [***], together with [***].

1.32. **[***]** means [***] of a [***] and a [***] of the [***], in accordance with [***].

1.33. **"Diagnostic"** means any Companion Diagnostic and any General Diagnostic that (a) is covered by a claim of a Compugen Patent Right or Joint Patent Right and/or (b) is/was [***] and/or [***] through the use ([***]) of [***] or [***]. The Parties agree that in case of dispute, Bayer will have [***] that [***] has been [***] without the use of [***] and without the use of [***].

1.34. **"Field"** means the treatment or prevention of any [***] and/or [***], [***] in [***].

1.35. **"First Commercial Sale"** means, on a [***] basis with respect to each Product and each Diagnostic, the date of the first sale for [***] in an arm's length transaction by a Related Party of such Product or Diagnostic, as applicable, to an Unrelated Third Party for [***] of such Product or Diagnostic, as applicable, following receipt of all [***] required to [***] such Product or Diagnostic, as applicable, in such [***] to the [***]. For clarity, sales or other distribution for (a) use in [***], use in [***] or [***] programs or use in similar instances in which products may be provided to patients prior to [***] or (b) provision of [***] for [***] or similar purposes shall not be deemed "First Commercial Sale".

1.36. **"Fusion Protein"** means a protein created by the fusion of the extracellular domain of a protein, or fragment thereof, to any heterologous sequence (such as an Fc fragment of an Immunoglobulin G).

1.37. **"General Diagnostic"** means any diagnostic product that contains and/or detects a Target Biomarker, other than Companion Diagnostics, including without limitation standalone diagnostics.

1.38. **"Indication"** means: (a) for oncological diseases characterized by [***] from [***], whereby [***] from [***] shall constitute a [***] (e.g. by way of illustration: [***]. [***], whereas, [***] that [***]; and (b) for other oncological diseases and non-oncological diseases, Indications shall be classified as defined in [***]. By way of illustration, [***] would list nine different Indications.

1.39. **"**Infringed Claim" means a claim of a Patent of a Third Party which would be infringed by [***] of, or the [***] of, [***] included in the relevant Product (at the date and in the country of such activity). Notwithstanding the foregoing, "Infringed Claim" does not include claims with respect to [***] or [***] that are [***] to a [***]. Any risk of infringement of such Third Party rights will be reasonably considered in the selection of the [***] to be further developed, to the extent that such a risk is already recognizable at the time of selection of the [***].

1.40. **"Joint Intellectual Property"** means any Joint Patent Rights and/or Joint Know-How.

1.41. **"Joint Invention"** means any Program Invention for which (a) one or more inventors is an employee or contractor of Bayer or its Affiliate and (b) one or more inventors is an employee or contractor of Compugen or its Affiliate.

1.42. **"Joint Know-How"** means Program Know-How developed jointly by (a) one or more employees or contractors of Bayer or its Affiliate and (b) one or more employees or contractors of Compugen or its Affiliate. For the avoidance of doubt, "Joint Know-How" also includes Joint Inventions.

1.43. **"Joint Patent Rights"** means any patent or patent application that claims a Joint Invention.

1.44. **"Know-How"** means any proprietary tangible and intangible: methods, inventions, techniques, processes, specifications, materials, recipes, formulae, preparations, designs, plans, drawings, data, trade secrets or other technical or scientific information.

1.45. "**Marketing Authorization**" means, with respect to a Product or Diagnostic in a given country, all approvals from the relevant Regulatory Authority (e.g. a BLA in the case of a Product) necessary to market and sell such Product or Diagnostic, as applicable, in such country to the relevant patient population in general.

1.46. **"Net Sales"** means the [***] amount [***] or (if not [***])[***] by a Related Party for sales of a Product or Diagnostic to [***] less the following deductions to the extent specifically applicable to such sales of Products or Diagnostics, as applicable, and not previously deducted from such [***] amount [***]:

- [***] of gross amount for [***];
- [***] and [***] or [***] included in such [***] invoiced and paid by a [***] or any other [***] imposed upon the sale of the relevant Product or Diagnostic and paid by a [***], but specifically excluding [***];
- [***] and [***] granted or allowed in the ordinary course of business by a Related Party in connection with such sale of a Product or Diagnostic;
- [***] or [***] granted by a Related Party to customers on account of governmental requirements, rejection, outdating, returns, billing errors or recalls of a Product or Diagnostic;
- [***] and [***] or [***] (as described below) granted by a Related Party in the ordinary course of business with respect to the sale of a Product or Diagnostic; and
- [***] of [***] for [***].

For the purpose of calculating Net Sales, the Parties recognize that: (a) customers may include persons in the chain of commerce who enter into agreements with a Related Party as to price even though title to the Product does not pass directly from the Related Party to such customers and even though payment for such Product is not made by such customers directly to a Related Party; and (b) in such cases, chargebacks paid by a Related Party to or through an Unrelated Third Party (such as a wholesaler) with respect to the gross amount invoiced on such sales can be deducted by a Related Party from gross revenue in order to calculate Net Sales.

In the event a Product is sold in the form of a combination product containing one or more active ingredients in addition to the Product, Net Sales for such combination product will be adjusted by multiplying actual Net Sales of such combination product by the fraction A / (A+B) where A is the invoice price of the Product, if sold separately, and B is the invoice price of any other active ingredient(s) in the combination, if sold separately. If, on a country-by-country basis, the other active ingredient(s) in the combination product are not sold separately in that country, Net Sales will be calculated by multiplying actual Net Sales of such combination product by the fraction A / C where A is the invoice price of the Product, if sold separately, and C is the invoice price of the combination product. If, on a country-by-country basis, the Product is not sold separately in such country, then the value of the active ingredient(s) for the purpose of determining Net Sales shall be determined between the Parties in good faith.

For clarity, sales of Products or Diagnostics by a Related Party to another Related Party for resale by such other Related Party will not be deemed Net Sales. Instead, Net Sales will be determined based on the [***] invoiced by such other Related Party upon resale of such Products or Diagnostics to an Unrelated Third Party purchaser.

In the event that a Related Party receives non-cash consideration for any Products or Diagnostics, Net Sales will be calculated based on the fair market value of such consideration, assuming an arm's length transaction made in the ordinary course of business.

In the event of a planned Sublicense, Compugen will on request of Bayer [***] with Bayer [***] of this definition of Net Sales, if this is [***] to reach an [***] of this term both in the relationship between Compugen and Bayer and in the relationship between Bayer and the Sublicensee, provided that such change does not, [***] Compugen's rights.

Notwithstanding the foregoing, the following shall not be included in Net Sales: (i) sales or other transfers of Products and/or Diagnostics by a Related Party for administration to patients enrolled in clinical trials, provided that the Related Party receives no consideration from such clinical trials nor for such sales or other transfers and (ii) Products and Diagnostics used as samples to promote additional Net Sales, in amounts consistent with normal business practices of the Related Party, provided that the Related Party receives no consideration for such samples.

1.47. **"Non-Royalty Sublicense Income"** means any payments or other consideration that Bayer or any of its Affiliates receives in connection with a Sublicense, other than royalties (including percentage payments and fixed per unit amounts) on account of Net Sales by a Sublicensee or an Affiliate of a Sublicensee. If Bayer or its Affiliate receives non-cash consideration (e.g. equity, other non-cash assets) in connection with a Sublicense, Non-Royalty Sublicense Income will be calculated based on the [***]. For the avoidance of doubt, Bayer is in no way obliged or expected to receive any payments or other consideration from Sublicensees in connection with Companion Diagnostics and that enabling or facilitating the approval and commercialization of Products shall not be deemed a non-cash consideration.

1.48. **"Other Companion Diagnostics"** means any diagnostic product that contains and/or detects a Target Biomarker and is developed specifically for use in conjunction with a [***] that is [***] to inform the selection, initiation, dosing, monitoring, and/or avoidance of treatment with such product with the objective that such diagnostic be approved by the relevant Regulatory Authority in the label of such product, regardless of whether such approval is ultimately granted.

1.49. **"Patents"** means national, regional and international patents and patent applications, including provisional applications, continuations, continuations-in-part, continued prosecution applications, divisionals, substitutions, reissues, additions, renewals, re-examinations, extensions, term restorations, confirmations, registrations, revalidations, revisions, priority rights, converted provisionals, requests for continued examination and supplementary protection certificates and pediatric drug exclusivity periods granted in relation thereto, as well as utility models, innovation patents, design patents, petty patents, patents of addition, inventor's certificates, and equivalents in any country or jurisdiction and any similar rights, including pipeline protection, or any importation, or introduction patent to any such foregoing patent applications and patents and any and all patents that have issued or in future issue from the foregoing patent applications.

1.50. "**Phase 1 Clinical Trial**" means a human clinical trial conducted on a limited number of study subjects for the purpose of gaining evidence of the safety and tolerability of, and information regarding, pharmacokinetics and potential pharmacological activity for a product or compound, as described in 21 C.F.R. § 312.21(a) (including any such clinical study in any country other than the United States).

1.51. **"Phase 2 Clinical Trial"** means a human clinical trial conducted on study subjects with the disease or condition being studied for the principal purpose of achieving a preliminary determination of efficacy or appropriate dosage ranges, as further described in 21 C.F.R. §312.21(b) (including any such clinical study in any country other than the United States).

1.52. **"Phase 3 Clinical Trial"** means a pivotal clinical trial in humans performed to gain evidence with statistical significance of the efficacy of a product in a target population, and to obtain expanded evidence of safety for such product that is needed to evaluate the overall benefit-risk relationship of such product, to form the basis for the filing for approval of a BLA by a Regulatory Authority and to provide an adequate basis for physician labeling, as described in 21 C.F.R. § 312.21(c) or the corresponding regulation in jurisdictions other than the United States, regardless of whether such trial is labeled by the relevant Related Entity as Phase 3 Clinical Trial.

1.53. **"Product"** means any therapeutic or prophylactic product containing or comprising a Target Biologic, in any and all forms, presentations, formulations and dosage forms that (a) is covered by a claim of a [***] and/or (b) is/was identified, developed and/or generated [***] of [***]. The Parties agree that in case of dispute, Bayer will have the burden of proof to demonstrate that [***] containing or comprising a Target [***] has been [***] without the use of [***]. For the avoidance of doubt, the definition of "Products" shall not include Product Companion Diagnostics.

One Product, as opposed to another Product, shall be defined by the [***] and [***] of the [***] the [***] included in the Product. Two products in which such [***] have different [***] and/or different [***] (other than incidental, unintended differences caused, for instance, from the [***]) from each other shall be two different Products. For example, a [***] and an [***] are two different [***], and therefore a Product containing or comprising the [***] and a Product [***] would be considered [***] Products.

1.54. **"Product Companion Diagnostic"** means any diagnostic product that contains and/or detects a Target Biomarker and is developed specifically for use in conjunction with a Product to inform the selection, initiation, dosing, monitoring, and/or avoidance of treatment with such Product with the objective that such diagnostic be approved by the relevant Regulatory Authority in the label of such Product, regardless of whether such approval is ultimately granted.

1.55. **"Program Know-How"** means any Know-How developed or generated in the performance of the Research Programs and Controlled by Bayer, an Affiliate of Bayer, Compugen or an Affiliate of Compugen (including but not limited to [***], and [***] and (to the extent applicable) [***] and [***]).

1.56. **"Program Invention"** means any patentable Know-How Controlled by Bayer, an Affiliate of Bayer, Compugen or an Affiliate of Compugen that is [***] and/or [***] in the performance of a Research Program.

1.57. **"Regulatory Authority"** means the FDA or any other supranational, national or local agency, authority, department, inspectorate, ministry official, parliament or public or statutory person of any government of any country having jurisdiction over any of the activities contemplated by the Agreement or the Parties, or any successor bodies thereto.

1.58. **"Related Party"** means any of the following: (a) Bayer; (b) an Affiliate of Bayer; (c) a Sublicensee; or (d) an Affiliate of a Sublicensee.

1.59. **"Research Period"** means, with respect to each Research Program, the period until completion of all obligations under the Research Program as set forth in the Workplan for such Research Program.

1.60. **"Research Program"** means either the CGEN-15001T Research Program or the CGEN-15022 Research Program.

1.61. **"Sublicense"** means: (a) any license given (including without limitation licenses with respect to Bayer Product Patent Rights and Bayer Know-How) by Bayer or an Affiliate of Bayer to any Third Party (or by a Sublicensee to a further Sublicensee) to develop, manufacture, market and/or sell Products and/or Diagnostics and/or any other licenses granted by Bayer or an Affiliate under any of the rights granted to Bayer under this Agreement; and (b) any [***] by [***] to any other person or entity (or by a Sublicensee to a further Sublicensee) [***] for or [***]; in each case regardless of whether such license given is referred to or is described as a license, sublicense or otherwise. For clarity, "Sublicense" does not include (i) any agreements or other grants of rights that fulfill the requirements of Section 3.1.2 or (ii) the engagement of a Third Party wholesale distributors who (1) purchase Products from a Related Party in arm's length transaction and who have no sales, marketing or reporting obligation to a Related Party and (2) do not pay Related Parties any consideration on account of such engagement other than the sales price of the Products and/or Companion Diagnostics sold by the Related Party to such Third Party. For clarity, such wholesale distributors do not include those distributors whose obligations to a Related Party include responsibility for sales and/or marketing efforts in a country or sharing of costs and expenses with respect to sales and/or marketing on behalf of a Related Party or who pay other consideration on account of such engagement, which distributors shall be deemed to be Sublicensees for purposes of this definition.

1.62. **"Sublicensee"** means any person or entity granted a Sublicense.

1.63. **"Sublicense Diagnostic Sales Income"** means any payments or other consideration that Bayer or any of its Affiliates receives on account of sales of Diagnostics by a Sublicensee. If Bayer or any of its Affiliates receives non-cash consideration (e.g. equity, other non-cash assets) on account of sales of Diagnostics by a Sublicensee, Sublicense Diagnostic Sales Income will be calculated based on [***], at the time of [***], [***]. Bayer informs and Compugen understands and acknowledges that the [***] of [***] to the [***] of [***] is to [***] or [***] of [***], and that [***] may [***] or [***] from Sublicensees on account of Sublicensing of [***], in which case Compugen would [***] or [***] from Bayer in relation to the [***] and [***] of [***].

1.64. **"Target"** means any CGEN-15001T Target and/or any CGEN-15022 Target.

1.65. **"Target Biologic"** means any Biologic, including but not limited to any [***], or [***], that is [***], except that "Target Biologic" specifically excludes [***]. The Parties (a) acknowledge that in [***] not [***] any of [***], a Party or its Affiliate may [***] and/or [***] a Biologic directed [***] another [***] which [***] inadvertently [***] to [***] and (b) agree that such [***] will not be deemed [***] for purposes of this Agreement.

1.66. **"Target Biomarker"** means (a) any Target**,** (b) any [***] and (c) any [***], or of such [***], that is derived from the [***] of such [***]. For purposes of this definition, [***] means (i) with respect to a [***], a consecutive portion of the [***] or more [***], and (ii) with respect to [***], a consecutive portion of the [***] or more [***].

1.67. **"Target Fusion Protein"** means a protein created by the fusion of the extracellular domain of a Target, or fragment thereof, to any heterologous sequence (such as an Fc fragment of an Immunoglobulin G).

1.68. **"Target Program"** means either the CGEN-15001T Target Program or the CGEN-15022 Target Program.

1.69. **"Third Party"** means any person or entity other than Bayer, Bayer's Affiliates, Compugen and Compugen's Affiliates.

1.70. **"Third Party [***] Payments"** means amounts paid by Bayer to a Third Party as a result of a [***] or [***] for [***] due to [***] were [***] in the performance of [***] (for the avoidance of doubt, including [***] of this Agreement).

1.71. **"Unrelated Third Party"** means any person or entity that is not a Related Party.

1.72. **"Use Patent Rights"** means Compugen Patent Rights or Joint Patent Rights that are not Composition Of Matter Patent Rights.

1.73. **"Valid Claim"** means a claim of an issued and unexpired patent within the Compugen Patent Rights, Joint Patent Rights or Bayer Product Patent Rights that has not been (a) held permanently revoked, unenforceable, unpatentable or invalid by a decision of a court or governmental body of competent jurisdiction, unappealable or unappealed within the time allowed for appeal, (b) rendered unenforceable through disclaimer or otherwise, (c) abandoned or (d) permanently lost through an interference or opposition proceeding without any right of appeal or review.

1.74. **"Workplan"** means either the CGEN-15001T Workplan or the CGEN-15022 Workplan.

2. Research Program.

2.1. **Purpose and Scope of Work.** The Parties are entering into a research and development collaboration for the Research Period, with the intent of developing CGEN-15001T Target Biologics and CGEN 15022 Target Biologics that will be candidates for the development of Products and of discovering and developing Target Biomarkers that can be used as research tools for the development of Products and/or for the development of Product Companion Diagnostics. Each Workplan sets forth certain activities to be performed by each of the Parties, details regarding each of the Parties' deliverables and timetables for delivery of such deliverables. Each Workplan may be amended by the Joint Steering Committee (as defined below in Section 2.2.1) in accordance with Section 2.2, provided that no such amendment may increase Compugen's or Bayer's obligations under such Workplan unless the Parties have agreed to such increase in writing, including with respect to funding to be provided by Bayer to Compugen to support additional work. To the extent any terms in a Workplan shall at any time conflict with the terms of this Agreement, the terms of this Agreement shall prevail.

2.2. Management.

2.2.1. Establishment of Joint Steering Committee. The Parties hereby establish a Research Program steering committee (the "**Joint Steering Committee**" or "**JSC**") that will be responsible for overall supervision and direction of, and for making decisions related to, the Parties' activities under the Workplans.

2.2.2. Membership. The Joint Steering Committee will be comprised of [***] members, with [***] members appointed by each Party, all of whom shall be employees of the appointing Party and shall have appropriate authority to make the decisions assigned to the Joint Steering Committee hereunder. In addition, each Party will appoint one associate member (having no voting power in the JSC) with the tasks to (i) prepare and manage the JSC meetings, (ii) ensure proper communication and exchange of information between the Parties, (iii) oversee the budget and resources in the Research Programs, (iv) attempt to resolve conflicts, and (v) act as a point of contact for external communications (e.g. press releases) and publications taking into account company specific regulations for external communications and publications (the "**Alliance Manager**"). Each of Bayer and Compugen may replace its Alliance Manager or one or more of its Joint Steering Committee representatives at any time, upon written notice to the other Party. From time to time, the Joint Steering Committee may establish subcommittees, comprised of an equal number of representatives from each Party (who may be persons other than Joint Steering Committee members), to oversee particular activities.

2.2.3. Responsibilities. The Joint Steering Committee will be responsible for:

(a) overseeing the overall progress achieved in each Research Program and directing the Research Program;

(b) informing each other on strategic aspects;

(c) making and approving go/no-go decisions regarding the attainment of Research Program's milestones based on proposals made by the Project Managers (as defined below in Section 2.3.2);

(d) deciding on amendments to or changes of the Workplan(s) (including changes to timelines and actions to be taken), from time to time, as proposed by the Project Managers (as defined below);

(e) agreeing upon contractors to be used by the Parties in performing work under a Workplan in the event that the Project Managers are not able to agree upon such contractors;

(f) proposing amendments to this Agreement; and

(g) such other matters as the Parties may assign to the Joint Steering Committee from time to time.

2.2.4. **Meetings.** The Joint Steering Committee shall meet [***], whether in-person or by telephone or video conference as the Joint Steering Committee agrees, provided that at least [***] ([***] in Israel or San Francisco, CA and [***] in Germany) shall be held in each calendar year. Members of the Joint Steering Committee may participate in and vote at meetings, in person, by telephone or by video-conference, and may vote at meetings by proxy; in addition, the Joint Steering Committee may agree from time to time with unanimous consent to take decisions in writing. Additional employees or consultants of either Party may be permitted to attend meetings of the Joint Steering Committee and/or of its sub-committees' meetings with the consent of the other Party's members of the Joint Steering Committee, such consent not to be unreasonably withheld. For each such Joint Steering Committee meeting (or sub-committee meeting), whether an in-person meeting or otherwise, either of the Alliance Managers (as agreed prior to the meeting) shall prepare an agenda and written minutes which shall document all Joint Steering Committee discussions and decisions in such meeting. Draft minutes shall be distributed to the Joint Steering Committee members [***] following the particular Joint Steering Committee meeting, revised as necessary, and promptly approved in writing by all Joint Steering Committee members. Thereafter, the approved minutes of each Joint Steering Committee meeting shall be distributed to each member. Each Party is responsible for the travelling costs of its Alliance Manager and its members of the Joint Steering Committee.

2.2.5. **Decision-Making.** All decisions of the Joint Steering Committee shall be made by unanimous consent. In the event the Joint Steering Committee is unable to reach agreement on a matter relating to the activities under a Workplan (a "**Deadlock**"), then either Party may notify the other of the Deadlock in writing, such notice to describe the subject of the Deadlock in reasonable detail. In such case, the following shall apply:

2.2.5.1. Subject to the limitations set forth in Section 2.2.5.2, [***] shall [***] over the Deadlocked matter, such authority to be exercised by [***] and notified to [***] within [***] days after delivery of the applicable Deadlock notice. If [***] fails to notify [***] how [***] has elected to [***] on the Deadlocked matter, [***] may take such action with respect to the Deadlocked matter as [***] deems appropriate [***]. With respect to matters described in Section 2.2.5.2, for which [***] is not entitled to [***] with respect to any Deadlock, such Deadlock shall be resolved pursuant to the provisions of Section 2.2.5.3.

2.2.5.2. [***] will not have the authority under Section 2.2.5.1 or 2.2.5.4 to [***] make any decision that: (a) [***] or otherwise is [***] any term or provision of this Agreement; (b) [***] or its ability to meet its obligations under this Agreement; (c) [***] under a Workplan or [***] the achievability of such [***] in each case in a manner [***]; (d) [***]; (e) would require [***], in a manner material to [***], in the [***] or the use of [***] or [***] not currently contemplated in the relevant Workplan; (f) would [***] for which [***] is entitled to make use of [***] Protein Controls (as defined in [***]); (g) would [***] of the [***]; or (h) [***] either Party's [***] obligations under [***].

2.2.5.3. With respect to matters described in Section 2.2.5.2 with respect to which [***] does not have authority under Section 2.2.5.1 to [***] make decisions ("**Specific Deadlocked Matters**"), the Parties shall first try to resolve such Specific Deadlocked Matter in a second JSC meeting to be held within [***] Business Days from the meeting in which the Specific Deadlocked Matter has remained unsolved. In the event that the JSC is again unable to resolve the Specific Deadlocked Matter, such matter shall be promptly referred to the [***] of Compugen and the [***] of Bayer. If said officers cannot resolve such Specific Deadlocked Matter through [***] and [***] within [***] calendar days after the date on which the matter is referred to the Parties' executive officers listed above, the Parties will attempt in [***] to settle the Specific Deadlocked Matter by mediation in accordance with the [***] by a [***] mediator with [***] Program. If the Parties [***] on a [***] mediator, the mediator will be appointed by the [***]. The place of the mediation proceedings shall be [***], [***], and the language to be used shall be [***]. If the Parties decide to submit the Specific Deadlocked Matter to mediation, [***] shall bear [***] expenses and [***] of all costs and fees of the mediator. If the Parties can also not resolve the Specific Deadlocked Matter by mediation in accordance with the [***], the Parties will continue the performance of the Research Program in accordance with the relevant Workplan without any change with respect to the Specific Deadlocked Matter for which no agreement was reached.

2.2.5.4. Notwithstanding the above, [***] may, at any time upon one (1) month prior written notice to [***], disband the Joint Steering Committee. If [***] provides such notice of disbandment to [***], the Parties' obligations under this Section 2.2 will terminate, unless and until [***] provides written notice to [***] that it wishes to reinstate the Joint Steering Committee, in which case the Parties' obligations under this Section 2.2 will be reinstated for the period following such notice by [***]. In the event of such disbandment and unless and until the Joint Steering Committee is reinstated, subject to [***], all activities and decisions assigned to the Joint Steering Committee as set forth above shall be performed and decided upon by [***] such authority to be exercised by [***] (taking into consideration concerns raised by [***] and the goals of the relevant Research Program). During the period of disbandment, [***] shall inform Compugen with written notice about proposed decisions [***]. If [***] provides such written notice, each Party will promptly appoint authorized representatives with the same competencies as the members of the Joint Steering Committee to discuss such proposed decisions [***]. If such representatives are unable to agree on such matter within [***] days of [***]'s notice to [***], such matter shall be promptly referred to the [***] and the [***]. If said [***] cannot resolve such matter through [***] negotiations within [***] days after the date on which the matter is referred to the Parties' [***] listed above, the Parties will attempt to resolve the matter in accordance with the mediation process described in [***].

2.2.5.5. Unless earlier disbanded in accordance with [***] or agreed by the Parties otherwise in writing, the Joint Steering Committee will disband within [***] months following the end of the later to expire [***]. After such disbandment the Joint Steering Committee may reconvene on an ad-hoc basis solely to discuss [***]. A request by a Party for a Joint Steering Committee meeting shall be given in written form to the other Party with [***] notice and shall contain sufficiently detailed information about the requested topic and the required decision by the Joint Steering Committee.

2.3. Performance of Work.

2.3.1. Performance. Each of the Parties shall use Commercially Reasonable Efforts to perform the activities designated as its responsibility under each Workplan, including delivering deliverables and reports set forth in each Workplan, in accordance with the timetables set forth in such Workplan. Each Party will provide the [***] needed to perform the activities designated as its responsibility under each Workplan.

2.3.2. Project Manager. The Parties acknowledge that effective communications between Parties is an essential ingredient to the success of the Research Programs. In order to facilitate such communications, each Party will designate a person to serve as the project manager on its behalf for purposes of each Research Program (each, a "**Project Manager**"). A Party may designate the same person to serve as its Project Manager of both Research Programs or designate two persons to serve as Project Managers, one for each Research Program. Each Party may appoint and replace its Project Manager(s) by written notice to the other Party. The Project Managers for each Research Program will meet (in person, teleconference or video conference) on a monthly basis, or more often as needed, to give each other an update on the results in the Research Program, review the progress of such Research Program and scientific issues relating to such Research Program. The Project Managers may with mutual agreement include members of their scientific teams in such meetings. The Project Managers will prepare and propose decisions on activities under and amendments of the Workplans, promote the performance of the work under the Research Programs and ensure that such work is done as agreed under the Workplans.

2.3.3. Reports. Each Party's Project Manager for the relevant Research Program shall provide the members of the Joint Steering Committee with written updates regarding its Party's activities under the Workplan, including summary results and analyses thereof, prior to each JSC meeting. In addition, within [***] days after the end of each year of the relevant Research Period and at the end of such Research Period, each Party's Project Manager will provide the Joint Steering Committee with a written report regarding its Party's activities under the Workplan, including protocols, experimental procedures, results, analyses thereof and conclusions for the previous [***] month period (or in the case of the report at the end of the Research Period, for the period since the previous written report) in the format and containing the level of detail described in **Exhibit 2.3.3**. At the request of a Project Manager, the Project Managers for the relevant Research Program and members of the relevant scientific teams will discuss any questions raised by either Party regarding the contents of such reports.

2.3.4. Use of Contractors. Each Party may use contractors (including Affiliates) to perform, on its behalf and for its benefit (on a work-for-hire basis), [***] (unless agreed otherwise by the Parties) activities designated as such Party's task under the relevant Workplan, provided that any such contractor (except for Affiliates of Bayer used as contractor of Bayer or Affiliates of Compugen used as contractor of Compugen) has been approved in advance by both Project Managers or, if the Project Managers do not reach agreement on the choice of contractors, by the Joint Steering Committee and enters or has entered into an agreement with such Party obligating such contractor to all confidentiality, publication and intellectual property-related provisions of this Agreement, applicable to such Party (subject to exceptions with respect to the publication limitations which may be approved by the Joint Steering Committee on a case-by-case basis). Each Party shall be solely responsible for the supervision and direction of contractors performing activities designated as such Party's task under such Workplan and shall be solely liable for any damage, injury or harm caused by such contractors. Without limiting the foregoing, the Parties agree that for purposes of the work to be performed by [***], a [***] of [***] in accordance with the stage entitled [***] of the CGEN-15001T Workplan and the stage entitled [***] of the CGEN-15022 Workplan, [***] will be a contractor of Compugen or its Affiliate, regardless of the fact that [***].

2.3.5. Compliance. Each Party agrees to comply with all laws, governmental regulations and guidelines applicable to the performance of the activities that it is responsible for under the relevant Workplan.

2.3.6. Records. Each Party shall prepare and maintain, or cause to be prepared and maintained, complete and accurate written records pertaining to its respective activities within each Research Program in sufficient detail and in good scientific manner, which shall be complete and accurate and shall fully and properly reflect the work done and results achieved in the performance of its respective activities under the Research Program, and which shall be retained by such Party for at least [***] years after the expiration or termination of this Agreement, or for such longer period as may be required by any applicable law. Each Party shall make such records available for inspection by the other Party at all reasonable times, and deliver copies of such records to the other Party at the other Party's reasonable request and cost.

2.3.7. Material Transfer.

2.3.7.1. General. From time to time, each of Bayer (or any of its Affiliates) and Compugen (or any of its Affiliates) may transfer biological materials to the other for purposes of the Research Programs and the development of Products and Product Companion Diagnostics. Each Party understands that biological materials transferred by the other Party or its Affiliates are experimental in nature and neither Party makes any representation or warranty, express or implied, as to the identity, ownership, purity, utility, safety or activity of such biological materials. Neither Party shall be liable for any loss, harm, illness or other damage or injury arising from the other Party's or its Affiliate's receipt, handling, use or disposal of any such biological materials, except to the extent attributable to the transferring Party's or its Affiliate's own gross negligence or willful misconduct. Further, neither Party makes any representation or warranty that the use of the biological materials transferred by it or its Affiliate will not infringe any Third Party intellectual property rights. Each Party and its Affiliates shall use the other Party's biological materials only for the purposes of performing its obligations or exercising its rights under this Agreement. Neither Party shall transfer the other Party's material to any Third Party, except to contractors or collaborators of such Party for the purposes authorized by this Agreement. For the avoidance of doubt, after the Research Program, unless Compugen notifies Bayer of limitations on the transfer of any biological materials (other than Target Biologics and/or Target Biomarkers) provided by Compugen that are imposed by agreements Compugen is party to, Bayer is free to share biological materials provided by Compugen to Bayer (including, inter alia, Target Biologics), other than ***[***]***, with Third Parties solely for the purpose of the research and development of Products and/or Product Companion Diagnostics without any reporting obligation to, or requirement of authorization by, Compugen and provided that Bayer remains liable to Compugen with respect to any such use. Each Party will use the other Party's biological materials in accordance with all applicable laws, regulations and governmental guidelines.

2.3.7.2. [***] **Protein Controls.** The Parties agree that the CGEN-15001T Research Program may benefit from the use, as research reagents, of certain Compugen proprietary material [***] ("[***] **Protein Controls**") and that the CGEN-15022 Research Program may benefit from the use, as research reagents, of certain Compugen proprietary material [***] ("[***] **Protein Controls**"). Bayer understands that [***] Protein Controls and [***] Protein Controls are part of Compugen therapeutic development programs that are not subject to this Agreement (the "[***] **Protein Program**" and the "[***] **Protein Program**", respectively). The [***] Protein Program and the [***] Protein Program will each be referred to as a "[***] **Protein Program**". The Parties contemplate that Compugen will provide Bayer (a) certain [***] Protein Controls for [***] specifically set forth in the CGEN-15001T Workplan or [***] otherwise specifically agreed to by [***]; and (b) certain [***] Protein Controls for use in certain activities specifically set forth in the CGEN-15022 Workplan or [***] otherwise specifically agreed to by [***]. The [***] Protein Controls and [***] Protein Controls provided by Compugen or its Affiliate to Bayer or its Affiliate shall be referred to as **"**[***] **Protein Controls"**. [***] Protein Controls provided by Compugen for purposes of the Workplans, as existing on the Effective Date, will be [***] along with information regarding the [***] and/or other [***] of the [***] Protein Controls. Compugen shall provide the [***] Protein Controls [***] in the [***] described in the Workplans; such [***] Protein Controls will be [***] form and quality [***]. In addition to the provisions of Section 2.3.7.1, the following provisions will apply to use of such [***] Protein Controls provided by Compugen to Bayer:

(a) Notwithstanding [***], Bayer shall not be entitled to [***] Protein Controls to any [***], other than [***] of Bayer who are [***] (as described in the next sentence) on behalf of Bayer. Bayer and its [***] may use such [***] Protein Controls solely for performance of the [***] or otherwise specifically [***] as tasks involving the use of such [***] Protein Controls.

(b) Bayer shall not, and shall ensure that its Affiliates, contractors and collaborators shall [***] the [***] or use [***] Confidential Information regarding the [***] and/or other [***] of the [***] nor any other [***] regarding the [***] provided by Compugen on a [***] any other [***] incorporating the [***] of a [***], without the prior express written consent of Compugen in each case;

(c) Bayer shall not, and shall ensure that its Affiliates, contractors and collaborators shall not, [***] to any Third Party results of their use of the [***] Protein Controls, without Compugen's prior written consent; and

(d) Bayer shall within reasonable time, but in any case within [***] days, after becoming aware thereof, [***] to Compugen [***] with respect to Target [***] Proteins, their use or their production (in each case including, without limitation, [***] thereof), that are conceived and/or reduced to practice by Bayer, its Affiliates, contractors and/or collaborators, [***] Compugen or its Affiliates in the performance of work using a [***] Protein Control ("[***] **Protein Invention**"). Any such [***] Protein Invention, whether made by Bayer, any of its Affiliates or any of its contractors or collaborators, solely by Compugen or an Affiliate of Compugen, or jointly by any of the above, shall be [***]. Bayer and its Affiliates [***], and Bayer shall cause its contractors and collaborators [***], any and all of their [***] in and to any and all [***] to Compugen. Upon Compugen's request and at Compugen's expense, Bayer shall [***] and [***] that any relevant Affiliate, contractor and collaborator [***] as Compugen deems [***], in its [***], to enable Compugen to [***] with respect to any of the foregoing. Bayer will, and shall ensure that its Affiliates, contractors and collaborators will, at Compugen's request, provide [***] and [***], as [***] to [***]. Bayer is [***] that its Affiliates, contractors and collaborators [***], and [***] by its Affiliates of, the provisions of this Section 2.3.7.2(d). Bayer shall ensure that its contractors and collaborators are [***] of this Section 2.3.7.2(d) by [***] to which Compugen is [***], prior to [***] to [***] Protein Controls or any Compugen Confidential Information related to Target [***] Proteins.

For the avoidance of doubt, this clause does not limit in any way Bayer's and its Affiliates' right to conduct independent activities that an unaffiliated third party would also be allowed to perform using Target [***] Proteins (e.g. based on publications) without the use of or reference to Compugen Confidential Information; for the avoidance of doubt, (a) Compugen [***] with respect to the results of any such independent activities and (b) [***] is granted by Compugen by implication, estoppel or otherwise with respect to [***] Proteins under any Patents Controlled by Compugen or any of its Affiliates (both except for the right to use [***] Protein Controls pursuant to the terms of the previous paragraph).

2.3.7.3. Use of Target Biologics in Compugen's [***] **Protein Programs.** The Parties agree that Compugen's [***] as part of its [***] may benefit from the use, as research reagents, of certain CGEN-15001T Target Biologics [***] and that Compugen's [***] as part of its [***] may benefit from the use, as research reagents, of certain CGEN-15022 Target Biologics [***]. The Parties further agree that uses by Compugen of such Target Biologics must be restricted to prevent any adverse effect of such uses on the [***] of [***] and/or [***] and, in particular, the intellectual property rights in relation thereto. As a result, the Parties agree that [***], in accordance with the procedure set forth in Section 2.3.7.3.3, certain of such Target Biologics [***] of the Research Programs which Compugen will be entitled to use subject to [***]. The CGEN-15001T Target Biologics and the CGEN-15022 Target Biologics that are [***] in accordance with Section 2.3.7.3.3 will be referred to as [***].

2.3.7.3.1. Allowed uses of Target Biologics [***]: Compugen may use Target Biologics Controls only for [***]. No [***] shall be allowed to be performed by Compugen using Target Biologic [***], unless [***] agrees on any [***] in advance.

2.3.7.3.2. Transfer to third parties: Subject to sentence 2 of this Section 2.3.7.3.2, Compugen is entitled to provide Target Biologic [***] and data relating to such Target Biologic [***] to its Affiliates, contractors and collaborators, solely to [***] within the [***] Protein Programs and with no right of such Affiliates, contractors and collaborators [***] the Target Biologic [***] or [***] to any further third parties; provided that Compugen ensures that any [***] relating to [***] and that Compugen imposes on such third parties obligations with regard to [***] than those agreed between Bayer and Compugen, including, without limitation that third parties [***] relating to such Target Biologic [***] – other than [***] specified in **Exhibit 2.3.7.3.2**– prior to the [***] with respect to such Target Biologic [***] by the Parties (i.e. [***] months after filing date), without Compugen first obtaining the [***]. In any event (including in connection with any publication of the data specified in Exhibit 2.3.7.3.2) Compugen will not make, and will ensure that third parties to which Compugen discloses data relating to Target Biologic [***] will not make, [***], with the exceptions that Compugen does not have to prevent such third parties from making [***] (i) solely vis-à-vis Compugen within the relevant [***] Protein Program on a [***] basis or (ii) solely based on data that is [***], or data relating to Target Biologic Controls, provided by Compugen to such third party pursuant to sentence 1 of this Section 2.3.7.3.2. Compugen may only provide Target Biologic [***] to its Third Party contractors and/or collaborators if (a) such [***] have been [***] not to have [***] or (b) such [***] have been [***] to have [***], but a [***] such [***]. Compugen shall be liable for any non-compliance of its contractors and collaborators with the obligations under this Section 2.3.7.3.2. Compugen shall ensure that its contractors and collaborators are bound by the provisions of this Section 2.3.7.3.2 by agreements pursuant to which Bayer is named as a third party beneficiary, [***] to Target Biologic [***] or any Bayer Confidential Information related to Target Biologic [***].

2.3.7.3.3. Selection of Target Biologic [***]: **Exhibit 2.3.7.3.3** sets forth the criteria that a particular Target Biologic developed in the performance of a [***] needs to fulfill in order to be chosen as a [***] and the timing and procedure for such selection by [***]. The Parties, through the [***], shall [***] suitable CGEN-15001T Target Biologics or CGEN-15022 Target Biologics to serve as Target Biologic [***]. Both Parties agree that for the selection of appropriate Target Biologics [***] for Compugen's [***] Protein Programs [***] for the Target Biologics to [***] for the [***] as determined by the [***] It is understood that in no instance shall any CGEN-15001T Target Biologic or CGEN-15021 Target Biologic that is a [***] or that has, in [***], the [***] as a [***]; provided however, that [***] as a [***], such [***] shall remain a [***] unless [***]. Once any Target Biologics are chosen as Target Biologic [***], Compugen will be entitled to use the [***] such [***] in order to [***] such [***] for [***] in accordance with the provisions of [***].

2.3.7.3.4. Additional provisions on Target Biologic [***]: In addition to the provisions of Section 2.3.7.1, the following provisions will apply to use of Target Biologic [***]:

(a) Compugen shall only be allowed to [***] Target Biologic [***] and TBC Producing Cells [***] according to this Section 2.3.7.3 during the duration of [***]. For clarity, Compugen will be [***] Target Biologic [***] and TBC Producing Cells in accordance with the provisions of Section 2.3.7.3, and to [***] Target Biologic [***] for such use, after [***].

(b) Compugen shall not, and shall ensure that its Affiliates, contractors and collaborators shall not, [***] the Target Biologic [***] and TBC Producing Cells, except that Compugen and its Affiliates, contractors and collaborators may [***] for the purpose of [***] (e.g. [***] with [***] to allow [***] in certain [***]). For clarity, any such modifications shall be deemed [***] and will be subject to the terms of this Section 2.3.7.3;

(c) Compugen shall within reasonable time, but in any case within [***] days after becoming aware thereof, [***] to Bayer any and all [***] with respect to Target Biologics, their [***] or their [***] (in each case including, without limitation, [***] thereof), that are [***] by Compugen, its Affiliates, contractors and/or collaborators, alone or jointly with one another or with Bayer or its Affiliate in the performance of the work using a Target Biologic Control [***]. Any such [***], whether made solely by Compugen or any of its Affiliates or contractors or collaborators, solely by Bayer or a Related Party, or jointly by any of the above, shall be [***] and be [***] in Section [***] and [***] to [***]. In the case of a [***] by a [***] or [***], Compugen shall ensure that such inventions are [***] to Compugen such that they will also be [***]. Compugen will, at Bayer's request, provide all necessary [***] and cooperate with Bayer, as reasonably required to [***]. Compugen is responsible for ensuring that its Affiliates, contractors and collaborators [***], and shall [***] by its Affiliates of, the provisions of this Section 2.3.7.3.4(c). Compugen shall ensure that its contractors and collaborators are bound by the provisions of this Section 2.3.7.3.4 by agreements pursuant to which Bayer is named as a third party beneficiary, prior to obtaining access to Target Biologics [***] or any Bayer Confidential Information related to Target Biologics [***].

2.3.8. **Data Transfer.** The Parties agree that (a) the Research Programs may benefit from Know-How with respect to the [***] of Targets that Compugen has [***] in the [***] with respect to its [***] Protein Programs ("**[***] Program Target Know-How**") and (b) Compugen's [***] respect to the [***] Protein Programs [***] from Program Know-How relating to the [***] of Targets ("**Research Program Target Know-How**"). The Parties agree (i) that Bayer may use the [***] Program Target Know-How [***] and (ii) that, other than for purposes of the Target Programs, Compugen may use such Research Program Target Know-How [***] its [***] Protein Programs.

2.3.9. **Funding.** Subject to Section 2.4, each Party shall bear its own costs and expenses incurred in the performance of the activities to be performed by it under the Workplans.

2.4. **Revisions or Expansions to Workplans.**

2.4.1. Any revision or expansion to a Workplan that may be requested by either of the Parties during the relevant Research Period shall be discussed by the Joint Steering Committee. This includes, without limitation, discussions regarding the effect any such requested revision or expansion will have on the deliverables (including timing) to be provided under the relevant Workplan, the allocation of [***] resources for performance of [***] under the relevant Research Program, and appropriate funding to be provided by [***] to support additional work to be performed by [***] and not contemplated under the then actual Workplan.

2.4.2. If the Joint Steering Committee determines that a Party's request refers to matters that do not materially change the relevant Workplan (such as [***]) and such changes do not impact the [***] to such activity, the Joint Steering Committee shall have the authority to amend the relevant Workplan per such Party's request, and such amendment shall be incorporated into the relevant Workplan by reference.

2.4.3. If the [***] determines that the request refers to matters that materially change the relevant Workplan, or that such changes impact the [***] to such activity, the Steering Committee shall prepare and present to the Parties' authorized personnel a detailed written proposal for such revision or expansion to the relevant Workplan. If such proposal is approved by authorized personnel of each of the Parties, it shall be incorporated into an amendment to this Agreement and an amendment to the relevant Workplan, and will be signed by the Parties.

2.5. **Target** [***]**.** If, with respect to a Research Program, the Parties [***], as set forth in the Workplan for such Research Program (despite also Bayer using [***] to perform its part of the Research Program for such Workplan), and Bayer terminates this Agreement with respect to the relevant Target Program in accordance with Section 14.3, at the request of either Party, the Parties will discuss in good faith the [***] of such [***] to be [***] (including a [***] and [***]); provided that there may be [***] for each [***]. Any such other [***] would be [***] from [***]. If the Parties agree on such a [***], including a [***] and [***] to be provided by [***] to support such [***], this Agreement will be amended accordingly and (a) if the [***] is the [***], to [***] the [***] with such [***], to [***] the [***] and [***] with references to the [***] in such [***] or (b) if the [***] is the [***], to [***] the [***] with such [***], to [***] the definitions of [***] and [***] with [***] to the [***] in such [***] Compugen [***].

Portions of the exhibit, indicated by the mark "[***]," were omitted and have been filed separately with the Securities and Exchange Commission pursuant to the Registrant's application requesting confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

3. Licenses.

3.1. By Compugen to Bayer.

3.1.1. Exclusive Licenses.

3.1.1.1 Target Biologics. Subject to the terms and conditions set forth in this Agreement, Compugen hereby grants to Bayer an exclusive (even as to Compugen, except as set forth in Section 3.1.1.4), worldwide, royalty-bearing license, with the right to grant sublicenses (subject to Section 3.1.3), under the Compugen Intellectual Property and Compugen's interest in Joint Intellectual Property, solely to do or have done further research on and or with Target Biologics in the Field.

3.1.1.2 Products. Subject to the terms and conditions set forth in this Agreement, Compugen hereby grants to Bayer an exclusive (even as to Compugen, except as set forth in Section 3.1.1.4), worldwide, royalty-bearing license, with the right to grant sublicenses (subject to Section 3.1.3), under the Compugen Intellectual Property and Compugen's interest in Joint Intellectual Property, solely to develop, have developed, make, have made and use and have used Target Biologics solely in order to do or have done research on, develop, have developed, make, have made, use, have used, sell, have sold, offer for sale, have offered for sale and import and have imported Products for use in the Field. For clarity, no rights are granted by Compugen with respect to Target Biologics for any other uses.

3.1.1.3 Target Biomarkers. Subject to the terms and conditions set forth in this Agreement, Compugen hereby grants to Bayer an exclusive (even as to Compugen, except as set forth in Sections 3.1.1.4 and 3.3), worldwide, royalty-bearing license, with the right to grant sublicenses (subject to Section 3.1.3), under the Compugen Intellectual Property and Compugen's interest in Joint Intellectual Property solely to do or have done further research on, develop, have developed, make, have made, use, have used Target Biomarkers solely:

(a) for therapeutics research and development purposes; and

(b) subject to Section 3.1.1.4, to do or have done research on, develop, have developed, make, have made, use, have used, sell, have sold, offer for sale, have offered for sale and import and have imported Diagnostics.

3.1.1.4 Exceptions. Notwithstanding the licenses set forth above, Compugen reserves the following rights:

(i) on behalf of itself, its Affiliates and its contractors approved in accordance with Section 2.3.4 the right to use and practice the Compugen Intellectual Property and Joint Intellectual Property within the scope of the license granted in Sections 3.1.1.1, 3.1.1.2 and 3.1.1.3 to perform its activities under the Research Programs (for clarity, including the right to license such Affiliates and contractors approved in accordance with Section 2.3.4 under Joint Intellectual Property to do the same);

(ii) on behalf of itself and its Affiliates, contractors and collaborators, the right to use and practice the Compugen Intellectual Property and Joint Intellectual Property to [***] solely to [***] with [***], including without limitation for the [***] (for clarity, including the right to [***]), *provided that* Compugen will [***] on [***] and thereafter up until the earlier of (1) [***] with respect to a [***] from the [***] and (2) [***] years following the Effective Date, [***] provide Bayer with the following information: (x) whether [***] for [***], (y) [***] of [***], and (z) to the extent that the [***] of the [***] to [***] of [***] and/or that the [***] have [***], [***], (for example: based on [***], and [***]) as a [***] of the [***] of such [***] and, upon request of Bayer, further [***] including [***] of [***]; and

(iii) on behalf of itself and its Affiliates, contractors and collaborators, the right to use and practice the Compugen Intellectual Property and Joint Intellectual Property to [***] or have [***] for [***] purposes solely to support [***] and [***] of [***] (for clarity, including the right to [***]), *provided that* if and to the extent that those studies [***] that the [***] have [***] (in Compugen's [***]) as a [***], Compugen will [***] on [***] and thereafter up until the earlier of (1) [***] and (2) [***] years following the Effective Date, [***] provide Bayer with a detailed description of the [***] of the [***] that [***] and, upon request of Bayer, with further [***] including [***].

In addition, Bayer undertakes that it shall not, and to ensure that its Affiliates will not, [***] to use [***] to [***].

3.1.1.5 For the avoidance of doubt, the licenses granted above do not limit in any way the Parties' and their Affiliates' right to conduct independent activities that a Third Party would also be allowed to perform (e.g. based on publications or Target Biologics obtained from a Third Party who did not make use of Compugen Intellectual Property nor of Joint Intellectual Property in developing or making such Target Biologics).

3.1.2 **Affiliates and Contractors.** The licenses granted to Bayer under Section 3.1.1 include the right to have some or all of Bayer's rights under Section 3.1.1 exercised or performed by one or more of Bayer's Affiliates on Bayer's behalf and/or by one or more contractors on Bayer's behalf or on behalf of an Affiliate of Bayer without such right being deemed a Sublicense; provided however that:

3.1.2.1 with respect to contractors of Bayer or of an Affiliate of Bayer, no such contractor or Affiliate shall be entitled to grant, directly or indirectly, to any Third Party any right of whatever nature under, or with respect to, or permitting any use or exploitation of, any of the Compugen Intellectual Property or Joint Intellectual Property, including any right to develop, manufacture, market or sell Products or Diagnostics; and

3.1.2.2 any act or omission taken or made by an Affiliate or contractor of Bayer or by a contractor of an Affiliate of Bayer under this Agreement will be deemed an act or omission by Bayer under this Agreement.

3.1.3 **Sublicenses.**

3.1.3.1 **Sublicense Grant.** Bayer will be entitled to grant Sublicenses to third parties subject to the terms of this Section 3.1.3; provided that with respect to the development of Products under a Target Program, Bayer may only grant a Sublicense to a [***] that (a) in Bayer's [***] has the [***] to [***] in accordance with the [***], and (b) is, in Bayer's [***] and [***] all [***] obligations of Bayer under this Agreement. Any such Sublicense shall be on terms and conditions in compliance with and not inconsistent with the terms of this Agreement. Bayer may grant Sublicenses only pursuant to written agreements, which will be subject and subordinate to the terms and conditions of this Agreement. Such Sublicense agreements will contain, among other things, the following:

(a) all [***] to [***] to [***] under this Agreement;

(b) if the [***], a provision stating that [***]with, and [***], including without limitation those relating to the [***].

In addition, in negotiating Sublicense agreements, Bayer will use good faith efforts to include in such Sublicense agreement a provision enabling Bayer to terminate such Sublicense agreement if the Sublicensee or an Affiliate of the Sublicensee commences an action in which it challenges the validity, enforceability or scope of any of the Compugen Patent Rights, provided that (in light of possible changes in applicable [***] law) Bayer will be [***] if and to the extent, in Bayer's [***], there is a risk that such a [***] would [***] then applicable [***] law.

3.1.3.2 Delivery of Sublicense Agreement. Bayer shall furnish Compugen with a fully executed copy of any Sublicense agreement and any amendment to a Sublicense agreement, promptly after its execution. Bayer may redact such copies to the extent necessary to preserve the confidentiality of proprietary information that is not relevant to Compugen's rights or Bayer's obligations under this Agreement, provided that sufficient information remains unredacted to allow Compugen to assess whether Bayer is in compliance with its obligations under this Agreement and to verify amounts owed to Compugen in connection with such Sublicense. Compugen shall keep all such copies of such agreements in its confidential files and shall use them solely for the purpose of monitoring Bayer's and Sublicensees' compliance with their obligations hereunder and enforcing Compugen's rights under this Agreement.

3.1.3.3 Breach by Sublicensee. In the case of any act or omission by any Sublicensee of Bayer that would have constituted a material breach of this Agreement by Bayer entitling Compugen to terminate this Agreement in accordance with Section 14.3.3 had it been the act or omission of Bayer hereunder, (a) Bayer will take reasonable steps to cause such material breach to be cured (if curable) in a timely manner or (b) if such material breach cannot be cured in a timely manner, Bayer will notify Compugen of such material breach promptly after Bayer, cumulatively, becomes aware of the relevant act or omission of the Sublicensee and understands both that such act or omission constitutes a material breach and that such material breach is not curable, and [***] will [***] the appropriate measures to be taken, which may include termination of the Sublicense. Compugen will not have the right to terminate this Agreement on account of such material breach by such Sublicensee, if (i) such breach is cured in a reasonable time period or (ii) Bayer discusses with Compugen possible courses of action, and terminates such Sublicense agreement based on a right to terminate the Sublicense agreement (which Bayer undertakes to include in the Sublicense agreement) if such material breach is not cured within [***] days and Compugen requests Bayer to terminate the Sublicense agreement due to such failure to cure the material breach.

3.1.4 Technology Transfer.

3.1.4.1 Within [***] weeks of the Effective Date, Compugen shall, [***], deliver to Bayer or its designated Affiliate or Sublicensee, in whatever form Bayer may reasonably request, true and complete copies of all written, graphic or electronic embodiments of the Compugen Intellectual Property. Thereafter, on a continuing basis during the term of the Agreement, Compugen shall, without [***], and shall cause its Affiliates to, [***] after Compugen both (a) becomes aware of any additional Compugen Intellectual Property and (b) understands that the relevant Know How is Compugen Intellectual Property, disclose and deliver to Bayer or its designated Affiliate or Sublicensee, in whatever form Bayer may reasonably request, true and complete copies of all written, graphic or electronic embodiments of all additional Compugen Intellectual Property which comes into existence from time to time. For clarity, the transfer obligation under this Section 3.1.4 excludes information specifically relating [***] and/or [***] Proteins (other than the information provided under [***]).

3.1.4.2 Without prejudice to the generality of Section 3.1.4.1, during the term of the Agreement, Compugen shall, without [***], provide Bayer or its designated Affiliate or Sublicensee with reasonable technical assistance relating to the use of the Compugen Intellectual Property for the purposes of Related Party's acquisition of expertise on the practical application of the Compugen Intellectual Property or for the provision of assistance to the applicable Related Party on issues arising during exploitation of the Compugen Intellectual Property. If visits of Compugen representatives to the facilities of the applicable Related Party are reasonably requested, Compugen shall send appropriate representatives to such facilities, provided that Bayer shall [***] for its [***] and [***] for such [***].

3.2 By Bayer to Compugen.

Subject to the terms and conditions set forth in this Agreement, Bayer hereby grants Compugen a worldwide, fully-paid up, royalty-free, non-exclusive, not sub-licensable (other than to Compugen Affiliates and contractors approved in accordance with Section 2.3.4) license under (i) Program Know-How and Program Inventions owned by Bayer in accordance with Section 8.1.2.1, (ii) Bayer's interest in Joint Intellectual Property and (iii) under other Know How provided by Bayer to Compugen for purposes of performance of the Research Programs, limited to the Research Period, solely for the purpose of performing Compugen's activities under the Workplans.

3.3 Availability for Compugen.

(a) Bayer hereby undertakes to use good faith efforts to ensure that with respect to Companion Diagnostics, Compugen and its Affiliates, collaborators and licensees will have access, under terms [***] (or in the event [***]), to the [***] (i.e. [***]). If Bayer is [***] Compugen, its Affiliates, collaborators and/or licensees, [***]. In such case, Compugen, its Affiliates, collaborators and/or licensees (as the case may be) may [***] an Affiliate, collaborator or licensee [***] and will perform [***] under which Compugen, its Affiliates, collaborators and/or licensees (as the case may be) [***], under terms [***]. If, cumulatively, (i) [***] between [***] (as the case may be) and [***] developing [***] do not [***] within [***] of the date Compugen, its Affiliates, collaborators and/or licensees (as the case may be) [***] and (ii) Compugen, its Affiliates, collaborators and/or licensees (as the case may be) and [***] are [***] with respect to a [***], notwithstanding the [***], Compugen and its Affiliates will have the [***] and [***] and [***] (including the right to [***]) solely to do or have done [***] on, [***], have [***], have [***] (i.e. a [***]).

(b) If Compugen or its Affiliate wishes to [***] (for the avoidance of doubt, on [***] basis) as a commercial product (for Compugen and/or for a licensee of Compugen) a Target Biomarker for [***] (e.g. [***]) than the one [***] (or if [***]), the procedure will be as follows: [***] of its interest [***], and shall [***] of such a product [***]. Bayer may [***] or [***], at that time, [***] or [***] the [***]. If, following a [***] of [***], [***] does not (i) enter into [***] in relation to [***] refers to within [***] after this [***] (or, if [***] after [***]), or (ii) [***] with its [***] in relation to the [***] that the [***], which period will be extended by an additional [***] month period if Bayer and its [***]), Bayer will be [***]. If, from the date when [***], neither [***] (i) [***] with a [***] within [***] or (ii) [***] with [***] in relation to the [***] of a [***] within a period of [***] which will be extended by an additional [***] period if [***] (or its licensee, as applicable) and [***] are still in [***], [***] of the [***] of a [***] will be [***]. For the avoidance of doubt, if, after [***], Compugen again becomes [***], the process described in this Section 3.3 (b) will [***]. If, following [***], [***], its Affiliate or its licensee thereafter [***] with a [***] use [***] to ensure that [***] to such assay [***] than those agreed upon between [***] (or its Affiliate or licensee) and its contract partner (or in the event [***] its Affiliate or licensee develops such an assay, on reasonable terms).

3.4 **No Other License or Grant of Rights.** Except as expressly provided in this Agreement, nothing in this Agreement shall be construed to confer any ownership interest, license or other rights upon a Party by implication, estoppel or otherwise as to any technology, intellectual property rights, products or biological materials of another Party or any other entity.

4. **Exclusivity**

During the Research Period of each Research Program, neither Party shall use a Target of such Research Program to [***] relating to Target Biologics directed against such Target, other than under such Research Program or as otherwise permitted under this Agreement (including without any limitations Sections 2.3.7.3 and 3.1.1.4). If either Party becomes aware that as a result of [***] in [***] that are not [***] that are directed at the [***], using [***], result in the [***], such Party, unless it is prohibited from doing so due to an obligation of confidentiality to a licensee of such Biologic(s), will promptly inform the other Party and both Parties will [***] to keep the Research Program and the project under which such [***] separate.

5. **Development and Commercialization Diligence.**

5.1. **General**. With respect to each Target Program, Bayer shall use Commercially Reasonable Efforts [***] to develop and obtain Marketing Authorization for [***] Product from such Target Program and to commercialize such Product in each of the following major markets: [***] the [***] at least [***] of the [***] in the [***]; and [***] of [***] and [***].

5.2. **Bayer Development Process**. With respect to each Target Program, Bayer will at [***] inform Compugen about the [***] to r[***], made by the [***] in a manner consistent with [***] to [***], to enable [***] of the [***] comply with [***] to [***] to [***]. Bayer will also [***] provide Compugen with [***] and about any [***] and/or [***]. Bayer will [***] to meet the [***] of the next decision point set by the relevant committee. For the avoidance of doubt, any failure of Bayer to reach a new decision point within a specific timeline (including any timelines set by the relevant Bayer internal committee) does not in itself give rise to any right of Compugen to terminate the relevant Target Program, unless Bayer did not [***] to [***]. The effects of any termination of the relevant Target Program by Compugen against Bayer due to violation of diligence obligations will be limited to a right to terminate the relevant Target Program with the effects specified in Section 14.4 and with any other rights specifically on account of such violation of diligence obligations (such as damages, specific performance etc.) being excluded.

5.3. **[***] Report**. Within [***] days after the end of each [***] period ending June 30th or December 31st, as applicable, during the term from completion of the relevant Research Program until termination or expiration of the relevant Target Program, Bayer shall furnish Compugen with a written report setting forth for each Target Program, its and other Related Parties' efforts during the prior [***] period to develop and commercialize Products for such Target Program, including without limitation: (a) [***] (including without limitation [***] described in Section [***]); (b) [***]; and (c) [***]. The report shall also contain a discussion [***] for the then current [***] period. In addition, if Bayer has made changes or foresees changes to the [***] and [***] pursuant to Section 5.2, Bayer shall include in such a report the revised or contemplated [***] and a [***]. Each report shall be broken down by [***] within each Target Program and must contain a sufficient level of detail for Compugen to assess whether Bayer is in compliance with its obligations under Section 5.1 with respect to the relevant Target Program, however, it being understood that the [***] of Bayer's reporting obligation to Compugen shall not [***]. Within [***] days after the delivery of each such report, the Joint Review Committee (as defined below) will meet to review with Bayer the contents of such report and the progress of Bayer's efforts to meet its obligations under this Section 5.

5.4. **Joint Review Committee**. After the end of the first Research Program, the Parties will establish a joint review committee ("**Joint Review Committee**") comprised of an equal number of representatives from each Party. Each Party may change its representatives to the Joint Review Committee from time to time, in its sole discretion, effective upon notice to the other Party of such change. The representatives shall have appropriate technical credentials, experience and knowledge relevant to the development and commercialization of Products. The Joint Review Committee will [***] in [***] under the other provisions of [***]. Additional representatives of a Party may be invited, from time to time by mutual consent of the Parties, to attend Joint Review Committee meetings. [***] with the Joint Review Committee; however, Bayer will [***] to the Joint Review Committee by Compugen. The Joint Review Committee will meet at least [***] (following the receipt of reports as set forth in Section 5.3) at such dates, times and locations as may be determined by the Joint Review Committee with unanimous consent. Alternatively, the Joint Review Committee may meet by means of teleconference, videoconference or other similar communications equipment. [***] will [***][***] associated with [***] participation on the Joint Review Committee. [***] may, at any time upon written notice to [***] disband the Joint Review Committee. If [***] provides such notice of disbandment to [***], the Parties' obligations under this Section 5.4 will terminate, unless and until [***] provides written notice to Bayer that it wishes to reinstate the Joint Review Committee, in which case the Parties' obligations under this Section 5.4 will be reinstated for the period following such notice by [***].

6. **Consideration.**

6.1. **Upfront License Issuance Fee.** For the licenses granted to Bayer under Section 3.1.1, Bayer shall pay Compugen a non-refundable license issuance fee of ten Million US Dollar ($10,000,000), which Compugen is entitled to invoice upon the Effective Date.

Portions of the exhibit, indicated by the mark "[***]," were omitted and have been filed separately with the Securities and Exchange Commission pursuant to the Registrant's application requesting confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

6.2. **Milestone Payments.CONFIDENTIAL TREATMENT REQUESTED**

6.2.1 **First Product Milestones.** With respect to each Target Program, Bayer shall pay Compugen the following milestone payments with respect to [***] Product [***] a Target Biologic from such Target Program (i.e. a CGEN-15001T Target Biologic in the case of the CGEN-15001T Target Program and a CGEN-15022 Target Biologic in the case of the CGEN-15022 Target Program) to reach such milestone, regardless of whether such milestone is achieved by Bayer or another Related Party:

6.2.1.1 [***] US Dollars ($[***]) upon the achievement of [***];

6.2.1.2 [***], US Dollars ($[***]) upon the [***] of [***] as a [***]);

6.2.1.3 [***] US Dollars ($[***]) upon [***] such a Product [***];

6.2.1.4 [***] Thousand US Dollars ($[***]) upon the [***] with such a Product in a [***];

6.2.1.5 [***] US Dollars ($[***]) upon the [***] with such a Product in a [***];

6.2.1.6 [***] US Dollars ($[***]) upon the [***] with such a Product [***] for a [***] with such a Product;

6.2.1.7 [***] US Dollars ($[***]) upon the [***] with such a Product [***] with such a Product;

6.2.1.8 [***] US Dollars ($[***]) upon the [***] with respect to such a Product with a [***], [***] or [***]; for the avoidance of doubt, this milestone, [***];

6.2.1.9 [***] US Dollars ($[***]) upon the [***] in the [***] with respect to the [***] for such a Product;

6.2.1.10 [***] US Dollars ($[***]) upon the [***] in the [***] with respect to the [***] for such a Product;

6.2.1.11 [***] US Dollars ($[***]) upon the [***] in [***] with respect to the [***] for such a Product;

6.2.1.12 [***] US Dollars ($[***]) upon [***] in the [***] with respect to the [***] for such a Product;

6.2.1.13 [***] US Dollars ($[***]) upon the [***] in the [***] with respect to the [***] for such a Product;

6.2.1.14 [***] US Dollars ($[***]) upon the [***] in [***] with respect to the [***] for such a Product;

6.2.1.15 [***] US Dollars ($[***]) upon the [***] in the [***] with respect to the [***] for such a Product;

6.2.1.16 [***] US Dollars ($[***]) upon the [***] in the [***] with respect to the [***] for such a Product;

6.2.1.17 [***] US Dollars ($[***]) upon the [***] in [***] with respect to the [***] for such a Product;

6.2.1.18 [***] US Dollars ($[***]) in the [***] in which [***] for such a Product within such [***] reach [***] US Dollars ($[***]); such amount will be due [***] for the Calendar Quarter in which [***] for such Product in such [***];

6.2.1.19 [***] US Dollars ($[***]) in the [***] in which [***] for such a Product within such [***] reach [***] US Dollars ($[***]); such amount will be due [***] for the Calendar Quarter in which [***] for such Product in such [***]; and

6.2.1.20 [***] US Dollars ($[***]) in the [***] in which [***] for such a Product within such calendar year reach [***] US Dollars ($[***]); such amount will be due together with the payments on royalties in accordance with Section 7.1 for the Calendar Quarter in which [***] for such Product in such [***] reach such milestone.

6.2.2 [***] **Product Milestones.** With respect to each Target Program, Bayer shall pay Compugen the following milestone payments with respect to the [***] Product containing a Target Biologic from such Target Program to reach such milestone, regardless of whether such milestone is achieved by Bayer or another Related Party, provided that such [***] milestone payments shall not be paid if (a) [***], all [***] ("[***] Product") and (b) such [***] did not [***] US Dollars ($[***]) [***] prior to [***]), it being understood that if a milestone payment is not paid with respect to a [***] Product due to the [***] Product becoming [***] Product, Compugen shall be entitled to such milestone payment upon the achievement of such milestone by a [***] Product containing a Target Biologic from such Target Program to reach such milestone.

6.2.2.1 [***] US Dollars ($[***]) upon the [***] with such a Product in [***] for a [***] with respect to such a Product;

6.2.2.2 [***] US Dollars ($[***]) upon the [***] with such a Product in a [***] for a [***] with respect to such a Product;

6.2.2.3 [***] US Dollars ($[***]) upon the [***] with respect to such a Product with a [***] [***], [***] and/or [***]; for the avoidance of doubt, this milestone, [***] with respect to the [***] with all [***];

6.2.2.4 [***] US Dollars ($[***]) upon the [***] in the [***] with respect to the [***] for such a Product;

6.2.2.5 [***] US Dollars ($[***]) upon the [***] in the [***] with respect to the [***] for such a Product;

6.2.2.6 [***] US Dollars ($[***]) upon the [***] in [***] with respect to the [***] for such a Product;

6.2.2.7 [***] US Dollars ($[***]) upon the [***] in the [***] with respect to the [***] for such a Product;

6.2.2.8 [***] US Dollars ($[***]) upon the [***] in the [***] with respect to the [***] for such a Product;

6.2.2.9 [***] US Dollars ($[***]) upon the [***] in [***] with respect to the [***] for such a Product;

6.2.2.10 [***] US Dollars ($[***]) upon the [***] in the [***] with respect to the [***] for such a Product;

Portions of the exhibit, indicated by the mark "[***]," were omitted and have been filed separately with the Securities and Exchange Commission pursuant to the Registrant's application requesting confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

6.2.2.11 [***] US Dollars ($[***]) upon the [***] in the [***] with respect to the [***] for such a Product;

6.2.2.12 [***] US Dollars ($[***]) upon the [***] in [***] with respect to the [***] for such a Product;

6.2.2.13 [***] US Dollars ($[***]) in the [***] in which [***] for such a Product within such calendar year reach [***] US Dollar ($[***]); such amount will be due [***] in accordance with [***] for the Calendar Quarter in which [***] such [***] in such [***];

6.2.2.14 [***] US Dollars ($[***]) in the [***] in which [***] for such a Product within such [***] reach [***] US Dollar ($[***]); such amount will be due [***] in accordance with [***] for the Calendar Quarter in which [***] for such [***] in such [***]; and

6.2.2.15 [***] US Dollars ($[***]) in the first [***] in which [***] for such a Product within such [***] reach [***] US Dollar ($[***]); such amount will be due [***] in accordance with [***] for the Calendar Quarter in which [***] for such [***] in such [***].

6.2.3 The milestones set forth in Sections 6.2.1 and 6.2.2 are intended to be [***]. In the event that Bayer [***] any of such milestones for a Product ("**[***]**"), Bayer shall be deemed to have achieved such [***] Milestone when it achieves the [***] milestone for the relevant Product ("**Achieved Milestone**"). Payment for any [***] Milestone that is owed in accordance with the provisions of this Section 6.2.3 shall be reported and paid together with the reporting and payment of the Achieved Milestone, according to Sections 7.1.2.

6.2.4 For the avoidance of doubt, Bayer does not have to pay (a) with respect to either Target Program, any of the milestone payments set forth in Section 6.2.2 [***], or (b) in relation to a specific Product, for any [***].

6.3 Royalties on Net Sales of Products.

6.3.1 Royalties. Bayer shall pay Compugen royalties on [***] Net Sales of each Product in each calendar year, as follows:

6.3.1.1 An amount [***]% of Net Sales of such Product on the [***] US Dollars ($[***]) in [***] Net Sales of such Product in such calendar year;

6.3.1.2 An amount [***]% on the portion of Net Sales of such Product [***] US Dollars ($[***]) in [***] Net Sales of such Product in such [***] up to [***] Net Sales of such Product of [***] US Dollars ($[***]) in such [***];

6.3.1.3 An amount [***]% on the portion of Net Sales of such Product [***] US Dollars ($[***]) in [***] Net Sales of such Product in such [***] up to [***] Net Sales of such Product of [***] US Dollars ($[***]) in such [***];

6.3.1.4 An amount [***]% on the portion of Net Sales of such Product [***] US Dollars ($[***]) in [***] Net Sales of such Product in such [***] up to total Net Sales of such Product of [***] US Dollars ($[***]) in such [***]; and

6.3.1.5 An amount equal to [***]% on the portion of Net Sales of such Product exceeding [***] US Dollars ($[***]) in [***] Net Sales of such Product in such [***].

6.3.2 **Third Party Royalty Set-Off.** If [***] is required (a) in its reasonable judgment to obtain a license from a Third Party to an Infringed Claim that would be infringed by [***] research on, making or using of [***] in the research on, making, using, selling, offering for sale or importing of a [***] in a certain country, and [***] obtains such a license after good faith, arm's length negotiations and consultation with [***], or (b) to make any [***] with respect to the research, making, using, selling, offering for sale or importing of a [***] in any country, [***] may offset an amount of [***] percent ([***]%) of any [***] due as consideration for such license (in the case of (a)) or all such [***] (in the case of (b)) with respect [***] in such country against [***] with respect to [***] on such [***] in such country; provided that in no event shall [***] with respect to any [***] fall below [***] percent ([***]%).

6.3.3 **Payments to Compugen Licensors.** For clarity, nothing herein shall be deemed to impose on Bayer any obligation towards licensors of Compugen (including [***]) on any amounts, if any, due by Compugen to any such licensor on account of consideration received by Compugen under this Agreement.

6.4 **Royalties on Net Sales of Diagnostics.**

6.4.1 Bayer shall pay Compugen an amount [***] percent ([***]%) of all Net Sales of Diagnostics by Bayer and/or its Affiliates.

6.4.2 Bayer shall pay Compugen an amount [***] percent ([***]%) of all Sublicense Diagnostic Sales Income.

6.5 **Non-Royalty Sublicense Income.** Bayer shall pay Compugen the following amounts on Non-Royalty Sublicense Income:

6.5.1 **Products.** If the relevant Sublicense agreement includes rights with respect to one or more Products, Bayer shall pay Compugen the following percentages of Shared Non-Royalty Sublicense Income received for the respective Product(s) and, if applicable, Diagnostics Sublicensed with such Product(s). "**Shared Non-Royalty Sublicense Income**" means all [***], less the sum of, cumulatively, (a) [***] under [***] prior to the date of [***] and (b) an amount equal to [***] under [***] with respect to [***] after the date of [***] and up to and including [***]e is received (for clarity, [***]):

6.**5.1.1** An amount equal to [***] percent ([***]%) of all [***] if the [***];

6.5.1.2 An amount equal to [***] percent ([***]%) of all [***], if the [***], but prior to [***];

6.5.1.3 An amount equal to [***] percent ([***]%) of all [***], but prior to the [***]; and

6.5.1.4 An amount equal to [***] percent ([***]%) of all [***], in connection with [***].

For clarity, in the event [***] upon [***] of a [***] (meaning that the [***], without [***], regardless of whether [***]) under a [***], the effective date of such Sublicense agreement for purposes of determining [***] will be deemed to be [***]. For example, if [***] ([***]%) [***].

6.5.2 **Diagnostics Only.** If the Sublicense agreement includes no rights with respect to the making, using and/or sale of Products (i.e. the Sublicense is solely with respect to the making, using and/or selling of Diagnostics), Bayer shall pay Compugen an amount [***] percent ([***]%) of all Non-Royalty Sublicense Income with respect to such Sublicense.

Portions of the exhibit, indicated by the mark "[***]," were omitted and have been filed separately with the Securities and Exchange Commission pursuant to the Registrant's application requesting confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

6.6 **Royalty Term.** Royalties under Sections 6.3 and 6.4 will be payable on a Product-by-Product, Diagnostic-by-Diagnostic and country-by-country basis until the latest of:

(a) the [***], as the case may be, [***]; provided that if [***], as the case may be[***], [***], such [***] for purposes of this [***] if and when (a) [***] for such [***] or (b) [***] the [***] in accordance with [***]

(b) the [***] of [***] with respect to [***], as the case may be, [***]; and

(c) [***], as the case may be, [***].

6.7 **Blended Royalty Rate.** The Parties acknowledge and agree that [***] justify royalties of differing amounts [***], which royalties could be applied separately to [***], and/or [***] on the one hand and [***] and/or [***] on the other hand, and that if such royalties were calculated separately, royalties [***] would last for different terms. The Parties further acknowledge and agree that the royalty rate [***] would be [***] in the absence of the Parties' agreement to adopt a blended royalty rate as set forth herein and that the terms and structure set forth in this Section 6 were agreed upon for convenience purposes and represent the fair market value of the rights granted hereunder as determined and agreed upon by the Parties.

6.8 **Other Third Party Payments.** For clarity, subject to [***], [***] will be responsible for paying [***] all royalties and other payments owed by [***] in performing work under this Agreement, including [***] any payments due to Third Parties under agreements [***] (e.g. [***]).

7 **Reports; Payments; Records.**

7.1 **Reports and Payments.**

7.1.1 **Quarterly Reports.** Within [***] days after the conclusion of each Calendar Quarter commencing with the first Calendar Quarter in which Net Sales are generated or Non Royalty Sublicense Income or Sublicense Diagnostic Sales Income is received, Bayer shall deliver to Compugen a report containing the following information (in each instance, with a Product-by-Product or Diagnostic-by- Diagnostic, as applicable, and country-by-country breakdown):

7.1.1.1 [***];

7.1.1.2 [***];

7.1.1.3 the total amount of Net Sales with respect to Products for the applicable Calendar Quarter;

7.1.1.4 [***];

7.1.1.5 [***];

7.1.1.6 the total amount of Net Sales with respect to Diagnostics sold, leased or otherwise transferred by Bayer and/or its Affiliates for the applicable Calendar Quarter;

7.1.1.7 a detailed accounting of all Sublicense Diagnostic Sales Income received during the applicable Calendar Quarter;

7.1.1.8 a detailed accounting of all Non-Royalty Sublicense Income received during the applicable Calendar Quarter; and

7.1.1.9 [***].

Each such report shall be confirmed on behalf of Bayer by an authorized officer as true, correct and complete in all material respects. If no amounts are due to Compugen for a particular Calendar Quarter, the report shall so state.

7.1.2 Reports on Milestone Achievement. Bayer shall provide written notice to Compugen of any occurrence of any of the milestones set forth in Section 6.2 of this Agreement no later than [***] days following the occurrence of the relevant milestone.

7.1.3 Invoices. Compugen shall be entitled to invoice all amounts to be paid based on the reports provided by Bayer according to Section 7.1.1 and 7.1.2 directly after receipt of the relevant report.

7.1.4 Payments.

7.1.4.1 Subject to the last sentence of this Section 7.1.4.1, payment will be only made upon receipt of an invoice complying with requirements provided by Bayer to Compugen in writing in advance of the date Compugen is entitled to issue an invoice and according to the following rule: (a) if invoices are received by Bayer at the below address until the [***], then payments shall be made until the [***] in which the invoice was received; and (b) if invoices are received by Bayer at the below address after the [***] of [***], then payments shall be made until the [***] in which the invoice was received. Notwithstanding the sentences above, the upfront license issue fee according to Section 6.1 shall be paid within [***] days upon receipt of the invoice.

7.1.4.2 Payment Address. All invoices shall be sent to the following address:

Bayer Pharma AG
Attn: [***]
c/o Rechnungseingangsstelle
D - 51368 Leverkusen
Germany

7.1.4.3 Payments made by Wire Transfer. All payments made to Compugen under the Agreement shall be made by wire transfer to the following bank account of Compugen, or such other bank account as notified by Compugen to Bayer from time to time:

Account Holder:	Compugen Ltd.
Account Number:	[***]
Bank Code:	[***]
SWIFT (BIC):	[***]
IBAN:	[***]

Portions of the exhibit, indicated by the mark "[***]," were omitted and have been filed separately with the Securities and Exchange Commission pursuant to the Registrant's application requesting confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

7.2 Payment Currency.

All payments made under this Agreement will be payable in USD regardless of the countries in which Net Sales are made. Net Sales made in currencies other than USD shall be converted into USD using the average exchange reference rates of the European Central Bank Frankfurt/Main, Germany for the applicable Calendar Quarter as published, in the absence of manifest error, by the European Central Bank on its website (http://www.ecb.int), being currently available under the following link http://sdw.ecb.europa.eu/browse.do?node=2018794. If no USD foreign exchange reference rate is determined by the ECB for the relevant currency, the quarterly average exchange rate based upon the currency exchange rate as published by "FT Guide to World Currencies" of the Financial Times shall be used, the current link of which can be found here:

http://markets.ft.com/ft/markets/researchArchive.asp?report=WORL.

7.3 Records. Bayer shall maintain, and shall cause other Related Parties to maintain, complete and accurate records of Products and Diagnostics that are made, used, sold, leased or transferred under this Agreement, any amounts payable to Compugen in relation to such Products and Diagnostics, and all Sublicense Diagnostic Sales Income and Non Royalty Sublicense Income received by Bayer and its Affiliates, which records shall contain sufficient information to permit Compugen to confirm the accuracy of any reports or notifications delivered to Compugen under Section 7.1. Each Related Party shall retain such records relating to a given Calendar Quarter for [***] years after the conclusion of that Calendar Quarter, during which time Compugen will have the right, at its expense, to cause an independent, certified public accountant to inspect such records during normal business hours for the purposes of verifying the accuracy of any reports and payments delivered under this Agreement and Bayer's compliance with the terms hereof. Such accountant will be entitled to use the services of independent experts (e.g. patent lawyer), as may be needed to properly perform the audit and determine amounts due to Compugen under this Agreement. Such accountant and experts shall not disclose to Compugen any information other than information relating to the accuracy of reports and payments delivered under this Agreement. The Parties shall reconcile any underpayment or overpayment within [***] days after the accountant delivers the results of the audit. If any audit performed under this Section 7.3 reveals an underpayment in excess of [***] percent ([***]%) in any calendar year, [***]. Compugen may exercise its rights under this Section 7.3 only once per year per audited entity and only with reasonable prior notice to the audited entity. The accounts, records and reports related to any particular period of time may only be audited one time under this Section 7.3.

7.4 Late Payments. Any payments due under this Agreement shall be due on such date as specified in this Agreement. Any failure by Bayer to make a payment within [***] days after the date when due shall obligate Bayer to pay interest on the due payment to Compugen. The interest period shall commence on the due date (inclusive) and end on the payment date (exclusive). Interest shall be calculated based on the actual number of days in the interest period divided by [***]. The interest rate per annum shall be equal to the [***] rate calculated by the [***], currently published on [***], fixed [***] Days prior to the due date and reset to the prevailing [***] rate in [***] intervals thereafter, plus a premium of [***] percent ([***]%), or shall be equal to the [***] rate allowed by local legal law provisions, whatever is [***].

7.5 VAT; Withholding and Similar Taxes.

7.5.1 All agreed remunerations are considered to be net of VAT. VAT applies additionally as legally owed, payable after receipt of a proper invoice, which meets all legal requirements according to the applicable VAT law.

7.5.2 Bayer shall be entitled to deduct and withhold from the amount payable the tax which Bayer is liable under any provisions of tax law to withhold. If the withholding tax rate is reduced according to the regulations in the Double Tax Treaty, no deduction shall be made or a reduced amount shall be deducted only if Bayer is timely furnished with necessary documents (Freistellungsbescheid) by Compugen issued by the German Tax Authority (Bundeszentralamt für Steuern), certifying that the payment is exempt from tax or subject to a reduced tax rate. Bayer shall inform Compugen promptly regarding any documentation it requires from Compugen for obtaining such exemption or reduction. Any withheld tax shall be treated as having been paid by Bayer to Compugen for all purposes of this Agreement. Bayer shall timely forward the tax receipts certifying the payments of withholding tax on behalf of Compugen. In case Bayer cannot deduct the withholding tax due to fulfillment of payment obligation by settlement or set-off with respect to taxes that should have been withheld, Compugen will pay the withholding tax to Bayer separately. If Bayer missed to deduct withholding tax but based on an audit performed by the relevant tax authorities during the period permitted for such audit according to applicable law, is still required by tax law to pay withholding tax on account of Compugen to the tax authorities and (a) promptly informs Compugen of such to enable the Parties sufficient time to appeal such decision within the time period allowed for such appeal and (b) actually pays such tax on account of Compugen, Compugen shall assist Bayer with regard to all procedures required in order to obtain reimbursement by tax authorities for amounts so paid or, in case tax authorities will not reimburse Bayer for such withholding tax paid by Bayer, Compugen will immediately refund the tax amount.

8 Intellectual Property.

8.1 Ownership.

8.1.1 Determination of Inventorship. Inventorship of inventions shall be determined in accordance with United States patent law.

8.1.2 Ownership.

8.1.2.1 Bayer shall own all rights, title and interest in and to all Program Inventions and Program Know-How (other than Fusion Protein Inventions) for which each inventor or creator, as applicable, is an employee of Bayer, its Affiliate or a contractor performing a task assigned to Bayer under the Workplan [***].

8.1.2.2 Compugen or its designee shall own all rights, title and interest in and to all (a) Program Inventions and Program Know-How for which each inventor or creator, as applicable, is an employee of Compugen, its Affiliate or a contractor performing a task assigned to Compugen under the Workplan [***] and (b) all Fusion Protein Inventions.

8.1.2.3 The Parties will jointly own all rights, title and interest in and to all Joint Know-How, other than Fusion Protein Inventions. Subject to the exclusive licenses specifically granted under this Agreement, [***] shall have the [***] to [***] and [***] without [***] or to [***].

8.2 Disclosure. Each Party shall notify the other, promptly and in writing, of any Program Invention relating to Targets, Target Biologics, Products and/or Target Biomarkers of which it becomes aware.

Portions of the exhibit, indicated by the mark "[***]," were omitted and have been filed separately with the Securities and Exchange Commission pursuant to the Registrant's application requesting confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

8.3 Patent Filing, Prosecution and Maintenance.

8.3.1 Intellectual Property Committee.

8.3.1.1 The Parties hereby establish an "**Intellectual Property Committee**" that will be responsible for discussing intellectual property rights relating to Program Inventions. The Intellectual Property Committee will be comprised of [***] appointed by each Party, both of whom shall be full or part time employees of the appointing Party and shall have appropriate authority to make the decisions assigned to the Intellectual Property Committee hereunder. Each of Bayer and Compugen may replace its Intellectual Property Committee representative at any time, upon written notice to the other Party.

8.3.1.2 Responsibilities. The Intellectual Property Committee responsibilities will include:

(a) In consultation with patent counsel, discussing, determining and coordinating patent filing and prosecution activities with respect to Joint Inventions, including timing and content of patent applications, country filings and abandonment decisions in various countries, and choosing counsel for preparation and prosecution of Joint Patent Rights; and

(b) Discussing and advising Bayer with respect to patent filing and prosecution activities with respect to Program Inventions solely-owned by Bayer ("**Bayer Program Inventions**") and discussing and advising the Parties with respect to patent filing and prosecution activities with respect to Program Inventions solely owned by Compugen ("**Compugen Program Inventions**") and other Compugen Patent Rights.

8.3.1.3 Decision Making. The Intellectual Property Committee will [***] with respect to Bayer Program Inventions, Compugen Program Inventions or other Compugen Patent Rights. With respect to Joint Inventions, the Intellectual Property Committee will [***]. If the Intellectual Property Committee cannot reach [***], the Parties shall try to [***] through [***] between the [***] and the [***]. If said [***] cannot reach such a decision within [***] calendar days after the date on which the matter is referred to the Parties' [***] listed above, the Parties will [***] by the [***] who will be charged with the duty to [***] of [***], taking into account (a) [***] under this Agreement and [***] in a manner that will [***] and [***] and (b) the [***]. For clarity, if one of the Parties [***], while the other Party [***].

8.3.2 Bayer Program Inventions. Bayer shall have sole control, at its expense and discretion, over the preparation, filing, prosecution and maintenance of Patents covering the Bayer Program Inventions.

8.3.3 Compugen Patent Rights.

Portions of the exhibit, indicated by the mark "[***]," were omitted and have been filed separately with the Securities and Exchange Commission pursuant to the Registrant's application requesting confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

8.3.3.1 **Control.** [***] shall be responsible for the preparation, filing, prosecution, defense (e.g. opposition and other stand-alone invalidity/unenforceability proceedings in accordance with Section 9.7) and maintenance of all Compugen Patent Rights not solely related to [***]. [***] shall be responsible for the preparation, filing, prosecution and maintenance of all Compugen Patent Rights solely related to [***]. The Party responsible for preparation, filing, prosecution and maintenance of certain Compugen Patent Rights as set forth above (the "**Responsible Party**") shall use independent patent counsel reasonably acceptable to the other Party and shall file, prosecute and maintain such Compugen Patent Rights in a country scope as defined in **Exhibit 8.3.3.1**; provided however, that [***] understands that with respect to some of the Compugen Patent Rights, the [***] for [***] and that [***] such Compugen Patent Rights in all of the countries listed in Exhibit 8.3.3.1. In addition, if [***] instructs [***] to prepare, file, prosecute, protect and maintain Patents for which [***] is the Responsible Party in a country not included in Exhibit 8.3.3.1, [***] will do so provided that such instructions are provided sufficiently in advance of the relevant filing deadline. In case such country scope is at the date of the relevant filing, prosecution, defense or maintenance no longer possible, [***] shall prepare, file, prosecute, defend and maintain such Patents in as many countries of the country scope as possible. With respect to Compugen Patent Rights, the Responsible Party shall: (a) [***] and [***], as well as [***]; (b) [***]; (c) [***]; (d) [***] with [***], together with [***] and [***]; and (e) [***]. The Responsible Party shall give the other Party the opportunity to provide comments on and make requests of the Responsible Party concerning the preparation, filing, prosecution, protection and maintenance of the Compugen Patent Rights, and shall consider such comments and requests in good faith. In no event shall [***] abandon any claim within the Compugen Patent Rights covering a [***] without the written consent of [***]. With respect to Compugen Patent rights not solely related to [***] the Parties shall agree on separation of subject matter to the extent possible which shall be further prepared, filed, prosecuted, protected or maintained in separate divisional or continuation applications. [***] shall have full control and decision making authority on such applications not related to [***]. The Parties will reasonably inform and consult with each other and, to the extent possible, will undertake the filing, prosecution and defense of any Patents in a way that will not be detrimental to the prosecution, issuance and validity of Patents that are part of Compugen Patent Rights, or the development or commercialization of the Product. The Party that is not the Responsible Party will cooperate with the Responsible Party and will, on reasonable request of the Responsible Party within [***], provide all requested declarations and other support to enable the Responsible Party to prepare, file, prosecute and maintain the relevant Compugen Patent Rights in accordance with this Section 8.3.3.1.

8.3.3.2 **Expenses.**

8.3.3.2.1 The Parties acknowledge that the Compugen Patent Rights listed in **Exhibit 8.3.3.2.1** also claim targets and antibodies other than [***] will [***] prosecution and maintenance expenses with respect to such applications up to national phase (including national phase entry). However, with respect to any divisional patent applications filed with respect to such Compugen Patent Rights that claim [***] and do not claim targets that are not [***] shall reimburse [***], subject to Section 8.3.3.3 below, for [***] expenses incurred in connection with the [***] ("**Patent Expenses**") of such Compugen Patent Rights incurred by [***] after the Effective Date in the countries listed in Exhibit 8.3.3.1 and in any country not listed in Exhibit 8.3.3.1 requested by Bayer in accordance with Section 8.3.3.1, as follows: (a) if the [***] or [***] and/or [***] shall [***] for [***] such [***]; and (b) if such [***] or [***] subject matter other than [***] that is [***] according to [***], [***] shall [***] for [***] such [***].

8.3.3.2.2 With respect to all Compugen Patent Rights, other than those described in Section 8.3.3.2.1, [***] shall ***reimburse[***]***, subject to Section 8.3.3.3 below, for [***] Patent Expenses incurred by [***] following the Effective Date or, if [***] is the Responsible Party, [***] shall [***] for patent expenses with respect to the preparation, filing, prosecution, defense and maintenance of such Compugen Patent Rights in the countries listed in Exhibit 8.3.3.1 and in any country not listed in Exhibit 8.3.3.1 requested by [***] in accordance with Section 8.3.3.1 or in which [***] otherwise decides to file applications.

Portions of the exhibit, indicated by the mark "[***]," were omitted and have been filed separately with the Securities and Exchange Commission pursuant to the Registrant's application requesting confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

8.3.3.2.3 Patent Expenses to be reimbursed under this Section 8.3.3.2 shall be paid in accordance with Section 7.1.4, 7.2 and 7.4, provided that the invoice of Compugen shall be accompanied by supporting documentation from Compugen in relation to such expenses.

8.3.3.3 Abandonment.

8.3.3.3.1 Should Bayer decide that it does not wish to pay for or does not wish to continue the preparation, filing, prosecution, protection or maintenance of any patent application or patent within Compugen Patent Rights that is a [***] Patent Right in any country listed in Exhibit 8.3.3.1 or in any country not listed in Exhibit 8.3.3.1 in which Bayer previously requested Compugen to file such Compugen Patent Rights in accordance with Section 8.3.3.1 or in which Bayer otherwise filed Compugen Patent Rights, Bayer shall provide Compugen with prompt written notice of such election. Upon receipt of such notice by [***] shall be released from any obligation to reimburse [***] for the expenses incurred thereafter as to such [***] Patent Rights; provided that expenses authorized prior to the receipt by [***] of such notice shall be deemed incurred prior to the notice. In the event of any such abandonment, [***], in its sole discretion, may choose to continue the preparation, filing, prosecution, protection or maintenance of such [***] Patent Right [***]. If a patent is thereafter granted with respect to such [***] Patent Rights, [***] shall promptly inform [***] in writing along with documentation of the relevant decision and [***] shall inform [***] in writing within [***] upon receipt of such notice (including documentation of the relevant decision) whether it wishes to keep or to abandon such [***] Patent Right (if abandoned, each then an "**Abandoned** [***] **Patent Right**"). If [***] wishes to keep such [***] Patent Right, [***] will pay to [***] to [***] costs in connection with such preparation, filing, prosecution, protection or maintenance of such [***] Patent Right [***]. If [***] decides not to pay such amount or fails to pay such amount when due, [***] may choose [***]. In such event, the license [***] will terminate, [***]. [***] shall then [***]without [***], to [***] and to [***].

8.3.3.3.2 [***] is free in its sole discretion to abandon Bayer Product Patent Rights without any obligation to offer such Bayer Product Patent Rights to [***] provided that in the case of a termination of this Agreement in whole or of a Partial Termination by [***] in accordance with Section 14.3.3 or Section 14.3.4 or by [***] in accordance with Section 14.3.1 (without cause), [***] will not abandon those Bayer Product Patent Rights that would, in the case of a Transfer Notice from [***], be covered by any of the licenses granted within such Program Transfer without first allowing [***] to elect to have [***] continue prosecution, maintenance and/or protection of such Bayer Product Patent Rights at [***]'s cost until the [***]-day-period for provision of a Transfer Notice according to Section 14.4.2.1 has expired without receipt of any Transfer Notice by [***]. Should [***] after a Program Transfer decide that it does not wish to continue the prosecution of any [***] that is covered by any of the licenses granted within such Program Transfer, [***] shall provide [***] with written notice of such election. Upon receipt of such notice by [***], [***] shall be released from any obligation to prosecute the relevant Bayer Product Patent Right. In the event of any such abandonment, [***], in its sole discretion, may choose to continue the prosecution of such Bayer Product Patent Right at [***] expense. [***] will cooperate with [***] and will, on reasonable request of [***] within three months after receipt of such request, provide all requested declarations and other support to enable [***] to prepare, file, prosecute and maintain the relevant Bayer Product Patent Rights. For the avoidance of doubt, [***] retains full ownership of such Bayer Product Patent Rights.

8.3.3.3.3 Should Bayer decide that it does not wish to pay for or does not wish to continue the preparation, filing, prosecution, protection or maintenance of any patent or patent application within Compugen Patent Rights that is a [***] Patent Right in any country listed in Exhibit 8.3.3.1 or in any country not listed in Exhibit 8.3.3.1 in which Bayer previously requested Compugen to file such Compugen Patent Rights in accordance with Section 8.3.3.1 or in which Bayer otherwise filed Compugen Patent Rights (each, an "**Abandoned** [***] **Patent Right**"), Bayer shall provide Compugen with prompt written notice of such election. Upon receipt of such notice by [***], [***] shall [***] thereafter as to such [***]; provided that [***] shall be [***]. In the event of any such abandonment, [***] may [***] of such Abandoned [***] Patent Rights [***]. In such event, the [***] by [***] with respect to such [***] will [***], but [***] will [***] under Section [***] such [***] and [***] shall have the [***] and [***].

8.3.4 Joint Patent Rights.

8.3.4.1 **Control.** All Joint Patent Rights shall be filed, prosecuted, defended (e.g. opposition and other stand-alone invalidity/unenforceability proceedings in accordance with Section 9.7) and maintained by the Parties through patent counsel to be agreed upon by the Intellectual Property Committee. Such counsel shall confer with the members of the Intellectual Property Committee and attempt to achieve a consensus in all decisions made relative to the content of applications, the prosecution of the Joint Patent Rights and the content of communications with the relevant patent agencies, prior to any communications with such agencies.

8.3.4.2 **Expenses.** Subject to Section 8.3.4.3 below, Bayer shall [***] with respect to the activities described Section 8.3.4.1.

8.3.4.3 **Abandonment.** Should Bayer decide that it does not wish to pay for or does not wish to continue the preparation, filing, prosecution, protection or maintenance of any patent application or patent within Joint Patent Rights that is a [***] Patent Right (each a "[***] **Joint Patent Right**") in any country listed in Exhibit 8.3.3.1 or in any country not listed in Exhibit 8.3.3.1 in which the Parties filed such Joint Patent Rights in accordance with Section 8.3.4.1, Bayer shall provide Compugen with prompt written notice of such election. Upon receipt of such notice by [***], [***] shall b[***]hereafter as to such [***]; provided that [***] shall be [***]. In the event of any such abandonment, [***], may [***] of such [***]. If a patent is [***], [***] shall promptly [***] and [***] shall [***] within [***] (including [***] of the [***]) whether it wishes to [***] such [***] Patent Right (if [***]"). If [***] wishes to [***] such [***], [***] will pay [***] costs in connection with [***] which [***] is [***] after receipt of [***] request to keep the relevant [***]. If [***] decides [***] or [***] such amount when due, [***], may [***] to [***] hereunder with respect to [***]. If [***] exercises its right to [***] and continues to [***], (a) [***] thereafter shall have the [***] and [***] under such [***] without any duty to a[***] for such [***] and [***] and (b) [***] shall [***] without [***] to [***], and [***] shall then be [***] (except as set forth below in [***]) [***] to [***] (through [***] of [***]) in and to such [***]. In such event, [***] shall have [***] to [***] such [***] in the relevant country(ies) except as shall be [***] to [***] the [***] in such country of any Product for which Bayer is otherwise [***] and [***].

Portions of the exhibit, indicated by the mark "[***]," were omitted and have been filed separately with the Securities and Exchange Commission pursuant to the Registrant's application requesting confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

8.3.4.4 Should Bayer decide that it does not wish to pay for or does not wish to continue the preparation, filing, prosecution, protection or maintenance of any patent or patent application within Joint Patent Rights that is a [***] Patent Right in any country listed in Exhibit 8.3.3.1 or in any country not listed in Exhibit 8.3.3.1 in which the Parties filed such Joint Patent Rights in accordance with Section 8.3.4.1 (each, an "**Abandoned Joint** [***] **Patent Right**"), Bayer shall provide Compugen with prompt written notice of such election. Upon receipt of such notice by [***], [***] shall [***] thereafter as to such [***]; provided that [***] shall be deemed [***]. In the event of any such abandonment, [***], may choose to continue the [***] at its or a Third Party's [***]. In such event, the [***] with respect to such [***], but [***] will [***] under [***] to enforce such [***] and [***] shall have the [***] to enforce such [***] and [***].

8.3.5. **Compugen Program Invention.** Compugen shall have control, at its expense and discretion, over the preparation, filing, prosecution and maintenance of patents and patent applications covering Compugen solely-owned Program Inventions that are not Compugen Patent Rights.

8.4. **Patent Challenge.** If a Related Party commences an action in which it challenges the validity, enforceability or scope of any of the Compugen Patent Rights (a "**Challenge Proceeding**") and the outcome of such Challenge Proceeding is a determination in favor of Compugen, then in addition to any other rights Compugen may have under this Agreement or under applicable law, Bayer shall [***] for all [***]with [***].

9 Enforcement of Patent Rights.

9.1 **Notice.** If Bayer or Compugen becomes aware of any possible or actual infringement of any Compugen Patent Rights, Joint Patent Rights or Bayer Product Patent Rights with respect to the making, use or sale of Products and/or Diagnostics (an "**Infringement**"), that Party shall promptly, and in any event not later than one week after becoming aware of the Infringement, notify the other Party and provide it with details of its knowledge regarding such Infringement.

9.2 Compugen Patent Rights and Joint Patent Rights

9.2.1 **Suit by Bayer**. Bayer shall have the first right (with the right to grant such right to Sublicensees), but not the obligation, to file a lawsuit for patent infringement or otherwise take action in the prosecution, prevention, or termination of any Infringement, including enforcement of Compugen Patent Rights or Joint Patent Rights with respect to an Infringement. Before Bayer commences an action with respect to any such Infringement, Bayer shall consider in good faith the views of Compugen in making its decision whether to sue. Should Bayer elect to bring suit against such an infringer, Bayer shall keep Compugen reasonably informed of the progress of the action and shall give Compugen a reasonable opportunity in advance to consult with Bayer and offer its views about major decisions affecting the litigation. Bayer shall give careful consideration to those views, but shall have the right to control the action. Bayer agrees to vigorously defend the validity and enforceability of each patent subject to Compugen Patent Rights or to Joint Patent Rights on which it files suit. As to a particular patent that is subject to Joint Patent Rights, Bayer at any time may assign all of its right, title and interest in that patent to Compugen and offer Compugen the opportunity to take over the lawsuit, and after such offer all obligations of Bayer under this paragraph with respect to such patent shall cease. Likewise, with respect to a particular patent that is subject to Compugen Patent Rights, Bayer at any time may offer Compugen the opportunity to take over the lawsuit, and after such offer all rights and obligations of Bayer under this paragraph with respect to such patent shall cease. Should Bayer elect to bring suit against such an infringer Compugen agrees to join as party plaintiff in any such suit upon request by Bayer. [***] Bayer agrees to [***] the final decision as to the selection of counsel shall be made by Bayer. Compugen agrees to execute any retainer agreement reasonably requested by such counsel that provides that counsel shall take instructions regarding the lawsuit from Bayer and that waives any actual or potential conflicts of interest between Compugen and Bayer. Except as set forth in the next sentence, the expenses of such suit or suits that Bayer elects to bring, including any reasonable out-of-pocket expenses of Compugen, other than expenses for the time of its employees involved and disbursement involved in connection therewith, incurred in conjunction with the prosecution of such suits or the settlement thereof, [***] and [***] shall hold [***]. Bayer shall be responsible for [***] incurred [***] only to the extent that [***]. Should Compugen desire its own separate counsel, as set forth in Section 9.5, fees incurred by such counsel would be at Compugen's expense. Bayer shall not settle such litigation in a manner that would adversely affect the validity or enforceability of the Compugen Patent Rights or Joint Patent Rights or that would admit fault or wrongdoing by, or impose liability on, Compugen without the prior written consent of Compugen, such consent not be unreasonably withheld or delayed. If Bayer exercises its right to sue pursuant to this Section 9.2.1, it shall first reimburse itself out of any sums recovered in such suit or in settlement thereof for all costs and expenses of every kind and character other than expenses for the time of its employees involved and disbursement involved in connection therewith, including reasonable attorneys' fees, incurred in the prosecution of any such suit. If, after such reimbursement, any funds shall remain from said recovery, then Compugen shall receive an amount equal to [***] percent ([***]%) of such funds and the remaining [***] percent ([***]%) of such funds shall be retained by Bayer.

9.3 **Bayer Product Patent Rights.** Bayer shall have the sole right (with the right to grant such right to Sublicensees), at its discretion, to file a lawsuit for patent infringement or otherwise take action in the prosecution, prevention, or termination of any Infringement or enforcement of patent rights relating the Bayer Product Patent Rights. If Bayer exercises such right with respect to an Infringement occurring during a period in which royalties were due to Compugen on sales of Products covered by such Bayer Product Patent Rights in the country of the Infringement, it shall first reimburse itself out of any sums recovered in such suit or in settlement thereof for all costs and expenses of every kind and character, including reasonable attorneys' fees, incurred in the prosecution of any such suit and if, after such reimbursement, any funds shall remain from said recovery, then Compugen shall receive an amount equal to [***] percent ([***]%) of such funds and the remaining [***]-percent ([***]%) of such funds shall be retained by Bayer.

9.4 **Compugen Program Invention.** Compugen shall have control, at its expense and discretion, over the preparation, filing, prosecution and maintenance of Patents covering Compugen Program Inventions that are not Compugen Patent Rights (i.e. do not cover the Targets, Target Biologics nor Target Biomarkers).

9.5 **Own Counsel.** Each of Bayer and Compugen shall always have the right to be represented by counsel of its own selection and at its own expense in any suit instituted under this Section 9 by the other Party for Infringement.

Portions of the exhibit, indicated by the mark "[***]," were omitted and have been filed separately with the Securities and Exchange Commission pursuant to the Registrant's application requesting confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

9.6 **Cooperation.** Each of Bayer and Compugen agrees to cooperate fully in any action under this Section 9 that is controlled by the other Party, provided that the controlling Party reimburses the cooperating Party promptly for any costs and expenses, other than expenses for the time of its employees involved and disbursement involved in connection therewith, incurred by the cooperating Party in connection with providing such assistance.

9.7 **Declaratory Judgment.** If a declaratory judgment action is brought naming Bayer and/or any of its Affiliates or Sublicensees as a defendant and alleging invalidity or unenforceability of any claims within the Compugen Patent Rights, Bayer shall promptly notify Compugen in writing and Compugen may elect, upon written notice to Bayer within [***] days after Compugen receives notice of the commencement of such action, to take over the sole defense of the invalidity and/or unenforceability aspect of the action at its own expense, unless or until Bayer decides to take action according to Section 9.2.1. Should Compugen elect to take over such defense, Bayer shall have the right to approve the counsel selected by Compugen to represent Compugen and Bayer, such approval not to be unreasonably withheld or delayed.

10 Confidential Information.

10.1 **Definition.** "**Confidential Information**" means information received by one Party or any of its Affiliates (the "**Receiving Party**") from the other Party or any of its Affiliates (the "**Disclosing Party**") that is visibly marked or otherwise indicated as confidential or proprietary or that – without such information being marked or otherwise indicated as confidential or proprietary – the Receiving Party should reasonably understand is confidential to the Disclosing Party, and except that Confidential Information does not include information that: (i) was known to the Receiving Party (or an Affiliate of the Receiving Party) at the time it was disclosed, other than by previous disclosure by or on behalf of the Disclosing Party, as evidenced by written records at the time of disclosure; (ii) is at the time of disclosure publicly known, or later becomes publicly known under circumstances involving no breach of this Agreement by the Receiving Party or by any person or entity to whom Receiving Party discloses such information under Section 10.2; (iii) is lawfully and in good faith made available to the Receiving Party (or an Affiliate of the Receiving Party) by a Third Party who is not subject to obligations of confidentiality to the Disclosing Party with respect to such information; or (iv) is independently developed by the Receiving Party (or an Affiliate of the Receiving Party) without the use of or reference to Confidential Information of the Disclosing Party, as demonstrated by documentary evidence. The terms and conditions of this Agreement and the relationship between Parties shall be considered Confidential Information of each of the Parties for purposes of this Section 10.

For clarity, specific aspects or details of Confidential Information shall not be deemed to be within the public domain or in the possession of the Receiving Party merely because such Confidential Information is embraced by more general information in the public domain or in the possession of the Receiving Party. Further, any combination of individual elements of Confidential Information shall be considered Confidential Information and shall not be considered in the public domain or in the possession of the Receiving Party merely because one or more individual elements of such combination are in the public domain or in the possession of the Receiving Party; rather, such combination shall be considered in the public domain or in the possession of the Receiving Party only if the combination of the individual elements of the combination is in the public domain or in the possession of the Receiving Party.

10.2 **Restrictions.** Receiving Party agrees to maintain Confidential Information of the Disclosing Party in confidence and not disclose such Confidential Information without the prior written approval of the Disclosing Party, or make any use of such Confidential Information, except as required in order for such Party to perform its obligations and exercise its rights under this Agreement. Each Party may disclose the other Party's Confidential Information to those employees or consultants of the Receiving Party and to contractors and (in the case of Bayer) Sublicensees who have a need to know such information for purposes of exercising rights and fulfilling obligations under this Agreement, and are bound by confidentiality and non-use obligations equivalent to those set forth herein. In addition, each Party may disclose the other Party's Confidential Information to Affiliates who have a need to know such information for purposes of exercising rights and fulfilling obligations under this Agreement, provided that the Receiving Party is liable for any non-compliance of its Affiliates with the confidentiality and non-use obligations set forth herein. Receiving Party shall protect Confidential Information of the Disclosing Party by using the same degree of care, but not less than a reasonable degree of care, as it uses to protect its own confidential information of like nature to prevent the unauthorized disclosure of such Confidential Information.

10.3 **Compugen Undertakings with Respect to Certain Compugen Confidential Information.**

10.3.1 Subject to the exceptions set forth in this Section 10.3.1 below, with respect to any Confidential Information within Compugen Know How so long as the exclusive license granted to Bayer under Section 3.1.1 with respect to such [***] is in effect, Compugen shall not disclose such [***] to Third Parties (other than consultants of Compugen who are subject to confidentiality and non-use obligations at least as restrictive as those set forth herein) without, cumulatively, (i) having [***] and (ii) [***] such [***]the [***] and [***] such [***] under [***]. Notwithstanding sentence 1 of this Section 10.3.1 (for the avoidance of doubt, without this sentence 2 of Section 10.3.1 in any way limiting the [***]), Compugen is entitled (a) to disclose such Confidential Information as permitted under Section 2.3.7.3.2; (b) to disclose such Confidential Information under obligations of confidentiality [***] to [***] and to [***] in order to enable Compugen to [***] under [***] and to publicly disclose information described in Exhibit 2.3.7.3.2; (c) unrestrictedly disclose information [***]with respect to or with [***]of [***] and [***]for [***] to [***]; (d) unrestrictedly disclose information specifically with respect to [***] of Targets; and (e) to disclose Confidential Information with respect to [***] and the [***] under obligations of confidentiality on [***] to [***] and to [***] in support of the [***]; provided that in the case of each of (a) through (e), (x) Compugen will not disclose any such Confidential Information with respect to a [***] to a [***], without [***] (y) any agreement pursuant to which Compugen authorizes a Third Party to make use of any such [***] or with respect to [***]of such [***]and [***]unless [***]; and (z) [***]

10.3.2 Notwithstanding Section 10.3.1, Compugen may disclose [***] to Regulatory Authorities in order to (i) obtain, maintain or defend Compugen Patent Rights for which it is a Responsible Party or any Patents specifically relating to [***] or (ii) seek or obtain approval to conduct clinical trials or gain Marketing Authorisation with respect to [***] In addition, the exceptions in Section 10.4.2 and Section 10.4.3 shall apply mutatis mutandis. Compugen will, to the extent possible, undertake the filing, prosecution and defense of any Patents disclosing [***] pursuant to Section 10.3.2 (i) in a way that will [***]with respect to [***]

Portions of the exhibit, indicated by the mark "[***]," were omitted and have been filed separately with the Securities and Exchange Commission pursuant to the Registrant's application requesting confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

10.4 **Exceptions.** Notwithstanding the above:

10.4.1 The Receiving Party may disclose Confidential Information of the Disclosing Party to Regulatory Authorities in order to obtain, maintain or defend Patents or seek or obtain approval to conduct clinical trials or gain Marketing Authorisation with respect to Products or Diagnostics or to otherwise develop, manufacture or commercialize a Product or Diagnostic.

10.4.2 The Receiving Party may disclose Confidential Information of the Disclosing Party and this Agreement as required to comply with any order of a court or any applicable rule, regulation, or law of any jurisdiction or securities exchange, provided that to the extent reasonably possible it (a) shall promptly notify the Disclosing Party and allow the Disclosing Party a reasonable time to oppose such disclosure, (b) shall use reasonable efforts to obtain an appropriate protective order or confidential treatment authorization that preserves the confidentiality of the information to the greatest extent practical and (c) shall limit the scope of such disclosure only to such portion of such Confidential Information that is legally required to be disclosed.

10.4.3 The Receiving Party may disclose a summary report describing the current status and next steps of the Target Program(s) in a general manner without any sensitive information (e.g. information relating to competitive, regulatory, commercial, clinical or scientific topics) and financial terms of this Agreement, which the Disclosing Party will deliver within reasonable time upon a request of the Receiving Party, as follows: (a) [***] and/or (b) [***]who are [***]of (i) [***]or (ii) [***]of this Agreement; provided that in the case of each of (a) and (b), [***] has entered into a written confidentiality and non-use agreement no less restrictive than the terms set forth herein. Such disclosure shall in any event be strictly limited to what is required by [***] for purposes of [***], or [***], and any use by [***] shall be limited to such purpose. Notwithstanding the above, if, in the event of a planned disclosure by Compugen, [***] is a Bayer Competitor, then a disclosure as set forth in this Section 10.4.3 shall be made to an independent attorney and/or accountant (and/or independent third party expert contracted by them) solely for the purpose of allowing such attorney and/or accountant to advise the Receiving Party regarding [***]this Agreement [***] or of [***] without disclosing any Bayer Confidential Information to the Bayer Competitor. The Receiving Party making such disclosure shall remain liable towards the Disclosing Party for compliance of [***] with the terms of confidentiality and non-use as set forth in this Agreement with respect to such Confidential Information.

10.4.4 Each Party (a) shall have the right to disclose this Agreement as required by any securities laws, regulations or stock exchanges, provided, however, that the Party which discloses this Agreement shall give reasonable advance notice, as legally permissible, to the other Party and, at the other Party's request, shall involve the other Party in discussions with the relevant government agency with respect to the items that may be redacted from such disclosure (it being understood that the Parties have a common interest that Confidential Information that does not have to be disclosed, including any details relating to financial terms, will be redacted from the version of the Agreement provided for publications), and (b) may disclose the existence of the relationship created by this Agreement; provided that the other Party shall have the right to review and approve any press release or other public disclosure of such information, such approval not to be unreasonably withheld. For clarity, each Party will be entitled to freely refer to any details disclosed in the press releases to be issued pursuant to Section 10.5 or in any other press release issued by a Party.

Portions of the exhibit, indicated by the mark "[***]," were omitted and have been filed separately with the Securities and Exchange Commission pursuant to the Registrant's application requesting confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

10.5 **Press Releases.** Promptly after the execution of this Agreement, each Party will issue a press release substantially in the form attached hereto (for each Party separately) as **Exhibit 10.5** and will coordinate press releases and other public disclosures regarding the execution of this Agreement and the completion of the Research Programs. Any press release or other public disclosure with respect to this Agreement or the Research Programs is subject to review and approval by the other Party (except as set forth in Section 10.4), such approval not to be unreasonably withheld.

10.6 **Publications.** The Parties acknowledge that publications or presentations relating to the Research Programs must be monitored to prevent any adverse effect from premature publication of results of the Research Programs. Accordingly, all abstracts, manuscripts or presentations containing data related to the activities within the Research Program or results generated in the performance of such Research Program, which have not been previously published, must be provided at least [***] days prior to [***] for publication or presentation in scientific journals and/or at scientific conferences by the submitting Party to the other Party via [***] for its review and comment. The receiving Party will provide any comments to the submitting Party within [***] days of receipt of such proposed abstract, manuscript or presentation, and the submitting Party will [***] as applicable. Without limiting a Party's right under Section 10, a Party may use presentation materials that have been previously approved by a Party for a presentation by the other Party in subsequent presentations having a similar context without additional approvals under this Section 10.6. Notwithstanding the foregoing, Bayer may, in its sole discretion, [***]If Bayer so objects, [***]shall [***]and [***] For the avoidance of doubt, Bayer is free to submit any abstract, manuscript or presentation related to its activities under a Target Program after completion of the Research Program, to the extent that such publication does not contain any Confidential Information of Compugen.

10.7 **Duration.** The foregoing obligations shall remain in force for a period of [***] years following the date of the disclosure of the relevant Confidential Information.

11 Warranties; Disclaimers.

11.1 **Representations and Warranties by the Parties.** Each Party hereby represents, warrants and covenants to the other as of the Effective Date, as follows:

11.1.1 Such Party (a) has the power and authority and the legal right to enter into this Agreement and perform its obligations hereunder, and (b) has taken all necessary action on its part required to authorize the execution and delivery of this Agreement and the performance of its obligations hereunder. This Agreement has been duly executed and delivered on behalf of such Party and constitutes a legal, valid and binding obligation of such Party and is enforceable against it in accordance with its terms subject to the effects of bankruptcy, insolvency or other laws of general application affecting the enforcement of creditor rights**;**

11.1.2 The execution and delivery of this Agreement and the performance of such Party's obligations hereunder do not conflict with, violate, or breach or constitute a default or require any consent under, any contractual obligation or court or administrative order by which such Party is bound; and

11.1.3 It will comply with, and shall ensure that its Affiliates, contractors and Sublicensees comply with, all applicable laws and regulations relating to its activities and the exercise of its rights under this Agreement.

11.2 **Representations, Warranties and Covenants by Compugen**. Compugen hereby represents, warrants and covenants that: (a) it has not granted and will not grant any rights in or to the Compugen Intellectual Property that are inconsistent with the rights granted to Bayer under this Agreement; (b) it has the right to grant the licenses granted by it under Section 3.1 of this Agreement; (c) it will not transfer, assign, encumber, grant, sell, lease or otherwise dispose of the Compugen Intellectual Property in a manner that will adversely affect the rights granted to Bayer under this Agreement; and (d) to its knowledge (it being understood that [***]), it possesses all the rights needed to perform its obligations under the Workplan as currently contemplated; (e) it has no knowledge as of the date hereof of any legal suit or proceeding by a third party against Compugen contesting the ownership or validity of the Compugen Intellectual Property; (f) it has not received as of the Effective Date, with respect to the Compugen Intellectual Property, any notice of infringement or any written communication from or on behalf of the owner of a Third Party patent rights relating in any way to a possible infringement of such Third Party patent rights by its activities with respect to Targets and Target Biologics prior to the date hereof or the activities of either Party contemplated under this Agreement; (g) to the best of Compugen's knowledge, the Compugen Intellectual Property is not subject to any encumbrance, lien or claim of ownership of any Third Party; (h) it is the sole and exclusive owner and/or Controls the Compugen Intellectual Property and to the best of its knowledge the Compugen Intellectual Property has not been misappropriated from a Third Party; (i) to Compugen's knowledge, the documents delivered or made available by Compugen to Bayer in connection with the transaction contemplated by this Agreement (for clarity, excluding any data that [***] do not contain any untrue statement of a material fact nor omit to state a material fact necessary in order to make the statements contained therein not misleading; and Compugen has not knowingly withheld from Bayer any material information concerning the transaction contemplated by this Agreement (or, with respect to documents redacted due to confidentiality obligations of Compugen, knowingly withheld from Bayer the information that such redacted parts contain material information concerning the transaction contemplated by this Agreement, other than the [***] to such redacted documents); (j) the Compugen Patent Rights are being diligently prosecuted and maintained with the respective patent offices in accordance with the local applicable law, and to Compugen's best knowledge, have been filed and maintained properly and correctly and all applicable fees have been paid on or before the final date for payment (including permissible extensions); (k) the Compugen Know-How has been kept confidential or has been disclosed to Third Parties only under terms of confidentiality, and Compugen and its Affiliates are not aware of any breach of such confidentiality by any Third Party; and (l) Compugen has not failed to disclose to Bayer any prior art or fact known to Compugen that causes Compugen to conclude that the Compugen Patent Rights Controlled by Compugen as of the Effective Date are invalid or unenforceable.

11.3 **Warranty Disclaimer**. EXCEPT AS OTHERWISE EXPRESSLY PROVIDED IN THIS AGREEMENT, NEITHER PARTY MAKES ANY WARRANTY WITH RESPECT TO ANY TECHNOLOGY, PATENTS, GOODS, SERVICES, RIGHTS OR OTHER SUBJECT MATTER OF THIS AGREEMENT, AND EACH PARTY HEREBY DISCLAIMS WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE AND NON-INFRINGEMENT WITH RESPECT TO ANY AND ALL OF THE FOREGOING. THE PARTIES ACKNOWLEDGE THAT ANY INFORMATION, BIOLOGICAL MATERIAL AND KNOW-HOW PROVIDED BY ONE PARTY TO ANOTHER HEREUNDER, ARE PROVIDED "AS IS" WITH NO WARRANTIES OF ANY KIND, EXPRESS OR IMPLIED. NEITHER PARTY MAKES ANY WARRANTIES, EXPRESS OR IMPLIED, AS TO ANY MATTER RELATING TO THIS AGREEMENT, INCLUDING, WITHOUT LIMITATION WITH RESPECT TO ANY COMPUGEN INTELLECTUAL PROPERTY, BAYER INTELLECTUAL PROPERTY, PROGRAM KNOW-HOW OR THE PERFORMANCE, CONDITION, ORIGINALITY OR ACCURACY OF THE RESULTS OF THE RESEARCH PROGRAM. SUBJECT TO SECTION 11.2, NEITHER PARTY MAKES ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE WITH RESPECT TO ANY COMPUGEN INTELLECTUAL PROPERTY, BAYER INTELLECTUAL PROPERTY OR PROGRAM KNOW-HOW OR THAT THE USE OR PRACTICE OF ANY OF THE FOREGOING WILL NOT INFRINGE ANY PATENT RIGHTS OR OTHER INTELLECTUAL PROPERTY RIGHTS OF A THIRD PARTY.

12 Limitation of Liability.

Except with respect to a breach of confidentiality obligations under Section 10 or matters for which a Party is obligated to indemnify the other under Section 13 or in circumstances of gross negligence or willful misconduct, neither of the Parties will be liable to the other with respect to any subject matter of this Agreement under any contract, negligence, strict liability or other legal or equitable theory for any indirect, incidental, consequential or punitive damages or lost profits.

Except with respect to any payments due by one Party to the other under this Agreement, breach of confidentiality obligations under Section 10 and a Party's indemnification obligations under Section 13 or in circumstances of gross negligence or willful misconduct, under no circumstance shall a Party's liability to another Party arising out of a breach of this Agreement exceed in the aggregate the amount of [***] US Dollars ($[***]).

13 Indemnification

13.1 Indemnification of Compugen. Bayer shall indemnify, defend and hold harmless Compugen and its Affiliates and their respective directors, officers and employees, and the successors and assigns of the foregoing (the "**Compugen Indemnitees**") from and against any and all liabilities, damages, losses, costs and expenses (including reasonable attorneys' and professional fees and other expenses of litigation and arbitration) resulting from a claim, suit or proceeding brought by a Third Party (including without limitation for infringement of any intellectual property rights) against a Compugen Indemnitee to the extent resulting directly or indirectly from: (a) [***] (b) the negligence or willful misconduct of any Bayer Indemnitee (defined below); or (c) the breach by Bayer of any warranty, representation, covenant or agreement made by it in this Agreement; except in each case to the extent that such claim, suit or proceeding results from the negligence or willful misconduct on the part of any of the Compugen Indemnitees or from the breach by Compugen of any warranty, representation, covenant or agreement made by it in this Agreement.

13.2 Indemnification of Bayer. Compugen shall indemnify, defend and hold harmless Bayer and its Affiliates and their respective directors, officers and employees, and the successors and assigns of the foregoing (the "**Bayer Indemnitees**") from and against any and all liabilities, damages, losses, costs and expenses (including reasonable attorneys' and professional fees and other expenses of litigation and arbitration) resulting from a claim, suit or proceeding brought by a Third Party (including without limitation for infringement of any intellectual property rights) against a Bayer Indemnitee to the extent resulting directly or indirectly from (a) [***] (b) [***] (c) a breach by Compugen of any representation, warranty, covenant or agreement made by it in this Agreement; and/or (d) the negligence or willful misconduct of any Compugen Indemnitee; except in each case to the extent that such claim, suit or proceeding results from the negligence or willful misconduct on the part of any of the Bayer Indemnitees or from the breach by Bayer of any warranty, representation, covenant or agreement made by it in this Agreement.

Portions of the exhibit, indicated by the mark "[***]," were omitted and have been filed separately with the Securities and Exchange Commission pursuant to the Registrant's application requesting confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

13.3 **Procedure**. A Party that intends to claim indemnification under this Section 13 (the "**Indemnitee**") shall promptly notify the indemnifying Party (the "**Indemnitor**") of any loss, claim, damage, liability or action in respect of which the Indemnitee intends to claim such indemnification, and the Indemnitor shall have the right to participate in, and, to the extent the Indemnitor so desires, to assume sole control of the defense thereof with counsel reasonably acceptable to the other Party and with involvement of the Indemnitor's insurance, including, the right to settle the action on behalf of the Indemnitee on any terms the Indemnitor deems desirable in the exercise of its sole discretion, except that the Indemnitor shall not, without the Indemnitee's prior written consent, settle any such claim if such settlement contains a stipulation to or admission or acknowledgment of any liability or wrongdoing on the part of the Indemnitee or imposes any obligation on the Indemnitee other than a monetary obligation, and only to the extent the Indemnitor assumes in full such obligation. The failure to deliver notice to the Indemnitor within a reasonable time after the commencement of any such action shall not impair Indemnitor's duty to defend such action but shall relieve Indemnitor of any liability to the Indemnitee to the extent the Indemnitor is prejudiced materially by the delay. At the Indemnitor's request and cost, the Indemnitee shall cooperate reasonably with the Indemnitor and its legal representatives in the investigation and defense of any action, claim or liability covered by this indemnification and provide full information with respect thereto. Subject to the Indemnitee's fulfillment of its obligations under this Section 13.3, the Indemnitor shall pay any damages, costs or other amounts awarded against the Indemnitee, or payable by the Indemnitee pursuant to a settlement agreement entered into by the Indemnitor, in connection with such claim.

13.4 **Insurance.** Compugen represents, warrants and covenants that (a) it maintains the insurance coverage described in **Exhibit 13.4** hereto, (b) it will during the term of this Agreement maintain insurance sufficient to secure the performance of Compugen's obligations under this Agreement including general liability/public liability (GL), in amounts not less than those set forth in Exhibit 13.4 hereto, and (c) it will upon delivery of a Transfer Notice following termination of this Agreement maintain insurance sufficient to secure the performance of Compugen's obligations under this Agreement, with minimum insurance coverages as follows: (i) upon [***]$[***] (ii) upon [***], $[***], and (iii) $[***] Compugen shall provide Bayer with insurance certificates of the insurances mentioned under (a) to (c) above upon request.

14 Term and Termination.

14.1 **Term of Agreement.** The term of this Agreement shall commence on the Effective Date and, unless earlier terminated in accordance with provisions of Section 14.3 below, shall continue until the end of the last-to-expire period during which Bayer is obligated to make payments to Compugen under Section 6. The term of this Agreement shall survive the non-renewal, termination or limitation of any particular license granted hereunder. Certain rights and obligations of the Parties may be terminated as provided in this Section 14. Following the expiration pursuant to this Section 14.1 (and provided the Agreement has not been earlier terminated pursuant to Section 14.3, in which case the provisions of Section 14.4 will apply), Bayer shall have a [***] under the Compugen [***] and Compugen's interest in [***] with [***] as the licenses specified in Sections 3.1.1.1 to 3.1.1.3.

Portions of the exhibit, indicated by the mark "[***]," were omitted and have been filed separately with the Securities and Exchange Commission pursuant to the Registrant's application requesting confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

14.2 Early Termination of Research Program.

14.2.1 Termination for Breach by Compugen. If Compugen commits a material breach of its obligations under Section 2.3 with respect to its obligations under the CGEN-15001T Workplan or the CGEN-15022 Workplan and fails to take reasonable measures to cure such breach within [***] days after receiving written notice thereof from Bayer, Bayer may terminate the relevant Research Program (i.e. if the breach is with respect to obligations under the CGEN-15001T Workplan, the CGEN-15001T Research Program; if the breach is with respect to obligations under the CGEN-15022 Workplan, the CGEN-15022 Research Program) upon written notice to Compugen. A breach of Compugen's obligations under the CGEN-15001T Workplan or the CGEN-15022 Workplan (but not of both Workplans) shall entitle Bayer to terminate both Research Programs only if the breach is of a general nature and impacts both Research Programs.

14.2.2 Consequences. If Bayer terminates either [***] Program ("**Terminated [***] Program**") pursuant to Section 14.2.1, without prejudice to any other rights and legal remedies that Bayer may have due to such breach of agreement, Compugen will cease all of its work under the Terminated [***] Program, and [***]

14.2.3 Effect on Other Provisions. Except as specifically set forth in this Section 14.2, early termination of the Research Program shall not affect the Parties' rights and obligations under this Agreement.

14.3 Early Termination of Agreement or of a Target Program.

14.3.1 Termination for Convenience. Bayer may terminate this Agreement, either in whole or with respect to one of the Target Programs only, and in each case also on a Product-by-Product (with its applicable Product Companion Diagnostic), and/or country-by country basis, at any time without cause, upon [***] days prior written notice stipulating whether the termination applies to the Agreement in whole or with respect to one of the Target Programs only, and whether it is limited to certain Product(s), and/or countries.

14.3.2 Termination for Breach of Compugen. In the event Compugen commits a material breach of its obligations under any of the Target Programs or under this Agreement as a whole and fails to cure that breach within [***] days after receiving written notice thereof, Bayer may terminate at its choice either this Agreement or the Target Program that the breach relates to immediately upon written notice to Compugen, provided that if (i) the breach is (1) curable, (2) is not an intentional breach, and (3) not susceptible of cure within the stated period and (ii) Compugen uses [***] in a [***] to cure such breach, the stated period will be extended by [***] the nature of the breach and the adverse effect that such breach and any further delay in curing such breach will have on Bayer.

14.3.3 Termination for Breach of Bayer. In the event Bayer commits a material breach of its obligations under this Agreement and fails to cure that breach within [***] days after receiving written notice thereof, Compugen may terminate this Agreement immediately upon written notice to Bayer; provided that

(a) if (i) the breach is (1) curable, (2) is not an intentional breach, and (3) not susceptible of cure within the stated period and (ii) Bayer uses [***] in a [***] to cure such breach, the stated period will be extended by [***] the nature of the breach and the adverse effect that such breach and any further delay in curing such breach will have on Compugen.

(b) if the material breach relates solely to Bayer's breach of its diligence obligations under Section 5 with respect to one of the Target Programs (and not to the other) and at such time the Agreement has not been terminated with respect to the other Target Program, Compugen may only terminate this Agreement with respect to the Target Program with respect to which such material breach applies.

14.3.4. Termination for Patent Challenge. Compugen may terminate this Agreement immediately upon written notice to Bayer if Bayer or an Affiliate of Bayer commences an action or assists a Third Party in commencing an action in which it or such Third Party challenges the validity, enforceability or scope of any of the Compugen Patent Rights.

14.4 Effect of Termination of Agreement.

14.4.1 General.

14.4.1.1 Termination of Agreement. Upon termination of this Agreement by either Party pursuant to any of the provisions of Section 14.3, without prejudice to other claims and remedies, the following provisions shall apply:

(a) the rights and licenses granted to Bayer under this Agreement shall terminate, all rights in and to and under the Compugen Intellectual Property and Compugen's interest in the Joint Intellectual Property will revert to Compugen and neither Bayer nor its Affiliates may make any further use or exploitation of the Compugen Intellectual Property;

(b) except with respect to a Target Program(s) for which Compugen provides Bayer a Transfer Notice in accordance with Section 14.4.2.1, the rights and licenses granted by Bayer to Compugen under this Agreement will terminate, all rights in and to and under the Bayer Intellectual Property and Bayer's interest in the Joint Intellectual Property will revert to Bayer and neither Compugen nor its Affiliates may make any further use or exploitation of the Bayer Intellectual Property. For clarity, such rights will not terminate with respect to Targets, Target Biologics or Target Biomarkers relating to the Transferred Part (as defined in Section 14.4.2.1); and

(c) any existing agreements that contain a Sublicense shall terminate to the extent of such Sublicense, provided that if the Agreement is terminated by Compugen, with respect to each Sublicensee that is not, at the date of termination, an Affiliate of Bayer, if (i) the Sublicense was granted in conformance with the terms of this Agreement, (ii) the Sublicensee is not then in material breach of its Sublicense agreement with Bayer such that Bayer would have the right to terminate such Sublicense, and (iii) Compugen has been paid all consideration due to Compugen under this Agreement with respect to the Sublicense, Compugen shall be obligated, at the request of such Sublicensee, to enter into a direct license agreement with such Sublicensee on substantially the same terms as those set forth herein, which shall not impose any representations, warranties, obligations or liabilities on Compugen that are not included in this Agreement, and further provided that (x) the [***] of the license granted directly by Compugen to such Sublicensee shall be [***]; and (y) if the Sublicense granted to such Sublicensee was [***], such Sublicensee shall [***] under the license granted to it directly by Compugen; and

(d) Bayer shall promptly destroy, or at Compugen's request, deliver to Compugen, all Compugen Know-How and Compugen biological material in Bayer's, its Affiliates' and Sublicensees' possession;

(e) except with respect to a Target Program(s) for which Compugen provides Bayer a Transfer Notice in accordance with Section 14.4.2.1, Compugen shall promptly destroy, or at Bayer's request, deliver to Bayer, all Bayer Know-How and Bayer biological material in Compugen's or its Affiliates' or contractors' possession. For clarity, Compugen shall not be required to destroy nor deliver to Bayer any such Bayer Know-How or Bayer biological material relating to or used in the Transferred Part (as defined in Section 14.4.2.1); and

(f) Bayer will not have to pay any more milestone payments except those milestone payments with respect to milestones that were achieved prior to the termination of the Agreement.

14.4.1.2 Partial Termination. Upon termination that is limited to one of the Target Programs (by either Party) or to certain Products (together with their applicable Product Companion Diagnostics) and/or countries (by Bayer) pursuant to any of the provisions of Section 14.3 (such partial termination hereinafter referred to as "**Partial Termination**" and the subject-matter of such termination hereinafter referred to as "**Terminated Part**"), the following provisions shall apply:

(a) the rights and licenses granted to Bayer under this Agreement with respect to the Terminated Part, including without limitation with respect to the Targets, Target Biologics and Target Biomarkers to the extent they are covered by the termination, shall terminate, all rights in and to and under the Compugen Intellectual Property and Compugen's interest in the Joint Intellectual Property relating to the subject matter of the Terminated Part ("**Terminated Part IP**") will revert to Compugen and neither Bayer nor its Affiliates may make any further use or exploitation of the Terminated Part IP;

(b) any existing agreements that contain a Sublicense under the Terminated Part shall terminate to the extent of such Sublicense; provided that in the case of termination of a Target Program by Compugen, with respect to each Sublicensee of subject matter of such Target Program that is not, at the date of termination, an Affiliate of Bayer, if (a) the Sublicense was granted in conformance with the terms of this Agreement, (b) the Sublicensee is not then in material breach of its Sublicense agreement with Bayer such that Bayer would have the right to terminate such Sublicense, and (c) Compugen has been paid all consideration due to Compugen under this Agreement with respect to the Sublicense, Compugen shall be obligated, at the request of such Sublicensee, to enter into a direct license agreement with such Sublicensee on substantially the same terms as those set forth herein as they relate to such Terminated Program, which shall not impose any representations, warranties, obligations or liabilities on Compugen that are not included in this Agreement, and provided further that (x) the scope of the license granted directly by Compugen to such Sublicensee shall be co-extensive with the scope of the license granted by Bayer to such Sublicensee and (y) if the Sublicense granted to such Sublicensee was non-exclusive, such Sublicensee shall not have the right to participate in the prosecution or enforcement of the Compugen Patent Rights, Joint Patent Rights or Bayer Product Patent Rights under the license granted to it directly by Compugen; and

(c) Bayer shall promptly destroy, or at Compugen's request, deliver to Compugen, all Compugen Know-How and Compugen biological material in Bayer's, its Affiliates' and Sublicensees' possession provided in connection with Terminated Part.

14.4.2 **Termination by Compugen for Cause or by Bayer without Cause.** In addition to the above, in the case of termination of the Agreement in whole or of a Partial Termination by Compugen in accordance with Section 14.3.3 or Section 14.3.4 or by Bayer in accordance with Section 14.3.1 (without cause), the following provisions shall apply:

14.4.2.1 Compugen shall have an option, exercisable by the provision of written notice to Bayer within [***] days of the effective date of such termination (**"Trigger Date"**), to have (a) either Target Program or both Target Programs (in the case of a termination of the Agreement) or (b) the Terminated Part (in the case of a Partial Termination), transferred to Compugen. Such notice (a "**Transfer Notice**") will state which Terminated Part(s) is/are to be transferred (each, a "**Transferred Part**"). If Compugen provides a Transfer Notice within such [***] day period, Bayer shall, to the extent the respective transferred or licensed items referred to below are Controlled by Bayer or its Affiliates and if and to the extent Bayer or its Affiliates have the right to make such transfer or grant such license (with respect to each transferred or licensed item subject to [***] by Compugen of [***], including, without limitation, [***], as the case may be, that [***] relating to [***]), promptly (a) transfer and assign to Compugen, upon Compugen's request, all data, study reports, biological, chemical and written materials and information relating to Target Biologics, Target Biomarkers, Products and/or Product Companion Diagnostics developed or used by Bayer in the Transferred Part(s), including (if [***]) any [***] performed in such Terminated Part with the exception of [***] that also include [***] which is not a Target Biologic of the Transferred Part; (b) to the extent permitted by applicable law, transfer and assign to Compugen or its designee all [***] with respect to Products and/or [***] from the Transferred Part(s) and grant Compugen or its designee any [***] reasonably required for the continuing development or commercialization of such Products and [***]; (c) grant [***] to Compugen or its designee [***] under [***], under [***] and under [***], solely to the extent that [***], solely to do or have done further research on, develop, have developed, make, have made and use Target Biologics solely in order to develop, have developed, make, have made, use, sell, offer for sale and import Products and [***] within the Transferred Part; (d) grant to Compugen or its designee a [***] license under [***] and under [***] not covered by the license set forth in (c) solely to the extent that such [***], as applicable, [***] solely to develop, have developed, make, have made, use, sell, offer for sale and import Products and/or [***] (or, in the case of a Partial Termination that is limited to a country, the Products and/or [***] in the countries to which the Partial Termination is limited) and provided that , in the case of a Product that [***],this license does not include any [***] that is/are not part of [***] included in the Product; and (e) grant to Compugen or its designee a [***] license under [***] and not covered by the licenses set forth in (c) and (d), solely to the extent that such [***], as applicable, [***] solely to develop, have developed, make, have made, use, sell, offer for sale and import Products and/or [***] (or, in the case of a Partial Termination that is limited to a certain country, the Products and/or [***] in the countries to which the Partial Termination is limited) and provided that , in the case of a Product that [***], this license does not include any [***] that is/are not part of [***] included in the Product. Bayer undertakes to [***]. If the Transferred Part includes any (i) [***], (ii) [***] or (iii) other [***] or [***] used by Bayer within and needed to continue the Transferred Part, in each case (i) to (iii) which [***] or [***] that is/are not part of [***] included in the Product and which would be part of the licenses granted under lit. (d) and lit. (e) of this Section 14.4.2.1, if they were not specifically excluded because of [***], the Parties will on request of Compugen negotiate in [***]in [***] with the purpose to [***] of a license by Bayer to Compugen under [***] or [***] to the extent [***] (or, in the case of [***]) and solely in order to further develop, have developed, make, have made, use, sell, offer for sale and import Products and/or [***] (or, in the case of a Partial Termination that is limited to a country, the Products and/or [***] in the countries to which the Partial Termination is limited), *provided that* in the event of [***], Bayer will [***], except for [***] or [***].

14.4.2.2 With respect to Products in a Transferred Part for which clinical trials have commenced prior to such termination, Bayer will continue fulfilling, at [***] expense, all non-cancellable obligations undertaken by or on behalf of Bayer or its Affiliate(s) with respect to [***] prior to the Trigger Date. In addition, if Compugen provides Bayer with a Transfer Notice, at Compugen's request, Bayer will use Commercially Reasonable Efforts [***].

14.4.2.3 Regardless of whether Compugen provides a Transfer Notice, Bayer and its Affiliates shall immediately cease all research, development and commercialization activities with respect to Products and with respect to Diagnostics (or, in the case of a Partial Termination, Products and its applicable Product Companion Diagnostics within the Terminated Part).

14.4.2.4 In the event of a Transfer Notice by Compugen following a Partial Termination by Bayer that is limited to certain Products (and their applicable Product Companion Diagnostics) or countries, the Parties will, upon either Party's request, [***]

14.4.2.5 Consideration by Compugen.

14.4.2.5.1 Net Sales by Compugen. With respect to Compugen Net Sales (as defined below) made by Compugen and its Affiliates (but specifically excluding sale by licensees or sublicensees) of Products from or developed on the basis of the Transferred Part ("**Terminated Products**"), Compugen shall pay Bayer the royalties set forth in clauses (a) through (f) below, *provided that* (i) if the Terminated Product that the Compugen Net Sales relate to is, according to the Product definition in Section 1.53, another [***] that [***]described in [***]the [***]will be [***] percent ([***] %) instead of the [***], as applicable; and (ii) if the [***]in Section[***]for which [***]has commenced [***] prior to the [***]and the [***]to does [***](i.e. it includes the [***]) and had to [***], the [***]will be [***] percent ([***]%) instead of the rate set forth in (c), (d), (e) or (f), as applicable:

(a) If the Trigger Date with respect to the [***]occurred prior to [***],[***] will [***];

(b) [***] percent ([***]%) of any [***]if the Trigger Date with respect to the [***]occurred after [***]but prior to [***]with respect to a [***]

(c) [***]percent ([***]%) of any [***]if the Trigger Date with respect to the [***] occurred after [***] with respect to a [***] but prior to [***] with respect to a [***];

(d) [***] percent ([***]%) of any [***]if the Trigger Date with respect to the [***] occurred after [***] with respect to a [***] but prior to [***] with respect to a [***]; and

(e) [***] percent ([***]%) of any [***] if the Trigger Date with respect to the [***] occurred after [***] with respect to a [***] but prior to [***]; and

(f) [***] percent ([***]%) of any [***] if the Trigger Date with respect to the [***] occurred after [***].

Third Party Royalty Set-Off. If prior to the Program Transfer, [***] already obtained a license from a Third Party that is covered by the Third Party royalty set-off pursuant to Section 6.3.2 with respect to [***] in one or more specific countries and this license is transferred to [***],[***] will be entitled to offset an amount of [***] percent ([***] %) of any [***] due as consideration for such license with respect to [***] in such country against [***] with respect to [***] on such [***] in such country; provided that in no event shall [***].

Royalty Term. Royalties under this Sections 14.4.2.5.1 will be payable on a Terminated Product-by-Terminated Product and country-by-country basis until the latest of:

(a) the [***] of (i) the [***] and (ii) with respect [***], of the [***], within such [***] in each case (i) and (ii) covering the [***] in the [***] in which [***]; provided that if there is [***] as [***] covering the [***] in the [***] in which such [***], such [***] will be deemed to [***] for purposes of this Section 14.4.2.5.1 if and when [***];

(b) the [***] or other [***] with respect to such [***]; and

(c) [***] of [***] (if the [***], the term [***] will be read to include [***]).

14.4.2.5.2 Consideration in the Event of a Third Party License. In the event Compugen or any of its Affiliates grants a license to a Third Party under the rights transferred and/or licensed by Bayer to Compugen under Section 14.4.2.1, including without limitation [***] (a "**Third Party License**"), Compugen shall [***]such as [***] for [***]and [***]under such [***], it being understood that with respect to [***]to [***][***]shall provide [***]that such [***] are [***]and that such [***]for such [***][***]received by [***] or [***], to the extent these are [***]under Section [***] and shall [***]as set forth below; *provided that* (i) if the [***]to is, according to the [***], another [***]that [***]described in [***]the [***]will be [***] percent ([***]%) instead of the [***], as applicable; and (ii) if the [***] in Section [***] for which [***] has commenced [***] prior to the [***] that the [***] does not [***] included in such [***]) and had to [***], the r[***] percent ([***]%) instead of [***], as applicable:

(a) If the Trigger Date with respect to the Transferred Part occurred prior to D3, Bayer will not [***];

(b) [***] percent ([***]%) of any [***] under the [***] if the Trigger Date with respect to the Transferred Part occurred after [***] but prior to [***];

(c) [***] percent ([***]%) of any T[***] under the [***] if [***] with respect to the [***] after start of [***] with respect to a [***] from the [***] but prior to [***] with respect to a [***];

(d) [***] percent ([***]%) of any [***] if the Trigger Date with respect to the [***] occurred after [***] with respect to a [***] but prior to start of [***] with respect to a [***];

(e) [***] percent ([***]%) of any [***] if the Trigger Date with respect to the [***] occurred after [***] with respect to a [***] of the [***]; and

(f) [***] percent ([***]%) of any [***] if the Trigger Date with respect to the [***] of the respective [***].

(g) In addition, [***] shall [***] such as [***] received [***] under the [***] to the extent these [***] under Section [***], and shall pay to [***] as set forth below; *provided that* (i) if the T[***] to is, [***] in [***]the [***] as applicable, and (ii) if the Transferred Part [***] described in [***] for which [***] prior to the [***] and the [***] to does [***] (i.e. it includes the [***]) and had to [***] will be [***] (12[***]) instead of [***], as applicable:

(A) If the Trigger Date with respect to the [***] occurred prior to [***], [***] will not be [***];

(B) [***] percent ([***]%) of any [***]e if the Trigger Date with respect to the [***] occurred after [***] but prior to [***] with respect to a [***];

(C) [***] ([***]%) of any T[***] under the [***] with respect to the [***] occurred after start of [***] with respect to a [***] with respect to a [***];

Portions of the exhibit, indicated by the mark "[***]," were omitted and have been filed separately with the Securities and Exchange Commission pursuant to the Registrant's application requesting confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

(D) [***] percent ([***]%) of any [***] if the Trigger Date with respect to the [***] occurred after start of [***] with respect to a [***] with respect to a [***]; and

(E) [***] ([***]%) of any [***] if the Trigger Date with respect to the [***]ccurred after [***] with respect to a [***] from the [***] but prior to [***]; and

(F) [***] percent ([***]%) of any [***] if the Trigger Date with respect to [***] occurred after [***] with respect to a [***]

If [***] receives [***] or [***] as [***] (e.g. [***]), [***] will be calculated based on the [***].

14.4.2.5.3 Consideration in the Event of Sale of Compugen.

In the event of a sale of all or substantially all of the shares or assets of Compugen to a Third Party resulting in a company ("**Merged Compugen**") that had [***] US Dollars ($[***]) i [***], irrespective of whether such event occurred [***] shall [***] agreed upon in Section [***]and the activities detailed in Section [***]and in addition to the [***]according to Section [***], make to [***]for the first [***]form [***]based on the [***] would have been [***] upon attainment of such [***]had such [***]or [***], as applicable, [***]

(a) [***] shall [***] if the Trigger Date occurred prior to [***] for the [***];

(b) If the Trigger Date occurred after [***] with [***] but prior to start of [***] for [***], [***] will be entitled to the [***] would have [***] to under Sections [***] upon [***];

(c) If the Trigger Date occurred after [***] with respect to the [***] but prior to start of [***] with respect to [***] will be entitled to [***], in each case [***], upon [***]. For example, the [***] for the [***] of [***] with such a [***] in a [***] (Section 6.2.1.5) would be $[***] (i.e. $[***]);

(d) If the Trigger Date occurred after the start of [***] with respect to the [***]duct but prior to [***] with respect to the relevant [***], [***] will be entitled to [***], in each case [***], upon [***];

(e) If the Trigger Date occurred after the start of a [***] with respect to the [***] but prior to the [***] with respect to [***], [***] will be entitled to [***], in each case [***], upon [***];

(f) If the Trigger Date occurred after [***] with respect to the [***] Product, [***] will be entitled [***], in each case [***], upon attainment of [***].

For clarity, [***]under this Section 14.4.2.5.3 in the case of a [***]Should [***] subsequently [***] then [***]: In the event that [***] would have been [***] shall [***] or any [***] according to [***]. whatever [***].

14.4.2.5.4 All payments to Bayer under Section 14.4.2.5. will be made by Compugen within [***] days of receipt of an invoice by Bayer, provided that Compugen has duly informed Bayer about the Third Party License Payment prior to its receipt (or about the Compugen Net Sales in accordance with the reporting obligations specified in Section 7.1.1 (with these clauses amended *mutatis mutandis* to reflect that Compugen would be submitting the report in relation to Terminated Products)), absent such information the payment to Bayer shall be due [***] days of Compugen's receipt of [***] from a [***] (or the [***]). Sections 7.2 to 7.4 shall apply mutatis mutandis.

Portions of the exhibit, indicated by the mark "[***]," were omitted and have been filed separately with the Securities and Exchange Commission pursuant to the Registrant's application requesting confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

14.4.3 **Accruing Obligations.** Termination or expiration of this Agreement shall not relieve the Parties of obligations accruing prior to such termination or expiration, including obligations to pay amounts accruing hereunder up to the date of termination or expiration. After the date of termination (except in the case of termination by Compugen for Bayer's failure to make payments when due), Bayer, its Affiliates and Sublicensees may sell Products and Companion Diagnostics then in stock; provided that Bayer shall pay the applicable royalties and payments to Compugen in accordance with Section 6 and provide reports and audit rights to Compugen pursuant to Section 7.

14.5 **Survival.** The Parties' respective rights, obligations and duties under Sections 1, 2.3.7.2 (c) and (d), 7 (with respect to sales made by Bayer prior to the expiration or termination of the agreement), 8.1, 8.3.3.3.2,. 10 (excluding 10.3), 11, 12, 13, 14.1, 14.4, 15 and 16 , as well as any rights, obligations and duties which by their nature extend beyond the expiration or termination of this Agreement, shall survive any expiration or termination of this Agreement. In addition, Section 2.3.7.3.4 (c) will survive expiration in accordance with Section 14.1, but not early termination of this Agreement.

15 Dispute Resolution.

15.1 **Arbitration**. Any dispute, claim or controversy arising out of or relating to this Agreement, including the breach, termination or validity of this Agreement, that is not settled by mutual consent, shall be finally settled by binding arbitration, conducted in accordance with the Rules of Arbitration of the International Chamber of Commerce ("**ICC Rules**"), by three arbitrators appointed in accordance with the following procedure: Each Party shall select one arbitrator and the two Party-selected arbitrators shall select a third arbitrator to constitute a panel of three arbitrators to conduct the arbitration in accordance with the ICC Rules. The place of arbitration shall be New York, US, the language to be used in the arbitral proceedings shall be English, and the proceedings shall be confidential. The International Bar Association Rules on the Taking of Evidence in International Commercial Arbitration shall govern the taking of evidence in any such proceeding. Unless the arbitrator determines that equity requires otherwise, the arbitrator shall award to the prevailing Party (as determined by the arbitrator) the costs of the arbitration, as well as the reasonable, out-of-pocket fees and expenses of the prevailing Party's attorneys. A disputed performance or suspended performance pending the resolution of the arbitration must be completed within a reasonable time period following the final decision of the arbitrator. The decision of the arbitrator shall be the sole, exclusive and binding remedy between the Parties regarding any and all disputes, controversies, claims and counterclaims presented to the arbitrator. Any award may be entered in a court of competent jurisdiction for a judicial recognition of the decision and an order of enforcement.

15.2 **Injunctive Relief.** Each of the Parties agrees that in the event of any breach of Section 10 (Confidential Information), the non-breaching Party may suffer severe and irreparable damage, for which no adequate remedy at law may exist, and for which damages would be difficult to determine. Each of the Parties agrees that, in such case, the injured Party shall be entitled to obtain from any court of competent jurisdiction preliminary injunctive relief.

Portions of the exhibit, indicated by the mark "[***],"* *were omitted and have been filed separately with the Securities and Exchange Commission pursuant to the Registrant's application requesting confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

16 Miscellaneous.

16.1 **Force Majeure.** None of the Parties will be responsible for delays resulting from causes beyond its reasonable control, including, without limitation, fire, explosion, flood, war, strike or riot; provided that the non-performing Party uses Commercially Reasonable Efforts to avoid or remove such causes of non-performance and continues performance under this Agreement with reasonable dispatch whenever such causes are removed. The Party affected by the force majeure event shall upon its occurrence promptly give written notice to the other Party specifying the nature of the event and its anticipated duration.

16.2 **Independent Parties.** The relationship of the Parties hereto to each other shall be solely that of independent parties and nothing contained in this Agreement shall be construed to make any of the Parties an agent, partner, co-venturer, representative or principal of another for any purpose, and none of the Parties hereto shall have any right whatsoever to incur any liability or obligation on behalf of or binding upon another Party.

16.3 **Notices.** Any notices to be given hereunder shall be in writing and shall be sent by: (a) certified mail, return receipt requested; (b) delivery via an internationally recognized courier service; or (c) facsimile (with transmission confirmed) addressed the other, in any event to the other Party at the address shown hereunder or at such other address for which such Party gives notice hereunder :

If to Bayer:

Bayer Pharma AG
Müllerstraße 178
13353 Berlin
Attention: [***]
Head, Global Drug Discovery - TRG Oncology/GT
Fax +49 30 468 18069

With a copy to Legal Department
Fax : +49 30 468 14086.

If to Compugen:

Compugen Ltd.
Pinchas Rosen Street #72
Tel Aviv 69512, Israel
Fax. +972 (3) 765-8111
Attention: VP Business Development

With a copy to: General Counsel
Fax: +972 (3) 765-8111

16.4 **Governing Law.** This Agreement will be governed by, and construed in accordance with, the substantive laws of New York, US, without giving effect to any choice or conflict of law provision, except that questions affecting the construction and effect of any patent shall be determined by the law of the country in which the patent shall have been granted.

Portions of the exhibit, indicated by the mark "[***],"were omitted and have been filed separately with the Securities and Exchange Commission pursuant to the Registrant's application requesting confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

16.5 **Severability.** If any provision of this Agreement is or becomes invalid or is ruled invalid by any court of competent jurisdiction or is deemed unenforceable, it is the intention of the Parties that the remainder of this Agreement shall not be affected. The Parties shall replace the invalid provision with a valid provision that comes closest to effectuating the economic and/or scientific intent of the Parties at the time of the Agreement's execution.

16.6 **No Assignment.** This Agreement or any rights hereunder (including any right to develop, manufacture, market and/or sell Products), may not be assigned by either Party without the consent of the other, which consent shall not be unreasonably withheld, except that (i) each Party may, without such consent, assign this Agreement and the rights, obligations and interests of such Party to any purchaser of all or substantially all of its assets to which the subject matter of this Agreement relates, or to any successor corporation resulting from any merger or consolidation of such Party with or into such corporation; provided, in each case, that the assignee agrees in writing to be bound by the terms of this Agreement; and (ii) Bayer may assign this Agreement to any of its Affiliates without the prior consent of Compugen; provided, that the assignee agrees in writing to be bound by the terms of this Agreement.

16.7 **Entire Agreement.** This Agreement is the sole agreement with respect to the subject matter hereof and supersedes all other agreements and understandings among the Parties with respect to the same.

16.8 **Modification.** No modification or waiver of this Agreement or of any covenant, condition or limitation herein contained shall be valid unless in writing and executed by duly-authorized representatives of the Parties. A failure by a Party to assert its rights under, including upon any breach or default of, this Agreement shall not be deemed a waiver of such rights. No such failure or waiver in writing by a Party with respect to any rights shall extend to or affect any subsequent breach or impair any right consequent thereon.

16.9 **Interpretation.** Each Party hereto acknowledges and agrees that: (a) it and/or its counsel reviewed and negotiated the terms and provisions of this Agreement and has contributed to its revision; (b) the rule of construction to the effect that any ambiguities are resolved against the drafting Party shall not be employed in the interpretation of this Agreement; and (c) the terms and provisions of this Agreement shall be construed fairly as to both Parties hereto and not in favor of or against either Party, regardless of which Party was generally responsible for the preparation of this Agreement.

16.10 **Counterparts.** This Agreement may be executed in counterparts and each such counterpart shall be deemed an original hereof.

16.11 **Exhibits.** The following Exhibits shall form an integral part of this Agreement:

Exhibit 1.3	Bayer Development Process
Exhibit 1.16	CGEN-15001T Workplan
Exhibit 1.21	CGEN-15022 Workplan
Exhibit 1.28	Compugen Patent Rights
Exhibit 2.3.3	Research Program reports to the JSC
Exhibit 2.3.7.3.2	[***] publications
Exhibit 2.3.7.3.3	Criteria [***], [***]
Exhibit 8.3.3.1	Patent country scope
Exhibit 8.3.3.2.1	Patent rights claiming also targets and antibodies other than Target Biologics and Targets
Exhibit 10.5	Press release
Exhibit 13.4	Insurance

Portions of the exhibit, indicated by the mark "[***]," were omitted and have been filed separately with the Securities and Exchange Commission pursuant to the Registrant's application requesting confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

IN WITNESS WHEREOF, each Party has caused this Agreement to be executed by its duly authorized representative as of the Effective Date.

Bayer Pharma AG	**Compugen Ltd.**
By: ppa_____	By:_____
Name:_____	Name:_____
Title: _____	Title:_____
By: i.V._____	
Name:_____	
Title: _____	

***Portions of the exhibit, indicated by the mark "[***],"* were omitted and have been filed separately with the Securities and Exchange Commission pursuant to the Registrant's application requesting confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended.**

CONFIDENTIAL TREATMENT REQUESTED

Exhibit 1.3: Bayer Development Process

[***]

Portions of the exhibit, indicated by the mark "[***]," were omitted and have been filed separately with the Securities and Exchange Commission pursuant to the Registrant's application requesting confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

Exhibit 1.16 CGEN-15001T WORK PLAN

[***]

Portions of the exhibit, indicated by the mark "[***]," were omitted and have been filed separately with the Securities and Exchange Commission pursuant to the Registrant's application requesting confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

Exhibit 1.21 CGEN-150022 WORK PLAN

[***]

Portions of the exhibit, indicated by the mark "[***]," were omitted and have been filed separately with the Securities and Exchange Commission pursuant to the Registrant's application requesting confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

Exhibit 1.28 - Compugen Patent Rights

[***]

Portions of the exhibit, indicated by the mark "[***]," were omitted and have been filed separately with the Securities and Exchange Commission pursuant to the Registrant's application requesting confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

Exhibit 2.3.3: Research Program reports to the JSC

[***]

Executive Summary

Project title	
Project Managers	NAME (Compugen) NAME (Bayer)
Date	
Short Progress Report Summary	

[***]

Portions of the exhibit, indicated by the mark "[***]," were omitted and have been filed separately with the Securities and Exchange Commission pursuant to the Registrant's application requesting confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

Exhibit 2.3.7.3.2: [***] **Publications** [***]

[***]

Portions of the exhibit, indicated by the mark "[***]," were omitted and have been filed separately with the Securities and Exchange Commission pursuant to the Registrant's application requesting confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

Exhibit 2.3.7.3.3.: **Criteria for** [***]

[***]

Portions of the exhibit, indicated by the mark "[***]," were omitted and have been filed separately with the Securities and Exchange Commission pursuant to the Registrant's application requesting confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

Exhibit 8.3.3.1: Patent country scope

[***]

Exhibit 8.3.3.2.1: Compugen Patent Rights also claiming targets and antibodies other than Target Biologics and Targets

[***]

Portions of the exhibit, indicated by the mark "[***]," were omitted and have been filed separately with the Securities and Exchange Commission pursuant to the Registrant's application requesting confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

Exhibit 10.5.: **Press Release**

News Release
Not intended for U.S. and UK Media

Antibody-based Cancer Immunotherapy

Bayer Enters Into New Cancer Immunotherapy Collaboration with Compugen

Partners have signed collaboration and licence agreement

Berlin, August 05, 2013 – Bayer HealthCare has entered into a new oncology collaboration and licence agreement with Compugen Ltd. The partnership targets the research, development, and commercialization of antibody-based therapeutics for cancer immunotherapy against two novel immune checkpoint regulators discovered by Compugen. Under the agreement, the partners will jointly pursue a preclinical research program. Subsequently, Bayer will have full control over further development and worldwide commercialization rights for potential cancer therapeutics.

“Bayer is committed to translating the science of cancer research into effective therapies helping people affected by cancer live longer and improve their quality of life,” said Prof. Andreas Busch, Member of the Bayer HealthCare Executive Committee and Head of Global Drug Discovery. “Antibody-based immunotherapies are promising approaches in oncology which can stimulate the body’s own immune cells to fight cancer cells. Immunotherapy is one of our focus areas in oncology research. We are looking forward to expanding our portfolio in this area through partnering with Compugen.”

The immunotherapy approach aims at combatting cancer by stimulating the body´s own immune cells. The tumor and its environment suppress the ability of cancer patients to develop an effective anti-tumor immune response and in this way protect both tumor growth and survival. Compugen has discovered two novel immune checkpoint regulators that potentially play a key role in immunosuppression. Researchers at Compugen are developing specific therapeutic antibodies that are geared to block the immunosuppressive function of these targets and to reactivate the patient’s anti-tumor immune response in order to fight cancer.

“We are very excited to initiate this collaboration with Bayer, a leading global life science company with a broadening oncology franchise, for the development of antibody-based cancer immunotherapies against these two promising novel immune checkpoint targets,” said Anat Cohen-Dayag, Ph.D., President and CEO of Compugen. “In addition, we believe that the prediction and validation of these two targets, through the use of our broadly applicable predictive discovery infrastructure, provides additional validation for our long-term commitment to establishing this unique capability.”

Portions of the exhibit, indicated by the mark “[***],” were omitted and have been filed separately with the Securities and Exchange Commission pursuant to the Registrant’s application requesting confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

In addition to an upfront payment of USD 10 million, Compugen is eligible to receive over USD 500 million in potential milestone payments for both programs, not including milestone payments of up to USD 30 million associated with preclinical activities. Furthermore, Compugen is also eligible to receive mid to high single digit royalties on worldwide net sales of any resulting products under the collaboration.

About Cancer Immunotherapy
Latest cancer immunotherapies have demonstrated impressive clinical benefit, even for end-stage patients with difficult-to-treat tumors such as metastatic melanoma and non-small cell lung cancer. Unlike conventional cancer therapies, which act by directly targeting cancer cells, resulting often in only transient clinical responses as cancer cells become resistant, clinical responses to cancer immunotherapy tend to be durable, sometimes resulting in dramatic long term survival and absence of resistance or recurrences.

About Compugen
Compugen is a leading drug discovery company focused on therapeutic proteins and monoclonal antibodies to address important unmet needs in the fields of immunology and oncology. The Company utilizes a broad and continuously growing integrated infrastructure of proprietary scientific understandings and predictive platforms, algorithms, machine learning systems and other computational biology capabilities for the in silico (by computer) prediction and selection of product candidates, which are then advanced in its Pipeline Program. The Company's business model includes collaborations covering the further development and commercialization of selected product candidates from its Pipeline Program and various forms of research and discovery agreements, in both cases providing Compugen with potential milestone payments and royalties on product sales or other forms of revenue sharing. In 2012, Compugen established operations in California for the development of oncology and immunology monoclonal antibody therapeutic candidates against Compugen drug targets. For additional information, please visit Compugen's corporate website at www.cgen.com.

Portions of the exhibit, indicated by the mark "[***]," were omitted and have been filed separately with the Securities and Exchange Commission pursuant to the Registrant's application requesting confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

About Bayer HealthCare
The Bayer Group is a global enterprise with core competencies in the fields of health care, agriculture and high-tech materials. Bayer HealthCare, a subgroup of Bayer AG with annual sales of EUR 18.6 billion (2012), is one of the world's leading, innovative companies in the healthcare and medical products industry and is based in Leverkusen, Germany. The company combines the global activities of the Animal Health, Consumer Care, Medical Care and Pharmaceuticals divisions. Bayer HealthCare's aim is to discover, develop, manufacture and market products that will improve human and animal health worldwide. Bayer HealthCare has a global workforce of 55,300 employees (Dec 31, 2012) and is represented in more than 100 countries. More information at www.healthcare.bayer.com.

Our online press service is just a click away: press.healthcare.bayer.com
Follow us on Facebook: http://www.facebook.com/healthcare.bayer
Follow us on Twitter: https://twitter.com/BayerHealthCare

Contact:
Diana Scholz, Tel. +49 30 468 193183
E-Mail: diana.scholz@bayer.com

Find more information at www.bayerpharma.com.
ds (2013-0423E)

Forward-Looking Statements
This release may contain forward-looking statements based on current assumptions and forecasts made by Bayer Group or subgroup management. Various known and unknown risks, uncertainties and other factors could lead to material differences between the actual future results, financial situation, development or performance of the company and the estimates given here. These factors include those discussed in Bayer's public reports which are available on the Bayer website at www.bayer.com. The company assumes no liability whatsoever to update these forward-looking statements or to conform them to future events or developments.

News Release Tweet

Portions of the exhibit, indicated by the mark "[***],"were omitted and have been filed separately with the Securities and Exchange Commission pursuant to the Registrant's application requesting confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

CONFIDENTIAL TREATMENT REQUESTED

Text (max. 110 characters incl. spaces):
Bayer Enters Into New Immunotherapy Collaboration with Compugen in Oncology

BHC NEWS: >> ***more information about XY***

Portions of the exhibit, indicated by the mark "[***]," were omitted and have been filed separately with the Securities and Exchange Commission pursuant to the Registrant's application requesting confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

CONFIDENTIAL TREATMENT REQUESTED

Exhibit 13.4
Insurance

[***]

Portions of the exhibit, indicated by the mark "[***]," were omitted and have been filed separately with the Securities and Exchange Commission pursuant to the Registrant's application requesting confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

Exhibit 4.8

BRITANNIA POINTE GRAND BUSINESS PARK

LEASE

This Lease (the "**Lease**"), dated as of the date set forth in Section 1 of the Summary of Basic Lease Information (the "**Summary**"), below, is made by and between **BRITANNIA POINTE GRAND LIMITED PARTNERSHIP**, a Delaware limited partnership ("**Landlord**"), and **COMPUGEN USA, INC.,** a Delaware corporation ("**Tenant**").

SUMMARY OF BASIC LEASE INFORMATION

TERMS OF LEASE		DESCRIPTION
1.	Date:	December 12, 2013
2.	Premises (Article 1).	
2.1	Building:	250 East Grand Avenue South San Francisco, California Containing approximately 45,554 rentable square feet.
2.2	Premises:	Approximately 12,560 rentable square feet of space consisting of Suite 65 in the Building, as further set forth in **Exhibit A** to the Lease.
3.	Lease Term (Article 2).	
3.1	Length of Term:	Approximately four (4) years.
3.2	Lease Commencement Date:	The date upon which the Premises is "Ready for Occupancy," as that term is set forth in Section 3(a) of the Tenant Work Letter, attached to the Lease as **Exhibit B**, which Lease Commencement Date is anticipated to be June 1, 2014.
3.3	Lease Expiration Date:	If the Lease Commencement Date shall be the first day of a calendar month, then the day immediately preceding the fourth (4th) anniversary of the Lease Commencement Date; or, if the Lease Commencement Date shall be other than the first day of a calendar month, then the last day of the month in which the fourth (4th) anniversary of the Lease Commencement Date occurs.

4. Base Rent (Article 3):

Lease Year	Monthly Installment of Base Rent	Approximate Monthly Base Rent per Rentable Square Foot
1	$18,900.00	$2.70
2	$34,916.80	$2.78
3	$35,921.60	$2.86
4	$37,052.00	$2.95

*Note: During the first twelve (12) months of the Lease Term, Base Rent has been calculated as if the Premises contained only 7,000 rentable square feet of space. Notwithstanding the method of Base Rent calculation, for all other purposes the Premises shall be deemed to contain 12,560 rentable square feet of space.

5.	Tenant Improvements (**Exhibit B**):	Landlord to provide "turn-key" improvements at Landlord's sole cost and expense as provided in the Tenant Work Letter attached hereto as **Exhibit B**.
6.	Tenant's Share (Article 4):	Approximately 27.57% of the Building. The initial estimated Direct Expenses payable by Tenant hereunder are $0.62 per square foot per month, which estimated is based on Landlord's most current information regarding Direct Expenses for calendar year 2014.
7.	Permitted Use (Article 5):	The Premises shall be used only for general office, research and development, engineering, laboratory, storage and/or warehouse uses, including, but not limited to, administrative offices and other lawful uses reasonably related to or incidental to such specified uses, all (i) consistent with first class life sciences projects in South San Francisco, California ("**First Class Life Sciences Projects**"), and (ii) in compliance with, and subject to, applicable laws and the terms of this Lease.
8.	Security Deposit (Article 21):	$74,104.00.
9.	Parking (Article 28):	2.8 unreserved parking spaces for every 1,000 rentable square feet of the Premises, subject to the terms of Article 28 of the Lease.

10.	Address of Tenant (Section 29.18):	Compugen USA, Inc. 260 East Grand Ave. South San Francisco, California 94080 Attention: John Hunter (Prior to Lease Commencement Date) And Compugen USA, Inc. 250 East Grand Avenue, Suite 65 South San Francisco, California 94080 Attention: John Hunter (After Lease Commencement Date)
11.	Address of Landlord (Section 29.18):	See Section 29.18 of the Lease.
12.	Broker (Section 29.24):	CBRE, Inc.
13.	Guarantor (Section 29.32):	Compugen, Ltd.

1. PREMISES, BUILDING, PROJECT, AND COMMON AREAS

1.1 **Premises, Building, Project and Common Areas**.

1.1.1 **The Premises**. Landlord hereby leases to Tenant and Tenant hereby leases from Landlord the premises set forth in Section 2.2 of the Summary (the "**Premises**"). The outline of the Premises is set forth in **Exhibit A** attached hereto. The outline of the "Building" and the "Project," as those terms are defined in Section 1.1.2 below, are further depicted on the Site Plan attached hereto as **Exhibit A-1**. The parties hereto agree that the lease of the Premises is upon and subject to the terms, covenants and conditions herein set forth, and Tenant covenants as a material part of the consideration for this Lease to keep and perform each and all of such terms, covenants and conditions by it to be kept and performed and that this Lease is made upon the condition of such performance. The parties hereto hereby acknowledge that the purpose of **Exhibit A** is to show the approximate location of the Premises only, and such Exhibit is not meant to constitute an agreement, representation or warranty as to the construction of the Premises, the precise area thereof or the specific location of the "Common Areas," as that term is defined in Section 1.1.3, below, or the elements thereof or of the accessways to the Premises or the "Project," as that term is defined in Section 1.1.2, below. Except as specifically set forth in this Lease and in the Tenant Work Letter attached hereto as **Exhibit B** (the "**Tenant Work Letter**"), Landlord shall not be obligated to provide or pay for any improvement work or services related to the improvement of the Premises. Tenant also acknowledges that neither Landlord nor any agent of Landlord has made any representation or warranty regarding the condition of the Premises, the Building or the Project or with respect to the suitability of any of the foregoing for the conduct of Tenant's business, except as specifically set forth in this Lease and the Tenant Work Letter (including, without limitation, Landlord's obligation to cause the completion of the Landlord Work (as defined in Section 1.1 of the Tenant Work Letter) and correct any deficiencies in the construction of the Landlord Work, as and to the extent set forth in the Tenant Work Letter). The taking of possession of the Premises by Tenant shall conclusively establish that the Premises and the Building were at such time in good and sanitary order, condition and repair, except with respect to deficiencies and latent defects to the extent provided in the Tenant Work Letter. Upon the date Tenant accepts possession of the Premises, the Building Systems shall be in good working condition and repair, and Landlord hereby covenants that the Building Systems shall remain in good working condition for a period of one (1) year following the date Tenant takes possession under this Lease. Notwithstanding anything in this Lease to the contrary, Landlord shall, at Landlord's sole cost and expense (which shall not be deemed an "Operating Expense," as that term is defined in Section 4.2.4), repair or replace any failed or inoperable portion of the Building Systems during such one (1) year period ("**Landlord's One Year Warranty**"), provided that the need to repair or replace was not caused by the misuse, misconduct, damage, destruction, omissions, and/or negligence of Tenant, its subtenants and/or assignees, if any, or any company which is acquired, sold or merged with Tenant (collectively, "**Tenant Damage**"), or by any modifications, Alterations or improvements constructed by or on behalf of Tenant. To the extent repairs which Landlord is required to make pursuant to this Section 1.1.1 are necessitated in part by Tenant Damage, then Tenant shall reimburse Landlord for an equitable proportion of the cost of such repair. In addition, to the extent that as of the delivery of the Premises to Tenant (a) the Premises are not in compliance with applicable laws (including the Americans With Disabilities Act) to the extent required to allow the legal occupancy of the Premises, Landlord shall remedy any such non-compliance at Landlord's sole cost and expense. If as of the date of delivery of the Premises to Tenant the Premises are found to contain any asbestos containing material or other "Hazardous Materials" (as defined in Section, 5.3.1.1 below) in violation of applicable laws, Landlord will remedy such violation of applicable laws at Landlord's sole cost and expense. Following the date the Premises are delivered to Tenant, Tenant shall have access to the Premises, the Building, and the parking areas serving the Building twenty-four) hours per day, seven (7) days per week, every day of the year during the Lease Term, subject to all applicable laws, Landlord's reasonable access control procedures, and the terms of this Lease.

1.1.2 **The Building and The Project**. The Premises constitutes a part of the building set forth in Section 2.1 of the Summary (the "**Building**"). The Building is part of an office/laboratory project currently known as Britannia Pointe Grand Business Park." The term "**Project**," as used in this Lease, shall mean (i) the Building and the Common Areas, (ii) the land (which is improved with landscaping, parking facilities and other improvements) upon which the Building and the Common Areas are located, (iii) the other office/laboratory buildings located in Britannia Pointe Grand Business Park, and the land upon which such adjacent office/laboratory buildings are located, and (iv) at Landlord's discretion, any additional real property, areas, land, buildings or other improvements added thereto outside of the Project.

1.1.3 **Common Areas**. Tenant shall have the non-exclusive right to use in common with other tenants in the Project, and subject to the rules and regulations referred to in Article 5 of this Lease, those portions of the Project which are provided, from time to time, for use in common by Landlord, Tenant and any other tenants of the Project (such areas, together with such other portions of the Project designated by Landlord, in its discretion, are collectively referred to herein as the "**Common Areas**"). The Common Areas shall be maintained and operated by Landlord in a condition consistent with other First Class Life Sciences Projects, and the use thereof shall be subject to such reasonable rules, regulations and restrictions as Landlord may make from time to time for all tenants of the Project. Landlord reserves the right to close temporarily, make alterations or additions to, or change the location of elements of the Project and the Common Areas, provided that, in connection therewith, Landlord shall perform such closures, alterations, additions or changes in a commercially reasonable manner and, in connection therewith, shall use commercially reasonable efforts to minimize any material interference with Tenant's use of and access to the Premises, and provided that Tenant's use of the Premises and parking areas and access thereto is not materially adversely affected thereby.

1.1.4 **Outside Delivery Date**. In the event that Landlord fails to cause the Premises to be Ready for Occupancy on or before September 1, 2014 (the "**Outside Date**"), for any reason other than a Force Majeure Delay or a Tenant Delay (as defined and referenced below, respectively), then Tenant's sole and exclusive remedy at law or in equity for Landlord's failure to cause the Premises to be Ready for Occupancy on or prior to the Outside Date shall be to terminate this Lease pursuant to the terms of this Section 1.1.4. If Landlord does not cause the Premises to be Ready for Occupancy on or before the Outside Date, then Tenant shall have the right to deliver a notice to Landlord (an "**Outside Date Termination Notice**") electing to terminate this Lease effective upon the date (the "**Effective Termination Date**") occurring five (5) business days following receipt by Landlord of the Outside Date Termination Notice. The Outside Date Termination Notice must be delivered by Tenant to Landlord, if at all, not earlier than the Outside Date (as the same may be extended pursuant to the terms of Section 3.1.3, below) nor later than ten (10) business days after the Outside Date. In the event that Tenant fails to timely deliver the Outside Date Termination Notice to Landlord on or before such ten (10) business days, then Tenant's right to terminate the Lease pursuant to the terms of this Section 1.1.4 shall be deemed terminated and without any further force or effect. In the event that Tenant delivers to Landlord the Outside Date Termination Notice in accordance with the terms of this Section 1.1.4, then this Lease shall automatically terminate and be of no further force or effect, and Landlord and Tenant shall be relieved of their respective obligations under this Lease, as of the Effective Termination Date, provided that, Landlord shall, within thirty (30) days following the Effective Termination Date, return to Tenant the Security Deposit and any prepaid Base Rent paid by Tenant under this Lease. The Scheduled Delivery Date and the Outside Date shall each be extended to the extent of any delays beyond the reasonable control of Landlord, including any delay or delays caused by "Force Majeure," as that term is defined in Section 29.16 of this Lease (a "**Force Majeure Delay**"), and any "Tenant Delay," as that term is defined in Section 1(j) of the Tenant Work Letter.

1.1.5 **No Holdover Obligations**. In the event that the Premises are not Ready for Occupancy on or before June 30, 2014 (the "**Delivery Delay**"), and, as the result of such Delivery Delay Tenant is unable to vacate its existing Premises in the building of the Project located at 260 East Grand Avenue (the "**Existing Space**"), then, notwithstanding the terms of Tenant's sublease in such Existing Space (the "**Sublease**"), or of the lease to which such sublease is subject (the "**Prime Lease**"), Landlord will not charge any additional "holdover rent" (i.e., any increased rent above the rental rates payable as of the expiration of such lease or sublease) to Tenant under its sublease, or to the tenant under the Prime Lease, for the period from June 20, 2014, through the date the Premises are Ready for Occupancy, nor shall Landlord hold Tenant or the tenant under the Prime Lease liable for any direct or consequential damages arising from some holdover where it is caused by a Delivery Delay.

1.2 **Rentable Square Feet of Premises**. The rentable square footage of the Premises is hereby deemed to be as set forth in Section 2.2 of the Summary, and shall not be subject to measurement or adjustment during the Lease Term.

1.3 **Right of First Offer**. Landlord hereby grants to the Tenant named in the Summary (the "**Original Tenant**") and its "Permitted Transferees," as defined in Section 14.8, below, an ongoing right of first offer with respect to the separately demised space directly contiguous to the Premises (the "**First Offer Space**"). Notwithstanding the foregoing, such first offer right of Tenant shall commence only following the expiration or earlier termination of the existing lease (including any renewals) of the First Offer Space, and such right of first offer shall be subordinate to all existing rights currently held by CytoKinetics, Inc., under its existing Lease in the Project, including any renewal, extension or expansion rights set forth in any such lease, regardless of whether such renewal, extension or expansion rights are executed strictly in accordance with their terms, or pursuant to a lease amendment or a new lease (the "**Superior Right Holder**") with respect to such First Offer Space. Tenant's right of first offer shall not be applicable during any Option Term. Tenant's right of first offer shall be on the terms and conditions set forth in this Section 1.3.

1.3.1 **Procedure for Offer**. Landlord shall notify Tenant (the "**First Offer Notice**") from time to time when the First Offer Space or any portion thereof becomes available for lease to third parties, provided that no Superior Right Holder wishes to lease such space pursuant to such superior right. Pursuant to such First Offer Notice, Landlord shall offer to lease to Tenant the then available First Offer Space. The First Offer Notice shall describe the space so offered to Tenant and shall set forth the "First Offer Rent," as that term is defined in Section 1.3.3 below, and the other economic terms upon which Landlord is willing to lease such space to Tenant.

1.3.2 **Procedure for Acceptance**. If Tenant wishes to exercise Tenant's right of first offer with respect to the space described in the First Offer Notice, then within ten (10) days of delivery of the First Offer Notice to Tenant, Tenant shall deliver notice to Landlord of Tenant's election to exercise its right of first offer with respect to the entire space described in the First Offer Notice on the terms contained in such notice. If Tenant elects to exercise the right of first offer, such space shall be leased upon the terms and conditions contained in the first offer notice, and otherwise upon all of the terms and conditions of this Lease. If Tenant does not so notify Landlord within the ten (10) day period, then Landlord shall be free to lease the space described in the First Offer Notice to anyone to whom Landlord desires on any terms Landlord desires; provided that, if Landlord desires to lease the space described in the First Offer Notice to a third party for a net effective rent per square foot that is less than 95% of the rent set forth in the First Offer Notice, or fails to enter into a lease upon such terms within six (6) months of the First Offer Notice, then Tenant's first offer right under this Lease shall revive and Landlord shall comply with the requirements of this Section 1.3 before leasing such space to any third party. Notwithstanding anything to the contrary contained herein, Tenant must elect to exercise its right of first offer, if at all, with respect to all of the space offered by Landlord to Tenant at any particular time, and Tenant may not elect to lease only a portion thereof.

1.3.3 **First Offer Space Rent**. The "Rent," as that term is defined in Section 4.1, below, payable by Tenant for the First Offer Space (the "**First Offer Rent**") shall be equal to the "Fair Rental Value", as defined in Section 2.2.2, below, as of the "First Offer Commencement Date," as that term is defined in Section 1.3.5, below.

1.3.4 **Construction In First Offer Space**. Tenant shall take the First Offer Space in its "as is" condition, subject to any improvement allowance granted as a component of the Fair Rental Value, and the construction of improvements in the First Offer Space shall comply with the terms of Article 8 of this Lease.

1.3.5 **Amendment to Lease**. If Tenant timely exercises Tenant's right to lease the First Offer Space as set forth herein, Landlord and Tenant shall promptly thereafter execute an amendment to this Lease for such First Offer Space upon the terms and conditions as set forth in the First Offer Notice and this Section 1.3. Tenant shall commence payment of Rent for the First Offer Space, and the term of the First Offer Space shall commence upon the date of delivery of the First Offer Space to Tenant (the "**First Offer Commencement Date**") and terminate on the date set forth in the First Offer Notice. Failure of either party to enter into such amendment shall not release such party from its obligations with respect to the First Offer Space.

1.3.6 **Termination of Right of First Offer**. The rights contained in this Section 1.3 shall be personal to the Original Tenant and its Permitted Transferees, and may only be exercised by the Original Tenant or a Permitted Transferee (and not any other assignee, sublessee or other transferee of the Original Tenant's interest in this Lease). The right of first offer granted herein shall terminate as to particular First Offer Space upon the failure by Tenant to exercise its right of first offer with respect to such First Offer Space as offered by Landlord. Tenant shall not have the right to lease First Offer Space, as provided in this Section 1.3, if, as of the date of the attempted exercise of any right of first offer by Tenant, Tenant is in default under this Lease, after the expiration of any applicable notice and cure period.

2. LEASE TERM; OPTION TERM

2.1 **Lease Term**. The terms and provisions of this Lease shall be effective as of the date of this Lease. The term of this Lease (the "**Lease Term**") shall be as set forth in Section 3.1 of the Summary, shall commence on the date set forth in Section 3.2 of the Summary (the "**Lease Commencement Date**"), and shall terminate on the date set forth in Section 3.3 of the Summary (the "**Lease Expiration Date**") unless this Lease is sooner terminated as hereinafter provided. For purposes of this Lease, the term "**Lease Year**" shall mean each consecutive twelve (12) month period during the Lease Term. At any time during the Lease Term, Landlord may deliver to Tenant a notice in the form as set forth in **Exhibit C**, attached hereto, as a confirmation only of the information set forth therein, which Tenant shall execute and return to Landlord within five (5) business days of receipt thereof.

2.2 **Option Term**.

2.2.1 **Option Right**. Landlord hereby grants the Tenant originally named in this Lease (the "**Original Tenant**"), its Permitted Transferees, or any assignee of Tenant's entire interest in this Lease approved by Landlord in accordance with the terms of Article 14, below, one (1) option to extend the Lease Term for a period of three (3) years (the "**Option Term**"). Such option to extend shall be exercisable only by written notice delivered by Tenant to Landlord not more than twelve (12) months nor less than nine (9) months prior to the expiration of the initial Lease Term, stating that Tenant is thereby irrevocably exercising its option to lease the Premises during the Option Term. Upon the proper exercise of the option to extend, and provided that, at Landlord's option, as of the date of delivery of such notice, Tenant is not in default under this Lease, beyond applicable notice and cure periods, and as of the end of the initial Lease Term Tenant is not in default under this Lease, the Lease Term shall be extended for a period of three (3) years. In the event that Tenant fails to timely and appropriately exercise its initial option to extend the Lease Term in accordance with the terms of this Section 2.2, then such option shall automatically terminate and shall be of no further force or effect.

2.2.2 **Option Rent**. The annual Rent payable by Tenant during the Option Term (the "**Option Rent**") shall be equal to the "Fair Rental Value," as that term is defined below, for the Premises as of the commencement date of the Option Term. The "**Fair Rental Value**," as used in this Lease, shall be equal to the annual rent per rentable square foot on a net basis, including all escalations, at which tenants (pursuant to leases consummated within the twelve (12) month period preceding the first day of the Option Term), are leasing non-sublease, non-encumbered, non-equity space which is not significantly greater or smaller in size than the subject space, with a comparable level of improvements (excluding any property that Tenant would be allowed to remove from the Premises at the termination of the Lease), for a comparable lease term, in an arm's length transaction, which comparable space is located in the "Comparable Buildings," as that term is defined in this Section 2.2.2, below (transactions satisfying the foregoing criteria shall be known as the "**Comparable Transactions**"), taking into consideration the following concessions (the "**Concessions**"): (a) rental abatement concessions, if any, being granted such tenants in connection with such comparable space; (b) tenant improvements or allowances provided or to be provided for such comparable space, and taking into account the value, if any, of the existing improvements in the subject space, such value to be based upon the age, condition, design, quality of finishes and layout of the improvements and the extent to which the same can be utilized by a general office user other than Tenant; and (c) other reasonable monetary concessions being granted such tenants in connection with such comparable space; provided, however, that in calculating the Fair Rental Value, no consideration shall be given to (i) the fact that Landlord is or is not required to pay a real estate brokerage commission in connection with Tenant's exercise of its right to extend the Lease Term, or the fact that landlords are or are not paying real estate brokerage commissions in connection with such comparable space, and (ii) any period of rental abatement, if any, granted to tenants in comparable transactions in connection with the design, permitting and construction of tenant improvements in such comparable spaces. If the stock of the Guarantor is no longer traded on a national public stock exchange, then the Fair Rental Value shall additionally include a determination as to whether, and if so to what extent, Tenant must provide Landlord with financial security, such as a letter of credit or guaranty, for Tenant's Rent obligations in connection with Tenant's lease of the Premises during the Option Term. Such determination shall be made by reviewing the extent of financial security then generally being imposed in Comparable Transactions from tenants of comparable financial condition and credit history to the then existing financial condition and credit history of Tenant (with appropriate adjustments to account for differences in the then-existing financial condition of Tenant and such other tenants). The Concessions (A) shall be reflected in the effective rental rate (which effective rental rate shall take into consideration the total dollar value of such Concessions as amortized on a straight-line basis over the applicable term of the Comparable Transaction (in which case such Concessions evidenced in the effective rental rate shall not be granted to Tenant)) payable by Tenant, or (B) at Landlord's election, all such Concessions shall be granted to Tenant in kind. The term "**Comparable Buildings**" shall mean the Building and those other comparable life sciences buildings which are comparable to the Building in terms of age (based upon the date of completion of construction or major renovation of to the building), quality of construction, level of services and amenities, size and appearance, and are located in South San Francisco, California and the surrounding commercial area. Notwithstanding any provision to the contrary contained in this Section 2.2.2, Landlord and Tenant hereby acknowledge and agree that if there are not a sufficient number of Comparable Transactions with a comparable term to the Option Term to determine the Fair Rental Value for a lease of such duration, then the Fair Rental Value for purposes of Section 2.2.2 shall be equal to that of Comparable Transactions with a term of up to five (5) years, provided that the concessions shall be appropriately prorated on a fractional basis to account for the shorter term of the Option Term.

2.2.3 **Determination of Option Rent**. In the event Tenant timely and appropriately exercises an option to extend the Lease Term, Landlord shall notify Tenant of Landlord's determination of the Option Rent within thirty (30) days thereafter. If Tenant, on or before the date which is ten (10) days following the date upon which Tenant receives Landlord's determination of the Option Rent, in good faith objects to Landlord's determination of the Option Rent, then Landlord and Tenant shall attempt to agree upon the Option Rent using their best good-faith efforts. If Landlord and Tenant fail to reach agreement within ten (10) days following Tenant's objection to the Option Rent (the "**Outside Agreement Date**"), then Tenant shall have the right to withdraw its exercise of the option by delivering written notice thereof to Landlord within five (5) days thereafter, in which event Tenant's right to extend the Lease pursuant to this Section 2.2 shall be of no further force or effect. If Tenant does not withdraw its exercise of the extension option, each party shall make a separate determination of the Option Rent, as the case may be, within ten (10) days after the Outside Agreement Date, and such determinations shall be submitted to arbitration in accordance with Sections 2.2.3.1 through 2.2.3.7, below. If Tenant fails to object to Landlord's determination of the Option Rent within the time period set forth herein, then Tenant shall be deemed to have objected to Landlord's determination of Option Rent.

2.2.3.1 Landlord and Tenant shall each appoint one arbitrator who shall be a real estate appraiser who shall have been active over the five (5) year period ending on the date of such appointment in the appraisal of other class A life sciences buildings located in the South San Francisco market area. The determination of the arbitrators shall be limited solely to the issue of whether Landlord's or Tenant's submitted Option Rent is the closest to the actual Option Rent, taking into account the requirements of Section 2.2.2 of this Lease, as determined by the arbitrators. Each such arbitrator shall be appointed within fifteen (15) days after the Outside Agreement Date. Landlord and Tenant may consult with their selected arbitrators prior to appointment and may select an arbitrator who is favorable to their respective positions. The arbitrators so selected by Landlord and Tenant shall be deemed "**Advocate Arbitrators**."

2.2.3.2 The two (2) Advocate Arbitrators so appointed shall be specifically required pursuant to an engagement letter within ten (10) days of the date of the appointment of the last appointed Advocate Arbitrator to agree upon and appoint a third arbitrator ("**Neutral Arbitrator**") who shall be qualified under the same criteria set forth hereinabove for qualification of the two Advocate Arbitrators, except that neither the Landlord or Tenant or either parties' Advocate Arbitrator may, directly or indirectly, consult with the Neutral Arbitrator prior or subsequent to his or her appearance. The Neutral Arbitrator shall be retained via an engagement letter jointly prepared by Landlord's counsel and Tenant's counsel.

2.2.3.3 The three arbitrators shall, within thirty (30) days of the appointment of the Neutral Arbitrator, reach a decision as to whether the parties shall use Landlord's or Tenant's submitted Option Rent, and shall notify Landlord and Tenant thereof.

2.2.3.4 The decision of the majority of the three arbitrators shall be binding upon Landlord and Tenant.

2.2.3.5 If either Landlord or Tenant fails to appoint an Advocate Arbitrator within fifteen (15) days after the Outside Agreement Date, then either party may petition the presiding judge of the Superior Court of San Mateo County to appoint such Advocate Arbitrator subject to the criteria in Section 2.2.3.1 of this Lease, or if he or she refuses to act, either party may petition any judge having jurisdiction over the parties to appoint such Advocate Arbitrator.

2.2.3.6 If the two (2) Advocate Arbitrators fail to agree upon and appoint the Neutral Arbitrator within ten (10) business days after the appointment of the last appointed Advocate Arbitrator, then either party may petition the presiding judge of the Superior Court of San Mateo County to appoint the Neutral Arbitrator, subject to criteria in Section 2.2.3.1 of this Lease, or if he or she refuses to act, either party may petition any judge having jurisdiction over the parties to appoint such arbitrator.

2.2.3.7 The cost of the arbitration shall be paid by Landlord and Tenant equally.

2.2.3.8 In the event that the Option Rent shall not have been determined pursuant to the terms hereof prior to the commencement of the Option Term, Tenant shall be required to pay the Option Rent initially provided by Landlord to Tenant, and upon the final determination of the Option Rent, the payments made by Tenant shall be reconciled with the actual amounts of Option Rent due, and the appropriate party shall make any corresponding payment to the other party.

3. BASE RENT Tenant shall pay, without prior notice or demand, to Landlord or Landlord's agent at the management office of the Project, or, at Landlord's option, at such other place as Landlord may from time to time designate in writing reasonably in advance of such change taking effect, by a check for currency which, at the time of payment, is legal tender for private or public debts in the United States of America, base rent ("**Base Rent**") as set forth in Section 4 of the Summary, payable in equal monthly installments as set forth in Section 4 of the Summary in advance on or before the first day of each and every calendar month during the Lease Term, without any setoff or deduction whatsoever. The Base Rent for the first full month of the Lease Term shall be paid at the time of Tenant's execution of this Lease. If any Rent payment date (including the Lease Commencement Date) falls on a day of the month other than the first day of such month or if any payment of Rent is for a period which is shorter than one month, the Rent for any fractional month shall accrue on a daily basis for the period from the date such payment is due to the end of such calendar month or to the end of the Lease Term at a rate per day which is equal to 1/365 of the applicable annual Rent. All other payments or adjustments required to be made under the terms of this Lease that require proration on a time basis shall be prorated on the same basis.

4. ADDITIONAL RENT

4.1 **General Terms**.

4.1.1 **Direct Expenses; Additional Rent**. In addition to paying the Base Rent specified in Article 3 of this Lease, Tenant shall pay "**Tenant's Share**" of the annual "**Direct Expenses**," as those terms are defined in Sections 4.2.6 and 4.2.2 of this Lease, respectively. Such payments by Tenant, together with any and all other amounts payable by Tenant to Landlord pursuant to the terms of this Lease, are hereinafter collectively referred to as the "**Additional Rent**", and the Base Rent and the Additional Rent are herein collectively referred to as "**Rent**." All amounts due under this Article 4 as Additional Rent shall be payable for the same periods and in the same manner as the Base Rent. Without limitation on other obligations of Tenant which survive the expiration of the Lease Term, the obligations of Tenant to pay the Additional Rent provided for in this Article 4 shall survive the expiration of the Lease Term. Notwithstanding the foregoing, other than Tax Expenses (the "**Excluded Expenses**"), Tenant shall not be responsible for Tenant's Share of any Direct Expenses which are first billed to Tenant more than eighteen (18) months after the end of the Expense Year to which such Direct Expenses relate.

4.1.2 **Triple Net Lease**. Landlord and Tenant acknowledge that, except as otherwise provided to the contrary in this Lease, it is their intent and agreement that this Lease be a "**TRIPLE NET**" lease and that as such, the provisions contained in this Lease are intended to pass on to Tenant or reimburse Landlord for the costs and expenses reasonably associated with this Lease, the Building and the Project, and Tenant's operation therefrom. To the extent such costs and expenses payable by Tenant cannot be charged directly to, and paid by, Tenant, such costs and expenses shall be paid by Landlord but reimbursed by Tenant as Additional Rent.

4.2 **Definitions of Key Terms Relating to Additional Rent**. As used in this Article 4, the following terms shall have the meanings hereinafter set forth:

4.2.1 Intentionally Deleted.

4.2.2 "**Direct Expenses**" shall mean "**Operating Expenses**" and "**Tax Expenses**."

4.2.3 "**Expense Year**" shall mean each calendar year in which any portion of the Lease Term falls, through and including the calendar year in which the Lease Term expires, provided that Landlord, upon notice to Tenant, may change the Expense Year from time to time to any other twelve (12) consecutive month period, and, in the event of any such change, Tenant's Share of Direct Expenses shall be equitably adjusted for any Expense Year involved in any such change.

4.2.4 "**Operating Expenses**" shall mean all expenses, costs and amounts of every kind and nature which Landlord pays or accrues during any Expense Year because of or in connection with the ownership, management, maintenance, security, repair, replacement, restoration or operation of the Project, or any portion thereof, and shall be calculated under sound real estate accounting and management principles consistently applied from year to year. Without limiting the generality of the foregoing, Operating Expenses shall specifically include any and all of the following: (i) the cost of supplying all utilities (except to the extent separately metered or submetered and paid for by Tenant or by other tenants), the cost of operating, repairing, maintaining, and renovating the utility, telephone, mechanical, sanitary, storm drainage, and elevator systems, and the cost of maintenance and service contracts in connection therewith; (ii) the cost of licenses, certificates, permits and inspections and the cost of contesting any governmental enactments which may affect Operating Expenses, and the costs incurred in connection with a governmentally mandated transportation system management program or similar program; (iii) the cost of all insurance carried by Landlord in connection with the Project and Premises as reasonably determined by Landlord; (iv) the cost of landscaping, relamping, and all supplies, tools, equipment and materials used in the operation, repair and maintenance of the Project, or any portion thereof; (v) the cost of parking area operation, repair, restoration, and maintenance; (vi) fees and other costs, including management and/or incentive fees, consulting fees, legal fees and accounting fees, of all contractors and consultants in connection with the management, operation, maintenance and repair of the Project; (vii) payments under any equipment rental agreements and the fair rental value of any management office space; (viii) subject to item (f), below, wages, salaries and other compensation and benefits, including taxes levied thereon, of all persons engaged in the operation, maintenance and security of the Project; (ix) costs under any instrument pertaining to the sharing of costs by the Project; (x) operation, repair, maintenance and replacement of all systems and equipment and components thereof of the Project; (xi) the cost of janitorial service to the Common Areas and other non-tenant occupied areas of the Project (i.e., other than the cost of any such janitorial services supplied to any tenant-occupied space in the Project), alarm, security and other services, replacement of wall and floor coverings, ceiling tiles and fixtures in common areas, maintenance and replacement of curbs and walkways, repair to roofs and re-roofing; (xii) amortization (including reasonable interest on the unamortized cost, not to exceed 8% per annum) over such useful life as Landlord shall reasonably determine (in a manner consistent with the useful life determinations of Comparable Buildings), of the cost of acquiring or the rental expense of personal property used in the maintenance, operation and repair of the Project, or any portion thereof; (xiii) the cost of capital improvements or other costs incurred in connection with the Project (A) which are intended to effect economies in the operation or maintenance of the Project, or any portion thereof, or to reduce current or future Operating Expenses (but in each case only to the extent of reasonably expected annual savings), (B) that are required to comply with future governmentally mandated conservation programs, (C) which are replacements or modifications of nonstructural items located in the Common Areas required to keep the Common Areas in good order or condition (not including any replacement of or capital repair to the roof membrane, the costs of which shall not be included in Operating Expenses), or (D) that are required under any governmental law or regulation (but not including costs required to comply with laws or regulations that are currently in effect); provided, however, that any capital expenditure shall be amortized (including reasonable interest on the amortized cost, not to exceed 8% per annum) over such useful life as Landlord shall reasonably determine (in a manner consistent with the useful life determinations of Comparable Buildings); and (xiv) costs, fees, charges or assessments imposed by, or resulting from any mandate imposed on Landlord by, any federal, state or local government for fire and police protection, trash removal, community services, or other services which do not constitute "Tax Expenses" as that term is defined in Section 4.2.5, below, and (xv) payments under any easement, license, operating agreement, declaration, restrictive covenant, or instrument pertaining to the sharing of costs by the Building, including, without limitation, any covenants, conditions and restrictions affecting the property, and reciprocal easement agreements affecting the property, any parking licenses, and any agreements with transit agencies affecting the Property (collectively, "**Underlying Documents**"). Notwithstanding the foregoing, for purposes of this Lease, Operating Expenses shall not, however, include:

(a) costs, including legal fees, space planners' fees, advertising and promotional expenses (except as otherwise set forth above), and brokerage fees incurred in connection with the original construction or development, or original or future leasing of the Project, and costs, including permit, license and inspection costs, incurred with respect to the installation of tenant improvements made for tenants or incurred in renovating or otherwise improving, decorating, painting or redecorating vacant space for tenants or other occupants of the Project (excluding, however, such costs relating to any common areas of the Project or parking facilities);

(b) except for amortized costs and interest as expressly set forth in items (xii) and (xiii), above, depreciation, interest and principal payments on mortgages and other debt costs, if any, penalties and interest;

(c) costs for which the Landlord is reimbursed by any tenant or occupant of the Project or by insurance by its carrier or any tenant's carrier or by anyone else, and electric power costs for which any tenant directly contracts with the local public service company;

(d) any bad debt loss, rent loss, or reserves for bad debts or rent loss;

(e) costs associated with the operation of the business of the partnership or entity which constitutes the Landlord, as the same are distinguished from the costs of operation of the Project (which shall specifically include, but not be limited to, accounting costs associated with the operation of the Project). Costs associated with the operation of the business of the partnership or entity which constitutes the Landlord include costs of partnership accounting and legal matters, costs of defending any lawsuits with any mortgagee (except as the actions of the Tenant may be in issue), costs of selling, syndicating, financing, mortgaging or hypothecating any of the Landlord's interest in the Project, and costs incurred in connection with any disputes between Landlord and its employees, between Landlord and Project management, or between Landlord and other tenants or occupants;

(f) the wages and benefits of any employee who does not devote substantially all of his or her employed time to the Project unless such wages and benefits are prorated to reflect time spent on operating and managing the Project vis-a-vis time spent on matters unrelated to operating and managing the Project; provided, that in no event shall Operating Expenses for purposes of this Lease include wages and/or benefits attributable to personnel above the level of Project manager;

(g) amount paid as ground rental for the Project by the Landlord;

(h) except for a Project management fee to the extent allowed pursuant to item (l) below, overhead and profit increment paid to the Landlord or to subsidiaries or affiliates of the Landlord for services in the Project to the extent the same exceeds the costs of such services rendered by qualified, first-class unaffiliated third parties on a competitive basis;

(i) any compensation paid to clerks, attendants or other persons in commercial concessions operated by the Landlord;

(j) rentals and other related expenses incurred in leasing heating, ventilating and air conditioning systems, elevators or other equipment which if purchased the cost of which would be excluded from Operating Expenses as a capital cost, except equipment not affixed to the Project which is used in providing engineering, janitorial or similar services and, further excepting from this exclusion such equipment rented or leased to remedy or ameliorate an emergency condition in the Project ;

(k) all items and services for which Tenant or any other tenant in the Project reimburses Landlord or which Landlord provides selectively to one or more tenants (other than Tenant) without reimbursement;

(l) any costs expressly excluded from Operating Expenses elsewhere in this Lease;

(m) rent for any office space occupied by Project management personnel to the extent the size or rental rate of such office space exceeds the size or fair market rental value of office space occupied by management personnel of the comparable buildings in the vicinity of the Building, with adjustment where appropriate for the size of the applicable project;

(n) costs arising from the gross negligence or willful misconduct of Landlord in connection with this Lease or Landlord's breach of this Lease or other leases of the Project;

(o) costs incurred to comply with laws relating to the removal of hazardous material (as defined under applicable law) which was in existence in the Building or on the Project prior to the Lease Commencement Date, and was of such a nature that a federal, State or municipal governmental authority, if it had then had knowledge of the presence of such hazardous material, in the state, and under the conditions that it then existed in the Building or on the Project, would have then required the removal of such hazardous material or other remedial or containment action with respect thereto; and costs incurred to remove, remedy, contain, or treat hazardous material, which hazardous material is brought into the Building or onto the Project after the date hereof by Landlord or any other tenant of the Project and is of such a nature, at that time, that a federal, State or municipal governmental authority, if it had then had knowledge of the presence of such hazardous material, in the state, and under the conditions, that it then exists in the Building or on the Project, would have then required the removal of such hazardous material or other remedial or containment action with respect thereto;

(p) costs of improvements, repairs, or replacements which would be capitalized under generally accepted accounting principles, except as set forth in clause (xiii) above;

(q) interest, fines or penalties for late payment or violations of Applicable Laws (as that term is defined in Article 24, below) by Landlord, except to the extent incurring such expense is caused by a corresponding late payment or violation of an Applicable Law by Tenant, in which event Tenant shall be responsible for the full amount of such expense;

(r) fees payable by or to Landlord for management of the Project in excess of three percent (3%) of Landlord's gross revenues;

(s) legal, auditing, consulting and professional fees and other costs paid or incurred in connection with financings, refinancings or sales of any interest in Landlord or of Landlord’s interest in the Building or the Project or in connection with any ground lease (including, without limitation, recording costs, mortgage recording taxes, title insurance premiums and other similar costs, but excluding those legal, auditing, consulting and professional fees and other costs incurred in connection with the normal and routine maintenance and operation of the Building and/or the Project);

(t) costs for the original construction and development of the Building and costs for the repair or replacement of any structural portion of the Building made necessary as a result of defects in the original design, workmanship or materials;

(u) the cost of any items to the extent to which such cost is reimbursed to Landlord by tenants of the Project (other than as a reimbursement of operating expenses), or other third parties, or is covered by a warranty to the extent of reimbursement for such coverage;

(v) the cost of repairs or replacements incurred by reason of fire or other casualty, or condemnation; and

(w) contributions to charitable or political organizations.

4.2.5 **Taxes**.

4.2.5.1 "**Tax Expenses**" shall mean all federal, state, county, or local governmental or municipal taxes, fees, charges or other impositions of every kind and nature, whether general, special, ordinary or extraordinary (including, without limitation, real estate taxes, general and special assessments, transit taxes, leasehold taxes or taxes based upon the receipt of rent, including gross receipts or sales taxes applicable to the receipt of rent, unless required to be paid by Tenant, personal property taxes imposed upon the fixtures, machinery, equipment, apparatus, systems and equipment, appurtenances, furniture and other personal property used in connection with the Project, or any portion thereof, but excluding fines, default interest and penalties associated with Landlord's late payment or non-payment of any such expenses for the Building or the Project), which shall be paid or accrued during any Expense Year (without regard to any different fiscal year used by such governmental or municipal authority) because of or in connection with the ownership, leasing and operation of the Project, or any portion thereof.

4.2.5.2 Tax Expenses shall include, without limitation: (i) Any tax on the rent, right to rent or other income from the Project, or any portion thereof, or as against the business of leasing the Project, or any portion thereof; (ii) Any assessment, tax, fee, levy or charge in addition to, or in substitution, partially or totally, of any assessment, tax, fee, levy or charge previously included within the definition of real property tax; (iii) Any assessment, tax, fee, levy, or charge allocable to or measured by the area of the Premises or the Rent payable hereunder, including, without limitation, any business or gross receipts tax or excise tax with respect to the receipt of such rent, or upon or with respect to the possession, leasing, operating, management, maintenance, alteration, repair, use or occupancy by Tenant of the Premises, or any portion thereof; and (iv) Any assessment, tax, fee, levy or charge, upon this transaction or any document to which Tenant is a party, creating or transferring an interest or an estate in the Premises or the improvements thereon.

4.2.5.3 Any reasonable costs and expenses (including, without limitation, reasonable attorneys' and consultants' fees) incurred in attempting to protest, reduce or minimize Tax Expenses shall be included in Tax Expenses in the Expense Year such expenses are incurred. Tax refunds shall be credited against Tax Expenses and refunded to Tenant regardless of when received, based on the Expense Year to which the refund is applicable, provided that in no event shall the amount to be refunded to Tenant for any such Expense Year exceed the total amount paid by Tenant as Additional Rent under this Article 4 for such Expense Year. If Tax Expenses for any period during the Lease Term or any extension thereof are increased after payment thereof for any reason, including, without limitation, error or reassessment by applicable governmental or municipal authorities, Tenant shall pay Landlord upon demand Tenant's Share of any such increased Tax Expenses. Notwithstanding anything to the contrary contained in this Section 4.2.5, there shall be excluded from Tax Expenses (i) all excess profits taxes, franchise taxes, gift taxes, capital stock taxes, inheritance and succession taxes, estate taxes, federal and state income taxes, recordation taxes, capital levy taxes, deed transfer taxes, transfer of economic interest taxes, impact fees and other taxes to the extent applicable to Landlord's net income (as opposed to rents, receipts or income attributable to operations at the Project), (ii) any items included as Operating Expenses, (iii) any interest or penalties incurred by Landlord for the late payment of any taxes be included in Taxes, and (iv) any items paid by Tenant under Section 4.5 of this Lease.

4.2.6 "**Tenant's Share**" shall mean the percentage set forth in Section 6 of the Summary.

4.3 **Allocation of Direct Expenses**. The parties acknowledge that the Building is a part of a multi-building project and that the costs and expenses incurred in connection with the Project (i.e., the Direct Expenses) should be shared between the Building and the other buildings in the Project. Accordingly, as set forth in Section 4.2 above, Direct Expenses (which consist of Operating Expenses and tax Expenses) are determined annually for the Project as a whole, and a portion of the Direct Expenses, which portion shall be determined by Landlord on an equitable basis, shall be allocated to the Building (as opposed to other buildings in the Project). Such portion of Direct Expenses allocated to the Building shall include all Direct Expenses attributable solely to the Building and an equitable portion of the Direct Expenses attributable to the Project as a whole, and shall not include Direct Expenses attributable solely to other buildings in the Project.

4.4 **Calculation and Payment of Additional Rent**. Tenant shall pay to Landlord, in the manner set forth in Section 4.4.1, below, and as Additional Rent, Tenant's Share of Direct Expenses for each Expense Year.

4.4.1 **Statement of Actual Direct Expenses and Payment by Tenant**. Landlord shall endeavor to give to Tenant following the end of each Expense Year, a statement (the "**Statement**") which shall state the Direct Expenses incurred or accrued for such preceding Expense Year, and which shall indicate the amount of Tenant's Share of Direct Expenses. Landlord shall use commercially reasonable efforts to provide such Statement to Tenant on or before April 30 of the calendar year following the applicable Expense Year. Upon receipt of the Statement for each Expense Year commencing or ending during the Lease Term, Tenant shall pay, by the later of thirty (30) days after receiving such statement or with its next installment of Base Rent due, the full amount of Tenant's Share of Direct Expenses for such Expense Year, less the amounts, if any, paid during such Expense Year as "**Estimated Direct Expenses**," as that term is defined in Section 4.4.2, below, and if Tenant paid more as Estimated Direct Expenses than the actual Tenant's Share of Direct Expenses, Tenant shall receive a credit in the amount of Tenant's overpayment against Rent next due under this Lease until exhausted, or shall receive a refund of such overpayment to the extent it exceeds the remaining Rent due under the Lease. The failure of Landlord to timely furnish the Statement for any Expense Year shall not prejudice Landlord or Tenant from enforcing its rights under this Article 4, subject to Section 4.1.1, above. Even though the Lease Term has expired and Tenant has vacated the Premises, when the final determination is made of Tenant's Share of Direct Expenses for the Expense Year in which this Lease terminates, Tenant shall immediately pay to Landlord such amount, and if Tenant paid more as Estimated Direct Expenses than the actual Tenant's Share of Direct Expenses, Landlord shall, within thirty (30) days, deliver a check payable to Tenant in the amount of the overpayment. The provisions of this Section 4.4.1 shall survive the expiration or earlier termination of the Lease Term.

4.4.2 **Statement of Estimated Direct Expenses**. In addition, Landlord shall endeavor to give Tenant a yearly expense estimate statement (the "**Estimate Statement**") which shall set forth Landlord's reasonable estimate (the "**Estimate**") of what the total amount of Direct Expenses for the then-current Expense Year shall be and the estimated Tenant's Share of Direct Expenses (the "**Estimated Direct Expenses**"). The failure of Landlord to timely furnish the Estimate Statement for any Expense Year shall not preclude Landlord from enforcing its rights to collect any Estimated Direct Expenses under this Article 4, nor shall Landlord be prohibited from revising any Estimate Statement or Estimated Direct Expenses theretofore delivered to the extent necessary. Thereafter, Tenant shall pay, with its next installment of Base Rent due, a fraction of the Estimated Direct Expenses for the then-current Expense Year (reduced by any amounts paid pursuant to the last sentence of this Section 4.4.2). Such fraction shall have as its numerator the number of months which have elapsed in such current Expense Year, including the month of such payment, and twelve (12) as its denominator. Until a new Estimate Statement is furnished (which Landlord shall have the right to deliver to Tenant at any time), Tenant shall pay monthly, with the monthly Base Rent installments, an amount equal to one-twelfth (1/12) of the total Estimated Direct Expenses set forth in the previous Estimate Statement delivered by Landlord to Tenant.

4.5 **Taxes and Other Charges for Which Tenant Is Directly Responsible**. Tenant shall be liable for and shall pay ten (10) days before delinquency, taxes levied against Tenant's equipment, furniture, fixtures and any other personal property located in or about the Premises. If any such taxes on Tenant's equipment, furniture, fixtures and any other personal property are levied against Landlord or Landlord's property or if the assessed value of Landlord's property is increased by the inclusion therein of a value placed upon such equipment, furniture, fixtures or any other personal property and if Landlord pays the taxes based upon such increased assessment, which Landlord shall have the right to do regardless of the validity thereof but only under proper protest if requested by Tenant, Tenant shall upon demand repay to Landlord the taxes so levied against Landlord or the proportion of such taxes resulting from such increase in the assessment, as the case may be.

4.6 **Landlord's Books and Records**. Notwithstanding anything to the contrary contained in this Lease, if, within ninety (90) days after receipt of a Statement by Tenant, Tenant (i) reasonably disputes any amounts set forth in any Statement described above in this Article 4, and (ii) is not then in monetary or material non-monetary default under this Lease (beyond the expiration of any applicable notice and cure period expressly set forth in this Lease), then Tenant shall have the right to cause Landlord's books and records to be audited by a nationally recognized firm of certified public accountants reasonably approved by Landlord, at no cost or expense to Landlord, which has prior experience in the review of financial statements and which shall not have provided primary accounting services to Tenant within the immediately preceding three (3) year period and which shall not be retained by Tenant on a contingency fee basis; provided, however, Tenant shall not have the right to perform any such audit more than one (1) time for any Expense Year during the Lease Term. Any audit conducted by or on behalf of Tenant shall be completed in a diligent manner and timely manner (but in any event within two (2) months after Tenant initially disputes the applicable Statement) and shall be performed at Landlord's office in California during Landlord's normal business hours and in a manner so as to minimize interference with Landlord's business operations. Tenant agrees to keep, and to cause Tenant's accountant and its employees to keep, all information revealed by any audit of Landlord's books and records strictly confidential and not to disclose any such information or permit any such information to be disclosed to anyone other than Landlord, unless compelled to do so by a court of law or any Applicable Law, statute, code, rule or regulation, and Tenant and its accountant and their employees shall sign a confidentiality agreement reflecting such confidentiality. Tenant's audit shall be limited to an on-site review of Landlord's general ledger of accounts and supporting documentation. If after such audit, Landlord and Tenant dispute the results of such audit, at Tenant's request, a certified public accounting firm selected by Landlord, and reasonably approved by Tenant, shall, at Tenant's cost, conduct an audit of the relevant Direct Expenses. The amounts payable under this Section 4.6 by Landlord to Tenant or by Tenant to Landlord, as the case may be, will be appropriately adjusted on the basis of such audit (or the audit performed by Tenant, if Landlord does not dispute the results thereof). If such audit (or the audit performed by Tenant, if Landlord does not dispute the results thereof) discloses an overstatement of Direct Expenses in excess of five percent (5%) for such Expense Year, Landlord shall reimburse Tenant for the reasonable cost of both audits; otherwise the cost of such audits shall be borne by Tenant. Any overpayment of Direct Expenses revealed by such audits shall be promptly refunded by Tenant to Landlord. Tenant agrees that this Section 4.6 shall be the sole method to be used by Tenant to dispute the amount of any Direct Expenses payable by Tenant pursuant to the terms of this Lease, and Tenant hereby waives any other rights at law or in equity relating thereto.

5. USE OF PREMISES

5.1 **Permitted Use**. Tenant shall use the Premises solely for the Permitted Use set forth in Section 7 of the Summary and Tenant shall not use or permit the Premises or the Project to be used for any other purpose or purposes whatsoever without the prior written consent of Landlord, which may be withheld in Landlord's sole discretion.

5.2 **Prohibited Uses**. Tenant further covenants and agrees that Tenant shall not use, or suffer or permit any person or persons to use, the Premises or any part thereof for any use or purpose in violation of the laws of the United States of America, the State of California, or the ordinances, regulations or requirements of the local municipal or county governing body or other lawful authorities having jurisdiction over the Project) including, without limitation, any such laws, ordinances, regulations or requirements relating to hazardous materials or substances, as those terms are defined by applicable laws now or hereafter in effect, or any Underlying Documents affecting the Project as of the date of this Lease if Landlord has provided written copies thereof to Tenant. Landlord shall have the right to impose reasonable and customary rule and regulations regarding the use of the Project, as reasonably deemed necessary by Landlord with respect to the orderly operation of the Project, and Tenant shall comply with such reasonable rules and regulations. Tenant shall not do or permit anything to be done in or about the Premises which will in any way damage the reputation of the Project or obstruct or interfere with the rights of other tenants or occupants of the Building, or injure or annoy them or use or allow the Premises to be used for any improper, unlawful or reasonably objectionable purpose, nor shall Tenant cause, maintain or permit any nuisance in, on or about the Premises. Tenant shall comply with, and Tenant's rights and obligations under the Lease and Tenant's use of the Premises shall be subject and subordinate to, all recorded easements, covenants, conditions, and restrictions affecting the Project as of the date of this Lease if Landlord has provided written copies thereof to Tenant.

5.3 **Hazardous Materials**.

5.3.1 **Tenant's Obligations**.

5.3.1.1 **Prohibitions**. As a material inducement to Landlord to enter into this Lease with Tenant, Tenant has fully and accurately completed Landlord's Pre-Leasing Environmental Exposure Questionnaire (the "**Environmental Questionnaire**"), which is attached as **Exhibit F**. Tenant agrees that except for those chemicals or materials, and their respective quantities, specifically listed on the Environmental Questionnaire, neither Tenant nor Tenant's employees, contractors and subcontractors of any tier, entities with a contractual relationship with Tenant (other than Landlord), or any entity acting as an agent or sub-agent of Tenant (collectively, "**Tenant's Agents**") will produce, use, store or generate any "Hazardous Materials," as that term is defined below, on, under or about the Premises, nor cause or permit any Hazardous Material to be brought upon, placed, stored, manufactured, generated, blended, handled, recycled, used or "Released," as that term is defined below, on, in, under or about the Premises. If any information provided to Landlord by Tenant on the Environmental Questionnaire, or otherwise relating to information concerning Hazardous Materials is materially false, incomplete, or misleading in any material respect, the same shall be deemed a default by Tenant under this Lease. Tenant shall deliver to Landlord an updated Environmental Questionnaire at least once a year. Landlord's prior written consent shall be required to any Hazardous Materials use for the Premises not described on the initial Environmental Questionnaire, such consent not to be unreasonably withheld if such materials will be used in complance with law and are consistent with biotechnology or research and development uses. Tenant shall not install or permit any underground storage tank on the Premises. For purposes of this Lease, "**Hazardous Materials**" means all flammable explosives, petroleum and petroleum products, waste oil, radon, radioactive materials, toxic pollutants, asbestos, polychlorinated biphenyls ("**PCBs**"), medical waste, chemicals known to cause cancer or reproductive toxicity, pollutants, contaminants, hazardous wastes, toxic substances or related materials, including without limitation any chemical, element, compound, mixture, solution, substance, object, waste or any combination thereof, which is or may be hazardous to human health, safety or to the environment due to its radioactivity, ignitability, corrosiveness, reactivity, explosiveness, toxicity, carcinogenicity, infectiousness or other harmful or potentially harmful properties or effects, or defined as, regulated as or included in, the definition of "hazardous substances," "hazardous wastes," "hazardous materials," or "toxic substances" under any Environmental Laws. For purposes of this Lease, "**Release**" or "**Released**" or "**Releases**" shall mean any release, deposit, discharge, emission, leaking, spilling, seeping, migrating, injecting, pumping, pouring, emptying, escaping, dumping, disposing, or other movement of Hazardous Materials into the environment.

5.3.1.2 **Notices to Landlord**. Tenant shall notify Landlord in writing as soon as possible but in no event later than ten (10) days after (i) Tenant has actual notice of the occurrence of any actual, alleged or threatened Release of any Hazardous Material in, on, under, from, about or in the vicinity of the Premises (whether past or present), regardless of the source or quantity of any such Release, or (ii) Tenant becomes aware of any regulatory actions, inquiries, inspections, investigations, directives, or any cleanup, compliance, enforcement or abatement proceedings (including any threatened or contemplated investigations or proceedings) relating to or potentially affecting the Premises, or (iii) Tenant becomes aware of any claims by any person or entity relating to any Hazardous Materials in, on, under, from, about or in the vicinity of the Premises, whether relating to damage, contribution, cost recovery, compensation, loss or injury. Collectively, the matters set forth in clauses (i), (ii) and (iii) above are hereinafter referred to as "**Hazardous Materials Claims**". Tenant shall promptly forward to Landlord copies of all orders, notices, permits, applications and other communications and reports received or generated by or for Tenant in connection with any Hazardous Materials Claims. Tenant shall not enter into any legal proceeding or other action, settlement, consent decree or other compromise with respect to any Hazardous Materials Claims without first notifying Landlord of Tenant's intention to do so and affording Landlord the opportunity to join and participate, as a party if Landlord so elects, in such proceedings and in no event shall Tenant enter into any agreements which are binding on Landlord or the Premises without Landlord's prior written consent. Landlord shall have the right to appear at and participate in, any and all legal or other administrative proceedings concerning any Hazardous Materials Claim. For purposes of this Lease, "**Environmental Laws**" means all applicable present and future laws relating to the protection of human health, safety, wildlife or the environment, including, without limitation, (i) all requirements pertaining to reporting, licensing, permitting, investigation and/or remediation of emissions, discharges, Releases, or threatened Releases of Hazardous Materials, whether solid, liquid, or gaseous in nature, into the air, surface water, groundwater, or land, or relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport, or handling of Hazardous Materials; and (ii) all requirements pertaining to the health and safety of employees or the public. Environmental Laws include, but are not limited to, the Comprehensive Environmental Response, Compensation and Liability Act of 1980, 42 USC § 9601, et seq., the Hazardous Materials Transportation Authorization Act of 1994, 49 USC § 5101, et seq., the Solid Waste Disposal Act, as amended by the Resource Conservation and Recovery Act of 1976, and Hazardous and Solid Waste Amendments of 1984, 42 USC § 6901, et seq., the Federal Water Pollution Control Act, as amended by the Clean Water Act of 1977, 33 USC § 1251, et seq., the Clean Air Act of 1966, 42 USC § 7401, et seq., the Toxic Substances Control Act of 1976, 15 USC § 2601, et seq., the Safe Drinking Water Act of 1974, 42 USC §§ 300f through 300j, the Occupational Safety and Health Act of 1970, as amended, 29 USC § 651 et seq., the Oil Pollution Act of 1990, 33 USC § 2701 et seq., the Emergency Planning and Community Right-To-Know Act of 1986, 42 USC § 11001 et seq., the National Environmental Policy Act of 1969, 42 USC § 4321 et seq., the Federal Insecticide, Fungicide and Rodenticide Act of 1947, 7 USC § 136 et seq., California Carpenter-Presley-Tanner Hazardous Substance Account Act, California Health & Safety Code §§ 25300 et seq., Hazardous Materials Release Response Plans and Inventory Act, California Health & Safety Code, §§ 25500 et seq., Underground Storage of Hazardous Substances provisions, California Health & Safety Code, §§ 25280 et seq., California Hazardous Waste Control Law, California Health & Safety Code, §§ 25100 et seq., and any other state or local law counterparts, as amended, as such applicable laws, are in effect as of the Lease Commencement Date, or thereafter adopted, published, or promulgated.

5.3.1.3 **Releases of Hazardous Materials**. If any Release of any Hazardous Material caused by Tenant or any of Tenant's employees, affiliates, consultants, or other agents in, on, under, from or about the Premises shall occur at any time during the Lease, in addition to notifying Landlord as specified above, Tenant, at its own sole cost and expense, shall (i) immediately comply with any and all reporting requirements imposed pursuant to any and all Environmental Laws, (ii) provide a written certification to Landlord indicating that Tenant has complied with all applicable reporting requirements, and (iii) take any and all necessary investigation, corrective and remedial action in accordance with any and all applicable Environmental Laws, utilizing an environmental consultant reasonably approved by Landlord, all in accordance with the provisions and requirements of this **Section 5.3**.

5.3.1.4 **Indemnification**.

5.3.1.4.1 **In General**. Without limiting in any way Tenant's obligations under any other provision of this Lease, Tenant shall be solely responsible for and shall protect, defend, indemnify and hold the Landlord Parties harmless from and against any and all claims, judgments, losses, damages, costs, expenses, penalties, enforcement actions, taxes, fines, remedial actions, liabilities (including, without limitation, actual attorneys' fees, litigation, arbitration and administrative proceeding costs, expert and consultant fees and laboratory costs) including, without limitation, consequential damages and sums paid in settlement of claims, which arise during or after the Lease Term, whether foreseeable or unforeseeable, that arise during or after the Lease Term in whole or in part, foreseeable or unforeseeable, directly or indirectly arising out of or attributable to the presence, use, generation, manufacture, treatment, handling, refining, production, processing, storage, Release or presence of Hazardous Materials in, on, under or about the Premises by Tenant or Tenant's Agents, provided that the terms of the foregoing indemnity shall not apply to the negligence or willful misconduct of Landlord or the Landlord Parties (as that term is defined in Section 10.1 below) or third parties not controlled by Tenant.

5.3.1.4.2 **Limitations**. Notwithstanding anything in **Section 5.3.1.4**, above, to the contrary, Tenant's indemnity of Landlord as set forth in **Section 5.3.1.4**, above, shall not be applicable to claims based upon Hazardous Materials which may exist in, on or about the Premises as of the Lease Commencement Date ("**Existing Hazardous Materials**"), except to the extent that Tenant's construction activities and/or Tenant's other acts or omissions caused or exacerbated the subject claim.

5.3.1.5 **Compliance with Environmental Laws**. Without limiting the generality of Tenant's obligation to comply with applicable laws as otherwise provided in this Lease, Tenant shall, at its sole cost and expense, comply with all Environmental Laws in its use and occupancy of the Premises; provided, however, that Tenant shall not be liable for remediating Existing Hazardous Materials. Tenant shall obtain and maintain any and all necessary permits, licenses, certifications and approvals appropriate or required for the use, handling, storage, and disposal of any Hazardous Materials used, stored, generated, transported, handled, blended, or recycled by Tenant on the Premises. Landlord shall have a continuing right, without obligation, to review and inspect any and all such permits, licenses, certifications and approvals, together with copies of any and all Hazardous Materials management plans and programs, any and all Hazardous Materials risk management and pollution prevention programs, and any and all Hazardous Materials emergency response and employee training programs respecting Tenant's use of Hazardous Materials. Upon request of Landlord, Tenant shall deliver to Landlord a narrative description explaining the nature and scope of Tenant's activities involving Hazardous Materials and showing to Landlord's satisfaction compliance with all Environmental Laws and the terms of this Lease.

5.3.2 **Assurance of Performance**.

5.3.2.1 **Environmental Assessments In General**. Landlord may, but shall not be required to, engage from time to time (but no more often than once per year unless Landlord has reason to believe Tenant has violated this Section 5.3) such contractors as Landlord determines to be appropriate to perform environmental assessments of a scope reasonably determined by Landlord (an "**Environmental Assessment**") to ensure Tenant's compliance with the requirements of this Lease with respect to Hazardous Materials. The scope of the Environmental Assessment will be reasonably determined by Landlord based on Tenant's use of the Premises, the nature of the particular materials used by Tenant in the Premises, and whether there have been any prior violations of the provisions of this Section 5.3.

5.3.2.2 **Costs of Environmental Assessments**. All costs and expenses incurred by Landlord in connection with any such Environmental Assessment initially shall be paid by Landlord; provided that if any such Environmental Assessment shows that Tenant has failed to comply with the provisions of this **Section 5.3**, then all of the reasonable costs and expenses of such Environmental Assessment shall be reimbursed by Tenant as Additional Rent within thirty (30) days after receipt of written demand therefor.

5.3.3 **Tenant's Obligations upon Surrender**. At the expiration or earlier termination of the Lease Term, Tenant, at Tenant's sole cost and expense, shall: (i) cause an Environmental Assessment of the Premises to be conducted in accordance with **Section 15.3**; (ii) cause all Hazardous Materials introduced by Tenant or Tenant's Agents to be removed from the Premises and disposed of in accordance with all Environmental Laws; and (iii) cause to be removed all containers installed or used by Tenant or Tenant's Agents to store any Hazardous Materials on the Premises, and cause to be repaired any damage to the Premises caused by such removal.

5.3.4 **Clean-up**.

5.3.4.1 **Environmental Reports; Clean-Up**. If any written report, including any report containing results of any Environmental Assessment (an "**Environmental Report**") shall indicate (i) the presence of any Hazardous Materials as to which Tenant has a removal or remediation obligation under this **Section 5.3**, and (ii) that as a result of same, the investigation, characterization, monitoring, assessment, repair, closure, remediation, removal, or other clean-up (the "**Clean-up**") of any Hazardous Materials is required, Tenant shall immediately prepare and submit to Landlord within thirty (30) days after receipt of the Environmental Report a comprehensive plan, subject to Landlord's written approval, specifying the actions to be taken by Tenant to perform the Clean-up so that the Premises are restored to the conditions required by this Lease. Upon Landlord's approval of the Clean-up plan, Tenant shall, at Tenant's sole cost and expense, without limitation on any rights and remedies of Landlord under this Lease, immediately implement such plan with a consultant reasonably acceptable to Landlord and proceed to Clean-Up Hazardous Materials in accordance with all applicable laws and as required by such plan and this Lease. If, within thirty (30) days after receiving a copy of such Environmental Report, Tenant fails either (a) to complete such Clean-up, or (b) with respect to any Clean-up that cannot be completed within such thirty-day period, fails to proceed with diligence to prepare the Clean-up plan and complete the Clean-up as promptly as practicable, then Landlord shall have the right, but not the obligation, and without waiving any other rights under this Lease, to carry out any Clean-up required by applicable laws or by any governmental authority having jurisdiction over the Premises, and recover all of the costs and expenses thereof from Tenant as Additional Rent, payable within thirty (30) days after receipt of written demand therefor.

5.3.4.2 **No Rent Abatement**. Tenant shall continue to pay all Rent due or accruing under this Lease during any Clean-up, and shall not be entitled to any reduction, offset or deferral of any Base Rent or Additional Rent due or accruing under this Lease during any such Clean-up.

5.3.4.3 **Surrender of Premises**. Tenant shall complete any Clean-up prior to surrender of the Premises upon the expiration or earlier termination of this Lease. To the extent such determination or confirmation is customarily issued by the overseeing governmental authority (if any) in similar circumstances, Tenant shall obtain and deliver to Landlord a letter or other written determination from the overseeing governmental authority confirming that the Clean-up has been completed in accordance with all requirements of such governmental authority and that no further response action of any kind is required for the unrestricted use of the Premises ("**Closure Letter**") (and Tenant hereby acknowledges that a Closure Letter is generally required based on the Tenant's proposed use of the Premises). Upon the expiration or earlier termination of this Lease, Tenant shall also be obligated to close all permits obtained by or on behalf of Tenant in connection with Hazardous Materials in accordance with applicable laws.

5.3.4.4 **Failure to Timely Clean-Up**. Should any Clean-up for which Tenant is responsible not be completed, or should Tenant not receive the Closure Letter and any governmental approvals required under Environmental Laws in conjunction with such Clean-up prior to the expiration or earlier termination of this Lease, then Tenant shall be liable to Landlord as a holdover tenant (as more particularly provided in **Article 16**) until Tenant has fully complied with its obligations under this **Section 5.3**.

5.3.5 **Confidentiality**. Unless compelled to do so by applicable law, Tenant agrees that Tenant shall not disclose, discuss, disseminate or copy any information, data, findings, communications, conclusions and reports regarding the environmental condition of the Premises to any Person (other than Tenant's consultants, contractors, attorneys, property managers and employees that have a need to know such information), including any governmental authority, without the prior written consent of Landlord. In the event Tenant reasonably believes that disclosure is compelled by applicable law, it shall provide Landlord ten (10) days' advance notice (or such lesser amount of time provided to Tenant by the compelling entity) of disclosure of confidential information so that Landlord may attempt to obtain a protective order. Tenant may additionally release such information to bona fide prospective purchasers or lenders, subject to any such parties' written agreement to be bound by the terms of this **Section 5.3**.

5.3.6 **Copies of Environmental Reports**. Within thirty (30) days of receipt thereof, Tenant shall provide Landlord with a copy of any and all environmental assessments, audits, studies and reports regarding Tenant's activities with respect to the Premises, or ground water beneath the Land, or the environmental condition or Clean-up thereof. Tenant shall be obligated to provide Landlord with a copy of such materials without regard to whether such materials are generated by Tenant or prepared for Tenant, or how Tenant comes into possession of such materials.

5.3.7 **Intentionally Omitted**.

5.3.8 **Signs, Response Plans, Etc**. Tenant shall be responsible for posting on the Premises any signs required under applicable Environmental Laws. Tenant shall also complete and file any business response plans or inventories required by any applicable laws. Tenant shall concurrently file a copy of any such business response plan or inventory with Landlord.

5.3.9 **Survival**. Each covenant, agreement, representation, warranty and indemnification made by Tenant set forth in this **Section 5.3** shall survive the expiration or earlier termination of this Lease and shall remain effective until all of Tenant's obligations under this **Section 5.3** have been completely performed and satisfied.

6. SERVICES AND UTILITIES

6.1 **In General**. Tenant will be responsible, at its sole cost and expense, for the furnishing of all services and utilities to the Premises, including, but not limited to heating, ventilation and air-conditioning, electricity, water, telephone, janitorial and interior Building security services.

6.1.1 All utilities that are separately metered at the Premises and shall be paid directly by Tenant to the applicable utility provider. Utilities that are not separately metered at the Premises shall be billed to Tenant based on a reasonable and equitable allocation of the cost of such utilities based on the respective use thereof of tenants of the Building (which allocation shall be pro rata based on rentable square footage assuming a fully occupied Building, with a gross up of utility costs used to calculate such pro rata share if the Building is less than 95% occupied). Landlord represents and warrants that electricity is separately metered to the Premises.

6.1.2 Landlord shall not provide janitorial services for the Premises. Tenant shall be solely responsible for performing all janitorial services and other cleaning of the Premises, all in compliance with applicable laws. The janitorial and cleaning of the Premises shall be adequate to maintain the Premises in a manner consistent with First Class Life Sciences Projects.

Tenant shall cooperate fully with Landlord at all times and abide by all regulations and requirements that Landlord may reasonably prescribe for the proper functioning and protection of the HVAC, electrical, mechanical and plumbing systems. Provided that Landlord agrees to provide and maintain and keep in continuous service utility connections to the Project, including electricity, water and sewage connections, Landlord shall have no obligation to provide any services or utilities to the Building, including, but not limited to heating, ventilation and air-conditioning, electricity, water, telephone, janitorial and interior Building security services.

6.2 **Interruption of Use**. Tenant agrees that, except as expressly provided in this Lease, Landlord shall not be liable for damages, by abatement of Rent or otherwise, for failure to furnish or delay in furnishing any service (including telephone and telecommunication services), or for any diminution in the quality or quantity thereof, when such failure or delay or diminution is occasioned, in whole or in part, by breakage, repairs, replacements, or improvements, by any strike, lockout or other labor trouble, by inability to secure electricity, gas, water, or other fuel at the Building or Project after reasonable effort to do so, by any riot or other dangerous condition, emergency, accident or casualty whatsoever, by act or default of Tenant or other parties; and such failures or delays or diminution shall never be deemed to constitute an eviction or disturbance of Tenant's use and possession of the Premises or relieve Tenant from paying Rent or performing any of its obligations under this Lease. Furthermore, Landlord shall not be liable under any circumstances for a loss of, or injury to, property or for injury to, or interference with, Tenant's business, including, without limitation, loss of profits, however occurring, through or in connection with or incidental to a failure to furnish any of the services or utilities as set forth in this Article 6.

6.3 **Emergency Generator**. Tenant shall have the exclusive right to use and control the existing emergency electrical generator and related equipment (all such equipment defined collectively as the "**Emergency Generator**") serving the Building in its currently-existing “as is” condition, and acknowledges that neither Landlord nor any agent of Landlord has made any representation or warranty regarding the condition of the Emergency Generator and Landlord shall not be liable for any damages resulting from any failure in operation of the Emergency Generator. Tenant acknowledges that the Emergency Generator is currently being used by an existing tenant of the Building, and Tenant's right to the exclusive use of the Emergency Generator set forth in this Section 6.3 shall commence upon the surrender of the Emergency Generator by the existing tenant (estimated to be October 1, 2014). If Landlord is unable for any reason to grant such exclusive use to Tenant on any specific date for any reason whatsoever (including, without limitation, the existing tenant's failure to surrender), Landlord shall not be liable for any damages resulting therefrom. Tenant shall not be charged any additional rental or other costs for the use of the Emergency Generator or the location in which the Emergency Generator is located. Tenant shall maintain such Emergency Generator in the same condition and repair as received (ordinary wear and tear and damage by other uses excepted), and in compliance with all applicable laws (including the maintenance of all applicable permits), at Tenant's sole cost and expense, provided that Tenant shall not be required to replace any major components of the Emergency Generator. If the Emergency Generator requires the replacement of any major components, and Tenant elects not to replace the same, Landlord shall have no obligation to do so. Tenant's obligations with respect to the Premises, including the insurance and indemnification obligations contained in Article 10, below, shall apply to Tenant's use of the Emergency Generator and Tenant shall be provide to carry industry standard Boiler and machinery insurance covering the Emergency Generator. Tenant shall surrender the Emergency Generator (and shall transfer to Landlord all permits maintained by Tenant in connection with the Emergency Generator during the Lease Term) concurrent with the surrender of the Premises to Landlord as required hereunder in the same condition as received (ordinary wear and tear and damage by other uses excepted), with all permits current. Prior to the availability of the Emergency Generator, Landlord shall provide to Tenant, at no additional charge to Tenant (other than normal costs of operation and maintenance), a temporary emergency generator for Tenant's use in the Premises.

6.4 **Abatement of Rent**. In the event that Tenant is prevented from using, and does not use, the Premises or any portion thereof, as a result of (i) any repair, maintenance or alteration performed by Landlord, or which Landlord failed to perform, after the Lease Commencement Date and required by this Lease, which substantially interferes with Tenant's use of the Premises, or (ii) any failure to provide services, utilities or access to the Premises as required by this Lease (either such set of circumstances as set forth in items (i) or (ii), above, to be known as an "**Abatement Event**"), then Tenant shall give Landlord notice of such Abatement Event, and if such Abatement Event continues for three (3) consecutive business days after Landlord's receipt of any such notice (the "**Eligibility Period**") then the Base Rent and Tenant's Share of Direct Expenses shall be abated or reduced, as the case may be, after expiration of the Eligibility Period for such time that Tenant continues to be so prevented from using, and does not use for the normal conduct of Tenant's business, the Premises or a portion thereof, in the proportion that the rentable area of the portion of the Premises that Tenant is prevented from using, and does not use, bears to the total rentable area of the Premises; provided, however, in the event that Tenant is prevented from using, and does not use, a portion of the Premises for a period of time in excess of the Eligibility Period and the remaining portion of the Premises is not sufficient to allow Tenant to effectively conduct its business therein, and if Tenant does not conduct its business from such remaining portion, then for such time after expiration of the Eligibility Period during which Tenant is so prevented from effectively conducting its business therein, the Base Rent and Tenant's Share of Direct Expenses for the entire Premises shall be abated for such time as Tenant continues to be so prevented from using, and does not use, the Premises. If, however, Tenant reoccupies any portion of the Premises during such period, the Rent allocable to such reoccupied portion, based on the proportion that the rentable area of such reoccupied portion of the Premises bears to the total rentable area of the Premises, shall be payable by Tenant from the date Tenant reoccupies such portion of the Premises. To the extent an Abatement Event is caused by an event covered by Articles 11 or 13 of this Lease, then Tenant's right to abate rent shall be governed by the terms of such Article 11 or 13, as applicable, and the Eligibility Period shall not be applicable thereto. Such right to abate Base Rent and Tenant's Share of Direct Expenses shall be Tenant's sole and exclusive remedy for rent abatement at law or in equity for an Abatement Event. Except as provided in this Section 6.5, nothing contained herein shall be interpreted to mean that Tenant is excused from paying Rent due hereunder.

7. REPAIRS

7.1 **Tenant Repair Obligations**. Tenant shall, throughout the Term, at its sole cost and expense, maintain and repair as required, the interior non-structural elements of the Premises and every part thereof in a good standard of maintenance, repair and replacement as required, and in good and sanitary condition, all in accordance with the standards of First Class Life Sciences Projects, except for Landlord Repair Obligations, whether or not such maintenance, repair, replacement or improvement is required in order to comply with applicable Laws ("**Tenant's Repair Obligations**"), including, without limitation, the following: ((i) any specialty or supplemental Building Systems installed by or for Tenant and (ii) all electrical facilities and equipment, including lighting fixtures, lamps, fans and any exhaust equipment and systems, electrical motors and all other appliances and equipment of every kind and nature located in, upon or about the Premises and exclusively serving the Premises; (iii) all communications systems serving the Premises; (iv) all of Tenant's security systems in or about or serving the Premises; (v) Tenant's signage; (vi) interior demising walls and partitions (including painting and wall coverings), and interior doors and fixtures; and (9) Building heating, ventilation and air-conditioning ("**HVAC**") systems exclusively serving the Premises (provided, however, that Tenant shall not be required to perform major repairs or replacements to the HVAC systems and Tenant’s obligations in respect thereof shall be limited to obtaining a service contract as provided in Section 7.2 hereof). Tenant shall additionally be responsible, at Tenant’s sole cost and expense, to furnish all expendables, including light bulbs, paper goods and soaps, used in the Premises. Notwithstanding the foregoing, Tenant shall not be required to put the Premises in better condition than they were received.

7.2 **Service Contracts**. All Building Systems located in or exclusively serving the Premises, including HVAC, main electrical and plumbing systems, shall be maintained, repaired and replaced by Tenant (i) in a commercially reasonable first-class condition, (ii) in accordance with any applicable manufacturer specifications relating to any particular component of such Building Systems, (iii) in accordance with applicable Laws. Tenant shall contract with a qualified, experienced professional third party service companies (a "**Service Contract**"). Tenant shall regularly, in accordance with commercially reasonable standards, generate and maintain preventive maintenance records relating to the Premises' mechanical and main electrical systems ("**Preventative Maintenance Records**"). In addition, upon Landlord's request, Tenant shall deliver a copy of all current Service Contracts to Landlord and/or a copy of the Preventative Maintenance Records.

7.3 **Landlord's Right to Perform Tenant's Repair Obligations**. Tenant shall notify Landlord in writing at least thirty (30) days prior to performing any material Tenant's Repair Obligations, including without limitation, any Tenant's Repair Obligation which affect the Building Systems or which is reasonably anticipated to cost more than $100,000.00. Upon receipt of such notice from Tenant, Landlord shall have the right to either (i) perform such material Tenant's Repair Obligation by delivering notice of such election to Tenant within thirty (30) days following receipt of Tenant's notice, and Tenant shall pay Landlord the cost thereof within thirty (30) days after receipt of an invoice therefor, or (ii) require Tenant to perform such Tenant's Repair Obligation at Tenant's sole cost and expense. If Tenant fails to perform any Tenant's Repair Obligation within a reasonable time period, as reasonably determined by Landlord, then Landlord may, but need not, following delivery of notice to Tenant of such election, make such Tenant Repair Obligation, and Tenant shall pay Landlord the cost thereof, within thirty (30) days after receipt of an invoice therefor.

7.4 **Landlord Repair Obligations**. Landlord shall be responsible, as a part of Operating Expenses, (subject to the exclusions therefrom set forth below and elsewhere in this Lease), for keeping in good, clean order and condition consistent with First Class Life Science Projects the following, including performing all maintenance, repairs, and replacements as needed for the same (the "**Landlord Repair Obligation**"): (i) the exterior and load bearing walls, foundation and roof of the Building, the structural portions of the floors of the Building, except to the extent that such repairs are required due to the negligence or willful misconduct of Tenant, and (ii) the Building systems, including, without limitation, the following: (1) glass, windows, window frames, window casements (including the repairing, resealing, cleaning and replacing of exterior windows) and skylights; (2) exterior doors, door frames and door closers; (3) sewer lines exterior to the Premises and exterior Building drainage, (4) electrical service to the Building (but not within the Premises), fire protection systems, elevator, life safety systems and equipment and Building security systems and equipment, and all other Building mechanical, electrical and communications systems and equipment, including HVAC systems serving the Premises (but Tenant shall carry the Service Contract for the same as provided in Section 7.2), and (iii) the Common Areas and all exterior parking, driveways, sidewalks, and landscaping (collectively, the "**Building Systems**"), including the structural and non-structural portions of the roof of the Building, including the roof membrane and coverings; provided, however, that if such repairs are due to the negligence or willful misconduct of Tenant, Landlord shall nevertheless make such repairs at Tenant's expense, or, if covered by Landlord's insurance, Tenant shall only be obligated to pay any deductible in connection therewith. Tenant hereby waives any and all rights under and benefits of subsection 1 of Section 1932 and Sections 1941 and 1942 of the California Civil Code or under any similar law, statute, or ordinance now or hereafter in effect. Notwithstanding the foregoing, except where required because of the negligence or willful misconduct of Tenant, Landlord shall be responsible for expenses, without right of reimbursement from Tenant as an Operating Expense or otherwise, associated with all structural elements of the Premises, Building and Project including the foundations, load bearing walls, columns, structural steel, exterior walls, and roof structure.

8. ADDITIONS AND ALTERATIONS

8.1 **Landlord's Consent to Alterations**. Tenant may not make any improvements, alterations, additions or changes to the Premises or any mechanical, plumbing or HVAC facilities or systems pertaining to the Premises (collectively, the "**Alterations**") without first procuring the prior written consent of Landlord to such Alterations, which consent shall be requested by Tenant not less than twenty (20) days prior to the commencement thereof, and which consent shall not be unreasonably withheld by Landlord, provided it shall be deemed reasonable for Landlord to withhold its consent to any Alteration which adversely affects the structural portions or the systems or equipment of the Building or is visible from the exterior of the Building. Notwithstanding the foregoing, Tenant shall be permitted to make Alterations following five (5) business days notice to Landlord, but without Landlord's prior consent, to the extent that such Alterations (i) do not affect the building systems or equipment, (ii) are not visible from the exterior of the Building, and (iii) cost less than $100,000.00 for a particular job of work. The construction of the initial improvements to the Premises shall be governed by the terms of the Tenant Work Letter and not the terms of this Article 8. Notwithstanding anything to the contrary contained in this Section 8.5, Tenant may (and shall, before expiration or termination of this Lease) remove Tenant's trade fixtures, personal property, and equipment from the Premises, provided that Tenant shall repair any damage caused by Tenant's removal of its trade fixtures and restore any areas affected by the installation thereof.

8.2 **Manner of Construction**. Landlord may impose, as a condition of its consent to any and all Alterations or repairs of the Premises or about the Premises, such requirements as Landlord in its reasonable discretion may deem desirable, including, but not limited to, the requirement that upon Landlord's request, Tenant shall, at Tenant's expense, remove such Alterations upon the expiration or any early termination of the Lease Term. Tenant shall construct such Alterations and perform such repairs in a good and workmanlike manner, in conformance with any and all applicable federal, state, county or municipal laws, rules and regulations and pursuant to a valid building permit, issued by the city in which the Building is located (or other applicable governmental authority). Tenant shall not use (and upon notice from Landlord shall cease using) contractors, services, workmen, labor, materials or equipment that, in Landlord's reasonable judgment, would disturb labor harmony with the workforce or trades engaged in performing other work, labor or services in or about the Building or the Common Areas. Upon completion of any Alterations (or repairs), Tenant shall deliver to Landlord final lien waivers from all contractors, subcontractors and materialmen who performed such work. In addition to Tenant's obligations under Article 9 of this Lease, upon completion of any Alterations, Tenant agrees to cause a Notice of Completion to be recorded in the office of the Recorder of the County of Los Angeles in accordance with Section 8182 of the Civil Code of the State of California or any successor statute, and Tenant shall deliver to the Project construction manager a reproducible copy of the "**as built**" drawings of the Alterations (if such Alterations are of a type for which as-built drawings are reasonably available) as well as all permits, approvals and other documents issued by any governmental agency in connection with the Alterations.

8.3 **Payment for Improvements**. If Tenant orders any work directly from Landlord, Tenant shall pay to Landlord an amount equal to three percent (3%) of the cost of such work to compensate Landlord for all overhead, general conditions, fees and other costs and expenses arising from Landlord's involvement with such work. If Tenant does not order any work directly from Landlord, Tenant shall reimburse Landlord for Landlord's reasonable, actual, out-of-pocket costs and expenses actually incurred in connection with Landlord's review of such work.

8.4 **Construction Insurance**. In addition to the requirements of Article 10 of this Lease, in the event that Tenant makes any Alterations, prior to the commencement of such Alterations, Tenant shall provide Landlord with evidence that Tenant carries "**Builder's All Risk**" insurance in an amount approved by Landlord covering the construction of such Alterations, and such other insurance as Landlord may reasonably require, it being understood and agreed that all of such Alterations shall be insured by Tenant pursuant to Article 10 of this Lease immediately upon completion thereof. In addition, Tenant's contractors and subcontractors shall be required to carry (i) Commercial General Liability Insurance in an amount approved by Landlord, with Landlord, and, at Landlord's option, Landlord's property manager and project manager, as additional insureds in an amount approved by Landlord (not to exceed $5,000,000.00), and otherwise in accordance with the requirements of Article 10 of this Lease, and (ii) workers compensation insurance with a waiver of subrogation in favor of Landlord . Landlord may, in its discretion, require Tenant to obtain a lien and completion bond or some alternate form of security satisfactory to Landlord in an amount sufficient to ensure the lien-free completion of such Alterations and naming Landlord as a co-obligee.

8.5 **Landlord's Property**. All Alterations, improvements, fixtures, and/or appurtenances which may be installed in or about the Premises, from time to time, shall be at the sole cost of Tenant and shall be and become the property of Landlord and remain in place at the Premises following the expiration or earlier termination of this Lease. Notwithstanding the foregoing, Landlord may, by written notice to Tenant at the time it approves any such Alterations, improvements or systems, require Tenant, at Tenant's expense, to remove any Alterations and/or improvements and/or systems and equipment installed by Tenant within the Premises and to repair any damage to the Premises and Building caused by such removal and return the affected portion of the Premises to the condition existing prior to such installation. If Tenant fails to complete such removal and/or to repair any damage caused by the removal of any Alterations and/or improvements and/or systems and equipment in the Premises and restore the affected portion of the Premises as required above, Landlord may do so and may charge the cost thereof to Tenant. Tenant hereby protects, defends, indemnifies and holds Landlord harmless from any liability, cost, obligation, expense or claim of lien in any manner relating to the installation, placement, removal or financing of any such Alterations, improvements, fixtures and/or equipment in, on or about the Premises, which obligations of Tenant shall survive the expiration or earlier termination of this Lease.

9. COVENANT AGAINST LIENS Tenant shall keep the Project and Premises free from any liens or encumbrances arising out of the work performed, materials furnished or obligations incurred by or on behalf of Tenant, and shall protect, defend, indemnify and hold Landlord harmless from and against any claims, liabilities, judgments or costs (including, without limitation, reasonable attorneys' fees and costs) arising out of same or in connection therewith. Tenant shall give Landlord notice at least twenty (20) days prior to the commencement of any such work on the Premises (or such additional time as may be necessary under applicable laws) to afford Landlord the opportunity of posting and recording appropriate notices of non-responsibility (to the extent applicable pursuant to then applicable laws). Tenant shall remove any such lien or encumbrance by bond or otherwise within twenty (20) business days after notice by Landlord, and if Tenant shall fail to do so, Landlord may pay the amount necessary to remove such lien or encumbrance, without being responsible for investigating the validity thereof.

10. INSURANCE

10.1 **Indemnification and Waiver**. in the case of Landlord's gross negligence, fraud or willful misconduct, Tenant hereby assumes all risk of damage to property or injury to persons in, upon or about the Premises from any cause whatsoever and agrees that Landlord, its partners, subpartners and their respective officers, agents, servants, employees, lenders, any property manager and independent contractors (collectively, "**Landlord Parties**") shall not be liable for, and are hereby released from any responsibility for, any damage either to person or property or resulting from the loss of use thereof, which damage is sustained by Tenant or by other persons claiming through Tenant. Tenant shall indemnify, defend, protect, and hold harmless the Landlord Parties from any and all claims, loss, cost, damage, injury, expense and liability (including without limitation court costs and reasonable attorneys' fees) incurred in connection with or arising from Tenant's use and occupancy of the Premises, any acts, omissions or negligence of Tenant or of any person claiming by, through or under Tenant, or of the contractors, agents, servants, employees, invitees, guests or licensees of Tenant or any such person, in, on or about the Project or any breach of the terms of this Lease, either prior to, during, or after the expiration of the Lease Term, provided that the terms of the foregoing indemnity shall not apply to the gross negligence, fraud, or willful misconduct of Landlord. Should Landlord be named as a defendant in any suit brought against Tenant in connection with or arising out of Tenant's occupancy of the Premises, except where Landlord is determined to be liable under such suit, Tenant shall pay to Landlord its costs and expenses incurred in such suit, including without limitation, its actual professional fees such as reasonable appraisers', accountants' and attorneys' fees. The provisions of this Section 10.1 shall survive the expiration or sooner termination of this Lease with respect to any claims or liability arising in connection with any event occurring prior to such expiration or termination.

10.2 **Tenant's Compliance With Landlord's Property Insurance**. Landlord shall insure the Building during the Lease Term against loss or damage under an "all risk" property insurance policy in an amount equal to the full replacement value thereof. Such coverage shall be in such amounts, from such companies, and on such other terms and conditions, as Landlord may from time to time reasonably determine. Additionally, at the option of Landlord, such insurance coverage may include the risks of earthquakes and/or flood damage and additional hazards, a rental loss endorsement and one or more loss payee endorsements in favor of the holders of any mortgages or deeds of trust encumbering the interest of Landlord in the Building or the ground or underlying lessors of the Building, or any portion thereof. To the extent Tenant has been provided notice thereof, Tenant shall, at Tenant's expense, comply with all insurance company requirements pertaining to the use of the Premises. If Tenant's conduct or use of the Premises causes any increase in the premium for such insurance policies then Tenant shall reimburse Landlord for any such increase. Tenant, at Tenant's expense, shall comply with all rules, orders, regulations or requirements of the American Insurance Association (formerly the National Board of Fire Underwriters) and with any similar body.

10.3 **Tenant's Insurance**. Tenant shall maintain the following coverages in the following amounts.

10.3.1 Commercial General Liability Insurance on an occurrence form covering the insured against claims of bodily injury, personal injury and property damage (including loss of use thereof) arising out of Tenant's operations, and contractual liabilities including a contractual coverage, and including products and completed operations coverage, for limits of liability on a per location basis of not less than:

Bodily Injury and Property Damage Liability	$3,000,000 each occurrence $3,000,000 annual aggregate
Personal Injury Liability	$3,000,000 each occurrence $3,000,000 annual aggregate

Tenant shall have the right to maintain the liability insurance required hereunder through any combination of primary general liability, excess liability and "umbrella" policies of insurance, provided that the policies contain aggregate per location endorsements that provide the required levels of protection for the Premises and that such polices comply with the terms hereof.

10.3.2 Property Insurance covering all office furniture, business and trade fixtures, office equipment, free-standing cabinet work, movable partitions, merchandise and all other items of Tenant's property on the Premises installed by, for, or at the expense of Tenant. Such insurance shall be written on an "**all risks**" of physical loss or damage basis, for the full replacement cost value (subject to reasonable deductible amounts) new without deduction for depreciation of the covered items and in amounts that meet any co-insurance clauses of the policies of insurance and shall include coverage for damage or other loss caused by fire or other peril including, but not limited to, vandalism and malicious mischief, theft, water damage of any type, including sprinkler leakage, bursting or stoppage of pipes, and explosion.

10.3.3 Business Income Interruption for one (1) year plus Extra Expense insurance in such amounts as will reimburse Tenant for actual direct or indirect loss of earnings attributable to the risks outlined in Section 10.3.2 above.

10.3.4 Worker's Compensation and Employer's Liability or other similar insurance pursuant to all applicable state and local statutes and regulations. The policy shall include a waiver of subrogation in favor of Landlord, its employees, Lenders and any property manager or partners.

10.4 **Form of Policies**. The minimum limits of policies of insurance required of Tenant under this Lease shall in no event limit the liability of Tenant under this Lease. Such insurance shall (i) name Landlord, its subsidiaries and affiliates, its property manager (if any) and any other party the Landlord so specifies, as an additional insured or loss payee, as applicable, including Landlord's managing agent, if any; (ii) be issued by an insurance company having a rating of not less than A:IX in Best's Insurance Guide or which is otherwise acceptable to Landlord and licensed or authorized to do business in the State of California; (iv) be primary insurance as to all claims thereunder and provide that any insurance carried by Landlord is excess and is non-contributing with any insurance required of Tenant; and (v) be in form and content reasonably acceptable to Landlord. Tenant shall deliver said policy or policies or certificates thereof to Landlord on or before the Lease Commencement Date and at least ten (10) days before the expiration dates thereof. In the event Tenant shall fail to procure such insurance, or to deliver such policies or certificate, Landlord may, at its option, following notice to Tenant and expiration of a ten (10) day cure period, procure such policies for the account of Tenant, and the cost thereof shall be paid to Landlord within five (5) days after delivery to Tenant of bills therefor.

10.5 **Subrogation**. Landlord and Tenant hereby agree to look solely to, and seek recovery only from, their respective insurance carriers in the event of a property or business interruption loss to the extent that such coverage is agreed to be provided hereunder. The parties each hereby waive all rights and claims against each other for such losses, and waive all rights of subrogation of their respective insurers, provided such waiver of subrogation shall not affect the right to the insured to recover thereunder. The parties agree that their respective insurance policies do now, or shall, contain the waiver of subrogation.

10.6 **Additional Insurance Obligations**. Tenant shall carry and maintain during the entire Lease Term, at Tenant's sole cost and expense, increased amounts of the insurance required to be carried by Tenant pursuant to this Article 10 and such other reasonable types of insurance coverage and in such reasonable amounts covering Tenant's personal property in the Premises and Tenant's operations therein, as may be reasonably requested by Landlord or Landlord's lender, but in no event in excess of the amounts and types of insurance then being required by landlords of buildings comparable to and in the vicinity of the Building.

11. DAMAGE AND DESTRUCTION

11.1 **Repair of Damage to Premises by Landlord**. Tenant shall promptly notify Landlord of any damage to the Premises resulting from fire or any other casualty. If the Premises or any Common Areas serving or providing access to the Premises shall be damaged by fire or other casualty, Landlord shall promptly and diligently, subject to reasonable delays for insurance adjustment or other matters beyond Landlord's reasonable control, and subject to all other terms of this Article 11, restore the Building and Premises and all improvements therein, and such Common Areas. Such restoration shall be to substantially the same condition of the Base Building and the Common Areas prior to the casualty, except for modifications required by zoning and building codes and other laws or by the holder of a mortgage on the Building or Project or any other modifications to the Common Areas deemed desirable by Landlord, which are consistent with the character of the Project, provided that access to the Premises and Tenant's parking rights hereunder shall not be materially impaired. Landlord shall not be liable for any inconvenience or annoyance to Tenant or its visitors, or injury to Tenant's business resulting in any way from such damage or the repair thereof; provided however, that if such fire or other casualty shall have damaged the Premises or Common Areas necessary to Tenant's occupancy, and the Premises or any portion thereof are not occupied by Tenant as a result thereof, then during the time and to the extent the Premises are unfit for occupancy, the Rent shall be abated in proportion to the ratio that the amount of rentable square feet of the Premises which is unfit for occupancy for the purposes permitted under this Lease bears to the total rentable square feet of the Premises.

11.2 **Landlord's Option to Repair**. Notwithstanding the terms of Section 11.1 of this Lease, Landlord may elect not to rebuild and/or restore the Premises, Building and/or Project, and instead terminate this Lease, by notifying Tenant in writing of such termination within sixty (60) days after the date of discovery of the damage, such notice to include a termination date giving Tenant sixty (60) days to vacate the Premises, but Landlord may so elect only if the Building or Project shall be damaged by fire or other casualty or cause in a manner that affect the use of the Premises, and one or more of the following conditions is present: (i) in Landlord's reasonable judgment, repairs cannot reasonably be completed within one hundred eighty (180) days after the date of discovery of the damage (when such repairs are made without the payment of overtime or other premiums); (ii) the holder of any mortgage on the Building or Project or ground lessor with respect to the Building or Project shall require that the insurance proceeds or any portion thereof be used to retire the mortgage debt, or shall terminate the ground lease, as the case may be; (iii) the damage is not fully covered by Landlord's insurance policies (together with applicable deductible amounts); or (iv) the damage occurs during the last twelve (12) months of the Lease Term; provided, however, that if Landlord does not elect to terminate this Lease pursuant to Landlord's termination right as provided above, and the repairs cannot reasonably be completed within one hundred eighty (180) days after being commenced, Tenant may elect, no earlier than sixty (60) days after the date of the damage and not later than ninety (90) days after the date of such damage, to terminate this Lease by written notice to Landlord effective as of the date specified in the notice, which date shall not be less than thirty (30) days nor more than sixty (60) days after the date such notice is given by Tenant. Further, if repairs are not actually by the later of (a) one hundred eighty (180) days of the date of damage, or (b) thirty (30) days after the estimated date of completion given by Landlord to Tenant within sixty (60) days after the date of the damage, Tenant may terminate this Lease by written notice to Landlord. Notwithstanding the provisions of this Section 11.2, Tenant shall have the right to terminate this Lease under this Section 11.2 only if each of the following conditions is satisfied: (a) the damage to the Project by fire or other casualty was not caused by the gross negligence or intentional act of Tenant or its partners or subpartners and their respective officers, agents, servants, employees, and independent contractors; (b) Tenant is not then in default under this Lease beyond applicable notice and cure periods; (c) as a result of the damage, Tenant cannot reasonably conduct business from substantially all of the Premises; and, (d) as a result of the damage to the Project, Tenant does not occupy or use the Premises or a material portion thereof.

11.3 **Waiver of Statutory Provisions**. The provisions of this Lease, including this Article 11, constitute an express agreement between Landlord and Tenant with respect to any and all damage to, or destruction of, all or any part of the Premises, the Building or the Project, and any statute or regulation of the State of California, including, without limitation, Sections 1932(2) and 1933(4) of the California Civil Code, with respect to any rights or obligations concerning damage or destruction in the absence of an express agreement between the parties, and any other statute or regulation, now or hereafter in effect, shall have no application to this Lease or any damage or destruction to all or any part of the Premises, the Building or the Project.

12. NONWAIVER No provision of this Lease shall be deemed waived by either party hereto unless expressly waived in a writing signed thereby. The waiver by either party hereto of any breach of any term, covenant or condition herein contained shall not be deemed to be a waiver of any subsequent breach of same or any other term, covenant or condition herein contained. The subsequent acceptance of Rent hereunder by Landlord shall not be deemed to be a waiver of any preceding breach by Tenant of any term, covenant or condition of this Lease, other than the failure of Tenant to pay the particular Rent so accepted, regardless of Landlord's knowledge of such preceding breach at the time of acceptance of such Rent. No acceptance of a lesser amount than the Rent herein stipulated shall be deemed a waiver of Landlord's right to receive the full amount due, nor shall any endorsement or statement on any check or payment or any letter accompanying such check or payment be deemed an accord and satisfaction, and Landlord may accept such check or payment without prejudice to Landlord's right to recover the full amount due. No receipt of monies by Landlord from Tenant after the termination of this Lease shall in any way alter the length of the Lease Term or of Tenant's right of possession hereunder, or after the giving of any notice shall reinstate, continue or extend the Lease Term or affect any notice given Tenant prior to the receipt of such monies, it being agreed that after the service of notice or the commencement of a suit, or after final judgment for possession of the Premises, Landlord may receive and collect any Rent due, and the payment of said Rent shall not waive or affect said notice, suit or judgment.

13. CONDEMNATION If the whole or any material part of the Premises, Building or Project or parking areas serving the Project shall be taken by power of eminent domain or condemned by any competent authority for any public or quasi-public use or purpose, or if any adjacent property or street shall be so taken or condemned, or reconfigured or vacated by such authority in such manner as to require the use, reconstruction or remodeling of any part of the Premises, Building or Project, or if Landlord shall grant a deed or other instrument in lieu of such taking by eminent domain or condemnation, , and in any such case the remainder of the Building, Project, or Premises is not suitable for continued use by Tenant for the uses permitted hereunder, Landlord or Tenant shall have the option to terminate this Lease effective as of the date possession is required to be surrendered to the authority. Tenant shall not because of such taking assert any claim against Landlord or the authority for any compensation because of such taking and Landlord shall be entitled to the entire award or payment in connection therewith, except that Tenant shall have the right to file any separate claim available to Tenant for any taking of Tenant's personal property and fixtures belonging to Tenant and removable by Tenant upon expiration of the Lease Term pursuant to the terms of this Lease, and for moving expenses, so long as such claims do not diminish the award available to Landlord, its ground lessor with respect to the Building or Project or its mortgagee, and such claim is payable separately to Tenant. All Rent shall be apportioned as of the date of such termination. If any part of the Premises shall be taken, and this Lease shall not be so terminated, the Rent shall be proportionately abated. Tenant hereby waives any and all rights it might otherwise have pursuant to Section 1265.130 of The California Code of Civil Procedure. Notwithstanding anything to the contrary contained in this Article 13, in the event of a temporary taking of all or any portion of the Premises for a period of one hundred and eighty (180) days or less, then this Lease shall not terminate but the Base Rent and the Additional Rent shall be abated for the period of such taking in proportion to the ratio that the amount of rentable square feet of the Premises taken bears to the total rentable square feet of the Premises. Landlord shall be entitled to receive the entire award made in connection with any such temporary taking, other than any award payable to Tenant for loss of use of the Premises (provided Landlord’s award is not reduced thereby).

14. ASSIGNMENT AND SUBLETTING

14.1 **Transfers**. Tenant shall not, without the prior written consent of Landlord, assign, mortgage, pledge, hypothecate, encumber, or permit any lien to attach to, or otherwise transfer, this Lease or any interest hereunder, permit any assignment, or other transfer of this Lease or any interest hereunder by operation of law, sublet the Premises or any part thereof, or enter into any license or concession agreements or otherwise permit the occupancy or use of the Premises or any part thereof by any persons other than Tenant and its employees and contractors (all of the foregoing are hereinafter sometimes referred to collectively as "**Transfers**" and any person to whom any Transfer is made or sought to be made is hereinafter sometimes referred to as a "**Transferee**"). If Tenant desires Landlord's consent to any Transfer, Tenant shall notify Landlord in writing, which notice (the "**Transfer Notice**") shall include (i) the proposed effective date of the Transfer, which shall not be less than thirty (30) days nor more than one hundred eighty (180) days after the date of delivery of the Transfer Notice, (ii) a description of the portion of the Premises to be transferred (the "**Subject Space**"), (iii) all of the terms of the proposed Transfer and the consideration therefor, including calculation of the "**Transfer Premium**", as that term is defined in Section 14.3 below, in connection with such Transfer, the name and address of the proposed Transferee, and a copy of all existing executed and/or proposed documentation pertaining to the proposed Transfer, and (iv) current financial statements of the proposed Transferee certified by an officer, partner or owner thereof, business credit and personal references and history of the proposed Transferee and any other information reasonably required by Landlord which will enable Landlord to determine the financial responsibility, character, and reputation of the proposed Transferee, nature of such Transferee's business and proposed use of the Subject Space. Any Transfer for which Landlord's prior written consent is required under this Article 14, and which is made without Landlord's prior written consent shall, at Landlord's option, be null, void and of no effect, and shall, at Landlord's option, constitute a default by Tenant under this Lease. Whether or not Landlord consents to any proposed Transfer, Tenant shall pay Landlord's reasonable review and processing fees, as well as any reasonable professional fees (including, without limitation, attorneys', accountants', architects', engineers' and consultants' fees) incurred by Landlord, within thirty (30) days after written request by Landlord, provided than in no event shall such fees and costs exceed $3,000 for a Transfer.

14.2 **Landlord's Consent**. Landlord shall not unreasonably withhold, condition or delay its consent to any proposed Transfer of the Subject Space to the Transferee on the terms specified in the Transfer Notice. Without limitation as to other reasonable grounds for withholding consent, the parties hereby agree that it shall be reasonable under this Lease and under any applicable law for Landlord to withhold consent to any proposed Transfer where one or more of the following apply:

14.2.1 The Transferee is of a character or reputation or engaged in a business which is not consistent with the quality of the Building or the Project;

14.2.2 The Transferee is either a governmental agency or instrumentality thereof;

14.2.3 The Transferee is not a party of reasonable financial worth and/or financial stability in light of the responsibilities to be undertaken in connection with the Transfer on the date consent is requested (and considering any proposed guarantor provided in connection therewith).

If Landlord consents to any Transfer pursuant to the terms of this Section 14.2 (and does not exercise any recapture rights Landlord may have under Section 14.4 of this Lease), Tenant may within six (6) months after Landlord's consent, but not later than the expiration of said six-month period, enter into such Transfer of the Premises or portion thereof, upon substantially the same terms and conditions as are set forth in the Transfer Notice furnished by Tenant to Landlord pursuant to Section 14.1 of this Lease, provided that if there are any changes in the terms and conditions from those specified in the Transfer Notice such that Landlord would initially have been entitled to refuse its consent to such Transfer under this Section 14.2, Tenant shall again submit the Transfer to Landlord for its approval and other action under this Article 14 (including Landlord's right of recapture, if any, under Section 14.4 of this Lease). Notwithstanding anything to the contrary in this Lease, if Tenant or any proposed Transferee claims that Landlord has unreasonably withheld or delayed its consent under Section 14.2 or otherwise has breached or acted unreasonably under this Article 14, their sole remedies shall be a suit for contract damages (other than damages for injury to, or interference with, Tenant's business including, without limitation, loss of profits, however occurring) or declaratory judgment and an injunction for the relief sought, and Tenant hereby waives all other remedies, including, without limitation, any right at law or equity to terminate this Lease, on its own behalf and, to the extent permitted under all applicable laws, on behalf of the proposed Transferee.

14.3 **Transfer Premium**. If Landlord consents to a Transfer, as a condition thereto which the parties hereby agree is reasonable, Tenant shall pay to Landlord fifty percent (50%) of any "**Transfer Premium**," as that term is defined in this Section 14.3, received by Tenant from such Transferee. "**Transfer Premium**" shall mean all rent, additional rent or other consideration payable by such Transferee in connection with the Transfer in excess of the Rent and Additional Rent payable by Tenant under this Lease during the term of the Transfer on a per rentable square foot basis if less than all of the Premises is transferred, and after deduction of (i) any costs of improvements made to the Subject Space in connection with such Transfer, (ii) brokerage commissions paid in connection with such Transfer, (iii) reasonable legal fees incurred in connection with such Transfer, and (iv) other concessions provided to the transferee. "**Transfer Premium**" shall also include, but not be limited to, key money, bonus money or other cash consideration paid by Transferee to Tenant in connection with such Transfer, and any payment in excess of fair market value for services rendered by Tenant to Transferee or for assets, fixtures, inventory, equipment, or furniture transferred by Tenant to Transferee in connection with such Transfer. The determination of the amount of Landlord's applicable share of the Transfer Premium shall be made on a monthly basis as rent or other consideration is received by Tenant under the Transfer.

14.4 **Landlord's Option as to Subject Space**. Notwithstanding anything to the contrary contained in this Article 14, in the event Tenant contemplates a Transfer which, together with all prior Transfers then remaining in effect, would cause seventy five percent (75%) or more of the Premises to be Transferred for more than fifty percent (50%) of the then remaining Lease Term (taking into account any extension of the Lease Term which has irrevocably exercised by Tenant), Tenant shall give Landlord notice (the "**Intention to Transfer Notice**") of such contemplated Transfer (whether or not the contemplated Transferee or the terms of such contemplated Transfer have been determined). The Intention to Transfer Notice shall specify the portion of and amount of rentable square feet of the Premises which Tenant intends to Transfer (the "**Contemplated Transfer Space**"), the contemplated date of commencement of the Contemplated Transfer (the "**Contemplated Effective Date**"), and the contemplated length of the term of such contemplated Transfer, and shall specify that such Intention to Transfer Notice is delivered to Landlord pursuant to this Section 14.4 in order to allow Landlord to elect to recapture the Contemplated Transfer Space. Thereafter, Landlord shall have the option, by giving written notice to Tenant within thirty (30) days after receipt of any Intention to Transfer Notice, to recapture the Contemplated Transfer Space. Such recapture shall cancel and terminate this Lease with respect to such Contemplated Transfer Space as of the Contemplated Effective Date. In the event of a recapture by Landlord, if this Lease shall be canceled with respect to less than the entire Premises, the Rent reserved herein shall be prorated on the basis of the number of rentable square feet retained by Tenant in proportion to the number of rentable square feet contained in the Premises, and this Lease as so amended shall continue thereafter in full force and effect, and upon request of either party, the parties shall execute written confirmation of the same. If Landlord declines, or fails to elect in a timely manner, to recapture such Contemplated Transfer Space under this Section 14.4, then, subject to the other terms of this Article 14, for a period of nine (9) months (the "**Nine Month Period**") commencing on the last day of such thirty (30) day period, Landlord shall not have any right to recapture the Contemplated Transfer Space with respect to any Transfer made during the Nine Month Period, provided that any such Transfer is substantially on the terms set forth in the Intention to Transfer Notice, and provided further that any such Transfer shall be subject to the remaining terms of this Article 14. If such a Transfer is not so consummated within the Nine Month Period (or if a Transfer is so consummated, then upon the expiration of the term of any Transfer of such Contemplated Transfer Space consummated within such Nine Month Period), Tenant shall again be required to submit a new Intention to Transfer Notice to Landlord with respect any contemplated Transfer, as provided above in this Section 14.4. Notwithstanding the foregoing, Landlord's recapture right under this Section 14.4 shall not apply to a transfer to a Permitted Transferee pursuant to Section 14.8 below, nor to a transfer occurring solely by reason of a change in control of Tenant which is for a bona fide business purpose and not to evade the subleasing and assignment restrictions of this Lease.

14.5 **Effect of Transfer**. If Landlord consents to a Transfer, (i) the terms and conditions of this Lease shall in no way be deemed to have been waived or modified, (ii) such consent shall not be deemed consent to any further Transfer by either Tenant or a Transferee, (iii) Tenant shall deliver to Landlord, promptly after execution, an original executed copy of all documentation pertaining to the Transfer in form reasonably acceptable to Landlord, (iv) Tenant shall furnish upon Landlord's request a complete statement, certified by an independent certified public accountant, or Tenant's chief financial officer, setting forth in detail the computation of any Transfer Premium Tenant has derived and shall derive from such Transfer, and (v) no Transfer relating to this Lease or agreement entered into with respect thereto, whether with or without Landlord's consent, shall relieve Tenant or any guarantor of the Lease from any liability under this Lease, including, without limitation, in connection with the Subject Space. Landlord or its authorized representatives shall have the right at all reasonable times to audit the books, records and papers of Tenant relating to any Transfer, and shall have the right to make copies thereof. If the Transfer Premium respecting any Transfer shall be found understated, Tenant shall, within thirty (30) days after demand, pay the deficiency, and if understated by more than two percent (2%), Tenant shall pay Landlord's costs of such audit.

14.6 **Additional Transfers**. For purposes of this Lease, the term "**Transfer**" shall also include (i) if Tenant is a partnership, the withdrawal or change, voluntary, involuntary or by operation of law, of fifty percent (50%) or more of the partners, or transfer of fifty percent (50%) or more of partnership interests, within a twelve (12)-month period, or the dissolution of the partnership without immediate reconstitution thereof, and (ii) if Tenant is a closely held corporation (*i.e.*, whose stock is not publicly held and not traded through an exchange or over the counter), (A) the dissolution, merger, consolidation or other reorganization of Tenant or (B) the sale or other transfer of an aggregate of fifty percent (50%) or more of the voting shares of Tenant (other than to immediate family members by reason of gift or death), within a twelve (12)-month period. Notwithstanding the foregoing, the raising of capital by an offering of stock or ownership interest in Tenant will not be deemed a Transfer for purposes of this Lease and will not require Landlord's consent.

14.7 **Occurrence of Default**. Any Transfer hereunder shall be subordinate and subject to the provisions of this Lease, and if this Lease shall be terminated during the term of any Transfer, Landlord shall have the right to: (i) treat such Transfer as cancelled and repossess the Subject Space by any lawful means, or (ii) require that such Transferee attorn to and recognize Landlord as its landlord under any such Transfer. If Tenant shall be in default under this Lease, Landlord is hereby irrevocably authorized, as Tenant's agent and attorney-in-fact, to direct any Transferee to make all payments under or in connection with the Transfer directly to Landlord (which Landlord shall apply towards Tenant's obligations under this Lease) until such default is cured. Such Transferee shall rely on any representation by Landlord that Tenant is in default hereunder, without any need for confirmation thereof by Tenant. Upon any assignment, the assignee shall assume in writing all obligations and covenants of Tenant thereafter to be performed or observed under this Lease. No collection or acceptance of rent by Landlord from any Transferee shall be deemed a waiver of any provision of this Article 14 or the approval of any Transferee or a release of Tenant from any obligation under this Lease, whether theretofore or thereafter accruing. In no event shall Landlord's enforcement of any provision of this Lease against any Transferee be deemed a waiver of Landlord's right to enforce any term of this Lease against Tenant or any other person. If Tenant's obligations hereunder have been guaranteed, Landlord's consent to any Transfer shall not be effective unless the guarantor also consents to such Transfer.

14.8 **Non-Transfers**. Notwithstanding anything to the contrary contained in this Article 14, neither (i) an assignment to a transferee of all or substantially all of the stock or assets of Tenant, (ii) an assignment to a transferee which is the resulting entity of a merger or consolidation of Tenant with another entity, (iii) a transfer of the shares of Tenant's stock in the ordinary course of business, (iv) an initial public offering of Tenant's stock on a nationally recognized stock exchange, nor (v) an assignment or subletting of all or a portion of the Premises to an affiliate of Tenant (an "**Affiliate**") (an entity which is controlled by, controls, or is under common control with, Tenant), shall be deemed a Transfer under this Article 14, provided that Tenant notifies Landlord of any such transaction, assignment or sublease, or such affiliate, as the case may be, and promptly supplies Landlord with any documents or information requested by Landlord regarding such assignment or sublease or such affiliate, and further provided that such assignment or sublease is not a subterfuge by Tenant to avoid its obligations under this Lease. Items (i) through (v) shall be referred to herein as a "**Permitted Transfer**" and any person or entity to whom the Premises is subleased to or this Lease is assigned to pursuant to a Permitted Transfer shall be referred to herein as a "**Permitted Transferee**". An Affiliate to whom this Lease is assigned to shall be referred to herein as an "**Affiliate Assignee**". "**Control**," as used in this Section 14.8, shall mean the ownership, directly or indirectly, of at least fifty-one percent (51%) of the voting securities of, or possession of the right to vote, in the ordinary direction of its affairs, of at least fifty-one percent (51%) of the voting interest in, any person or entity. No such permitted assignment or subletting shall serve to release Tenant from any of its obligations under this Lease. . Landlord shall have no right to terminate this Lease in connection with, and shall have no right to any sums or other economic consideration resulting from any Permitted Transfer.

15. SURRENDER OF PREMISES; OWNERSHIP AND REMOVAL OF TRADE FIXTURES

15.1 **Surrender of Premises**. No act or thing done by Landlord or any agent or employee of Landlord during the Lease Term shall be deemed to constitute an acceptance by Landlord of a surrender of the Premises unless such intent is specifically acknowledged in writing by Landlord. The delivery of keys to the Premises to Landlord or any agent or employee of Landlord shall not constitute a surrender of the Premises or effect a termination of this Lease, whether or not the keys are thereafter retained by Landlord, and notwithstanding such delivery Tenant shall be entitled to the return of such keys at any reasonable time upon request until this Lease shall have been properly terminated. The voluntary or other surrender of this Lease by Tenant, whether accepted by Landlord or not, or a mutual termination hereof, shall not work a merger, and at the option of Landlord shall operate as an assignment to Landlord of all subleases or subtenancies affecting the Premises or terminate any or all such sublessees or subtenancies.

15.2 **Removal of Tenant Property by Tenant**. Upon the expiration of the Lease Term, or upon any earlier termination of this Lease, Tenant shall, subject to the provisions of this Article 15, quit and surrender possession of the Premises to Landlord in as good order and condition as when Tenant took possession and as thereafter improved by Landlord and/or Tenant, reasonable wear and tear and repairs which are specifically made the responsibility of Landlord hereunder excepted. Upon such expiration or termination, Tenant shall, without expense to Landlord, remove or cause to be removed from the Premises all debris and rubbish, and such items of furniture, equipment, Tenant's business equipment and trade-fixtures, free-standing cabinet work, movable partitions and other articles of personal property owned by Tenant or installed or placed by Tenant at its expense in the Premises, and such similar articles of any other persons claiming under Tenant, as Landlord may, in its sole discretion, require to be removed, and Tenant shall repair at its own expense all damage to the Premises and Building resulting from such removal.

15.3 **Environmental Assessment**. In connection with its surrender of the Premises, Tenant shall submit to Landlord, at least one hundred twenty (120) days prior to the expiration date of this Lease (or in the event of an earlier termination of this Lease, as soon as reasonably possible following such termination), an environmental Assessment of the Premises by a competent and experienced environmental engineer or engineering firm reasonably satisfactory to Landlord (pursuant to a contract approved by Landlord and providing that Landlord can rely on the Environmental Assessment), which (i) evidences that the Premises are in a clean and safe condition and free and clear of any Hazardous Materials; and (ii) includes a review of the Premises by an environmental consultant for asbestos, mold, fungus, spores, and other moisture conditions, on-site chemical use, and lead-based paint. If such Environmental Assessment reveals that remediation or Clean-up is required under any Environmental Laws, and for which Tenant is responsible under this Lease, Tenant shall submit a remediation plan prepared by a recognized environmental consultant and shall be responsible for all costs of remediation and Clean-up, as more particularly provided in **Section 5.3**, above.

15.4 **Condition of the Building and Premises Upon Surrender**. In addition to the above requirements of this Article 15, upon the expiration of the Lease Term, or upon any earlier termination of this Lease, Tenant shall, surrender the Premises with Tenant having complied with all of Tenant's obligations under this Lease, including those relating to improvement, repair, maintenance, compliance with law, testing and other related obligations of Tenant set forth in Article 7 of this Lease. In the event that the Building and Premises shall be surrendered in a condition which does not comply with the terms of this Section 15.4, because Tenant failed to comply with its obligations set forth in Lease, then following thirty (30) days notice to Tenant, during which thirty (30) day period Tenant shall have the right to cure such noncompliance, Landlord shall be entitled to expend all reasonable costs in order to cause the same to comply with the required condition upon surrender and Tenant shall immediately reimburse Landlord for all such costs upon notice and Tenant shall be deemed during the period that Tenant or Landlord, as the case may be, perform obligations relating to the Surrender Improvements to be in holdover under Article 16 of this Lease.

16. HOLDING OVER If Tenant holds over after the expiration of the Lease Term or earlier termination thereof, with the express or implied consent of Landlord, such tenancy shall be from month-to-month only, and shall not constitute a renewal hereof or an extension for any further term. If Tenant holds over after the expiration of the Lease Term of earlier termination thereof, without the express or implied consent of Landlord, such tenancy shall be deemed to be a tenancy by sufferance only, and shall not constitute a renewal hereof or an extension for any further term. In either case, Rent shall be payable at a monthly rate equal to 150% of the Rent applicable during the last rental period of the Lease Term under this Lease. Such month-to-month tenancy or tenancy by sufferance, as the case may be, shall be subject to every other applicable term, covenant and agreement contained herein. Nothing contained in this Article 16 shall be construed as consent by Landlord to any holding over by Tenant, and Landlord expressly reserves the right to require Tenant to surrender possession of the Premises to Landlord as provided in this Lease upon the expiration or other termination of this Lease. The provisions of this Article 16 shall not be deemed to limit or constitute a waiver of any other rights or remedies of Landlord provided herein or at law. If Tenant fails to surrender the Premises upon the termination or expiration of this Lease, in addition to any other liabilities to Landlord accruing therefrom, Tenant shall protect, defend, indemnify and hold Landlord harmless from all loss, costs (including reasonable attorneys' fees) and liability resulting from such failure, including, without limiting the generality of the foregoing, any claims made by any succeeding tenant founded upon such failure to surrender and any lost profits to Landlord resulting therefrom.

17. ESTOPPEL CERTIFICATES Within ten (10) business days following a request in writing by Landlord, Tenant shall execute, acknowledge and deliver to Landlord an estoppel certificate, which, as submitted by Landlord, shall be substantially in the form of **Exhibit D**, attached hereto (or such other form as may be required by any prospective mortgagee or purchaser of the Project, or any portion thereof), indicating therein any exceptions thereto that may exist at that time (and with such changes as may be required so that the statements therein are true as of the date of delivery), and shall also contain any other information reasonably requested by Landlord or Landlord's mortgagee or prospective mortgagee. Any such certificate may be relied upon by any prospective mortgagee or purchaser of all or any portion of the Project. Tenant shall execute and deliver whatever other instruments may be reasonably required for such purposes. At any time during the Lease Term, within ten (10) business days after request therefor, Landlord may require Tenant to provide Landlord with a current financial statement and financial statements of the two (2) years prior to the current financial statement year (provided that such statements shall not be required if Tenant's stock is traded on a public exchange and financial statements are publicly available). Such statements shall be prepared in accordance with generally accepted accounting principles and, if such is the normal practice of Tenant, shall be audited by an independent certified public accountant. Failure of Tenant to timely execute, acknowledge and deliver such estoppel certificate or other instruments shall constitute an acceptance of the Premises and an acknowledgment by Tenant that statements included in the estoppel certificate are true and correct, without exception. Landlord shall keep such financial statements confidential and may only disclose them to Landlord's current or prospective lenders purchasers, investors, and accountants, and only on the condition that they agree to keep such statements confidential.

18. SUBORDINATION Landlord represents and warrants to Tenant that the Building and Project are not currently subject to any existing ground or underlying leases of the Building or Project and to the lien of any mortgage, trust deed or similar encumbrance. This Lease shall be subject and subordinate to all future ground or underlying leases of the Building or Project and to the lien of any mortgage, trust deed or other encumbrances now or hereafter in force against the Building or Project or any part thereof, if any, and to all renewals, extensions, modifications, consolidations and replacements thereof, and to all advances made or hereafter to be made upon the security of such mortgages or trust deeds, unless the holders of such mortgages, trust deeds or other encumbrances, or the lessors under such ground lease or underlying leases, require in writing that this Lease be superior thereto (collectively, the "Superior Holders"); provided, however, that in consideration of and a condition precedent to Tenant's agreement to subordinate this Lease to any future mortgage, trust deed or other encumbrances, shall be the receipt by Tenant of a subordination non-disturbance and attornment agreement in the standard form provided by such Superior Holders, which requires such Superior Holder to accept this lease, and not to disturb tenant's possession, so long as an event of default has not occurred and be continuing executed by Landlord and the appropriate Superior Holder. Tenant covenants and agrees in the event any proceedings are brought for the foreclosure of any such mortgage or deed in lieu thereof (or if any ground lease is terminated), to attorn, without any deductions or set-offs whatsoever, to the lienholder or purchaser or any successors thereto upon any such foreclosure sale or deed in lieu thereof (or to the ground lessor), if so requested to do so by such purchaser or lienholder or ground lessor, and to recognize such purchaser or lienholder or ground lessor as the lessor under this Lease, provided such lienholder or purchaser or ground lessor shall agree to accept this Lease and not disturb Tenant's occupancy, so long as Tenant timely pays the rent and observes and performs the terms, covenants and conditions of this Lease to be observed and performed by Tenant. Landlord's interest herein may be assigned as security at any time to any lienholder. Tenant shall, within ten (10) business days of request by Landlord, execute such further instruments or assurances as Landlord may reasonably deem necessary to evidence or confirm the subordination or superiority of this Lease to any such mortgages, trust deeds, ground leases or underlying leases. Tenant waives the provisions of any current or future statute, rule or law which may give or purport to give Tenant any right or election to terminate or otherwise adversely affect this Lease and the obligations of the Tenant hereunder in the event of any foreclosure proceeding or sale.

19. DEFAULTS; REMEDIES

19.1 **Events of Default**. The occurrence of any of the following shall constitute a default of this Lease by Tenant (and if such default is not timely cured, as and to the extent herein permitted, such default shall constitute a "**Default**" under this Lease):

19.1.1 Any failure by Tenant to pay any Rent or any other charge required to be paid under this Lease, or any part thereof, when due unless such failure is cured within five (5) business days after notice; or

19.1.2 Except where a specific time period is otherwise set forth for Tenant's performance in this Lease, in which event the failure to perform by Tenant within such time period shall be a default by Tenant under this Section 19.1.2, any failure by Tenant to observe or perform any other provision, covenant or condition of this Lease to be observed or performed by Tenant where such failure continues for thirty (30) days after written notice thereof from Landlord to Tenant; provided that if the nature of such default is such that the same cannot reasonably be cured within a thirty (30) day period, Tenant shall not be deemed to be in default if it diligently commences such cure within such period and thereafter diligently proceeds to rectify and cure such default; or

19.1.3 The failure by Tenant to observe or perform according to the provisions of Section 5.1 or 5.2, or Articles 14, 17 or 18 of this Lease where such failure continues for more than five (5) business days after notice from Landlord,

The notice periods provided herein are in lieu of, and not in addition to, any notice periods provided by law.

19.2 **Remedies Upon Default**. Upon the occurrence of any Default by Tenant, Landlord shall have, in addition to any other remedies available to Landlord at law or in equity (all of which remedies shall be distinct, separate and cumulative), the option to pursue any one or more of the following remedies, each and all of which shall be cumulative and nonexclusive, without any notice or demand whatsoever.

19.2.1 Terminate this Lease, in which event Tenant shall immediately surrender the Premises to Landlord, and if Tenant fails to do so, Landlord may, without prejudice to any other remedy which it may have for possession or arrearages in rent, enter upon and take possession of the Premises and expel or remove Tenant and any other person who may be occupying the Premises or any part thereof, without being liable for prosecution or any claim or damages therefor; and Landlord may recover from Tenant the following:

(i) The worth at the time of award of the unpaid rent which has been earned at the time of such termination; plus

(ii) The worth at the time of award of the amount by which the unpaid rent which would have been earned after termination until the time of award exceeds the amount of such rental loss that Tenant proves could have been reasonably avoided; plus

(iii) The worth at the time of award of the amount by which the unpaid rent for the balance of the Lease Term after the time of award exceeds the amount of such rental loss that Tenant proves could have been reasonably avoided; plus

(iv) Any other amount necessary to compensate Landlord for all the detriment proximately caused by Tenant's failure to perform its obligations under this Lease or which in the ordinary course of things would be likely to result therefrom, specifically including but not limited to, brokerage commissions and advertising expenses incurred, expenses of remodeling the Premises or any portion thereof for a new tenant, whether for the same or a different use, and any special concessions made to obtain a new tenant; and

(v) At Landlord's election, such other amounts in addition to or in lieu of the foregoing as may be permitted from time to time by applicable law.

The term "**rent**" as used in this Section 19.2 shall be deemed to be and to mean all sums of every nature required to be paid by Tenant pursuant to the terms of this Lease, whether to Landlord or to others. As used in Sections 19.2.1(i) and (ii), above, the "worth at the time of award" shall be computed by allowing interest at the rate set forth in Article 25 of this Lease, but in no case greater than the maximum amount of such interest permitted by law. As used in Section 19.2.1(iii) above, the "**worth at the time of award**" shall be computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of award plus one percent (1%).

19.2.2 Landlord shall have the remedy described in California Civil Code Section 1951.4 (lessor may continue lease in effect after lessee's breach and abandonment and recover rent as it becomes due, if lessee has the right to sublet or assign, subject only to reasonable limitations). Accordingly, if Landlord does not elect to terminate this Lease on account of any default by Tenant, Landlord may, from time to time, without terminating this Lease, enforce all of its rights and remedies under this Lease, including the right to recover all rent as it becomes due.

19.2.3 Landlord shall at all times have the rights and remedies (which shall be cumulative with each other and cumulative and in addition to those rights and remedies available under Sections 19.2.1 and 19.2.2, above, or any law or other provision of this Lease), without prior demand or notice except as required by applicable law, to seek any declaratory, injunctive or other equitable relief, and specifically enforce this Lease, or restrain or enjoin a violation or breach of any provision hereof.

19.3 **Subleases of Tenant**. Whether or not Landlord elects to terminate this Lease on account of any default by Tenant, as set forth in this Article 19, Landlord shall have the right to terminate any and all subleases, licenses, concessions or other consensual arrangements for possession entered into by Tenant and affecting the Premises or may, in Landlord's sole discretion, succeed to Tenant's interest in such subleases, licenses, concessions or arrangements. In the event of Landlord's election to succeed to Tenant's interest in any such subleases, licenses, concessions or arrangements, Tenant shall, as of the date of notice by Landlord of such election, have no further right to or interest in the rent or other consideration receivable thereunder.

19.4 **Efforts to Relet**. No re-entry or repossession, repairs, maintenance, changes, alterations and additions, reletting, appointment of a receiver to protect Landlord's interests hereunder, or any other action or omission by Landlord shall be construed as an election by Landlord to terminate this Lease or Tenant's right to possession, or to accept a surrender of the Premises, nor shall same operate to release Tenant in whole or in part from any of Tenant's obligations hereunder, unless express written notice of such intention is sent by Landlord to Tenant. Tenant hereby irrevocably waives any right otherwise available under any law to redeem or reinstate this Lease.

20. COVENANT OF QUIET ENJOYMENT Landlord covenants that Tenant, on paying the Rent, charges for services and other payments herein reserved and on keeping, observing and performing all the other terms, covenants, conditions, provisions and agreements herein contained on the part of Tenant to be kept, observed and performed, shall, during the Lease Term, peaceably and quietly have, hold and enjoy the Premises subject to the terms, covenants, conditions, provisions and agreements hereof without interference by any persons lawfully claiming by or through Landlord. The foregoing covenant is in lieu of any other covenant express or implied.

21. SECURITY DEPOSIT Concurrently with Tenant's execution of this Lease, Tenant shall deposit with Landlord a security deposit (the "**Security Deposit**") in the amount set forth in Section 8 of the Summary, as security for the faithful performance by Tenant of all of its obligations under this Lease. If Tenant defaults, beyond applicable notice and cure periods, with respect to any provisions of this Lease, including, but not limited to, the provisions relating to the payment of Rent, the removal of property and the repair of resultant damage, Landlord may, without notice to Tenant, but shall not be required to apply all or any part of the Security Deposit for the payment of any Rent or any other sum in default and Tenant shall, upon demand therefor, restore the Security Deposit to its original amount. Any unapplied portion of the Security Deposit shall be returned to Tenant, or, at Landlord's option, to the last assignee of Tenant's interest hereunder, within thirty (30) days following the expiration of the Lease Term. Tenant shall not be entitled to any interest on the Security Deposit. Tenant hereby irrevocably waives and relinquishes any and all rights, benefits, or protections, if any, Tenant now has, or in the future may have, under Section 1950.7 of the California Civil Code, any successor statue, and all other provisions of law, now or hereafter in effect, including, but not limited to, any provision of law which (i) establishes the time frame by which a landlord must refund a security deposit under a lease, or (ii) provides that a landlord may claim from a security deposit only those sums reasonably necessary to remedy defaults in the payment of rent, to repair damage caused by a tenant, or to clean the subject premises. Tenant acknowledges and agrees that (A) any statutory time frames for the return of a security deposit are superseded by the express period identified in this Article 21, above, and (B) rather than be so limited, Landlord may claim from the Security Deposit (*x*) any and all sums expressly identified in this Article 21, above, and (*y*) any additional sums reasonably necessary to compensate Landlord for any and all losses or damages caused by Tenant's default of this Lease, including, but not limited to, all damages or rent due upon termination of this Lease pursuant to Section 1951.2 of the California Civil Code.

22. COMMUNICATIONS AND COMPUTER LINE Tenant may install, maintain, replace, remove or use any communications or computer wires and cables serving the Premises (collectively, the "**Lines**"), provided that Tenant shall obtain Landlord's prior written consent, use an experienced and qualified contractor approved in writing by Landlord, and comply with all of the other provisions of Articles 7 and 8 of this Lease. Tenant shall pay all costs in connection therewith. Landlord reserves the right, upon notice to Tenant prior to the expiration or earlier termination of this Lease, to require that Tenant, at Tenant's sole cost and expense, remove any Lines located in or serving the Premises prior to the expiration or earlier termination of this Lease. Landlord shall, on or before the Lease Commencement Date, remove any existing wiring or cabling within the Premises that Tenant requests.

23. SIGNS

23.1 **Exterior Signage**. Subject to Landlord's prior written approval, which shall not be unreasonably withheld, conditioned or delayed, and provided all signs are in keeping with the quality, design and style of the Building and Project, (i) Landlord, at its sole cost and expense, shall install identification signage for Tenant at the entrance to the Building, (ii) Landlord will, at Tenant's sole cost and expense, move Tenant's existing monument sign to a mutually agreed upon location at the Building, and (iii) Tenant may, at Tenant's sole cost, install signage identifying Tenant on the entrance door to the Premises (all such signage collectively, "**Tenant Signage**"); provided, however, in no event shall Tenant's Signage include an "Objectionable Name," as that term is defined in Section 23.2, of this Lease. All such signage shall be subject to Tenant's obtaining all required governmental approvals. All permitted signs shall be maintained by Tenant at its expense in a first-class and safe condition and appearance. Upon the expiration or earlier termination of this Lease, Tenant shall remove all of its signs at Tenant's sole cost and expense. The graphics, materials, color, design, lettering, lighting, size, illumination, specifications and exact location of Tenant's Signage (collectively, the "**Sign Specifications**") shall be subject to the prior written approval of Landlord, which approval shall not be unreasonably withheld, conditioned or delayed, and shall be consistent and compatible with the quality and nature of the Project. Tenant hereby acknowledges that, notwithstanding Landlord's approval of Tenant's Signage, Landlord has made no representation or warranty to Tenant with respect to the probability of obtaining all necessary governmental approvals and permits for Tenant's Signage. In the event Tenant does not receive the necessary governmental approvals and permits for Tenant's Signage, Tenant's and Landlord's rights and obligations under the remaining TCCs of this Lease shall be unaffected.

23.2 **Objectionable Name**. Tenant's Signage shall not include a name or logo which relates to an entity which is of a character or reputation, or is associated with a political faction or orientation, which is inconsistent with the quality of the Project, or which would otherwise reasonably offend a landlord of the Comparable Buildings (an "**Objectionable Name**"). The parties hereby agree that the following name, or any reasonable derivation thereof, shall be deemed not to constitute an Objectionable Name: "Compugen USA, Inc.".

23.3 **Prohibited Signage and Other Items**. Any signs, notices, logos, pictures, names or advertisements which are installed and that have not been separately approved by Landlord may be removed without notice by Landlord at the sole expense of Tenant. Any signs, window coverings, or blinds (even if the same are located behind the Landlord-approved window coverings for the Building), or other items visible from the exterior of the Premises or Building, shall be subject to the prior approval of Landlord, in its sole discretion.

23.4 **Termination of Right to Tenant's Signage**. The rights contained in this Article 23 shall be personal to Original Tenant and its Permitted Assignee, and may only be exercised and maintained by such parties (and not any other assignee, sublessee or other transferee of the Original Tenant's interest in this Lease) to the extent (*x*) they are not in default under this Lease (beyond any applicable notice and cure period) *and* (y) they occupy more than fifty percent (50%) of the Premises.

24. COMPLIANCE WITH LAW Tenant shall not do anything or suffer anything to be done in or about the Premises or the Project which will in any way conflict with any law, statute, ordinance or other governmental rule, regulation or requirement now in force or which may hereafter be enacted or promulgated including Environmental Laws (collectively, "**Applicable Laws**"). Tenant shall, at its sole cost and expense, promptly comply with any Applicable Laws which relate to (i) Tenant's use of the Premises, but Tenant shall be required to perform alterations to the Premises, Building, or Project to comply with laws only where such compliance requirement is triggered by Tenant's particular use of the Premises (as opposed to general and customary office, lab or research and development use), (ii) any Alterations made by Tenant to the Premises, and any tenant improvements in the Premises. Should any standard or regulation now or hereafter be imposed on Landlord or Tenant by a state, federal or local governmental body charged with the establishment, regulation and enforcement of occupational, health or safety standards for employers, employees, landlords or tenants, then Tenant agrees, at its sole cost and expense, to comply promptly with such standards or regulations. Tenant shall be responsible, at its sole cost and expense, to make all alterations to the Building and Premises as are required to comply with the governmental rules, regulations, requirements or standards described in this Article 24, but Tenant shall be required to perform alterations to the Premises, Building, or Project to comply with laws only where such compliance requirement is triggered by Tenant's particular use of the Premises (as opposed to general and customary office, lab or research and development use). Tenant shall not be responsible for remedying pre-existing violations of Applicable Laws with respect to the Premises, Building, or Project. The judgment of any court of competent jurisdiction or the admission of Tenant in any judicial action, regardless of whether Landlord is a party thereto, that Tenant has violated any of said governmental measures, shall be conclusive of that fact as between Landlord and Tenant. Landlord shall comply with all Applicable Laws relating to the Base Building, provided that compliance with such Applicable Laws is not the responsibility of Tenant under this Lease.

25. LATE CHARGES If any installment of Rent or any other sum due from Tenant shall not be received by Landlord or Landlord's designee within five (5) business days after Tenant's receipt of written notice from Landlord that said amount is due, then Tenant shall pay to Landlord a late charge equal to five percent (5%) of the overdue amount plus any reasonable attorneys' fees incurred by Landlord by reason of Tenant's failure to pay Rent and/or other charges when due hereunder. The late charge shall be deemed Additional Rent and the right to require it shall be in addition to all of Landlord's other rights and remedies hereunder or at law and shall not be construed as liquidated damages or as limiting Landlord's remedies in any manner. In addition to the late charge described above, any Rent or other amounts owing hereunder which are not paid within ten (10) days after the date they are due shall bear interest from the date when due until paid at a rate per annum equal to the lesser of (i) the annual "Bank Prime Loan" rate cited in the Federal Reserve Statistical Release Publication G.13(415), published on the first Tuesday of each calendar month (or such other comparable index as Landlord and Tenant shall reasonably agree upon if such rate ceases to be published) plus four (4) percentage points, and (ii) the highest rate permitted by applicable law.

26. LANDLORD'S RIGHT TO CURE DEFAULT; PAYMENTS BY TENANT

26.1 **Landlord's Cure**. All covenants and agreements to be kept or performed by Tenant under this Lease shall be performed by Tenant at Tenant's sole cost and expense and without any reduction of Rent, except to the extent, if any, otherwise expressly provided herein. If Tenant shall fail to perform any obligation under this Lease, and such failure shall continue in excess of the time allowed under Section 19.1.2, above, unless a specific time period is otherwise stated in this Lease, Landlord may, but shall not be obligated to, make any such payment or perform any such act on Tenant's part without waiving its rights based upon any default of Tenant and without releasing Tenant from any obligations hereunder.

26.2 **Tenant's Reimbursement**. Except as may be specifically provided to the contrary in this Lease, Tenant shall pay to Landlord, upon delivery by Landlord to Tenant of statements therefor: (i) sums equal to expenditures reasonably made and obligations incurred by Landlord in connection with the remedying by Landlord of Tenant's defaults pursuant to the provisions of Section 26.1; (ii) sums equal to all losses, costs, liabilities, damages and expenses referred to in Section 10.1 of this Lease; and (iii) sums equal to all expenditures made and obligations incurred by Landlord in collecting or attempting to collect the Rent or in enforcing or attempting to enforce any rights of Landlord under this Lease or pursuant to law, including, without limitation, all reasonable legal fees and other amounts so expended. Tenant's obligations under this Section 26.2 shall survive the expiration or sooner termination of the Lease Term.

27. ENTRY BY LANDLORD Landlord reserves the right at all reasonable times and upon reasonable prior notice to Tenant (which shall be at least 24 hours except in the case of an emergency) to enter the Premises (and Tenant shall have the right to accompany any such entry) to (i) inspect them; (ii) show the Premises to prospective purchasers, or to current or prospective mortgagees, ground or underlying lessors or insurers or, during the last twelve (12) months of the Lease Term, to prospective tenants; (iii) post notices of nonresponsibility (to the extent applicable pursuant to then applicable law); or (iv) alter, improve or repair the Premises or the Building, or for structural alterations, repairs or improvements to the Building or the Building's systems and equipment. Landlord may make any such entries without the abatement of Rent, except as otherwise provided in this Lease, and may take such reasonable steps as required to accomplish the stated purposes. In an emergency, Landlord shall have the right to use any means that Landlord may deem proper to open the doors in and to the Premises. Any entry into the Premises by Landlord in the manner hereinbefore described shall not be deemed to be a forcible or unlawful entry into, or a detainer of, the Premises, or an actual or constructive eviction of Tenant from any portion of the Premises. Tenant shall have the right to designate certain areas of the Premises as "Secured Areas" (not to exceed 1,500 square feet of space) should Tenant require such areas for the purpose of securing certain valuable property or confidential information. Landlord shall not enter any Secured Areas except in the event of an emergency, or otherwise in connection with a specific request by Tenant. In connection with any such entry, Landlord will comply with Tenant’s reasonable safety and security requirements. Any such entries shall be performed by Landlord as expeditiously as reasonably possible and in a manner so as to minimize any interference with the conduct of Tenant’s business.

28. TENANT PARKING Tenant shall have the right to use the amount of parking set forth in Section 9 of the Summary, in the on-site and/or off-site, as the case may be, parking facility (or facilities) which serve the Project, at no additional charge during the initial Lease Term or any Option Term. Tenant shall abide by all reasonable rules and regulations which are prescribed from time to time for the orderly operation and use of the parking facility where the parking passes are located (including any sticker or other identification system established by Landlord and the prohibition of vehicle repair and maintenance activities in the parking facilities), and shall cooperate in seeing that Tenant's employees and visitors also comply with such rules and regulations. Tenant's use of the Project parking facility shall be at Tenant's sole risk and Tenant acknowledges and agrees that Landlord shall have no liability whatsoever for damage to the vehicles of Tenant, its employees and/or visitors, or for other personal injury or property damage or theft relating to or connected with the parking rights granted herein or any of Tenant's, its employees' and/or visitors' use of the parking facilities.

29. MISCELLANEOUS PROVISIONS

29.1 **Terms; Captions**. The words "**Landlord**" and "**Tenant**" as used herein shall include the plural as well as the singular. The necessary grammatical changes required to make the provisions hereof apply either to corporations or partnerships or individuals, men or women, as the case may require, shall in all cases be assumed as though in each case fully expressed. The captions of Articles and Sections are for convenience only and shall not be deemed to limit, construe, affect or alter the meaning of such Articles and Sections.

29.2 **Binding Effect**. Subject to all other provisions of this Lease, each of the covenants, conditions and provisions of this Lease shall extend to and shall, as the case may require, bind or inure to the benefit not only of Landlord and of Tenant, but also of their respective heirs, personal representatives, successors or assigns, provided this clause shall not permit any assignment by Tenant contrary to the provisions of Article 14 of this Lease.

29.3 **No Air Rights**. No rights to any view or to light or air over any property, whether belonging to Landlord or any other person, are granted to Tenant by this Lease. If at any time any windows of the Premises are temporarily darkened or the light or view therefrom is obstructed by reason of any repairs, improvements, maintenance or cleaning in or about the Project, the same shall be without liability to Landlord and without any reduction or diminution of Tenant's obligations under this Lease.

29.4 **Modification of Lease**. Should any current or prospective mortgagee or ground lessor for the Building or Project require a modification of this Lease, which modification will not cause an increased cost or expense to Tenant or in any other way materially and adversely change the rights and obligations of Tenant hereunder, then and in such event, Tenant agrees that this Lease may be so modified and agrees to execute whatever documents are reasonably required therefor and to deliver the same to Landlord within ten (10) business days following a request therefor. At the request of Landlord or any mortgagee or ground lessor, Tenant agrees to execute a short form of Lease and deliver the same to Landlord within ten (10) business days following the request therefor.

29.5 **Transfer of Landlord's Interest**. Tenant acknowledges that Landlord has the right to transfer all or any portion of its interest in the Project or Building and in this Lease, and Tenant agrees that in the event of any such transfer to an entity which has contractually assumed the obligations of Landlord under this Lease, Landlord shall automatically be released from all liability under this Lease that has not accrued as of the date of the transfer and Tenant agrees to look solely to such transferee for the performance of Landlord's obligations hereunder after the date of transfer and such transferee shall be deemed to have fully assumed and be liable for all obligations of this Lease to be performed by Landlord, including the return of any Security Deposit, and Tenant shall attorn to such transferee (and following request by Tenant, Landlord shall deliver to Tenant reasonable evidence of such assumption by the transferee).

29.6 **Prohibition Against Recording**. Except as provided in Section 29.4 of this Lease, neither this Lease, nor any memorandum, affidavit or other writing with respect thereto, shall be recorded by Tenant or by anyone acting through, under or on behalf of Tenant.

29.7 **Landlord's Title**. Landlord's title is and always shall be paramount to the title of Tenant. Nothing herein contained shall empower Tenant to do any act which can, shall or may encumber the title of Landlord.

29.8 **Relationship of Parties**. Nothing contained in this Lease shall be deemed or construed by the parties hereto or by any third party to create the relationship of principal and agent, partnership, joint venturer or any association between Landlord and Tenant.

29.9 **Application of Payments**. Landlord shall have the right to apply payments received from Tenant pursuant to this Lease, regardless of Tenant's designation of such payments, to satisfy any obligations of Tenant hereunder, in such order and amounts as Landlord, in its sole discretion, may elect.

29.10 **Time of Essence**. Time is of the essence with respect to the performance of every provision of this Lease in which time of performance is a factor.

29.11 **Partial Invalidity**. If any term, provision or condition contained in this Lease shall, to any extent, be invalid or unenforceable, the remainder of this Lease, or the application of such term, provision or condition to persons or circumstances other than those with respect to which it is invalid or unenforceable, shall not be affected thereby, and each and every other term, provision and condition of this Lease shall be valid and enforceable to the fullest extent possible permitted by law.

29.12 **No Warranty**. In executing and delivering this Lease, Tenant has not relied on any representations, including, but not limited to, any representation as to the amount of any item comprising Additional Rent or the amount of the Additional Rent in the aggregate or that Landlord is furnishing the same services to other tenants, at all, on the same level or on the same basis, or any warranty or any statement of Landlord which is not set forth herein or in one or more of the exhibits attached hereto.

29.13 **Landlord Exculpation**. The liability of Landlord or the Landlord Parties to Tenant for any default by Landlord under this Lease or arising in connection herewith or with Landlord's operation, management, leasing, repair, renovation, alteration or any other matter relating to the Project or the Premises shall be limited solely and exclusively to an amount which is equal to the lesser of (a) the interest of Landlord in the Building or (b) the equity interest Landlord would have in the Building if the Building were encumbered by third-party debt in an amount equal to eighty percent (80%) of the value of the Project. Neither Landlord, nor any of the Landlord Parties shall have any personal liability therefor, and Tenant hereby expressly waives and releases such personal liability on behalf of itself and all persons claiming by, through or under Tenant. The limitations of liability contained in this Section 29.13 shall inure to the benefit of Landlord's and the Landlord Parties' present and future partners, beneficiaries, officers, directors, trustees, shareholders, agents and employees, and their respective partners, heirs, successors and assigns. Under no circumstances shall any present or future partner of Landlord (if Landlord is a partnership), or trustee or beneficiary (if Landlord or any partner of Landlord is a trust), have any liability for the performance of Landlord's obligations under this Lease. Notwithstanding any contrary provision herein, neither Landlord nor the Landlord Parties shall be liable under any circumstances for injury or damage to, or interference with, Tenant's business, including but not limited to, loss of profits, loss of rents or other revenues, loss of business opportunity, loss of goodwill or loss of use, in each case, however occurring, or loss to inventory, scientific research, scientific experiments, laboratory animals, products, specimens, samples, and/or scientific, business, accounting and other records of every kind and description kept at the premises and any and all income derived or derivable therefrom.

29.14 **Entire Agreement**. It is understood and acknowledged that there are no oral agreements between the parties hereto affecting this Lease and this Lease constitutes the parties' entire agreement with respect to the leasing of the Premises and supersedes and cancels any and all previous negotiations, arrangements, brochures, agreements and understandings, if any, between the parties hereto or displayed by Landlord to Tenant with respect to the subject matter thereof, and none thereof shall be used to interpret or construe this Lease. None of the terms, covenants, conditions or provisions of this Lease can be modified, deleted or added to except in writing signed by the parties hereto.

29.15 **Right to Lease**. Landlord reserves the absolute right to effect such other tenancies in the Project as Landlord in the exercise of its sole business judgment shall determine to best promote the interests of the Building or Project. Tenant does not rely on the fact, nor does Landlord represent, that any specific tenant or type or number of tenants shall, during the Lease Term, occupy any space in the Building or Project.

29.16 **Force Majeure**. Any prevention, delay or stoppage due to strikes, lockouts, labor disputes, acts of God, acts of war, terrorist acts, inability to obtain services, labor, or materials or reasonable substitutes therefor, despite commercially reasonable efforts to procure the same, governmental actions, civil commotions, fire or other casualty, and other causes beyond the reasonable control of the party obligated to perform, except with respect to the obligations imposed with regard to Rent and other charges to be paid by Tenant pursuant to this Lease (collectively, a "**Force Majeure**"), notwithstanding anything to the contrary contained in this Lease, shall excuse the performance of such party for a period equal to any such prevention, delay or stoppage and, therefore, if this Lease specifies a time period for performance of an obligation of either party, that time period shall be extended by the period of any delay in such party's performance caused by a Force Majeure.

29.17 **Waiver of Redemption by Tenant**. Tenant hereby waives, for Tenant and for all those claiming under Tenant, any and all rights now or hereafter existing to redeem by order or judgment of any court or by any legal process or writ, Tenant's right of occupancy of the Premises after any termination of this Lease.

29.18 **Notices**. All notices, demands, statements, designations, approvals or other communications (collectively, "**Notices**") given or required to be given by either party to the other hereunder or by law shall be in writing, shall be (A) sent by United States certified or registered mail, postage prepaid, return receipt requested ("**Mail**"), (B) transmitted by telecopy, if such telecopy is promptly followed by a Notice sent by Mail, (C) delivered by a nationally recognized overnight courier, or (D) delivered personally. Any Notice shall be sent, transmitted, or delivered, as the case may be, to Tenant at the appropriate address set forth in Section 10 of the Summary, or to such other place as Tenant may from time to time designate in a Notice to Landlord, or to Landlord at the addresses set forth below, or to such other places as Landlord may from time to time designate in a Notice to Tenant. Any Notice will be deemed given (i) three (3) days after the date it is posted if sent by Mail, (ii) the date the telecopy is transmitted, (iii) the date the overnight courier delivery is made, or (iv) the date personal delivery is made. As of the date of this Lease, any Notices to Landlord must be sent, transmitted, or delivered, as the case may be, to the following addresses:

Brittania Pointe Grand Limited Partnership
c/o HCP, Inc.
3760 Kilroy Airport Way, Suite 300
Long Beach, CA 90806
Attention: Legal Department

with a copy to:

HCP Life Science Estates
c/o HCP, Inc.
3760 Kilroy Airport Way, Suite 300
Long Beach, CA 90806-2473
Attn: Legal Department

and

Allen Matkins Leck Gamble Mallory & Natsis LLP
1901 Avenue of the Stars, Suite 1800
Los Angeles, California 90067
Attention: Anton N. Natsis, Esq.

29.19 **Joint and Several**. If there is more than one tenant, the obligations imposed upon Tenant under this Lease shall be joint and several.

29.20 **Authority**. If Tenant is a corporation, trust or partnership, each individual executing this Lease on behalf of Tenant hereby represents and warrants that Tenant is a duly formed and existing entity qualified to do business in the State of California and that Tenant has full right and authority to execute and deliver this Lease and that each person signing on behalf of Tenant is authorized to do so. In such event, Tenant shall, within ten (10) days after execution of this Lease, deliver to Landlord satisfactory evidence of such authority and, if a corporation, upon demand by Landlord, also deliver to Landlord satisfactory evidence of (i) good standing in Tenant's state of incorporation and (ii) qualification to do business in the State of California.

29.21 **Attorneys' Fees**. In the event that either Landlord or Tenant should bring suit for the possession of the Premises, for the recovery of any sum due under this Lease, or because of the breach of any provision of this Lease or for any other relief against the other, then all costs and expenses, including reasonable attorneys' fees, incurred by the prevailing party therein shall be paid by the other party, which obligation on the part of the other party shall be deemed to have accrued on the date of the commencement of such action and shall be enforceable whether or not the action is prosecuted to judgment.

29.22 **Governing Law; WAIVER OF TRIAL BY JURY**. This Lease shall be construed and enforced in accordance with the laws of the State of California. IN ANY ACTION OR PROCEEDING ARISING HEREFROM, LANDLORD AND TENANT HEREBY CONSENT TO (I) THE JURISDICTION OF ANY COMPETENT COURT WITHIN THE STATE OF CALIFORNIA, (II) SERVICE OF PROCESS BY ANY MEANS AUTHORIZED BY CALIFORNIA LAW, AND (III) IN THE INTEREST OF SAVING TIME AND EXPENSE, TRIAL WITHOUT A JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM BROUGHT BY EITHER OF THE PARTIES HERETO AGAINST THE OTHER OR THEIR SUCCESSORS IN RESPECT OF ANY MATTER ARISING OUT OF OR IN CONNECTION WITH THIS LEASE, THE RELATIONSHIP OF LANDLORD AND TENANT, TENANT'S USE OR OCCUPANCY OF THE PREMISES, AND/OR ANY CLAIM FOR INJURY OR DAMAGE, OR ANY EMERGENCY OR STATUTORY REMEDY. IN THE EVENT LANDLORD COMMENCES ANY SUMMARY PROCEEDINGS OR ACTION FOR NONPAYMENT OF BASE RENT OR ADDITIONAL RENT, TENANT SHALL NOT INTERPOSE ANY COUNTERCLAIM OF ANY NATURE OR DESCRIPTION (UNLESS SUCH COUNTERCLAIM SHALL BE MANDATORY) IN ANY SUCH PROCEEDING OR ACTION, BUT SHALL BE RELEGATED TO AN INDEPENDENT ACTION AT LAW. HOWEVER, NOTHING HEREIN SHALL PROHIBIT TENANT FROM ASSERTING ANY DEFENSES IN ANY SUCH PROCEEDING.

29.23 **Submission of Lease**. Submission of this instrument for examination or signature by Tenant does not constitute a reservation of, option for or option to lease, and it is not effective as a lease or otherwise until execution and delivery by both Landlord and Tenant.

29.24 **Broker**. Landlord and Tenant hereby warrant to each other that they have had no dealings with any real estate broker or agent in connection with the negotiation of this Lease, excepting only the real estate brokers or agents specified in Section 12 of the Summary (the "**Broker**"), and that they know of no other real estate broker or agent who is entitled to a commission in connection with this Lease. Each party agrees to indemnify and defend the other party against and hold the other party harmless from any and all claims, demands, losses, liabilities, lawsuits, judgments, costs and expenses (including without limitation reasonable attorneys' fees) with respect to any leasing commission or equivalent compensation alleged to be owing on account of any dealings with any real estate broker or agent, other than the Broker, occurring by, through, or under the indemnifying party. The terms of this Section 29.24 shall survive the expiration or earlier termination of the Lease Term.

29.25 **Independent Covenants**. This Lease shall be construed as though the covenants herein between Landlord and Tenant are independent and not dependent and Tenant hereby expressly waives the benefit of any statute to the contrary and agrees that if Landlord fails to perform its obligations set forth herein, Tenant shall not be entitled to make any repairs or perform any acts hereunder at Landlord's expense or to any setoff of the Rent or other amounts owing hereunder against Landlord.

29.26 **Project or Building Name, Address and Signage**. Landlord shall have the right at any time to change the name and/or address of the Project or Building and to install, affix and maintain any and all signs on the exterior and on the interior of the Project or Building as Landlord may, in Landlord's sole discretion, desire. Tenant shall not use the name of the Project or Building or use pictures or illustrations of the Project or Building in advertising or other publicity or for any purpose other than as the address of the business to be conducted by Tenant in the Premises, without the prior written consent of Landlord.

29.27 **Counterparts**. This Lease may be executed in counterparts with the same effect as if both parties hereto had executed the same document. Both counterparts shall be construed together and shall constitute a single lease.

29.28 **Confidentiality**. Tenant acknowledges that the content of this Lease and any related documents are confidential information. Tenant shall keep such confidential information strictly confidential and shall not disclose such confidential information to any person or entity other than Tenant's financial, legal, and space planning consultants, current or prospective lenders, investors, or purchasers, or as required by law.

29.29 **Development of the Project**.

29.29.1 **Subdivision**. Landlord reserves the right to subdivide all or a portion of the buildings and Common Areas, provided that Tenant's rights under this Lease are not adversely affected thereby. Tenant agrees to execute and deliver, upon demand by Landlord and in the form requested by Landlord, any additional documents needed to conform this Lease to the circumstances resulting from a subdivision and any all maps in connection therewith, provided that Tenant's rights under this Lease are not adversely affected thereby. Notwithstanding anything to the contrary set forth in this Lease, the separate ownership of any buildings and/or Common Areas by an entity other than Landlord shall not affect the calculation of Direct Expenses or Tenant's payment of Tenant's Share of Direct Expenses.

29.29.2 **Construction of Property and Other Improvements**. Tenant acknowledges that portions of the Project may be under construction following Tenant's occupancy of the Premises, and that such construction may result in levels of noise, dust, obstruction of access, etc. which are in excess of that present in a fully constructed project. Tenant hereby waives any and all rent offsets or claims of constructive eviction which may arise in connection with such construction, provided that Landlord has used reasonable efforts to minimize disturbance to Tenant.

29.30 **No Violation**. Tenant hereby warrants and represents that neither its execution of nor performance under this Lease shall cause Tenant to be in violation of any agreement, instrument, contract, law, rule or regulation by which Tenant is bound, and Tenant shall protect, defend, indemnify and hold Landlord harmless against any claims, demands, losses, damages, liabilities, costs and expenses, including, without limitation, reasonable attorneys' fees and costs, arising from Tenant's breach of this warranty and representation.

29.31 **Transportation Management**. Tenant shall fully comply with all present or future programs intended to manage parking, transportation or traffic in and around the Project and/or the Building, and in connection therewith, Tenant shall take responsible action for the transportation planning and management of all employees located at the Premises by working directly with Landlord, any governmental transportation management organization or any other transportation-related committees or entities. Such programs may include, without limitation: (i) restrictions on the number of peak-hour vehicle trips generated by Tenant; (ii) increased vehicle occupancy; (iii) implementation of an in-house ridesharing program and an employee transportation coordinator; (iv) working with employees and any Project, Building or area-wide ridesharing program manager; (v) instituting employer-sponsored incentives (financial or in-kind) to encourage employees to rideshare; and (vi) utilizing flexible work shifts for employees.

29.32 **Guarantor**. The effectiveness of this Lease is conditioned upon the delivery by Tenant of a guaranty in the form attached hereto as **Exhibit F**, executed by and binding upon Compugen, Ltd. ("**Guarantor**").

IN WITNESS WHEREOF, Landlord and Tenant have caused this Lease to be executed the day and date first above written.

LANDLORD:

BRITANNIA POINTE GRAND LIMITED PARTNERSHIP,
a Delaware limited partnership

By: /s/ Jonathan M. Bergschneider
Jonathan M. Bergschneider
Executive Vice President

TENANT:

COMPUGEN USA, INC.,
a Delaware corporation

By: /s/ Anat Cohen - Dayag

Anat Cohen - Dayag
Print Name

Its: Director, President & CEO

By: /s/ John Hunter

John Hunter
Print Name

Its: Site Head & VP

EXHIBIT A

BRITANNIA POINTE GRAND BUSINESS PARK

OUTLINE OF PREMISES

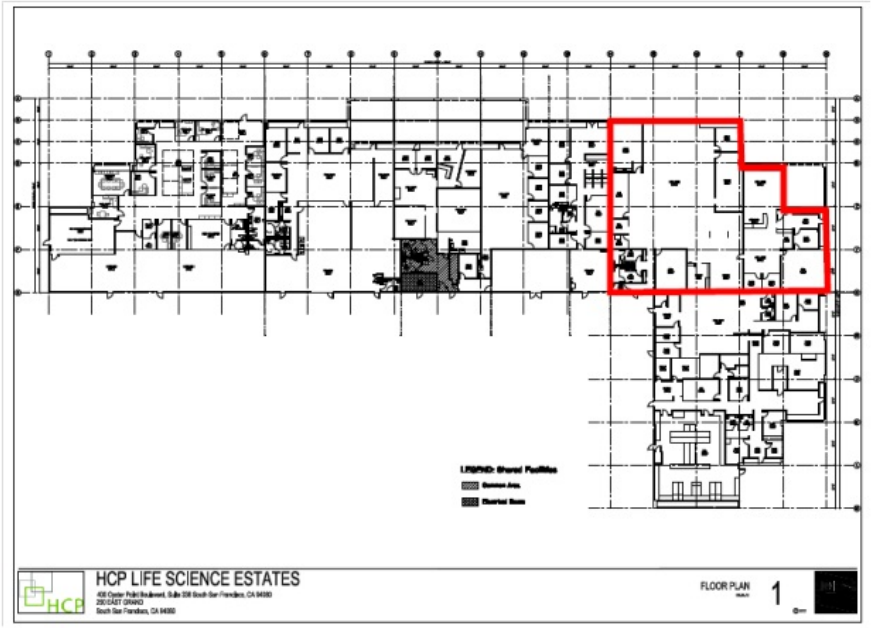


EXHIBIT A

EXHIBIT A-1

BRITANNIA POINTE GRAND BUSINESS PARK

PROJECT SITE PLAN

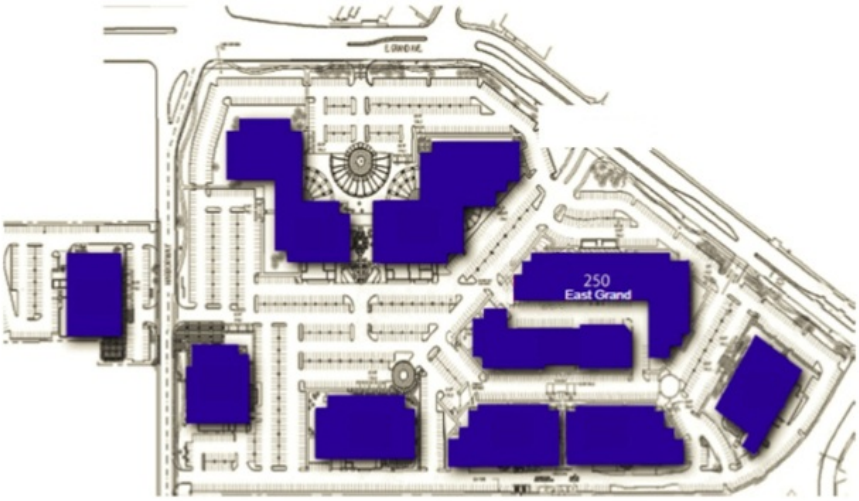


EXHIBIT B

BRITANNIA POINTE GRAND BUSINESS PARK

TENANT WORK LETTER

1. **Defined Terms**. As used in this Tenant Work Letter, the following capitalized terms have the following meanings:

(a) **Approved Plans**: Plans and specifications prepared by the applicable Architect for the respective Tenant Improvements and approved by Landlord and Tenant in accordance with Paragraph 2 of this Tenant Work Letter, subject to further modification from time to time to the extent provided in and in accordance with such Paragraph 2.

(b) **Architect**: DES Architects/Engineers, or any other architect selected by Landlord in its reasonable discretion, with respect to any Tenant Improvements which Landlord is to cause to be constructed pursuant to this Tenant Work Letter.

(c) **Tenant Change Request**: See definition in Paragraph 2(c)(ii) hereof.

(d) **Landlord's Final Working Drawings**: See definition in Paragraph 2(a) hereof.

(e) **General Contractor**: Hathaway Dinwiddie Construction Company, or any other general contractor reasonably selected by Landlord with respect to Landlord's TI Work. Tenant shall have no right to direct or control such General Contractor.

(f) **Landlord's TI Work**: Any Tenant Improvements which Landlord is to construct or install pursuant to this Tenant Work Letter or by mutual agreement of Landlord and Tenant from time to time.

(g) **Project Manager**. Project Management Advisors, Inc., or any other project manager designated by Landlord in its reasonable discretion from time to time to act in a supervisory, oversight, project management or other similar capacity on behalf of Landlord in connection with the design and/or construction of the Tenant Improvements.

(h) **Punch List Work**: Minor corrections of construction or decoration details, and minor mechanical adjustments, that are required in order to cause any applicable portion of the Tenant Improvements as constructed to conform to the Approved Plans in all material respects and that do not materially interfere with Tenant's use or occupancy of the Building and the Premises.

(i) **Substantial Completion Certificate**: See definition in Paragraph 3(a) hereof.

(j) **Tenant Delay**: Any of the following types of delay in the completion of construction of Landlord's TI Work (but in each instance, only to the extent that any of the following has actually and proximately caused substantial completion of Landlord's TI Work to be delayed):

(i) Any delay resulting from Tenant's failure to furnish, in a timely manner, information reasonably requested by Landlord or by Landlord's Project Manager in connection with the design or construction of Landlord's TI Work, or from Tenant's failure to approve in a timely manner any matters requiring approval by Tenant;

(ii) Any delay resulting from Tenant Change Requests initiated by Tenant, including any delay resulting from the need to revise any drawings or obtain further governmental approvals as a result of any such Tenant Change Request; or

(iii) Any delay caused by Tenant (or Tenant's contractors, agents or employees) materially interfering with the performance of Landlord's TI Work, provided that Landlord shall have given Tenant prompt notice of such material interference.

(k) **Tenant Improvements**: The improvements to or within the Building shown on the Approved Plans and/or Landlord's Final Working Drawings from time to time and to be constructed by Landlord pursuant to the Lease and this Tenant Work Letter, and any requirements of any governmental authority or its designee relating to the same. The term "Tenant Improvements" does not include the improvements existing in the Building and Premises at the date of execution of the Lease to the extent such elements are not impacted by the Approved Plans, Landlord's final Working Drawings or any requirements of any applicable governmental entity or its designee..

(l) **Unavoidable Delays**: Delays due to acts of God, acts of public agencies that were not reasonably foreseeable, labor disputes, strikes, fires, freight embargoes, inability (despite the exercise of due diligence) to obtain supplies, materials, fuels or permits, or other causes or contingencies (excluding financial inability) beyond the reasonable control of Landlord or Tenant, as applicable.

(m) Capitalized terms not otherwise defined in this Tenant Work Letter shall have the definitions set forth in the Lease.

2. **Plans and Construction**. Landlord and Tenant shall comply with the procedures set forth in this Paragraph 2 in preparing, delivering and approving matters relating to the Tenant Improvements.

(a) **Approved Plans and Working Drawings for Landlord's TI Work**. Landlord's Architect and project manager has prepared, and Landlord and Tenant have approved, preliminary plans and specifications and a scope of work for the Premises. The most recent mutually approved version of such preliminary plans and specifications and scope of work (the "Landlord's Preliminary Plan") is attached hereto as Schedule 1 and incorporated herein by this reference. Any items listed on the Landlord's Preliminary Plan as being "alternates" or "tenant items", or "tenant furnished" or "tenant installed" shall be provided, if at all, by Tenant at Tenant's sole cost and expense, and Landlord shall have no obligations with respect thereto. Landlord shall prepare or cause to be prepared (assuming timely delivery by Tenant of all information and decisions reasonably required to be furnished or made by Tenant in order to permit preparation of Landlord's Final Working Drawings, and subject to Tenant Delays and Unavoidable Delays), final detailed working drawings and specifications for the Tenant Improvements constituting Landlord's TI Work, including (as applicable) structural, fire protection, life safety, mechanical and electrical working drawings and final architectural drawings (collectively, "Landlord's Final Working Drawings"). Landlord's Final Working Drawings shall be based on and consistent with the Landlord's Preliminary Plan in all material respects (except as otherwise mutually approved by the parties in their respective discretion). Landlord shall deliver copies of Landlord's Final Working Drawings to Tenant for Tenant's approval and information, and to assist Tenant in preparing plans, specifications and drawings for Tenant's Work as hereinafter set forth. Tenant shall promptly and diligently either approve the proposed Landlord's Final Working Drawings, or set forth in writing with particularity any changes necessary to bring the aspects of such proposed plans and specifications or proposed Landlord's Final Working Drawings into a form which will be reasonably acceptable to Tenant. Notwithstanding any other provisions of this paragraph, in no event shall Tenant have the right to object to any aspect of the Landlord's Final Working Drawings (including, but not limited to, any subsequently proposed changes therein from time to time) that is (i) materially consistent with the Landlord's Preliminary Plan, (ii) necessitated by applicable law or as a condition of any governmental or other third-party approvals or consents that are required to be obtained in connection with Landlord's TI Work, or (iii) that is required as a result of unanticipated conditions encountered in the course of construction of Landlord's TI Work, but to the extent Tenant identifies to Landlord any concerns arising out of any such requirements or conditions described in this sentence, Landlord and Tenant shall cooperate reasonably, diligently and in good faith to discuss possible changes in the nature or scope of the Tenant Improvements that might minimize or avoid the effects of such requirements or conditions. Failure of Tenant to deliver to Landlord written notice of disapproval and specification of required changes on or before any deadline reasonably specified by Landlord (which shall not be less than three (3) business days after delivery thereof to Tenant) in delivering an applicable set of plans, specifications and/or drawings to Tenant shall constitute and be deemed to be approval of Landlord's proposed plans and specifications or proposed Landlord's Final Working Drawings, as applicable.

(b) **Construction of Landlord's TI Work**. Following completion of Landlord's Final Working Drawings, Landlord shall apply for and use reasonable efforts to obtain the necessary permits and approvals to allow construction of all Tenant Improvements constituting Landlord's TI Work. Upon receipt of such permits and approvals, Landlord shall, at Landlord's expense (subject to Tenant's obligations to pay for the cost of any Tenant required changes to the Landlord's Preliminary Plan or Landlord's Final Working Drawings), construct and complete the Tenant Improvements constituting Landlord's TI Work substantially in accordance with the Landlord's Approved Plans, subject to Unavoidable Delays and Tenant Delays (if any). Such construction shall be performed in a neat, good and workmanlike manner and shall materially conform to all applicable laws, rules, regulations, codes, ordinances, requirements, covenants, conditions and restrictions applicable thereto in force at the time such work is completed.

(c) **Changes**.

(i) If Landlord determines at any time that changes in Landlord's Final Working Drawings or in any other aspect of the Landlord's Approved Plans relating to any item of Landlord's TI Work are required as a result of applicable law or governmental requirements,, or are required at the insistence of any other third party whose approval may be required with respect to the Tenant Improvements, or are required as a result of unanticipated conditions encountered in the course of construction, then Landlord shall promptly (A) advise Tenant of such circumstances and (B) at Landlord's sole cost and expense, cause revised Landlord's Final Working Drawings to be prepared by Landlord's Architect and submitted to Tenant, for Tenant's information, but to the extent Tenant identifies to Landlord any concerns arising out of any such changes, Landlord and Tenant shall cooperate reasonably, diligently and in good faith to make changes in the nature or scope of the Tenant Improvements that might minimize or avoid the effects of such changes.

(ii) If Tenant at any time desires any changes, alterations or additions to the Landlord's Final Working Drawings or material changes to the Landlord's Preliminary Plan with respect to any of Landlord's TI Work, Tenant shall submit a detailed written request to Landlord specifying such changes, alterations or additions (a "Tenant Change Request"). Upon receipt of any such request, Landlord shall promptly notify Tenant of (A) whether the matters proposed in the Tenant Change Request are approved by Landlord (which approval shall not be unreasonably withheld, conditioned or delayed by Landlord), (B) Landlord's estimate of the number of days of delay, if any, which shall be caused in Landlord's TI Work by such Tenant Change Request if implemented (including, without limitation, delays due to the need to obtain any revised plans or drawings and any governmental approvals), and (C) Landlord's estimate of the increase, if any, which shall occur in the cost of construction of the Landlord's TI Work affected by such Tenant Change Request if such Tenant Change Request is implemented (including, but not limited to, any costs of compliance with laws or governmental regulations that become applicable because of the implementation of the Tenant Change Request). If Landlord approves the Tenant Change Request and Tenant notifies Landlord in writing, within three (3) business days after receipt of such notice from Landlord, of Tenant's approval of the Tenant Change Request (including the estimated delays and cost increases, if any, described in Landlord's notice), then Landlord shall cause such Tenant Change Request to be implemented and Tenant shall be responsible for all actual costs or cost increases resulting from or attributable to the implementation of the Tenant Change Request, and any delays resulting therefrom shall be deemed to be a Tenant Delay. If Tenant fails to notify Landlord in writing of Tenant's approval of such Tenant Change Request within said three (3) business day period, then such Tenant Change Request shall be deemed to be withdrawn and shall be of no further effect.

(d) **Project Management**. Unless and until revoked by Landlord by written notice delivered to Tenant, Landlord hereby (i) delegates to Project Manager the authority to exercise all approval rights, supervisory rights and other rights or powers of Landlord under this Tenant Work Letter with respect to the design and construction of the Tenant Improvements, and (ii) requests that Tenant work with Project Manager with respect to any logistical or other coordination matters arising in the course of construction of the Tenant Improvements, including monitoring Tenant's compliance with its obligations under this Tenant Work Letter and under the Lease with respect to the design and construction of the Tenant Improvements. Tenant acknowledges the foregoing delegation and request, and agrees to cooperate reasonably with Project Manager as Landlord's representative pursuant to such delegation and request. Fees and charges of Project Manager for such services shall be at Landlord's sole expense except to the extent otherwise expressly provided in this Tenant Work Letter. Landlord will cause the Project Manager to provide a contact person who shall be the point of contact for Tenant and who shall be responsible for keeping Tenant apprised of the progress of the Tenant Improvements and, if requested by Tenant, who will meet with Tenant on a regular basis (not more often than weekly) to discuss the progress of the Tenant Improvements.

3. **Completion**.

(a) When Landlord receives written certification from Architect that construction of the Tenant Improvements constituting Landlord's TI Work in the Building has been completed in accordance with the Landlord's Approved Plans (except for Punch List Work), Landlord shall prepare and deliver to Tenant a certificate signed by both Landlord and Architect (the "Substantial Completion Certificate") (i) certifying that the construction of the Tenant Improvements constituting Landlord's TI Work in the Building has been substantially completed in a good and workmanlike manner in accordance with the Landlord's Approved Plans in all material respects, subject only to completion of Punch List Work, and specifying the date of that completion, and (ii) certifying that Landlord's TI Work complies in all material respects with all laws, rules, regulations, codes, ordinances, requirements, covenants, conditions and restrictions applicable thereto at the time of such delivery. Upon receipt by Tenant of the Substantial Completion Certificate and tender of possession of the Premises by Landlord to Tenant, and receipt of any certificate of occupancy or its legal equivalent, or other required sign-offs from any applicable governmental authority, allowing the legal occupancy of the Premises, the Tenant Improvements constituting Landlord's TI Work in the Building will be deemed delivered to Tenant and "Ready for Occupancy" for all purposes of the Lease (subject to Landlord's continuing obligations with respect to any Punch List Work, and to any other express obligations of Landlord under the Lease or this Tenant Work Letter with respect to such Tenant Improvements).

(b) Promptly following delivery of the Substantial Completion Certificate for Landlord's TI Work in the Building, Project Manager or other representatives of Landlord shall conduct one or more "walkthroughs" of the Building with Tenant and Tenant's representatives, to identify any items of Punch List Work that may require correction and to prepare a joint punch list reflecting any such items, following which Landlord shall diligently complete the Punch List Work reflected in such joint punch list. At any time within thirty (30) days after delivery of such Substantial Completion Certificate, Tenant shall be entitled to submit one or more lists to Landlord supplementing such joint punch list by specifying any additional items of Punch List Work to be performed on the applicable Tenant Improvements constituting Landlord's TI Work in the Building, and upon receipt of such list(s), Landlord shall diligently complete such additional Punch List Work. Promptly after Landlord provides Tenant with the Substantial Completion Certificate and completes all applicable Punch List Work for the Building, Landlord shall cause the recordation of a Notice of Completion (as defined in Section 3093 of the California Civil Code or applicable successor statute) with respect to Landlord's TI Work in the Building.

(c) All construction, product and equipment warranties and guaranties obtained by Landlord with respect to Landlord's TI Work shall, to the extent reasonably obtainable, include a provision that such warranties and guaranties shall also run to the benefit of Tenant, and Landlord shall cooperate with Tenant in a commercially reasonable manner to assist in enforcing all such warranties and guaranties for the benefit of Tenant. In addition to the foregoing, Landlord will warrant that the Building Systems and Landlord's TI Work are free from defects for a period of one (1) year after the date the Premises are Ready for Occupancy. In the event of any breach of the foregoing warranty, as Tenant's sole remedy for such breach, Landlord will repair any such defects at no cost to Tenant.

(d) Notwithstanding any other provisions of this Tenant Work Letter or of the Lease, if Landlord is delayed in substantially completing any of Landlord's TI Work as a result of any Tenant Delay, then notwithstanding any other provisions of the Lease to the contrary, the Premises shall be deemed to have been Ready for Occupancy on the date the Premises would have been Ready for Occupancy absent such Tenant Delay.

(e) Landlord shall not require Tenant to remove any of the Tenant Improvements to the extent shown on Landlord's Preliminary Plan attached hereto as **Schedule 1**.

4. **Payment of Costs**. Except as otherwise expressly provided in this Tenant Work Letter or in the Lease or by mutual written agreement of Landlord and Tenant, the cost of construction of the Tenant Improvements shall be paid by Landlord.

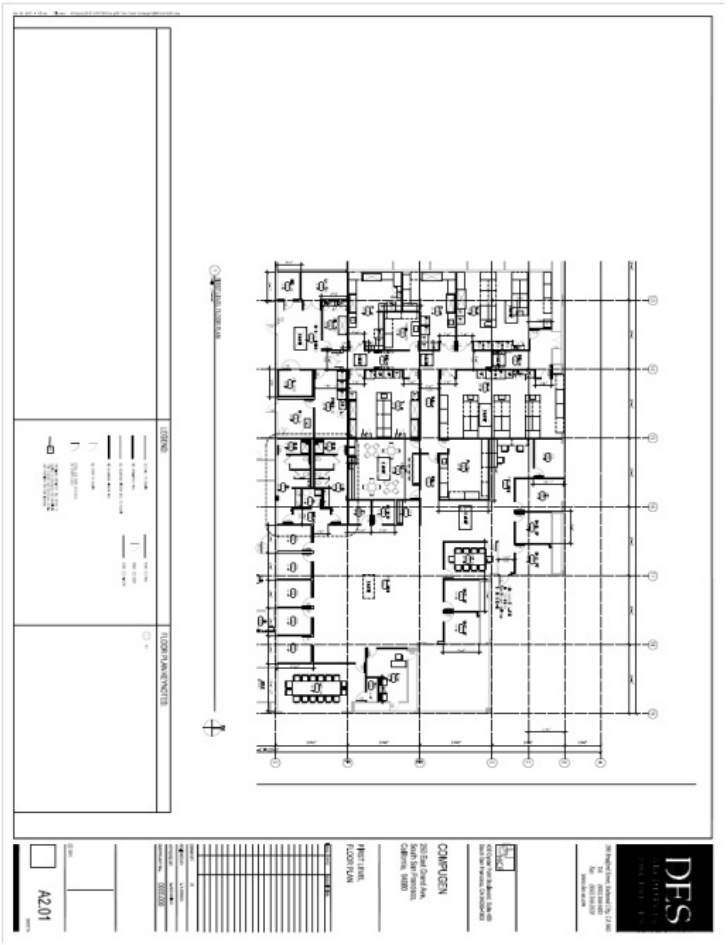
5. **No Agency**. Nothing contained in this Tenant Work Letter shall make or constitute Tenant as the agent of Landlord.

6. **Tenant Access**. Provided that Tenant and its agents do not interfere with Contractor's work in the Building and the Premises, Contractor shall allow Tenant access to the Premises for the purpose of Tenant installing equipment or fixtures (including Tenant's data and telephone equipment) in the Premises and doing business. Prior to Tenant's entry into the Premises as permitted by the terms of this Section 6, Tenant shall submit a schedule to Landlord and Contractor, for their approval, which schedule shall detail the timing and purpose of Tenant's entry. Tenant shall be responsible for the costs of any utilities associated with Tenant's access to the Premises prior to the Lease Commencement Date. Tenant shall hold Landlord harmless from and indemnify, protect and defend Landlord against any loss or damage to the Building or Premises and against injury to any persons caused by Tenant's actions pursuant to this Section 6.

7. **Miscellaneous**. All references in this Tenant Work Letter to a number of days shall be construed to refer to calendar days, unless otherwise specified herein. In all instances where Landlord's or Tenant's approval is required, if no written notice of disapproval is given within the applicable time period, at the end of that period Landlord or Tenant shall be deemed to have given approval (unless the provision requiring Landlord's or Tenant's approval expressly states that non-response is deemed to be a disapproval or withdrawal of the pending action or request, in which event such express statement shall be controlling over the general statement set forth in this sentence) and the next succeeding time period shall commence. If any item requiring approval is disapproved by Landlord or Tenant (as applicable) in a timely manner, the procedure for preparation of that item and approval shall be repeated.

SCHEDULE 1 TO EXHIBIT B

LANDLORD'S PRELIMINARY PLAN AND SCOPE OF WORK



250 E. Grand - Compugen TI Scope List

1. Based on DES floor plan dated 11/21/13 for Office & Lab space
2. (9) skylights & sheetrock wells
3. VCT at all Labs 1 & 2, TC Labs 1, 2 & 3, Shipping/Receiving, Chem. Storage, Lab Storage, Cold Room, Equipment Room, Freezer Room, FACS Lab, Protein Production Lab, Lab Hallway, IT/Server Room, Storage Room, Break Room and Janitor's Closet.
4. Carpet tiles at Lobby, Open Office Area, Private Offices, Shared Offices, Conference Room, Board Room, Small Storage closet adjacent to Board Room, and Copy Room.
5. New Men's and Women's Restrooms with (1) shower each, wet walls and ceramic tile floors.
6. 11 foot ceilings with standard 2×4 ceiling tiles and 2×4 lighting throughout.
7. Rough-in for data; cabling by tenant.
8. Window coverings for exterior windows.
9. All HVAC units to be replaced.

Office Areas consisting of:

10. Lobby/Reception; furniture by tenant.
11. Open Office with space for (20) 6'×8' cubicles (cubicles by tenant). Junction boxes provided at ceiling (cubicle connection by tenant). Rough-in for data (cabling by tenant).
12. Area for (6) workstations (furniture by tenant). Power and data provided for connection to furniture system.
13. (6) Private Offices each with glass wall, standard power and rough-in for data.
14. (4) Shared Offices each with glass wall, standard and rough-in for data.
15. CEO Office with glass wall.
16. Conference Room with two doors and one glass wall, standard power and rough-in for data. Manual mecho shade.
17. Board Room with glass wall and Storage Closet, standard power and rough-in for data. Manual mecho shade.
18. Break Room: Upper and lower cabinetry with one sink, disposal and water line for coffee maker and water line for refrigerator. Countertop adjacent to window facing hallway. Dishwasher included; Refrigerator, coffee maker and furniture by Tenant, Doorway to open office hallway, and (1) door to lab hallway.
19. Copy area with upper and lower cabinetry. Standard power and rough-in for data.
20. IT/Server Room with ductless split system and VCT flooring
21. Office Storage Room with VCT flooring.
22. New exterior glass door to match existing adjacent to Conference Room and Shared Office.

Lab Areas consisting of:

23. Lab #1: With mobile benches, (3) sinks, (2) doors, and clerestory windows at hallway. Power outlets for Freezers and Refrigerator (equipment and flammable cabinet by tenant). (3) VAC outlets.
24. Lab #2: With mobile benches, (2) sinks, (1) fume hood, (2) doors, and clerestory windows at hallway. Power outlets for Freezers and Incubators (equipment and flammable cabinet by tenant). (4) VAC outlets.
25. TC Lab #1: Mobile benches, (1) sink, 4 biosafety cabinets (by tenant), (2) doors, and clerestory windows at hallway. Power outlets for Freezers, Refrigerators and Incubators (equipment by tenant).
26. TC Lab #2: Mobile benches, (1) sink, (2) biosafety cabinets (by tenant), (1) door, and clerestory windows at hallway. Power outlets for Freezers and Incubators (equipment by tenant). (4) VAC outlets.
27. TC Lab #3: Mobile benches, (1) sink, (1) door, (1) biosafety cabinet (by tenant). Clerestory window at hallway. Power outlets for Freezers and Incubators (equipment by tenant). (2) VAC outlets.
28. Protein Production lab with (1) sink, and mobile benches. Clerestory window at hallway. (1) VAC outlet.
29. Installation of (7) tenant furnished biosafety cabinets in TC Labs 1, 2 and 3. Power supply for biosafety cabinets. No ventilation required to exterior.

30. FACS Lab with (1) sink and mobile benches.
31. Chemical Storage Room with (1) 6' fume hood and storage for flammable cabinets (cabinets by tenant).
32. Lab Storage Room
33. Shipping and Receiving with CO2 tank rack and changeover manifold (tanks by tenant). Process piping for CO2 only to incubators at TC #1, TC #2 and TC #3. Door to exterior loading area.
34. Equipment Room for VAC and CDA. VAC outlets at labs including: (4) at TC #2, (2) at TC #3, (3) at Lab #1, (4) Lab #2 and (1) at Protein Production Lab.
35. Freezer Room for Freezers, LN2 and Ice machine. Water and power provided for ice machine. Ice machine, freezers, and LN2 tank by tenant.
36. Cold Room with direct access to S/R.
37. Distilled water tap at (1) sink per lab.
38. Glass lites at all lab doors.
39. (3) Eyewash /Safety Shower combinations.
40. Positive pressure at TC Labs.
41. Recirculated air at all lab areas.
42. Emergency power including: Equipment Room, all refrigerators and freezers in Labs and (4) emergency outlets at each lab.
43. Epoxy sinks with domestic cold water & domestic hot water as depicted on floor plan.
44. Electrical Room

EXCLUDES:

1. IT Cabling
2. Furniture
3. Ceiling service panels, specialty gas piping/outlets/gas manifolds, free-standing lab equipment (freezers, etc.) depicted on floor plan, unless otherwise noted above
4. Signage, other than code required
5. Security system

EXHIBIT B

EXHIBIT C

BRITANNIA POINTE GRAND BUSINESS PARK

NOTICE OF LEASE TERM DATES

To: _____

_____

_____

_____

Re: Lease dated _____, 20__ between _____, a _____ ("**Landlord**"), and _____, a _____ ("**Tenant**") concerning Suite _____ on floor(s) _____ of the building located at _____, California.

Gentlemen:

In accordance with the Lease (the "**Lease**"), we wish to advise you and/or confirm as follows:

1. The Lease Term shall commence on or has commenced on _____ for a term of _____ ending on _____.

2. Rent commenced to accrue on _____, in the amount of _____.

3. If the Lease Commencement Date is other than the first day of the month, the first billing will contain a pro rata adjustment. Each billing thereafter, with the exception of the final billing, shall be for the full amount of the monthly installment as provided for in the Lease.

4. Your rent checks should be made payable to _____ at _____.

5. The exact number of rentable/usable square feet within the Premises is _____ square feet.

6. Tenant's Share as adjusted based upon the exact number of usable square feet within the Premises is _____%.

"Landlord":
_____,
a_____

By:_____
Its:_____

Agreed to and Accepted as
of_____ 20_ .

"Tenant":

_____
a _____

By: _____
Its:_____

EXHIBIT D

BRITANNIA POINTE GRAND BUSINESS PARK

FORM OF TENANT'S ESTOPPEL CERTIFICATE

The undersigned as Tenant under that certain Lease (the "**Lease**") made and entered into as of _____, 20___ by and between _____ as Landlord, and the undersigned as Tenant, for Premises consisting of a portion of the building located at _____, California, certifies as follows:

1. Attached hereto as **Exhibit A** is a true and correct copy of the Lease and all amendments and modifications thereto. The documents contained in **Exhibit A** represent the entire agreement between the parties as to the Premises.

2. The undersigned currently occupies the Premises described in the Lease, the Lease Term commenced on _____, and the Lease Term expires on _____, and the undersigned has no option to terminate or cancel the Lease or to purchase all or any part of the Premises, the Building and/or the Project.

3. Base Rent became payable on _____.

4. The Lease is in full force and effect and has not been modified, supplemented or amended in any way except as provided in **Exhibit A**.

5. Tenant has not transferred, assigned, or sublet any portion of the Premises nor entered into any license or concession agreements with respect thereto except as follows:

6. Intentionally omitted..

7. All monthly installments of Base Rent, all Additional Rent and all monthly installments of estimated Additional Rent have been paid when due through _____. The current monthly installment of Base Rent is $_____.

8. All conditions of the Lease to be performed by Landlord necessary to the effectiveness of the Lease have been satisfied and to Tenant's knowledge Landlord is not in default thereunder. In addition, the undersigned has not delivered any notice to Landlord regarding a default by Landlord thereunder.

9. No rental has been paid more than thirty (30) days in advance and no security has been deposited with Landlord except as provided in the Lease.

10. As of the date hereof, Tenant has no actual knowledge of any existing defenses or offsets, or, to the undersigned's knowledge, claims or any basis for a claim, that the undersigned has against Landlord.

11. If Tenant is a corporation or partnership, Tenant hereby represents and warrants that Tenant is a duly formed and existing entity qualified to do business in California and that Tenant has full right and authority to execute and deliver this Estoppel Certificate and that each person signing on behalf of Tenant is authorized to do so.

12. To Tenant's actual knowledge, here are no actions pending against the undersigned under the bankruptcy or similar laws of the United States or any state.

13. Tenant is in material compliance with all federal, state and local laws, ordinances, rules and regulations affecting its use of the Premises, including, but not limited to, those laws, ordinances, rules or regulations relating to hazardous or toxic materials. To the undersigned's knowledge, Tenant has never permitted or suffered, nor does Tenant have any knowledge of, the generation, manufacture, treatment, use, storage, disposal or discharge of any hazardous, toxic or dangerous waste, substance or material in, on, under or about the Project or the Premises or any adjacent premises or property in violation of any federal, state or local law, ordinance, rule or regulation.

14. To the undersigned's knowledge, all tenant improvement work to be performed by Landlord under the Lease has been completed in accordance with the Lease and has been accepted by the undersigned and all reimbursements and allowances due to the undersigned under the Lease in connection with any tenant improvement work have been paid in full. All work (if any) in the common areas required by the Lease to be completed by Landlord has been completed and all parking spaces required by the Lease have been furnished and/or all parking ratios required by the Lease have been met.

The undersigned acknowledges that this Estoppel Certificate may be delivered to Landlord or to a prospective mortgagee or prospective purchaser, and acknowledges that said prospective mortgagee or prospective purchaser will be relying upon the statements contained herein in making the loan or acquiring the property of which the Premises are a part and that receipt by it of this certificate is a condition of making such loan or acquiring such property.

Executed at _____ on the ____ day of _____, 20__.

"Tenant":

_____,
a_____

By: _____
Its:_____

By: _____
Its: _____

EXHIBIT D

EXHIBIT E

BRITANNIA POINTE GRAND BUSINESS PARK

ENVIRONMENTAL QUESTIONNAIRE

ENVIRONMENTAL QUESTIONNAIRE

FOR COMMERCIAL AND INDUSTRIAL PROPERTIES

Property Name: _____ **Property Address:**

Instructions: The following questionnaire is to be completed by the Lessee representative with knowledge of the planned operations for the specified building/location. Please print clearly and attach additional sheets as necessary.

1.0 PROCESS INFORMATION

Describe planned use, and include brief description of manufacturing processes employed.

2.0 HAZARDOUS MATERIALS

Are hazardous materials used or stored? If so, continue with the next question. If not, go to Section 3.0.

2.1 Are any of the following materials handled on the Property? Yes ☐ No ☐

(A material is handled if it is used, generated, processed, produced, packaged, treated, stored, emitted, discharged, or disposed.) If so, complete this section. If this question is not applicable, skip this section and go on to Section 5.0.

☐ Explosives
☐ Solvents
☐ Acids
☐ Gases
☐ Other (please specify)
☐ Fuels
☐ Oxidizers
☐ Bases
☐ PCBs
☐ Oils
☐ Organics/Inorganics
☐ Pesticides
☐ Radioactive Materials

2-2. If any of the groups of materials checked in Section 2.1, please list the specific material(s), use(s), and quantity of each chemical used or stored on the site in the Table below. If convenient, you may substitute a chemical inventory and list the uses of each of the chemicals in each category separately.

Material	Physical State (Solid, Liquid, or Gas)	Usage	Container Size	Number of Containers	Total Quantity

2-3. Describe the planned storage area location(s) for these materials. Please include site maps and drawings as appropriate.

3.0 HAZARDOUS WASTES

Are hazardous wastes generated? Yes No

If yes, continue with the next question. If not, skip this section and go to section 4.0.

3.1 Are any of the following wastes generated, handled, or disposed of (where applicable) on the Property?

- ☐ Hazardous wastes
- ☐ Waste oils
- ☐ Air emissions
- ☐ Regulated Wastes
- ☐ Industrial Wastewater
- ☐ PCBs
- ☐ Sludges
- ☐ Other (please specify)

3-2. List and quantify the materials identified in Question 3-1 of this section.

WASTE GENERATED	RCRA listed Waste?	SOURCE	APPROXIMATE MONTHLY QUANTITY	WASTE CHARACTERIZATION	DISPOSITION

3-3. Please include name, location, and permit number (e.g. EPA ID No.) for transporter and disposal facility, if applicable). Attach separate pages as necessary.

Transporter/Disposal Facility Name	Facility Location	Transporter (T) or Disposal (D) Facility	Permit Number

3-4. Are pollution controls or monitoring employed in the process to prevent or minimize the release of wastes into the environment? Yes ☐ No ☐

3-5. If so, please describe.

4.0 USTS/ASTS

4.1 Are underground storage tanks (USTs), aboveground storage tanks (ASTs), or associated pipelines used for the storage of petroleum products, chemicals, or liquid wastes present on site (lease renewals) or required for planned operations (new tenants)? Yes ☐ No ☐

If not, continue with section 5.0. If yes, please describe capacity, contents, age, type of the USTs or ASTs, as well any associated leak detection/spill prevention measures. Please attach additional pages if necessary.

Capacity	Contents	Year Installed	Type (Steel, Fiberglass, etc)	Associated Leak Detection / Spill Prevention Measures*

*Note: The following are examples of leak detection / spill prevention measures:

Integrity testing
Overfill spill protection
Inventory reconciliation
Secondary containment
Leak detection system
Cathodic protection

4-2. Please provide copies of written tank integrity test results and/or monitoring documentation, if available.

4-3. Is the UST/AST registered and permitted with the appropriate regulatory agencies? Yes ☐ No ☐

If so, please attach a copy of the required permits.

4-4. If this Questionnaire is being completed for a lease renewal, and if any of the USTs/ASTs have leaked, please state the substance released, the media(s) impacted (e.g., soil, water, asphalt, etc.), the actions taken, and all remedial responses to the incident.

4-5. If this Questionnaire is being completed for a lease renewal, have USTs/ASTs been removed from the Property? Yes ☐ No ☐

If yes, please provide any official closure letters or reports and supporting documentation (e.g., analytical test results, remediation report results, etc.).

4-6. For Lease renewals, are there any above or below ground pipelines on site used to transfer chemicals or wastes? Yes ☐ No ☐

For new tenants, are installations of this type required for the planned operations? Yes ☐ No ☐

If yes to either question, please describe.

5.0 ASBESTOS CONTAINING BUILDING MATERIALS

Please be advised that an asbestos survey may have been performed at the Property. If provided, please review the information that identifies the locations of known asbestos containing material or presumed asbestos containing material. All personnel and appropriate subcontractors should be notified of the presence of these materials, and informed not to disturb these materials. Any activity that involves the disturbance or removal of these materials must be done by an appropriately trained individual/contractor.

6.0 REGULATORY

6-1. Does the operation have or require a National Pollutant Discharge Elimination System (NPDES) or equivalent permit? Yes ☐ No ☐

If so, please attach a copy of this permit.

6-2. Has a Hazardous Materials Business Plan been developed for the site? Yes ☐ No ☐

If so, please attach a copy.

CERTIFICATION

I am familiar with the real property described in this questionnaire. By signing below, I represent and warrant that the answers to the above questions are complete and accurate to the best of my knowledge. I also understand that Lessor will rely on the completeness and accuracy of my answers in assessing any environmental liability risks associated with the property.

Signature: _____

Name: _____

Title: _____

Date: _____

Telephone: _____

EXHIBIT F

BRITANNIA POINTE GRAND BUSINESS PARK

FORM OF GUARANTY OF LEASE

THIS GUARANTY OF LEASE (this "**Guaranty**") is made as of November ___, 2013, by **COMPUGEN, LTD**. (the "**Guarantor**"), whose address is as set forth in Section 10 hereof, in favor of **BRITANNIA POINTE GRAND LIMITED PARTNERSHIP**, a Delaware limited partnership ("**Landlord**").

WHEREAS, Landlord and **COMPUGEN USA, INC.**, a Delaware corporation ("**Tenant**") desire to enter into that certain Lease dated November ___, 2013 (the "**Lease**") concerning the premises on the ground floor, Suite 65, of the building located at 250 East Grand, South San Francisco, California;

WHEREAS, Guarantor has a financial interest in the Tenant; and

WHEREAS, Landlord would not execute the Lease if Guarantor did not execute and deliver to Landlord this Guaranty.

NOW, THEREFORE, for and in consideration of the execution of the foregoing Lease by Landlord and as a material inducement to Landlord to execute said Lease, Guarantor hereby absolutely, presently, continually, unconditionally and irrevocably guarantees the prompt payment by Tenant of all rentals and other sums payable by Tenant under said Lease and the faithful and prompt performance by Tenant of each and every one of the terms, conditions and covenants of said Lease to be kept and performed by Tenant, and further agrees as follows:

1. It is specifically agreed and understood that the terms, covenants and conditions of the Lease may be altered, affected, modified, amended, compromised, released or otherwise changed by agreement between Landlord and Tenant, or by course of conduct and Guarantor does guaranty and promise to perform all of the obligations of Tenant under the Lease as so altered, affected, modified, amended, compromised, released or changed and the Lease may be assigned by or with the consent of Landlord or any assignee of Landlord without consent or notice to Guarantor and that this Guaranty shall thereupon and thereafter guaranty the performance of said Lease as so changed, modified, amended, compromised, released, altered or assigned; provided, however, if notice and consent of Guarantor is not sought, Guarantor shall not be responsible for increased obligations with respect to the Lease as so modified, renewed, extended, amended or otherwise affected.

2. This Guaranty shall not be released, modified or affected by failure or delay on the part of Landlord to enforce any of the rights or remedies of Landlord under the Lease, whether pursuant to the terms thereof or at law or in equity, or by any release of any person liable under the terms of the Lease (including, without limitation, Tenant) or any other guarantor, including without limitation, any other Guarantor named herein, from any liability with respect to Guarantor's obligations hereunder.

3. Guarantor's liability under this Guaranty shall continue until all rents due under the Lease have been paid in full in cash and until all other obligations to Landlord have been satisfied, and shall not be reduced by virtue of any payment by Tenant of any amount due under the Lease. If all or any portion of Tenant's obligations under the Lease is paid or performed by Tenant, the obligations of Guarantor hereunder shall continue and remain in full force and effect in the event that all or any part of such payment(s) or performance(s) is avoided or recovered directly or indirectly from Landlord as a preference, fraudulent transfer or otherwise.

4. Guarantor warrants and represents to Landlord that Guarantor has reviewed and approved copies of the Lease and is fully informed of the remedies Landlord may pursue, with or without notice to Tenant, in the event of default under the Lease. So long as any of the Guarantor's obligations hereunder remains unsatisfied or owing to Landlord, Guarantor shall keep fully informed as to all aspects of Tenant's financial condition and the performance of said obligations.

5. Guarantor hereby covenants and agrees with Landlord that if a default shall at any time occur in the payment of any sums due under the Lease by Tenant or in the performance of any other obligation of Tenant under the Lease, Guarantor shall and will forthwith upon demand pay such sums and any arrears thereof, to Landlord in legal currency of the United States of America for payment of public and private debts, and take all other actions necessary to cure such default and perform such obligations of Tenant.

6. The liability of Guarantor under this Guaranty is a guaranty of payment and performance with respect to any monetary and non-monetary obligations of Tenant under the Lease upon an event of default by Tenant with respect to such obligations.

7. Guarantor hereby waives and agrees not to assert or take advantage of to the extent permitted by law: (i) all notices to Guarantor, to Tenant, or to any other person, including, but not limited to, notices of the acceptance of this Guaranty or the creation, renewal, extension, assignment, modification or accrual of any of the obligations owed to Landlord under the Lease and, except to the extent set forth in Section 9 hereof, enforcement of any right or remedy with respect thereto, and notice of any other matters relating thereto; (ii) notice of acceptance of this Guaranty; (iii) demand of payment, presentation and protest; (iv) any right to require Landlord to apply to any default any security deposit or other security it may hold under the Lease; (v) intentionally omitted; (vi) any right or defense that may arise by reason of the incapability, lack of authority, death or disability of Tenant or any other person; (vii) all principles or provisions of law which conflict with the terms of this Guaranty, and (viii) any other rights and defenses that are or may become available to Guarantor by reason of Sections 2787 through 2855, inclusive, of the California Civil Code. Guarantor further agrees that Landlord may enforce this Guaranty upon the occurrence of a default under the Lease, notwithstanding any dispute between Landlord and Tenant with respect to the existence of said default or performance of the obligations under the Lease or any counterclaim, set-off or other claim which Tenant may allege against Landlord with respect thereto; provided that (a) Guarantor may assert the defense of Tenant's payment and performance under the Lease as a defense hereunder, and (b) Landlord's default under the Lease shall excuse Guarantor's performance to the same extent it would excuse Tenant's performance under the Lease. Moreover, Guarantor agrees that Guarantor's obligations shall not be affected by any circumstances which constitute a legal or equitable discharge of a guarantor or surety.

8. Guarantor agrees that Landlord may enforce this Guaranty without the necessity of proceeding against Tenant or any other guarantor. Guarantor hereby waives the right to require Landlord to proceed against Tenant, to proceed against any other guarantor, to exercise any right or remedy under the Lease or to pursue any other remedy or to enforce any other right.

9. (a) Guarantor agrees that nothing contained herein shall prevent Landlord from suing on the Lease or from exercising any rights available to it thereunder and that the exercise of any of the aforesaid rights shall not constitute a legal or equitable discharge of Guarantor. Without limiting the generality of the foregoing, Guarantor hereby expressly waives any and all benefits under California Civil Code § § 2809, 2810, 2815, 2819, 2821, 2822, 2824, 2839, 2845, 2847, 2848, 2849, 2850, 2855, 2899 and 3433.

(b) Guarantor agrees that Guarantor shall have no right of subrogation against Tenant or any right of contribution against any other guarantor unless and until all amounts due under the Lease have been paid in full and all other obligations under the Lease have been satisfied. Guarantor further agrees that, to the extent the waiver of Guarantor's rights of subrogation and contribution as set forth herein is found by a court of competent jurisdiction to be void or voidable for any reason, any rights of subrogation Guarantor may have against Tenant shall be junior and subordinate to any rights Landlord may have against Tenant, and any rights of contribution Guarantor may have against any other guarantor shall be junior and subordinate to any rights Landlord may have against such other guarantor.

(c) The obligations of Guarantor under this Guaranty shall not be altered, limited or affected by any case, voluntary or involuntary, involving the bankruptcy, insolvency, receivership, reorganization, liquidation or arrangement of Tenant or any defense which Tenant may have by reason of order, decree or decision of any court or administrative body resulting from any such case. Landlord shall have the sole right to accept or reject any plan on behalf of Guarantor proposed in such case and to take any other action which Guarantor would be entitled to take, including, without limitation, the decision to file or not file a claim. Guarantor acknowledges and agrees that any payment which accrues with respect to Tenant's obligations under the Lease (including, without limitation, the payment of rent) after the commencement of any such proceeding (or, if any such payment ceases to accrue by operation of law by reason of the commencement of such proceeding, such payment as would have accrued if said proceedings had not been commenced) shall be included in Guarantor's obligations hereunder because it is the intention of the parties that said obligations should be determined without regard to any rule or law or order which may relieve Tenant of any of its obligations under the Lease. Guarantor hereby permits any trustee in bankruptcy, receiver, debtor-in-possession, assignee for the benefit of creditors or similar person to pay Landlord, or allow the claim of Landlord in respect of, any such payment accruing after the date on which such proceeding is commenced. Guarantor hereby assigns to Landlord Guarantor's right to receive any payments from any trustee in bankruptcy, receiver, debtor-in-possession, assignee for the benefit of creditors or similar person by way of dividend, adequate protection payment or otherwise.

10. Any notice, statement, demand, consent, approval or other communication required or permitted to be given, rendered or made by either party to the other, pursuant to this Guaranty or pursuant to any applicable law or requirement of public authority, shall be in writing (whether or not so stated elsewhere in this Guaranty) and shall be deemed to have been properly given, rendered or made only if hand-delivered or sent by recognized international courier (such as Federal Express or UPS) which provides proof of delivery, addressed to the other party at its respective address set forth below, and shall be deemed to have been given, rendered or made on the day it is hand-delivered the date delivery is received or refused. By giving notice as provided above, either party may designate a different address for notices, statements, demands, consents, approvals or other communications intended for it.

To Guarantor: [**NOTE TO GUARANTOR – PLEASE PROVIDE**

_____

_____

_____

_____]

To Landlord: Brittania Pointe Grand Limited Partnership
c/o HCP, Inc.
3760 Kilroy Airport Way, Suite 300
Long Beach, CA 90806
Attention: Legal Department

with a copy to:

HCP Life Science Estates
c/o HCP, Inc.
3760 Kilroy Airport Way, Suite 300
Long Beach, CA 90806-2473
Attn: Legal Department

and

Allen Matkins Leck Gamble Mallory & Natsis LLP
1901 Avenue of the Stars, Suite 1800
Los Angeles, California 90067
Attention: Anton N. Natsis, Esq.

11. Guarantor represents and warrants to Landlord as follows:

(a) No consent of any other person, including, without limitation, any creditors of Guarantor, and no license, permit, approval or authorization of, exemption by, notice or report to, or registration, filing or declaration with, any governmental authority is required by Guarantor in connection with this Guaranty or the execution, delivery, performance, validity or enforceability of this Guaranty and all obligations required hereunder (or Guarantor will obtain such consent or cause such filing to be made). This Guaranty has been duly executed and delivered by Guarantor, and constitutes the legally valid and binding obligation of Guarantor enforceable against such Guarantor in accordance with its terms.

(b) The execution, delivery and performance of this Guaranty will not violate any provision of any existing law or regulation binding on Guarantor, or any order, judgment, award or decree of any court, arbitrator or governmental authority binding on Guarantor, or of any mortgage, indenture, lease, contract or other agreement, instrument or undertaking to which Guarantor is a party or by which Guarantor or any of Guarantor's assets may be bound, and will not result in, or require, the creation or imposition of any lien on any of Guarantor's property, assets or revenues pursuant to the provisions of any such mortgage, indenture, lease, contract, or other agreement, instrument or undertaking.

12. The obligations of Tenant under the Lease to execute and deliver estoppel statements, as therein provided, shall be deemed to also require the Guarantor hereunder to do and provide the same relative to Guarantor.

13. This Guaranty shall be binding upon Guarantor, Guarantor's heirs, representatives, administrators, executors, successors and assigns and shall inure to the benefit of and shall be enforceable by Landlord, its successors, endorsees and assigns. Any married person executing this Guaranty agrees that recourse may be had against community assets and against his separate property for the satisfaction of all obligations herein guaranteed. As used herein, the singular shall include the plural, and the masculine shall include the feminine and neuter and vice versa, if the context so requires.

14. The term "**Landlord**" whenever used herein refers to and means the Landlord specifically named in the Lease and also any assignee of said Landlord, whether by outright assignment or by assignment for security, and also any successor to the interest of said Landlord or of any assignee in the Lease or any part thereof, whether by assignment or otherwise. So long as the Landlord's interest in or to the Premises (as that term is used in the Lease) or the rents, issues and profits therefrom, or in, to or under the Lease, are subject to any mortgage or deed of trust or assignment for security, no acquisition by Guarantor of the Landlord's interest in the Premises or under the Lease shall affect the continuing obligations of Guarantor under this Guaranty, which obligations shall continue in full force and effect for the benefit of the mortgagee, beneficiary, trustee or assignee under such mortgage, deed of trust or assignment, or any purchaser at sale by judicial foreclosure or under private power of sale, and of the successors and assigns of any such mortgagee, beneficiary, trustee, assignee or purchaser.

15. The term "**Tenant**" whenever used herein refers to and means the Tenant in the Lease specifically named and also any assignee or sublessee of said Lease and also any successor to the interests of said Tenant, assignee or sublessee of such Lease or any part thereof, whether by assignment, sublease or otherwise.

16. Notwithstanding contrary provisions of this Guaranty, in the event that (i) Landlord consents to an assignment of the Lease by the Tenant or Tenant performs a Permitted Transfer in accordance with Section 14 of the Lease (either transfer, a “Permitted Transfer”), and (ii) at the time of the Permitted Transfer: (a) there is no Default; (b) Guarantor has faithfully performed and observed any and all guaranteed obligations which may have arisen prior to the effective date of the Permitted Transfer; and, (c) an entity or individual with a net worth (as demonstrated by audited financial statements prepared in accordance with generally accepted accounting principles) equal to or greater than the guarantor named above has agreed to assume the obligations of the Guarantor under this Guaranty that arise after the effective date of the Permitted Transfer, then the Guarantor named in this Guaranty shall be released from any continuing liability or obligation under this Guaranty that may arise after the effective date of the Permitted Transfer. The foregoing will not in any way limit or release the Guarantor for any guaranteed obligations that arose prior to the effective date of the Permitted Transfer.

17. In the event of any dispute or litigation regarding the enforcement or validity of this Guaranty, Guarantor shall be obligated to pay all charges, costs and expenses (including, without limitation, reasonable attorneys' fees) incurred by Landlord, whether or not any action or proceeding is commenced regarding such dispute and whether or not such litigation is prosecuted to judgment.

18. This Guaranty shall be governed by and construed in accordance with the laws of the State of California, and in a case involving diversity of citizenship, shall be litigated in and subject to the jurisdiction of the courts of California.

19. Every provision of this Guaranty is intended to be severable. In the event any term or provision hereof is declared to be illegal or invalid for any reason whatsoever by a court of competent jurisdiction, such illegality or invalidity shall not affect the balance of the terms and provisions hereof, which terms and provisions shall remain binding and enforceable.

20. This Guaranty may be executed in any number of counterparts each of which shall be deemed an original and all of which shall constitute one and the same Guaranty with the same effect as if all parties had signed the same signature page. Any signature page of this Guaranty may be detached from any counterpart of this Guaranty and re-attached to any other counterpart of this Guaranty identical in form hereto but having attached to it one or more additional signature pages.

21. No failure or delay on the part of either party to exercise any power, right or privilege under this Guaranty shall impair any such power, right or privilege, or be construed to be a waiver of any default or any acquiescence therein, nor shall any single or partial exercise of such power, right or privilege preclude other or further exercise thereof or of any other right, power or privilege.

22. This Guaranty shall constitute the entire agreement between Guarantor and the Landlord with respect to the subject matter hereof. No provision of this Guaranty or right of Landlord hereunder may be waived nor may Guarantor be released from any obligation hereunder except by a writing duly executed by an authorized officer, director or trustee of Landlord.

22. The liability of Guarantor and all rights, powers and remedies of Landlord hereunder and under any other agreement now or at any time hereafter in force between Landlord and Guarantor relating to the Lease shall be cumulative and not alternative and such rights, powers and remedies shall be in addition to all rights, powers and remedies given to Landlord by law.

IN WITNESS WHEREOF, Guarantor has executed this Guaranty as of the day and year first above written

COMPUGEN LTD.

By: /s/ _____

_____
Print Name

Its: _____

By: _____

_____
Print Name

Its: _____

LEASE

BRITANNIA POINTE GRAND BUSINESS PARK

BRITANNIA POINTE GRAND LIMITED PARTNERSHIP,

a Delaware limited partnership,

as Landlord,

and

COMPUGEN USA, INC.,

a Delaware corporation,

as Tenant.

TABLE OF CONTENTS

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Exhibit 8.1

SUBSIDIARIES

Subsidiary	**Jurisdiction**
Compugen USA, Inc.	Delaware

Exhibit 12.1

CERTIFICATION PURSUANT TO
RULE 13a-14(a)/RULE 15d-14(a) UNDER
THE EXCHANGE ACT AND SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002

I, Dr. Anat Cohen-Dayag, certify that:

1. I have reviewed this annual report on Form 20-F of Compugen Ltd.;

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

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

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

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

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

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

d. disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and

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

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

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

Date: February 18, 2014

/s/ Dr. Anat Cohen-Dayag
Title: President and Chief Executive Officer

Exhibit 12.2

CERTIFICATION PURSUANT TO
RULE 13a-14(a)/RULE 15d-14(a) UNDER THE EXCHANGE ACT
AND SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002

I, Dikla Czaczkes Axselbrad, certify that:

1. I have reviewed this annual report on Form 20-F of Compugen Ltd.;

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

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

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

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

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

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

d. disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and

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

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

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

Date: February 18, 2014

/s/ Dikla Czaczkes Axselbrad
Title: Chief Financial Officer

Exhibit 13.1

CERTIFICATION PURSUANT TO
RULE 13a-14(b)/RULE 15d-14(b) UNDER THE EXCHANGE ACT
AND 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002

In connection with the annual report of Compugen Ltd. (the "Company") on Form 20-F for the fiscal year ended December 31, 2013 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned officers of the Company, certify, pursuant to Rule 13a-14(b)/Rule 15d-14(b) under the Securities Exchange Act of 1934, as amended and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to such officer's knowledge:

1. The Report fully complies with the requirements of Sections 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and

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

/s/ Dr. Anat Cohen-Dayag
Title: President and Chief Executive Officer
Date: February 18, 2014

/s/ Dikla Czaczkes Axselbrad
Title: Chief Financial Officer
Date: February 18, 2014

Exhibit 15.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 333-13144 and 333-169239) pertaining to the Employee's stock option plans of Compugen Ltd. ("Compugen") and Registration Statements on Form F-3 (No. 333-161241, 333-171655, 333-185910) of our report dated February 18, 2014, with respect to the consolidated financial statements of Compugen and the effectiveness of internal control over financial reporting of Compugen, included in the Annual Report on Form 20-F of Compugen for the year ended December 31, 2013.

/s/ Kost Forer Gabbay & Kasierer
KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

February 18, 2014
Tel-Aviv, Israel