SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K
FOR ANNUAL AND TRANSITION REPORTS
PURSUANT TO SECTIONS 13 OR 15 (d) OF THE
SECURITIES EXCHANGE ACT OF 1934

(MARK ONE)

/X / ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
[FEE REQUIRED]

FOR THE FISCAL YEAR ENDED DECEMBER 31, 1997

OR

/ / TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
[NO FEE REQUIRED]

FOR THE TRANSITION PERIOD FROM TO
COMMISSION FILE NUMBER 0-21810

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AMERIGON INCORPORATED
(Exact name of registrant as specified in its charter)

| CALIFORNIA | 95-4318554 |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| 5462 IRWINDALE AVE, IRWINDALE, CALIFORNIA | 91706 |
| (Address of principal executive offices) | (Zip Code) |

Registrant's telephone number, including area code: (626) 815-7400

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:
Class A Common Stock, no par value
(Title of Class)
Class A Warrants
(Title of Class)

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 / X / No / /

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. / X /

The aggregate market value of the voting stock held by non-affiliates of the registrant, computed by reference to the average bid and asked prices of such stock as of February 26, 1998, was $18,047,540. (for purposes of this computation, the registrant has excluded the market value of all shares of its Common Stock reported as being beneficially owned by executive officers and directors of the registrant; such exclusion shall not be deemed to constitute an admission that any such person is an "affiliate" of the registrant.)

At Fxebruary 26, 1998, the registrant had issued and outstanding 12,550,445 shares of Class A Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE.

Portions of the registrant's definitive proxy statement for its 1998 Annual Meeting of Shareholders to be filed with the Commission within 120 days after the close of the registrant's fiscal year are incorporated by reference into Part III.

ITEM 1. BUSINESS

GENERAL

Amerigon Incorporated (the "Company") is a development stage company incorporated in California in 1991 to develop, manufacture and market proprietary high technology automotive components and systems for sale to automobile and other original equipment manufacturers. The Company was founded on the premise that technology proven for use in the defense and aerospace industries could be successfully adapted to the automotive and transportation industries. The Company has focused on technologies that it believes can be readily adapted to automotive needs for advanced vehicle electronics and for electric vehicle systems. The Company seeks to avoid direct competition with established automotive suppliers of commodity products by identifying market opportunities where the need for rapid technological change gives an edge to new market entrants with proprietary products. The Company has principally focused on developing proprietary positions in the following technologies: (i) thermoelectric heated and cooled seats; (ii) radar for maneuvering and safety; (iii) electric vehicle components and production systems; and (iv) voice interactive navigation and entertainment.

In late 1996, the Company made a determination to focus its resources primarily on developing its heated and cooled seat, and radar for maneuvering and safety technologies. The Company has adopted this strategy primarily because the Company believes that the markets for these products have greater near-term potential than the markets for its other products, and because these technologies presently afford the Company its best opportunities to exploit competitive advantages over rival companies. During 1997, the Company completed a joint venture which resulted in the disposition of certain assets including the Company's technology related to voice activated navigation products. The Company maintains a minority equity interest in the joint venture company. See "Products" herein. The Company is also presently seeking strategic and financial partners to help support continued development and marketing of the Company's electric vehicle systems. See "--Products" herein. If the Company is unable to arrange such a relationship in the near term, the Company will attempt to sell its proprietary interests and other assets in and relating to its electric vehicle technology or abandon their development.

The Company's radar for maneuvering and safety is in an earlier stage of development than the heated and cooled seats. The Company has developed prototypes of the radar product and sold them to various automotive and other companies. The Company is presently working with a number of the world's largest automotive original equipment manufacturers on pre-production development programs for heated and cooled seats. In addition, the Company has sold many prototypes of its heated and cooled seats to potential customers for evaluation and demonstration. In December 1997, the Company received its first production order for its heated and cooled seat product and anticipates shipping small quantities of production units in 1998.

PRODUCTS

CLIMATE CONTROL SEAT SYSTEM

The Company's Climate Control Seat ("CCS") system utilizes an exclusive, licensed, patented technology, as well as, two patents held by the Company on a variable temperature seat climate control system to improve the temperature comfort of automobile passengers. The CCS uses one or more small thermoelectric modules, which are solid-state devices the surfaces of which turn hot or cold depending on the polarity of applied direct current electricity. Heat-transfer parts attached to the modules cool or heat air that is blown past them. The conditioned air is then circulated through ducts and pads in the seat so that the surface of the seat grows warm or cool for the passengers, with small quantities of conditioned air passing through the seat to flow directly on the passengers. Each seat has individual electronic controls to adjust the level of heating or cooling. The CCS uses substantially less energy than conventional air conditioners by focusing the cooling directly on the passengers through the seat, rather than cooling the entire ambient air volume and the interior surfaces of the vehicle.

The CCS product has reached the stage where it can be mass-produced for a particular customer. However, since each customer's seats are not the same, and therefore have different configuration requirements, the Company may have to tailor its product to meet those design criteria. A customer will provide the Company with one of its car seats to be modified so that a CCS unit may be installed as a prototype. The seat is then returned to the customer for evaluation and testing. The Company has delivered prototype units to most major automobile companies and/or seat manufacturers who sell seats to those companies. Once the prototype is approved, further development will take place to make the CCS

product production-ready. The lengthy evaluation and design cycles required by the major OEMs will result in a lack of meaningful sales volume from these customers for approximately the next two years. However, the Company has targeted non-OEM customers who can quickly "design in" the CCS products and has received its first production order from one of those customers for delivery in 1998. The Company continues to do additional research and development to modify the existing product with the goal of making the unit less complex, more energy efficient and less expensive to manufacture and install. There can be no assurance that these development programs will result in viable products or lead to commercial production orders.

Since Amerigon's CCS system provides both heating and cooling, the Company believes that the potential market for CCS is larger than the market for heated seats alone. The Company also believes that the CCS concept could be applied to seats other than those used in motor vehicles (e.g., to aircraft, theater, and stadium seating) although the Company has not devoted any resources to the development of such applications.

RADAR FOR MANEUVERING AND SAFETY

In January 1994, the Company obtained a non-transferable limited exclusive license from the Regents of the University of California (Lawrence Livermore National Laboratory) to certain "pulse-echo," "ultra-wideband" radar technology for use in the following passenger vehicle applications: intelligent cruise control, airbag crash systems, and occupant sensors. The license requires the Company to achieve commercial sales (defined as sales of non-prototype products to at least one original equipment manufacturer) of products by the end of 1998. At this time, the Company does not expect to meet those sales criteria and failure to achieve commercial sales will result in the loss of exclusivity of the license with respect to any particular application. The Company does not anticipate sales of non-prototype radar products to customers in 1998. See "--Proprietary Rights and Patents --Radar for Maneuvering and Safety."

This technology was originally developed as part of a laser fusion program to measure the short bursts of energy emitted during fusion experiments. This type of radar sends out from one to two million short radio impulses every second to a distance of 5 to 10 meters, each lasting a billionth of a second. These short impulses enable the radar to operate across a wider and lower band of radio frequency, making it less likely to suffer from interference from other radar signals, and allowing it to penetrate dirt, snow and ice.

The Company has also developed its own radar technology which is different than the LLNL radar. This sytem, called Swept-range Wideband Radar, provides improved range information and noise immunity compared to the LLNL radar with a slightly higher system cost. Swept-range Radar is intended for applications requiring more accurate range data such as in Precision Parking, Safety Restraint and Active Suspension Systems.

The Company has applied this technology to develop demonstration prototypes of a parking aid and a lane change aid. The parking aid detects a vehicle or other object that reflects radar signals behind the automobile and provides an audible or visual signal as the driver approaches it. The lane change aid detects vehicles to the side of the automobile when the driver attempts to turn or change lanes and emits an audible warning signal. The Company began marketing these radar products in 1994 and has received contracts to design evaluation prototypes from a number of automotive manufacturers for both the parking and lane change aids. These products are now under evaluation by prospective customers. The Company's near-term objective is to obtain further development agreements from some of these and other prospective customers to customize the system design during 1998. No assurance can be given that the Company will obtain any such further development agreements. See "Item 1--Risk Factors--Limited Marketing Capabilities; Uncertainty of Market Acceptance," "--Competition; Possible Obsolescence of Technology," Heated and Cooled Seats; Potential Loss of Exclusivity of License on Radar for Maneuvering and Safety," and "--Dependence on Acceptance by Automobile Manufacturers and Consumers; Market Competition."

Several automotive original equipment manufacturers are now offering ultrasonic or infrared laser distance sensors for parking aids. The Company believes that the advantage of its radar technology is superior performance. Competing products in the automotive industry have utilized ultrasonic and infrared sensors which require line of sight from the sensor to the target and installation with outside lenses. Dirt, ice, rain, fog or snow can obstruct the function of such systems. Although they offer reasonable accuracy at short distances, they are comparatively range-limited and are subject to false trigger problems due to interference with the required line of sight. The Company's radar technology, on the other hand, is less susceptible to these environmental conditions, and can even penetrate plastic, allowing it to be mounted inside plastic bumpers or tail light assemblies. Although there is currently considerable interest among automobile manufacturers for various radar products, there is substantial competition from large and well-established companies for these potential product opportunities, as well as for possible industrial applications. Many of these companies have substantially greater financial and other resources than those of the Company. In addition, considerable research and development will be

required to develop the Company's radar technology into finished products, including design and development of application software and antenna systems and production engineering to reduce costs and increase reliability. No assurance can be given that the Company will be successful in reducing costs or increasing reliability or that the Company will be able to develop its radar technology into finished products.

INTERACTIVE VOICE SYSTEMS (IVS-TM-)

On July 24, 1997 the Company entered into a joint venture agreement with Yazaki Corporation to develop and market the Company's voice activated navigation system. Under the terms of the agreement, IVS, Inc. was created and Yazaki Corporation owns a majority interest in IVS-TM- and the Company owns a minority interest (16% on a fully diluted basis). The Company received $1,800,000 in cash and a note receivable for $1,000,000 in consideration for net assets related to Amerigon's voice interactive technology totaling approximately $89,000. In addition, the company incurred costs of $348,000 associated with the sale.

The interactive voice navigation system was initially designed to apply voice recognition technology incorporating proprietary features and computer systems to provide an inexpensive and easy-to-use tool for people to receive directions to their destination while driving their vehicle. The IVS-TM-system provides navigation directions through the car's audio compact disc ("CD") system using actual spoken words stored on the CD through digital compression technology. The car CD system or radio functions normally when the IVS-TM- is not giving or receiving instructions but can be temporarily interrupted to use the IVS-TM- functions. The IVS-TM- has three components: a small microphone mounted near the sun visor, similar to a cellular phone microphone; an electronic module (approximately two-thirds the size of a standard video cassette tape) that is mounted inside the dashboard, under the seat or in the trunk; and a standard automobile CD player and radio. In most instances, the CD player is modified by its manufacturer to provide additional ports in the back of the unit for connecting to the IVS-TM-electronic module.

ELECTRIC VEHICLE SYSTEMS

By developing its own products and managing programs related to electric vehicles (such as the Showcase Electric Vehicle Program and the Running Chassis Program), the Company has developed a base of knowledge and expertise concerning electric vehicles. The Company's experience has included the ground-up design of electric vehicles and testing and integration of state of the art components being made available for electric vehicles by other companies. The Company has been seeking a joint venture to manufacture, sell and service a small electric vehicle in India for over two years.

The Company is seeking partners to finance and manage the manufacturing and distribution of small electric cars in India or other developing countries. No assurance can be given that the Company will be able to identify or obtain any such partners. If the Company is not able to obtain such financial or strategic partners, the Company will abandon further development of its electric vehicle technology or attempt to sell its proprietary interests and other assets in and relating thereto. The Company has been the recipient of certain federal and state government grants relating to the development of the Company's electric vehicle products. However, the marjority of the Company's revenues in 1995 and 1996 were from electric vehicle operations. At December 31, 1997 substantially all work has been completed on outstanding contracts.

ENERGY MANAGEMENT SYSTEM

The Company's "Energy Management System" is a proprietary computer-based system under development by the Company for electric vehicles. The Energy Management System has two functions. First, it optimizes battery charging and use based on the age and condition of the battery to maximize vehicle range and extend battery life. The second function is to automatically adjust the operation of the systems of an electric vehicle to improve performance. For example, if the vehicle air conditioner is running, the system can momentarily turn it down during acceleration so that additional energy is available for propelling the vehicle. The system can also predict available range for typical freeway, city or mountain driving, and whether specific trips are possible (such as a commute to work or a trip to the grocery store). These features of the Energy Management System are important in electric vehicle applications because the range of electric vehicles initially will be limited to approximately 60 to 120 miles between charges, and because the frequency of battery replacement will be more important in determining the cost of operating an electric vehicle than the cost of the electricity necessary to recharge the battery.

The Energy Management System consists of two components: first, a custom-developed printed circuit board with a micro-processor computer chip and other standard, commercially available computer components, that serve as the "brain" of the system; and second, custom-developed sensors installed on each of the vehicle's batteries to provide information

concerning the batteries' status. Optimal decisions are either implemented automatically by the system or communicated to the driver through a text display in the instrument panel. The Company has completed initial research and development of prototype Energy Management Systems and is installing units in electric vehicles it assembles under development orders and in the REVA prototypes developed in connection with the proposed Indian joint venture.

The Company intends to try to market the Energy Management System by licensing its technology to other companies making electric vehicles. However, the system requires customization for the particular electric vehicle it is to control, including modification of the software, and requires extensive integration into the vehicle since it must connect with various other systems, receive sensor inputs from throughout the vehicle, and communicate with a visual display in the instrument panel. Because of these integration requirements, the Company or its licensees would need to undertake significant application engineering to adapt this product for each electric vehicle model. Furthermore, because development of the electric vehicle industry is subject to numerous uncertainties, the Company cannot predict whether there would ever be commercial sales of its system. Any significant additional investments in development of this product would be based upon customer interest as the electric vehicle market develops.

GRANT FUNDED PROGRAMS

The Company has received grants from various sources to provide partial support for its product development efforts. A grant is essentially a cost-sharing arrangement whereby the Company obtains reimbursement from the grant agency for a portion of direct costs and reimbursable administrative costs incurred in managing specific development programs. The Company's grants have historically been subject to periodic audit by the granting government authorities for the purpose of confirming, among other things, progress in development and that grant moneys were being used and accounted for as required by the granting authority. If, as a result of any such audit, a granting authority were to disallow expenses submitted for reimbursement, such authority could seek recovery of such funds from the Company. The Company is not aware of any pending or threatened audits with respect to the Company's grants and does not have any reason to believe that any grant moneys have been applied in a manner inconsistent with grant requirements or that any grant audits are otherwise warranted or likely. However, no assurance can be given that any such audits will not be commenced in the future or that, if commenced, any such audits would not result in an obligation of the Company to reimburse funds to the granting authority

Since 1992, the Company has received grants from the Advanced Research Projects Agency of the Department of Defense, the California Energy Commission, the Federal Transit Administration, and the Southern California Air Quality Management District and USAID. Several of the Company's grant-funded programs have been obtained through CALSTART, a non-profit consortium of primarily California companies engaged in the development and manufacture of products that benefit the environment. The Company managed the Showcase Program, co-managed the Neighborhood Electric Vehicle Program, and two other electric vehicle programs for CALSTART, for which the Company recognized revenues from CALSTART of approximately $389,000, $840,000, and $2,198,000 in 1997, 1996, and 1995, respectively.

For the years ended December 31, 1997, 1996, and 1995, the Company recorded a total of $504,000, $1,172,000, and $2,391,000, respectively, in federal and state government grants to fund the Company's development of various of its products, including electric vehicles. The Company has significantly reduced its efforts to obtain any additional grants and intends to focus its efforts on working toward production contracts for CCS and radar sensor systems.

RESEARCH AND DEVELOPMENT

The Company's research and development activities are an essential component of the Company's efforts to develop products for introduction in the marketplace. The Company's research and development activities are expensed as incurred. These expenses include direct expenses for wages, materials and services associated with development contracts, grant program activities, and the development of the Company's products, excluding expenses associated with projects that are specifically funded by development contracts or grant agreements from customers (which are classified under Direct Development Contract and Related Grant Costs or Direct Grant Costs in the Company's Statement of Operations). Research and development expenses do not include any portion of general and administrative expenses.

The total amounts spent by the Company for research and development activities in 1997, 1996, and 1995 were $2,072,000, $2,128,000, and $2,367,000, respectively. Included in these amounts for each of such years were $260,000, $298,000, and $345,000, respectively, in payments for license rights to technology and minimum royalties. The Company's research and development expenses fluctuate significantly from period to period, due both to changing levels of research and development activity and changes in the amount of such activities that are covered by customer contracts or grants. Where possible, the Company would seek funding from third parties for its research and development activities.

Customer-sponsored research and development expenses (i.e., expenses classified as Direct Development Contract and Related Grant Costs or Direct Grant Costs on the Company's Statement of Operations) for each of 1997, 1996, and 1995 were $2,611,000, $11,743,000, and $5,671,000, respectively.

MARKETING AND SALES

In the automotive components industry, products typically proceed through five stages of research and development and commercialization. Initial research on the product concept comes first, in order to assess its technical feasibility and economic costs and benefits, and often includes the development of an internal prototype for the supplier's own evaluation of the product. If the product appears feasible, a functioning prototype or demonstration prototype is manufactured by the component supplier to demonstrate and test the features of the product. This prototype is then marketed to automotive companies to generate sales of evaluation prototypes for internal evaluation by the automobile manufacturer. If the automobile manufacturer remains interested in the product after testing initial evaluation prototypes, it typically works with the component supplier to refine the product and then purchase second and subsequent generation engineering prototypes for further evaluation. Finally, the automobile manufacturer determines to either purchase the component for a production vehicle or terminate interest in the component.

The time required to progress through these five stages of commercialization varies widely. Automotive companies will take longer to evaluate components that are critical to the safe operation of a vehicle where a product failure can result in a passenger death. Conversely, if the product is not safety critical, the evaluation can proceed more quickly since the risk of product liability is smaller. Another factor influencing the time required to complete the product sales cycle relates to the required level of integration of the component into other vehicle systems. Products that are installed by the factory generally require a medium amount of time to evaluate since other vehicle systems are affected and because a decision to introduce the product into the vehicle is not easily reversed, as it is with dealer-installed options. Products that are installed by an auto dealer take the least amount of time to evaluate since they have little impact on other vehicle systems. The Company's products vary in how they fit within these two factors affecting the time required for completing the sales cycle. The CCS has a moderate effect on other vehicle systems and would be a factory installed item. The Company's radar system would also be factory installed and would have a greater impact on other vehicle systems.

The Company's ability to successfully market its seats and radar products will in large part be dependent upon, among other things, the willingness of automobile manufacturers to incur the substantial expense involved in the purchase and installation of the Company's products and systems, and, ultimately, upon the acceptance of the Company's products by consumers. In addition, automobile manufacturers may be reluctant to purchase key components from a small, development-stage company with limited financial and other resources. Even if the Company is successful in obtaining favorable responses from automobile manufacturers, the Company may need to license its technology to potential competitors to ensure adequate additional sources of supply in light of automobile manufacturers' reluctance to purchase products from a sole source supplier (particularly where the continued viability of such supplier is in doubt, as may be the case with the Company). See "Item 1 Risk Factors Dependence on Acceptance by Automobile Manufacturers and Consumers; Market Competition," " --Competition; Possible Obsolescence of Technology"; Potential Loss of Exclusivity of License on Radar for Maneuvering and Safety" and "Limited Marketing Capabilities; Uncertainty of Market Acceptance."

MANUFACTURING, CONTRACTORS AND SUPPLIERS

The Company currently has limited manufacturing capacity for CCS systems. The Company intends to develop further its manufacturing capability in order to implement its business plan, control product quality and delivery, to shorten product development cycle times, and protect and further develop proprietary technologies and processes. This capability could be developed internally through the purchase or development of new equipment and the hiring of additional personnel, or through the acquisition of companies with established manufacturing capability. Certain members of management of the Company have significant experience in establishing and managing volume production of automobile components. There can be no assurance that the Company's efforts to establish its manufacturing operations for any of its products will not exceed estimated costs or take longer than expected or that other anticipated problems will not arise that will materially adversely affect the Company's operations, financial condition and/or business prospects. See "Item 7--Management's Discussion and Analysis of Financial Condition and Results of Operations--Year Ended December 31, 1997 Compared to Year Ended December 31, 1996."

The Company has in the past engaged certain outside contractors to perform product assembly and other production functions for the Company, and the Company anticipates that it may desire to engage contractors for such purposes in the future. These outside contractors include suppliers of raw materials and components and may include sublicensees that

have rights to manufacture components for the Company's products. The Company believes that there are a number of outside contractors that provide services of the kind that have been used by the Company in the past and that the Company may desire to use in the future. However, no assurance can be given that any such contractors would agree to work for the Company on terms acceptable to the Company or at all. The Company's inability to engage outside contractors on acceptable terms or at all would impair the Company's ability to complete any development and/or manufacturing contracts for which outside contractors' services may be needed. Moreover, the Company's reliance upon third party contractors for certain production functions will reduce the Company's control over the manufacture of its products and will make the Company dependent in part upon such third parties to deliver its products in a timely manner, with satisfactory quality controls and on a competitive basis.

The Company relies on various vendors and suppliers for the components of its products. The Company expects that it will procure these components through purchase orders, with no guaranteed supply arrangements. While the Company believes that there are a number of alternative sources for most of these components, certain components, including thermoelectric devices, are only available from a limited number of suppliers. The loss of any significant supplier, in the absence of a timely and satisfactory alternative arrangement, or an inability to obtain essential components on reasonable terms or at all, could materially adversely affect the Company's business and operations. The Company's business and operations could also be materially adversely affected by delays in deliveries from suppliers.

PROPRIETARY RIGHTS AND PATENTS

The Company acquires developed technologies through licenses and joint development contracts in order to optimize the Company's expenditure of capital and time, and to adapt and commercialize such technologies in automotive products which are suitable for mass production. The Company also develops technologies or furthers the development of acquired technologies through internal research and development efforts by Company engineers.

The Company has adopted a policy of seeking to obtain, where practical, the exclusive rights to use technology related to its products through patents or licenses for proprietary technologies or processes. The Company currently has several license arrangements, three patents and several pending patent applications relating to the technologies used in the Company's business, as described below.

CCS

Pursuant to an Option and License Agreement between the Company and Feher Design, Inc. ("Feher"), Feher has granted to the Company an exclusive worldwide license to use three specific CCS technologies covered by patents held by Feher. The license with respect to technology subject to a Feher patent expires upon the expiration of the Feher patent covering the relevant technology. The first of these three patents expires on November 17, 2008.

In addition to the aforementioned license rights to the CCS technology, the Company holds two patents on a variable temperature seat climate control system. The Company also has pending two additional patent applications with respect to certain improvements to the CCS technology developed by the Company. The Company is aware that an unrelated party filed a patent application in Japan on March 30, 1992 with respect to technology similar to the CCS technology. However, to date, this application remains subject to examination and therefore no patent has been issued to the party filing such application. If such patent were to issue and be upheld, it could have a material adverse effect upon the Company's ability to sell CCS products in Japan.

RADAR FOR MANEUVERING AND SAFETY

Pursuant to a License Agreement between the Company and the Regents (the "Regents") of the University of California (Lawrence Livermore National Laboratory), the Regents have granted to the Company a limited, exclusive license to use certain technology covered by patents held by the Regents in the following three passenger vehicle applications: intelligent cruise control, air bag crash systems, and position sensors. This license requires the Company to achieve commercial sales of products by the end of 1998. Commercial sales are defined as sales of non-prototype products to at least one original equipment manufacturer. Failure to achieve commercial sales for a particular application will result in the loss of exclusivity of the license for that application, in which event the licensor will have the right to grant other entities a non-exclusive license for that application on terms no more favorable than those enjoyed by the Company. The Company is currently working with several potential customers for its radar products. However, any potential sales of non-prototype radar products to such customers remain subject to such customers' evaluation of related prototypes, analysis of the market potential, if any, for such products, and other factors. The Company does not anticipate at this time that it will retain its exclusivity for this license. See "Item 1--Risk Factors Dependence on Acceptance by Automobile Manufacturers and Consumers; Market Competition," "--Time Lag From Prototype to Commercial Sales," "--Special

Factors Applicable to the Automotive Industry In General," and "--Competition; Possible Obsolescence of Technology." The license expires on January 14, 2014 (the date of expiration of the last-to-expire patent for the technology covered by the license). As the patents covering the licensed technology expire, products made by the Company using such technology (and only such technology) will cease to be subject to any further royalty obligations under the license. At December 31, 1997, the Company also has pending two additional patents on its radar technology.

ELECTRIC VEHICLE SYSTEMS

The Company was recently issued a patent on a key function of the Energy Management System and has applied for additional patents relating to such system. The Company believes that those elements of the Energy Management System not covered by the patent are protected as trade secrets.

GENERAL

Because of rapid technological developments in the automotive industry and the competitive nature of the market, the patent position of any component manufacturer is subject to uncertainties and may involve complex legal and factual issues. Consequently, although the Company either owns or has licenses to certain patents, and is currently processing several additional patent applications, it is possible that no patents will issue from any pending applications or that claims allowed in any existing or future patents issued or licensed to the Company will be challenged, invalidated, or circumvented, or that any rights granted thereunder will not provide adequate protection to the Company. There is an additional risk that the Company may be required to participate in interference proceedings to determine the priority of inventions or may be required to commence litigation to protect its rights, which could result in substantial costs to the Company.

The Company's potential products may conflict with patents that have been or may be granted to competitors or others. Such other persons could bring legal actions against the Company claiming damages and seeking to enjoin manufacturing and marketing of the affected products. Any such litigation could result in substantial cost to the Company and diversion of effort by the Company's management and technical personnel. If any such actions are successful, in addition to any potential liability for damages, the Company could be required to obtain a license in order to continue to manufacture or market the affected products. There can be no assurance that the Company would prevail in any such action or that any license required under any such patent would be made available on acceptable terms, if at all. Failure to obtain needed patents, licenses or proprietary information held by others may have a material adverse effect on the Company's business. In addition, if the Company becomes involved in litigation, it could consume a substantial portion of the Company's time and resources. However, the Company has not received any notice that its products infringe on the proprietary rights of third parties.

The Company also relies on trade secrets that it seeks to protect, in part, through confidentiality and non-disclosure agreements with employees, customers and other parties. There can be no assurance that these agreements will not be breached, that the Company would have adequate remedies for any such breach or that the Company's trade secrets will not otherwise become known to or independently developed by competitors. To the extent that consultants, key employees or other third parties apply technological information independently developed by them or by others to the Company's proposed projects, disputes may arise as to the proprietary rights to such information that may not be resolved in favor of the Company. The Company may be involved from time to time in litigation to determine the enforceability, scope and validity of proprietary rights. Any such litigation could result in substantial cost to the Company and diversion of effort by the Company's management and technical personnel. Additionally, with respect to licensed technology, there can be no assurance that the licensor of the technology will have the resources, financial or otherwise, or desire to defend against any challenges to the rights of such licensor to its patents.

The enactment of the legislation implementing the General Agreement on Trade and Tariffs has resulted in certain changes to United States patent laws that became effective on June 8, 1995. Most notably, the term of patent protection for patent applications filed on or after June 8, 1995 is no longer a period of 17 years from the date of grant. The new term of a United States patent will commence on the date of issuance and terminate 20 years from the earliest effective filing date of the application. Because the time from filing to issuance of an automotive technology patent application is often more than three years, a 20-year term from the effective date of filing may result in a substantially shortened term of patent protection, which may adversely impact the Company's patent position. If this change results in a shorter period of patent coverage, the Company's business could be adversely affected to the extent that the duration and/or level of the royalties it may be entitled to receive from a collaborative partner, if any, is based on the existence of a valid patent.

COMPETITION

The automotive components and systems business is highly competitive. The Company may experience competition directly from automobile manufacturers, most of which have the capability to manufacture competing products. Many of the existing and potential competitors of the Company have considerably greater financial and other resources than the Company, including, but not limited to, an established customer base, greater research and development capability, established manufacturing capability and greater marketing and sales resources. The Company also competes indirectly with related products that do not offer equivalent features to the Company's products, but can substitute for the Company's products. The Company believes that its products will compete on the basis of price, performance and quality.

CCS

The Company is not aware of any competitors that are offering systems for both heating and active cooling of automotive car seats, although substantial competition exists for the supply of heated-only seats and at least one company is offering a product which circulates ambient air through a seat without active cooling. It is possible that competitors will be able to expand or modify their current products by adding a cooling function to their seats based upon a technology not covered by patented technology licensed to the Company. The CCS competes indirectly with alternative methods of providing passenger climate control in a vehicle such as heating and air conditioning systems, which are currently available for almost all vehicles. The Company hopes to develop a market niche for this product initially as a luxury in conventional gasoline-powered cars. The Company is aware that a Japanese patent has been applied for by another entity on technology similar to the CCS technology.

RADAR FOR MANEUVERING AND SAFETY

The potential market for automotive radar has attracted many aerospace companies who have developed a variety of radar technologies. A few automotive original equipment manufacturers are now offering ultrasonic or infrared laser distance sensors for parking aids. These companies have far greater technical, financial and other resources than the Company does. While the Company believes that its licensed radar technology has competitive advantages which are protected by intellectual property rights in the applications the Company is developing, it is possible that the market will not accept the Company's radar products or that competitors will find ways to offer similar products without infringing on the Company's intellectual property rights.

EMPLOYEES

As of December 31, 1997, the Company had 44 employees and 6 outside contractors. None of the Company's employees are subject to collective bargaining agreements. The Company considers its employee relations to be satisfactory.

RISK FACTORS

THE COMPANY'S SECURITIES ARE HIGHLY SPECULATIVE IN NATURE AND INVOLVE A HIGH DEGREE OF RISK. PRIOR TO MAKING AN INVESTMENT DECISION, CURRENT AND PROSPECTIVE INVESTORS IN THE COMPANY'S SECURITIES SHOULD GIVE CAREFUL CONSIDERATION TO, AMONG OTHER THINGS, THE RISK FACTORS SET FORTH BELOW. THIS REPORT CONTAINS FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF THE "SAFE HARBOR" PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995. REFERENCE IS MADE IN PARTICULAR TO THE DESCRIPTION OF THE COMPANY'S PLANS AND OBJECTIVES FOR FUTURE OPERATIONS, ASSUMPTIONS UNDERLYING SUCH PLANS AND OBJECTIVES AND OTHER FORWARD-LOOKING STATEMENTS INCLUDED IN THIS SECTION, "ITEM 1--BUSINESS," "ITEM 7--MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS," AND IN OTHER PLACES IN THIS REPORT. SUCH STATEMENTS MAY BE IDENTIFIED BY THE USE OF FORWARD-LOOKING TERMINOLOGY SUCH AS "MAY," "WILL," "EXPECT," "BELIEVE," "ESTIMATE," "ANTICIPATE," "INTEND," "CONTINUE," OR SIMILAR TERMS, VARIATIONS OF SUCH TERMS OR THE NEGATIVE OF SUCH TERMS. SUCH STATEMENTS ARE BASED ON MANAGEMENT'S CURRENT EXPECTATIONS AND ARE SUBJECT TO A NUMBER OF FACTORS AND UNCERTAINTIES WHICH COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE DESCRIBED IN THE FORWARD-LOOKING STATEMENTS. THE COMPANY EXPRESSLY DISCLAIMS ANY OBLIGATION OR UNDERTAKING TO RELEASE PUBLICLY ANY UPDATES OR REVISIONS TO ANY FORWARD-LOOKING STATEMENTS CONTAINED HEREIN TO REFLECT ANY CHANGE IN THE COMPANY'S EXPECTATIONS WITH REGARD THERETO OR ANY CHANGE IN EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH ANY SUCH STATEMENT IS BASED. FACTORS WHICH COULD CAUSE SUCH RESULTS TO DIFFER MATERIALLY FROM THOSE DESCRIBED IN THE FORWARD-LOOKING STATEMENTS INCLUDE THOSE SET FORTH BELOW.

DEVELOPMENT STAGE COMPANY

The Company's proposed future operations are subject to numerous risks associated with establishing new businesses, including, but not limited to, availability of capital, unforeseeable expenses, delays and complications, as well as specific

risks of the industry in which the Company competes. There can be no assurance that the Company will be able to market any product on a commercial scale, achieve profitable operations or remain in business. To date, the Company's first developed product, the interactive voice navigation system was not commercially successful. See "Item 1--Business" herein. The Company was formed in April 1991 and its principal products are still in the development or pre-production stage. In addition, several of the Company's products are aimed at the electric vehicle market, which is still in its infancy and may never achieve commercial prominence. The likelihood of the success of the Company must be considered in light of the problems, expenses, difficulties, complications and delays frequently encountered in connection with establishing a new business, including, without limitation, uncertainty as to market acceptance of the Company's products, marketing problems and expenses, competition and changes in business strategy. There can be no assurance that the Company will be successful in its proposed business activities.

Moreover, the Company's radar systems are in various stages of prototype/pre-production development and will require the expenditure of significant funds for further development and testing in order to commence commercial sales. No assurance can be given that the Company will obtain the funds necessary to pay for such further development of its products or that, if such funds are obtained, the Company will be successful in resolving all technical problems relating to its products or in developing the technology used in its prototypes into commercially viable products. The Company does not expect to generate any significant revenues from the sale of seat or radar products for at least 24 months, and no assurance can be given that such sales will ever materialize. Further, there can be no assurance that any of the Company's products, if successfully developed, will be capable of being produced in commercial quantities at reasonable costs or will be successfully marketed and distributed. See "--Limited Marketing Capabilities; Uncertainty of Market Acceptance."

SUBSTANTIAL OPERATING LOSSES SINCE INCEPTION

The Company has incurred substantial operating losses since its inception. At December 31, 1997 and 1996, the Company had accumulated deficits since inception of $28,601,000 and $23,184,000, respectively. See "Item 7--Management's Discussion and Analysis of Financial Condition and Results of Operations." The Company's accumulated deficits are attributable to the costs of developmental and other start-up activities, including the industrial design, development and marketing of the Company's products and a significant loss incurred on a major electric vehicle development contract. See "--Electric Vehicle Cost Overruns and Significant Contract Losses." The Company has continued to incur losses due to continuing expenses without significant revenues or profit margins on the sale of products, and expects to incur significant losses for the foreseeable future.

NEED FOR ADDITIONAL FINANCING

The Company has experienced negative cash flow from operations since its inception and has expended, and expects to continue to expend, substantial funds to continue its development efforts. The Company has not generated and does not expect to generate in the near future sufficient revenues from the sales of its principal products to cover its operating expenses. The Company will require additional financing through bank borrowings, debt or equity financing or otherwise to finance its planned operations. If additional funds are not obtained when needed, the Company will be required to significantly curtail its activities, dispose of one or more of its technologies and/or cease operations and liquidate. If and when the Company is able to commence commercial volume production of its heated and cooled seat or radar products, the Company will incur significant expenses for tooling product parts and to set up manufacturing and/or assembly processes. In part as a result of the Company's anticipated capital requirements, management is currently seeking to enter into collaborative or other arrangements with financial or strategic corporate partners to develop its electric vehicle technologies or, failing that, to sell the Company's proprietary interests in and any other assets relating to such technologies. See "--Possible Disposition or Abandonment of Electric Vehicle Businesses." No assurance can be given that such alternate funding sources can be obtained or will provide sufficient, or any, financing for the Company. Moreover, the licensing agreements for the Company's current and potential future rights to licensed technology generally require the payment of minimum royalties. For the fiscal year ended December 31, 1997, the Company paid a total of approximately $260,000 in royalties. In the event the Company is unable to pay such royalties or otherwise breaches such licensing agreements, the Company would lose its rights to the technology, which would have a material adverse effect on the Company's business.

POSSIBLE DISPOSITION OR ABANDONMENT OF ELECTRIC VEHICLE BUSINESSES

To date, the Company has focused on and invested substantial capital in four product technologies: (i) thermoelectric heated and cooled seats; (ii) radar for maneuvering and safety; (iii) voice interactive navigation and entertainment; and (iv) electric vehicle components and production systems. In late 1996 the Company determined to focus its resources primarily on developing its heated and cooled seat and radar technologies. In July 1997, the Company completed a joint venture and, as a result, owns a minority interest in a new company pursuing further development of the interactive voice

navigation system product. The Company is also presently seeking strategic and financial partners to help support continued development and marketing of the Company's electric vehicle systems. No assurance can be given that the Company will be able to attract any such strategic or financial partners or that, if such partners were to be obtained, the Company's electric vehicle products could be successfully developed. If the Company is unable to consummate a relationship with one or more strategic or financial partners for the development, marketing and/or manufacture of the electric vehicle products in the near term, the Company will attempt to sell its proprietary interests and other assets in and related to these products or abandon their development. No assurance can be given that the Company would be able to effect such a sale on terms favorable to the Company or at all. Moreover, there can be no assurance that the Company's change in business strategy will prove successful or even beneficial to the Company. See "Item 1--Business--Products."

DEPENDENCE ON ACCEPTANCE BY AUTOMOBILE MANUFACTURERS AND CONSUMERS; MARKET COMPETITION

The Company's ability to successfully market its seats and radar products will in large part be dependent upon the willingness of automobile manufacturers to incur the substantial expense involved in the purchase and installation of the Company's products and systems, and, ultimately, upon the acceptance of the Company's products by consumers. The Company's potential customers may be reluctant to modify their existing automobile models, where necessary, to incorporate the Company's products. In addition, automobile manufacturers may be reluctant to purchase key components from a small, development-stage company with limited financial and other resources. The Company's ability to successfully market its seats and radar products will also be dependent in part upon its ability to persuade automobile manufacturers that the Company's products are sufficiently unique that they cannot be obtained elsewhere. See "--Competition; Possible Obsolescence of Technology" and "Exclusive Licenses on Heated and Cooled Seats;" Potential Loss of Exclusivity of License on Radar for Maneuvering and Safety." There can be no assurance that the Company will be successful in this effort. Furthermore, in the event the Company is successful in obtaining favorable responses from automobile manufacturers, the Company may need to license its technology to potential competitors to ensure adequate additional sources of supply in light of automobile manufacturers' reluctance to purchase products from a sole source supplier (particularly where the continued viability of such supplier is in doubt, as may be the case with the Company).

EXCLUSIVE LICENSES ON HEATED AND COOLED SEATS; POTENTIAL LOSS OF EXCLUSIVITY OF LICENSE ON RADAR FOR MANEUVERING AND SAFETY

In 1997, the Company negotiated with the licensor of the CCS technology an exclusive license for the manufacture and sale of licensed products for installation or use in automobiles, trucks, buses, vans and recreational vehicles. As part of the agreement, all intellectual property developed by Amerigon related to variable temperature seats is owned by Amerigon but such licensor will have the right to license Amerigon's technology on a non-exclusive basis for use other than in automobiles, trucks, buses, vans and recreational vehicles.

The Company's exclusive license from the Regents of the University of California for the Company's radar technology requires the Company to achieve sales of products to at least one original equipment manufacturer by the end of 1998. Failure to achieve such sales for a particular application will result in the loss of exclusivity of the license for that application, in which event the licensor will have the right to grant other entities a non-exclusive license for that application on terms no more favorable than those enjoyed by the Company. The Company does not anticipate that it it will retain its exclusivity. See "Item 1--Business--Proprietary Rights and Patents."

LIMITED PROTECTION OF PATENTS AND PROPRIETARY RIGHTS

The Company believes that patents and proprietary rights have been and will continue to be important in enabling the Company to compete. There can be no assurance that any patents will be granted or that the Company's or its licensors' patents and proprietary rights will not be challenged or circumvented or will provide the Company with any meaningful competitive advantages or that any pending patent applications will issue. Furthermore, there can be no assurance that others will not independently develop similar products or will not design around any patents that have been or may be issued to the Company or its licensors. Failure to obtain patents in certain foreign countries may materially adversely affect the Company's ability to compete effectively in certain international markets. The Company is aware that an unrelated party filed a patent application in Japan on March 30, 1992 with respect to certain improvements to the CCS technology developed by the Company.

The Company also relies on trade secrets that it seeks to protect, in part, through confidentiality and non-disclosure agreements with employees, customers and other parties. There can be no assurance that these agreements will not be breached, that the Company would have adequate remedies for any such breach or that the Company's trade secrets will not otherwise become known to or independently developed by competitors. To the extent that consultants, key employees

or other third parties apply technological information independently developed by them or by others to the Company's proposed projects, disputes may arise as to the proprietary rights to such information which may not be resolved in favor of the Company. The Company may be involved from time to time in litigation to determine the enforceability, scope and validity of proprietary rights. Any such litigation could result in substantial cost to the Company and diversion of effort by the Company's management and technical personnel. Additionally, with respect to licensed technology, there can be no assurance that the licensor of the technology will have the resources, financial or otherwise, or desire to defend against any challenges to the rights of such licensor to its patents.

LIMITED MANUFACTURING EXPERIENCE

To date, the Company has been engaged in only limited manufacturing in small quantities, and there can be no assurance that the Company's efforts to establish its manufacturing operations for any of its products will not exceed estimated costs or take longer than expected or that other unanticipated problems will not arise which will materially adversely affect the Company's operations, financial condition and/or business prospects. The Company has already experienced significant delays and cost overruns in connection with its electric vehicle contracts. See "--Electric Vehicle Cost Overruns and Significant Contract Losses." Automobile manufacturers demand on-time delivery of quality products, and some have required the payment of substantial financial penalties for failure to deliver components to their plants on a timely basis. Such penalties, as well as costs to avoid them, such as working overtime and overnight air freighting parts that normally are shipped by other less expensive means of transportation, could have a material adverse effect on the Company's business and financial condition. Moreover, the inability to meet demand for the Company's products on a timely basis would materially adversely affect the Company's reputation and prospects.

LEGAL PROCEEDINGS

HBI Financial Inc. ("HBI"), and DDJ Capital Management, LLC ("DDJ"), each major shareholders of the Company, have threatened various claims against the Company and its directors and officers arising out of the December 1995 private placement by the Company of 750,000 shares of Class A Common Stock. In general, they allege that the Company provided misleading projections and failed to disclose certain information in connection with such private placement. The Company believes these allegations to be without merit. While, to the Company's knowledge, HBI and DDJ have commenced no legal action against the Company in connection with such claims, no assurance can be given that they will not do so in the future. If they were to commence such legal action, the Company would be forced to defend such action and/or settle with them, the costs of which defense and/or any resulting liability or settlement could have a material adverse effect on the Company's financial condition. John W. Clark, a director of the Company, is a general partner of an affiliate of HBI.

On November 14, 1996, Gibbins Pattern & Plastic, Inc. ("Gibbins"), a supplier to the Company, filed suit against the Company in Michigan state court in the circuit court for the County of Wayne, Michigan for breach of contract, open account/account stated, and unjust enrichment/quantum meruit. Gibbins alleges that the Company has failed to pay for delivered products. The Company has withheld certain payments because Gibbins has failed to provide the Company with assurance of future performance. Gibbins has claimed a total of $231,548 in damages. The Company has removed the lawsuit to the federal district court for the Eastern District of Michigan and asserted certain counterclaims against Gibbins, which Gibbins has denied. The Company intends to defend the matter vigorously and believes that the lawsuit will not have a material adverse effect on the Company. The suit is still pending and no discovery has yet been conducted.

The Company is subject to other litigation in the ordinary course of its business, none of which is expected to have a material adverse effect on the Company.

LIMITED MARKETING CAPABILITIES; UNCERTAINTY OF MARKET ACCEPTANCE

Because of the sophisticated nature and early stage of development of its products, the Company will be required to educate potential customers and successfully demonstrate that the merits of the Company's products justify the costs associated with such products. The Company has recently succeeded in obtaining its first production order for CCS systems from a van conversion company, which will provide direct feedback from active customers in the near future. In certain cases, however, the Company will likely encounter resistance from customers reluctant to make the modifications necessary to incorporate the Company's products into their products or production processes. In some instances, the Company may be required to rely on its distributors or other strategic partners to market its products. The success of any such relationship will depend in part on the other party's own competitive, marketing and strategic considerations, including the relative advantages of alternative products being developed and/or marketed by any such party. There can be no assurance that the Company will be able to market its products properly so as to generate meaningful product sales.

TIME LAG FROM PROTOTYPE TO COMMERCIAL SALES

The sales cycle in the automotive components industry is lengthy and can be as long as six years or more for products that must be designed into a vehicle, since some companies take that long to design and develop a car. Even when selling parts that are neither safety-critical nor highly integrated into the vehicle, there are still many stages that an automotive supply company must go through before achieving commercial sales. The sales cycle is lengthy because an automobile manufacturer must develop a high degree of assurance that the products it buys will meet customer needs, interface as easily as possible with the other parts of a vehicle and with the automobile manufacturer's production and assembly process, and have minimal warranty, safety and service problems. The Company has delivered prototype units of CCS systems to most of the major automotive and seat companies. However, no assurance can be given that this will result in production orders or that such orders, if obtained, will be received in the near future.

SPECIAL FACTORS APPLICABLE TO THE AUTOMOTIVE INDUSTRY IN GENERAL

The automobile industry is cyclical and dependent on consumer spending. The Company's future sales may be subject to the same cyclical variations as the automotive industry in general. There have been recent reports of declines in sales of automobiles on a worldwide basis, and there can be no assurance that continued or increased declines in automobile production would not have a material adverse effect on the Company's business or prospects. Additionally, automotive customers typically reserve the right to unilaterally cancel contracts completely or to require unilateral price reductions. Although they generally reimburse companies for actual out-of-pocket costs incurred with respect to the particular contract up to the point of cancellation, these reimbursements typically do not cover costs associated with acquiring general purpose assets such as facilities and capital equipment, and may be subject to negotiation and substantial delays in receipts by the Company. Any unilateral cancellation of, or price reduction with respect to, any contract that the Company may obtain could reduce or eliminate any financial benefits anticipated from such contract and could have a material adverse effect on the Company's financial condition and results of operations.

COMPETITION; POSSIBLE OBSOLESCENCE OF TECHNOLOGY

The automotive component industry is subject to intense competition. Most of the Company's competitors are substantially larger in size, have substantially greater financial, marketing and other resources than the Company, and have more extensive experience and records of successful operations than the Company. Competition extends to attracting and retaining qualified technical and marketing personnel. There can be no assurance that the Company will successfully differentiate its products from those of its competitors, that the marketplace will consider the Company's current or proposed products to be superior or even comparable to those of its competitors, or that the Company can succeed in establishing relationships with automobile manufacturers. Furthermore, no assurance can be given that competitive pressures faced by the Company will not adversely affect its financial performance. Due to the rapid pace of technological change, the Company's products may even be rendered obsolete by future developments in the industry. The Company's competitive position would be adversely affected if it were unable to anticipate such future developments and obtain access to the new technology.

DEPENDENCE ON KEY PERSONNEL; NEED TO RETAIN TECHNICAL PERSONNEL

The Company's success will depend to a large extent upon the continued contributions of Lon E. Bell, Ph.D., Chief Executive Officer, Chairman of the Board of Directors and the founder of the Company, and Richard A. Weisbart, President and Chief Operating Officer and a Director. The Company has obtained key-person life insurance coverage in the amount of $2,000,000 on the life of Dr. Bell. Neither Dr. Bell nor Mr. Weisbart is bound by an employment agreement with the Company. The loss of the services of Dr. Bell, Mr. Weisbart or any of the Company's executive personnel could materially adversely affect the Company. The success of the Company will also depend, in part, upon its ability to retain qualified engineering and other technical and marketing personnel. There is significant competition for technologically qualified personnel in the geographical area of the Company's business and the Company may not be successful in recruiting or retaining sufficient qualified personnel.

RELIANCE ON MAJOR CONTRACTORS; RISKS OF INTERNATIONAL OPERATIONS

The Company has in the past engaged certain outside contractors to perform product assembly and other production functions for the Company, and the Company anticipates that it may desire to engage contractors for such purposes in the future. The Company believes that there are a number of outside contractors that provide services of the kind that have been used by the Company in the past and that the Company may desire to use in the future. However, no assurance can be

given that any such contractors would agree to work for the Company on terms acceptable to the Company or at all. The Company's inability to engage outside contractors on acceptable terms or at all would impair the Company's ability to complete any development and/or manufacturing contracts for which outside contractors' services may be needed. Moreover, the Company's reliance upon third party contractors for certain production functions will reduce the Company's control over the manufacture of its products and will make the Company dependent in part upon such third parties to deliver its products in a timely manner, with satisfactory quality controls and on a competitive basis.

Furthermore, the Company may engage contractors located in foreign countries. Accordingly, the Company will be subject to all of the risks inherent in international operations, including work stoppages, transportation delays and interruptions, political instability, foreign currency fluctuations, economic disruptions, the imposition of tariffs and import and export controls, changes in governmental policies and other factors which could have an adverse effect on the Company's business. See also "--Risk of Foreign Sales."

POTENTIAL CHARGES TO INCOME

In connection with the Company's initial public offering completed in 1993, 3,000,000 shares of the Company's Class A Common Stock (the "Escrow Shares") were placed (and currently remain) in an escrow account, and are subject to release to the beneficial owners of such shares in the event the Company attains certain pre-tax income goals. In the event any Escrow Shares are released to persons who are current or former officers or other employees of the Company, compensation expense will be recorded for financial reporting purposes. Accordingly, in the event of the release of the Escrow Shares from escrow, the Company will recognize during the periods in which the earnings thresholds are met or are probable of being met one or more substantial non-cash charges which would have the effect of substantially increasing the Company's loss or reducing or eliminating earnings, if any, at such time. Although the amount of compensation expense recognized by the Company will not affect the Company's total shareholders' equity or reduce its working capital, it may have a depressive effect on the market price of the Company's securities. At February 23, 1998, the Company does not anticipate that it will attain those pre-tax income goals.

POTENTIAL PRODUCT LIABILITY

The Company's business will expose it to potential product liability risks which are inherent in the manufacturing, marketing and sale of automotive components. In particular, there may be substantial warranty and liability risks associated with critical safety components of the Company's products. If available, product liability insurance generally is expensive. While the Company presently has $2,000,000 of product liability coverage, there can be no assurance that it will be able to obtain or maintain such insurance on acceptable terms with respect to other products the Company may develop, or that any insurance obtained will provide adequate protection against any potential liabilities. In the event of a successful claim against the Company, a lack or insufficiency of insurance coverage could have a material adverse effect on the Company's business and operations.

GOVERNMENT AUDITS OF GRANTS

The Company's grants are subject to periodic audit by the granting government authorities for the purpose of confirming, among other things, progress in development and that grant moneys are being used and accounted for as required by the granting authority. If, as a result of any such audit, a granting authority were to disallow expenses submitted for reimbursement, such authority could seek recovery of such funds from the Company. The Company is not aware of any pending or threatened audits with respect to the Company's grants and does not have any reason to believe that any grant moneys have been applied in a manner inconsistent with grant requirements or that any grant audits are otherwise warranted or likely. However, no assurance can be given that any such audits will not be commenced in the future or that, if commenced, any such audits would not result in an obligation of the Company to reimburse funds to the granting authority.

NO DIVIDENDS

The Company has not paid any cash dividends on its Common Stock since its inception and, by reason of its present financial status and its contemplated financial requirements, does not anticipate paying any cash dividends in the foreseeable future. It is anticipated that significant additional financing will be necessary to fund the Company's long-term operations.

FLUCTUATIONS IN QUARTERLY RESULTS; POSSIBLE VOLATILITY OF STOCK PRICE

Factors such as announcements by the Company of quarterly variations in its financial results, or unexpected losses, could cause the market price of the Class A Common Stock of the Company to fluctuate significantly. The results of operations in previous quarters have been partially dependent on large grants, orders and development contracts, which may not recur in the future. In addition, the Company's quarterly operating results may fluctuate significantly in the future due to a number of other factors, including timing of product introductions by the Company and its competitors, availability and pricing of components from third parties, timing of orders, foreign currency exchange rates, technological changes and economic conditions generally. Development contract revenues declined significantly because the activity on the Company's major electric vehicle development contract substantially concluded at the end of 1996 with no replacement contract presently scheduled to follow. See "Item 7--Management's Discussion and Analysis of Financial Condition and Results of Operations." In recent years, the stock markets in general, and the share prices of technology companies in particular, have experienced extreme fluctuations. These broad market and industry fluctuations may adversely affect the market price of the Class A Common Stock. In addition, failure to meet or exceed analysts' expectations of financial performance may result in immediate and significant price and volume fluctuations in the Class A Common Stock.

POTENTIAL CONFLICTS OF INTEREST

Affiliates of Lon E. Bell, Ph.D., Chief Executive Officer, Chairman of the Board of Directors, founder and a principal shareholder of the Company, and/or Michael R. Peevey, a director of the Company, have been or are parties to certain business contracts and arrangements with the Company. These contracts and arrangements included the Company's lease of a manufacturing and office facility (which the Company no longer uses) located in Alameda, California from CALSTART, a non-profit research and development consortium co-founded by Dr. Bell and for which Dr. Bell serves as a director and member of the executive committee, several management contracts pursuant to which the Company managed certain electric vehicle grant programs obtained by CALSTART and an engineering design services contract pursuant to which the Company periodically engaged Adaptrans, an entity owned by David Bell, Dr. Bell's son, to provide assistance with the Company's development of its electric vehicle Energy Management System. These relationships and transactions, coupled with Dr. Bell's ownership of a significant percentage of the Company's Class A Common Stock and his membership on the Board of Directors, could give rise to conflicts of interest. The Company believes that such affiliate transactions are on terms no less favorable to the Company than those that could have been obtained from unaffiliated third parties.

John W. Clark, a director of the Company, is a general partner of an affiliate of HBI. HBI and DDJ, each major shareholders of the Company, have threatened various claims against the Company and its directors and officers arising out of the December 1995 private placement by the Company of 750,000 shares of Class A Common Stock. See "--Legal Proceedings." While to the Company's knowledge neither HBI nor DDJ has commenced any legal action against the Company, no assurance can be given that any such legal action will not be commenced in the future. The relationship of Mr. Clark with HBI, coupled with the fact that he is a member of the Company's Board of Directors, could give rise to conflicts of interest.

In addition, the Company leases its current facilities from Dillingham Partners, an entity that is 60% controlled by Dr. Bell. The Company determined that the terms of the lease are better than those which could be obtained from other lessors.

SIGNIFICANT INFLUENCE OF PRINCIPAL SHAREHOLDER

The Company's principal shareholder, Dr. Bell, beneficially owns approximately 27% of the outstanding shares of Class A Common Stock of the Company and, therefore, will have the power to influence significantly the management and policies of the Company.

ANTI-TAKEOVER EFFECTS OF UNISSUED PREFERRED STOCK

The Company's Board of Directors has the authority to issue up to 5,000,000 shares of Preferred Stock and to determine the price, rights, preferences and privileges of those shares without any further vote or action by the shareholders. The rights of the holders of Class A Common Stock will be subject to, and may be adversely affected by, the rights of the holders of any shares of Preferred Stock that may be issued in the future. The issuance of Preferred Stock, while providing desirable flexibility in connection with possible acquisitions and other corporate purposes, could have the effect of making it more difficult for a third party to acquire a majority of the outstanding voting stock of the Company. However, the Company has no present plans to issue shares of Preferred Stock.

RISK OF FOREIGN SALES

A substantial percentage of the Company's revenues to date have been from sales to foreign countries. Accordingly, the Company's business is subject to many of the risks of international operations, including governmental controls, tariff restrictions, foreign currency fluctuations and currency control regulations. However, substantially all sales to foreign countries have been denominated in U.S. dollars. As such, the Company's historical net exposure to foreign currency fluctuations has not been material. No assurance can be given that future contracts will be denominated in U.S. dollars, however.

ITEM 2. PROPERTIES

The Company maintains its corporate headquarters, manufacturing and research and development facilities in leased space of approximately 40,000 square feet in Irwindale, California. The Company's lease expires December 31, 2002. The current monthly rent under the lease is approximately $20,000. The Company believes that its facilities are adequate for its present requirements. See "Potential Conflict of Interest."

ITEM 3. LEGAL PROCEEDINGS

HBI Financial Inc. ("HBI") and DDJ Capital Management LLC ("DDJ") have threatened various claims against the Company and its directors and officers arising out of the December 1995 private placement by the Company of 750,000 shares of Class A Common Stock. In general, they allege that the Company provided misleading projections and failed to disclose certain information in connection with such private placement. The Company believes these allegations to be without merit. While, to the Company's knowledge, HBI and DDJ have commenced no legal action against the Company in connection with such claims, no assurance can be given that they will not do so in the future. If they were to commence such legal action, the Company would be forced to defend such action and/or settle with them, the costs of which defense and/or any resulting liability or settlement could have a material adverse effect on the Company's financial condition. John W. Clark, a director of the Company, is a general partner of an affiliate of HBI.

On November 14, 1996, Gibbins Pattern & Plastic, Inc. ("Gibbins"), a supplier to the Company, filed suit against the Company in Michigan state court in the circuit court for the County of Wayne, Michigan for breach of contract, open account/account stated, and unjust enrichment/quantum meruit. Gibbins alleges that the Company has failed to pay for delivered products. The Company has withheld certain payments because Gibbins has failed to provide the Company with assurance of future performance. Gibbins has claimed a total of $231,548 in damages. The Company has removed the lawsuit to the federal district court for the Eastern District of Michigan and asserted certain counterclaims against Gibbins, which Gibbins has denied. The Company intends to defend the matter vigorously and believes that the lawsuit will not have a material adverse effect on the Company.

The Company is subject to other litigation in the ordinary course of its business, none of which is expected to have a material adverse effect on the Company.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

The Company's Class A Common Stock has traded on the Nasdaq SmallCap Market under the symbol ARGNA since June 10, 1993. The Class A Warrants have been approved for listing on the Nasdaq SmallCap Market and began public trading February 12, 1997. The following table sets forth the high and low bid prices for the Class A Common Stock as reported on the Nasdaq SmallCap Market for each quarterly period (or part thereof) from the beginning of the first quarter of 1996 through December 31, 1997. Such prices reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions.

| 1996 | HIGH | LOW |
|---|---|---|
| 1st Quarter | 10.75 | 10.00 |
| 2nd Quarter | 12.00 | 9.00 |
| 3rd Quarter | 11.00 | 7.25 |
| 4th Quarter | 7.00 | 4.75 |
| 1997 | | |
| 1st Quarter | 6.75 | 3.50 |
| 2nd Quarter | 5.13 | 2.50 |
| 3rd Quarter | 7.00 | 3.75 |
| 4th Quarter | 7.06 | 2.06 |

As of March 3, 1998, there were approximately 1,409 holders of record of the Class A Common Stock (not including beneficial owners holding shares in nominee accounts).

The Company has not paid any cash dividends since its formation and, given its present financial status and its anticipated financial requirements, does not expect to pay any cash dividends in the foreseeable future. The Company was prohibited during 1996 from paying cash dividends by the terms of its secured bank line of credit, which was paid off using a portion of the net proceeds of the Offering and terminated effective February 18, 1997.

ITEM 6. SELECTED FINANCIAL DATA

| | YEAR ENDED DECEMBER 31, (IN THOUSANDS EXCEPT PER SHARE DATA) | | | | |
|---|---|---|---|---|---|
| | 1993 | 1994 | 1995 | 1996 | 1997 |
| Net revenues (1) | $ 2,289 | $ 2,640 | $ 7,809 | $ 7,447 | $ 1,308 |
| Net loss | (3,640) | (4,235) | (3,237) | (9,997) | (5,417) |
| Net loss per diluted share (2) | (1.64) | (1.28) | (.98) | (2.46) | (0.62) |
| Deficit accumulated during development stage | (5,715) | (9,950) | (13,187) | (23,184) | (28,481) |

| | AS OF DECEMBER 31, (IN THOUSANDS) | | | | |
|---|---|---|---|---|---|
| | 1993 | 1994 | 1995 | 1996 | 1997 |
| Working capital (deficit) | $ 8,833 | $ 4,149 | $ 6,481 | $ (3,315) | $8,826 |
| Total assets | 9,721 | 7,162 | 8,995 | 3,922 | 10,568 |
| Capitalized lease obligations | - | 78 | 68 | 43 | 41 |

- -----------

(1) Revenues from government agency grants; to date no operating revenues have been generated.

(2) Excluded from the average number of common shares used to calculate net loss per share are the 3,000,000 Escrowed Contingent Shares (See Note 9 to the Financial Statements). Adoption of SFAS No. 128 "Earnings Per Share" by the Company. No effect on previously reported per share information occurred due to antidilution provisions of the accounting principles.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the financial statements of the Company and related notes thereto appearing elsewhere in this report, and is qualified in its entirety by the same and by other more detailed financial information appearing elsewhere in this report.

OVERVIEW OF DEVELOPMENT STAGE ACTIVITIES

Historically, the Company's operations during the development stage have focused on the research and development of technologies to adapt them for a variety of uses in the automotive industry. Although the Company licensed the rights to these technologies from the holders of the related patents, it has now developed its own patented or patentable technology to complement those licenses. In the automotive components industry, products typically proceed through five stages of research and development and commercialization. Initial research on the product concept comes first, in order to assess its technical feasibility and economic costs and benefits, and often includes the development of an internal prototype for the supplier's own evaluation of the product. If the product appears feasible, a functioning prototype or demonstration prototype is manufactured by the component supplier to demonstrate and test the features of the product. This prototype is then marketed to automotive companies to generate sales of evaluation prototypes for internal evaluation by the automobile manufacturer. If the automobile manufacturer remains interested in the product after testing initial evaluation prototypes, it typically works with the component supplier to refine the product and then purchase second and subsequent generation engineering prototypes for further evaluation. Finally, the automobile manufacturer determines to either purchase the component for a production vehicle or terminate interest in the component. See "Item 1--Business--Marketing and Sales."

As development of the Company's products proceeds, the Company seeks to generate revenues from the sale of prototypes, then from specific development contracts, pre-production orders and, ultimately, production orders. The Company received its first production order in December 1997 and is continuing its efforts to obtain commitments and orders from large equipment manufacturers. Development contracts are from customers interested in developing a particular use or project using the Company's technologies and are generally longer term activities (from six months to one year) involving, in some cases, pre-production orders of larger quantities of the product for final testing by the customer before submitting a production order. Revenues obtained as grant funding from government agencies interested in promoting the technologies for specific tasks or projects, as well as development funds from prototype sales to customers, help offset the development expenses overall. Throughout the development stage, development costs and administrative expenses have exceeded and are expected to continue to exceed the revenues from customers and from grant agencies.

The Company received no funds to offset its development expenses from any funding source in 1991 and, in 1992, secured its first outside grant totaling $1,900,000. In 1993, the Company sold $188,000 in prototypes of its developing technology adaptations and, in addition, recorded $2,101,000 in grant revenue. In 1994, the sale of prototypes increased and the Company recorded its first development contract revenues, increasing revenues from these sources to $1,336,000. Grant revenues became less important as a source of total revenues, decreasing in 1994 to 49% of total revenues from 92% in 1993. In late 1994, the Company entered into the Samsung contract, from which revenues of $4,040,000, $5,328,000, and $533,000 were recorded in 1995, 1996 and 1997, respectively. In addition, the Company recorded revenues from two grants related to the development of the electric vehicle technology in 1995 and 1996 of $1,872,000 and $840,000, respectively. The Company's activity on the Samsung contract diminished during the fourth quarter of 1996 and substantially concluded at the end of the year. No replacement revenue was scheduled for 1996 or 1997. In addition, in 1996, the Company substantially completed work relating to the two electric vehicle grants, with no replacement grants presently scheduled to follow. As of December 31, 1997, the Company had only minor development contracts in place. The Company has significantly reduced its efforts to obtain any additional grants and intends to focus its efforts on working toward production contracts for Climate Control Seat ("CCS") system and radar sensor systems. See "Item 1--Risk Factors--Dependence on Grants; Government Audits of Grants."

RESULTS OF OPERATIONS YEAR ENDED DECEMBER 31, 1997 COMPARED TO YEAR ENDED DECEMBER 31, 1996

Total revenues for the year ended December 31, 1997 ("1997") decreased by $6,139,000, or approximately 82%, to $1,308,000, from $7,447,000 for the year ended December 31, 1996 ("1996"). Approximately $533,000, or nearly 41%, of 1997 total revenues were derived from the Samsung contract and related grants, which is a decrease of approximately $5,635,000 when compared to 1996, when $6,168,000, or nearly 83% of total revenues, were related to the Samsung contract and other grants. The Company has completed work on the Samsung contract and the related grants in 1997. No replacement contract or replacement grants are currently scheduled to follow or expected to be obtained.

During 1997, development continued on CCS and the Company's radar system, some of which was funded by development contracts. Development contract revenue relating to the Company's CCS, radar and IVS-TM- products decreased to $748,000 in 1997, a decline of $199,000, or approximately 21% from the $947,000 in such revenue recorded for 1996. The decrease in 1997 principally reflects the lack of commercial sales of IVS-TM- products as well as the Company's completion in 1996 of work on several development contracts relating to the IVS-TM-products not replaced in 1997 with new contracts. The Company began selling IVS-TM-products in 1995. The total revenue recognized for the IVS-TM- products in 1997 was $10,000, compared with $363,000 in 1996. On July 24, 1997, the Company entered into a joint venture agreement with Yazaki Corporation to form a new entity to develop and market the IVS-TM-products. Under the terms of the agreement, Yazaki Corporation owns a majority interest and the Company owns a minority interest of IVS, Inc. As part of the transaction, the Company received $1,800,000 in cash and a note receivable for $1,000,000 in consideration for net assets related to Amerigon's voice interactive technology totaling approximately $89,000. In addition, the Company incurred costs of $348,000 associated with the sale. $1,800,000 was paid through July 1997 and $1,000,000 will be paid in July 1998. As of February 3, 1998, the Company had only minor development contracts in place, under which a total of not more than approximately $97,000 potentially remains to be earned by the Company (although no assurance can be given that all or any portion of such amount will ultimately be earned or received). Revenues from grants other than electric vehicle-related grants decreased by $305,000, or approximately 92% to $27,000 in 1997 from $332,000 in 1996. The Company has determined to reduce its efforts to obtain new grants and intends to focus its efforts on working toward production contracts for CCS and radar sensor systems.

Revenue from electric vehicle development contracts decreased $5,183,000 or approximately 97% in 1997 to $145,000 from $5,328,000 in 1996. The Company completed the Samsung contract in 1997. No replacement contract is currently scheduled to follow or expected to be obtained. Related electric vehicle grant revenues totaled $389,000 in 1997, a decrease of $451,000, or approximately 54%, from the $840,000 in such revenues recorded for 1996. The reduction in these grant revenues reflects the completion of the Samsung contract as discussed above. The Company has previously announced its intention to reduce its efforts to obtain new grants and to focus on working toward production contracts for CCS and radar sensor systems.

Direct development contract and related grant costs decreased to $2,586,000 in 1997 from $11,533,000 in 1996, primarily due to decreased activity in the Company's electric vehicle program in 1997, particularly in connection with the Samsung contract and related grants. The Company also recorded charges to operations in 1996, included in the total direct development contract and related grant costs, for the ultimate estimated loss at completion of the contract of approximately $1,900,000. Direct development costs related to commercial sales of IVS-TM- decreased in 1997 to $55,000 from $490,000 in 1996 primarily due to weak demand on IVS-TM- products and the sale of the Company's IVS-TM- technology to Yazaki Corporation.

Direct grant costs in 1997 declined by $185,000, or approximately 88%, to $25,000 from $210,000 in 1996. These costs are related to the projects for which grant revenues are reported. The decrease in 1997 reflects the decline in grant project activities in which the Company was engaged during 1997. Grant costs as a percentage of grant revenues of $27,000 and $332,000 were 93% and 63% in 1997 and 1996, respectively.

Research and development expenses declined by $56,000, or approximately 3%, in 1997 to $2,072,000 from $2,128,000 in 1996. These expenses represent research and development expenses for which no development contract or grant funding has been obtained. Expenses of research and development projects that are specifically funded by development contracts from customers are classified under direct development contract and related grant costs or direct grant costs.

Selling, general and administrative ("SG&A") expenses increased by $1,061,000, or approximately 31%, in 1997 to $4,471,000 from $3,410,000 in 1996. The increase in 1997 was primarily due to the fact that fewer SG&A expenses were allocated to development contracts. The Company also incurred costs related to the IVS-TM- joint venture and costs associated with locating strategic partners for the electric vehicle program. Direct and indirect overhead expenses included in SG&A that are associated with development contracts are allocated to such contracts. As the Company has not obtained and is not actively pursuing any replacement development contracts, the Company anticipates that SG&A expenses may continue to increase in 1998. The Company also expects SG&A expenses to increase as it hires additional employees in connection with the development of radar products and the development and marketing of CCS.

Interest expense incurred totaled $71,000 and $211,000 in 1997 and 1996, respectively. For 1997, interest expense represents charges incurred in conjunction with a bank line of credit obtained to finance work on the Samsung electric vehicle contract, the Bridge Financing, and the loan from the Company's Chief Executive Officer and principal

shareholder. These loans were repaid upon the completion on the Company's Follow-on Public Offering in February 1997. Interest income increased to $477,000 in 1997 from $48,000 in 1996 as a result of higher cash balances maintained in investments purchased during 1997 with proceeds from the Company's secondary offering. Net interest income (expense) was $406,000 in 1997 compared with ($163,000) in 1996. Interest income will likely decrease in 1998 as the Company uses its cash balances to fund operations. Also, the net loss of the Company was partially offset by the gain on disposal of assets due to the joint venture with Yazaki Corporation. See "Note 17."

RESULTS OF OPERATIONS YEAR ENDED DECEMBER 31, 1996 COMPARED TO YEAR ENDED DECEMBER 31, 1995

Total revenues decreased by $362,000 to $7,447,000 in the year ended December 31, 1996 from the year ended December 31, 1995 ("1995") due to the completion of the development contracts for customers of IVS-TM- and radar products in 1995, which contracts were not replaced in 1996. Development contract revenues, including revenues from the sales of prototypes, decreased to $7,115,000, which includes $840,000 of grant funding related to these development activities, compared to $1,872,000 in 1995. Revenue from electric vehicle development contracts increased in 1996 to $5,328,000 from $4,040,000 in 1995. Nearly all electric vehicle development contract revenue was attributable to the Samsung contract in each of 1995 and 1996. Grant revenue from activities not related to development contracts decreased to $322,000 in 1996, as compared with $519,000 in 1995.

Also, the net loss of the Company was partially offset by the gain on disposal of assets due to the joint venture with Yazaki Corporation. See "Note 17."

Direct costs for development contracts and related grants increased from $5,332,000 in 1995 to $11,533,000 in 1996 due primarily to increased activity in the Company's electric vehicle program in 1996 (particularly in connection with the Samsung contract and related grants). Included in these costs are costs related to commercial sales of IVS-TM- products totaling $490,000 in 1996 and $412,000 in 1995. Direct grant costs decreased from $339,000 in 1995 to $210,000 in 1996 due to decline in grant project activities in which the Company was engaged during 1996.

Research and development expenses include the unfunded portion of direct wages of the Company's engineers and technicians, outside consultants, prototype tooling and prototype materials. Such expenses decreased from $2,367,000 in 1995 to $2,128,000 in 1996. Due to the Company's significant cash shortfalls in 1996, the Company was constrained in its ability to undertake research and development activities during the year. Included in the research and development expenses are fees for licenses and royalties of $345,000 in 1995 and $295,000 in 1996.

SG&A increased from $3,135,000 in 1995 to $3,410,000 in 1996. The increase in 1996 was due primarily to non-recurring costs incurred by the Company during the year for legal and other services in connection with the Board of Director's consideration of various corporate financing alternatives, as well as for outside consulting services in connection with the Company's efforts to identify strategic or financial partners for its electric vehicle and IVS-TM- products. Interest income decreased from $127,000 in 1995 to $48,000 in 1996 due to a lower amount of invested cash in 1996. Net interest income (expense) was $127,000 in 1995 compared with $163,000 in 1996.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 1997, the Company had working capital of $8,826,000. Management believes existing working capital is sufficient to meet the Company's operating needs for at least the next twelve months. The Company's principal sources of operating capital have been the proceeds of its various financing transactions and, to a lesser extent, revenues from grants, development contracts and sale of prototypes to customers.

Cash and cash equivalents increased by $5,834,000 in 1997 due to sales of securities in a public offering in February 1997. Operating activities used $6,470,000, which was primarily a result of the net loss of $5,417,000 and repayment of $1,265,000 outstanding balances to vendors, and reductions of deferred revenue of $57,000, somewhat offset by reductions in unbilled revenues of $1,157,000 (related to billings under the electric vehicle program), reductions in accounts receivable of $933,000, and a decrease in accrued liabilities of $133,000. Investing activities used $902,000, of which $302,000 was related to the purchase of property and equipment and $2,400,000 to the purchase of short-term investments offset by net cash proceeds from the sale of assets of $2,800,000 and a related receivable of $1,000,000.

Financing activities provided $13,206,000 of which approximately $17,595,000 was from the 1997 Public Offering. $1,187,000 was used for the repayment of the bank line of credit, $3,000,000 was used for repayment of the 1996 Bridge Financing, and $450,000 was used for repayment of loans from the Company's Chief Executive Officer and principal shareholder.

The Company expects to incur losses for the foreseeable future due to the continuing cost of its product development and marketing activities. To fund its operations, the Company will use current cash and investments, but will need cash from financing sources before the Company can achieve profitability from its operations. There can be no assurance that profitability can be achieved in the future. The Company's focus is to bring products to market and achieve revenues based upon its available resources. The Company will continue its program to divest assets or businesses where it does not have sufficient resources to bring the product to market and where it will enhance shareholder value. As has been previously mentioned, the Company has completed its joint venture agreement with Yazaki Corporation for the IVS-TM-business and is now striving to accomplish a similar strategic venture with the Company's electric vehicle program. The Company believes these two divestitures will allow the Company to pursue the market introduction of its CCS and radar based sensor device, both for the automotive marketplace. If and when the Company is able to commence commercial volume production of its heated and cooled seat or radar products, the Company will incur significant expenses for tooling product parts and to set up manufacturing and/or assembly processes. The Company also expects to require significant capital to fund other near-term production engineering and manufacturing, as well as research and development and marketing, of these products. The Company does not intend to pursue any more significant grants or development contracts to fund operations and therefore is highly dependent on its current working capital sources. Should the Company not achieve profitability in the near future from the two above-mentioned products, additional equity and/or debt financing would be required. If additional funds are not obtained when needed, the Company will be required to significantly curtail its development activities, dispose of one or more of its technologies and/or cease operations and liquidate. There can be no assurance that either of these sources would be available in the future and may be required in any case.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements and related financial information required to be filed hereunder are indexed on page F-1 of this report and are incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this item is incorporated by reference from the information contained under the captions entitled "Election of Directors," "Executive Officers and Significant Employees" and "Section 16(a) Beneficial Ownership Reporting Compliance" in the Company's definitive proxy statement to be filed with the Commission in connection with the Company's 1998 Annual Meeting of Stockholders.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated by reference from the information contained under the captions entitled "Executive Compensation," "Stock Option Plan," "Report of the Compensation Committee on Executive Compensation," "Compensation Committee Interlocks and Insider Participation," "Option Grants During the Year Ended December 31, 1997," "Aggregate Option Exercises In the Year Ended December 31, 1997 and Year-End Values," and "Comparative Stock Performance" in the Company's definitive proxy statement to be filed with the Commission in connection with the Company's 1998 Annual Meeting of Stockholders.

TEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this item is incorporated by reference from the information contained under the caption entitled Principal Stockholders" and "Escrow Shares" in the Company's definitive proxy statement to be filed with the Commission in connection with the Company's 1998 Annual Meeting of Stockholders.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this item is incorporated by reference from the information contained under the caption entitled "Certain Transactions" in the Company's definitive proxy statement to be filed with the Commission in connection with the Company's 1998 Annual Meeting of Stockholders.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) The following documents are filed as part of this report:

1. Financial Statements.

The following financial statements of the Company and report of independent accountants are included in Item 8 of this Annual Report:



2. Financial Statement Schedule.

The following Schedule to Financial Statements is included herein:

Schedule II-- Valuation and Qualifying Accounts, together with the report of independent accountants thereon.

3. Exhibits.

The following exhibits are filed as a part of this report:

| EXHIBIT NUMBER | DESCRIPTION |
|---|---|
| 3.1.1 | Amended and Restated Articles of Incorporation (the "Articles") of the Company (1) |
| 3.1.2 | Certificate of Amendment of Articles filed with the California Secretary of State on December 5, 1996 (3) |
| 3.2 | Amended and Restated Bylaws of the Company (3) |
| 4.4 | Escrow Agreement among the Company, U.S. Stock Transfer Corporation and the shareholders named therein (1) |
| 10.1 | 1993 Stock Option Plan, together with Form of Incentive Stock Option Agreement and Nonqualified Stock Option Agreement (1) |
| 10.2 | Promissory Note Payable from the Company to Lon E. Bell dated September 9, 1996 (3) |
| 10.3 | Promissory Note from the Company to Lon E. Bell dated January 29, 1997 (3) |
| 10.4 | Form of Underwriter's Unit Purchase Option (3) |
| 10.5.1 | Stock Option Agreement ("Bell Stock Option Agreement"), effective May 13, 1993, between Lon E. Bell and Roy A. Anderson (3) |
| 10.5.2 | List of omitted Bell Stock Option Agreements with Company directors (3) |
| 10.6 | Form of Indemnity Agreement between the Company and each of its officers and directors (1) |
| 10.7 | License Agreement, dated as of January 20, 1994, by and between the Company and the Regents of the University of California, together with a letter from the Regents to the Company dated September 19, 1996 relating thereto (3)** |
| 10.8 | Option and License Agreement dated as of November 2, 1992 between the Company and Feher Design, Inc. (1) |
| 10.9 | Shareholders Agreement, dated May 13, 1993, by and among the Company and the shareholders named therein (1) |
| 10.10 | Stock Purchase Agreement and Registration Rights Agreement between the Company and Fidelity Copernicus Fund, L.P. and Fidelity Galileo Fund, L.P., dated December 29, 1995 (2) |

10.11 Stock Purchase Agreement and Registration Rights Agreement between the Company and HBI Financial Inc., dated December 29, 1995 (2)
10.12 Amerigon Client Contract, dated April 1, 1996, between the Company and Technology Strategies & Alliances (3)
10.13 Joint Venture Agreement between Yazaki Corporation and Amerigon Incorporated, dated July 22, 1997 (5)
10.14 Amendment to Option and License Agreement between Amerigon and Feher Design dated September 1, 1997
10.15 Standard Lease dated January 1, 1998 between Amerigon and Dillingham Partners
21 List of Subsidiaries
23.1 Consent of Price Waterhouse LLP
27 Financial Data Schedule

(b) Reports on Form 8-K.

During the quarter ended December 31, 1997, the Company filed no Current Reports on Form 8-K.
- -----------

(1) Previously filed as an exhibit to the Company's Registration Statement on Form SB-2, as amended, File No. 33-61702-LA, and incorporated by reference.

(2) Previously filed as an exhibit to the Company's Current Report on Form 8-K filed January 5, 1996 and incorporated by reference

(3) Previously filed as an exhibit to the Company Registration Statement on Form S-2, as amended, File No. 333-17401, and incorporated by reference.

(4) Previously filed as an exhibit to the Company's Current Report on Form 8-K, event date June 16, 1997, and incorporated herein by reference.

(5) Previously filed as an exhibit to the Company's Current Report on Form 8-K, event date July 22, 1997, and incorporated herein by reference..

INDEX TO FINANCIAL STATEMENTS

## REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders of
Amerigon Incorporated (a Development Stage Enterprise)

In our opinion, the financial statements listed in the index appearing under Item 14(a)(1) and (2) present fairly, in all material respects, the financial position of Amerigon Incorporated (a Development Stage Enterprise) at December 31, 1997 and 1996, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1997, and for the period from April 23, 1991 (inception) to December 31, 1997, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PRICE WATERHOUSE LLP

Costa Mesa, California
February 23, 1998

AMERIGON INCORPORATED
(A DEVELOPMENT STAGE ENTERPRISE)

BALANCE SHEETS

(IN THOUSANDS)

ASSETS

| | DECEMBER 31, | |
|---|---|---|
| | 1996 | 1997 |
| Current assets: | | |
| Cash and cash equivalents | $203 | $6,037 |
| Short-term investments | - | 2,400 |
| Accounts receivable less allowance of $80 in 1996 and $80 in 1997 (Note 16) | 1,188 | 255 |
| Receivable due from joint venture partner | - | 1,000 |
| Unbilled revenue (Notes 13 and 14) | 1,157 | - |
| Inventory, primarily raw materials | 20 | 35 |
| Prepaid expenses and other assets (Note 4) | 744 | 196 |
| Total current assets | 3,312 | 9,923 |
| Property and equipment, net (Note 4) | 610 | 645 |
| Total assets | $3,922 | $10,568 |
| LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT) | | |
| Current liabilities: | | |
| Accounts payable | $1,567 | $650 |
| Deferred revenue | 154 | 97 |
| Accrued liabilities (Note 4) | 519 | 350 |
| Note payable to shareholder (Note 7) | 200 | - |
| Bridge notes and debentures payable (Note 8) | 3,000 | - |
| Bank loan payable (Note 6) | 1,187 | - |
| Total current liabilities | 6,627 | 1,097 |
| Long-term portion of capital lease (Note 15) | 43 | 41 |
| Commitments and contingencies: (Notes 12 and 15) | | |
| Shareholders' equity (deficit): (Notes 9, 10, and 11) | | |
| Preferred stock, no par value; 5,000 shares authorized, none issued and outstanding | | |
| Common stock: | | |
| Class A-no par value; 40,000 shares authorized, 4,069 and 9,550 issued and outstanding in 1996 and 1997, respectively; an additional 3,000 shares held in escrow | 17,321 | 28,149 |
| Class B-no par value; 3,000 shares authorized, none issued and outstanding | - | - |
| Contributed capital | 3,115 | 9,882 |
| Deficit accumulated during development stage | (23,184) | (28,601) |
| Total shareholders' equity (deficit) | (2,748) | 9,430 |
| Total liabilities and shareholders' equity (deficit) | $3,922 | $10,568 |

See accompanying notes to the financial statements.

AMERIGON INCORPORATED
(A DEVELOPMENT STAGE ENTERPRISE)

STATEMENTS OF OPERATIONS

(IN THOUSANDS EXCEPT PER SHARE DATA)

| | YEAR ENDED DECEMBER 31, | | | FROM APRIL 23, 1991 (INCEPTION) TO DECEMBER 31, |
|---|---|---|---|---|
| | 1995 | 1996 | 1997 | 1997 |
| Revenues: | | | | |
| Development contracts and related grants | $7,290 | $7,115 | $1,281 | $17,210 |
| Grants | 519 | 332 | 27 | 6,183 |
| Total revenues | 7,809 | 7,447 | 1,308 | 23,393 |
| Costs and expenses: | | | | |
| Direct development contract and related grant costs | 5,332 | 11,533 | 2,586 | 20,904 |
| Direct grant costs | 339 | 210 | 25 | 4,757 |
| Research and development | 2,367 | 2,128 | 2,072 | 10,859 |
| Selling, general and administrative, including reimbursable administrative costs | 3,135 | 3,410 | 4,471 | 18,258 |
| Total costs and expenses | 11,173 | 17,281 | 9,154 | 54,778 |
| Operating loss | (3,364) | (9,834) | (7,846) | (31,385) |
| Interest income | 127 | 48 | 477 | 1,043 |
| Interest expense | -- | (211) | (71) | (282) |
| Gain on disposal of assets (Note 17) | -- | -- | 2,363 | 2,363 |
| Net loss before extraordinary items | (3,237) | (9,997) | (5,077) | (28,261) |
| Extraordinary loss from extinguishment of indebtedness | - | - | (340) | (340) |
| Net loss | $(3,237) | $(9,997) | $(5,417) | $(28,601) |
| Basic and diluted net loss per share before extraordinary item | $(0.98) | $(2.46) | $ (0.58) | |
| Basic and diluted net loss per share | $(0.98) | $(2.46) | $(0.62) | |
| Weighted average number of shares outstanding | 3,306 | 4,062 | 8,796 | |

See accompanying notes to the financial statements.

AMERIGON INCORPORATED
(A DEVELOPMENT STAGE ENTERPRISE)

STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIT)
(IN THOUSANDS)

| | Preferred Stock | | Common Stock (Class A) | |
|---|---|---|---|---|
| | Shares | Amount | Shares | |
| Balance at April 23, 1991(inception) | - | $- | 1,000 | |
| Contributed capital-founders' services provided without compensation. | - | - | - | |
| Net loss | - | - | - | |
| Balance at December 31, 1991 | - | - | 1,000 | |
| Transfer of common stock to employee by principal shareholder for services. | - | - | - | |
| Contributed capital-founders' services provided without compensation | - | - | - | |
| Net loss | - | - | - | |
| Balance at December 31, 1992 | - | - | 1,000 | |
| Issuance of common stock (public offering) | - | - | 2,300 | |
| Options granted by principal shareholder for services | - | - | - | |
| Contribution of notes payable to contributed capital. | - | - | - | |
| Net loss | - | - | - | |
| Balance at December 31, 1993. | - | - | 3,300 | |
| Compensation recorded for variable plan stock option (Note 11). | - | - | - | |
| Net loss | - | - | - | |
| Balance at December 31, 1994. | - | - | 3,300 | |
| Private placement of common stock | - | - | 750 | |
| Compensation recorded for variable plan stock option (Note 11). | - | - | - | |
| Net loss | - | - | - | |
| Balance at December 31, 1995 | - | - | 4,050 | |
| Exercise of stock options | - | - | 20 | |
| Repurchase of common stock. | - | - | (1) | |
| Expenses of sale of stock | - | - | - | |
| Net loss | - | - | - | |
| Balance at December 31, 1996 | - | - | 4,069 | |
| Issuance of common stock (public offering). | - | - | 5,474 | |
| Conversion of Bridge Debentures into Class A Warrants | - | - | - | |
| Net loss. | - | - | - | |
| Balance at December 31, 1997 | - | $- | 9,543 | |

| | Common Stock | | |
|---|---|---|---|
| | Class A | Class B | |
| | Amount | Shares | Amount |
| Balance at April 23, 1991(inception) | 100 | - | $- |
| Contributed capital-founders' services provided without compensation. | - | - | - |
| Net loss. | - | - | - |
| Balance at December 31, 1991 | 100 | - | - |
| Transfer of common stock to employee by principal shareholder for services. | - | - | - |
| Contributed capital-founders' services provided without compensation | - | - | - |
| Net loss | - | - | - |
| Balance at December 31, 1992 | 100 | - | - |
| Issuance of common stock (public offering) | 11,534 | - | - |
| Options granted by principal shareholder for services | - | - | - |
| Contribution of notes payable to contributed capital. | - | - | - |
| Net loss | - | - | - |
| Balance at December 31, 1993 | 11,634 | - | - |
| Compensation recorded for variable plan stock option (Note 11) | - | - | - |
| Net loss | - | - | - |
| Balance at December 31, 1994 | 11,634 | - | - |

| | | | |
|---|---|---|---|
| Private placement of common stock. | 5,636 | - | - |
| Compensation recorded for variable plan stock option (Note 11) | - | - | - |
| Net loss | - | - | - |
| Balance at December 31, 1995 | 17,270 | - | - |
| Exercise of stock options. | 160 | - | - |
| Repurchase of common stock | (15) | - | - |
| Expenses of sale of stock. | (94) | - | - |
| Net loss | - | - | - |
| Balance at December 31, 1996 | 17,321 | - | - |
| Issuance of common stock (public offering) | 10,828 | - | - |
| Conversion of Bridge Debentures into Class A Warrants. | - | - | - |
| Net loss | - | - | - |
| Balance at December 31, 1997 | $ 28,149 | - | $ - |

| | Contrib. Capital | Deficit Accum. During Devel. Stage | Total |
|---|---|---|---|
| Balance at April 23, 1991(inception) | $- | $- | 100 |
| Contributed capital-founders' services provided without compensation. | 111 | - | - |
| Net loss. | - | (616) | (616) |
| Balance at December 31, 1991 | 111 | (616) | (405) |
| Transfer of common stock to employee by principal shareholder for services. | 150 | - | 150 |
| Contributed capital-founders' services provided without compensation | 189 | - | 189 |
| Net loss | - | (1,459) | (1,459) |
| Balance at December 31, 1992 | 450 | (2,075) | (1,525) |
| Issuance of common stock (public offering) | - | - | 11,534 |
| Options granted by principal shareholder for services | 549 | - | 549 |
| Contribution of notes payable to contributed capital. | 2,102 | - | 2,102 |
| Net loss | - | (3,640) | (3,640) |
| Balance at December 31, 1993 | 3,101 | (5,715) | 9,020 |
| Compensation recorded for variable plan stock option (Note 11) | 1 | - | 1 |
| Net loss | - | (4,235) | (4,235) |
| Balance at December 31, 1994 | 3,102 | (9,950) | 4,786 |
| Private placement of common stock. | 1 | - | 5,637 |
| Compensation recorded for variable plan stock option (Note 11) | 12 | - | 12 |
| Net loss | - | (3,237) | (3,237) |
| Balance at December 31, 1995 | 3,115 | (13,187) | 7,918 |
| Exercise of stock options. | - | - | 160 |
| Repurchase of common stock | - | - | (15) |
| Expenses of sale of stock. | - | - | (94) |
| Net loss | - | (9,997) | (9,997) |
| Balance at December 31, 1996 | 3,115 | (23,184) | (2,748) |
| Issuance of common stock (public offering) | 6,617 | - | 17,445 |
| Conversion of Bridge Debentures into Class A Warrants. | 150 | - | 150 |
| Net loss | - | (5,417) | (5,417) |
| Balance at December 31, 1997 | $9,882 | $ (28,601) | 9,430 |

See accompanying notes to the financial statements.

AMERIGON INCORPORATED
(A DEVELOPMENT STAGE ENTERPRISE)

STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

| | YEAR ENDED DECEMBER 31, | | | FROM APRIL 23,1991 (INCEPTION) TO DECEMBER 31, |
|---|---|---|---|---|
| | 1995 | 1996 | 1997 | 1997 |
| Operating activities: | | | | |
| Net loss | $(3,237) | $(9,997) | $(5,417) | $(28,601) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | | | |
| Depreciation and amortization | 283 | 357 | 162 | 1,074 |
| Provision for doubtful accounts | 10 | 80 | - | 190 |
| Stock option compensation | 12 | - | - | 712 |
| Gain from sale of assets | - | - | (2,363) | (2,363) |
| Contributed capital-founders' services provided without cash compensation. | - | - | - | 300 |
| Change in operating assets and liabilities: | | | | |
| Accounts receivable | (294) | (216) | 933 | (445) |
| Unbilled revenue. | (1,193) | 311 | 1,157 | - |
| Inventory | (243) | 223 | (35) | (55) |
| Prepaid expenses and other assets | (872) | 217 | 548 | (196) |
| Accounts payable | 861 | 444 | (1,265) | 302 |
| Deferred revenue | (1,660) | 60 | (57) | 97 |
| Accrued liabilities | 230 | 7 | (133) | 386 |
| Net cash used in operating assets | (6,103) | (8,514) | (6,470) | (28,599) |
| Investing activities: | | | | |
| Purchase of property and equipment | (353) | (182) | (302) | (1,746) |
| Proceeds from sale of assets. | - | - | 2,800 | 2,800 |
| Receivable from sale of assets. | - | - | (1,000) | (1,000) |
| Short term investments. | 2,910 | - | (2,400) | (2,400) |
| Net cash provided (used in) investing activities | 2,557 | (182) | (902) | (2,346) |
| Financing activities: | | | | |
| Proceeds from sale of common stock units, net | 5,637 | (94) | 17,595 | 34,772 |
| Proceeds from exercise of stock options | - | 160 | - | 160 |
| Repurchase of common stock | - | (15) | - | (15) |
| Borrowing under line of credit | 1,100 | 5,180 | - | 6,280 |
| Repayment of line of credit | (1,100) | (3,993) | (1,187) | (6,280) |
| Repayment of capital lease | (10) | (25) | (2) | (37) |
| Proceeds from Bridge Financing. | - | 3,000 | - | 3,000 |
| Repayment of Bridge Financing | - | - | (3,000) | (3,000) |
| Proceeds from note payable to shareholder | - | 200 | 250 | 450 |
| Repayment of note payable to shareholder | - | - | (450) | (450) |
| Notes payable contributed to capital | - | - | - | 2,102 |
| Net cash provided by financing activities | 5,627 | 4,413 | 13,206 | 36,982 |
| Net increase (decrease) in cash and cash equivalents | 2,081 | (4,283) | 5,834 | 6,037 |
| Cash and cash equivalents at beginning of period | 2,405 | 4,486 | 203 | - |
| Cash and cash equivalents at end of period. | $4,486 | $203 | $6,037 | $6,037 |

AMERIGON INCORPORATED
(A DEVELOPMENT STAGE ENTERPRISE)

NOTES TO FINANCIAL STATEMENTS

Note 1--THE COMPANY:

Amerigon Incorporated (the "Company" or "Amerigon") is a development stage enterprise, which was incorporated in California on April 23, 1991, primarily to develop, manufacture and market proprietary, high technology automotive components and systems for gasoline-powered and electric vehicles.

Amerigon's activities through December 31, 1997, include (1) obtaining the rights to the basic technology underlying the climate control seat system, certain radar applications and the interactive voice navigation system; (2) obtaining financing from grants and other sources and conducting development programs related to electric vehicles and its other products; (3) marketing of these development stage products to automotive companies and their suppliers; and (4) completing the development, in December 1995, of the audio navigator system and selling the first commercial units. The Company is currently seeking strategic partners to form a joint venture company or for the sale or licensing of its electric vehicle systems. Amerigon has completed a joint venture for its interactive navigation system, and plans to focus continuing development activities on its climate control seat and radar systems.

The Company's strategy has been to augment the expenditure of its own funds on research and development by seeking and obtaining various grants and contracts with potential customers which support the development of its products and related technologies. Through such grant funded activities and development contracts with customers, the Company has opportunities to gain access to new technologies and to extend its own product development efforts.

NOTE 2--BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

RECLASSIFICATIONS

Certain prior year items have been reclassified to conform with the current year presentation.

DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amount of all financial instruments, comprising cash and cash equivalents, accounts receivable and unbilled revenues, accounts payable, accrued expenses, notes payable and capital leases, approximate fair value because of the short-term maturities of these instruments.

USE OF ESTIMATES

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

CASH AND CASH EQUIVALENTS

All investments with original maturities of less than 90 days are considered cash equivalents.

CONCENTRATION OF CREDIT RISK

Financial instruments which subject the Company to concentration of credit risk consist primarily of cash equivalents, accounts receivable and unbilled revenue. Cash equivalents are invested in U. S. Treasury securities and the money market account of a major U.S. financial services company and the risk is considered limited. The risk associated with accounts

receivable and unbilled revenue is limited by the large size and credit worthiness of the Company's commercial customers and the federal and California government agencies providing grant funding. One commercial customer and one government agency are included in the $2,345,000 of accounts receivable and unbilled revenues at December 31, 1996, representing 54% and 21%, respectively, of the total. One commercial customer represents 72% of revenues for the year ended December 31, 1996. No government agency exceeded 10% of total revenues in 1996. In addition, revenues from foreign customers represented 76% of total revenues for the year ended December 31, 1996. At December 31, 1997, included in the gross accounts receivable of $335,000 are one commercial customer and two government agencies representing 13%, 46% and 15%, respectively, of the total. Two commercial customers and one government agency represented 14%, 11% and 30% of revenues, respectively, for the year ended December 31, 1997.

INVESTMENTS

As of December 31, 1997, short-term investments to be held to maturity are summarized as follows:

| | (IN THOUSANDS) DECEMBER 31, | |
|---|---|---|
| | 1996 | 1997 |
| U.S.Treasury securities. . . . . | $ - | $1,414 |
| Commercial paper. . . . . | - | 986 |
| | $ - | $2,400 |

The amortized cost, which includes accrued interest, approximates fair value. As of December 31, 1997, scheduled maturities of securities to be held to maturity are less than one year.

INVENTORY

Inventory, other than inventoried purchases relating to development contracts, is valued at the lower of cost, on the first-in, first-out basis, or market. Inventory related to development contracts is stated at cost, and is removed from inventory when used in the development project.

PROPERTY AND EQUIPMENT

Property and equipment, including additions and improvements, are recorded at cost. Expenditures for repairs and maintenance are charged to expense as incurred. When property or equipment is retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the accounts. Gains or losses from retirements and disposals are recorded as other income or expense.

Property and equipment are depreciated over their estimated useful lives ranging from three to five years. Leasehold improvements are amortized over the shorter of their estimated useful lives or the term of the lease. Depreciation and amortization are computed using the straight-line method.

LONG-LIVED ASSETS

In March 1995, Statement of Financial Accounting Standards (SFAS) No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of," was issued. SFAS No. 121 requires that long-lived assets and certain identifiable intangibles to be held and used or disposed of by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The adoption of this statement in 1996 has had no effect on the financial statements.

DEVELOPMENT CONTRACT REVENUES

The Company has had a series of fixed-price development contracts, which included (1) specific engineering and tooling services to prepare the Company's products and the related manufacturing processes for commercial sales to certain original equipment manufacturers ("OEMs"); (2) the development of complete electric vehicle systems (Note 13); and (3) prototype products developed during the research and development process, some of which are sold to third parties for

evaluation purposes. Revenue is recognized on development contracts using the percentage of completion method or, in the case of short duration contracts, when the prototype or service is delivered. Revenues earned are recorded on the balance sheet as Unbilled Revenue until billed. All amounts received from customers in advance of the development effort are reflected on the balance sheet as Deferred Revenue until such time as the contracted work is performed.

GRANT REVENUES

Revenue from government agency grants and other sources pursuant to cost reimbursement and cost-sharing arrangements (Note 14) is recognized when reimbursable costs have been incurred. Billings on the Company's grant programs are generally subject to the Company achieving certain milestones or complying with billing schedules designated in the grant agreements. Accordingly, delays between the time reimbursable grant costs are incurred and then ultimately billed may occur. Grant revenues earned are recorded on the balance sheet as Unbilled Revenue until billed.

RESEARCH AND DEVELOPMENT EXPENSES

Research and development activities are expensed as incurred. These amounts represent direct expenses for wages, materials and services associated with development contracts, grant program activities and the development of the Company's products. Research and development expenses associated with projects that are specifically funded by development contracts or grant agreements from customers are classified under Direct Development Contract and Related Grant Costs or Direct Grant Costs in the Statement of Operations. All other research and development expenses that are not associated with projects that are specifically funded by development contracts or grants from customers are classified under Research and Development. Research and development excludes any overhead or administrative costs.

ACCOUNTING FOR STOCK-BASED COMPENSATION

The Company accounts for employee stock-based compensation in accordance with Accounting Principles Board Opinion No. 25 and related interpretations. The disclosures required by Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), have been included in Note 11.

INCOME TAXES

Income taxes are determined under guidelines prescribed by Financial Accounting Standards Board Statement No. 109 ("SFAS 109"), "Accounting for Income Taxes." Under the liability method specified by SFAS 109, deferred tax assets and liabilities are measured each year based on the difference between the financial statement and tax bases of assets and liabilities at the applicable enacted Federal and state tax rates. A valuation allowance is provided for the portion of net deferred tax assets considered unlikely to be realized (Note 5).

NET LOSS PER SHARE

The Company's net loss per share calculations are based upon the weighted average number of shares of common stock outstanding. Excluded from this calculation are the 3,000,000 Escrowed Contingent Shares (Note 9). Common stock equivalents (stock options and stock warrants) are anti-dilutive in 1995, 1996 and 1997, and are excluded from the net loss per share calculation.

In February 1997, the Financial Accounting Standards Board issued Statement of Financial Standards No. 128, "Earnings per Share" ("SFAS 128"). SFAS 128 simplifies the standards for computing Earnings per Share ("EPS"), eliminating the presentation of primary EPS (currently required by Accounting Principles Board Opinion No. 15, "Earnings per Share") and requiring dual presentation of basic and diluted EPS on the face of the income statement for all public corporations with complex capital structures. SFAS 128 is effective for both interim and annual periods ending after December 15, 1997. The implementation of SFAS No. 128 did not have a significant impact on per share data.

NOTE 3--HISTORICAL LOSSES:

The Company is a development stage enterprise and has incurred losses from operations of $28,601,000 from its inception in April, 1991 through December 31, 1997. At December 31, 1997, the Company had working capital of $8,826,000 with substantially no long-term debt. Management believes that its working capital is sufficient to meet its

cash flow requirements for a period of 12 months from the balance sheet date. Management will continue to evaluate its financing alternatives during the course of fiscal 1998. The Company may continue to incur losses for the foreseeable future due to the costs anticipated to be incurred with the development, manufacture and marketing of its products.

NOTE 4--DETAILS OF CERTAIN FINANCIAL STATEMENT COMPONENTS (IN THOUSANDS):

| | DECEMBER 31, | |
|---|---|---|
| | 1996 | 1997 |
| PREPAID EXPENSES AND OTHER ASSETS: | | |
| Debt issue costs (Note 8) | $397 | $- |
| Deferred stock offering expenses (Note 9) | 269 | - |
| Advances to vendors | 38 | 133 |
| Prepaid insurance | 40 | 63 |
| | $744 | $196 |
| PROPERTY AND EQUIPMENT: | | |
| Equipment | $694 | $767 |
| Computer equipment | 654 | 596 |
| Leasehold improvements | 174 | 214 |
| Tooling | - | 142 |
| | 1,522 | 1,719 |
| Less: accumulated depreciation and amortization | (912) | (1,074) |
| | $610 | $645 |
| ACCRUED LIABILITIES: | | |
| Accrued salaries | $291 | $171 |
| Accrued vacation | 152 | 124 |
| Other accrued liabilities | 76 | 55 |
| | $519 | $350 |

NOTE 5--INCOME TAXES:

There are no assets or liabilities for income taxes, nor income tax expense included in the financial statements because the Company has losses since inception for both book and tax purposes. As of December 31, 1997, the Company has net operating loss carryforwards for federal and state purposes of $24,475,000 and $12,236,000, respectively, and has generated tax credits for certain research and development activities of $323,000 and $255,000 for federal and state purposes, respectively. Federal net operating loss carryforwards and tax credits expire from 2008 through 2012 and state net operating loss carryforwards expire from 1998 through 2002. The use of such net operating loss carryforwards would be limited in the event of a change in control of the Company. In 1993, the Company elected to be taxed as a C corporation for both federal and state income tax purposes. Prior to that time, the Company was not subject to federal taxation and was subject to state taxation at a reduced rate (2.5%).

Temporary differences between the financial statement and tax bases of assets and liabilities are primarily attributable to net operating loss and tax credit carry forwards, depreciation, unbilled grant revenue, deferred revenue and accrued compensated absences. A valuation allowance of $9,279,000 has been provided for the entire amount of the deferred tax assets arising from these differences. The valuation allowance increased $2,118,000 and $3,242,000 in 1997 and 1996, respectively.

NOTE 6--LINE OF CREDIT:

On November 27, 1995, the Company entered into a line of credit agreement with a bank under which the Company was allowed to borrow up to $4,000,000 based on certain costs incurred and billings made under a major electric vehicle development contract (Note 13). The borrowing limit was reduced to approximately $1,187,000 on November 30, 1996. The line of credit, which expired by its amended terms on January 31, 1997, provided for interest at the prime rate plus 1.3% and payments from the customer were applied as repayments. The outstanding balance of the line of credit at

December 31, 1996 totaled approximately $1,187,000. On February 7, 1997, the Company repaid approximately $462,000 of the outstanding balance using funds received under its major electric vehicle development contract. The remaining balance of $725,000 was repaid from the proceeds of the Company's follow-on public offering which was completed on February 18, 1997 (Note 9).

NOTE 7--NOTE PAYABLE TO SHAREHOLDER:

On September 9, 1996, Dr. Lon E. Bell, the President and principal shareholder of the Company, loaned $200,000 to the Company at 8% interest without collateral and due on demand. Dr. Bell loaned to the Company an additional $100,000 on January 29, 1997 and $150,000 on February 12, 1997 at 10% interest without collateral. These loans totaling $450,000, plus accrued interest, were repaid by the Company in February 1997 from the proceeds of the Company's follow-on public offering (Note 9).

NOTE 8--BRIDGE FINANCING:

On October 31, 1996, the Company completed a private placement (the "Bridge Financing") of 60 bridge units (each a "Bridge Unit"), each consisting of one $47,500 10% unsecured promissory note made by the Company (each a "Bridge Note") and one $2,500 10% convertible subordinated debenture (each a "Bridge Debenture"). At December 31, 1996, $2,850,000 of Bridge Notes and $150,000 of Bridge Debentures were outstanding. The proceeds to the Company from the October 1996 Bridge Financing were approximately $2,500,000, net of issuance costs of $500,000. Upon the completion on February 18, 1997 of the Company's follow-on public offering of Class A Common Stock and Class A Warrants (Note 9), the Bridge Notes were repaid and the Bridge Debentures were converted into a total of 1,620,000 warrants to purchase Class A Common Stock, each exercisable at $5.00 per share. In the first quarter of fiscal 1997, the Company recorded a non-cash charge resulting from the elimination of the remaining unamortized portion of the deferred debt issuance costs totaling $340,000.

NOTE 9--COMMON STOCK:

The Class A and Class B Common Stock are substantially the same on a share-for-share basis, except that holders of outstanding shares of Class B Common Stock will be entitled to receive dividends and distributions upon liquidation at a per share rate equal to five percent of the per share rate received by holders of outstanding shares of Class A Common Stock. The Class B Common Stock is neither transferable nor convertible and is subject to cancellation under certain circumstances.

INITIAL PUBLIC OFFERING

In June 1993, the Company sold 2,300,000 shares of its Class A Common Stock for net proceeds of $11,534,000. The Company issued Warrants to purchase 204,757 shares of Class A Common Stock, as subsequently adjusted pursuant to anti-dilution provisions (Note 10). Immediately prior to the public offering, $2,102,000 of the outstanding balance of notes payable to shareholders were contributed by the shareholders to the capital of the Company.

PRIVATE PLACEMENT OF CLASS A COMMON STOCK IN 1995

On December 29, 1995, the Company sold 750,000 shares of its Class A Common Stock for $6,000,000 and received net proceeds of $5,636,000. The investors received registration rights pursuant to which the Company registered these shares for resale. In addition, the Company issued Warrants to purchase 60,000 shares of Class A Common Stock (Note 10).

FOLLOW-ON PUBLIC OFFERING OF CLASS A COMMON STOCK AND CLASS A WARRANTS

On February 18, 1997, the Company completed a public offering of 17,000 units (the "Units"), each consisting of 280 shares of Class A Common Stock and 280 Class A Warrants to purchase, at $5.00 per share, an equal number of Class A Common Stock, resulting in the issuance of 4,760,000 shares of Class A Common Stock and 4,760,000 Class A Warrants. The public offering price was $1,030 per Unit and proceeds to the Company, net of expenses, were approximately $15,300,000. In addition, on March 7, 1997, the underwriter exercised an option to purchase an additional 2,550 Units to cover over-allotments. Additional proceeds, net of expenses, were approximately $2,400,000. Fees to the underwriter included an option until February 12, 2002, to purchase 1,700 Units ( the "Unit Purchase Option") at 145% of the price to the public. The Unit Purchase Option is not exercisable by the underwriter until February 12, 2000.

ESCROW AGREEMENT

Prior to the effective date of the June 1993 initial public offering, 3,000,000 shares of the Company's Class A Common Stock ("Escrowed Contingent Shares") were deposited into escrow by the then existing shareholders in proportion to their then current holdings. These shares are not transferable (but may be voted) and will be released from escrow in the event the Company attains certain earnings levels (which have been adjusted for the December 29, 1995 private placement and for the February 1997 follow-on public offering) during the period through December 31, 1998.

The release of the Escrowed Contingent Shares, if any, will be deemed compensatory and, accordingly, will result in charges to earnings equal to the fair market value of the Escrowed Contingent Shares recorded ratably over the period beginning on the date when management determines that any of the specified events are probable of being attained and ending on the date when the goal is attained causing the Escrowed Contingent Shares to be released. At the time a goal is attained, previously unrecognized compensation expense will be adjusted by a one-time charge based on the then fair market value of the shares released from Escrow. Such charges could substantially reduce the Company's net income or increase the Company's loss for financial reporting purposes in the periods such charges are recorded. The specified events are not considered probable of attainment at this time.

On April 30, 1999, all shares that have not been released from Escrow will automatically be exchanged for shares of Class B Common Stock, which will then be released from Escrow. Any dividends or other distributions made with respect to Escrowed Contingent Shares that have not been released from Escrow as Class A Common Stock will be forfeited and contributed to the capital of the Company on April 30, 1999.

NOTE 10--STOCK WARRANTS:

In connection with the Company's June 1993 initial public offering, the Company issued to the underwriters warrants to purchase through June 9, 1998, 204,757 shares of Class A Common Stock at $9.67 per share, as adjusted for anti-dilution provisions in the warrant agreements as a result of the December 29, 1995 private placement of Common Stock. The Company issued to third parties warrants to purchase 60,000 shares of Class A Common Stock at $10.25 per share as a financial advisory fee in connection with the private placement completed on December 29, 1995. These warrants expire on December 28, 2000.

In connection with the public offering of Units completed on February 18, 1997, the Company issued 4,760,000 Class A Warrants to purchase Class A Common Stock. Each Class A Warrant entitles the registered holder thereof to purchase, at any time until February 12, 2002, one share of the Company's Class A Common Stock at an exercise price of $5.00, subject to adjustment. Commencing February 12, 1998, the Company may, upon 30 days' written notice, redeem each Class A Warrant in exchange for $.05 per Class A Warrant, provided that before any such redemption, the closing bid price of the Class A Common Stock as reported by the Nasdaq SmallCap Market or the closing bid price on any national exchange (if the Company's Class A Common Stock is listed thereon) shall have, for 30 consecutive days ending within 15 days of the date of the notice of redemption, averaged in excess of $8.75 (subject to adjustment in the event of any stock splits or other similar events). In addition, the underwriter had an over-allotment option to sell an additional 2,550 of the Units sold in the offering which would result in the issuance of an additional 714,000 shares of Class A Common Stock and 714,000 Class A Warrants. This over-allotment option was exercised by the underwriter on March 7, 1997 (Note 9). The underwriter, as part of the underwriting fee, has an option to purchase an additional 1,700 Units which would, if exercised, result in the issuance of an additional 476,000 shares of Class A Common Stock and 476,000 Class A Warrants. Bridge Debentures issued in connection with the Bridge Financing in October 1996 (Note 8) were converted on February 18, 1998 into 1,620,000 Class A Warrants upon completion of the Company's follow-on public offering.

NOTE 11--STOCK OPTIONS:

1993 AND 1997 STOCK OPTION PLANS

Under the Company's 1997 and 1993 Stock Option Plans (the "Plans"), 750,000 and 550,000 shares, respectively, of the Company's Class A Common Stock are reserved for issuance, pursuant to which officers and employees of the Company as well as other persons who render services to or are otherwise associated with the Company are eligible to receive qualified ("incentive") and/or non-qualified stock options.

The Plans, which expire in April 2007 and 2003, respectively, are administered by the Board of Directors or a stock option committee designated by the Board of Directors. The selection of participants, allotment of shares, determination of price and other conditions are determined by the Board of Directors or stock option committee at its sole discretion, in order to attract and retain personnel instrumental to the success of the Company. Incentive stock options granted under both Plans are exercisable for a period of up to ten years from the date of grant at an exercise price which is not less than the fair market value of the Common Stock on the date of the grant, except that the term of an incentive stock option granted under the Plans to a shareholder owning more than 10% of the voting power of the Company on the date of grant may not exceed five years and its exercise price may not be less than 110% of the fair market value of the Common Stock on the date of the grant.

OPTIONS GRANTED BY PRINCIPAL SHAREHOLDER ("BELL OPTIONS")

Dr. Lon E. Bell, Chairman and principal shareholder of the Company, has granted options to purchase shares of his Class A Common Stock, 75% of which are Escrowed Contingent Shares. The holder of these options can exercise the portions of his options related to Escrowed Contingent Shares only upon release of these shares from escrow as Class A Common Stock. The option holder has no right to purchase Class B Common Stock should such shares be released (Note 9). Any options granted at prices below fair market value on the date of grant result in compensation expense with respect to options to purchase the 25% of such shares not placed in escrow. Compensation expense and a corresponding adjustment to contributed capital on options to purchase Escrowed Contingent Shares will be recorded when they are released or it is determined they are probable of being released as Class A Common Stock.

In 1993, options were granted at prices below fair market value for which compensation expense was recorded for the non-escrowed shares based on the amount by which such shares were below the fair market value at the time of grant. Additional compensation expense will be recorded if the related Escrowed Contingent Shares are released from escrow.

Certain of the Bell Options granted during 1993 to one individual were granted contingent on certain future performance criteria and are accounted for as a variable plan. The Company recorded approximately $1,000 and $12,000 of compensation expense in 1994 and 1995, respectively, related to 1,500 and 5,028 of those options, respectively. There was no compensation expense relating to these options in 1996 or 1997.

The following table summarizes stock option activity:

| | 1993 AND 1997 STOCK OPTION PLANS | | BELL OPTIONS | |
|---|---|---|---|---|
| | NUMBER | WEIGHTED AVERAGE EXERCISE PRICE | NUMBER | WEIGHTED AVERAGE EXERCISE PRICE |
| Outstanding at December 31, 1994 | 142,852 | $8.02 | 823,235 | $2.75 |
| Granted | 177,653 | 10.40 | 16,589 | 11.89 |
| Canceled | (5,517) | 10.52 | (20,471) | 1.15 |
| Exercised | - | - | (1,500) | 1.15 |
| Outstanding at December 31, 1995 | 314,988 | 9.32 | 817,853 | 2.94 |
| Granted | 34,898 | 10.36 | 12,500 | 10.38 |
| Canceled | (64,066) | 10.58 | (69,660) | 5.40 |
| Exercised | (20,000) | 8.00 | (83,762) | 1.15 |
| Outstanding at December 31, 1996 | 265,980 | 9.44 | 676,931 | 2.40 |
| Granted | 579,402 | 3.50 | - | - |
| Canceled | (267,039) | 9.22 | (66,528) | 6.69 |
| Exercised | - | - | (11,565) | 1.15 |
| Outstanding at December 31, 1997 | 578,343 | $3.69 | 598,838 | $2.71 |

The following table summarizes information concerning currently outstanding and exercisable stock options for the 1993 and 1997 Stock Option Plans as of December 31, 1997:

| | OPTIONS OUTSTANDING AT DECEMBER 31, 1997 | | | OPTIONS EXERCISABLE AT DECEMBER 31, 1997 | |
|---|---|---|---|---|---|
| RANGE OF EXERCISE PRICES | NUMBER OUTSTANDING | WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE | WEIGHTED AVERAGE EXERCISE PRICE | NUMBER EXERCISABLE | WEIGHTED AVERAGE EXERCISE PRICE |
| $2.75 - 3.63 | 490,565 | 4.3 | $3.44 | 330,565 | $3.38 |
| 4.03 - 5.44 | 76,234 | 4.5 | 4.23 | 29,901 | 4.18 |
| 8.28 - 9.75 | 3,981 | 1.6 | 9.58 | 3,981 | 9.58 |
| 10.43 - 12.25 | 7,563 | 2.6 | 11.10 | 6,497 | 11.09 |
| | 578,343 | | | 370,944 | |

The following table summarizes information concerning currently outstanding and exercisable stock options for the Bell Option Plan as of December 31, 1997:

| | OPTIONS OUTSTANDING AT DECEMBER 31, 1997 | | | OPTIONS EXERCISABLE AT DECEMBER 31, 1997 | |
|---|---|---|---|---|---|
| RANGE OF EXERCISE PRICES | NUMBER OUTSTANDING | WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE | WEIGHTED AVERAGE EXERCISE PRICE | NUMBER EXERCISABLE | WEIGHTED AVERAGE EXERCISE PRICE |
| $1.15 | 410,838 | 4.7 | $1.15 | 41,272 | $1.15 |
| 6.00 | 183,000 | 5.4 | 6.00 | 11,681 | 6.00 |
| 10.38 | 5,000 | 6.9 | 10.38 | 1,250 | 10.38 |
| | 598,838 | | | 54,203 | |

The Company accounts for these plans under APB Opinion No. 25. Had compensation expense for these plans been determined consistent with SFAS 123, the Company's net loss and net loss per share would have been increased to the pro forma amounts in the following table. Because the SFAS 123 method of accounting has not been applied to options prior to December 31, 1994, the resulting pro forma compensation costs may not be representative of that to be expected in future years.

| | YEARS ENDED DECEMBER 31, | |
|---|---|---|
| | 1996 | 1997 |
| | (IN THOUSANDS, EXCEPT PER SHARE DATA) | |
| Net loss | | |
| As reported | $(9,997) | $(5,417) |
| Pro forma | (10,488) | (6,136) |
| Net loss per share | | |
| As reported | $(2.46) | $(.62) |
| Pro rorma | (2.58) | (.70) |

The fair value of each stock option grant has been estimated pursuant to SFAS 123 on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

| | 1993 AND 1997 STOCK OPTION PLANS | | BELL OPTION PLAN | |
|---|---|---|---|---|
| | 1996 | 1997 | 1996 | 1997 |
| Risk free interest rates ..... | 6.00 F-14 % | 6.00% | 6.00% | 6.00% |
| Expected dividend yield ..... | None | none | none | none |
| Expected lives ..... | 4 yrs. | 4.3 yrs. | 4 yrs. | 4.3 yrs. |
| Expected volatility ..... | 60.06% | 55.00% | 59.98% | 55.00% |

The weighted average grant date fair values of options granted under the 1993 Stock Option Plan during 1996 and 1997 were $5.35 and $3.58, respectively. The weighted average grant date fair values of options granted under the Bell Option Plan during 1996 was $5.36. No options were granted under the Bell Option Plan during 1997.

NOTE 12--LICENSES:

CLIMATE CONTROL SEAT SYSTEM. In 1992, the Company obtained the worldwide license to manufacture and sell technology for a Climate Control Seat system to individual automotive OEMs and in 1997 obtained exclusive rights thereunder.. Under the terms of the license agreement, royalties are payable based on cumulative net sales. The Company has recorded royalty expense under this license agreement of $20,800, $8,500 and $18,000 in 1995, 1996 and 1997, respectively.

RADAR SYSTEM. In January 1994, the Company entered into a license agreement for exclusive rights in certain automotive applications for certain radar technology. A licensing fee of $100,000 was paid in January 1994. Royalties are required to be paid based on cumulative net sales and are subject to minimum annual royalties beginning in 1995. The minimum royalty payments for 1995, 1996 and 1997 were $50,000, $100,000 and $150,000, respectively.

NOTE 13--MAJOR CONTRACTS:

In December 1994, the Company entered into contracts with two Asian manufacturing companies to produce approximately 50 aluminum chassis passenger electric vehicle systems. These contracts, together with 1995 additions, were valued at approximately $9,600,000, of which the Company received $2,230,000 in 1995, $4,193,000 in 1996 and $1,487,000 in 1997. For the years ended December 31, 1995, 1996 and 1997, the Company recognized revenue of $4,040,000, $5,328,000, and $145,000, respectively, from this contract. At December 31, 1996, $872,000 was included in Unbilled Revenue representing amounts recognized as revenue for which billings had not been presented to the customer.

NOTE 14--GRANTS:

Grant funding received by the Company is essentially a cost sharing arrangement whereby the Company obtains reimbursement from the funding source for a portion of direct costs and reimbursable administrative expenses incurred in managing specific programs related to the technologies utilized in the Company's products. The Company is obligated to provide specified services and to undertake specified activities under its arrangement with the funding sources for these programs.

CALSTART, Inc. ("CALSTART"), a not-for-profit consortium of public and private entities (Note 15) was organized to support programs designed to promote the development of advanced transportation including the advancement of electric vehicles. CALSTART's support is primarily through the direct or indirect arrangement of grant funding for such programs. Since 1992, the Company has been selected by CALSTART to manage or co-manage several such programs. Revenues recognized from CALSTART related programs were $2,198,000, $840,000 and $389,000 during 1995, 1996 and 1997, respectively. The Company has also received grants from the California Energy Commission, the Federal Transit Administration and from the Southern California Air Quality Management District related to work on its electric vehicle and its climate control seat technology.

NOTE 15--COMMITMENTS AND CONTINGENCIES:

The Company leases its facility in Irwindale, California for $20,000 per month under an agreement which expires December 31, 2002. The Company also had a sublease agreement with CALSTART (Note 16) on a facility in Alameda, California, for approximately $11,000 per month which expired in July 1997. The Company shut down operations at that facility during 1997. Rent expense under all of the Company's operating leases was $512,000, $595,000 and $415,000 for 1995, 1996 and 1997, respectively.

In December 1994, the Company entered into a 60-month capital lease contract for an IBM computer system with an implicit interest rate of 11.8% and, in July 1995, entered into a 36-month capital lease contract with an implicit interest rate of 19.7% for additional computer equipment. The future minimum annual commitments under capital leases for 1998 and 1999 are $23,000 and $20,000, respectively.

The Company is involved in various pending litigation arising out of the normal conduct of its business, including those relating to commercial transactions and contracts. In the opinion of management, based in part on the opinion of legal counsel, the final outcome of these matters will not have a material adverse effect on the Company's financial position, results of operations or cash flows.

NOTE 16--RELATED PARTY TRANSACTIONS:

Dr. Bell, Chairman of the Board and the principal shareholder of the Company, co-founded CALSTART (Notes 14 and 15) in 1992, served as its interim President, and for the last four years has served on CALSTART's Board of Directors and is a member of its Executive Committee.

The Company leased space from CALSTART from June 1992 until April 1994 at no charge at which time the Company moved to facilities in Monrovia, California and then to its current facility. In December 1995, the Company signed a 13-month lease with CALSTART for a 24,000 square foot manufacturing and office facility located in Alameda, California for an advance payment of $450,000 and $11,000 per month (Note 15). The lease, as amended, expired in July 1997.

At December 31, 1995 and 1996, the Company owed $150,000 and $73,000, respectively, to CALSTART related to the lease, and at December 31, 1995, 1996 and 1997 CALSTART owed to the Company $135,000, $343,000 and $153,000, respectively, relating primarily to amounts withheld from payments made by CALSTART under several grant programs which will be paid to the Company upon completion of the respective grant programs.

On September 9, 1996, Dr. Bell, the President and principal shareholder of the Company, loaned $200,000 to the Company at 8% interest without collateral and due on demand. Dr. Bell loaned to the Company an additional $100,000 on January 29, 1997 and $150,000 on February 12, 1997 at 10% interest without collateral. The Company repaid these loans totaling $450,000 in February 1997 from the proceeds of the Company's follow-on public offering. In addition, the Company leases its current facilities from Dillingham Partners, an entity that is 60% controlled by Dr. Bell. The Company determined that the terms of the lease are better than those which could be obtained from other lessors.

NOTE 17 - JOINT VENTURE AGREEMENT:

On July 24, 1997, the Company entered into a joint venture agreement with Yazaki Corporation ("Yazaki") to develop and market the Company's Interactive Voice System (IVS-TM-), a voice activated navigation system. Under the terms of the agreement, the Company received $1,800,000 in cash and a note receivable for $1,000,000 in consideration for net assets related to Amerigon's voice interactive technology totaling approximately $89,000. In addition, the Company incurred costs of $348,000 associated with the sale.

AMERIGON INCORPORATED

SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS
FOR THE YEARS ENDED DECEMBER 31, 1995, 1996, AND 1997
(IN THOUSANDS)

| DESCRIPTION | BALANCE AT BEGINNING OF PERIOD | CHARGED TO COSTS AND EXPENSES | CHARGED TO OTHER ACCOUNTS | DEDUCTIONS FROM RESERVES | BALANCE AT END OF PERIOD |
|---|---|---|---|---|---|
| ALLOWANCE FOR DOUBTFUL ACCOUNTS | | | | | |
| Year Ended December 31, 1995 ..... | $100 | $10 | $- | $(10) | $100 |
| Year Ended December 31, 1996 ..... | 100 | 80 | - | (100) | 80 |
| Year Ended December 31, 1997 ..... | 80 | - | - | - | 80 |
| ALLOWANCE FOR DEFERRED INCOME TAX ASSETS | | | | | |
| Year Ended December 31, 1995 ..... | 2,592 | 1,327 | - | - | 3,919 |
| Year Ended December 31, 1996 ..... | 3,919 | 3,242 | - | - | 7,161 |
| Year Ended December 31, 1997 ..... | 7,161 | 2,118 | - | - | 9,279 |

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

AMERIGON INCORPORATED

By:

---

Lon E. Bell, Ph. D.

CHIEF EXECUTIVE OFFICER
AND
CHAIRMAN OF THE BOARD

March 27, 1998

---

(Date)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant in the capacities and on the dates indicated.

| SIGNATURE | CAPACITY | DATE |
|---|---|---|
| Lon E. Bell, Ph. D. | Chief Executive Officer and Chairman of the Board | March 27, 1998 |
| Richard A. Weisbart | President and Chief Operating Officer | March 27, 1998 |
| Roy A. Anderson | Director | March 27, 1998 |
| John W. Clark | Director | March 27, 1998 |
| A.Stephens Hutchcraft, Jr. | Director | March 27, 1998 |
| Michael R. Peevey | Director | March 27, 1998 |

AMENDMENT
Dated as of September 1, 1997

Amerigon, Inc. ("Amerigon") and Feher Design, Inc. ("FDI") are parties to an Option and License Agreement signed by Amerigon on October 30, 1992 and by FDI on November 2, 1992 (the "Option and License Agreement").

Amerigon and FDI hereby agree to modify and amend the Option and License Agreement as follows:

1. Unless otherwise specified in this Amendment, capitalized terms shall have the same meanings as specified in the Option and License Agreement.

2. In the event of any conflict between this Amendment and the Option and License Agreement, this Amendment shall control.

3. Amerigon shall pay to FDI the following sums, which shall constitute nonrefundable advances fully recoupable from royalties otherwise payable to FDI pursuant to the Option and License Agreement:

(a) $100,000 to be paid at the time of execution of this Amendment

(b) $100,000 on January 1, 2000 and on January 1 of each year thereafter until the expiration of the Royalty Period with respect to all Licensed Products.

Failure to pay any yearly sum as called out in paragraph 3(b) of this Amendment shall give FDI the immediate right to terminate the Agreement and any and all licenses granted Amerigon thereunder unless Amerigon cures such breach within thirty (30) business days following written notice from FDI to Amerigon of such breach.

In the event Amerigon exercises its right to terminate the Option and License Agreement pursuant to Section 10.3 of the Option and License Agreement, Amerigon shall have no further obligation to pay advances following the date of termination.

4. FDI agrees that notwithstanding anything to the contrary set forth in the Option and License Agreement, all intellectual property developed by Amerigon at any time is owned by Amerigon, including all intellectual property developed by Amerigon related to variable temperature seats. With respect to any intellectual property developed by Amerigon, FDI shall have only those rights set forth in Paragraph 6 of this Amendment, and accordingly any patents in any inventions of Amerigon or any of its employees shall not be deemed to constitute part of the "Licensed Patents" for purposes of the Option and License Agreement. Amerigon and FDI agree that the Royalty Period with respect to any Licensed Products

comprising, embodying or incorporating any of the Licensed Patents shall be extended as follows: (i) where sales of Licensed Product by Amerigon or its Affiliates are subject to protection by a United States Licensed Patent, the period shall extend until the last date of enforceability of the United States Licensed Patents or United States patents listed in Exhibit A, whichever is later, which comprise, embody or incorporate the Licensed Product; and (ii) where sales of Licensed Products are the subject of protection afforded by a foreign counterpart Licensed Patent at the time at which such product is sold by Amerigon or its Affiliates, the period shall extend until the last date of enforceability of the counterpart Licensed Patents, or counterpart foreign patents listed in Exhibit A, whichever is later, which comprise, embody or incorporate the such Licensed Product. The parties acknowledge and agree that such extension of the Royalty Period is not intended to constitute a payment of royalties for continued use of any expired patents, but rather constitutes a negotiated royalty for the transfer from FDI to Amerigon pursuant to this Paragraph 4 of rights to Licensed Improvements created by Amerigon, which FDI contends would otherwise belong to FDI pursuant to the terms of the Option and License Agreement. The Licensed Patents shall include only patents issued on patent applications entitled to an effective filing date on or before September 1, 1998. In no event shall the Royalty Period with respect to any Licensed Product terminate later than September 1, 2010.

5. FDI agrees that the licenses granted to Amerigon pursuant to the Option and License Agreement are and shall be exclusive for the manufacture and sale of Licensed Products for installation or use in automobiles, trucks, buses, vans and recreational vehicles.

6. Amerigon grants to FDI, with FDI having the right to sublicense, a non-exclusive, worldwide, royalty free license, for use other than in automobiles, trucks, buses, vans and recreational vehicles, to any and all improvements, modifications or variations of the Licensed Technology which have been or are conceived, reduced to practice, created, invented, discovered or made by Amerigon, which license shall survive expiration or termination of the Option and License Agreement, provided that, in the event Amerigon's license rights to the Licensed Patents or Licensed Technology expire or terminate, the license granted to FDI and its sublicensees pursuant to this Paragraph 6 shall no longer be royalty-free, and FDI shall thereafter pay Amerigon a reasonable royalty to be negotiated between Amerigon and FDI. Amerigon agrees to provide FDI a report on an annual basis identifying all U.S. and foreign patents and patent applications under which FDI is provided a license under this clause 6 and identifying any such patents that have expired or have been held to be invalid by a court of competent jurisdiction.

7. Amerigon shall attempt in good faith to obtain the agreement of its licensees or customers to affix to any Licensed Product

comprising, embodying or incorporating any of the Licensed Patents a notice in substantially the following form: "Manufactured under one or more of the following patents: (List patent numbers, with list of any Licensed Patents followed by "(Feher Design, Inc.)").

8. Feher shall prepare, obtain, file, record and maintain, in any country or political subdivision thereof, all applications, registrations and renewals required to protect and maintain the Licensed Patents for the maximum possible term in all jurisdictions in which the Licensed Patents have been issued, including in those countries set forth in Exhibit B of the Option and License Agreement, and Feher shall provide Amerigon with copies of all such documents promptly after they are filed or recorded. If Feher fails to take any of the foregoing steps to protect and maintain the Licensed Patents, then without limiting any of Amerigon's other rights or remedies, Amerigon shall retain the rights set forth in Section 7.1 of the Option and License Agreement to take such steps on FDI's behalf, and FDI shall reimburse Amerigon for any costs incurred by Amerigon in taking such steps to protect and maintain the Licensed Patents.

9. Notwithstanding anything to the contrary contained in the Option and License Agreement, including in Section 8.2, Amerigon's license rights shall extend to all countries and geographic territories throughout the world.

ACCEPTED AND AGREED TO:

| | |
|---|---|
| AMERIGON, INC. | FEHER DESIGN, INC. |
| By: /s/ Richard Weisbart | By: /s/ [Illegible] |
| Title: PRESIDENT | Title: CHAIRMAN |

Exhibit "A"

Amerigon Patents / Patent Applications for Variable Temperature Seat / Climate Control System Technologies

U.S. Patent No. 5,587,200, Issued 1-28-97
Foreign counterpart patents applied for in EPO, India, Japan, Singapore

U.S. Patent No. 5,524,439, Issued 6-11-96
Foreign counterpart patents applied for in EPO, India, Japan, Singapore

U.S. Patent Application No. 08/288,459
Foreign counterpart patents applied for in EPO, Japan, Korea, Philippines, China

U.S. Patent Application for Variable Temperature Seat, which is a DIV of Patent No. 5,587,200; docket number used by Christie Parker & Hale to identify this application is 30401

STANDARD INDUSTRIAL/COMMERCIAL MULTI-TENANT LEASE--MODIFIED NET
AMERICAN INDUSTRIAL REAL ESTATE ASSOCIATION

[LOGO]

1. BASIC PROVISIONS ("BASIC PROVISIONS").

1.1 PARTIES: This LEASE ("LEASE"), dated for reference purposes only, _____, 19_____, is made by and between Dillingham Partners ("LESSOR") and Amerigon Incorporated ("LESSEE"), (collectively the "PARTIES," or individually a "PARTY").

1.2(a) PREMISES: That certain portion of the Building, including all improvements therein or to be provided by Lessor under the terms of this Lease, commonly known by the street address of 5462 N. Irwindale Ave., located in the City of Irwindale, County of Los Angeles, State of California, with zip code 91706, as outlined on Exhibit A attached hereto ("PREMISES"). The "BUILDING" is that certain building containing the Premises and generally described as (describe briefly the nature of the Building): 70,000 square foot, 2 story R&D/Light manufacturing building. In addition to Lessee's rights to use and occupy the Premises as hereinafter specified, Lessee shall have non-exclusive rights to the Common Areas (as defined in Paragraph 2.7 below) as hereinafter specified, but shall not have any rights to the roof, exterior walls or utility raceways of the Building or to any other buildings in the Industrial Center. The Premises, the Building, the Common Areas, the land upon which they are located, along with all other buildings and improvements thereon, are herein collectively referred to as the "INDUSTRIAL CENTER." (Also see Paragraph 2.)

1.2(b) PARKING: 3 spaces/1000 square ft. total vehicle parking spaces including 30 reserved vehicle parking spaces ("RESERVED PARKING SPACES"). (Also see Paragraph 2.6.)

1.3 TERM: 5 years and 0 months ("ORIGINAL TERM") commencing January 1, 1998 ("COMMENCEMENT DATE") and ending December 31, 2002 ("EXPIRATION DATE"). (Also see Paragraph 3.)

1.4 EARLY POSSESSION: _____ ("EARLY POSSESSION DATE"). (Also see Paragraphs 3.2 and 3.3.)

1.5 BASE RENT: $20,000 per month ("BASE RENT"), payable on the first day of each month commencing _____ (Also see Paragraph 4.) See Addendum A Paragraph 54.

/X/ If this box is checked, this Lease provides for the Base Rent to be adjusted per Addendum A attached hereto.

1.6(a) BASE RENT PAID UPON EXECUTION: $ One month's Base Rent for the period January 1, 1998 - January 31, 1998.

1.6(b) LESSEE'S SHARE OF COMMON AREA OPERATING EXPENSES: _____ percent ( %) ("LESSEE'S SHARE") as determined by [ ] prorata square footage of the Premises as compared to the total square footage of the Building or /X/ other criteria as described in Addendum A Paragraph __.

1.7 SECURITY DEPOSIT: $ One month's rent ("SECURITY DEPOSIT"). (Also see Paragraph 5.)

1.8 PERMITTED USE: Research & Development, Engineering, Light manufacturing and distribution consistent with zoning regulations ("PERMITTED USE"). (Also see Paragraph 6.)

1.9 INSURING PARTY. Lessor is the "INSURING PARTY." (Also see Paragraph 8.)

1.10(a) REAL ESTATE BROKERS. The following real estate broker(s) (collectively, the "BROKERS") and brokerage relationships exist in this transaction and are consented to by the Parties (check applicable boxes):

[ ] None represents Lessor exclusively ("LESSOR'S BROKER"):
---
[ ] None represents Lessee exclusively ("LESSEE'S BROKER"); or:
---
[ ] None represents both Lessor and Lessee ("DUAL AGENCY").
---
(Also see Paragraph 15.)

1.10(b) PAYMENT TO BROKERS. Upon the execution of this Lease by both Parties, Lessor shall pay to said Broker(s) jointly, or in such separate shares as they may mutually designate in writing, a fee as set forth in a separate written agreement between Lessor and said Broker(s) (or in the event there is no separate written agreement between Lessor and said Broker(s), the sum of $ N/A) for brokerage services rendered by said Broker(s) in connection with this transaction.

1.11 GUARANTOR. The obligations of the Lessee under this Lease are to be guaranteed by None ("GUARANTOR"). (Also see Paragraph 37.)

1.12 ADDENDA AND EXHIBITS. Attached hereto is an Addendum or Addenda consisting of Paragraphs __ through __, and Exhibits _ through _, all of which constitute a part of this Lease.

2. PREMISES, PARKING AND COMMON AREAS.

2.1 LETTING. Lessor hereby leases to Lessee, and Lessee hereby leases from Lessor, the Premises, for the term, at the rental, and upon all of the terms, covenants and conditions set forth in this Lease. Unless otherwise provided herein, any statement of square footage set forth in this Lease, or that may have been used in calculating rental and/or Common Area Operating Expenses, is an approximation which Lessor and Lessee agree is reasonable and the rental and Lessee's Share (as defined in Paragraph 1.6(b)) based thereon is not subject to revision whether or not the actual square footage is more or less.

2.2 CONDITION. Lessor shall deliver the Premises to Lessee clean and free of debris on the Commencement Date and warrants to Lessee that the existing plumbing, electrical systems, fire sprinkler system, lighting, air conditioning and heating systems and loading doors, if any, in the Premises, other than those constructed by Lessee, shall be in good operating condition on the Commencement Date. If a non-compliance with said warranty exists as of the Commencement Date, Lessor shall, except as otherwise provided in this Lease, promptly after receipt of written notice from Lessee setting forth with specificity the nature and extent of such non-compliance, rectify same at Lessor's expense. If Lessee does not give Lessor written notice of a non-compliance with this warranty within ninety (90) days after the Commencement Date, correction of that non-compliance shall be the obligation of Lessee at Lessee's sole cost and expense.

2.3 COMPLIANCE WITH CONVENANTS, RESTRICTIONS AND BUILDING CODE. Lessor warrants that any improvements (other than those constructed by Lessee or at Lessee's direction) on or in the Premises which have been constructed or installed by Lessor or with Lessor's consent or at Lessor's direction shall comply with all applicable covenants or restrictions of record and applicable building codes, regulations and ordinances in effect on the Commencement Date. Lessor further warrants to Lessee that Lessor has no knowledge of any claim having been made by any governmental agency that a violation or violations of applicable building codes, regulations, or ordinances exist with regard to the Premises as of the Commencement Date. Said warranties shall not apply to any Alterations or Utility Installations (defined in Paragraph 7.3(a)) made or to be made by Lessee. If the Premises do not comply with said warranties, Lessor shall, except as otherwise provided in this Lease, promptly after receipt of written notice from Lessee given following the Commencement Date and setting forth with specificity the nature and extent of such non-compliance, take such action, at Lessor's expense, as may be reasonable or appropriate to rectify the non-compliance. Lessor makes no warranty that the Permitted Use in Paragraph 1.8 is permitted for the Premises under Applicable Laws (as defined in Paragraph 2.4).

2.4 ACCEPTANCE OF PREMISES. Lessee hereby acknowledges: (a) that it has been advised by the Broker(s) to satisfy itself with respect to the condition of the Premises (including but not limited to the electrical and fire sprinkler systems, security, environmental aspects, seismic and earthquake requirements, and compliance with the Americans with Disabilities Act and applicable zoning, municipal, county, state and federal laws, ordinances and regulations and any covenants or restrictions of record (collectively, "APPLICABLE LAWS") and the present and future suitability of the Premises for Lessee's intended use; (b) that Lessee has made such investigation as it deems necessary with reference to such matters, is satisfied with reference thereto, and assumes all responsibility therefore as the same relate to Lessee's occupancy of the Premises and/or the terms of this Lease; and (c) that neither Lessor, nor any of Lessor's agents, has made any oral or written representations or warranties with respect to said matters other than as set forth in this Lease.

2.5 LESSEE AS PRIOR OWNER/OCCUPANT. The warranties made by Lessor in this Paragraph 2 shall be of no force or effect if immediately prior to the date set forth in Paragraph 1.1 Lessee was the owner or occupant of the Premises. In such event, Lessee shall, at Lessee's sole cost and expense, correct any non-compliance of the Premises with said warranties.

2.6 VEHICLE PARKING. Lessee shall be entitled to use the number of Unreserved Parking Spaces and Reserved Parking Spaces specified in Paragraph 1.2(b) on those portions of the Common Areas designated from time to time by Lessor for parking. Lessee shall not use more parking spaces than said number. Said parking spaces shall be used for parking by vehicles no larger than full-size passenger automobiles or pick-up trucks, herein called "PERMITTED SIZE VEHICLES." Vehicles other than Permitted Size Vehicles shall be parked and loaded or unloaded as directed by Lessor in the Rules and Regulations (as defined in Paragraph 40) issued by Lessor. (Also see Paragraph 2.9.)

(a) Lessee shall not permit or allow any vehicles that belong to or are controlled by Lessee or Lessee's employees, suppliers, shippers, customers, contractors or invitees to be loaded, unloaded, or parked in areas other than those designated by Lessor for such activities.

(b) If Lessee permits or allows any of the prohibited activities described in this Paragraph 2.6, then Lessor shall have the right, without notice, in addition to such other rights and remedies that it may have, to remove or tow away the vehicle involved and charge the cost to Lessee, which cost shall be immediately payable upon demand by Lessor.

(c) Lessor shall at the Commencement Date of this Lease, provide the parking facilities required by Applicable Law.

2.7 COMMON AREAS - DEFINITION. The term "COMMON AREAS" is defined as all areas and facilities outside the Premises and within the exterior boundary line of the Industrial Center and interior utility raceways within the Premises that are provided and designated by the Lessor from time to time for the general non-exclusive use of Lessor, Lessee and other lessees of the Industrial Center and their respective employees, suppliers, shippers, customers, contractors and invitees, including parking areas, loading and unloading areas, trash areas, roadways, sidewalks, walkways, parkways, driveways and landscaped areas.

2.8 COMMON AREAS - LESSEE'S RIGHTS. Lessor hereby grants to Lessee, for the benefit of Lessee and its employees, suppliers, shippers, contractors, customers and invitees, during the term of this Lease, the non-exclusive right to use, in common with others entitled to such use, the Common Areas as they exist from time to time, subject to any rights, powers, and privileges reserved by Lessor under the terms hereof or under the terms of any rules and regulations or restrictions governing the use of the Industrial Center. Under no circumstances shall the right herein granted to use the Common Areas be deemed to include the right to store any property, temporarily or permanently, in the Common Areas. Any such storage shall be permitted only by the prior written consent of Lessor or Lessor's designated agent, which consent may be revoked at any time. In the event that any unauthorized storage shall occur then Lessor shall have the right, without notice, in addition to such other rights and remedies that it may have, to remove the property and charge the cost to Lessee, which cost shall be immediately payable upon demand by Lessor.

2.9 COMMON AREAS - RULES AND REGULATIONS. Lessor or such other person(s) as Lessor may appoint shall have the exclusive control and management of the Common Areas and shall have the right, from time to time, to establish, modify, amend and enforce reasonable Rules and Regulations with respect thereto in accordance with Paragraph 40. Lessee agrees to abide by and conform to all such Rules and Regulations, and to cause its employees, suppliers, shippers, customers, contractors and invitees to so abide and conform. Lessor shall not be responsible to Lessee for the non-compliance with said rules and regulations by other lessees of the Industrial Center.

2.10 COMMON AREAS - CHANGES. Lessor shall have the right, in Lessor's reasonable discretion, from time to time:

(a) To make changes to the Common Areas, including, without limitation, changes in the location, size, shape and number of driveways, entrances, parking spaces, parking areas, loading and unloading areas, ingress, egress, direction of traffic, landscaped areas, walkways and utility raceways;

(b) To close temporarily any of the Common Areas for maintenance purposes so long as reasonable access to the Premises remains available;

(c) To designate other land outside the boundaries of the Industrial Center to be a part of the Common Areas;

(d) To add additional buildings and improvements to the Common Areas;

(e) To use the Common Areas while engaged in making additional improvements, repairs or alterations to the Industrial Center, or any portion thereof; and

(f) To do and perform such other acts and make such other changes in, to or with respect to the Common Areas and Industrial Center as Lessor may, in the exercise of sound business judgment, deem to be appropriate.

3. TERM.

3.1 TERM. The Commencement Date, Expiration Date and Original Term of this Lease are as specified in Paragraph 1.3.

3.2 EARLY POSSESSION. If an Early Possession Date is specified in Paragraph 1.4 and if Lessee totally or partially occupies the Premises after the Early Possession Date but prior to the Commencement Date, the obligation to pay Base Rent shall be abated for the period of such early occupancy. All other terms of this Lease, however, (including but not limited to the obligations to pay Lessee's Share of Common Area Operating Expenses and to carry the insurance required by Paragraph 8) shall be in effect during such period. Any such early possession shall not affect nor advance the Expiration Date of the Original Term.

3.3 DELAY IN POSSESSION. If for any reason Lessor cannot deliver possession of the Premises to Lessee by the Early Possession Date, if one is specified in Paragraph 1.4, or if no Early Possession Date is specified, by the Commencement Date, Lessor shall not be subject to any liability therefor, nor shall such failure affect the validity of this Lease, or the obligations of Lessee hereunder, or extend the term hereof, but in such case, Lessee shall not, except as otherwise provided herein, be obligated to pay rent or perform any other obligation of Lessee under the terms of this Lease until Lessor delivers possession of the Premises to Lessee. If possession of the Premises is not delivered to Lessee within sixty (60) days after the Commencement Date, Lessee may, at its option, by notice in writing to Lessor within ten (10) days after the end of said sixty (60) day period, cancel this Lease, in which event the parties shall be discharged from all obligations hereunder; provided further, however, that if such written notice of Lessee is not received by Lessor within said ten (10) day period, Lessee's right to cancel this Lease hereunder shall terminate and be of no further force or effect. Except as may be otherwise provided, and regardless of when the Original Term actually commences, if possession is not tendered to Lessee when required by this Lease and Lessee does not terminate this Lease, as aforesaid, the period free of the obligation to pay Base Rent, if any, that Lessee would otherwise have enjoyed shall run from the date of delivery of possession and continue for a period equal to the period during which the Lessee would have otherwise enjoyed under the terms hereof, but minus any days of delay caused by the acts, changes or omissions of Lessee.

4. RENT.

4.1 BASE RENT. Lessee shall pay Base Rent and other rent or charges, as the same may be adjusted from time to time, to Lessor in lawful money of the United States, without offset or deduction, on or before the day on which it is due under the terms of this Lease. Base Rent and all other rent and charges for any period during the term hereof which is for less than one full month shall be prorated based upon the actual number of days of the month involved. Payment of Base Rent and other charges shall be made to Lessor at its address stated herein or to such other persons or at such other addresses as Lessor may from time to time designate in writing to Lessee.

4.2 COMMON AREA OPERATING EXPENSES. Lessee shall pay to Lessor during the term hereof, in addition to the Base Rent, Lessee's Share (as specified in Paragraph 1.6(b)) of all Common Area Operating Expenses, as hereinafter defined, during each calendar year of the term of this Lease, in accordance with the following provisions:

(a) "COMMON AREA OPERATING EXPENSES" are defined, for purposes of this Lease, as all costs incurred by Lessor relating to the ownership and operation of the Industrial Center, including, but not limited to, the following:

(i) The operation, repair and maintenance, in neat, clean, good order and condition, of the following:

(aa) The Common Areas, including parking areas, loading and unloading areas, trash areas, roadways, sidewalks, walkways, parkways, driveways, landscaped areas, striping, bumpers, irrigation systems, Common Area lighting facilities, fences and gates, elevators and roof.

(bb) Exterior signs and any tenant directories.

(cc) Fire detection and sprinkler systems.

(ii) The cost of water, gas, electricity and telephone to service the Common Areas.

(iii) Trash disposal, property management and security services and the costs of any environmental inspections.

(iv) Reserves set aside for maintenance and repair of Common Areas.

(v) Real Property Taxes (as defined in Paragraph 10.2) to be paid by Lessor for the Building and the Common Areas under Paragraph 10 hereof.

(vi) The reasonable cost of the premiums for the insurance policies maintained by Lessor under Paragraph 8 hereof.

(vii) Any reasonable deductible portion of an insured loss concerning the Building or the Common Areas.

(viii) Any other services to be provided by Lessor that are stated elsewhere in this Lease to be a Common Area Operating Expense.

(b) Any Common Area Operating Expenses and Real Property Taxes that are specifically attributable to the Building or to any other building in the Industrial Center or to the operation, repair and maintenance thereof, shall be allocated entirely to the Building or to such other building. However, any Common Area Operating Expenses and Real Property Taxes that are not specifically attributable to the Building or to any other building or to

the operation, repair and maintenance thereof, shall be equitably allocated by Lessor to all buildings in the Industrial Center.

(c) The inclusion of the improvements, facilities and services set forth in Subparagraph 4.2(a) shall not be deemed to impose an obligation upon Lessor to either have said improvements or facilities or to provide those services unless the Industrial Center already has the same, Lessor already provides the services, or Lessor has agreed elsewhere in this Lease to provide the same or some of them.

(d) Lessee's Share of Common Area Operating Expenses shall be payable by Lessee within ten (10) days after a reasonably detailed statement of actual expenses is presented to Lessee by Lessor. At Lessor's option, however, an amount may be estimated by Lessor from time to time of Lessee's Share of annual Common Area Operating Expenses and the same shall be payable monthly or quarterly, as Lessor shall designate, during each 12-month period of the Lease term, on the same day as the Base Rent is due hereunder. Lessor shall deliver to Lessee within sixty (60) days after the expiration of each calendar year a reasonably detailed statement showing Lessee's Share of the actual Common Area Operating Expenses incurred during the preceding year. If Lessee's payments under this Paragraph 4.2(d) during said preceding year exceed Lessee's Share as indicated on said statement, Lessee shall be credited the amount of such over-

payment against Lessee's Share of Common Area Operating Expenses next becoming due. If Lessee's payments under this Paragraph 4.2(d) during said preceding year were less than Lessee's Share as indicated on said statement, Lessee shall pay to Lessor the amount of the deficiency within ten (10) days after delivery by Lessor to Lessee of said statement.

5. SECURITY DEPOSIT. Lessee shall deposit with Lessor upon Lessee's execution hereof the Security Deposit set forth in Paragraph 1.7 as security for Lessee's faithful performance of Lessee's obligations under this Lease. If Lessee fails to pay Base Rent or other rent or charges due hereunder, or otherwise Defaults under this Lease (as defined in Paragraph 13.1), Lessor may use, apply or retain all or any portion of said Security Deposit for the payment of any amount due Lessor or to reimburse or compensate Lessor for any liability, cost, expense, loss or damage (including attorneys' fees) which Lessor may suffer or incur by reason thereof. If Lessor uses or applies all or any portion of said Security Deposit, Lessee shall within ten (10) days after written request therefore deposit monies with Lessor sufficient to restore said Security Deposit to the full amount required by this Lease. Any time the Base Rent increases during the term of this Lease, Lessee shall, upon written request from Lessor, deposit additional monies with Lessor as an addition to the Security Deposit so that the total amount of the Security Deposit shall at all times bear the same proportion to the then current Base Rent as the initial Security Deposit bears to the initial Base Rent set forth in Paragraph 1.5. Lessor shall not be required to keep all or any part of the Security Deposit separate from its general accounts. Lessor shall, at the expiration or earlier termination of the term hereof and after Lessee has vacated the Premises, return to Lessee (or, at Lessor's option, to the last assignee, if any, of Lessee's interest herein), that portion of the Security Deposit not used or applied by Lessor. Unless otherwise expressly agreed in writing by Lessor, no part of the Security Deposit shall be considered to be held in trust, to bear interest or other increment for its use, or to be prepayment for any monies to be paid by Lessee under this Lease.

6. USE.

6.1 PERMITTED USE.

(a) Lessee shall use and occupy the Premises only for the Permitted Use set forth in Paragraph 1.8, or any other legal use which is reasonably comparable thereto, and for no other purpose. Lessee shall not use or permit the use of the Premises in a manner that is unlawful, creates waste or a nuisance, or that disturbs owners and/or occupants of, or causes damage to the Premises or neighboring premises or properties.

(b) Lessor hereby agrees to not unreasonably withhold or delay its consent to any written request by Lessee, Lessee's assignees or subtenants, and by prospective assignees and subtenants of Lessee, its assignees and subtenants, for a modification of said Permitted Use, so long as the same will not impair the structural integrity of the improvements on the Premises or in the Building or the mechanical or electrical systems therein, does not conflict with uses by other lessees, is not significantly more burdensome to the Premises or the Building and the improvements thereon, and is otherwise permissible pursuant to this Paragraph 6. If Lessor elects to withhold such consent, Lessor shall within five (5) business days after such request give a written notification of same, which notice shall include an explanation of Lessor's reasonable objections to the change in use.

6.2 HAZARDOUS SUBSTANCES.

(a) REPORTABLE USES REQUIRE CONSENT. The term "HAZARDOUS SUBSTANCE" as used in this Lease shall mean any product, substance, chemical, material or waste whose presence, nature, quantity and/or intensity of existence, use, manufacture, disposal, transportation, spill, release or effect, either by itself or in combination with other materials expected to be on the Premises, is either: (i) potentially injurious to the public health, safety or welfare, the environment, or the Premises; (ii) regulated or monitored by any governmental authority; or (iii) a basis for potential liability of Lessor to any governmental agency or third party under any applicable statute or common law theory. Hazardous Substance shall include, but not be limited to, hydrocarbons, petroleum, gasoline, crude oil or any products or by-products thereof. Lessee shall not engage in any activity in or about the Premises which constitutes a Reportable Use (as hereinafter defined) of Hazardous Substances without the express prior written consent of Lessor and compliance in a timely manner (at Lessee's sole cost and expense) with all Applicable Requirements (as defined in Paragraph 6.3). "REPORTABLE USE" shall mean (i) the installation or use of any above or below ground storage tank, (ii) the generation, possession, storage, use, transportation, or disposal of a Hazardous Substance that requires a permit from, or with respect to which a report, notice, registration or business plan is required to be filed with, any governmental authority, and (iii) the presence in, on or about the Premises of a Hazardous Substance with respect to which any Applicable Laws require that a notice be given to persons entering or occupying the Premises or neighboring properties. Notwithstanding the foregoing, Lessee may, without Lessor's prior consent, but upon notice to Lessor and in compliance with all Applicable Requirements, use any ordinary and customary materials reasonably required to be used by Lessee in the normal course of the Permitted Use, so long as such use is not a Reportable Use and does not expose the Premises or neighboring properties to any meaningful risk of contamination or damage or expose Lessor to any liability therefor. In addition, Lessor may (but without any obligation to do so) condition its consent to any Reportable Use of any Hazardous Substance by Lessee upon Lessee's giving Lessor such additional assurances as Lessor, in its reasonable discretion, deems necessary to protect itself, the public, the Premises and the environment against damage, contamination or injury and/or liability therefor, including but not limited to the installation (and, at

Lessor's option, removal on or before Lease expiration or earlier termination) or reasonably necessary protective modifications to the Premises (such as concrete encasements) and/or the deposit of an additional Security Deposit under Paragraph 5 hereof.

(b) DUTY TO INFORM LESSOR. If Lessee knows, or has reasonable cause to believe, that a Hazardous Substance has come to be located in, on, under or about the Premises or the Building, other than as previously consented to by Lessor, Lessee shall immediately give Lessor written notice thereof, together with a copy of any statement, report, notice, registration, application, permit, business plan, license, claim, action, or proceeding given to, or received from, any governmental authority or private party concerning the presence, spill, release, discharge of, or exposure to, such Hazardous Substance including but not limited to all such documents as may be involved in any Reportable Use involving the Premises. Lessee shall not cause or permit any Hazardous Substance to be spilled or released in, on, under or about the Premises (including, without limitation, through the plumbing or sanitary sewer system).

(c) INDEMNIFICATION. Lessee shall indemnify, protect, defend and hold Lessor, its agents, employees, lenders and ground lessor, if any, and the Premises, harmless from and against any and all damages, liabilities, judgments, costs, claims, liens, expenses, penalties, loss of permits and attorneys' and consultants' fees arising out of or involving any Hazardous Substance brought onto the Premises by or for Lessee or by anyone under Lessee's control. Lessee's obligations under this Paragraph 6.2(c) shall include, but not be limited to, the effects of any contamination or injury to person, property or the environment created or suffered by Lessee, and the cost of investigation (including consultants' and attorneys' fees and testing), removal, remediation, restoration and/or abatement thereof, or of any contamination therein involved, and shall survive the expiration or earlier termination of this Lease. No termination, cancellation or release agreement entered into by Lessor and Lessee shall release Lessee from its obligations under this Lease with respect to Hazardous Substances, unless specifically so agreed by Lessor in writing at the time of such agreement.

6.3 LESSEE'S COMPLIANCE WITH REQUIREMENTS. Lessee shall, at Lessee's sole cost and expense, fully, diligently and in a timely manner, comply with all "APPLICABLE REQUIREMENTS," which term is used in this Lease to mean all laws, rules, regulations, ordinances, directives, covenants, easements and restrictions of record, permits, the requirements of any applicable fire insurance underwriter or rating bureau, and the recommendations of Lessor's engineers and/or consultants, relating in any manner to the Premises (including but not limited to matters pertaining to (i) industrial hygiene, (ii) environmental conditions on, in, under or about the Premises, including soil and groundwater conditions, and (iii) the use, generation, manufacture, production, installation, maintenance, removal, transportation, storage, spill, or release of any Hazardous Substance), now in effect or which may hereafter come into effect. Lessee shall, within five (5) days after receipt of Lessor's written request, provide Lessor with copies of all documents and information, including but not limited to permits, registrations, manifests, applications, reports and certificates, evidencing Lessee's compliance with any Applicable Requirements specified by Lessor, and shall immediately upon receipt, notify Lessor in writing (with copies of any documents involved) of any threatened or actual claim, notice, citation, warning, complaint or report pertaining to or involving failure by Lessee or the Premises to comply with any Applicable Requirements.

6.4 INSPECTION; COMPLIANCE WITH LAW. Lessor, Lessor's agents, employees, contractors and designated representatives, and the holders of any mortgages, deeds of trust or ground leases on the Premises ("LENDERS") shall have the right to enter the Premises at any time in the case of an emergency, and otherwise at reasonable times, for the purpose of inspecting the condition of the Premises and for verifying compliance by Lessee with this Lease and all Applicable Requirements (as defined in Paragraph 6.3), and Lessor shall be entitled to employ experts and/or consultants in connection therewith to advise Lessor with respect to Lessee's activities, including but not limited to Lessee's installation, operation, use, monitoring, maintenance, or removal of any Hazardous Substance on or from the Premises. The costs and expenses of any such inspections shall be paid by the party requesting same, unless a Default or Breach of this Lease by Lessee or a violation of Applicable Requirements or a contamination, caused or materially contributed to by Lessee, is found to exist or to be imminent, or unless the inspection is requested or ordered by a governmental authority as the result of any such existing or imminent violation or contamination. In such case, Lessee shall upon request reimburse Lessor or Lessor's Lender, as the case may be, for the costs and expenses of such inspections.

7. MAINTENANCE, REPAIRS, UTILITY INSTALLATIONS, TRADE FIXTURES AND ALTERATIONS.

7.1 LESSEE'S OBLIGATIONS.

(a) Subject to the provisions of Paragraphs 2.2 (Condition), 2.3 (Compliance with Covenants, Restrictions and Building Code), 7.2 (Lessor's Obligations), 9 (Damage or Destruction), and 14 (Condemnation), Lessee shall, at Lessee's sole cost and expense and at all times, keep the Premises and every part thereof in good order, condition and repair (whether or not such portion of the Premises requiring repair, or the means of repairing the same, are reasonably or readily accessible to Lessee, and whether or not the need for such repairs occurs as a result of Lessee's use, any prior use, the elements or the age of such portion of the Premises), including, without limiting the generality of the foregoing, all equipment or facilities specifically serving the Premises, such as plumbing, heating, air conditioning, ventilating, electrical, lighting facilities, boilers, fired or unfired pressure vessels, fire hose connections if within the Premises, fixtures, interior walls, interior surfaces of exterior walls, ceilings, floors, windows, doors, plate glass, and skylights, but excluding any items

which are the responsibility of Lessor pursuant to Paragraph 7.2 below. Lessee, in keeping the Premises in good order, condition and repair, shall exercise and perform good maintenance practices. Lessee's obligations shall include restorations, replacements or renewals when necessary to keep the Premises and all improvements thereon or a part thereof in good order, condition and state of repair. Provided that Lessee has provided regular scheduled maintenance to good commercial standards on all air conditioning units serving its leased space, in the event that one or more units requires a repair, overhaul or replacement which at one point in time exceeds $1000 per unit, Lessor will pay such costs to the extent that such costs exceed $1000 per unit. Lessor will have the reasonable right to reasonably determine whether to repair, overhaul or replace any unit where this provision is being invoked by Lessee.

(b) Lessee shall, at Lessee's sole cost and expense, procure and maintain a contract, with copies to Lessor, in customary form and substance for and with a contractor specializing and experienced in the inspection, maintenance and service of the heating, air conditioning and ventilation system for the Premises. However, Lessor reserves the right, upon notice to Lessee, to procure and maintain the contract for the heating, air conditioning and ventilating systems, and if Lessor so elects, Lessee shall reimburse Lessor, upon demand, for the cost thereof.

(c) If Lessee fails to perform Lessee's obligations under this Paragraph 7.1, Lessor may enter upon the Premises after ten (10) days' prior written notice to Lessee (except in the case of an emergency, in which case no notice shall be required), perform such obligations on Lessee's behalf, and put the Premises in good order, condition and repair, in accordance with Paragraph 13.2 below.

7.2 LESSOR'S OBLIGATIONS. Subject to the provisions of Paragraphs 2.2 (Condition), 2.3 (Compliance with Covenants, Restrictions and Building Code), 4.2 (Common Area Operating Expenses), 6 (Use), 7.1 (Lessee's Obligations), 9 (Damage or Destruction) and 14 (Condemnation), Lessor, subject to reimbursement pursuant to Paragraph 4.2, shall keep in good order, condition and repair the foundations, exterior walls, structural condition of interior bearing walls, exterior roof, fire sprinkler and/or standpipe and hose (if located in the Common Areas) or other automatic fire extinguishing system including fire alarm and/or smoke

detection systems and equipment, fire hydrants, parking lots, walkways, parkways, driveways, landscaping, fences, signs and utility systems serving the Common Areas and all parts thereof, as well as providing the services for which there is a Common Area Operating Expense pursuant to Paragraph 4.2. Lessor shall not be obligated to paint the exterior or interior surfaces of exterior walls nor shall Lessor be obligated to maintain, repair or replace windows, doors or plate glass of the Premises. Lessee expressly waives the benefit of any statute now or hereafter in effect which would otherwise afford Lessee the right to make repairs at Lessor's expense or to terminate this Lease because of Lessor's failure to keep the Building, Industrial Center or Common Areas in good order, condition and repair foundations, floors, exterior walls or interior bearing walls due to construction due to construction defects therein.

7.3 UTILITY INSTALLATIONS, TRADE FIXTURES, ALTERATIONS.

(a) DEFINITIONS; CONSENT REQUIRED. The term "Utility Installations" is used in this Lease to refer to all air lines, power panels, electrical distribution, security, fire protection systems, communications systems, lighting fixtures, heating, ventilating and air conditioning equipment, plumbing, and fencing in, on or about the Premises. The term "Trade Fixtures" shall mean Lessee's machinery and equipment which can be removed without doing material damage to the Premises. The term "Alterations" shall mean any modification of the improvements on the Premises which are provided by Lessor under the terms of this Lease other than Utility Installations or Trade Fixtures. "Lessee-Owned Alterations and/or Utility Installations" are defined as Alterations and/or Utility Installations made by Lessee that are not yet owned by Lessor pursuant to Paragraph 7.4(a). Lessee shall not make nor cause to be made any Alterations or Utility Installations in, on, under or about the Premises that cost in excess of $10,000 without Lessor's prior written consent. Lessee may, however, make non-structural Utility Installations to the interior of the Premises (excluding the roof) without Lessor's consent.

(b) CONSENT. Any Alterations or Utility Installations that Lessee shall desire to make and which require the consent of the Lessor shall be presented to Lessor in written form with detailed plans. All consents given by Lessor, whether by virtue of Paragraph 7.3(a) or by subsequent specific consent, shall be deemed conditioned upon: (i) Lessee's acquiring all applicable permits required by governmental authorities; (ii) the furnishing of copies of such permits together with a copy of the plans and specifications for the Alteration or Utility Installation to Lessor prior to commencement of the work thereon; and (iii) the compliance by Lessee with all conditions of said permits in a prompt and expeditious manner. Any Alterations or Utility Installations by Lessee during the term of this Lease shall be done in a good and workmanlike manner, with good and sufficient materials, and be in compliance with all Applicable Requirements. Lessee shall promptly upon completion thereof furnish Lessor with as-built plans and specifications therefor.

(c) LIEN PROTECTION. Lessee shall pay when due all claims for labor or materials furnished or alleged to have been furnished to or for Lessee at or for use on the Premises, which claims are or may be secured by any mechanic's or materialmen's lien against the Premises or any interest therein. Lessee shall give Lessor not less than ten (10) days' notice prior to the commencement of any work in, on, or about the Premises, and Lessor shall have the right to post notices of non-responsibility in or on the Premises as provided by law. If Lessee shall, in good faith, contest the validity of any such lien, claim or demand, then Lessee shall, at its sole expense, defend and protect itself, Lessor and the Premises against the same and shall pay and satisfy any such adverse judgment that may be rendered thereon before the enforcement thereof against the Lessor or the Premises. If Lessor shall require, Lessee shall furnish to Lessor a surety bond satisfactory to Lessor in an amount equal to one and one-half times the amount of such contested lien claim or demand, indemnifying Lessor against liability for the same, as required by law for the holding of the Premises free from the effect of such lien or claim. In addition, Lessor may require Lessee to pay Lessor's attorneys' fees and costs in participating in such action if Lessor shall decide it is to its best interest to do so.

7.4 OWNERSHIP, REMOVAL, SURRENDER, AND RESTORATION.

(a) OWNERSHIP. Subject to Lessor's right to require their removal and to cause Lessee to become the owner thereof as hereinafter provided in this Paragraph 7.4, all Alterations and Utility Installations made to the Premises by Lessee shall be the property of and owned by Lessee, but considered a part of the Premises. Lessor may, at any time and at its option, elect in writing to Lessee to be the owner of all or any specified part of the Lessee-Owned Alterations and Utility Installations. Unless otherwise instructed per Subparagraph 7.4(b) hereof, all Lessee-Owned Alterations and Utility Installations shall, at the expiration or earlier termination of this Lease, become the property of Lessor and remain upon the Premises and be surrendered with the Premises by Lessee.

(b) REMOVAL. Unless otherwise agreed in writing, Lessor may require that any or all Lessee-Owned Alterations or Utility Installations be removed by the expiration or earlier termination of this Lease, notwithstanding that their installation may have been consented to by Lessor. Lessor may require the removal at any time of all or any part of any Alterations or Utility Installations made without the required consent of Lessor. Lessor agrees that all initial improvements installed by either party within sixty days of the commencement of the Lease shall not be required to be removed at the expiration of earlier termination of the Lease.

(c) SURRENDER/RESTORATION. Lessee shall surrender the Premises by the end of the last day of the Lease term or any earlier termination date,

clean and free of debris and in good operating order, condition and state of repair, ordinary wear and tear excepted. Ordinary wear and tear shall not include any damage or deterioration that would have been prevented by good maintenance practice or by Lessee performing all of its obligations under this Lease. Except as otherwise agreed or specified herein, the Premises, as surrendered, shall include the Alterations and Utility Installations. The obligation of Lessee shall include the repair of any damage occasioned by the installation, maintenance or removal of Lessee's Trade Fixtures, furnishings, equipment, and Lessee-Owned Alterations and Utility Installations, as well as the removal of any storage tank installed by or for Lessee, and the removal, replacement, or remediation of any soil, material or ground water contaminated by Lessee, all as may then be required by Applicable Requirements and/or good practice. Lessee's Trade Fixtures shall remain the property of Lessee and shall be removed by Lessee subject to its obligation to repair and restore the Premises per this Lease.

8. INSURANCE; INDEMNITY.

8.1 PAYMENT OF PREMIUMS. The cost of the premiums for the insurance policies maintained by Lessor under this Paragraph 8 shall be a Common Area Operating Expense pursuant to Paragraph 4.2 hereof. Premiums for policy periods commencing prior to, or extending beyond, the term of this Lease shall be prorated to coincide with the corresponding Commencement Date or Expiration Date.

8.2 LIABILITY INSURANCE.

(a) CARRIED BY LESSEE. Lessee shall obtain and keep in force during the term of this Lease a Commercial General Liability policy of insurance protecting Lessee, Lessor and any Lender(s) whose names have been provided to Lessee in writing (as additional insureds) against claims for bodily injury, personal injury and property damage based upon, involving or arising out of the ownership, use, occupancy or maintenance of the Premises and all areas appurtenant thereto. Such insurance shall be on an occurrence basis providing single limit coverage in an amount not less than $1,000,000 per occurrence with an "Additional Insured-Managers or Lessors of Premises" endorsement and contain the "Amendment of the Pollution Exclusion" endorsement for damage caused by heat, smoke or fumes from a hostile fire. The policy shall not contain any intra-insured exclusions as between insured persons or organizations, but shall include coverage for liability assumed under this Lease as an "insured contract" for the performance of Lessee's indemnity obligations under this Lease. The limits of said insurance required by this Lease or as carried by Lessee shall not, however, limit the liability of Lessee nor relieve Lessee of any obligation hereunder. All insurance to be carried by Lessee shall be primary to and not contributory with any similar insurance carried by Lessor, whose insurance shall be considered excess insurance only.

(b) CARRIED BY LESSOR. Lessor shall also maintain liability insurance described in Paragraph 8.2(a) above, in addition to and not in lieu of, the insurance required to be maintained by Lessee. Lessee shall not be named as an additional insured therein.

8.3 PROPERTY INSURANCE-BUILDING, IMPROVEMENTS AND RENTAL VALUE.

(a) BUILDING AND IMPROVEMENTS. Lessor shall obtain and keep in force during the term of this Lease a policy or policies in the name of Lessor with loss payable to Lessor and to any Lender(s), insuring against loss or damage to the Premises. Such insurance shall be for full replacement cost, as the same shall exist from time to time, or the amount required by any Lender(s), but in no event more than the commercially reasonable and available insurable value thereof if, by reason of the unique nature or age of the improvements involved, such latter amount is less than full replacement cost. Lessee-Owned Alterations and Utility Installations, Trade Fixtures and Lessee's personal property shall be insured by Lessee pursuant to Paragraph 8.4. If the coverage is available and commercially appropriate, Lessor's policy or policies shall insure against all risks of direct physical loss or damage (except the perils of flood but specifically including the perils of earthquake), including coverage for any additional costs resulting from debris removal and reasonable amounts of coverage for the enforcement of any ordinance or law regulating the reconstruction or replacement of any undamaged sections of the Building required to be demolished or removed by reason of the enforcement of any building, zoning, safety or land use laws as the result of a covered loss, but not including plate glass insurance. Said policy or policies shall also contain an agreed valuation provision in lieu of any co-insurance clause, waiver of subrogation, and inflation guard protection causing an increase in the annual property insurance coverage amount by a factor of not less than the adjusted U.S. Department of Labor Consumer Price Index for All Urban Consumers for the city nearest to where the Premises are located.

(b) RENTAL VALUE. Lessor shall also obtain and keep in force during the term of this Lease a policy or policies in the name of Lessor, with loss payable to Lessor and any Lender(s), insuring the loss of the full rental and other charges payable by all lessees of the Building to Lessor for one year (including all Real Property Taxes, insurance costs, all Common Area Operating Expenses and any scheduled rental increases). Said insurance may provide that in the event the Lease is terminated by reason of an insured loss, the period of indemnity for such coverage shall be extended beyond the date of the completion of repairs or replacement of the Premises, to provide for one full year's loss of rental revenues from the date of any such loss. Said insurance shall contain an agreed valuation provision in lieu of any co-insurance clause, and the amount of coverage shall be adjusted annually to reflect the projected rental income, Real Property Taxes, insurance premium costs and other expenses, if any, otherwise payable, for the next 12-month period. Common Area Operating Expenses shall include any deductible amount in the event of such loss.

(c) ADJACENT PREMISES. Lessee shall pay for any increase in

the premiums for the property insurance of the Building and for the Common Areas or other buildings in the Industrial Center if said increase is caused by Lessee's acts, omissions, use or occupancy of the Premises.

(d) LESSEE'S IMPROVEMENTS. Since Lessor is the Insuring Party, Lessor shall not be required to insure Lessee-Owned Alterations and Utility Installations unless the item in question has become the property of Lessor under the terms of this Lease.

8.4 LESSEE'S PROPERTY INSURANCE. Subject to the requirements of Paragraph 8.5, Lessee at its cost shall either by separate policy or, at Lessor's option, by endorsement to a policy already carried, maintain insurance coverage on all of Lessee's personal property, Trade Fixtures and Lessee-Owned Alterations and Utility Installations in, on, or about the Premises similar in coverage to that carried by Lessor as the Insuring Party under Paragraph 8.3(a). Such insurance shall be full replacement cost coverage with a deductible not to exceed $1,000 per occurrence. The proceeds from any such insurance shall be used by Lessee for the replacement of personal property and the restoration of Trade Fixtures and Lessee-Owned Alterations and Utility Installations. Upon request from Lessor, Lessee shall provide Lessor with written evidence that such insurance is in force.

8.5 INSURANCE POLICIES. Insurance required hereunder shall be in companies duly licensed to transact business in the state where the Premises are located, and maintaining during the policy term a "General Policyholders Rating" of at least B+, V, or such other rating as may be required by a Lender, as set forth in the most current issue of "Best's Insurance Guide." Lessee shall not do or permit to be done anything which shall invalidate the insurance policies referred to in

this Paragraph 8. Lessee shall cause to be delivered to Lessor, within seven (7) days after the earlier of the Early Possession Date or the Commencement Date, certified copies of, or certificates evidencing the existence and amounts of, the insurance required under Paragraph 8.2(a) and 8.4. No such policy shall be cancelable or subject to modification except after thirty (30) days' prior written notice to Lessor. Lessee shall at least thirty (30) days prior to the expiration of such policies, furnish Lessor with evidence of renewals or "insurance binders" evidencing renewal thereof, or Lessor may order such insurance and charge the cost thereof to Lessee, which amount shall be payable by Lessee to Lessor upon demand.

8.6 WAIVER OF SUBROGATION. Without affecting any other rights or remedies, Lessee and Lessor each hereby release and relieve the other, and waive their entire right to recover damages (whether in contract or in tort) against the other, for loss or damage to their property arising out of or incident to the perils required to be insured against under Paragraph 8. The effect of such releases and waivers of the right to recover damages shall not be limited by the amount of insurance carried or required, or by any deductibles applicable thereto. Lessor and Lessee agree to have their respective insurance companies issuing property damage insurance waive any right to subrogation that such companies may have against Lessor or Lessee, as the case may be, so long as the insurance is not invalidated thereby.

8.7 INDEMNITY. Except for Lessor's negligence and/or breach of express warranties, Lessee shall indemnify, protect, defend and hold harmless the Premises, Lessor and its agents, Lessor's master or ground lessor, partners and Lenders, from and against any and all claims, loss of rents and/or damages, costs, liens, judgments, penalties, loss of permits, attorneys' and consultants' fees, expenses and/or liabilities arising out of, involving, or in connection with, the occupancy of the Premises by Lessee, the conduct of Lessee's business, any act, omission or neglect of Lessee, its agents, contractors, employees or invitees, and out of any Default or Breach by Lessee in the performance in a timely manner of any obligation on Lessee's part to be performed under this Lease. The foregoing shall include, but not be limited to, the defense or pursuit of any claim or any action or proceeding involved therein, and whether or not (in the case of claims made against Lessor) litigated and/or reduced to judgment. In case any action or proceeding be brought against Lessor by reason of any of the foregoing matters, Lessee upon notice from Lessor shall defend the same at Lessee's expense by counsel reasonably satisfactory to Lessor and Lessor shall cooperate with Lessee in such defense. Lessor need not have first paid any such claim in order to be so indemnified.

8.8 EXEMPTION OF LESSOR FROM LIABILITY. Lessor shall not be liable for injury or damage to the person or goods, wares, merchandise or other property of Lessee, Lessee's employees, contractors, invitees, customers, or any other person in or about the Premises, whether such damage or injury is caused by or results from fire, steam, electricity, gas, water or rain, or from the breakage, leakage, obstruction or other defects of pipes, fire sprinklers, wires, appliances, plumbing, air conditioning or lighting fixtures, or from any other cause, whether said injury or damage results from conditions arising upon the Premises or upon other portions of the Building of which the Premises are a part, from other sources or places, and regardless of whether the cause of such damage or injury or the means of repairing the same is accessible or not. Lessor shall not be liable for any damages arising from any act or neglect of any other lessee of Lessor nor from the failure by Lessor to enforce the provisions of any other lease in the Industrial Center. Notwithstanding Lessor's negligence or breach of this Lease, Lessor shall under no circumstances be liable for injury to Lessee's business or for any loss of income or profit therefrom.

9. DAMAGE OR DESTRUCTION.

9.1 DEFINITIONS.

(a) "PREMISES PARTIAL DAMAGE" shall mean damage or destruction to the Premises, other than Lessee-Owned Alterations and Utility Installations, the repair cost of which damage or destruction is less than fifty percent (50%) of the then Replacement Cost (as defined in Paragraph 9.1(d)) of the Premises (excluding Lessee-Owned Alterations and Utility Installations and Trade Fixtures) immediately prior to such damage or destruction.

(b) "PREMISES TOTAL DESTRUCTION" shall mean damage or destruction to the Premises, other than Lessee-Owned Alterations and Utility Installations, the repair cost of which damage or destruction is fifty percent (50%) or more of the then Replacement Cost of the Premises (excluding Lessee Owned Alterations and Utility Installations and Trade Fixtures) immediately prior to such damage or destruction. In addition, damage or destruction to the Building other than Lessee-Owned Alterations and Utility Installations and Trade Fixtures of any lessees of the Building, the cost of which damage or destruction is fifty percent (50%) or more of the then Replacement Cost (excluding Lessee-Owned Alterations and Utility Installations and Trade Fixtures of any lessees of the Building) of the Building shall, at the option of Lessor, be deemed to be Premises Total Destruction.

(c) "INSURED LOSS" shall mean damage or destruction to the Premises, other than Lessee-Owned Alterations and Utility Installations and Trade Fixtures, which was caused by an event required to be covered by the insurance described in Paragraph 8.3(a) irrespective of any deductible amounts or coveraged limits involved.

(d) "REPLACEMENT COST" shall mean the cost to repair or rebuild the improvements owned by Lessor at the time of the occurrence to

their condition existing immediately prior thereto, including demolition, debris removal and upgrading required by the operation of applicable building codes, ordinances or laws, and without deduction for depreciation.

(e) "HAZARDOUS SUBSTANCE CONDITION" shall mean the occurrence or discovery of a condition involving the presence of, or a contamination by, a Hazardous Substance as defined in Paragraph 6.2(a), in, on, or under the Premises.

9.2 PREMISES PARTIAL DAMAGE - INSURED LOSS. If Premises Partial Damage that is an Insured Loss occurs, then Lessor shall, at Lessor's expense, repair such damage (but not Lessee's Trade Fixtures or Lessee-Owned Alterations and Utility Installations) within six months and this Lease shall continue in full force and effect. In the event, however, that there is a shortage of insurance proceeds and such shortage is due to the fact that, by reason of the unique nature of the improvements in the Premises, full replacement cost insurance coverage was not commercially reasonable and available, Lessor shall have no obligation to pay for the shortage in insurance proceeds or to fully restore the unique aspects of the Premises unless Lessee provides Lessor with the funds to cover same, or adequate assurance thereof, within ten (10) days following receipt of written notice of such shortage and request therefor. If Lessor receives said funds or adequate assurance thereof within said ten day (10) period, Lessor shall complete them within six months and this Lease shall remain in full force and effect. If Lessor does not receive such funds or assurance within said period, Lessor or Lessee may nevertheless elect by written notice to the other party within ten (10) days thereafter to make such restoration and repair as is commercially reasonable with Lessor paying any shortage in proceeds, in which case this Lease shall remain in full force and effect. If Lessor does not receive such funds or assurance within such ten (10) day period, and if Lessor or Lessee does not so elect to restore and repair, then this Lease shall terminate sixty (60) days following the occurrence of the damage or destruction. Unless otherwise agreed, Lessee shall in no event have any right to reimbursement from Lessor for any funds contributed by Lessee to repair any such damage or destruction. Premises Partial Damage due to flood or earthquake shall be subject to Paragraph 9.3 rather than Paragraph 9.2, notwithstanding that there may be some insurance coverage, but the net proceeds of any such insurance shall be made available for the repairs if made by either Party.

9.3 PARTIAL DAMAGE - UNINSURED LOSS. If Premises Partial Damage that is not an Insured Loss occurs, unless caused by a negligent or willful act of Lessee (in which event Lessee shall make the repairs at Lessee's expense and this Lease shall continue in full force and effect), Lessor may at Lessor's option either (i) repair such damage at Lessor's expense, in which event this Lease shall continue in full force and effect, or (ii) give written notice to Lessee within thirty (30) days after receipt by Lessor of knowledge of the occurrence of such damage of Lessor's desire to terminate this Lease as of the date sixty (60) days following the date of such notice. In the event Lessor elects to give such notice of Lessor's intention to terminate this Lease, Lessee shall have the right within (10) days after the receipt of such notice to give written notice to Lessor of Lessee's commitment to pay for the repair of such damage totally at Lessee's expense and without reimbursement from Lessor. Lessee shall provide Lessor with the required funds or satisfactory assurance thereof within thirty (30) days following such commitment from Lessee. In such event this Lease shall continue in full force and effect, and Lessor shall proceed to make such repairs as soon as reasonably possible after the required funds are available. If Lessee does not give such notice and provide the funds or assurance thereof within the times specified above, this Lease shall terminate as of the date specified in Lessor's notice of termination.

9.4 TOTAL DESTRUCTION. Notwithstanding any other provision hereof, if Premises Total Destruction occurs (including any destruction required by any authorized public authority), this Lease shall terminate sixty (60) days following the date of such Premises Total Destruction, whether or not the damage or destruction is an Insured Loss or was caused by a negligent or willful act of Lessee. In the event, however, that the damage or destruction was caused by Lessee, Lessor shall have the right to recover Lessor's damages from Lessee except as released and waived in Paragraph 9.7.

9.5 DAMAGE NEAR END OF TERM. If at any time during the last six (6) months of the term of this Lease there is damage for which the cost to repair exceeds one month's Base Rent, whether or not an Insured Loss, Lessor may, at Lessor's option, terminate this Lease effective sixty (60) days following the date of occurrence of such damage by giving written notice to Lessee of Lessor's election to do so within thirty (30) days after the date of occurrence of such damage. Provided, however, if Lessee at that time has an exercisable option to extend this Lease or to purchase the Premises, then Lessee may preserve this Lease by (a) exercising such option, and (b) providing Lessor with any shortage in insurance proceeds (or adequate assurance thereof) needed to make the repairs on or before the earlier of (i) the date which is ten (10) days after Lessee's receipt of Lessor's written notice purporting to terminate this Lease, or (ii) the day prior to the date upon which such option expires. If Lessee duly exercises such option during such period and provides Lessor with funds (or adequate assurance thereof) to cover any shortage in insurance proceeds, Lessor shall, at Lessor's expense repair such damage as soon as reasonably possible and this Lease shall continue in full force and effect. If Lessee fails to exercise such option and provide such funds or assurance during such period, then this Lease shall terminate as of the date set forth in the first sentence of this Paragraph 9.5.

9.6 ABATEMENT OF RENT; LESSEE'S REMEDIES.

(a) In the event of (i) Premises Partial Damage or (ii) Hazardous Substance Condition for which Lessee is not legally responsible, the Base Rent, Common Area Operating Expenses and other charges, if any,

payable by Lessee hereunder for the period during which such damage or condition, its repair, remediation or restoration continues, shall be abated in proportion to the degree to which Lessee's use of the Premises is impaired, but not in excess of proceeds from insurance required to be carried under Paragraph 8.3(b). Except for abatement of Base Rent, Common Area Operating Expenses and other charges, if any, as aforesaid, all other obligations of Lessee hereunder shall be performed by Lessee, and Lessee shall have no claim against Lessor for any damage suffered by reason of any such damage, destruction, repair, remediation or restoration.

(b) If Lessor shall be obligated to repair or restore the Premises under the provisions of this Paragraph 9 and shall not commence, in a substantial and meaningful way, the repair or restoration of the Premises within thirty days after such obligation shall accrue, Lessee may, at any time prior to the commencement of such repair or restoration, give written notice to Lessor and to any Lenders of which Lessee has actual notice of Lessee's election to terminate this Lease on a date not less than sixty (60) days following the giving of such notice. If Lessee gives such notice to Lessor and such Lenders and such repair or restoration is not commenced within thirty (30) days after receipt of such notice, this Lease shall terminate as of the date specified in said notice. If Lessor or a Lender commences the repair or restoration of the Premises within thirty (30) days after the receipt of such notice, this Lease shall continue in full force and effect. "Commence" as used in this Paragraph 9.6 shall mean either the unconditional authorization of the preparation of the required plans, or the beginning of the actual work on the Premises, whichever occurs first.

9.7 HAZARDOUS SUBSTANCE CONDITIONS. If a Hazardous Substance Condition occurs, unless Lessee is legally responsible therefor (in which case Lessee shall make the investigation and remediation thereof required by Applicable Requirements and this Lease shall continue in full force and effect but subject

to Lessor's rights under Paragraph 6.2(c) and Paragraph 13). Lessor may at Lessor's option either (i) investigate and remediate such Hazardous Substance Condition, if required, as soon as reasonably possible at Lessor's expense, in which event this Lease shall continue in full force and effect.

9.8 TERMINATION - ADVANCE PAYMENTS. Upon termination of this Lease pursuant to this Paragraph 9, Lessor shall return to Lessee any advance payment made by Lessee to Lessor and so much of Lessee's Security Deposit as has not been, or is not then required to be, used by Lessor under the terms of this Lease.

9.9 WAIVER OF STATUTES. Lessor and Lessee agree that the terms of this Lease shall govern the effect of any damage to or destruction of the Premises and the Building with respect to the termination of this Lease and hereby waive the provisions of any present or future statute to the extent it is extent it is inconsistent herewith.

10. REAL PROPERTY TAXES.

10.1 PAYMENT OF TAXES. Lessor shall pay the Real Property Taxes, as defined in Paragraph 10.2, applicable to the Industrial Center, and except as otherwise provided in Paragraph 10.3, any such amounts shall be included in the calculation of Common Area Operating Expenses in accordance with the provisions on Paragraph 4.2.

10.2 REAL PROPERTY TAX DEFINITION. As used herein, the term "REAL PROPERTY TAXES" shall include any form of real estate tax or assessment, general, special, ordinary or extraordinary, and any license fee, commercial rental tax, improvement bond or bonds, levy or tax (other than inheritance, personal income or estate taxes) imposed upon the Industrial Center by any authority having the direct or indirect power to tax, including any city, state or federal government, or any school, agricultural, sanitary, fire, street, drainage, or other improvement district thereof, levied against any legal or equitable interest of Lessor in the Industrial Center or any portion thereof. Lessor's right to rent or other income therefrom, and/or Lessor's business of leasing the Premises. The term "Real Property Taxes" shall also include any tax, fee, levy, assessment or charge, or any increase therein, imposed by reason of events occurring, or changes in Applicable Law Taxes, effect, during the term of this Lease, including but not limited to a change in the ownership of this Industrial Center or in the improvements thereon, the execution of this Lease, or any modification, amendment or transfer thereof, and whether or not contemplated by the Parties. In calculating Real Property Taxes for any calendar year, the Real Property Taxes for any real estate tax year shall be included in the calculation of Real Property Taxes for such calendar year based upon the number of days which such calendar year and tax year have in common.

10.3 ADDITIONAL IMPROVEMENTS. Common Area Operating Expenses shall not include Real Property Taxes specified in the tax assessor's records and work sheets as being caused by additional improvements placed upon the Industrial Center by other lessees or by Lessor for the exclusive enjoyment of such other lessees. Notwithstanding Paragraph 10.1 hereof, Lessee shall, however, pay to Lessor at the time Common Area Operating Expenses are payable under Paragraph 4.2, the entirety of any increase in Real Property Taxes it assessed solely by reason of Alterations, Trade Fixtures or Utility Installations placed upon the Premises by Lessee or at Lessee's request.

10.4 JOINT ASSESSMENT. If the Building is not separately assessed, Real Property Taxes allocated to the Building shall be an equitable proportion of the Real Property Taxes for all of the land and improvements included within the tax parcel assessed, such proportion to be determined by Lessor from the respective valuations assigned in the assessor's work sheets or such other information as may be reasonably available. Lessor's reasonable determination thereof, in good faith, shall be conclusive.

10.5 LESSEE'S PROPERTY TAXES. Lessee shall pay prior to delinquency all taxes assessed against and levied upon Lessee-Owned Alterations and Utility Installations. Trade Fixtures, furnishings, equipment and all personal property of Lessee contained in the Premises or stored within the Industrial Center. When possible, Lessee shall cause its Lessee-Owned Alterations and Utility Installations, Trade Fixtures, furnishings, equipment and all other personal property to be assessed and billed separately from the real property of Lessor. If any of Lessee's said property shall be assessed with Lessor's real property, Lessee shall pay Lessor the taxes attributable to Lessee's property within ten (10) days after receipt of a written statement setting forth the taxes applicable to Lessee's property.

11. UTILITIES. Lessee shall pay directly for all utilities and services supplied to the Premises, including but not limited to electricity, telephone, security, gas and cleaning of the Premises, together with any taxes thereon. If any such utilities or services are not separately metered to the Premises or separately billed to the Premises, Lessee shall pay to Lessor a reasonable proportion to be determined by Lessor of all such charges jointly metered or billed with other premises in the Building, in the manner and within the time periods set forth in Paragraph 4.2(d).

12. ASSIGNMENTS AND SUBLETTING.

12.1 LESSOR'S CONSENT REQUIRED.

(a) Lessee shall not voluntarily or by operation of law assign, transfer, mortgage or otherwise transfer or encumber (collectively, "assign") or sublet all or any part of Lessee's interest in this Lease or in the Premises without Lessor's prior written consent given under and subject to the terms of paragraph 36.

(b) A change in the control of Lessee shall constitute an assignment requiring Lessor's consent. The transfer, on a cumulative basis of twenty-five percent (25%) or more of the voting control of Lessee shall constitute a change in control for this purpose.

(c) The involvement of Lessee or its assets in any transaction or series of transactions (by way of merger, sale, acquisition, financing, refinancing, transfer, leveraged buy-out or otherwise), whether or not a formal assignment or hypothecation of this Lease or Lessee's assets occurs, which results or will result in a reduction of the Net Worth of Lessee, as hereinafter defined, by an amount equal to or greater than twenty-five (25%) of such Net Worth of Lessee as it was represented to Lessor at the time of full execution and delivery of this Lease or at the time of most recent assignment to which Lessor has consented, or as its exists immediately prior to said transaction or transactions constituting such reduction, at whichever time said Net Worth of Lessee was or is greater, shall be considered an assignment of this Lease by Lessee to which Lessor may reasonably withhold its consent. "Net Worth of Lessee" for purposes of this Lease shall be the net worth of lessee (excluding any Guarantors) established under generally accepted accounting principles consistently applied.

(d) An assignment or subletting of Lessee's interest in this Lease without Lessor's specific prior consent shall, at Lessor's option, be a Default curable after notice per Paragraph 13.1, or a non-curable Breach without the necessity of any notice and grace period. If Lessor elects to treat such unconsented to assignment or subletting as a non-curable Breach, Lessor shall have the right to either (i) terminate this Lease or (ii) upon thirty (30) days' written notice ("Lessor's Notice"), increase the monthly Base Rent for the Premises to the greater of the then fair market rental value of the Premises, as reasonably determined by Lessor, or one hundred ten percent (110%) of the Base Rent then in effect. Pending determination of the new fair market rental value, if disputed by Lessee, Lessee shall pay the amount set forth in Lessor's Notice, with any overpayment credited against the next installments(s) of Base Rent coming due, and any underpayment for the period retroactively to the effective date of the adjustment being due and payable immediately upon the determination thereof. Further, in the event of such Breach and rental adjustment, (i) the purchase price of any option to purchase the Premises held by Lessee shall be subject to similar adjustment to the then fair market value as reasonably determined by Lessor (without the Lease being considered an encumbrance or any deduction for a depreciation or obsolescence, and considering the Premises at its highest and best use and in good condition) or one hundred ten percent (110%) of the price previously in effect, (ii) any index-oriented rental or price adjustment formulas contained in this Lease shall be adjusted to require that the base index be determined with relevance to the index applicable to the time of such adjustment, and (iii) any fixed rent adjustments scheduled during the remainder of the Lease term shall be increased in the same ratio as the new rental bears to the Base Rent in effect immediately prior to the adjustment specified in Lessor's Notice.

(e) Lessee's remedy for any breach of this Paragraph 12.1 by Lessor shall be limited to compensatory damages and/or injunctive relief.

12.2 TERMS AND CONDITIONS APPLICABLE TO ASSIGNMENT AND SUBLETTING.

(a) Regardless of Lessor's consent, any assignment or subletting shall not (i) be effective without the express written assumption by such assignee or sublessee of the obligations of Lessee under this Lease, (ii) release Lessee of any obligations hereunder, nor (iii) after the primary liability of Lessee for the payment of Base Rent and other sums due Lessor hereunder or for the performance of any other obligations to be performed by Lessee under this Lease.

(b) Lessor may accept any rent or performance of Lessee's obligations from any person other than Lessee pending approval or disapproval to an assignment. Neither a delay in the approval or disapproval of such assignment nor the acceptance of any rent for performance shall constitute a waiver or estoppel of Lessor's right to exercise its remedies for the Default of Breach by Lessee of any of the terms, covenants or conditions of this Lease.

(c) The consent of Lessor to any assignment or subletting shall not constitute a consent to any subsequent assignment or subletting by Lessee or to any subsequent or successive assignment or subletting by the assignee or sublessee. However, Lessor may consent to subsequent sublettings and assignments of the sublease or any amendments or modifications thereto without notifying Lessee or anyone else liable under this Lease or the sublease and without obtaining their consent, and such action shall not relieve such persons from liability under this Lease or the sublease.

(d) In the event of any Default or Breach of Lessee's obligation under this Lease, Lessor may proceed directly against Lessee, any Guarantor or anyone else responsible for the performance of the Lessee's obligations under this Lease, including any sublessee, without first exhausting Lessor's remedies against any other person or entity responsible therefor to Lessor, or any security held by Lessor.

(e) Each request for consent to an assignment or subletting shall be in writing, accompanied by information relevant to Lessor's determination and to the financial and operational responsibility and appropriateness of the proposed assignee or sublessee, including but not limited to the intended use and/or required modification of the Premises, if any, together with a non-refundable deposit of $500, as reasonable consideration for Lessor's considering and processing the request for consent. Lessee agrees to provide Lessor with such other or additional information and/or documentation as may be reasonably requested by Lessor.

(f) Any assignee of, or sublessee under, this Lease shall, by reason of accepting such assignments or entering into such sublease, be deemed

for the benefit of Lessor, to have assumed and agreed to conform and comply with each and every term, covenant, condition and obligation herein to be observed or performed by Lessee during the term of said assignment or sublease, other than such obligations as are contrary to or inconsistent with provisions of an assignment or sublease to which Lessor has specifically consented in writing.

Initials: /s/ [ILLEGIBLE]
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12.3 ADDITIONAL TERMS AND CONDITIONS APPLICABLE TO SUBLETTING. The following terms and conditions shall apply to any subletting by Lessee of all or any part of the Premises and shall be deemed included in all subleases under this Lease whether or not expressly incorporated therein:

(a) Lessee hereby assigns and transfers to Lessor all of Lessee's interest in all rentals and income arising from any sublease of all or a portion of the Premises heretofore or hereafter made by Lessee, and Lessor may collect such rent and income and apply same toward Lessee's obligations under this Lease; provided, however, that until a Breach (as defined in Paragraph 13.1) shall occur in the performance of Lessee's obligations under this Lease, Lessee may, except as otherwise provided in this Lease, receive, collect and enjoy the rents accruing under such sublease. Lessor shall not, by reason of the foregoing provision or any other assignment of such sublease to Lessor, nor by reason of the collection of the rents from a sublessee, be deemed liable to the sublessee for any failure of Lessee to perform and comply with any of Lessee's obligations to such sublessee under such Sublease. Lessee hereby irrevocably authorizes and directs any such sublessee, upon receipt of a written notice from Lessor stating that a Breach exists in the performance of Lessee's obligations under this Lease, to pay to Lessor the rents and other charges due and to become due under the sublease. Sublessee shall rely upon any such statement and request from Lessor and shall pay such rents and other charges to Lessor without any obligation or right to inquire as to whether such Breach exists and notwithstanding any notice from or claim from Lessee to the contrary. Lessee shall have no right or claim against such sublessee, or, until the Breach has been cured, against Lessor, for any such rents and other charges so paid by said sublessee to Lessor.

(b) In the event of a Breach by Lessee in the performance of its obligations under this Lease, Lessor, at its option and without any obligation to do so, may require any sublessee to attorn to Lessor, in which event Lessor shall undertake the obligations of the sublessor under such sublease from the time of the exercise of said option to the expiration of such sublease; provided, however, Lessor shall not be liable for any prepaid rents or security deposit paid by such sublessee to such sublessor or for any other prior defaults or breaches of such sublessor under such sublease.

(c) Any matter or thing requiring the consent of the sublessor under a sublease shall also require the consent of Lessor herein.

(d) No sublessee under a sublease approved by Lessor shall further assign or sublet all or any part of the Premises without Lessor's prior written consent.

(e) Lessor shall deliver a copy of any notice of Default or Breach by Lessee to the sublessee, who shall have the right to cure the Default of Lessee within the grace period, if any, specified in such notice. The sublessee shall have a right of reimbursement and offset from and against Lessee for any such Defaults cured by the sublessee.

13. DEFAULT; BREACH; REMEDIES.

13.1 DEFAULT; BREACH. Lessor and Lessee agree that if an attorney is consulted by Lessor or Lessee in connection with a Default or Breach (as hereinafter defined), $350.00 is a reasonable minimum sum per such occurrence for legal services and costs in the preparation and service of a notice of Default, and that Lessor or Lessee may include the cost of such services and costs in said notice as rent due and payable to cure said default. A "Default" by Lessee or Lessor is defined as a failure by Lessee or Lessee to observe, comply with or perform any of the terms, covenants, conditions or rules applicable under this Lease. A "Breach" by Lessee is defined as the occurrence of any one or more of the following Defaults, and, where a grace period for cure after notice is specified herein, the failure by Lessee to cure such Default prior to the expiration of the applicable grace period, and shall entitle Lessor to pursue the remedies set forth in Paragraphs 13.2 and/or 13.3:

(a) The vacating of the Premises without the intention to reoccupy same, or the abandonment of the Premises without the payment of rent.

(b) Except as expressly otherwise provided in this Lease, the failure by Lessee to make any payment of Base Rent, Lessee's Share of Common Area Operating Expenses, or any other monetary payment required to be made by Lessee hereunder as and when due, the failure by Lessee to provide Lessor with reasonable evidence of insurance or surety bond required under this Lease, or the failure of Lessee to fulfill any obligation under this Lease which endangers or threatens life or property, where such failure continues for a period of three (3) days following written notice thereof by or on behalf of Lessor to Lessee.

(c) Except as expressly otherwise provided in this Lease, the failure by Lessee to provide Lessor with reasonable written evidence (in duly executed original form, if applicable) of (i) compliance with Applicable Requirements per Paragraph 6.3, (ii) the inspection, maintenance and service contracts required under Paragraph 7.1(b), (iii) the rescission of an unauthorized assignment or subletting per Paragraph 12.1, (iv) a Tenancy Statement per Paragraphs 16 or 37, (v) the subordination or non-subordination of this Lease per Paragraph 30, (vi) the guaranty of the performance of Lessee's obligations under this Lease if required under Paragraphs 1.11 and 37, (vii) the execution of any document requested under Paragraph 42 (easements), or (viii) any other documentation or information which Lessor may reasonably require of Lessee under the terms of this lease, where any such failure continues for a period of ten (10) days following written notice by or on behalf of Lessor to Lessee.

(d) A Default by Lessee as to the terms, covenants, conditions or provisions of this Lease, or of the rules adopted under Paragraph 40 hereof that are to be observed, complied with or performed by Lessee, other than those described in Subparagraphs 13.1(a), (b) or (c), above, where such Default continues for a period of thirty (30) days after written notice thereof by or on behalf of Lessor to Lessee; provided, however, that if the nature of Lessee's Default is such that more than thirty (30) days are reasonably required for its cure, then it shall not be deemed to be a Breach of this Lease by Lessee if Lessee commences such cure within said thirty (30) day period and thereafter diligently prosecutes such cure to completion.

(e) The occurrence of any of the following events: (i) the making by Lessee of any general arrangement or assignment for the benefit of creditors; (ii) Lessee's becoming a "debtor" as defined in 11 U.S. Code Section 101 or any successor statute thereto (unless, in the case of a petition filed against Lessee, the same is dismissed within sixty (60) days); (iii) the appointment of a trustee or receiver to take possession of substantially all of Lessee's assets located at the Premises or of Lessee's interest in this Lease, where possession is not restored to Lessee within thirty (30) days; or (iv) the attachment, execution or other judicial seizure of substantially all of Lessee's assets located at the Premises or of Lessee's interest in this Lease, where such seizure is not discharged within thirty (30) days; provided, however, in the event that any provision of this Subparagraph 13.1(e) is contrary to any applicable law, such provision shall be of no force or effect, and shall not affect the validity of the remaining provisions.

(f) The discovery by Lessor that any financial statement of Lessee or of any Guarantor, given to Lessor by Lessee or any Guarantor, was materially false.

13.2 REMEDIES. If Lessee fails to perform any affirmative duty or obligation of Lessee under this Lease, within ten (10) days after written notice to Lessee (or in case of an emergency, without notice), Lessor may at its option (but without obligation to do so), perform such duty or obligation on Lessee's behalf, including but not limited to the obtaining of reasonably required bonds, insurance policies, or governmental licenses, permits or approvals. The costs and expenses of any such performance by Lessor shall be due and payable by Lessee to Lessor upon invoice therefor. If any check given to Lessor by Lessee shall not be honored by the bank upon which it is drawn, Lessor, at its own option, may require all future payments to be made under this Lease by Lessee to be made only by cashier's check. In the event of a Breach of this Lease by Lessee (as defined in Paragraph 13.1), with or without further notice or demand, and without limiting Lessor in the exercise of any right or remedy which Lessor may have by reason of such Breach, Lessor may:

(a) Terminate Lessee's right to possession of the Premises by any lawful means, in which case this Lease and the term hereof shall terminate and Lessee shall immediately surrender possession of the Premises to Lessor. In such event Lessor shall be entitled to recover from Lessee: (i) the worth at the time of the award of the unpaid rent which had been earned at the time of termination; (ii) the worth at the time of award of the amount by which the unpaid rent which would have been earned after termination until the time of award exceeds the amount of such rental loss that the Lessee proves could have been reasonably avoided; (iii) the worth at the time of award of the amount by which the unpaid rent for the balance of the term after the time of award exceeds the amount of such rental loss that the Lessee proves could be reasonably avoided; and (iv) any other amount necessary to compensate Lessor for all the detriment proximately caused by the Lessee's failure to perform its obligations under this Lease or which in the ordinary course of things would be likely to result therefrom, including but not limited to the cost of recovering possession of the Premises, expenses of reletting, including necessary renovation and alteration of the Premises, reasonable attorneys' fees, and that portion of any leasing commission paid by Lessor in connection with this Lease applicable to the unexpired term of this Lease. The worth at the time of award of the amount referred to in provision (iii) of the immediately preceding sentence shall be computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco or the Federal Reserve Bank District in which the Premises are located at the time of award plus one percent (1%). Efforts by Lessor to mitigate damages caused by Lessee's Default or Breach of this Lease shall not waive Lessor's right to recover damages under this Paragraph 13.2. If termination of this Lease is obtained through the provisional remedy of unlawful detainer, Lessor shall have the right to recover in such proceeding the unpaid rent and damages as are recoverable therein, or Lessor may reserve the right to recover all or any part thereof in a separate suit for such rent and/or damages. If a notice and grace period required under Subparagraph 13.1(b), (c) or (d) was not previously given, a notice to pay rent or quit, or to perform or quit, as the case may be, given to Lessee under any statute authorizing the forfeiture of leases for unlawful detainer shall also constitute the applicable notice for grace period purposes required by Subparagraph 13.1(b), (c) or (d). In such case, the applicable grace period under the unlawful detainer statute shall run concurrently after the one such statutory notice, and the failure of Lessee to cure the Default within the greater of the two (2) such grace periods shall constitute both an unlawful detainer and a Breach of this Lease entitling Lessor to the remedies provided for in this Lease and/or by said statute.

(b) Continue the Lease and Lessee's right to possession in effect (in California under California Civil Code Section 1951.4) after Lessee's Breach and recover the rent as it becomes due, provided Lessee has the right to sublet or assign, subject only to reasonable limitations. Lessor and Lessee agree that the limitations on assignment and subletting in this Lease are reasonable. Acts of maintenance or preservation, efforts to relet the Premises, or the appointment of a receiver to protect the Lessor's interest under this Lease, shall not constitute a termination of the Lessee's

right to possession.

(c) Pursue any other remedy now or hereafter available to Lessor under the laws or judicial decisions of the state wherein the Premises are located.

(d) The expiration or termination of this Lease and/or the termination of Lessee's right to possession shall not relieve Lessee from liability under any indemnity provisions of this Lease as to matters occurring or accruing during the term hereof or by reason of Lessee's occupancy of the Premises.

13.3 INDUCEMENT RECAPTURE IN EVENT OF BREACH. Any agreement by Lessor for free or abated rent or other charges applicable to the Premises, or for the giving or paying by Lessor to or for Lessee of any cash or other bonus, inducement or consideration for Lessee's entering into this Lease, all of which concessions are hereinafter referred to as "INDUCEMENT PROVISIONS" shall be deemed conditioned upon Lessee's full and faithful performance of all of the terms, covenants and conditions of this Lease to be performed or observed by Lessee during the term hereof as the same may be extended. Upon the occurrence of a Breach (as defined in Paragraph 13.1) of this Lease by Lessee, any such Inducement Provision shall automatically be deemed deleted from this Lease and of no further force or effect, and any rent, other charge, bonus, inducement or consideration theretofore abated, given or paid by Lessor under such an Inducement Provision shall be immediately due and payable by Lessee to Lessor, and recoverable by Lessor, as additional rent due under this Lease, notwithstanding any subsequent cure of said Breach by Lessee. The acceptance by Lessor of rent or the cure of the Breach which initiated the operation of this Paragraph 13.3 shall not be deemed a waiver by Lessor of the provisions of this Paragraph 13.3 unless specifically so stated in writing by Lessor at the time of such acceptance.

13.4 LATE CHARGES. Lessee hereby acknowledges that late payment by Lessee to Lessor of rent and other sums due hereunder will cause Lessor to incur costs not contemplated by this Lease, the exact amount of which will be extremely difficult to ascertain. Such costs include, but are not limited to, processing and accounting charges, and late charges which may be imposed upon Lessor by the terms of any ground lease, mortgage or deed of trust covering the Premises. Accordingly, if any installment of rent or other sum due from Lessee shall not be received by Lessor or Lessor's designee within ten (10) days after such amount shall be due, with written notice to Lessee from Lessor, Lessee shall pay to Lessor a late charge equal to six percent (6%) of such overdue amount. The parties hereby agree that such late charge represents a fair and reasonable estimate of the costs Lessor will incur by reason of late payment by Lessee. Acceptance of such late charge by Lessor shall in no event constitute a waiver of Lessee's Default or Breach with respect to such overdue amount, nor prevent Lessor from exercising any of the other rights and remedies granted hereunder. In the event that a late charge is payable hereunder, whether or not collected, for three (3) consecutive installments of Base Rent, then notwithstanding Paragraph 4.1 or any other provision of this Lease to the contrary, Base Rent shall, at Lessor's option, become due and payable quarterly in advance.

13.5 BREACH BY LESSOR. Lessor shall not be deemed in breach of this Lease unless Lessor fails within a reasonable time to perform an obligation required to be performed by Lessor. For purposes of this Paragraph 13.5, a reasonable time shall in no event be less than thirty (30) days after receipt by Lessor, and by any Lender(s) whose name and address shall have been furnished to Lessee in writing for such purpose, of written notice specifying wherein such obligation of Lessor has not been performed; provided, however, that if the nature of Lessor's obligation is such that more than thirty (30) days after such notice are reasonably required for its performance, then Lessor shall not be in breach of this Lease if performance is commenced within such thirty (30) day period and thereafter diligently pursued to completion.

14. CONDEMNATION. If the Premises or any portion thereof are taken under the power of eminent domain or sold under the threat of the exercise of said power (all of which are herein called "condemnation"), this Lease shall terminate as to the part so taken as of the date the condemning authority takes title or possession, whichever first occurs. If more than 10 percent (10%) of the floor area of the Premises, or more than twenty-five percent (25%) of the portion of the Common Areas designated for Lessee's parking, is taken by condemnation, Lessee may, at Lessee's option, to be exercised in writing within ten (10) days after Lessor shall have given Lessee written notice of such taking (or in the absence of such notice, within ten (10) days after the condemning authority shall have taken possession) terminate this Lease as of the date the condemning authority takes such possession. If Lessee does not terminate this Lease in accordance with the foregoing, this Lease shall remain in full force and effect as to the portion of the Premises remaining, except that the Base Rent shall be reduced in the same proportion as the rentable floor area of the Premises taken bears to the total rentable floor area of the Premises. No reduction of Base Rent shall occur if the condemnation does not apply to any portion of the Premises. Any award for the taking of all or any part of the Premises under the power of eminent domain or any payment made under threat of the exercise of such power shall be the property of Lessor, whether such award shall be made as compensation for diminution of value of the leasehold or for the taking of the fee, or as severance damages; provided, however, that Lessee shall be entitled to any compensation, separately awarded to Lessee for Lessee's relocation expenses and/or loss of Lessee's Trade Fixtures. In the event that this Lease is not terminated by reason of such condemnation, Lessor shall to the extent of its net severance damages received, over and above Lessee's Share of the legal and other expenses incurred by Lessor in the condemnation matter, repair any damage to the Premises caused by such condemnation authority. Lessee shall be responsible for the payment of any amount in excess of such net severance damages required to complete such repair.

15. BROKERS' FEES.

15.1 PROCURING CAUSE. The Broker(s) named in Paragraph 1.10 is/are the

procuring cause of this Lease.

15.2 ADDITIONAL TERMS. Unless Lessor and Broker(s) have otherwise agreed in writing, Lessor agrees that: (a) if Lessee exercises any Option (as defined in Paragraph 39.1) granted under this Lease or any Option subsequently granted, or (b) if Lessee acquires any rights to the Premises or other premises in which Lessor has an interest, or (c) if Lessee remains in possession of the Premises with the consent of Lessor after the expiration of the term of this Lease after having failed to exercise an Option, or (d) if said Brokers are the procuring cause of any other lease or sale entered into between the Parties pertaining to the Premises and/or any adjacent property in which Lessor has an interest, or (a) if Base Rent is increased, whether by agreement or operation of an escalation clause herein, then as to any of said transactions, Lessor shall pay said Broker(s) a fee in accordance with the schedule of said Broker(s) in effect at the time of the execution of this Lease.

15.3 ASSUMPTION OF OBLIGATIONS. Any buyer or transferee of Lessor's interest in this Lease, whether such transfer is by agreement or by operation of law, shall be deemed to have assumed Lessor's obligation under this Paragraph 15. Each Broker shall be an intended third party beneficiary of the provisions of Paragraph 1.10 and of this Paragraph 15 to the extent of its interest in any commission arising from this Lease and may enforce that right directly against Lessor and its successors.

15.4 REPRESENTATIONS AND WARRANTIES. Lessee and Lessor each represent and warrant to the other that it has had no dealings with any person, firm, broker or finder other than as named in Paragraph 1.10(a) in connection with the negotiation of this Lease and/or the consummation of the transaction contemplated hereby, and that no broker or other person, firm or entity other than said named Broker(s) is entitled to any commission or finder's fee in connection with said transaction. Lessee and Lessor do each hereby agree to indemnify, protect, defend and hold the other harmless from and against liability for compensation or charges which may be claimed by any such unnamed broker, finder or other similar party by reason of any dealings or actions of the indemnifying Party, including any costs, expenses, and/or attorneys' fees reasonably incurred with respect thereto.

16. TENANCY AND FINANCIAL STATEMENTS.

16.1 TENANCY STATEMENT. Each Party (as "RESPONDING PARTY") shall within ten (10) days after written notice from the other Party (the "REQUESTING PARTY") execute, acknowledge and deliver to the Requesting Party a statement in writing in a form similar to the then most current "TENANCY STATEMENT" form published by the American Industrial Real Estate Association, plus such additional information, confirmation and/or statements as may be reasonably requested by the Requesting Party.

16.2 FINANCIAL STATEMENT. If Lessor desires to finance, refinance, or sell the Premises or the Building, or any part thereof, Lessee and all Guarantors shall deliver to any potential lender or purchaser designated by Lessor such financial statements of Lessee and such Guarantors as may be reasonably required by such lender or purchaser, including but not limited to Lessee's financial statements for the past three (3) years. All such financial statements shall be received by Lessor and such lender or purchaser in confidence and shall be used only for the purposes herein set forth.

17. LESSOR'S LIABILITY. The term "LESSOR" as used herein shall mean the owner or owners at the time in question of the fee title to the Premises. In the event of a transfer of Lessor's title or interest in the Premises or in this Lease, Lessor shall deliver to the transferee or assignee (in cash or by credit) any unused Security Deposit held by Lessor at the time of such transfer or assignment. Except as provided in Paragraph 15.3, upon such transfer or assignment and delivery of the Security Deposit, as aforesaid, the prior Lessor shall be relieved of all liability with respect to the obligations and/or covenants under this Lease thereafter to be performed by the Lessor. Subject to the foregoing, the obligations and/or covenants in this Lease to be performed by the Lessor shall be binding only upon the Lessor as hereinabove defined.

18. SEVERABILITY. The invalidity of any provision of this Lease, as determined by a court of competent jurisdiction, shall in no way affect the validity of any other provision hereof.

19. INTEREST ON PAST-DUE OBLIGATIONS. Any monetary payment due Lessor hereunder, other than late charges, not received by Lessor within ten (10) days following the date on which it was due, shall bear interest from the date due at the prime rate charged by the largest state chartered bank in the state in which the Premises are located plus four percent (4%) per annum, but not exceeding the maximum rate allowed by law, in addition to the potential late charge provided for in Paragraph 13.4.

20. TIME OF ESSENCE. Time is of the essence with respect to the performance of all obligations to be performed or observed by the Parties under this Lease.

21. RENT DEFINED. All monetary obligations of Lessee to Lessor under the terms of this Lease are deemed to be rent.

22. NO PRIOR OR OTHER AGREEMENTS; BROKER DISCLAIMER. This Lease contains all agreements between the Parties with respect to any matter mentioned herein and no other prior or contemporaneous agreement or understanding shall be effective. Lessor and Lessee each represents and warrants to the Brokers that it has made, and is relying solely upon, its own investigation as to the nature, quality, character and financial responsibility of the other Party to this Lease and as to the nature, quality and character of the Premises. Brokers have no responsibility with respect thereto or with respect to any default or breach hereof by either Party. Each Broker shall be an intended

third party beneficiary of the provisions of this Paragraph 22.

23. NOTICES.

23.1 NOTICE REQUIREMENTS. All notices required or permitted by this Lease shall be in writing and may be delivered in person (by hand or by messenger or courier service) or may be sent by regular, certified or registered mail or U.S. Postal Service Express Mail, with postage prepaid, or by facsimile transmission during normal business hours, and shall be deemed sufficiently given if served in a manner specified in this Paragraph 23. The addresses noted adjacent to a Party's signature on this Lease shall be that Party's address for delivery or mailing of notice purposes. Either Party may by written notice to the other specify a different address for notice purposes, except that upon Lessee's taking possession of the Premises, the Premises shall constitute Lessee's address for the purpose of mailing or delivering notices to Lessee. A copy of all notices required or permitted to be given to Lessor hereunder shall be concurrently transmitted to such party or parties at such addresses as Lessor may from time to time hereafter designate by written notice to Lessee.

23.2 DATE OF NOTICE. Any notice sent by registered or certified mail, return receipt requested, shall be deemed given on the date of delivery shown on the receipt card, or if no delivery date is shown, the postmark thereon. If sent by regular mail, the notice shall be deemed given forty-eight (48) hours after the same is addressed as required herein and mailed with postage prepaid. Notices delivered by United States Express Mail or overnight courier that guarantees next day

delivery shall be deemed given twenty-four (24) hours after delivery of the same to the United States Postal Service or courier. If any notice is transmitted by facsimile transmission or similar means, the same shall be deemed served or delivered upon telephone or facsimile confirmation of receipt of the transmission thereof, provided a copy is also delivered via delivery or mail. If notice is received on a Saturday or a Sunday or a legal holiday, it shall be deemed received on the next business day.

24. WAIVERS. No waiver by Lessor of the Default or Breach of any term, covenant or condition hereof by Lessee, shall be deemed a waiver of any other term, covenant or condition hereof, or of any subsequent Default or Breach by Lessee of the same or any other term, covenant or condition hereof. Lessor's consent to or approval of, any such act shall not be deemed to render unnecessary the obtaining of Lessor's consent to, or approval of, any subsequent or similar act by Lessee, or be construed as the basis of an estoppel to enforce the provision or provisions of this Lease requiring such consent. Regardless of Lessor's knowledge of a Default or Breach at the time of accepting rent, the acceptance of rent by Lessor shall not be a waiver of any Default or Breach by Lessee of any provision hereof. Any payment given Lessor by Lessee may be accepted by Lessor on account of moneys or damages due Lessor, notwithstanding any qualifying statements or conditions made by Lessee in connection therewith, which such statements and/or conditions shall be of no force or effect whatsoever unless specifically agreed to in writing by Lessor at or before the time of deposit of such payment.

25. RECORDING. Either Lessor or Lessee shall, upon request of the other, execute, acknowledge and deliver to the other a short form memorandum of the Lease for recording purposes. The Party requesting recordation shall be responsible for payment of any fees or taxes applicable thereto.

26. NO RIGHT TO HOLDOVER. Lessee has no right to retain possession of the Premises or any part thereof beyond the expiration or earlier termination of the Lease. In the event that Lessee holds over in violation of this Paragraph 26 then the Base Rent payable from and after the time of the expiration or earlier termination of this Lease shall be increased to after the second month of Holdover to one hundred twenty five percent, of the Base Rent applicable during the month immediately preceding such expiration or earlier termination. Nothing contained herein shall be construed as a consent by Lessor to any holding over by Lessee. Lessee shall be responsible for any actual damages incurred by Lessor due to Lessee's Holdover.

27. CUMULATIVE REMEDIES. No remedy or election hereunder shall be deemed exclusive but shall, wherever possible, be cumulative with all other remedies at law or in equity.

28. COVENANTS AND CONDITIONS. All provisions of this Lease to be observed or performed by Lessee are both covenants and conditions.

29. BINDING EFFECT; CHOICE OF LAW. This Lease shall be binding upon the Parties, their personal representatives, successors and assigns and be governed by the laws of the State in which the Premises are located. Any litigation between the Parties hereto concerning this Lease shall be initiated in the county in which the Premises are located.

30. SUBORDINATION; ATTORNMENT; NON-DISTURBANCE.

30.1 SUBORDINATION. This Lease and any Option granted hereby shall be subject and subordinate to any ground lease, mortgage, deed of trust, or other hypothecation or security device (collectively, "SECURITY DEVICE"), now or hereafter placed by Lessor upon the real property of which the Premises are a part, to any and all advances made on the security thereof, and to all renewals, modifications, consolidations, replacements and extensions thereof. Lessee agrees that the Lenders holding any such Security Device shall have no duty, liability or obligation to perform any of the obligations of Lessor under this Lease, but that in the event of Lessor's default with respect to any such obligation, Lessee will give any Lender whose name and address have been furnished Lessee in writing for such purpose notice of Lessor's default pursuant to Paragraph 13.5. If any Lender shall elect to have this Lease and/or any Option granted hereby superior to the lien of its Security Device and shall give written notice thereof to Lessee, this Lease and such Options shall be deemed prior to such Security Device, notwithstanding the relative dates of the documentation or recordation thereof.

30.2 ATTORNMENT. Subject to the non-disturbance provisions of Paragraph 30.3, Lessee agrees to attorn to a Lender or any other party who acquires ownership of the Premises by reason of a foreclosure of a Security Device, and that in the event of such foreclosure, such new owner shall not: (i) be liable for any act or omission of any prior lessor or with respect to events occurring prior to acquisition of ownership, (ii) be subject to any offsets or defenses which Lessee might have against any prior lessor, or (iii) be bound by prepayment of more than one month's rent.

30.3 NON-DISTURBANCE. With respect to Security Devices entered into by Lessor after the execution of this Lease, Lessee's subordination of this Lease shall be subject to receiving assurance (a "non-disturbance agreement") from the Lender that Lessee's possession and this Lease, including any options to extend the term hereof, will not be disturbed so long as Lessee is not in Breach hereof and attorns to the record owner of the Premises.

30.4 SELF-EXECUTING. The agreements contained in this Paragraph 30 shall be effective without the execution of any further documents; provided, however, that upon written request from Lessor or a Lender in connection with a sale, financing or refinancing of Premises, Lessee and Lessor shall execute such further writings as may be reasonably required to separately document any such subordination or non-subordination, attornment and/or

non-disturbance agreement as is provided for herein.

31. ATTORNEYS' FEES. If any Party or Broker brings an action or proceeding to enforce the terms hereof or declare rights hereunder, the Prevailing Party (as hereafter defined) in any such proceeding, action, or appeal thereon, shall be entitled to reasonable attorneys' fees. Such fees may be awarded in the same suit or recovered in a separate suit, whether or not such action or proceeding is pursued to decision or judgment. The term "PREVAILING PARTY" shall include, without limitation, a Party or Broker who substantially obtains or defeats the relief sought, as the case may be, whether by compromise, settlement, judgment, or the abandonment by the other Party or Broker of its claim or defense. The attorneys' fee award shall not be computed in accordance with any court fee schedule, but shall be such as to fully reimburse all attorneys' fees reasonably incurred. Lessor shall be entitled to attorneys' fees, costs and expenses incurred in preparation and service of notices of Default and consultations in connection therewith, whether or not a legal action is subsequently commenced in connection with such Default or resulting Breach. Broker(s) shall be intended third party beneficiaries of this Paragraph 31.

32. LESSOR'S ACCESS; SHOWING PREMISES; REPAIRS. Lessor and Lessor's agents shall have the right to enter the Premises at any time, in the case of an emergency, and otherwise at reasonable times with prior verbal notification and with reasonable approval of Lessee for the purpose of showing the same to prospective purchasers, lenders, or lessees, and making such alterations, repairs, improvements or additions to the Premises or to the Building, as Lessor may reasonably deem necessary. Lessor may at any time place on or about the Premises or Building any ordinary "For Sale" signs and Lessor may at any time during the last one hundred eighty (180) days of the term hereof place on or about the Premises any ordinary "For Lease" signs. All such activities of Lessor shall be without abatement of rent or liability to Lessee.

33. AUCTIONS. Lessee shall not conduct, nor permit to be conducted, either voluntarily or involuntarily, any auction upon the Premises without first having obtained Lessor's prior written consent. Notwithstanding anything to the contrary in this Lease, Lessor shall not be obligated to exercise any standard of reasonableness in determining whether to grant such consent.

34. SIGNS. Lessee shall not place any sign upon the exterior of the Premises or the Building, except that Lessee may install (but not on the roof) such signs as are reasonably required to advertise Lessee's own business so long as such signs are in a location and comply with Applicable Requirements of the City of Irwindale. The installation of any sign on the Premises by or for Lessee shall be subject to the provisions of Paragraph 7 (Maintenance, Repairs, Utility Installations, Trade Fixtures and Alterations).

35. TERMINATION; MERGER. Unless specifically stated otherwise in writing by Lessor, the voluntary or other surrender of this Lease by Lessee, the mutual termination or cancellation hereof, or a termination hereof by Lessor for Breach by Lessee, shall automatically terminate any sublease or lesser estate in the Premises; provided, however, Lessor shall, in the event of any such surrender, termination or cancellation, have the option to continue any one or all of any existing subtenancies. Lessor's failure within ten (10) days following any such event to make a written election to the contrary by written notice to the holder of any such lesser interest, shall constitute Lessor's election to have such event constitute the termination of such interest.

36. CONSENTS.

(a) Except for Paragraph 33 hereof (Auctions) or as otherwise provided herein, wherever in this Lease the consent of a Party is required to an act by or for the other Party, such consent shall not be unreasonably withheld conditioned or delayed. Lessor's actual reasonable costs and expenses (including but not limited to architects', attorneys', engineers' and other consultants' fees) incurred in the consideration of, or response to, a request by Lessee for any Lessor consent pertaining to this Lease or the Premises, including but not limited to consents to an assignment a subletting or the presence or use of a Hazardous Substance, shall be paid by Lessee to Lessor upon receipt of an invoice and supporting documentation therefor. In addition to the deposit described in Paragraph 12.2(e), Lessor may, as a condition to considering any such request by Lessee, require that Lessee deposit with Lessor an amount of money (in addition to the Security Deposit held under Paragraph 5) reasonably calculated by Lessor to represent the cost Lessor will incur in considering and responding to Lessee's request. Any unused portion of said deposit shall be refunded to Lessee without interest. Lessor's consent to any act, assignment of this Lease or subletting of the Premises by Lessee shall not constitute an acknowledgment that no Default or Breach by Lessee of this Lease exists, nor shall such consent be deemed a waiver of any then existing Default or Breach, except as may be otherwise specifically stated in writing by Lessor at the time of such consent.

(b) All conditions to Lessor's consent authorized by this Lease are acknowledged by Lessee as being reasonable. The failure to specify herein any particular condition to Lessor's consent shall not preclude the impositions by Lessor at the time of consent of such further or other conditions as are then reasonable with reference to the particular matter for which consent is being given.

37. GUARANTOR.

37.1 FORM OF GUARANTY. If there are to be any Guarantors of this Lease per Paragraph 1.11, the form of the guaranty to be executed by each such Guarantor shall be in the form most recently published by the American Industrial Real Estate Association, and each such Guarantor shall have the same obligations as Lessee under this lease, including but not limited to the

obligation to provide the Tenancy Statement and information required in Paragraph 16.

37.2 ADDITIONAL OBLIGATIONS OF GUARANTOR. It shall constitute a Default of the Lessee under this Lease if any such Guarantor fails or refuses, upon reasonable request by Lessor to give: (a) evidence of the due execution of the guaranty called for by this Lease, including the authority of the Guarantor (and of the party signing on Guarantor's behalf) to obligate such Guarantor on said guaranty, and resolution of its board of directors authorizing the making of such guaranty, together with a certificate of incumbency showing the signatures of the persons authorized to sign on its behalf, (b) current financial statements of Guarantor as may from time to time be requested by Lessor, (c) a Tenancy Statement, or (d) written confirmation that the guaranty is still in effect.

38. QUIET POSSESSION. Upon payment by Lessee of the rent for the Premises and the performance of all of the covenants, conditions and provisions on Lessee's part to be observed and performed under this Lease, Lessee shall have quiet possession of the Premises for the entire term hereof subject to all of the provisions of this Lease.

39. OPTIONS

39.1 DEFINITION. As used in this Lease, the word "Option" has the following meaning: (a) the right to extend the term of this Lease or to renew this Lease or to extend or renew any lease that Lessee has on other property of Lessor; (b) the right of first refusal to lease the Premises or the right of first offer to lease the Premises or the right of first refusal to lease other property of Lessor or the right of first offer to lease other property of Lessor; (c) the right to purchase the Premises, or the right of first refusal to purchase the Premises, or the right of first offer to purchase the Premises, or the right to purchase other property of Lessor, or the right of first refusal to purchase other property of Lessor, or the right of first offer to purchase other property of Lessor.

39.2 OPTIONS PERSONAL TO ORIGINAL LESSEE. Each Option granted to Lessee in this Lease is personal to the original Lessee named in Paragraph 1.1 hereof, and cannot be voluntarily or involuntarily assigned or exercised by any person or entity other than said original Lessee while the original Lessee is in full and actual possession of the Premises and without the Intention of thereafter assigning or subletting. The Options, if any, herein granted to Lessee are not assignable, either as a part of an assignment of this Lease or separately or apart therefrom, and no Option may be separated from this Lease in any manner, by reservation or otherwise.

39.3 MULTIPLE OPTIONS. In the event that Lessee has any multiple Options to extend or renew this Lease, a later option cannot be exercised unless the prior Options to extend or renew this Lease have been validly exercised.

39.4 EFFECT OF DEFAULT ON OPTIONS.

(a) Lessee shall have no right to exercise an Option, notwithstanding any provision in the grant of Option to the contrary; (i) during the period commencing with the giving of any notice of Default under Paragraph 13.1 and continuing until the noticed Default is cured, or (ii) during the period of time any monetary obligation due Lessor from Lessee is unpaid (without regard to whether notice thereof is given Lessee), or (iii) during the time Lessee is in Breach of this Lease, or (iv) in the event that Lessor has given to Lessee three (3) or more notices of separate Defaults under Paragraph 13.1 during the twelve (12) month period immediately preceding the exercise of the Option, whether or not the Defaults are cured.

(b) The period of time within which an Option may be exercised shall not be extended or enlarged by reason of Lessee's inability to exercise an Option because of the provisions of Paragraph 39.4(a).

(c) All rights of Lessee under the provisions of an Option shall terminate and be of no further force or effect, notwithstanding Lessee's due and timely exercise of the Option, if, after such exercise and during the term of this Lease, (i) Lessee fails to pay to Lessor a monetary obligation of Lessee for a period of thirty (30) days after such obligation becomes due (without any necessity of Lessor to give notice thereof to Lessee), or (ii) Lessor gives to Lessee three (3) or more notices of separate Defaults under Paragraph 13.1 during any twelve (12) month period, whether or not the Defaults are cured, or (iii) if Lessee commits a Breach of this Lease.

40. RULES AND REGULATIONS. Lessee agrees that it will abide by, and keep and observe all reasonable rules and regulations ("Rules and Regulations") which Lessor may make from time to time for the management, safety, care, and cleanliness of the grounds, the parking and unloading of vehicles and the preservation of good order, as well as for the convenience of other occupants or tenants of the Building and the Industrial Center and their invitees.

41. SECURITY MEASURES. Lessee hereby acknowledges that the rental payable to Lessor hereunder does not include the cost of guard service or other security measures, and that Lessor shall have no obligation whatsoever to provide same. Lessee assumes all responsibility for the protection of the Premises, Lessee, its agents and invitees and their property from the acts of third parties.

42. RESERVATIONS. Lessor reserves the right, from time to time, to grant, without the consent or joinder of Lessee, such easements, rights of way, utility raceways, and dedications that Lessor deems necessary, and to cause the recordation of parcel maps and restrictions, so long as such easements, rights of way, utility raceways, dedications, maps and restrictions do not reasonably interfere with the use of the Premises by Lessee. Lessee agrees to sign any documents reasonably requested by Lessor to effectuate any such easement rights, dedication, map or restrictions.

43. PERFORMANCE UNDER PROTEST. If at any time a dispute shall arise as to any amount or sum of money to be paid by one Party to the other under the provisions hereof, the Party against whom the obligation to pay the money is asserted shall have the right to make payment "under protest" and such payment shall not be regarded as a voluntary payment and there shall survive the right on the part of said Party to institute suit for recovery of such sum. If it shall be adjudged that there was no legal obligation on the part of said Party to pay such sum or any part thereof, said Party shall be entitled to recover such sum or so much thereof as it was not legally required to pay under the provisions of this Lease.

44. AUTHORITY. If either Party hereto is a corporation, trust, or general or limited partnership, each individual executing this Lease on behalf of such entity represents and warrants that he or she is duly authorized to execute and deliver this Lease on its behalf. If Lessee is a corporation, trust or partnership, Lessee shall, within thirty (30) days after request by Lessor, deliver to Lessor evidence satisfactory to Lessor of such authority.

45. CONFLICT. Any conflict between the printed provisions of this Lease and the typewritten or handwritten provisions shall be controlled by the typewritten or handwritten provisions.

46. OFFER. Preparation of this Lease by either Lessor or Lessee or Lessor's agent or Lessee's agent and submission of same to Lessee or Lessor shall not be deemed an offer to lease. This Lease is not intended to be binding until executed and delivered by all Parties hereto.

47. AMENDMENTS. This Lease may be modified only in writing, signed by the parties in interest at the time of the modification. The Parties shall amend this Lease from time to time to reflect any adjustments that are made to the Base Rent or other rent payable under this Lease. As long as they do not materially change Lessee's obligations hereunder, Lessee agrees to make such reasonable non-monetary modifications to this Lease as may be reasonably required by an institutional insurance company or pension plan Lender in connection with the obtaining of normal financing or refinancing of the property of which the Premises are a part.

48. MULTIPLE PARTIES. Except as otherwise expressly provided herein, if more than one person or entity is named herein as either Lessor or Lessee, the obligations of such multiple parties shall be the joint and several responsibility of all persons or entities named herein as such Lessor or Lessee.

LESSOR AND LESSEE HAVE CAREFULLY READ AND REVIEWED THIS LEASE AND EACH TERM AND PROVISION CONTAINED HEREIN, AND BY THE EXECUTION OF THIS LEASE SHOW THEIR INFORMED AND VOLUNTARY CONSENT THERETO. THE PARTIES HEREBY AGREE THAT, AT THE TIME THIS LEASE IS EXECUTED, THE TERMS OF THIS LEASE ARE COMMERCIALLY REASONABLE AND EFFECTUATE THE INTENT AND PURPOSE OF LESSOR AND LESSEE WITH RESPECT TO THE PREMISES.

IF THIS LEASE HAS BEEN FILLED IN, IT HAS BEEN PREPARED FOR YOUR ATTORNEY'S REVIEW AND APPROVAL. FURTHER, EXPERTS SHOULD BE CONSULTED TO EVALUATE THE CONDITION OF THE PROPERTY AS TO THE POSSIBLE PRESENCE OF ASBESTOS, UNDERGROUND STORAGE TANKS OR HAZARDOUS SUBSTANCES. NO REPRESENTATION OR RECOMMENDATION IS MADE BY THE AMERICAN INDUSTRIAL REAL ESTATE ASSOCIATION OR BY THE REAL ESTATE BROKERS OR THEIR CONTRACTORS, AGENTS OR EMPLOYEES AS TO THE LEGAL SUFFICIENCY, LEGAL EFFECT, OR TAX CONSEQUENCES OF THIS LEASE OR THE TRANSACTION TO WHICH IT RELATES; THE PARTIES SHALL RELY SOLELY UPON THE ADVICE OF THEIR OWN COUNSEL AS TO THE LEGAL AND TAX CONSEQUENCES OF THIS LEASE. IF THE SUBJECT PROPERTY IS IN A STATE OTHER THAN CALIFORNIA, AN ATTORNEY FROM THE STATE WHERE THE PROPERTY IS LOCATED SHOULD BE CONSULTED.

The parties hereto have executed this Lease at the place on the dates specified above to their respective signatures.

| | |
|---|---|
| Executed at Monrovia CA | Executed at Greendale, CA |
| on Sept. 25, 1997 | on: 9/4/97 |
| By LESSOR: | By LESSEE: |
| Dillingham Partners | Amerigon Inc. |
| | |
| By: /s/ Allen Gillespie | By: /s/ [ILLEGIBLE] |
| Name Printed: Allen Gillespie | Name Printed: CFO |
| Title: Partner | Title: |
| By: /s/ Lon E. Bell | By: |
| Name Printed: Lon E. Bell | Name Printed: |
| Title: Partner | Title: |
| Address: | Address: |
| | |
| Telephone: ( ) | Telephone: ( ) |
| Facsimile: ( ) | Facsimile: ( ) |

NOTICE: These forms are often modified to meet changing requirements of law and needs of the industry. Always write or call to make sure you are utilizing the most current form: AMERICAN INDUSTRIAL REAL ESTATE ASSOCIATION, 700 South Flower Street, Suite 600, Los Angeles, CA 90017, (213) 687-8777.

ADDENDUM A TO LEASE DATED _____
BY AND BETWEEN
DILLINGHAM PARTNERS,
A California General Partnership, ("Lessor")
AND
AMERIGON INCORPORATED, A California Corporation, ("Lessee")
Regarding a certain portion of the Building at
5462 N. Irwindale Avenue, Irwindale, California 91706

49. OPTION TO ACQUIRE ADDITIONAL SPACE

Amerigon is hereby granted an option, expiring December 31, 2000, to add additional space in the Building to its lease. This option can be exercised in portions from time to time as required by Amerigon. The space reserved for Kemac Technologies Inc. ("Kemac") as of January 1, 1998 (shown as Exhibit B to this Lease) will be excluded from this option except that with one year prior notice to Kemac and Landlord, this space may be leased by Amerigon as of January 1, 2001. Further, in regards to any other space which is in use by other tenants, Landlord may require 6 months notice by Amerigon of its election to add this space to its Lease. Amerigon's option to lease space occupied by Kemac will not be in effect unless Amerigon has, or will have at the time of taking over Kemac space, all other space within the Building included in its Lease.

Landlord and Amerigon will mutually determine the configuration of space to be added to Amerigon's Lease under this option, reasonably weighting the requirements of Amerigon's operation with Landlord's need for access and the ability to get some economic use out of space not included in Amerigon's Lease.

In the event that Amerigon has not added space to its initial Lease such that a minimum of 45,000 square feet is included in Amerigon's Lease by January 1, 2001, Landlord may terminate this entire Lease as of that date or any subsequent date with 6 months prior notice.

50. ASSIGNMENT OF SQUARE FOOTAGE IN FIRST FLOOR RESTROOMS.

The only common area within the Building is the restrooms along the west wall on the first floor. These restrooms are shared by all users of space on the first floor. Square footage of restrooms and hall on west side of restrooms is 1646 square feet. Responsibility for this square footage will be apportioned based upon the percentage of Lessee's first floor space to all first floor space. Initial allocation to Lessee is zero square feet because Lessee has determined that it will not use the first floor restrooms. Lessee's share of restroom space will be

included in calculations of Lessee's leased space for all purposes under this Lease.

51. RESPONSIBILITY FOR MAINTENANCE AND CLEANING OF FIRST FLOOR RESTROOMS

Maintenance and cleaning will be provided by Landlord and included in Common Area Assessment for all tenants using these restrooms unless all tenants using these restrooms notify Landlord that they have agreed between themselves on a plan to provide these services.

52. ALLOCATIONS OF ELECTRICITY, WATER AND GAS EXPENSE

Total electricity costs for the Building will be allocated between tenants as follows. Each tenant's monthly electricity usage for individual significant items of equipment including manufacturing and test equipment will be estimated by an independent party. The monthly cost of this electricity will be charged to each tenant respectively. The remaining unrecovered portion of the Building's monthly electric bill(s) will be allocated to and paid by each tenant based upon the ratio of the square footage occupied by each tenant to the total leased square footage of all tenants. Any tenant may request a reevaluation of the electricity usage of all manufacturing and test equipment at any time except that reassessments will not be conducted unless at least 6 months has passed since the most recent assessment. Lessee is responsible for its portion of the Building's total electricity cost as allocated in this Paragraph. Allocation of gas and water costs will be based upon the ratio of the square footage occupied by each tenant to the total leased square footage of all tenants.

53. TENANT IMPROVEMENT ALLOWANCE

Based upon Amerigon's requests for certain alterations including the addition of exterior windows in upstairs offices, new carpeting in upstairs office area, reconfiguration of several offices, replacement of stained or defective ceiling tiles and grids, and some repainting, Landlord grants Amerigon a $70,000 tenant improvement allowance. Landlord will be responsible for contracting work to be performed. Amerigon will have the right of approval on all work plans. Any costs for these alterations made and paid by Landlord which exceed $70,000 will be itemized with a complete accounting of tenant improvement costs presented to Amerigon and Amerigon will reimburse Landlord within 15 days for these costs. The costs of improvements cannot exceed $70,000 without Amerigon's prior written approval.

54. ADJUSTMENTS TO LEASE RATE

If and when Amerigon elects to add additional space to the Leased Premises, the Lease Rate will be adjusted such that the rate for all space under the Lease is as follows:

| | |
|---|---|
| Less than 35,000 square feet | $.55/foot/month |
| 35,000-44,999 square feet | $.50/foot/month |
| 45,000 square feet or more | $.45/foot/month |

55. LESSEE'S SHARE OF COMMON AREA OPERATING EXPENSES

Lessee's share of Common Area Operating Expenses will be calculated using the proportion which the square footage of Lessee's space under this Lease at any time bears to the total leased space in the Building.

56. HAZARDOUS MATERIAL INDEMNIFICATION FROM LESSOR

This paragraph is to be interpreted in conjunction with Paragraph 6.2 (c) and does not take priority over or reduce the effect of any provision of Paragraph 6.2 (c).

To the fullest extent permitted by law, Lessor shall indemnify, hold harmless, protect and defend (with attorneys reasonably acceptable to Lessee), Lessee and any successors to all or any portion of Lessee's interest in the Premises from and against the cost of any required Hazardous Material remediation work, including any attendant costs of repair, restoration, clean-up or detoxification of the Premises, the Building or the Project, to the extent such work is required by any governmental agency or otherwise by applicable law, and the preparation of any closure or other required plans, whether or not such action is required or necessary during the Term or after the expiration of this Lease, except to the extent that any such Hazardous Material was introduced by Lessee, it agents, employees, contractors or subLessees. If Lessee at any time discovers that Lessor may have caused or voluntarily permitted the release of any Hazardous Materials on, under, from or about the Premises in contravention of applicable law, Lessor shall immediately prepare and submit to Lessee a comprehensive plan specifying the actions to be taken by the Lessor to return the Premises to the condition existing prior to the introduction of such Hazardous Materials. Lessor shall at its expense and without limitation of any rights and remedies of Lessee under the Lease or at law or in equity, immediately implement such plan and proceed to clean-up such Hazardous Materials in accordance with all applicable laws as required by such plan and this Lease.

EXHIBIT 23.1

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-03296) of Amerigon Incorporated of our report dated March xx, 1998 appearing on page F-2 of this Form 10-K.

PRICE WATERHOUSE LLP
Costa Mesa, California
March 26, 1998

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1,000

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|---|---|
| YEAR | |
| | DEC-31-1997 |
| | JAN-01-1997 |
| | DEC-31-1997 |
| | 6,037 |
| | 2,400 |
| | 1,335 |
| | (80) |
| | 35 |
| | 9,923 |
| | 1,719 |
| | (1,074) |
| | 10,568 |
| | 1,097 |
| | 0 |
| | 0 |
| | 0 |
| | 28,149 |
| | (18,719) |
| | 10,568 |
| | 0 |
| | 1,308 |
| | 0 |
| | 17,281 |
| | 0 |
| | 0 |
| | 71 |
| | (5,077) |
| | 0 |
| | (5,077) |
| | 0 |
| | (340) |
| | 0 |
| | (5,417) |
| | (0.62) |
| | (0.62) |