

PRELIMINARY OFFERING MEMORANDUM DATED NOVEMBER 28, 2011

NEW MULTIPURPOSE ISSUE
BOOK-ENTRY FORM ONLY

Ratings: S&P: "AA+"
Moody: "Aa1"
See "RATINGS" herein.

Interest on the Bonds is **not** excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended, or State of California personal income taxes. Special Counsel to the Institute expresses no opinion regarding any other federal or state tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See "TAX MATTERS" herein.

\$350,000,000*

CALIFORNIA INSTITUTE OF TECHNOLOGY
Taxable Bonds, Series 2011

comprised of

\$ _____ % Term Bonds due November 1, 20__ to Yield _____ % CUSIP No. _____ **
\$ _____ % Term Bonds due November 1, 20__ to Yield _____ % CUSIP No. _____ **

Dated: Date of Delivery

The California Institute of Technology Taxable Bonds, Series 2011 (the "Bonds"), are issuable in book-entry form in denominations of \$1,000 and integral multiples thereof. Interest on the Bonds is payable semiannually on each May 1 and November 1, commencing on May 1, 2012. The Bonds are subject to redemption prior to their respective stated maturities as described herein. See "THE BONDS—Redemption" herein.

The Bonds, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository of the Bonds. Individual purchases of the Bonds will be made in book-entry form only. Payments of principal of, premium, if any, and interest on the Bonds will be payable by U.S. Bank National Association, as trustee (the "Trustee"), directly to DTC, which will in turn remit such payments to DTC Participants for subsequent disbursement to the Beneficial Owners of the Bonds, all as more fully described herein. Purchasers will not receive certificates representing Bonds purchased by them. See APPENDIX D—"Book-Entry System." Certain terms used but not defined herein shall have the meanings given to such terms in APPENDIX C—"FORM OF INDENTURE—CERTAIN DEFINITIONS."

The Bonds are general unsecured obligations of the California Institute of Technology (the "Institute") payable from the Institute's general funds and any funds provided under that certain Indenture, dated as of November 1, 2011 (the "Indenture") between the Institute and the Trustee.

The Bonds are being issued for the purpose of (i) financing and refinancing the cost of the acquisition, construction, installation, improvement, renovation, rehabilitation, furnishing and/or equipping of certain educational facilities of the Institute, including the refunding of certain revenue bonds previously issued by the California Educational Facilities Authority (the "Authority") on behalf of the Institute*, (ii) for any corporate purpose deemed appropriate by the Institute, and (iii) paying certain costs in connection with the issuance of the Bonds. See "PLAN OF FINANCING" and "SOURCES AND USES OF FUNDS" herein.

This cover page contains certain information for general reference only. It is not intended as a summary of this transaction. Investors are advised to read the entire Offering Memorandum to obtain information in order to make an informed decision.

The Bonds are offered by the Underwriters when, as and if issued by the Institute and accepted by the Underwriters, subject to the approval of validity by Latham & Watkins LLP in Los Angeles, California, Special Counsel to the Institute, and subject to certain other conditions. Certain legal matters will be passed upon for the Underwriters by Orrick, Herrington & Sutcliffe LLP, and for the Institute by Victoria D. Stratman, Esq., Pasadena, California, the Institute's General Counsel, and by Special Counsel to the Institute. Prager & Co., LLC has acted as Financial Advisor to the Institute in connection with the issuance of the Bonds. It is expected that the Bonds will be available in book-entry form for delivery through the facilities of DTC in New York, New York, on or about December __, 2011.

Goldman, Sachs & Co.

Morgan Stanley

Barclays Capital

Wells Fargo Securities

Dated: December __, 2011

* Preliminary, subject to change.

** Final maturity date to be determined. CUSIP Copyright 2011, American Bankers Association. CUSIP numbers are provided for convenience of reference only. Neither the Institute nor the Underwriters assumes any responsibility for the accuracy of such numbers. CUSIP data herein is provided by Standard & Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc.

This Preliminary Offering Memorandum and the information contained herein are subject to completion or amendment. Under no circumstances shall this Preliminary Offering Memorandum constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of, these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration, qualification or filing under the securities laws of any such jurisdiction.

This Offering Memorandum does not constitute an offer to sell the Bonds in any jurisdiction in which or to any person to whom it is unlawful to make such an offer. No dealer, broker, salesperson or other person has been authorized by the Institute or the Underwriters to give any information or to make any representations, other than those contained herein, in connection with the offering of the Bonds and, if given or made, such information or representations must not be relied upon. All information set forth herein has been obtained from the Institute and other sources which are believed to be current and reliable, but it is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Underwriters. Estimates and opinions are included and should not be interpreted as statements of fact. Summaries of documents do not purport to be complete statements of their provisions. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Offering Memorandum nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Institute since the date hereof.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the Bonds, or determined that this Offering Memorandum is accurate or complete. Any representation to the contrary is a criminal offense. The Bonds have not been and will not be registered under the Securities Act of 1933, as amended (the "Securities Act"), and are being issued in reliance on an exemption or on exemptions contained therein. The Bonds are not exempt in every jurisdiction in the United States; some jurisdictions' securities laws (the "blue sky laws") may require a filing and a fee to secure the Bonds' exemption from registration.

The Underwriters have provided the following sentence for inclusion in this Offering Memorandum: The Underwriters have reviewed the information in this Offering Memorandum in accordance with, and as part of their respective responsibilities to investors under, the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

The Institute maintains a website. However, the information presented on that website is not part of this Offering Memorandum and should not be relied upon in making investment decisions with respect to the Bonds.

In connection with this offering, the Underwriters may overallocate or effect transactions that stabilize or maintain the market price of the Bonds at levels above those which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING STATEMENTS IN THIS OFFERING MEMORANDUM.

Certain statements included or incorporated by reference in this Offering Memorandum constitute "forward-looking statements." Such statements are generally identifiable by the terminology used, such as "plan," "expect," "estimate," "project," "budget" or other similar words. Such forward-looking statements include, but are not limited to, certain statements contained in the information in APPENDIX A—"CALIFORNIA INSTITUTE OF TECHNOLOGY."

THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVES KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS THAT MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS AS THEY OCCUR AND BECOME KNOWN OVER TIME TO BE MATERIALLY DIFFERENT FROM THOSE EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. SUBJECT TO ANY LEGAL RESPONSIBILITIES TO THE CONTRARY, AS ACTUAL FACTS DEVELOP OVER TIME AND CERTAIN RESULTS OR OTHER EXPECTATIONS ARE CORRESPONDINGLY MODIFIED OR CONFIRMED, NEITHER THE INSTITUTE NOR THE UNDERWRITERS PLAN TO ISSUE ANY UPDATES OR REVISIONS TO SUCH FORWARD-LOOKING STATEMENTS.

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OFFERING MEMORANDUM

\$350,000,000*

CALIFORNIA INSTITUTE OF TECHNOLOGY TAXABLE BONDS, SERIES 2011

SUMMARY STATEMENT

This Summary Statement does not purport to be complete, and reference is made to the entire Offering Memorandum, the Appendices and the documents referred to herein for more complete statements with respect to the matters summarized. Set forth in APPENDIX C—"FORM OF INDENTURE" are definitions of certain terms defined and used in the Indenture and this Offering Memorandum, and the form of the Indenture.

The Bonds

The California Institute of Technology Taxable Bonds, Series 2011 (the "Bonds"), will be issued pursuant to that certain Indenture, dated as of December 1, 2011 (the "Indenture"), between the California Institute of Technology (the "Institute") and U.S. Bank National Association, as trustee (the "Trustee"). The Bonds will be dated the date of delivery thereof and are issuable in fully registered form in denominations of \$1,000 and any integral multiples thereof.

The Bonds are subject to redemption prior to their respective stated maturities as described herein. See "THE BONDS—Redemption" herein. Interest on the Bonds will be payable on May 1, 2012, and semiannually thereafter on each May 1 and November 1 (each an "Interest Payment Date").

The Bonds, when issued, will be in book entry form and registered in the name of Cede & Co., the nominee of The Depository Trust Company, New York, New York ("DTC"). It is expected that the Bonds will be available for delivery through the facilities of DTC in New York, New York, on or about December __, 2011.

Purposes of the Issue

The proceeds of the Bonds will be used (i) to finance and refinance the cost of the acquisition, construction, installation, improvement, renovation, rehabilitation, furnishing and/or equipping of certain educational facilities of the Institute, including the refunding of certain revenue bonds previously issued by the California Educational Facilities Authority (the "Authority") on behalf of the Institute*, (ii) for any corporate purpose deemed appropriate by the Institute; and (iii) to pay certain costs in connection with the issuance of the Bonds. See "PLAN OF FINANCING" and "SOURCES AND USES OF FUNDS" herein.

Security and Sources of Payment for the Bonds

The Institute is obligated to pay the principal of, premium, if any, and interest on the Bonds from available general funds of the Institute and any funds available therefor under the Indenture. Pursuant to the Indenture, the Institute has pledged to the Trustee for the benefit of the Holders of the Bonds its absolute and unconditional general obligation to pay the principal of (whether at maturity, by redemption or by acceleration), and premium, if any, and interest on the Bonds and any other amounts held in any fund or account established pursuant to the Indenture. The Indenture contains certain covenants for the

* Preliminary, subject to change.

protection of Holders of the Bonds, but does not restrict the ability of the Institute to incur additional debt or to grant security therefor. The Bonds are not secured by a reserve fund, mortgage lien or security interest on or in any funds or other assets of the Institute, except funds held under the Indenture for the benefit of the Holders of the Bonds. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS” and APPENDIX C—“FORM OF INDENTURE.”

The Institute

The Institute is a privately supported research institution located on a campus of approximately 124 acres in Pasadena, California. With over 700 faculty, some 570 postdoctoral scholars, and approximately 950 undergraduate and 1,200 graduate students, the Institute is known as one of the most prestigious educational institutions of science and engineering in the world. The Institute is also a major science and engineering research center. For further information concerning the Institute, see APPENDIX A—“CALIFORNIA INSTITUTE OF TECHNOLOGY.”

Financial Condition of the Institute

A summary of certain information concerning material financial developments since September 30, 2010, the financial condition of the Institute for the fiscal year ended September 30, 2010, and for each of the immediately preceding four fiscal years is presented in APPENDIX A—“CALIFORNIA INSTITUTE OF TECHNOLOGY—FINANCIAL CONDITION OF THE INSTITUTE.” The Institute’s audited financial statements for the fiscal years ended September 30, 2010, and 2009, are contained in APPENDIX B—“FINANCIAL STATEMENTS OF CALIFORNIA INSTITUTE OF TECHNOLOGY.” Both APPENDIX A and APPENDIX B should be read in their entirety and carefully reviewed by prospective investors.

Miscellaneous

Included in this Offering Memorandum and the Appendices hereto are descriptions of the Institute, the Bonds and the Indenture. All references herein to the Indenture are qualified in their entirety by reference to the terms thereof, and the information with respect thereto, included in the Indenture. All descriptions are further qualified in their entirety by reference to laws relating to or affecting the enforcement of creditors’ rights. The agreements of the Institute with the Holders of Bonds are fully set forth in the Indenture, and neither any advertisement of the Bonds nor this Offering Memorandum is to be construed as constituting an agreement with the purchasers of the Bonds. Insofar as any statements are made in this Offering Memorandum involving matters of opinion regardless of whether expressly so stated, they are intended merely as such and not as representations of fact. The information and expressions of opinion herein speak only as of their date and are subject to change without notice. Neither delivery of the Offering Memorandum nor any sale made hereunder nor any future use of this Offering Memorandum shall, under any circumstances, create any implication that there has been no change in the affairs of the Institute.

Additional information regarding this Offering Memorandum and copies of the documents referred to herein may be obtained by contacting Goldman, Sachs & Co., as representative for itself and Morgan Stanley & Co. LLC, Barclays Capital Inc. and Wells Fargo Securities (collectively, the “Underwriters”).

PLAN OF FINANCING

Refunding of Prior Bonds*

A portion of the net proceeds of the Bonds will be applied to effect a current refunding of all of the California Educational Facilities Authority Revenue Bonds (California Institute of Technology) Series 1998, outstanding in the aggregate principal amount of \$103,865,000 (the “Prior Bonds”). The Prior Bonds were used to finance and refinance the cost of the acquisition, construction, installation, improvement, renovation, rehabilitation, furnishing and/or equipping of certain educational facilities of the Institute. Pursuant to the terms of the Indenture, the Trustee will transfer such portion of the net proceeds of the Bonds to the trustee for the Prior Bonds for payment of the redemption price of the Prior Bonds. The Institute will also transfer its internal funds to the trustee for the Prior Bonds for payment of the accrued interest on the Prior Bonds upon their redemption. The Prior Bonds will be redeemed on the first available call date for the Prior Bonds, as set forth in the indenture for the Prior Bonds, and the Institute expects that the Prior Bonds will be redeemed at the earliest available call date, which is currently estimated to be approximately 30 days after the issuance of the Bonds.

New Educational Facilities and Corporate Purposes

The remaining net proceeds of the Bonds, together with other moneys of the Institute, will be applied to finance: (i) the cost of the acquisition, construction, installation, improvement, renovation, rehabilitation, furnishing and/or equipping of certain educational facilities of the Institute, including the refunding of any revenue bonds issued for such purposes; (ii) any other corporate purpose deemed appropriate by the Institute; and (iii) to pay certain costs in connection with the issuance of the Bonds.

The Institute’s obligation to pay principal of, premium, if any, and interest on the Bonds is not contingent on completion or beneficial occupancy of any of these projects.

Commercial Paper Program

The Institute has authorized and may issue, from time to time, tax-exempt and/or taxable commercial paper that may be outstanding from time to time (the “Commercial Paper Program”), the net proceeds of which will be applied by the Institute to finance the cost of the acquisition, construction, installation, improvement, renovation, rehabilitation, furnishing and/or equipping of certain educational facilities of the Institute. While the Commercial Paper Program is in place, the Institute has no authorization to incur additional debt absent action by its Board of Trustees. There is currently no commercial paper outstanding under the Commercial Paper Program. For further information regarding the Commercial Paper Program, see APPENDIX A—“CALIFORNIA INSTITUTE OF TECHNOLOGY—FINANCIAL CONDITION OF THE INSTITUTE—Institute Indebtedness.”

From and after the date on which the Bonds are delivered, the aggregate outstanding principal amount of indebtedness of the Institute and of the Authority issued on behalf of the Institute will be approximately \$_____, which includes the Bonds and the Prior Bonds.* From and after the date approximately 30 days after the date on which the Bonds are delivered, the aggregate outstanding principal amount of indebtedness of the Institute and of the Authority issued on behalf of the Institute will be approximately \$_____, which includes the Bonds but excludes the Prior Bonds.*

* Preliminary, subject to change.

SOURCES AND USES OF FUNDS

The proceeds of the Bonds are expected to be used as follows:

Sources

Principal Amount of Bonds	\$
Original Issue Premium/Discount	
Total Sources	\$

Uses

Refunding of Prior Bonds ⁽¹⁾ *	\$
Proceeds Fund	
Total Uses	\$

⁽¹⁾ The refunding of the Prior Bonds will occur on the first available call date for the Prior Bonds, as set forth in the indenture for the Prior Bonds.

* Preliminary, subject to change.

THE BONDS

Description

The Bonds are issuable in fully registered form in denominations of \$1,000 and integral multiples thereof. The Bonds will be dated the date of delivery thereof, will bear interest from that date except as otherwise provided in the Indenture, and will mature in the amounts and on the dates, and bear interest at the rates, set forth on the cover page of this Offering Memorandum.

Interest on the Bonds will be payable semiannually on each May 1 and November 1, commencing on May 1, 2012. Interest on the Bonds shall be calculated based on a 360 day year consisting of twelve 30-day months.

The principal of and premium, if any, on the Bonds shall be payable in lawful money of the United States of America upon surrender at the Principal Corporate Trust Office of the Trustee. The interest on any Bond shall be payable to the person whose name appears on the registration books of the Trustee as the registered owner thereof as of the close of business on the Record Date for each Interest Payment Date, such interest to be paid by check mailed by first class mail, postage prepaid, on such Interest Payment Date, to the registered owner at his or her address as it appears on such registration books. Notwithstanding the foregoing, however, any Holder of all the Bonds and any Holder of \$1,000,000 or more in an aggregate principal amount of the Bonds shall be entitled to receive payments of interest on the Bonds held by it by wire transfer of immediately available funds to such bank or trust company located within the United States of America as such Holder shall designate in writing to the Trustee by the first Record Date for such payment. So long as Cede & Co. is the registered owner of the Bonds, principal of, premium, if any, and interest on the Bonds are payable by wire transfer in same day funds by the Trustee to Cede & Co., as nominee of DTC.

Book Entry System

The information in this section and in APPENDIX D—"BOOK ENTRY SYSTEM" concerning DTC and DTC's book entry system has been obtained from sources that the Institute believes to be reliable, but the Institute takes no responsibility for the accuracy thereof.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully registered securities registered in the name of Cede & Co., as nominee of DTC. One fully registered Bond certificate will be issued for each maturity of the Bonds in the aggregate principal amount of such maturity and will be deposited with DTC. DTC holds securities that its Participants (as defined in APPENDIX D—"BOOK ENTRY SYSTEM") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions in deposited securities through electronic computerized book entry changes in Participants' accounts, thereby eliminating the need for the physical movement of securities certificates.

So long as the Bonds are held in book-entry form by DTC, all payments of principal of, premium, if any, and interest on the Bonds will be made pursuant to DTC's rules and procedures. See APPENDIX D—"BOOK ENTRY SYSTEM."

In the event (i) DTC determines not to continue to act as Securities Depository for the Bonds, or (ii) DTC shall no longer so act and gives notice to the Trustee of such determination, or (iii) the Institute determines that DTC is no longer able to carry out its functions as Securities Depository or the Institute determines that it is in the best interest of the Institute to remove DTC from its functions as Securities

Depository, DTC's services may be discontinued and transferred pursuant to the terms of the Indenture. Generally, with respect to transfer, the Indenture provides that if the Institute determines to replace DTC or its successor with another qualified Securities Depository, then upon receipt of the Outstanding Bonds by the Trustee, a single new Bond for each maturity shall be executed and delivered in the aggregate principal amount of the Bonds of such maturity then Outstanding, registered in the name of such replacement qualified Securities Depository or its nominee, as the case may be. Upon the discontinuance or termination of the services of DTC with respect to the Bonds, unless a substitute Securities Depository is appointed by the Institute to undertake the functions of DTC under the Indenture, the Institute is obligated to deliver Bond certificates to or upon the order of the Beneficial Owners of such Bonds, as described in the Indenture, and such Bonds shall no longer be restricted to being registered in the registration books kept by the Trustee in the name of the Nominee, but may be registered in whatever name or names Bondholders transferring or exchanging such Bonds shall designate, in accordance with the provisions of the Indenture.

Redemption

Optional Redemption. The Bonds are subject to redemption prior to their stated maturity in whole or in part on any date, at the option of the Institute, at the Make-Whole Redemption Price, as specified by the Institute in a Request of the Institute delivered to the Trustee prior to the date of redemption, together with accrued interest to the date fixed for redemption.

“Comparable Treasury Issue” shall mean the United States Treasury security or securities selected by a Designated Investment Banker as having an actual or interpolated maturity comparable to the remaining term of the Bonds to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of a comparable maturity to the remaining term of such Bonds.

“Comparable Treasury Price” shall mean, with respect to any redemption date, the average of the Reference Treasury Dealer Quotations for such redemption date or, if the Designated Investment Banker obtains only one Reference Treasury Dealer Quotation, such Reference Treasury Dealer Quotation.

“Designated Investment Banker” shall mean Goldman, Sachs & Co. or one of the other Reference Treasury Dealers appointed by the Institute.

“Make-Whole Redemption Price” shall mean the greater of:

- (1) 100% of the principal amount of any Bonds being redeemed; and
- (2) the sum of the present values of the remaining scheduled payments of principal and interest on any Bonds being redeemed (exclusive of interest accrued to the date of redemption) discounted to the redemption date on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus [] basis points.

“Reference Treasury Dealer” shall mean Goldman, Sachs & Co., or other securities dealer as specified by the Institute from time to time, that is a primary United States Government securities dealer in the City of New York (each a “Primary Treasury Dealer”); provided, however, that if such dealer ceases to be a Primary Treasury Dealer, the Institute will substitute another Primary Treasury Dealer.

“Reference Treasury Dealer Quotations” shall mean, with respect to each Reference Treasury Dealer and any redemption date for a particular Bond, the average, as determined by the Designated Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case

as a percentage of its principal amount) quoted in writing to the Designated Investment Banker by such Reference Treasury Dealer at 3:30 P.M., New York City time, on the Valuation Date.

“Treasury Rate” shall mean, with respect to any redemption date, the rate per annum equal to the semiannual equivalent yield to maturity or interpolated (on a day count basis) of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

“Valuation Date” shall mean any date that is two to forty-five Business Days preceding the redemption date, as determined by the Institute.

Mandatory Redemption. The Bonds are not subject to mandatory redemption prior to their stated maturity.

Notice of Redemption. So long as DTC is acting as Securities Depository for the Bonds, notice of redemption, containing the information required by the Indenture, will be mailed by first class mail, postage prepaid, not less than 10 days nor more than 30 days prior to the date fixed for redemption, by the Trustee to DTC (not to the Beneficial Owners of any Bonds designated for redemption). Pursuant to the Indenture, notice of redemption will be mailed by the Trustee to (i) the respective Holders of any Bonds designated for redemption at their addresses appearing on the Bond registration books of the Trustee on the date such notice is mailed, (ii) the Securities Depositories, (iii) one or more Information Services; and (iv) the Municipal Securities Rulemaking Board in accordance with the terms of the Indenture. Notices to the Information Services shall be mailed by the Trustee by certified, registered or overnight mail at the time of the mailing of notices to Bondholders. Notices to the Securities Depositories shall be given by telecopy or by certified, registered or overnight mail at least one Business Day before the mailing of notices to Bondholders.

The notice with respect to any redemption of Bonds may state that: (i) such redemption is conditional upon the receipt by the Trustee, on or prior to the date fixed for such redemption, of such moneys sufficient to pay the principal of, and premium, if any, and accrued but unpaid interest to the redemption date on, such Bonds to be redeemed, and that if such moneys shall not have been so received said notice shall be of no force and effect and such Bonds shall not be required to be redeemed; and (ii) such notice is revocable at any time by the Trustee, at the direction of the Institute, prior to the date fixed for redemption. In the event a notice of redemption of Bonds contains such conditions and sufficient moneys are not so received or the notice is so revoked, the redemption of Bonds as described in the conditional notice of redemption shall not be made and the Trustee shall, within a reasonable time after the date on which such redemption was to occur, give notice to the persons and in the manner in which the notice of redemption was given, that sufficient moneys were not so received or the notice was so revoked and that there will be no redemption of Bonds pursuant to the notice of redemption.

Selection of Bonds for Redemption. If less than all of the Bonds are called for redemption, the Trustee shall select the Bonds or any given portion thereof to be redeemed from the Bonds Outstanding or such given portion thereof not previously called for redemption, *pro rata*.

If the Bonds are registered in book-entry only form and so long as DTC or a successor Securities Depository is the sole registered owner of the Bonds, if less than all of the Bonds of a maturity are called for prior redemption, the particular Bonds or portions thereof to be redeemed shall be selected on a *pro rata* pass-through distribution of principal basis in accordance with DTC procedures, provided that, so long as the Bonds are held in book-entry form, the selection for redemption of such Bonds shall be made in accordance with the operational arrangements of DTC then in effect.

It is the Institute's intent that redemption allocations made by DTC be made on a *pro rata* pass-through distribution of principal basis as described above. However, the Institute can provide no assurance that DTC, DTC's direct and indirect participants or any other intermediary will allocate the redemption of Bonds on such basis. If the DTC operational arrangements do not allow for the redemption of the Bonds on a *pro rata* pass-through distribution of principal basis as discussed above, then the Bonds will be selected for redemption, in accordance with DTC procedures, by lot. The Trustee can provide no assurance how DTC and other parties allocate redemption payments.

Effect of Redemption. Once notice of redemption has been given pursuant to the Indenture and moneys for payment of the redemption price of, together with interest accrued to the redemption date on, the Bonds (or portions thereof) so called for redemption are on deposit with the Trustee, on the redemption date designated in such notice, the Bonds (or portions thereof) so called for redemption will become due and payable at the redemption price specified in such notice, together with interest accrued thereon to the redemption date. Interest on the Bonds so called for redemption shall cease to accrue from and after the redemption date, said Bonds (or portions thereof) will cease to be entitled to any benefit or security under the Indenture, and the Holders of said Bonds will have no rights in respect thereof, except to receive payment of said redemption price and accrued interest to the redemption date. All Bonds fully redeemed pursuant to the Indenture shall be cancelled upon surrender thereof and the Trustee shall destroy such Bonds.

Disposition and Defeasance

The Bonds are subject to defeasance at any time prior to their stated maturities. Generally, upon the sale, exchange, redemption, or other disposition (which would include a legal defeasance) of a Bond, a holder generally will recognize taxable gain or loss in an amount equal to the difference between the amount realized (other than amounts attributable to accrued interest not previously includable in income) and such holder's adjusted tax basis in the Bond. See "TAX MATTERS - Consequences to U.S. Holders Sale, Exchange, Redemption or Other Taxable Disposition of Bonds." The Institute may cause the deposit of moneys or securities in escrow in such amount and manner as to cause the Bonds to be deemed to be no longer outstanding. For federal income tax purposes, such defeasance could result in a deemed exchange and a recognition by such owner of taxable income or loss, without any corresponding receipt of moneys. In addition, the character and timing of receipt of payments on the Bonds subsequent to any such defeasance could also be affected. U.S. holders should consult their tax advisors as to the specific consequences to them arising from a discharge in their particular situations.

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

The Bonds are payable from any payments to be made by the Institute pursuant to the Indenture with respect to the Institute's absolute and unconditional general obligation to pay the principal of (whether at maturity, by redemption or by acceleration), and premium, if any, and interest on the Bonds and any other amounts held in any fund or account established pursuant to the Indenture. Under the Indenture, the obligations of the Institute to pay the principal of (whether at maturity, by redemption or acceleration), and premium, if any, and interest on the Bonds are absolute and unconditional general obligations of the Institute. The Indenture contains certain covenants for the protection of Holders of the Bonds, but does not restrict the ability of the Institute to incur additional debt or to grant security therefor. **The Bonds are not secured by a reserve fund, mortgage lien or security interest on or in any funds or other assets of the Institute, except funds held under the Indenture for the benefit of the Holders of the Bonds.** See APPENDIX C—"FORM OF INDENTURE." For information concerning the financial condition of the Institute, see APPENDIX A—"CALIFORNIA INSTITUTE OF TECHNOLOGY—FINANCIAL CONDITION OF THE INSTITUTE" and APPENDIX B—"FINANCIAL STATEMENTS OF CALIFORNIA INSTITUTE OF TECHNOLOGY."

Pledged amounts are to be held in trust by the Trustee and are exclusively and irrevocably pledged for the security and payment of the principal of, premium, if any, and interest on the Bonds. *See* APPENDIX C—“FORM OF INDENTURE—Establishment of Bond Fund.”

INVESTMENT CONSIDERATIONS

An investment in the Bonds involves a variety of risks, certain of which are discussed below. The following are certain investment considerations and risk factors that have been identified by the Institute and should be carefully considered by prospective purchasers of the Bonds. However, the discussion below is not intended to be exhaustive. Investors should read this Offering Memorandum in its entirety. Inclusion of certain factors below is not intended to signify that there are not other investment considerations or risks attendant to the Bonds. *See* APPENDIX A—“CALIFORNIA INSTITUTE OF TECHNOLOGY” for additional information on the Institute. Prospective investors should consult their advisors prior to making an investment decision with respect to the Bonds.

General Considerations

Except as noted herein, the Bonds are payable from the general funds of the Institute and secured by the funds available therefor under the Indenture, which consist of payments to be made by the Institute, and from other funds and accounts available therefor and pledged under the Indenture. There can be no assurance that income and receipts will be realized by the Institute in amounts sufficient to pay the principal of, premium, if any, and interest on the Bonds. The Bonds are not secured by a reserve fund, mortgage lien or security interest on or in any funds or other assets of the Institute, except funds held under the Indenture for the benefit of the Holders of the Bonds.

The Institute also has the obligation to make payments under existing loan agreements in amounts sufficient to pay the principal of, premium, if any, and interest on certain previously issued bonds that will remain outstanding after the issuance of the Bonds. The ability of the Institute to generate sufficient revenues to meet its obligations under the Indenture and under prior loan agreements depends on a number of factors, including: (i) the ability of the Institute to provide educational and research services of the types and quality required to maintain its stature; (ii) the ability of the Institute to attract faculty, staff and management necessary to provide services and a student body of commensurate quality; (iii) the Institute’s ability to achieve enrollment, tuition and fundraising at levels sufficient to consistently enjoy operating surpluses; and (iv) the Institute’s ability to continue to provide financial aid to its students at sufficient levels in attractive combinations of scholarships, grants, loans and workstudy (if applicable). These factors in turn are affected by numerous future economic and other conditions, which could include possible adverse events such as the loss by the Institute of its accreditations; destruction or loss of a substantial portion of the Institute’s facilities; litigation; competition; discontinuation of favorable governmental policies and programs with respect to post secondary education (including financial aid available to students); changes in levels of governmental research funding and reimbursement for administrative overhead and infrastructure; the loss of contracts that provide significant revenues to the Institute; changes in the direction of demographic trends determining the number of college and post-graduate-aged persons in the general population; changes in actual or prospective levels of regional and national economic prosperity; the occurrence of natural, national or international calamities; changes in the competitive appeal and perceived quality of the Institute’s curriculum; changes in the demand for post high school education and for certain degrees; the ability and energy of the faculty and administration; a reduction in the amounts received by the Institute through fundraising efforts; a reduction in the Institute’s endowment as a result of investment losses; or a reduction in the value of the Institute’s assets as a result of other causes. There can be no assurance that the Institute’s income and receipts will not decrease. *See* APPENDIX A—“CALIFORNIA INSTITUTE OF TECHNOLOGY” and APPENDIX B—“FINANCIAL STATEMENTS OF CALIFORNIA INSTITUTE OF TECHNOLOGY.”

Further, as noted above, payments by the Institute under the Indenture are not secured by any funds or real or personal property of the Institute. The Indenture does not restrict the Institute under any circumstances from creating additional debt including, without limitation, bonds and commercial paper notes, and it does not restrict the Institute from pledging, mortgaging, granting a security interest in, disposing of, or conveying any of its property without making any provision for the security of the Bonds. For information on the Institute's outstanding indebtedness and current plans for future indebtedness, see APPENDIX A—"CALIFORNIA INSTITUTE OF TECHNOLOGY—FINANCIAL CONDITION OF THE INSTITUTE—Institute Indebtedness" and APPENDIX B—"FINANCIAL STATEMENTS OF CALIFORNIA INSTITUTE OF TECHNOLOGY."

Enforceability of Remedies

The remedies available to the Trustee or the Holders of Bonds upon an Event of Default under the Indenture are in many respects dependent upon judicial actions which are often subject to discretion and delay, and such remedies may not be readily available or may be limited. In particular, under the United States Bankruptcy Code, a bankruptcy case may be filed by the Institute or by any of its affiliates. In general, the filing of any such petition operates as a stay against enforcement of the terms of the agreements to which the bankrupt entity is a party, and in the bankruptcy process, executory contracts are subject to assumption or rejection by the bankrupt party. In the event of any such rejection, the non rejecting party or its assigns may become an unsecured claimant of the rejecting party. The various legal opinions to be delivered concurrently with the Bonds (including the Special Counsel's approving opinion) will be qualified as to the enforceability of the various legal instruments, by limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally and by general principles of equity applied in the exercise of judicial discretion.

Disposition and Defeasance

The Bonds are subject to defeasance at any time prior to their stated maturities. See "THE BONDS—Disposition and Defeasance." If the Institute defeases any Bonds, those Bonds may be deemed to be retired and "reissued" for federal income tax purposes as a result of the defeasance. In that event, the Owner of a Bond would recognize a gain or loss on the Bond at the time of defeasance. See – "TAX MATTERS - Consequences to U.S. Holders Sale, Exchange, Redemption or Other Taxable Disposition of Bonds." U.S. holders should consult their tax advisors as to the specific consequences to them arising from a discharge in their particular situations.

TAX MATTERS

The following is a summary of certain material United States federal income tax considerations relating to the purchase, ownership and disposition of the Bonds, but does not purport to be a complete analysis of all the potential tax considerations relating thereto. This summary is based upon the provisions of the Internal Revenue Code of 1986, as amended (the "Code"), Treasury Regulations promulgated thereunder, administrative rulings and judicial decisions, each as of the date hereof. These authorities may be changed, perhaps retroactively, so as to result in United States federal income tax consequences different from those set forth below. No ruling has been sought by the Institute from the Internal Revenue Service or an opinion of counsel with respect to the statements made and the conclusions reached in the following summary, and there can be no assurance that the Internal Revenue Service will agree with such statements and conclusions.

This summary is limited to holders who purchase the Bonds upon their initial issuance at their initial issue price (which will equal the first price at which a substantial amount of Bonds is sold to the public for cash) and who hold the Bonds as capital assets (generally, property held for investment). This

summary also does not address United States federal estate or gift tax laws or the tax considerations arising under the laws of any foreign, state or local jurisdiction. In addition, this discussion does not address all tax considerations that may be applicable to a holder's particular circumstances or to holders that may be subject to special tax rules, including, without limitation:

- holders subject to the alternative minimum tax;
- banks, insurance companies or other financial institutions;
- tax-exempt organizations;
- regulated investment companies or real estate investment trusts;
- dealers in securities or commodities;
- traders in securities that elect to use a mark-to-market method of accounting for their securities holdings;
- foreign persons or entities (except to the extent specifically set forth below);
- S-corporations, partnerships or other pass-through entities;
- expatriates and certain former citizens or long-term residents of the United States;
- "U.S. holders" (as defined below) whose "functional currency" is not the United States dollar;
- persons who hold the Bonds as a position in a hedging transaction, "straddle," "conversion transaction" or other risk reduction transaction; or
- persons deemed to sell the Bonds under the constructive sale provisions of the Code.

If a partnership (or other entity taxable as a partnership for United States federal income tax purposes) holds Bonds, the tax treatment of a partner in the partnership generally will depend upon the status of the partner and the activities of the partnership. Prospective investors who are partners of a partnership should consult their tax advisors regarding the tax consequences of the purchase, ownership and disposition of the Bonds.

THIS SUMMARY OF CERTAIN MATERIAL UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS IS FOR GENERAL INFORMATION ONLY AND IS NOT TAX ADVICE. PROSPECTIVE INVESTORS ARE URGED TO CONSULT THEIR TAX ADVISOR WITH RESPECT TO THE APPLICATION OF UNITED STATES FEDERAL INCOME TAX LAWS TO THEIR PARTICULAR SITUATION AS WELL AS ANY TAX CONSEQUENCES OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE BONDS ARISING UNDER UNITED STATES FEDERAL ESTATE OR GIFT TAX RULES OR UNDER THE LAWS OF ANY STATE, LOCAL, FOREIGN OR OTHER TAXING JURISDICTION OR UNDER ANY APPLICABLE TAX TREATY.

Consequences to U.S. Holders

The following is a summary of certain material United States federal income tax consequences that will apply a U.S. holder (as defined below) of the Bonds. Certain consequences to non-U.S. holders

(as defined below) of the Bonds are described under “—Consequences to Non-U.S. Holders” below. The term “U.S. holder” means a beneficial owner of a note that is:

- an individual who is a citizen or resident of the United States;
- a corporation (or other entity taxable as a corporation for United States federal income tax purposes) created or organized in or under the laws of the United States or of any state thereof or the District of Columbia;
- an estate the income of which is subject to United States federal income taxation regardless of its source; or
- a trust that (i) is subject to the primary supervision of a United States court and the control of one or more United States persons or (ii) has a valid election in effect under applicable Treasury Regulations to be treated as a United States person.

Original Issue Discount. The Bonds will be issued with OID if the Bonds’ stated principal amount exceeds their issue price (as defined above) by more than a statutorily defined *de minimis* amount. In the event the Bonds are issued with OID, a U.S. holder generally will be required to include in income the sum of the “daily portions” of OID with respect to the Bond for each day during the taxable year or portion of the taxable year in which such U.S. holder held such Bond (“accrued OID”) before such holder receives the associated cash payment, regardless of such holder’s accounting method for tax purposes. The daily portion is determined by allocating to each day in any “accrual period” a *pro rata* portion of the OID allocable to that accrual period. The “accrual period” for a Bond may be of any length and may vary in length over the term of the Bond, provided that each accrual period is no longer than one year and each scheduled payment of principal or interest occurs on the first day or the final day of an accrual period. The amount of OID allocable to any accrual period other than the final accrual period is an amount equal to (i) the product of the Bond’s “adjusted issue price” at the beginning of such accrual period and its yield to maturity, determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of such period, over (ii) the amount of stated interest allocable to such accrual period. OID allocable to a final accrual period is the difference between the amount payable at maturity and the adjusted issue price at the beginning of the final accrual period. The “yield to maturity” of a Bond is the discount rate that causes the present value of all payments scheduled to be made on the Bond as of its original issue date to equal the issue price of such Bond. The “adjusted issue price” of a Bond at the beginning of any accrual period is equal to its issue price increased by the accrued OID for each prior accrual period and reduced by the amount of any payments on the Bonds (other than payments of stated interest).]

Payments of Interest. A U.S. holder generally will be required to recognize any stated interest as ordinary income at the time it is paid or accrued on the Bonds in accordance with the U.S. holder’s regular method of accounting for United States federal income tax purposes.

Sale, Exchange, Redemption or Other Taxable Disposition of Bonds. A U.S. holder generally will recognize capital gain or loss upon the sale, exchange, redemption or other taxable disposition of a note in an amount equal to the difference between (i) the sum of cash plus the fair market value of all other property received on such disposition (except to the extent such cash or property is attributable to accrued but unpaid interest not previously included in income, which generally will be taxable as ordinary income) and (ii) such U.S. holder’s adjusted tax basis in the note. The adjusted tax basis in a note generally will equal the amount paid for the note. Under current law, if a U.S. holder is a non-corporate U.S. holder, including an individual, and has held the note for more than one year at the time of disposition, such capital gain generally will be subject to tax at a maximum rate of 15%, which maximum

tax rate currently is scheduled to increase to 20% for dispositions occurring during taxable years beginning on or after January 1, 2013. The ability to deduct capital losses may be limited.

Backup Withholding and Information Reporting. Payments of principal and interest [(including OID, if any)] on Bonds held by U.S. holders and the proceeds received upon the sale, exchange, redemption or other disposition of such Bonds may be subject to information reporting and backup withholding. Payments to certain holders (including, among others, certain tax-exempt organizations) are generally not subject to information reporting or backup withholding. Unless a U.S. holder is otherwise exempt, payments to a U.S. holder will be subject to backup withholding if:

- such U.S. holder fails to furnish their taxpayer identification number (“TIN”), which, for an individual, is ordinarily his or her social security number, in the manner required by the Code and applicable Treasury Regulations;
- the Institute or its agent (or other payor) are notified by the Internal Revenue Service that the TIN furnished by such U.S. holder is incorrect;
- there has been a “notified payee underreporting” with respect to interest or dividends paid to such U.S. holder, as described in the Code; or
- such U.S. holder has failed to certify under penalty of perjury that they have furnished a correct TIN and that they are not subject to backup withholding under the Code.

U.S. holders should consult their tax advisors regarding qualification for an exemption from backup withholding and information reporting and the procedures for obtaining such an exemption, if applicable. Backup withholding is not an additional tax, and U.S. holders may use amounts withheld under the backup withholding rules as a credit against their United States federal income tax liability or may claim a refund as long as the required information is provided to the Internal Revenue Service in a timely manner.

Consequences to Non-U.S. Holders

The following is a summary of certain material United States federal income tax consequences that will apply to a non-U.S. holder of Bonds. The term “non-U.S. holder” means a beneficial owner of a note that is not a U.S. holder.

Special rules may apply to certain non-U.S. holders such as “controlled foreign corporations” and “passive foreign investment companies.” Such entities should consult their tax advisors to determine the United States federal, state, local and other tax consequences that may be relevant to them.

Payments of Interest. The 30% United States federal withholding tax (described below) will not apply to any payment to a non-U.S. holder of interest on a note provided that such interest is not effectively connected with their conduct of a United States trade or business and:

- such non-U.S. holder does not own, actually or constructively, 10% or more of the total combined voting power of all classes of our stock entitled to vote;
- such non-U.S. holder is not a “controlled foreign corporation” with respect to which we are, directly or indirectly, a “related person”;

- such non-U.S. holder is not a bank receiving interest pursuant to a loan agreement entered into in the ordinary course of his or her trade or business; and

- (a) such non-U.S. holder provides its name and address, and certifies, under penalties of perjury, that it is not a United States person (which certification may be made on an Internal Revenue Service Form W-8BEN (or successor form)) or (b) a securities clearing organization, bank, or other financial institution that holds customers' securities in the ordinary course of its business holds the note on its behalf and certifies, under penalties of perjury, that it has received Internal Revenue Service Form W-8BEN from such non-U.S. holder or from another qualifying financial institution intermediary, and, in certain circumstances, provides a copy of the Internal Revenue Service Form W-8BEN. If a non-U.S. holder holds its Bonds through certain foreign intermediaries or certain foreign partnerships, such foreign intermediaries or partnerships must also satisfy the certification requirements of applicable Treasury Regulations.

If a non-U.S. holder cannot satisfy the requirements described above, such non-U.S. holder will be subject to the 30% United States federal withholding tax with respect to payments of interest on the Bonds, unless it provides us with a properly executed (1) Internal Revenue Service Form W-8BEN (or successor form) claiming an exemption from or reduction in withholding under the benefit of an applicable United States income tax treaty or (2) Internal Revenue Service Form W-8ECI (or successor form) stating that the interest paid on the note is not subject to withholding tax because it is effectively connected with its conduct of a trade or business in the United States.

If a non-U.S. holder is engaged in a trade or business in the United States and interest on a note is effectively connected with its conduct of that trade or business (and, if an income tax treaty applies, such interest is attributable to a permanent establishment maintained by such non-U.S. holder in the United States), such non-U.S. holder will be subject to United States federal income tax on that interest on a net income basis (although the non-U.S. holder will be exempt from the 30% withholding tax, provided the certification requirements described above are satisfied) in the same manner as if such non-U.S. holder were a United States person as defined under the Code. In addition, if a non-U.S. holder is a foreign corporation, such non-U.S. holder may be subject to a branch profits tax equal to 30% (or lower applicable treaty rate) of its earnings and profits for the taxable year, subject to adjustments, that are effectively connected with its conduct of a trade or business in the United States. For this purpose, interest will be included in the earnings and profits of such foreign corporation.

Sale, Exchange, Redemption or Other Taxable Disposition of Bonds. Any gain realized upon the sale, exchange, redemption or other taxable disposition of a note (other than any amount allocable to accrued and unpaid interest, which is taxable as interest and may be subject to the rules discussed above in “—Consequences to Non-U.S. Holders—Payments of Interest”) generally will not be subject to United States federal income tax unless:

- that gain is effectively connected with such non-U.S. holder's conduct of a trade or business in the United States (and, if an income tax treaty applies, such gain is attributable to a permanent establishment maintained by such non-U.S. holder in the United States); or

- such non-U.S. holder is an individual who is present in the United States for 183 days or more in the taxable year of that disposition, and certain other conditions are met.

If the non-U.S. holder's gain is effectively connected with its conduct of a United States trade or business (and, if an income tax treaty applies, such gain is attributable to a permanent establishment maintained by such non-U.S. holder in the United States), then the non-U.S. holder generally will be subject to United States federal income tax on the net gain derived from the sale, exchange, redemption or

other disposition in the same manner as if such non-U.S. holder were a United States person (as defined under the Code). If a non-U.S. holder is a corporation, any such effectively connected gain received by such non-U.S. holder may also, under certain circumstances, be subject to the branch profits tax at a 30% rate (or such lower rate as may be prescribed under an applicable United States income tax treaty). If a non-U.S. holder is described in the second bullet point above, such non-U.S. holder will be subject to United States federal income tax on the gain derived from the sale, exchange, redemption or other disposition at a 30% rate (or such lower rate as may be prescribed under an applicable United States income tax treaty), which gain may be offset by United States source capital losses, even though such non-U.S. holder is not considered a resident of the United States.

Backup Withholding and Information Reporting. A non-U.S. holder will generally not be subject to backup withholding and information reporting with respect to payments that we make to it, provided that we do not have actual knowledge or reason to know that such non-U.S. holder is a United States person, as defined under the Code, and such non-U.S. holder has given us the statement described above under “—Consequences to Non-U.S. Holders—Payments of Interest.” In addition, a non-U.S. holder will not be subject to backup withholding or information reporting with respect to the proceeds of the sale of a note within the United States or conducted through certain United States-related financial intermediaries, if the payor receives the statement described above and does not have actual knowledge or reason to know that such non-U.S. holder is a United States person, as defined under the Code, or such non-U.S. holder otherwise establishes an exemption. However, we may be required to report annually to the Internal Revenue Service and to non-U.S. holders the amount of, and the tax withheld with respect to, any interest paid to them [(including OID, if any)], regardless of whether any tax was actually withheld. Copies of these information returns may also be made available under the provisions of a specific treaty or agreement to the tax authorities of the country in which the non-U.S. holder resides.

A non-U.S. holder generally will be entitled to credit any amounts withheld under the backup withholding rules against its United States federal income tax liability provided that the required information is furnished to the Internal Revenue Service in a timely manner.

APPROVAL OF LEGAL PROCEEDINGS

The validity of the Bonds and certain other legal matters are subject to the approving opinion of Latham & Watkins LLP in Los Angeles, California, Special Counsel to the Institute. A complete copy of the proposed form of Special Counsel’s opinion is attached hereto as APPENDIX E. Approval of certain legal matters will be passed upon for the Institute by the Institute’s General Counsel, Pasadena, California and Latham & Watkins LLP, the Institute’s Special Counsel (collectively, “Institute Counsel”), and for the Underwriters by their counsel, Orrick, Herrington & Sutcliffe LLP (“Underwriters’ Counsel”). None of Special Counsel, Institute Counsel, nor Underwriters’ Counsel has undertaken any responsibility to the Holders of the Bonds for the accuracy, completeness or fairness of this Offering Memorandum.

LITIGATION

There is no litigation pending against the Institute contesting or affecting the authority for the issuance or delivery of the Bonds or the validity when executed and delivered of the Bonds or the Indenture or the collection of funds pledged under the Indenture, or in any way contesting the corporate existence or powers of the Institute which, if determined adversely to it, would materially adversely affect the security for the Bonds or the financial condition, assets or properties of the Institute. *See* APPENDIX A—“CALIFORNIA INSTITUTE OF TECHNOLOGY—Litigation and Other Matters.”

UNDERWRITING

The Institute has entered into a purchase contract with Goldman, Sachs & Co., as the representative of the Underwriters of the Bonds, pursuant to which the Underwriters have agreed, subject to certain conditions, to purchase the Bonds from the Institute at a price of \$_____ (being the principal amount of the Bonds of \$_____, plus/less original issue premium/discount of \$_____, less an Underwriters' discount of \$_____). The Underwriters are obligated to purchase all such Bonds if any are purchased. The Bonds may be offered and sold by the Underwriters to certain dealers and others at prices lower than such public offering prices, and such public offering prices may be changed, from time to time, by the Underwriters.

Morgan Stanley, the parent company of Morgan Stanley & Co. LLC, one of the Underwriters of the Bonds, has entered into a retail brokerage joint venture with Citigroup Inc. As part of the joint venture, Morgan Stanley & Co. LLC will distribute securities to retail investors through the financial advisor network of a new broker-dealer, Morgan Stanley Smith Barney LLC. This distribution arrangement became effective on June 1, 2009. As part of this arrangement, Morgan Stanley & Co. LLC will compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Bonds.

Pershing LLC, a subsidiary of The Bank of New York Mellon Corporation, and Barclays Capital Inc. established a strategic alliance in May of 2009, which enables Pershing LLC to participate as a selling group member and a retail distributor for all new issue bond offerings underwritten by Barclays Capital Inc., including the Bonds offered hereby. Pershing LLC will receive a selling concession from Barclays Capital Inc. in connection with its distribution activities relating to the Bonds.

Wells Fargo Securities is the trade name for certain capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Securities, LLC, member NYSE, FINRA, and SIPC.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. Certain of the Underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various investment banking services for the Institute, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the Institute.

INDEPENDENT ACCOUNTANTS

The financial statements of the Institute for the fiscal years ended September 30, 2010, and 2009, attached hereto as APPENDIX B, have been audited by PricewaterhouseCoopers LLP, independent accountants, as stated in their report appearing therein.

FINANCIAL ADVISOR

Prager & Co., LLC has acted as Financial Advisor to the Institute in connection with the issuance of the Bonds. The fees of the Financial Advisor are contingent upon issuance of the Bonds.

RATINGS

Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies Inc., and Moody's Investors Service, Inc. and have assigned the Bonds a rating of "AA+" and "Aa1," respectively. Any explanation of the significance of such ratings may be obtained only from the rating agency furnishing same.

The rating agencies were furnished with certain information and materials concerning the Bonds and the Institute. Generally, a rating agency bases its rating on such information and materials and on investigations, studies and certain assumptions by such rating agency. The rating reflects only the view of the rating agency assigning such rating. There is no assurance that the rating will continue for any given period of time or that it will not be lowered or withdrawn entirely if, in the judgment of the rating agency furnishing same, circumstances so warrant. The Underwriters have not undertaken any responsibility either to bring to the attention of the Holders of the Bonds any proposed change in or withdrawal of such ratings, and neither the Institute nor the Underwriters has undertaken any responsibility to oppose any such proposed revision or withdrawal. Any such change in or withdrawal of the ratings could have an adverse effect on the market price of the Bonds.

CONTINUING DISCLOSURE

While the Bonds are not subject to Rule 15c2-12 of the Securities and Exchange Commission relating to continuing disclosure of annual financial information and certain material events, the Institute has entered into continuing disclosure undertakings (the "Continuing Disclosure Undertakings") in connection with tax-exempt revenue bonds issued by the California Educational Facilities Authority for the benefit of the Institute (the "Tax-Exempt Bonds"). Holders and prospective purchasers of the Bonds may obtain copies of the information provided by the Institute under those Continuing Disclosure Undertakings on the Municipal Securities Rulemaking Board's Electronic Municipal Market Access system ("EMMA"). However, each Continuing Disclosure Undertaking terminates when the related Tax-Exempt Bonds are paid or deemed paid in full.

The Institute covenants in the Indenture that unless otherwise available on EMMA or any successor thereto or to functions thereof, copies of the Institute's audited financial statements will either be posted on the Institute's website or filed with the Trustee.

MISCELLANEOUS

All quotations from, summaries and explanations of the Indenture and other documents and statutes contained herein do not purport to be complete, and reference is made to such documents and statutes for full and complete statements of their provisions. Copies in reasonable quantity of the Indenture may be obtained upon request directed to the Trustee or the Underwriters.

Any statements in this Offering Memorandum involving matters of opinion are intended only as such and not as representations of fact. This Offering Memorandum is not to be construed as a contract or agreement between the Institute and the Holder of any of the Bonds.

APPENDIX A has been prepared by the Institute. APPENDIX B, which contains the Institute's financial statements for the fiscal years ended September 30, 2010, and 2009, was furnished by the Institute for inclusion herein.

Information relating to DTC and the book entry system described under the heading "THE BONDS—Book-Entry System" and in APPENDIX D—"BOOK-ENTRY SYSTEM" is based upon information furnished by DTC and is believed to be reliable, but neither the Institute nor the Underwriters makes any representations or warranties whatsoever with respect to such information.

Nothing in the Indenture or in the Bonds, express or implied, is intended or shall be construed to give to any person other than the Trustee, the Institute and the Bondholders any legal or equitable right, remedy or claim under or in respect of the Indenture or any covenant, condition or provision therein contained; and all such covenants, conditions and provisions are and shall be held to be for the sole and exclusive benefit of the Trustee, the Institute and the Bondholders.

The execution and delivery of this Offering Memorandum by the Institute's Associate Vice President for Finance and Treasurer have been duly authorized by the Institute.

CALIFORNIA INSTITUTE OF TECHNOLOGY

By: _____
Sharon E. Patterson
Associate Vice President for Finance and Treasurer

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APPENDIX A

CALIFORNIA INSTITUTE OF TECHNOLOGY

OVERVIEW OF THE INSTITUTE

Generally

The California Institute of Technology (the “Institute” or “Caltech”) is a privately supported research institution and university located on a campus of approximately 124 acres in Pasadena, California. With over 700 faculty, some 570 postdoctoral scholars, and approximately 950 undergraduate and 1,200 graduate students, the Institute is known as one of the most prestigious institutions of science and engineering in the world. Caltech’s mission is “to expand human knowledge and benefit society through research integrated with education. The Institute investigates the most challenging, fundamental problems in science and technology in a singularly collegial, interdisciplinary atmosphere, while educating outstanding students to become creative members of society.

Caltech scientists have made remarkable contributions to science and engineering research during the Institute’s history. For example, Theodore von Kármán developed the principles that made jet flight possible, Charles Richter published his logarithmic scale for measuring the magnitude of earthquakes, astronomer Maarten Schmidt discovered the nature of quasars, Max Delbrück conducted the studies of bacterial viruses that led to a new branch of biology called molecular genetics, Murray Gell-Mann theorized that all particles are made up of quarks and anti-quarks, and Roger Sperry developed new insights into the implications of right-brain and left-brain functions. Research of similar distinction and merit has been carried out in all of the Institute’s six academic divisions, as well as in off-campus facilities that are owned or operated by the Institute — the Jet Propulsion Laboratory (“JPL”), the Palomar Observatory, the Owens Valley Radio Observatory, the Submillimeter Observatory, the W.M. Keck Observatory, and the William G. Kerckhoff Marine Biological Laboratory. See “Notable Caltech Facilities” below.

The Institute traces its origins to a local school of arts and crafts, known as Throop University, founded in 1891 by the Honorable Amos G. Throop. In 1907, George Ellery Hale, the first director of the Mount Wilson Observatory, became a member of Throop’s Board of Trustees, and he envisioned a different future for the university. Hale persuaded the Throop Board of Trustees to concentrate on developing an institution dedicated to exceptional research and instruction in the fundamental sciences and to the enrichment of that curriculum with coursework in the humanities.

By 1921, Hale had persuaded chemist Arthur A. Noyes and physicist Robert A. Millikan to join him in his effort to transform Throop University into an important educational center. These three men set the institution, renamed the California Institute of Technology, firmly on its new course. Hale supplied the philosophical framework of the new academic institution: to choose a few things and do them well.

Under the leadership of Millikan and his successors Lee DuBridge, Harold Brown, Marvin L. Goldberger, Thomas E. Everhart, David Baltimore, and Jean-Lou Chameau, the Institute gradually expanded its programs of engineering, physics and chemistry, and added programs in geology, biology, aeronautics, astronomy, astrophysics, computer science, the humanities and social sciences, and computation and neural systems.

Notable Caltech Facilities

In addition to its Pasadena campus, the Institute owns and/or operates a number of special research facilities, including several off-campus facilities.

Jet Propulsion Laboratory. Founded by Caltech faculty and now managed by Caltech for the National Aeronautics and Space Administration (“NASA”), JPL is the world’s leader in robotic planetary exploration. The collaboration between the campus and JPL continues to be very active and highly productive. JPL is located on approximately 177 acres in the foothills above northwest Pasadena.

JPL is operated by the Institute for NASA under a cost-reimbursable contract, with total expenditures for fiscal year 2010 of approximately \$1.7 billion. JPL's land, buildings and equipment are owned by the U.S. government. JPL's management is under the direction of the Institute. The director of JPL is a vice president of the Institute, and JPL's benefit plans and personnel policies are, in most instances, the same as those in effect for the rest of the Institute.

JPL has had many notable successes over the years as part of NASA's program of exploration of Earth, the solar system, and the universe. In 2011, four NASA/JPL mission launches are scheduled. JPL developed the Mars Science Laboratory, scheduled to launch in late November, to transport a car-sized rover known as Curiosity to Mars in search of evidence of past or present habitability. Curiosity houses the biggest, most advanced suite of instruments for scientific studies ever sent to the Martian surface. In September 2011, NASA launched the twin GRAIL spacecraft to measure the moon's gravity field in unprecedented detail. In August 2011, the Juno spacecraft began a five-year journey to Jupiter, with the mission's principal goal being to understand that planet's origin and evolution. The NASA-CONAE (Argentina) Aquarius mission, launched in June 2011, is orbiting Earth with a JPL-developed instrument that collects data about the salinity of Earth's oceans, a key factor in climate.

Other recent NASA/JPL Mars surface missions include the Phoenix Mars Lander, which confirmed and examined deposits of underground water ice, and the Mars Explorations Rovers, Spirit and Opportunity. Launched in 2004, both rovers operated on Mars for years beyond their original three-month missions, and Opportunity continues to return important data.

JPL's recent projects to study asteroids and comets include the Deep Impact flyby of a small comet in November 2010 and the Stardust spacecraft encounter in February 2011. In July 2011, the Dawn spacecraft arrived at the giant asteroid Vesta for a one-year orbit after which the spacecraft is expected to travel to the dwarf planet Ceres, arriving there in 2015. JPL scientists were involved in tracking asteroid 2005 YU55, an aircraft carrier-sized object that safely flew past Earth in early November.

JPL also manages numerous space telescope missions that study stars and galaxies beyond our solar system, including the Spitzer Space Telescope, the Wide-field Infrared Survey Explorer, and the Galaxy Evolution Explorer; and it plays a key role in the European-teamed Herschel and Planck missions.

In addition to its leadership in robotic space exploration, JPL is a major participant in NASA's Mission to Planet Earth program. JPL science instruments are aboard NASA's Terra and Aqua satellites. Other Earth-observing missions include Jason, a follow-on to the venerable Topex/Poseidon mission to monitor global sea surface heights, and Grace, a mission to measure Earth's gravity field.

Another significant role played by JPL is its management of NASA's Deep Space Network, an international network of antennas that supports interplanetary spacecraft missions and radio and radar astronomy observations for the exploration of the solar system and the universe as well as selected Earth-orbiting missions.

For a discussion of financial information relating to JPL, see "FINANCIAL CONDITION OF THE INSTITUTE — Jet Propulsion Laboratory" herein.

Beckman Institute. The Beckman Institute, made possible in part by a gift from the Arnold and Mabel Beckman Foundation, opened its doors on Caltech's main campus in October 1989. The mission of the Beckman Institute is to invent methods, instrumentation and materials that will open new avenues for fundamental research in the chemical and biological sciences, and to provide technological support for such efforts.

Broad Center. The Broad Center for the Biological Sciences, dedicated in September 2002 on Caltech's main campus, positions Caltech for leadership in a number of critical research areas, among them magnetic imaging, computational molecular biology and investigation of the biological nature of consciousness, emotion and perception.

W. M. Keck Observatory. The Institute owns the Keck Observatory, located in Mauna Kea, Hawaii, and operates it jointly with the University of California through the California Association for Research in Astronomy. It houses the world's two largest optical and infrared telescopes, Keck I and Keck II, each 10 meters in diameter. With the twin Kecks operating together, observers are able to search for planets orbiting stars other than our sun.

Together, the two telescopes are powerful enough to collect starlight emitted only a billion or so years after the birth of the universe, when galaxies were first forming.

Palomar Observatory. Caltech owns and operates the Palomar Observatory in San Diego County, which houses the 200-inch Hale Telescope. When Caltech astronomers installed the Hale Telescope on Palomar Mountain in 1948, it was the largest and most powerful device in the world for viewing the heavens, and the Institute believes that it has remained the most productive such instrument in the world. Other Palomar telescopes include a 60-inch telescope owned and operated jointly with the Carnegie Institution of Washington, the 48-inch Samuel Oschin Telescope and the 18-inch Schmidt telescope.

Other Observatories and Research Facilities. The Institute also owns and operates a number of other observatories, including the Owens Valley Radio Observatory at Big Pine, California, and the Submillimeter Observatory in Mauna Kea, Hawaii. The Institute also owns the Big Bear Solar Observatory at Big Bear Lake, California, and leases the facility to the New Jersey Institute of Technology. Other off-campus research facilities owned and operated by Caltech include the William G. Kerckhoff Marine Biological Laboratory in Corona del Mar, California.

FACULTY

For the 2011-12 academic year, there are 729 faculty members at Caltech. The undergraduate-student-to-professorial-faculty ratio for the 2011-12 academic year is approximately 3:1. Ninety-five percent (95%) of the faculty, as of November 1, 2011, hold doctorate degrees, and those classified as professorial faculty are either tenured or on a tenure track. A summary of faculty members in residence as of November 1, 2011, in each faculty classification follows:

FACULTY IN RESIDENCE AS OF NOVEMBER 1, 2011

Professorial Faculty	297
Emeritus Faculty	99
Research Faculty	63
Other Faculty	75
Visiting Faculty	195
Total	729

Thirty-one members of the Caltech community have won 32 Nobel Prizes since 1923 (Linus Pauling received both the Chemistry and Peace prizes). In addition, six faculty and alumni have received the Crafoord Prize from the Royal Swedish Academy of Sciences, which is awarded to prominent scientists in mathematics, astronomy, biosciences (particularly ecology), geosciences and polyarthritis. In May 2008, the Kavli prize, established through a partnership between the Norwegian Academy of Sciences and Letters, the Kavli Foundation and the Norwegian Ministry of Education and Research, was awarded to Maarten Schmidt, the Institute's Moseley Professor of Astronomy, Emeritus, for his contributions to understanding the nature of quasars in the field of astrophysics.

The Institute is also the home of many national medalists. Fifty-six alumni and faculty have received the National Medal of Science and ten have won the National Medal of Technology for outstanding contributions to the development of science and engineering. Fifteen faculty members have received the California Scientist of the Year Award, 72 faculty members are members of the National Academy of Sciences, six faculty members are members of the National Academy of Sciences, Institute of Medicine, and 33 faculty members are members of the National Academy of Engineering.

THE STUDENT BODY

Undergraduate Students

The Institute offers a four-year undergraduate program of study leading to a Bachelor of Science degree with options (majors) available in: applied and computational mathematics; applied physics; astrophysics; bioengineering; biology; business economics and management; chemical engineering; chemistry; computer science; economics; electrical engineering; engineering and applied science; English; geobiology; geochemistry; geology; geophysics; history; history and philosophy of science; independent studies; mathematics; mechanical engineering; philosophy; physics; planetary science; and political science.

The Institute is highly selective in its undergraduate admissions process. Of the 2011-12 freshman class, 99% were in the top tenth of their graduating class. Over the past ten years, the average SAT score of members of the incoming freshman classes has consistently exceeded a combined 1500 out of a possible 1600 on the Critical Reading and Math components, an average that is one of the highest in the nation.

Of the 978 undergraduates on campus in Fall 2011, approximately 28% came from California and 12% from foreign countries.

Graduate Students

The Institute offers graduate options (majors) in aeronautics; applied and computational mathematics; applied mechanics; applied physics; astrophysics; biochemistry and molecular biophysics; bioengineering; biology; chemical engineering; chemistry; civil engineering; computation and neural systems; computer science; control and dynamical systems; electrical engineering; environmental science and engineering; geobiology; geochemistry; geology; geophysics; materials science; mathematics; mechanical engineering; physics; planetary science; and social science.

Graduate students may pursue the degree of Master of Science, which normally involves one year of graduate work; the Engineer's degree in certain branches of engineering, with a minimum of two years of graduate work; and/or the degree of Doctor of Philosophy, which usually takes between three and six years to complete. Caltech also offers the MD/PhD degree through joint programs with the University of California, Los Angeles ("UCLA") and the University of Southern California ("USC"). Under these programs, students do their preclinical and clinical work at UCLA or USC and their PhD work with a member of the Caltech faculty. The Institute strongly emphasizes research in every graduate program.

A graduate student is admitted to graduate standing for the option (major) in which he/she wants to study with the approval of the Dean of Graduate Studies. Admissions decisions are based on scholastic records and recommendations that indicate fitness to pursue, with distinction, advanced study and research. In some cases examinations, such as the Graduate Record Examination and, for students from non-English-speaking countries, the Test of English as a Foreign Language, are required.

Graduate students engage in research problems of varying degrees of complexity, and are taught by faculty members who are also actively engaged in research. Graduate students are an integral component of the campus and contribute materially to the intellectual and creative atmosphere of the Institute.

In the 2011-12 academic year, graduate students included 21 Master's degree candidates, one Engineer's degree candidates and 1,231 candidates for the degree of Doctor of Philosophy. Of these 1,253 graduate students, approximately 39% were from foreign countries.

Applications, Enrollments and Degrees

The following tables provide a summary of freshman and graduate applications, admissions, matriculations, enrollments and degrees awarded for each of the academic years shown.

APPLICATIONS

Academic Year ⁽¹⁾	Freshman			Graduate		
	Applications	Admissions	Matriculations	Applications	Admissions	Matriculations
2011-12	5,225	667	244	4,973	636	257
2010-11	4,859	610	222	4,591	599	231
2009-10	4,413	674	252	4,155	538	213
2008-09	3,957	687	236	3,973	621	244
2007-08	3,597	607	231	3,720	634	258

(1) Based on Fall term data.

ENROLLMENTS AND DEGREES

Academic Year	Enrollments ⁽¹⁾			Degrees Awarded		
	Undergraduate	Graduate	Total	Bachelor	Advanced	Total
2011-12	978	1,253	2,231	N/A	N/A	N/A
2010-11	967	1,208	2,175	235	286	521
2009-10	951	1,179	2,130	192	300	492
2008-09	921	1,205	2,126	215	312	527
2007-08	913	1,220	2,133	208	314	522
2006-07	864	1,222	2,086	172	314	486

(1) Based on Fall term data.

Caltech considers applications from transfer students at the sophomore and junior levels. Three to ten transfer students enroll each year. In addition to its transfer program, Caltech allows students enrolled in certain liberal arts colleges or universities to follow a course of study prescribed by the Institute for the first three years and then apply for transfer the third year to the Institute. After two full years' residence at the Institute and satisfactory completion of the remaining work required for a bachelor degree, transfer students will be awarded a Bachelor of Arts degree by the college from which they transferred and a Bachelor of Science degree by the Institute. The colleges and universities that participate in this program with the Institute include: Bowdoin College, Bryn Mawr College, Grinnell College, Haverford College, Mt. Holyoke College, Oberlin College, Occidental College, Ohio Wesleyan University, Pomona College, Reed College, Spelman College, Wesleyan University, and Whitman College.

ACCREDITATION, ACADEMICS, AND RESEARCH

The Institute is accredited by the Accrediting Commission for Senior Colleges and Universities of the Western Association of Schools and Colleges ("WASC"). WASC reaffirmed the Institute's accreditation until 2020 in a letter to the President dated July 8, 2010. In specific degree programs, ABET has accredited the Institute's Bachelor of Science programs in chemical engineering, electrical engineering, and mechanical engineering. Further, the Committee on Professional Training of the American Chemical Society has approved the Institute's Bachelor of Science program in chemistry.

The Institute is organized into six academic divisions: Biology; Chemistry and Chemical Engineering; Engineering and Applied Science; Geological and Planetary Sciences; Physics, Mathematics and Astronomy; and the Humanities and Social Sciences.

Research currently being conducted in the academic divisions includes, but is not limited to: developmental biology and neurobiology; molecular chemistry; materials sciences; development of laser technology to study chemical processes; aeronautics; multiple engineering disciplines; integrated circuits, concurrent computing, fluid physics, environmental quality and natural resources; the geology of the earth and solar system, and seismology; experimental and theoretical physics; astronomy and astrophysics; mathematics and mathematical physics; literature and language; political science and economics; and the history and philosophy of science.

Almost all the research conducted at the Institute focuses on the fundamentals of science and engineering, rather than on their applications. Practical applications often evolve from this “pure” research, however. Examples are numerous in such fields as aeronautics, earthquake engineering, fiber optics and integrated circuits.

BOARD OF TRUSTEES

The Institute is governed by a self-perpetuating Board of Trustees (the “Board”) comprised of up to 46 elected Trustees (including the President as ex officio Trustee) and a variable number of Senior Trustees. There are currently 40 elected Trustees (voting members of the Board), 11 Senior Trustees (voting members of the Board), 24 Life Members (non-voting members of the Board), and one Honorary Life Member (non-voting member of the Board). With the exception of the office held by the President, one-fifth of the Trustee offices expire at each annual meeting, and each Senior Trustee stands for re-election every five years. The President’s Trustee office coincides with his tenure as President of the Institute.

The Board has 12 standing committees including: the Executive Committee (*); the Audit and Compliance Committee (^); the Buildings and Grounds Committee; the Business and Finance Committee; the Development Committee; the Executive Compensation Committee; the Institute and Alumni Relations Committee; the Investment Committee (\$) ; the Jet Propulsion Laboratory Committee; the Nominating Committee; the Student Experience Committee; and the Technology Transfer Committee. The Board also has three duly established subcommittees: the AC Transaction Conflict Review Subcommittee of the Audit and Compliance Committee; the Governance Subcommittee of the Jet Propulsion Laboratory Committee; and the TT Transaction Conflict Review Subcommittee of the Technology Transfer Committee.

As of October 29, 2011, the Trustees, Senior Trustees, Life Members, Honorary Life Member, and their primary affiliations, if any, are as follows:

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HONORARY LIFE MEMBER

MRS. BETTY I. MOORE, Co-Founder, Gordon and Betty Moore Foundation

OFFICERS

The President of the Institute is elected by and serves at the pleasure of the Board. The President is charged with the responsibility of administering the affairs of the Institute. With exceptions for the offices of the Board Chair, Board Vice Chair, and President, the President is empowered by the Institute’s Bylaws to propose persons for election as corporate officers. All such officers are elected by and serve at the pleasure of the Board, but they are subject to the day-to-day direction of the President.

The following table sets forth the names of the principal executive officers of the Institute, the positions held by each, and the date on which each started in those positions. A brief statement of the background of each officer is set forth below the table.

PRINCIPAL EXECUTIVE OFFICERS

Name	Position	Current Position Held Since	Joined Caltech
Jean-Lou A. Chameau	President	2006	2006
Edward M. Stolper	Provost	2007	1979
Charles Elachi	Vice President and Director, Jet Propulsion Laboratory	2001	1971
Anneila I. Sargent	Vice President for Student Affairs	2007	1977
Peter B. Dervan	Vice President for Development and Institute Relations	2011	1973
Dean W. Currie	Vice President for Business and Finance	2005	2005
Victoria D. Stratman	General Counsel and Assistant Secretary	2009	1996
Sharon E. Patterson	Associate Vice President for Finance and Treasurer	2008	2000
Scott H. Richland	Chief Investment Officer	2010	2010
Mary L. Webster	Secretary	1987	1966
Matthew W. Brewer	Controller	2008	2002

JEAN-LOU CHAMEAU, *President*. As president of Caltech, Jean-Lou Chameau leads one of the world’s preeminent centers of instruction and research in engineering and science. Caltech also operates several renowned off-campus facilities, including the Jet Propulsion Laboratory (JPL) in partnership with NASA, the W. M. Keck Observatory, and the Palomar Observatory. Prior to coming to Caltech in the fall of 2006, Chameau had a distinguished career as a professor of civil engineering and a university administrator. A native of France, he received his graduate education in civil engineering at Stanford University. In 1980 he joined the civil engineering faculty at Purdue University, where he subsequently became full professor and head of the geotechnical engineering program. Moving to Georgia Tech in 1991, he was named director of the school of civil and environmental engineering. He was the president of Golder Associates, Inc., an international geotechnical consulting company, from 1994 to 1995, after which he returned to Georgia Tech as Georgia Research Alliance Eminent Scholar and vice-provost for research. He was named dean of its college of engineering, the largest in the country, in 1997, becoming provost of the university in 2001. Chameau currently serves on the boards of directors for MTS Systems Corporation, John Wiley & Sons, the Academic Research Council of Singapore, the Council on Competitiveness and Safran. His technical interests include: sustainable technology; environmental geotechnology; soil dynamics; earthquake engineering; and liquefaction of soils. He is a member of the U.S. National Academy of Engineering and the French Académie des Technologies.

EDWARD M. STOLPER, *Provost and William E. Leonhard Professor of Geology*. Edward Stolper, the William E. Leonhard Professor of Geology, studies the origin and evolution of igneous rocks on the earth and other

planets. He earned an A.B. in geological sciences from Harvard College in 1974, a M.Phil. in geology from the University of Edinburgh, Scotland, in 1976, and a Ph.D. in geological sciences from Harvard University in 1979. He arrived at Caltech that same year as an assistant professor of geology. He was promoted to associate professor in 1982 and to professor of geology in 1983. In 1990 he was named the William E. Leonhard Professor of Geology. He served as chair of the Division of Geological and Planetary Sciences from 1994 to 2004 and interim provost in 2004. Dr. Stolper is the Institute's ninth provost.

CHARLES ELACHI, *Vice President and Director, Jet Propulsion Laboratory, and Professor of Electrical Engineering and Planetary Science*. Director of JPL and a Caltech vice president since May 2001, Charles Elachi has served in a variety of research and management positions at JPL since 1971. From 1994 to 2001, he was director for the Space and Earth Science Programs; previously his positions included manager for radar development and leader of the radar remote sensing team. Dr. Elachi was born in Lebanon, receiving his B.S. in physics from the University of Grenoble, France, and the Diploma Ing. in engineering from the Polytechnic Institute, Grenoble, both in 1968. He earned master's and doctoral degrees in electrical engineering from Caltech in 1969 and 1971, respectively. He also received an M.B.A. from USC in 1979 and a master's degree in geology from UCLA in 1983. He is perhaps best known for his role in the development of a series of imaging radar systems for the Space Shuttle, which allowed scientists to see through clouds that blanket the earth. These systems even penetrate the top layer of soil in arid regions, revealing hints of what lies below the surface. Dr. Elachi served as principal investigator on numerous NASA research and development studies and flight projects. He is currently the team leader of the Cassini Titan Radar experiment and a co-investigator on the Rosetta Comet Nucleus Sounder experiment. He has also taught the physics of remote sensing at Caltech since 1982. In 1989, Dr. Elachi was elected a member of the National Academy of Engineering. Dr. Elachi has received numerous awards, including the National Academy of Engineering Arthur M. Bueche Award (2011), "Chevalier de la Légion d' Honneur, France" (2011), Space Foundation J.E. Hill Lifetime Space Achievement Award (2011), AIAA Carl Sagan Award (2011), Occidental College honorary Doctor of Science degree (2011), Sigma Xi William Procter Prize for Scientific Achievement (2008), International von Kármán Wings Award (2007), the America's Best Leaders by U.S. News & World Report and the Center for Public Leadership at Harvard University's Kennedy School of Government (2006), the Royal Society of London Massey Award (2006), the Lebanon Order of the Cedars (2006), the Philip Habib Award for Distinguished Public Service (2006), the American Astronautical Society Space Flight Award (2005), the Bob Hope Distinguished Citizen Award (2005), NASA Exceptional Service Medal (2005), the NASA Outstanding Leadership Medal (2004, 2002, 1994), the Takeda Award (2002), the Wernher Von Braun Award (2002), the UCLA Department of Earth and Space Science Distinguished Alumni Award (2002), Dryden Award (2000), the NASA Distinguished Service Medal (1999), the COSPAR Nordberg Medal (1996), the Nevada Medal (1995), the IEEE Medal of Engineering Excellence (1992), the IEEE Geoscience and Remote Sensing Distinguished Achievement Award (1987), the W.T. Pecora Award (1985), the NASA Exceptional Scientific Medal (1982) and the ASP Autometric Award (1982, 1980).

ANNEILA SARGENT, *Vice President for Student Affairs and Benjamin M. Rosen Professor of Astronomy*. Anneila Sargent is the Institute's Vice President for Student Affairs and Benjamin M. Rosen Professor of Astronomy. Professor Sargent was Director of Caltech's Owens Valley Radio Observatory from 1996 through 2007, and founding Director of the Combined Array for Research in Millimeter-wave Astronomy (CARMA) from 2003 to 2007. From 2000 to 2003, she was the founding Director of the Caltech/JPL Michelson (Interferometry) Science Center. A native of Scotland, she received her B.Sc. with honors in Physics from the University of Edinburgh, and her Ph.D. in Astronomy from the Institute. Her research concentrates largely on understanding how stars form in our own and other galaxies. In particular, she investigates the way in which other planetary systems are created and evolve using infrared, millimeter, and submillimeter observations. Professor Sargent is a fellow of the American Academy of Arts and Sciences and was President of the American Astronomical Society between 2000 and 2002. The University of Edinburgh named her Alumna of the Year in 2002. Other honors include the degree of Doctor of Science (honoris causa) from the University of Edinburgh, the Oort Professorship at the University of Leiden and the NASA Public Service Medal. She has chaired a variety of national and international committees including the National Research Council's (NRC) Board of Physics and Astronomy, the Atacama Large Millimeter Array (ALMA) Board and NASA's Space Science Advisory Committee. Earlier this year she was nominated by President Obama to the National Science Board and awaits confirmation.

PETER B. DERVAN, *Vice President for Development and Institute Relations*. In collaboration with the President of Caltech, Peter Dervan works closely with the Board of Trustees, Provost, Vice Presidents, Division Chairs, faculty, senior staff, the Alumni Association, and key volunteers to build philanthropic support for key

academic and research priorities that meet the needs of students, support the faculty in their scientific endeavors, and increase the overall capacity of the school's facilities and operations. Mr. Dervan is the Bren Professor of Chemistry in the Division of Chemistry and Chemical Engineering. He earned his undergraduate degree (B.S. '67) from Boston College and graduate degree (Ph.D. '72) from Yale. Mr. Dervan is a member of the National Academy of Sciences, the Institute of Medicine, the American Academy of Arts & Sciences, the American Philosophical Society, a Foreign Member of the French Academy of Sciences and the German National Academy of Sciences. His research contributions at the interface of chemistry and biology have been recognized by several awards, including: the Harrison Howe Award (1988); the Arthur C. Cope Award (1993); the Willard Gibbs Medal (1993); the Nichols Medal (1994); the Maison de la Chimie Foundation Prize (1996); the Remsen Award (1998); the Kirkwood Medal (1998); the Alfred Bader Award (1999); the Max Tishler Prize (1999); the Linus Pauling Medal (1999); the Richard C. Tolman Medal (1999); the Tetrahedron Prize (2000); the Harvey Prize (Israel) (2002); the Ronald Breslow Award (2005); the Wilbur Cross Medal (2005); the National Medal of Science (2006); and the Frank H. Westheimer Medal (2009). He serves on the Scientific Advisory Boards of Gilead Sciences (1987-) and the Robert A. Welch Foundation (1988-). He was on the Board of Directors of Beckman Coulter (1997-2011) and is a Trustee (Fellow) of Yale (2008-).

DEAN W. CURRIE, *Vice President for Business and Finance*. As the Institute's primary finance officer since 2005, Dean Currie oversees a diverse group of operations that serves many constituents, among them faculty, students, staff, donors, and government agencies. These services include supporting research activities; maintaining, renovating, and building facilities; managing Institute finances; and creating a safe and secure campus environment. Mr. Currie also acts as the primary administrative contact with Caltech's faculty club, the Athenaeum. Prior to coming to Caltech, Mr. Currie was Vice President for Finance and Administration at Rice University (1989-2004). Prior to that time, Mr. Currie was the Associate Dean for Administration and Policy Planning at Harvard University's Graduate School of Business Administration (1980-1988). Mr. Currie was Assistant Dean for Educational Affairs (1977-1979) and Assistant Director, Associate Director and Director of Admissions and Financial Aid (1973-1977), all at Harvard Business School. He earned both his undergraduate (AB '69) and graduate (MBA '73) degrees from Harvard. Between undergraduate and graduate school, Mr. Currie was the Executive Director of the Mary Merrick Center in Cambridge, Massachusetts. Mr. Currie's board service includes: Associated Universities Inc. (2010 - present), NACUBO (2004-2010), Council on Governmental Relations (COGR) (2003-2006), Tuition Plan Consortium (1998-2008 and 2010 - present), The YMCA of the Rockies (1994-2003 and 2009 - present), China International Trade Associates (1988-present), TIAA-CREF Advisory Council (1996-1999), the Joslin Diabetes Center (1986-1995), and the Visiting Committee for Harvard College (1995-1998).

VICTORIA D. STRATMAN, *General Counsel and Assistant Secretary*. Victoria Stratman joined Caltech's Office of the General Counsel in 1996 as Associate General Counsel and served as Deputy General Counsel from 1998 through 2009. She became General Counsel following a nationwide search in 2009. Immediately prior to joining Caltech, Ms. Stratman was a partner in the Los Angeles office of O'Melveny & Myers for seven years. Ms. Stratman is a member of the California bar and is admitted to practice in all California federal district courts, the Ninth, Seventh and Tenth Circuits, and the United States Supreme Court. She is a member of the National Association of College and University Attorneys and the American Association of Corporate Counsel. Ms. Stratman was born in St. Louis, Missouri, and attended the University of Missouri, Columbia where she received her degree in Zoology. She graduated with high distinction from the University of Iowa College of Law where she was a member of the Law Review, Moot Court Board and Order of the Coif.

SHARON E. PATTERSON, *Associate Vice President for Finance and Treasurer*. Sharon Patterson is responsible for a diverse group of financial operations that include the Budget Office, Controller, Treasury Services, Procurement and Cost Studies. Prior to coming to Caltech, she served in similar roles at the University of Colorado, New York University, and Wheaton College (Massachusetts). As a certified public accountant, she worked at KPMG in Providence, Rhode Island, and audited various not-for-profit entities. Ms. Patterson earned her undergraduate degree (B.S.B.A. with concentrations in Accounting and Computer Information Systems) from Bryant University in Rhode Island, and her graduate degree (M.B.A.) from Providence College. She is involved in various professional development activities related to higher education and research. She served as Chair of the Caltech Employees Federal Credit Union (2005-2006), and on the Board of Directors of the Children's Center at Caltech. She currently serves on the Board of the Tom and Valley Knudson Foundation and volunteers in the Pasadena elementary school system.

SCOTT H. RICHLAND, *Chief Investment Officer*. As Chief Investment Officer since 2010, Scott Richland oversees the investment and operations of Caltech's \$1.8 billion endowment and operating funds. Prior to Caltech he served as President of Andell Holdings, LLC, the private investment manager and family office for Andrew Hauptman and Ellen Bronfman Hauptman (2003-2009). In addition, he served as President of the Hauptman Family Foundation, Inc. and as manager or trustee of various LLC's, trusts and operating businesses affiliated with Andell, including serving as Vice Chairman of Major League Soccer's Chicago Fire, a Governor on the Board of Governors of Major League Soccer, and a Director of Storage Mobility, the country's largest independent franchisee and operator of PODS[™] portable storage businesses. In those roles he oversaw the family's diverse global investment, business, personal, and philanthropic activities. Prior to Andell, Mr. Richland worked for 12 years at AIG and SunAmerica (acquired by AIG in 1999) (1990-2002) where he served in various senior management positions in Corporate Finance, Treasury, Human Resources, Annuity Service Operations, High Yield Investments and Workouts and Restructurings. Before AIG SunAmerica, he served as Director of Corporate Development for Norman Lear's Act III Communications (1990) and a Senior Account Officer in Citicorp North America's leveraged buy-out financing group (1987-1989). In addition to his work at Caltech, he currently: serves on the Board of Directors of B&R Liquid Adventures, a start-up company in the natural, health-oriented beverage space; is an Advisor to Evolved Alpha, a multi-strategy hedge fund; is a Director on the Boards of SunAmerica Financial Group, First SunAmerica Life Insurance Company and the United States Life Insurance Company in the City of New York; and is a member of the Audit Committee for all of AIG's domestic life insurance companies. Mr. Richland received his MBA from Stanford University (where he was designated an Arjay Miller Scholar) in 1987 and his bachelor's degree, *cum laude*, in political science from UCLA in 1983. In addition to the boards noted above, he has served on, or acted as an observer on, the Boards of Directors of Storage Mobility, LLC, Vantage Media, LLC, Bagster USA, LLC (acquired by Waste Management), and Sport Supply Group, Inc. (formerly NASDAQ: RBI, acquired by OnCap). He currently serves as a vice president and trustee of the Jewish Community Foundation of Los Angeles and recently completed a six-year term on the Board of Trustees of the Stanford Business School Trust (2003-2009).

MARY L. WEBSTER, *Secretary, California Institute of Technology Board of Trustees*. Mary Webster is Secretary of the Board and Executive Assistant to the President. In these capacities she serves as the Institute's Corporate Secretary, oversees and directs the operations of the Board and all Board committees, and oversees and directs the operations of the President's Office and its affiliated departments. Mrs. Webster joined the staff in the President's Office in 1981, after spending the first 15 years of her career at JPL. In 1984 she was appointed executive assistant to the president and she was elected secretary of the Board in 1987. She is now serving her fourth president and her fourth Board chairman. She attended California State Polytechnic University in Pomona, majoring in liberal arts, and obtained her business and management training at the Sawyer School of Business and the NASA Management Education Program. She maintains a membership in the Association of Governing Boards of Universities and Colleges and is an active board member at Oneonta Congregational Church. She has been honored by the YWCA for community service; and in the fall of 2007, the Board recognized her two decades of service as Board secretary.

MATTHEW W. BREWER, *Controller*. Matt Brewer joined the Institute in 2002 and was elected Controller in July, 2008. His responsibilities include financial reporting, student financial services, tax matters, and the accounting for the Institute's investments, fixed assets, auxiliary enterprises, gifts, and endowments. Prior to joining Caltech, Mr. Brewer was a Manager in the higher education practice at PricewaterhouseCoopers LLP, where he led financial and compliance audits at several leading southern California colleges and universities. Mr. Brewer became a Certified Public Accountant in 1999 and is a member of both the American Institute of Certified Public Accountants and the California Society of Certified Public Accountants. Mr. Brewer received a B.A. with honors from Pomona College and an M.B.A. from Pepperdine University, where he was elected into the Beta Gamma Sigma honor society. Mr. Brewer is a member of the Audit Committee of the TMT Development Corporation and chairs the Finance Committee of Caltech's faculty club, the Athenaeum.

INSTITUTE ADMINISTRATIVE COUNCIL

The Institute Administrative Council advises the President on academic and administrative matters, and is composed of the principal academic and administrative officers of the Institute: the President, the Provost, the Chair of the Faculty, the chairs of the academic divisions, the Vice Provosts, the Dean of Undergraduate Students, the Dean of Graduate Studies, the Vice President for Business and Finance, the Vice President for Development and Institute Relations, the Vice President for Student Affairs, the Vice President and Director of the Jet Propulsion Laboratory, the General Counsel, the Chief Investment Officer, the Chief Information Officer, the Deputy General

Counsel, the Associate Vice President for Facilities, the Associate Vice President for Finance/Treasurer, the Associate Vice President for Human Resources, the Associate Vice President for Research Administration, the Director of Government Relations, and the Secretary of the Board of Trustees/Executive Assistant to the President.

EMPLOYEES

In addition to officers and faculty, the Caltech campus and JPL are served by approximately 2,933 and 5,316 benefits-based staff employees, respectively, for a total of 8,249 employees as of October 1, 2011. The Institute's employees are not represented by unions.

FINANCIAL CONDITION OF THE INSTITUTE

Introduction

The financial statements of the Institute are presented in APPENDIX B — “FINANCIAL STATEMENTS OF CALIFORNIA INSTITUTE OF TECHNOLOGY” and provide audited financial information as of September 30, 2010, and 2009 and for the fiscal years then ended. The following pages provide a summary of certain specific information relative to the financial condition of the Institute for the fiscal years ended September 30, 2010, 2009, 2008, 2007, and 2006, derived from the Institute's audited financial statements; however, the financial statements presented in APPENDIX B, including the accompanying notes thereto, are an integral part hereof and should be read in their entirety.

BALANCE SHEET SUMMARY (In Thousands of Dollars)

	At September 30,				
	2010	2009	2008	2007	2006
Total Assets	\$ 3,625,352	\$ 3,511,517	\$ 3,541,414	\$ 4,029,196	\$ 3,712,207
Total Liabilities	1,469,581	1,418,997	1,192,029	1,280,046	1,250,683
Total Net Assets	\$ 2,155,771	\$ 2,092,520	\$ 2,349,385	\$ 2,749,150	\$ 2,461,524

NET ASSETS SUMMARY (In Thousands of Dollars)

	At September 30,				
	2010	2009	2008	2007	2006
Unrestricted ⁽¹⁾	\$ 692,704	\$ 566,186	\$ 1,297,608	\$ 1,672,559	\$ 1,391,825
Temporarily Restricted ⁽¹⁾	700,740	815,190	389,731	457,120	473,553
Permanently Restricted	762,327	711,144	662,046	619,471	596,146
Total Net Assets	\$ 2,155,771	\$ 2,092,520	\$ 2,349,385	\$ 2,749,150	\$ 2,461,524

(1) The large decrease in unrestricted net assets and corresponding increase in temporarily restricted net assets between 2008 and 2009 was primarily due to the effect of a change in the accounting standards over endowment funds that amounted to approximately \$467 million.

Over the four-year period from the end of fiscal year 2006 to the end of fiscal year 2010, total net assets decreased by approximately 12%. There can be no assurance regarding future increases or decreases in net assets of the Institute.

Summary Statement of Available Net Revenues (Losses)

The table below provides a summary statement of revenues and expenses extracted from the Institute's audited financial statements for fiscal years 2010, 2009, 2008, 2007, and 2006 and should be read in conjunction with APPENDIX B — “FINANCIAL STATEMENTS OF CALIFORNIA INSTITUTE OF TECHNOLOGY,” including the accompanying Notes thereto. The table does not purport to present the results of operations for such periods as would a statement of activities prepared in accordance with generally accepted accounting principles and may differ from comparable alternative measures of operations provided by the Institute.

The table has been prepared to provide overall information and to display for each of the fiscal years shown the amount of unrestricted and temporarily restricted revenues received or earned in excess of the amount used to finance the operating costs.

The “Revenues” portion of the table excludes Unrealized Appreciation (Depreciation) in Investments and Permanently Restricted Revenues (Investment Income, Realized Gain (Loss) on Disposal of Investments, and Gifts). In addition, “Total Expenses” excludes depreciation expense.

SUMMARY STATEMENT OF AVAILABLE NET REVENUES (LOSSES)
(In Thousands of Dollars)

	For the Year Ended September 30,				
	2010	2009	2008	2007	2006
Revenues:					
Net Tuition and Fees ⁽¹⁾	\$ 29,586	\$ 29,162	\$ 26,648	\$ 24,701	\$ 20,865
Investment Income & Realized Gains ⁽²⁾	108,402	(14,790)	80,927	120,785	109,034
Gifts ⁽³⁾	52,845	70,478	51,612	75,846	236,435
Grants and Contracts ⁽⁴⁾	357,554	336,225	286,270	292,893	267,060
Auxiliary Enterprises & Other Revenues ⁽⁵⁾	79,764	73,493	99,774	54,674	56,336
Total Revenues	<u>\$ 628,151</u>	<u>\$ 494,568</u>	<u>\$ 545,231</u>	<u>\$ 568,899</u>	<u>\$ 689,730</u>
Expenses:					
Instruction and Research	\$ 513,587	\$ 510,546	\$ 457,830	\$ 431,796	\$ 405,144
Institutional Support	67,452	64,819	71,668	59,614	65,374
Auxiliary Enterprises and Other Expenses	31,323	36,222	38,271	36,554	34,616
Less: Depreciation Expense	(59,454)	(55,355)	(51,095)	(46,465)	(43,865)
Total Adjusted Expenses	<u>\$ 552,908</u>	<u>\$ 556,232</u>	<u>\$ 516,674</u>	<u>\$ 481,499</u>	<u>\$ 461,269</u>
Jet Propulsion Laboratory:					
Reimbursement of Direct Costs	<u>\$ 1,678,512</u>	<u>\$ 1,853,440</u>	<u>\$ 1,771,574</u>	<u>\$ 1,745,765</u>	<u>\$ 1,579,703</u>
Direct Costs of Organized Research	<u>\$ 1,678,512</u>	<u>\$ 1,853,440</u>	<u>\$ 1,771,574</u>	<u>\$ 1,745,765</u>	<u>\$ 1,579,703</u>
Excess (Deficiency) of Revenues over (under) Expenses	75,243	(61,664)	28,557	87,400	228,461
Debt Service	(8,436)	(5,959)	(10,021)	(13,561)	(9,742)
Available Net Revenues (Losses) ⁽⁶⁾	<u>\$ 66,807</u>	<u>\$ (67,623)</u>	<u>\$ 18,536</u>	<u>\$ 73,839</u>	<u>\$ 218,719</u>

- (1) Net Tuition and Fees is reported net of scholarship allowances of \$41,920, \$38,869, \$37,299, \$34,613 and \$36,361 for fiscal years 2010, 2009, 2008, 2007 and 2006, respectively.
- (2) Investment Income and Realized Gains/Losses exclude permanently restricted activity of \$596, \$1, \$655, \$759 and \$675 for fiscal years 2010, 2009, 2008, 2007 and 2006, respectively, and does not reflect net unrealized losses and gains. Investment income increased approximately \$123 million from 2009 to 2010 as a result of favorable economic conditions. See “FINANCIAL CONDITION OF THE INSTITUTE — Investments” herein.
- (3) Gifts exclude permanently restricted gifts of \$38,090, \$28,077, \$11,231, \$32,532 and \$17,065 for fiscal years 2010, 2009, 2008, 2007 and 2006, respectively. Gifts reported in fiscal year 2006 include the recognition of a large gift from a donor and related foundation of \$171,390. See “FINANCIAL CONDITION OF THE INSTITUTE — Gifts” herein.
- (4) Grants and Contracts include institutional indirect costs and management performance incentive awards related to the current JPL Contract (as defined herein), but exclude JPL direct grants, contracts and costs. See “FINANCIAL CONDITION OF THE INSTITUTE — Jet Propulsion Laboratory.”
- (5) Auxiliary Enterprises and Other Revenues reported for fiscal year 2008 includes a gain of \$37,999 from the sale of real estate.
- (6) Available Net Revenues increased approximately \$134 million between fiscal years 2009 and 2010 primarily due to an increase in investment income and realized gains as a result of favorable market conditions. Between fiscal years 2008 and 2009, Net Revenues decreased approximately \$86 million primarily due to a decline in investment income and realized gains (losses) as a result of unfavorable market conditions. Between 2006 and 2008 Net Revenues declined approximately \$200 million primarily due to the recognition of a large gift in 2006.

Net Tuition and Fees

Students at Caltech must attend on a full-time basis. Graduate and undergraduate tuition is the same and does not include room, board, books or other similar items. The Caltech Housing Department offers various housing options designed to meet the specific needs of the undergraduate and graduate student bodies. Undergraduate students are required to reside in on-campus housing during the first and second terms of their freshman year, unless there are extenuating circumstances. A five-year summary of full-time annual tuition and room and board is provided below.

TUITION, ROOM AND BOARD SUMMARY

Academic Year	Tuition & Fees	Room & Board	Percent Increase	
			Tuition & Fees	Room & Board
2011-12	\$37,704	\$11,676	3.9%	2.4%
2010-11	\$36,282	\$11,397	4.9%	6.0%
2009-10	\$34,584	\$10,755	0.4%	6.0%
2008-09	\$34,437	\$10,146	4.9%	6.4%
2007-08	\$32,835	\$9,540	4.5%	4.8%

The Institute admits domestic students without regard to financial need but is “need aware” in admitting international students. The Institute continues to meet the full demonstrated financial need of all eligible students. Toward that end, the Undergraduate Financial Aid Office administered and coordinated approximately \$21 million in federal, state, private, and institutional scholarship, grant, loan and work-study funds during the 2010-11 academic year. Students may receive additional support through external loans, part-time work, and teaching and research assistantships. During the 2010-11 academic year, over 68% of the undergraduate student body received aid either through the Institute’s Financial Aid Office or from another source. Fifty-four percent (54%) of the undergraduate students received need-based aid.

With rare exception, virtually all graduate students at Caltech are fully supported from a variety of sources. Forms of support include tuition remission, full or partial support from a graduate student’s home government and/or host university, support from corporations sponsoring a particular degree program, graduate research and teaching assistantships, and institutional fellowships.

Investments

The table below summarizes the Institute’s investments for each of the five fiscal years shown. Investments are stated at fair value and include the endowment, trusts, annuities and other investments. The fair value of marketable securities and short-term investments is based on quoted market prices. When a quoted market value is not readily determinable, quoted market prices of similar financial instruments or model-based valuation techniques are used. The fair value of alternative investments, including limited partnerships and similar interests, is based on information provided by external investment managers and is reviewed and evaluated by the Institute. The fair value of real estate and other investments is estimated by professional appraisers or Institute management.

All investments of endowment and similar funds are carried in an investment pool unless special considerations or donor stipulations require that they be held separately. Pooled endowments and similar funds are invested on a total return basis to provide both income and investment appreciation.

The Investment Committee of the Board, and the Chief Investment Officer under certain limited circumstances, have the responsibility and authority to invest the Institute’s assets and do so with the assistance of outside investment advisors. Investment of the Institute’s endowment assets is governed by an investment policy adopted and approved by the Investment Committee. The investment policy establishes broad endowment investment goals and objectives, asset allocation guidelines and overall portfolio management, including the endowment spending policy.

The Institute’s endowment investment goal is to provide a relatively predictable, stable, and growing stream of annual financial support for the Institute with a prudent level of risk. Specifically, the investment policy provides that the Institute will invest its assets to earn an average annual total return that exceeds inflation by at least the amount required to support the endowment’s contribution to the operating budget.

The Institute’s endowment asset allocation policy, together with its spending policy, provides the framework for achieving its investment goal. The asset allocation policy reflects modern portfolio theory, recognizing that asset allocation is key to endowment growth and that diversification across asset classes moderates risk. The policy provides guidelines for permissible asset classes, as well as their respective target allocations and ranges.

The Institute utilizes a pooled endowment spending policy that establishes allocations for current spending, consistent with an annual budget plan approved by the Board. The Institute's spending policy is based on a spending methodology that supports prudent endowment spending. The spending policy is designed to enable the Board to appropriate endowment funds to support the Institute's ongoing operations consistent with endowment designations, while preserving and strengthening the financial base of the Institute's endowment. At the time it approves the operating budget of the Institute for each fiscal year, the Board establishes the amount of endowment resources available for expenditure as annual distributable funds to support the operations of the Institute in such fiscal year. The amount is to be no more than 7% of the moving average of the market value of the consolidated endowment pool for the preceding twelve calendar quarters nor less than 5% thereof, with a goal of achieving a long-term target spending rate of 6%. The Institute's approved spending amount for each of fiscal years 2011 and 2012 is \$100 million, which is within that policy.

Institute investments for each of the years indicated consisted of the following:

INVESTMENTS
(In Thousands of Dollars)

	At September 30,				
	2010	2009	2008	2007	2006
Short-term investments	\$ 321,147	\$ 455,099	\$ 63,877	\$ 283,876	\$ 180,959
Government fixed income securities	16,172	17,690	28,793	143,307	147,466
Global fixed income securities	43,097	40,611	94,690	-	-
Corporate fixed income securities	10,546	11,100	75,860	104,146	73,020
Domestic equity securities	161,848	128,690	264,831	405,282	399,700
International equity securities	360,705	291,265	371,517	537,714	381,857
Investment agreements	-	-	-	46,007	82,790
Other investment funds ⁽¹⁾	-	19,039	187,209	-	-
Alternative Investments:					
Absolute Return Strategies	513,511	408,864	309,501	312,703	276,573
Private Equity	176,491	151,621	171,209	172,687	146,712
Real Assets ⁽²⁾	205,073	188,271	301,470	294,578	263,299
Total Alternative Investments	895,075	748,756	782,180	779,968	686,584
Real estate mortgages, notes and other investments	25,075	27,839	25,267	27,538	19,185
Total Investments	<u>\$ 1,833,665</u>	<u>\$ 1,740,089</u>	<u>\$ 1,894,224</u>	<u>\$ 2,327,838</u>	<u>\$ 1,971,561</u>

(1) At September 30, 2009 and 2008, other investment funds consisted of deposits in a short-term investment fund that had been closed to immediate redemptions. During the fiscal year ended September 30, 2010, the Institute redeemed all remaining holdings in the fund, in exchange for cash.

(2) During fiscal year 2010, the Institute renamed its Inflation Hedges investment category Real Assets. At the same time, certain investments were reclassified from Private Equity to Real Assets. Prior years reported above reflect these changes.

The return (loss) on the Institute's investments for the five fiscal years shown is summarized below.

INVESTMENT RETURN (LOSS) SUMMARY
(In Thousands of Dollars)

	For the Year Ended September 30,				
	2010	2009	2008	2007	2006
Interest and dividend income	\$ 12,099	\$ 10,038	\$ 27,158	\$ 41,100	\$ 31,644
Net realized gains (losses)	102,368	(19,813)	60,956	86,512	83,340
Net unrealized appreciation (depreciation)	15,712	(127,714)	(389,742)	228,494	52,861
Less: Management Fee	(5,469)	(5,016)	(6,532)	(6,068)	(5,275)
Total Investment Return (Loss)	<u>\$ 124,710</u>	<u>\$ (142,505)</u>	<u>\$ (308,160)</u>	<u>\$ 350,038</u>	<u>\$ 162,570</u>

As of September 30, 2011, the unaudited valuation of total investments was approximately \$1.8 billion compared to \$1.8 billion as of September 30, 2010.

Gifts

The Institute uses gifts to fund capital projects, to increase the endowment in order to provide ongoing support, and to pay current operating expenses. During the fiscal year ended September 30, 2010, 37.1% of total gifts received were designated for operating purposes, 1.1% for plant and equipment, and 61.8% for endowment. Gifts for the last five fiscal years were as follows:

GIFTS (In Thousands of Dollars)

	For the Year Ended September 30,				
	2010	2009	2008	2007	2006
Unrestricted	\$ 19,348	\$ 35,212	\$ 47,717	\$ 30,540	\$ 28,677
Temporarily Restricted	33,497	35,266	3,895	45,306	207,758
Permanently Restricted	38,090	28,077	11,231	32,532	17,065
Total	<u>\$ 90,935</u>	<u>\$ 98,555</u>	<u>\$ 62,843</u>	<u>\$ 108,378</u>	<u>\$ 253,500</u>

In October 2002, the Institute announced the launch of a \$1.4 billion capital campaign. The campaign's stated goals included \$810 million primarily for endowment to benefit the Institute's students, faculty and research programs; \$400 million for buildings; and \$190 million for equipment. The campaign exceeded its goal, raised \$1.424 billion, and officially ended in April 2008. The Institute is considering launching a campaign within the next five years.

Grants and Contracts

A significant portion of the Institute's research and graduate education program is supported by grants and contracts. Most of the agreements governing research and education are with U.S. Government agencies, but significant support of the Institute's laboratories, students, and faculty also comes in the form of research and education agreements with philanthropic foundations and corporations.

Sponsored research programs and projects are supported by both those costs which are directly charged to each project and those costs that are indirectly accumulated and charged to individual projects through the use of Facilities and Administrative Cost Rates, also known as "indirect costs." Direct costs are specifically related to the research work involved. Examples include wages, material, equipment, and contracted support. Indirect facilities and administrative costs are also incurred in the accomplishment of sponsored research but lack direct specificity due to practical limits encountered in recording their use. These costs differ from direct costs in that they have been incurred for purposes common to some or all of the specific programs, projects or activities of the Institute. Examples include utilities, maintenance services and general management and administrative services such as accounting, purchasing, personnel and library. The Institute negotiates Facilities and Administrative Cost Rate Agreements annually with the U.S. Government's "cognizant" agency and representative, the Department of Defense – Office of Naval Research ("ONR"). The resulting rates are applicable to all Federally-funded research projects.

Recovery of these actual direct and indirect costs from sponsors is necessary for the operation of the Institute. Without reimbursement for indirect costs, sponsored programs and research at the Institute would require additional internal support of indirect services, to the detriment of other programs and functions. Reimbursement of direct costs and recovery of indirect costs account for a significant portion of the operational revenue of the Institute. For fiscal year 2010, the amounts were \$247.7 million and \$80.2 million for direct and indirect costs, respectively, excluding costs relating to JPL.

The U.S. Government, through the Office of Management and Budget ("OMB"), has recognized the real impact of indirect costs and has described, defined, and codified institutional indirect cost reimbursement recovery principles and procedures within Circular A-21, Cost Principles for Educational Institutions. The underlying focus of the Circular is to ensure that the U.S. Government bears its fair share of the total direct and indirect costs related to sponsored agreements.

The Institute’s indirect cost recovery billing rate for sponsored research activities is based on a negotiated rate between the Institute and ONR. The negotiation process is supported by the Institute’s forward pricing proposal that estimates costs for the following years, and is submitted to ONR. The forward pricing proposal is audited by the Defense Contract Auditing Agency (“DCAA”) prior to the negotiation process. The final negotiated billing rate may be either a “Fixed Rate with carry-forward provisions,” or a “Pre-determined Rate with no carry-forward provisions.”

In a “Fixed Rate with carry-forward provisions,” the negotiated rate is compared to actual incurred costs reflected in an Incurred Cost Proposal prepared by the Institute and submitted to ONR within six months after the end of the effective year. The incurred cost analysis is conducted in accordance with OMB Circular A-21 guidelines and accounts for the actual direct and indirect costs of the effective year and the over or under recovery of allowable indirect costs. Under recovered costs are not directly paid by the sponsors to the Institute, and the Institute does not directly reimburse sponsors for over recovered costs, but rather the difference in cost recovery may influence the indirect cost billing rate used by the Institute in future years and may be recouped through indirect cost recoveries in the future.

In a “Pre-determined Rate with no carry-forward provisions,” the agreed upon negotiated billing rate is not compared to actual incurred costs and any over or under cost recoveries do not influence future forward pricing billing rates.

The Institute’s provisional fiscal year 2012 facilities and administrative cost recovery rates was negotiated at 65%, however, for billing purposes the Institute is applying 64% to modified total direct costs. The Institute operated under provisional rates for billing purposes for the majority of fiscal year 2011: 62% and 64% for October through March and April through September, respectively. In September 2011, the provisional rate was negotiated as a pre-determined rate of 64%. There can be no assurance that the Institute’s facilities and administrative cost recovery rate will be maintained at this level in the future.

Forecasts of growth in externally reimbursed expenditures under sponsored research and education agreements are complicated by the uncertainties of future national policy decisions and federal budget priorities. Additionally, many federal contracts and grants entered into by the Institute are subject to annual renewal or appropriation. While the Institute cannot predict its future government contract and grant funding levels, based on historical performance, the Institute currently believes that the existing level of support it receives through these grants and contracts will continue. The Institute’s base of federally sponsored research support is diverse, and Institute financial policies and measures are intended to protect the stability of the Institute’s instruction and research programs in the event of any significant fluctuations in sponsored research support.

The following table sets forth the composition of grants and contracts received by the Institute for the fiscal years shown.

GRANTS AND CONTRACTS
(In Thousands of Dollars)

	For the Year Ended September 30,				
	2010	2009	2008	2007	2006
U.S. Government Grants and Contracts					
Direct cost recovery ⁽¹⁾	\$ 227,014	\$ 207,615	\$ 166,422	\$ 172,764	\$ 155,425
Indirect cost recovery ⁽²⁾	80,150	74,347	69,161	69,175	66,963
Non-United States government – direct	20,726	20,928	18,077	16,918	13,783
Total Grants and Contracts	\$ 327,890	\$ 302,890	\$ 253,660	\$ 258,857	\$ 236,171

- (1) Direct cost recovery does not include reimbursement of direct costs related to JPL of \$1,678,512, \$1,853,440, \$1,771,574, \$1,745,765 and \$1,579,703 for fiscal years 2010, 2009, 2008, 2007, and 2006, respectively. See “FINANCIAL CONDITION OF THE INSTITUTE—Jet Propulsion Laboratory” below.
- (2) Indirect cost recovery does not include recovery of institutional indirect costs and management allowances related to JPL of \$29,664, \$33,335, \$32,610, \$34,036 and \$30,889 for fiscal years 2010, 2009, 2008, 2007, and 2006, respectively. See “FINANCIAL CONDITION OF THE INSTITUTE—Jet Propulsion Laboratory” below.

Grants and contracts for the fiscal years shown above include revenue received from the National Science Foundation (“NSF”) under Cooperative Agreements for the operation, maintenance and renovation of the Laser Interferometer Gravitational-Wave Observatory (“LIGO”). This constitutes one of the largest research programs in the history of the NSF. The original Cooperative Agreement for operation of the LIGO Observatories ended September 30, 2008, and was valued at \$220.5 million. A successor agreement, for operations and maintenance through September 30, 2013, was successfully negotiated for an award totaling \$150 million. The Institute currently anticipates that this award will continue for at least another five years beyond fiscal year 2013. NSF has also awarded a second Cooperative Agreement to Caltech for “Advanced LIGO,” a project to significantly upgrade the sensitivity of the LIGO instrumentation. This agreement runs from April 1, 2008 through March 31, 2015 at an estimated cost of \$205.1 million. In 2010, the Institute received an award from the Department of Energy to establish the Joint Center for Artificial Photosynthesis (“JCAP”), an Energy Innovation Hub aimed at developing revolutionary methods to generate fuels directly from sunlight. The JCAP project period currently runs through September 29, 2015, with an annual budget of more than \$12 million and total government award of \$63.3 million to Caltech.

Property

Campus property, plant and equipment are recorded at cost of construction or acquisition or at the appraised value at the date of gift. Depreciation on assets other than campus buildings used in sponsored research is calculated over the estimated useful life of each class of depreciable asset, which ranges from three to 50 years, and is computed using the straight-line method. Depreciation on campus buildings used in sponsored research is calculated based on the useful lives for each major building component, ranging from 10 to 50 years. Book value of campus properties at September 30 for each of the years indicated is as set forth below. Depreciation expense for the fiscal years ended September 30, 2010 and 2009 amounted to approximately \$59.5 million and \$55.4 million, respectively.

PROPERTY, PLANT AND EQUIPMENT⁽¹⁾ (In Thousands of Dollars)

	At September 30,				
	2010	2009	2008	2007	2006
Land and land improvements	\$ 55,961	\$ 50,634	\$ 49,591	\$ 59,174	\$ 56,427
Buildings and building improvements	822,245	723,580	639,537	607,594	557,571
Equipment	500,475	495,890	479,376	452,172	449,546
Property, plant and equipment—gross	1,378,681	1,270,104	1,168,504	1,118,940	1,063,544
Less: accumulated depreciation	(609,400)	(574,275)	(524,328)	(479,977)	(446,048)
Property, plant and equipment—subtotal	769,281	695,829	644,176	638,963	617,496
Construction in progress	77,925	142,795	156,115	109,970	98,663
Property, plant and equipment – net	<u>\$ 847,206</u>	<u>\$ 838,624</u>	<u>\$ 800,291</u>	<u>\$ 748,933</u>	<u>\$ 716,159</u>

(1) Does not include JPL assets.

Depreciation costs on non-sponsored buildings and equipment are included in the indirect cost rate and are therefore partially recovered from the U.S. Government. The Institute funds a facilities renewal program designed to maintain the Institute’s academic, administrative and service buildings, and surface facilities. Specifically included is the rehabilitation or upgrading of laboratory space for faculty.

Institute Indebtedness

The Institute’s liabilities at September 30, 2010, are set forth in its financial statements contained in APPENDIX B. At September 30, 2010, such liabilities totaled approximately \$1,469.6 million, including bonds payable of approximately \$375.3 million and \$51.8 million outstanding on the lines of credit. The remainder of the liabilities consisted principally of the lines of credit described below, accounts payable and accrued expenses, accumulated postretirement benefit obligations, annuities payable and trust agreement liabilities, deferred compensation, deferred student revenue and refundable advances, revocable trust funds and agency funds.

As of September 30, 2011, the Institute had available to it seven unsecured revolving lines of credit (the “Lines of Credit”). The Institute has internally-mandated aggregate borrowing limits under the Lines of Credit, which include the following amounts: \$100.0 million for borrowings to finance working capital; \$25.0 million for borrowings to finance acquisitions of real estate and temporary funding for capital projects; and \$200.0 million for borrowings secured to preserve liquidity. All credit facilities and money market loan program agreements are uncollateralized.

The table below summarizes the material terms of the Lines of Credit, including permitted uses of any funds drawn under each individual Line of Credit at September 30, 2011:

LINES OF CREDIT
(In Thousands of Dollars)

Financial Institution	Permitted Maximum Amount	Outstanding Amounts	Facility Maturity	Purpose
Bank of America	\$100,000	-	January 2014	General working capital and capital projects
Wells Fargo	50,000	-	January 2014	General working capital and capital projects
JPMorgan Chase	62,000	-	None	General working capital and capital projects
Bank of America	50,000	\$49,730	January 2014	General working capital and capital projects
Bank of New York	50,000	2,000	None	General working capital and capital projects
Bank of America	50,000	-	June 2013	Supplemental liquidity for variable rate bonds and commercial paper
Wells Fargo	50,000	-	June 2013	Supplemental liquidity for variable rate bonds and commercial paper

The lines of credit from Bank of New York and JPMorgan Chase and the Bank of America line of credit for \$50 million maturing in January 2014 all are uncommitted. Maturity dates for individual advances made by these institutions are determined at the time advances are made.

Financial covenants under certain of the Lines of Credit require that the Institute maintain a ratio of unrestricted cash and investments to total adjusted debt outstanding equal to at least 0.5 to 1.0. The Institute is in compliance with all covenants under all debt documents.

At September 30, 2011, approximately \$51.7 million was outstanding under these facilities (\$51.0 million for borrowings to finance working capital and \$0.7 million for borrowings to finance capital projects).

The following table sets forth the Institute’s long-term debt service requirements (principal and interest). The table does not include payments on the Lines of Credit or any commercial paper debt, which vary from time to time.

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LONG-TERM DEBT SERVICE REQUIREMENTS

For the Year Ended ⁽¹⁾	Series 1994 Bonds ⁽²⁾		Series 1998 Bonds ⁽³⁾		Series 2006 Bonds ⁽⁴⁾		Series 2009 Bonds		Series 2011 Bonds [To come]		Total Debt Service
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
2012	—	\$ 1,200,000	—	\$ 4,547,513	—	\$ 5,855,850	—	\$ 4,000,000	—	—	\$ 15,603,363
2013	—	1,200,000	—	4,547,513	—	5,855,850	—	4,000,000	—	—	15,603,363
2014	—	1,200,000	—	4,547,513	—	5,855,850	—	4,000,000	—	—	15,603,363
2015	—	1,200,000	—	4,547,513	—	5,855,850	—	4,000,000	—	—	15,603,363
2016	—	1,200,000	—	4,547,513	—	5,855,850	—	4,000,000	—	—	15,603,363
2017	—	1,200,000	—	4,547,513	—	5,855,850	—	4,000,000	—	—	15,603,363
2018	—	1,200,000	—	4,547,513	—	5,855,850	—	4,000,000	—	—	15,603,363
2019	—	1,200,000	—	4,547,513	—	5,855,850	—	4,000,000	—	—	15,603,363
2020	—	1,200,000	—	4,547,513	—	5,855,850	—	4,000,000	—	—	15,603,363
2021	—	1,200,000	—	4,547,513	—	5,855,850	—	4,000,000	—	—	15,603,363
2022	—	1,200,000	—	4,547,513	—	5,855,850	—	4,000,000	—	—	15,603,363
2023	—	1,200,000	—	4,547,513	—	5,855,850	—	4,000,000	—	—	15,603,363
2024	\$ 30,000,000	300,000	—	4,547,513	—	5,855,850	—	4,000,000	—	—	44,703,363
2025	—	—	—	4,547,513	—	5,855,850	—	4,000,000	—	—	14,403,363
2026	—	—	—	4,547,513	—	5,855,850	—	4,000,000	—	—	14,403,363
2027	—	—	\$ 53,300,000	3,348,263	—	5,855,850	—	4,000,000	—	—	66,504,113
2028	—	—	50,565,000	1,074,488	—	5,855,850	—	4,000,000	—	—	61,495,338
2029	—	—	—	—	—	5,855,850	—	4,000,000	—	—	9,855,850
2030	—	—	—	—	—	5,855,850	—	4,000,000	—	—	9,855,850
2031	—	—	—	—	—	5,855,850	—	4,000,000	—	—	9,855,850
2032	—	—	—	—	—	5,855,850	—	4,000,000	—	—	9,855,850
2033	—	—	—	—	—	5,855,850	—	4,000,000	—	—	9,855,850
2034	—	—	—	—	—	5,855,850	—	4,000,000	—	—	9,855,850
2035	—	—	—	—	—	5,855,850	—	4,000,000	—	—	9,855,850
2036	—	—	—	—	\$165,000,000	487,988	—	4,000,000	—	—	169,487,988
2037	—	—	—	—	—	—	—	4,000,000	—	—	4,000,000
2038	—	—	—	—	—	—	—	4,000,000	—	—	4,000,000
2039	—	—	—	—	—	—	—	4,000,000	—	—	4,000,000
2040	—	—	—	—	—	—	\$80,000,000	2,000,000	—	—	82,000,000
2041	—	—	—	—	—	—	—	—	—	—	—
2042	—	—	—	—	—	—	—	—	—	—	—
	<u>\$30,000,000</u>	<u>\$14,700,000</u>	<u>\$103,865,000</u>	<u>\$72,635,446</u>	<u>\$165,000,000</u>	<u>\$141,028,388</u>	<u>\$80,000,000</u>	<u>\$114,000,000</u>	<u>\$</u>	<u>\$</u>	<u>\$721,228,834</u>

- (1) For the purpose of this schedule, principal and interest due on October 1 is deemed to be paid in the prior fiscal year.
- (2) Variable rate demand notes; assumes an interest rate of 4%. Under the applicable bond documents, the interest rate may not exceed 12%.
- (3) The Institute expects that the Series 1998 Bonds will be redeemed in full at the earliest available call date, which is currently estimated to be approximately 30 days after the issuance of the Series 2011 Bonds.
- (4) Variable rate demand notes. In connection with the issuance of the Series 2006 Bonds, the Institute has entered into an interest rate swap agreement pursuant to which it pays a fixed rate of interest of 3.549% and receives a variable rate calculated at 67% of LIBOR. The variable rate payments are expected to be approximately equal to the interest payments on the bonds, for an effective interest rate of approximately 3.549%. As of October 31, 2011, the mark-to-market on the swap is \$(49,080,263).

* Preliminary, subject to change.

Jet Propulsion Laboratory

JPL has been operated by the Institute under a series of management contracts with NASA since 1959, and prior to that, under contracts with the US Army. The current Institute-NASA contract (the “JPL Contract”) took effect on October 1, 2003, with a five-year term running through September 2008. The JPL Contract originally included incentive provisions under which fee could be awarded up to an annual maximum of \$22 million and the term could be extended or shortened based on NASA’s annual performance evaluation of the Institute’s performance. As a result of positive performance assessments, NASA extended the JPL Contract through December 31, 2010, and issued award fees for fiscal years 2010, 2009, 2008, 2007, and 2006, in the amounts of \$20.7 million, \$20.2 million, \$17.8 million, \$19.4 million, and \$20.0 million, respectively.

NASA and the Institute have since bilaterally amended the JPL Contract to replace the incentive provisions with a fixed-fee arrangement as of October 1, 2010, and extend the term through March 31, 2012. Under the JPL Contract as amended, NASA pays the Institute an annual fixed fee of \$20,020,000 to be distributed quarterly. NASA and the Institute are now in negotiations for a new, multi-year contract, which the Institute believes will be a sole source contract, to take effect in 2012.

All land, buildings and equipment located at JPL are owned by the U.S. Government. Accordingly, no property, plant or equipment of JPL is reflected in the Institute’s financial statements. The cost of operating JPL is reimbursed by NASA and includes all of JPL’s allowable costs and certain institutional indirect costs associated with the JPL Contract, which consist primarily of the Institute management and administrative costs attributable to the operation of the facility. Liabilities arising from JPL activities are recorded as those of the Institute and are reflected in its financial statements, as are receivables from the U.S. Government arising from such activities.

Reimbursable JPL expenditures include payroll and fringe benefit costs (including retirement plans) of JPL’s employees, who are employees of the Institute and subject to direction of the Board. The annual fluctuations in JPL expenditures depend on a host of factors, including the status of any particular mission and the phase of any given project.

The institutional indirect costs associated with the JPL Contract are reimbursed through a lump-sum proposal process as allowed for in OMB Circular A-21, Cost Principles for Educational Institutions. See “FINANCIAL CONDITION OF THE INSTITUTE — Grants and Contracts.”

The JPL Contract and the Institute’s association with NASA provide both financial and various intangible benefits to the Institute. The Institute has enjoyed its association with NASA for more than 50 years and expects the relationship to continue in the future. If at some point the JPL Contract were to be terminated or not renewed, the Institute expects to be reimbursed for its associated termination costs. If such an event were to occur, the Institute would also experience intangible losses that cannot be measured at this time. In any event, a termination or nonrenewal of the contract for JPL would not prevent the Institute’s timely repayment of the Bonds.

JET PROPULSION LABORATORY (In Thousands of Dollars)

	For the Year Ended September 30,				
	2010	2009	2008	2007	2006
Reimbursement of Direct Costs	\$ 1,678,512	\$ 1,853,440	\$ 1,771,574	\$ 1,745,765	\$ 1,579,703
Reimbursement of Institutional Indirect Costs					
Associated with the JPL Contract	13,164	15,515	13,250	14,016	12,189
Award Fee ⁽¹⁾	16,500	17,820	19,360	20,020	18,700
Total	\$ 1,708,176	\$ 1,886,775	\$ 1,804,184	\$ 1,779,801	\$ 1,610,592

(1) Amounts included in the Institute’s financial statements are based upon estimates of Award Fees which differ from the actual Award Fee received. For JPL’s performance in fiscal years 2010, 2009, 2008, 2007, and 2006, the actual Award Fee NASA awarded was \$20.7 million, \$20.2 million, \$17.8 million, \$19.4 million, and \$20.0 million, respectively.

OTHER

Indirect Cost Audits

The U.S. Government's Defense Contract Audit Agency ("DCAA") audits the Institute's facilities and administrative rate submissions and provides its findings to Caltech's federal cognizant agency, ONR, for the negotiation and approval of facilities and administrative and certain other cost rates. The Institute has finalized rate agreements with ONR through fiscal year 2006 and has a provisional rate agreement for fiscal year 2012. The Institute submitted the fiscal year 2007 Incurred Cost Proposal in March 2008, the fiscal year 2009 Incurred Cost proposal in March 2010, and the fiscal year 2010 Incurred cost proposal in May 2011. The DCAA is currently auditing the fiscal year 2007 proposal. While the Institute does not anticipate any material adverse outcome from ongoing or future audits of indirect cost submissions, the DCAA has questioned certain costs in these proposals including the costs incurred by the Institute in providing employees dependent benefits coverage.

For the fiscal year ended September 30, 2010, the Institute's indirect cost recoveries and management allowance on federal and nonfederal agreements totaled approximately \$110 million.

A-133 Audit

The Institute's audit of expenditures of federal awards, as required by OMB Circular No. A-133, *Audits of Institutions of Higher Education and Other Non-Profit Institutions*, is bifurcated into separate reports for Campus and JPL-based awards, respectively ("the Campus Report" and "the JPL Report," respectively). Both the Campus Report and the JPL Report have been completed for the fiscal year ended September 30, 2010.

The Campus Report for fiscal year 2010 identified neither material weaknesses nor significant deficiencies in internal controls over financial reporting and management of federal awards. The Campus operations also qualified as a low-risk auditee. The only reportable finding in the Campus Report is related to late financial reports for three federal awards. The Institute's management does not believe that this finding will have a material adverse impact on the Institute or its operations.

The JPL Report identified a material weakness in internal controls over compliance with federal awards with regard to the review of employee compensation records. Due to this, the JPL Report contains a qualified opinion with respect to compliance over major programs. Management at JPL has addressed the condition noted in the JPL Report. The Institute's management does not believe that this issue will have a material adverse impact on the Institute or its operations.

Health and Safety

Chemical, radioactive and biohazardous materials are used at the Institute in innovative scientific research. Additionally, some properties owned by the Institute, including on-campus property, may contain hazardous materials such as asbestos and petroleum products stored in underground storage tanks. The Institute aggressively manages these risks through its Safety Office, which oversees the handling and disposal of hazardous materials. The Safety Office also administers a comprehensive health and safety program, which provides consultations and evaluations of the workplace and thereby reduces or eliminates hazards or conditions which may lead to injury or loss of Institute resources. Moreover, several safety committees, chaired by faculty members, provide focus and guidance on safety issues in connection with research activities conducted at Institute facilities. The Institute practices pollution prevention and believes that public protection and a clean environment are compatible with the first-rate research conducted by Institute scientists. The Institute is committed to strong programs of accident and injury prevention and to compliance with all applicable federal, state and local health and safety laws and regulations. The Institute is regularly audited by various governmental and insurance agencies to verify compliance with these laws and regulations.

Insurance

The Institute maintains full replacement cost property insurance on all Institute-owned buildings and equipment for events other than earthquakes. As of September 30, 2011, the estimated replacement value of such buildings and equipment was approximately \$2.3 billion. In addition, the Institute carries earthquake and flood insurance on mirrors and optics at the Caltech Campus, Hanford, Livingston, Palomar, and Keck observatories; CSIRO Australian Centre for Precision Optics; and on buildings under construction. In accordance with federal regulations, government-owned equipment on campus and government-owned equipment and buildings at JPL are not covered by the Institute's property insurance.

The Institute does not carry earthquake coverage on campus buildings and equipment, but does maintain a reserve fund to cover minor earthquake damage. Since 1966, all campus buildings have been designed and constructed to withstand earthquake forces 1.5 times the California state seismic code requirements governing at the time of construction. In the early 1970s, structural engineers examined all older buildings on campus for their ability to withstand a major earthquake, and buildings found to be deficient were either removed or retrofitted. Nevertheless, a major earthquake affecting the Los Angeles area could have an impact on the structural integrity of buildings on the Institute's campus.

Retirement Plans and Retiree Medical Plans

The Institute has two retirement plans covering substantially all of its regular employees. The faculty and staff are covered by a defined contribution plan administered by TIAA-CREF, a national retirement program for members of participating non-profit, educational and research institutions. In addition, a limited number of staff employees (including one active employee and 14 employees on disability, as of the plan year beginning January 1, 2010), participate in a follow-on defined benefit plan that was established on January 1, 1994, and is administered by Prudential Insurance Company of America. At September 30, 2010, the plan had an unfunded accumulated benefit obligation of \$1.9 million, of which \$1.3 million is related to JPL and \$0.6 million is related to campus.

On October 31, 2011, the Institute, as plan administrator, notified participants in the follow-on defined benefit plan of its intention to terminate the plan. Termination of the plan requires regulatory approval by the Internal Revenue Service and the Pension Benefit Guaranty Corporation. Once the federal government has approved the plan termination, the plan will proceed with the distribution of plan assets to settle all participant benefit obligations through a lump sum distribution to the participant or the purchase of annuity. At that time, the Institute will fully fund any remaining shortfall in the defined benefit plan. The Institute does not expect that termination of the defined benefit plan will have a material adverse impact on the Institute's net assets.

The Institute also provides significant health benefits to retired campus and JPL employees. The Institute complies with generally accepted accounting principles regarding accounting for post-retirement benefits other than pensions. These principles, as promulgated in Accounting Standards Codification 715, require accrual accounting for retiree medical benefits. At September 30, 2010, the Institute's actuarially-determined unfunded accumulated post-retirement obligation was approximately \$539.6 million, comprised of \$123.3 million relating to campus and \$416.3 million relating to JPL. Of these amounts, the Institute expects to recover some of the campus portion and all of the JPL portion through future charges to U.S. Government grants and contracts. The asset recorded on the Statement of Financial Position as "Deferred United States Government Billings" includes the anticipated reimbursement under the JPL Contract for JPL obligations.

Litigation and Other Matters

In the normal course of business, the Institute is involved in various lawsuits involving liability claims. Except as otherwise described below, management believes that no such litigation currently pending against the Institute, even if decided unfavorably to the Institute, would have a material adverse impact on the operations or assets of the Institute. With respect to the matters described below, officials of the Institute presently are not able to predict the impact, if any, that final resolution of such matters will have on the Institute's financial condition or operating results.

In 1997, the Institute was named as a potentially responsible party (“PRP”) by NASA under the Comprehensive Environmental Response, Compensation and Liability Act, as amended. As a PRP, the Institute may be jointly liable for contribution towards clean-up costs, estimated to be in excess of \$100 million, of the NASA/JPL Superfund site. The Institute believes that it will have recourse to the United States government for any liabilities it may incur in connection with being named a PRP for that site.

APPENDIX B

FINANCIAL STATEMENTS OF CALIFORNIA INSTITUTE OF TECHNOLOGY

California Institute of Technology
Financial Statements
For the Years Ended September 30, 2010 and 2009

California Institute of Technology
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For the Years Ended September 30, 2010 and 2009

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Report of Independent Auditors

To the Board of Trustees of the
California Institute of Technology

In our opinion, the accompanying balance sheets and the related statements of activities and cash flows present fairly, in all material respects, the financial position of the California Institute of Technology (the "Institute") at September 30, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Institute'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 auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 our opinion.

As discussed in Note B to the financial statements, during the year ended September 30, 2009, the Institute adopted a new accounting standard that governs the net asset classification of funds subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act for endowment funds. In addition, as discussed in Note B to the financial statements, the Institute adopted a new accounting standard that required it to change the measurement date of its pension and postretirement plan assets and liabilities to coincide with its September 30, 2009 year end.

PricewaterhouseCoopers LLP

January 24, 2011

California Institute of Technology
Balance Sheets
At September 30, 2010 and 2009
(Dollars in Thousands)

	2010	2009
ASSETS		
Cash and cash equivalents (Notes B and D)	\$ 42,733	\$ 28,190
Advances and deposits	5,088	3,305
Accounts and notes receivable, net		
United States government	192,323	182,074
Other	15,724	15,631
Contributions receivable, net	131,969	197,931
Investments	1,833,665	1,740,089
Prepaid expenses and other assets	75,919	55,960
Deferred United States government billings	480,725	449,713
Property, plant, and equipment, net	847,206	838,624
	<u> </u>	<u> </u>
Total assets	\$ 3,625,352	\$ 3,511,517
	<u> </u>	<u> </u>
LIABILITIES and NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 409,800	\$ 379,315
Deferred revenue and refundable advances	20,032	21,116
Annuities, trust agreements, and agency funds	72,980	81,093
Bonds and notes payable	427,137	435,195
Accumulated postretirement benefit obligation	539,632	502,278
	<u> </u>	<u> </u>
Total liabilities	1,469,581	1,418,997
	<u> </u>	<u> </u>
Commitments and contingencies (Note L)		
Net assets:		
Unrestricted	692,704	566,186
Temporarily restricted	700,740	815,190
Permanently restricted	762,327	711,144
	<u> </u>	<u> </u>
Total net assets	2,155,771	2,092,520
	<u> </u>	<u> </u>
Total liabilities and net assets	\$ 3,625,352	\$ 3,511,517
	<u> </u>	<u> </u>

The accompanying notes are an integral part of these financial statements.

California Institute of Technology
Statements of Activities
For the Years Ended September 30, 2010 and 2009
(Dollars in Thousands)

	2010	2009
Changes in unrestricted net assets:		
Revenue and net assets released from restrictions:		
Tuition and fees, net of student financial aid	\$ 29,586	\$ 29,162
Investment return/(loss)	63,345	(173,249)
Gifts	19,348	35,212
Grants and contracts:		
Jet Propulsion Laboratory - direct	1,678,512	1,853,440
Other United States government - direct	227,014	207,615
Non-United States government - direct	20,726	20,928
Indirect cost recovery and management allowance	109,814	107,682
Auxiliary enterprises	32,589	34,295
Other	47,175	39,198
Net assets released from restrictions	180,786	98,138
Total revenue and net assets released from restrictions	2,408,895	2,252,421
Expenses:		
Instruction and academic support	236,354	243,700
Organized research:		
Jet Propulsion Laboratory	1,678,512	1,853,440
Other Institute research	284,672	272,024
Institutional support	68,037	65,229
Auxiliary enterprises	31,735	36,593
Total expenses	2,299,310	2,470,986
Excess/(deficit) of revenues over/under expenses	109,585	(218,565)
Other changes in unrestricted net assets:		
Changes in postemployment benefit obligations	1,476	(32,300)
Resignations and reclassifications of net assets	15,457	(10,828)
Total other changes in unrestricted net assets	126,518	(261,693)
Change in accounting principle for endowment funds	-	(467,791)
Change in accounting principle for pension and postretirement plans	-	(1,938)
Increase/(decrease) in unrestricted net assets	\$ 126,518	\$ (731,422)
Changes in temporarily restricted net assets:		
Gifts	\$ 33,497	\$ 35,266
Investment return	60,010	30,933
Net assets released from restrictions	(180,786)	(98,138)
Resignations and reclassifications of net assets	(27,171)	(10,393)
Total changes in temporarily restricted net assets	(114,450)	(42,332)
Change in accounting principle for endowment funds	-	467,791
(Decrease)/increase in temporarily restricted net assets	\$ (114,450)	\$ 425,459
Changes in permanently restricted net assets:		
Gifts	\$ 38,090	\$ 28,077
Investment return/(loss)	1,355	(189)
Other income/(loss)	24	(11)
Resignations and reclassifications of net assets	11,714	21,221
Increase in permanently restricted net assets	\$ 51,183	\$ 49,098
Increase/(decrease) in total net assets	\$ 63,251	\$ (256,865)
Net assets at beginning of year	2,092,520	2,349,385
Total net assets at end of year	\$ 2,155,771	\$ 2,092,520

The accompanying notes are an integral part of these financial statements.

California Institute of Technology
Statements of Cash Flows
For the Years Ended September 30, 2010 and 2009
(Dollars in Thousands)

	2010	2009
Cash flows from operating activities:		
Increase/(decrease) in net assets	\$ 63,251	\$ (256,865)
Adjustments to reconcile increase/(decrease) in net assets to net cash used in operating activities:		
Depreciation, accretion, and amortization	60,413	57,266
Change in accounting principle for pension and postretirement plans	-	1,938
Change in pension and postretirement benefit obligations	(1,476)	32,300
Contributions restricted for long-term investment and capital projects	(35,004)	(30,196)
Investment return restricted for long-term investment and capital projects	(761)	(1,074)
Realized and unrealized (gains)/losses on investments	(112,611)	152,543
In-kind receipt of securities, property, plant, and equipment	(1,303)	(1,972)
Actuarial change in trust liability	(3,209)	2,323
Losses on disposals of property, plant, and equipment	3,543	10,555
Changes in assets and liabilities:		
Advances and deposits	(1,783)	2,318
Accounts and notes receivable, net	(10,342)	20,007
Contributions receivable, net	34,503	12,218
Prepaid expenses and other assets	(19,475)	(3,299)
Deferred United States government billings	(31,012)	(121,509)
Accounts payable and accrued expenses	16,470	2,696
Deferred revenue and refundable advances	552	(9,873)
Agency funds	724	(221)
Accumulated postretirement benefit obligation	38,997	127,206
Net cash provided by/(used in) operating activities	1,477	(3,639)
Cash flows from investing activities:		
Purchases of investments	(385,038)	(563,854)
Proceeds from sales and maturities of investments	440,547	569,023
Purchases of property, plant, and equipment	(71,596)	(103,305)
Proceeds from sale of property, plant, and equipment	86	607
Net cash used in investing activities	(16,001)	(97,529)
Cash flows from financing activities:		
Contributions restricted for long-term investment and capital projects	38,984	17,974
Investment return restricted for long-term investment and capital projects	761	1,074
Cash received under split-interest agreements	4,180	17,990
Cash payments made under split-interest agreements	(6,588)	(6,822)
Proceeds from issuance of bonds	-	80,000
Net (repayments)/borrowings on short-term debt	(8,270)	10,100
Net cash provided by financing activities	29,067	120,316
Net increase in cash and cash equivalents	14,543	19,148
Cash and cash equivalents at beginning of year	28,190	9,042
Cash and cash equivalents at end of year	\$ 42,733	\$ 28,190

The accompanying notes are an integral part of these financial statements.

A. Description of the California Institute of Technology

The California Institute of Technology (the "Institute") is a private, not-for-profit institution of higher education based in Pasadena, California. Founded in 1891, the Institute provides education and training services, primarily for students at the undergraduate, graduate, and postdoctoral levels, and performs research, training, and other services under grants, contracts, and similar agreements with sponsoring organizations, primarily departments and agencies of the government of the United States of America.

B. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements include the accounts of the Institute's main campus and satellite facilities ("Campus"), as well as the Jet Propulsion Laboratory ("JPL"), a Federally Funded Research and Development Center managed by the Institute for the National Aeronautics and Space Administration ("NASA").

The Institute manages JPL under a cost-reimbursable contract with NASA. JPL's land, buildings, and equipment are owned by the United States government and are excluded from the Institute's financial statements. Receivables and liabilities arising from JPL's activities are reflected in the Institute's balance sheets. The direct costs of JPL's activities and the related reimbursement of those costs are segregated in the statements of activities. The management allowances earned under the NASA contract also are included as an indirect cost recovery and management allowance in the statements of activities.

The Institute is generally exempt from federal income taxes under the provisions of Internal Revenue Code ("IRC") Section 501(c)(3). The Institute is also generally exempt from payment of California state income, gift, estate, and inheritance taxes. The Institute has no uncertain tax positions.

The Institute's financial statements have been prepared on the accrual basis of accounting, in accordance with accounting principles generally accepted in the United States of America.

Net assets are classified into three categories according to donor-imposed restrictions or provisions of law: permanently restricted, temporarily restricted, and unrestricted.

Permanently restricted net assets include gifts, charitable remainder trusts, pooled income funds, gift annuities, other split-interest agreements, and contributions receivable in which donors have stipulated that the original value of their contributions and, if applicable, any subsequent accumulations, be invested in perpetuity.

Temporarily restricted net assets include endowment earnings related to permanent endowments that have not been appropriated for expenditures and gifts for which donor-imposed restrictions have not been met, including funds restricted for future capital projects, charitable remainder trusts, pooled income funds, gift annuities, other split-interest agreements, and related contributions receivable. These restrictions are expected to be removed through the passage of time, the appropriation of endowment earnings by the

Institute, and/or the occurrence of expenditures that meet donors' restrictions. Expirations of temporary restrictions on net assets are reported as releases from temporarily restricted to unrestricted net assets in the statements of activities. Donor-restricted gifts that are received and either spent or deemed spent within the same fiscal year are reported as unrestricted revenues.

Unrestricted net assets are those not subject to donor-imposed restrictions.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities 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.

Redesignations

Net assets related to certain contributions received in prior periods have been transferred among net asset categories due to changes in donor designations.

Reclassifications

Certain balances at September 30, 2009, and for the year then ended have been reclassified to conform to the current year presentation.

Cash and Cash Equivalents

Cash and cash equivalents includes bank account balances, investments in money market funds, as well as other short-term investments that have remaining maturities of three months or less when purchased. The Institute classifies all cash and cash equivalents held as part of the investment portfolio as investments. At September 30, 2010 and 2009, short-term investments, as disclosed in Note D, included \$271,969 and \$453,885, respectively, in cash and cash equivalents. Carrying amounts of cash and cash equivalents approximate fair value due to the relatively short maturities of these instruments.

Under the Institute's cash management system, checks issued but not presented to banks may result in overdraft balances for accounting purposes and are included in accounts payable and accrued expenses in the balance sheets if an overdraft situation exists. There were no overdrafts at September 30, 2010 and 2009.

Advances and Deposits

Advances include certain cash balances, totaling \$3,780 and \$2,336 at September 30, 2010 and 2009, respectively, that are restricted for use in connection with United States government-sponsored research. Deposits include \$1,308 and \$969 at September 30, 2010 and 2009, respectively, in cash withheld from employees for health and dependent care spending accounts.

Accounts and Notes Receivable

Accounts receivable under contracts and grants are carried at cost, less an allowance for doubtful accounts. The allowance for doubtful accounts was \$767 and \$872 at September 30, 2010 and 2009, respectively. Student accounts and notes receivable of \$7,096 and \$7,012 at September 30, 2010 and

2009, respectively, are carried at cost; doubtful accounts are charged to expense when they are deemed to become uncollectible. The value of receivables at cost, less any applicable allowances, approximates fair value.

Investments

Investments are recorded at fair values based on a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value as discussed in Note K. Purchases and sales of securities are recorded on trade dates, and realized gains and losses are determined based on the average cost of securities sold. There were no outstanding purchases or sales at September 30, 2010 or September 30, 2009.

The Institute engages a number of outside parties to manage portions of its investment portfolio. The Institute's investment strategy incorporates certain financial instruments, which involve, to varying degrees, elements of market and credit risk.

Alternative investments include holdings in limited partnerships, limited liability companies, and off-shore investment funds. These investments may not be readily marketable or redeemable, and may specify penalties for early liquidation from the related funds. The Institute reviews and evaluates the values provided by external investment managers and has agreed with the valuation methods and assumptions used in determining the fair value of the alternative investments. Those estimated fair values may differ from the values that could have been determined had a ready market for these securities existed.

At September 30, 2010 and 2009, investments included short-term investments valued at \$22,997 and \$50,259, respectively, that were purchased with unexpended proceeds from the 2009 Series California Educational Facilities Authority (CEFA) revenue bonds. These assets are limited to use in specific construction projects.

Endowment

Endowment net assets are those held for long-term investment in support of the Institute. All investments of endowment assets are carried in an investment pool unless special considerations or donor stipulations require that they be held separately. Endowment net assets include donor-restricted endowments and board-designated endowments. Gift annuities, interests in trusts held by others, contributions receivable, and unexpended funds appropriated from endowment earnings that are subject to remaining purpose restrictions are not considered endowment net assets.

Pursuant to its interpretation of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as enacted in California, the Institute classifies as permanently restricted net assets (a) the original value of gifts to permanent endowments, (b) the original value of subsequent gifts to permanent endowments, and (c) the value of accumulations to permanent endowments made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portions of donor-restricted endowment funds that are not classified in permanently restricted net assets are classified as temporarily restricted net assets until those amounts are appropriated for expenditures by the Institute in a manner consistent with the standard of prudence prescribed by UPMIFA and Institute policies. In accordance with UPMIFA, the

Institute considers the following factors in making a determination to appropriate endowment earnings:

- The duration and preservation of the fund
- The purpose of the donor-restricted endowment fund
- General economic conditions
- The possible effects of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Institute
- The investment policies of the Institute

The Institute appropriates endowment earnings for expenditures based on current spending rates and, if applicable, the incurrence of specific expenditures in accordance with donors' purpose restrictions.

A primary Institute endowment investment objective is to provide a predictable stream of funding to programs by investing endowment assets to earn an average annual total return that exceeds inflation by at least the amount required to support the endowment's contribution to the operating budget. This objective relies on a strategy in which investment returns are achieved through both capital appreciation (realized and unrealized gains) as well as current yield (interest and dividends). The Institute targets a diversified asset allocation, including investments in both public markets and in alternative investments, within prudent risk constraints.

In accordance with the Institute's 2010 spending policy, 5.75% of the average of the twelve calendar quarters' endowment market values immediately preceding a given fiscal year is available each year for distribution to the operating budget. If current-year interest, dividends, and gains are not sufficient to support the current-year distribution, the balance is provided from prior years' accumulated earnings.

As a result of market declines, the fair value of certain donor-restricted endowment funds is less than the historical value of such funds. The aggregate deficiencies for donor-restricted endowment funds were \$48,485 and \$63,439 at September 30, 2010 and 2009, respectively, and are recorded in unrestricted net assets. Such deficiencies reverse with market value appreciation. Reversals of these deficiencies increase unrestricted net assets.

Derivatives

The Institute uses an interest rate swap to manage the interest rate exposure of a portion of its variable rate debt. The swap is recorded at fair value, which is the estimated amount that the Institute would receive or pay to terminate the agreement, taking into account current interest rates and the current credit-worthiness of the swap counterparty. Realized losses of \$5,556 and \$4,891 resulted from regular settlements with the counterparty during the years ended September 30, 2010 and 2009, respectively, and are included in investment return in the statements of activities. Changes in the swap's fair value during the years ended September 30, 2010 and 2009, resulted in unrealized losses of \$14,101 and \$15,466, respectively, and are included in investment return in the statements of activities. The fair value of the swap was a liability of \$41,458 and \$27,357 at September 30, 2010 and 2009, respectively, and is included in accounts payable and accrued expenses in the balance sheets.

The Institute's externally-managed investment funds may include derivatives. The fair value of any such derivatives is included in the calculation of the fair values of the Institute's investments in such funds.

Property, Plant, and Equipment

Property, plant, and equipment is recorded at the cost of construction or acquisition, or at the fair value of contributed assets at the date of the gift. Interest costs related to debt used for construction of assets are capitalized and included in the cost of construction. Depreciation on all assets is calculated over the estimated useful lives as defined for each class of depreciable asset, which range from three to fifty years, and is computed using the straight-line method. Depreciation on buildings is calculated based on the useful lives of each major building component. The Institute provides for the renewal and replacement of assets from various sources set aside for this purpose. The Institute routinely acquires or constructs equipment under federal and non federal research grants. Assets acquired or constructed under both federal and nonfederal grants in which title does not ultimately transfer to the Institute are not recorded as property, plant, and equipment.

The Institute records conditional asset retirement obligations primarily related to asbestos removal and disposal for future remediation activity. Asset retirement cost, net of accumulated depreciation, at September 30, 2010 and 2009 was \$1,118 and \$1,256, respectively, and is included in property, plant, and equipment in the balance sheets. The asset retirement obligation at September 30, 2010 and 2009 was \$11,043 and \$10,638, respectively, and is included in accounts payable and accrued expenses in the balance sheets.

Split-Interest Agreements

The Institute's split-interest agreements with donors consist primarily of charitable gift annuities and charitable remainder trusts for which the Institute serves as trustee. For irrevocable agreements, assets contributed are included in Institute investments at fair value. Contribution revenue is recognized at the date each trust is established after recording liabilities for the actuarially determined present value of the estimated future payments to be made to the beneficiaries. The actuarial liability is discounted at an appropriate risk-adjusted rate at the inception of each agreement and the applicable actuarial mortality tables. Discount rates on all split-interest agreements range from 3.2% to 11.2%. The liabilities are adjusted during the terms of the trusts for changes in the fair value of the assets, accretion of discounts, and other changes in the estimates of future benefits. Actuarial liabilities totaled \$60,514 and \$61,074 at September 30, 2010 and 2009, respectively, and are included in liabilities for annuities, trust agreements and agency funds in the balance sheets. The Annuity 2000 Mortality Table was used for the years ended September 30, 2010 and 2009.

The Institute is also the trustee for certain revocable agreements. Assets contributed are included in Institute investments at fair value, and amounts equal to the value of assets are included in liabilities for annuities, trust agreements, and agency funds. Total assets and liabilities for revocable agreements were \$3,166 and \$11,464 at September 30, 2010 and 2009, respectively.

Beneficial Interests

The Institute is the beneficiary of charitable remainder and perpetual trusts held and administered by others. The fair value of the Institute's interest in these trusts is determined by the fair value of trust assets, multiplied by the Institute's percentage interest in the various trusts and is included in prepaid expenses and other assets in the balance sheets. Contribution revenues are recognized at the date the

trusts are established. Distributions from perpetual trusts are recorded as contribution revenues, and the carrying value of the beneficial interests is adjusted for changes in the values of the underlying assets. These assets totaled \$20,063 and \$11,972 at September 30, 2010 and 2009, respectively.

Retirement Plans

The Institute's retirement plans cover substantially all of its employees. Except for a small number of former employees who participated in a defined benefit pension plan that was terminated in 1993 and who are covered by a successor defined benefit pension plan, the Institute provides a defined contribution retirement program for its qualified academic and administrative employees. Contributions to IRC Section 403(b) defined contribution plans for the years ended September 30, 2010 and 2009, were \$21,637 and \$21,592, respectively, for the Campus and \$64,275 and \$64,358, respectively, for JPL. The Institute has no assets or liabilities related to these plans.

At September 30, 2010 and 2009, respectively, prepaid expenses and other assets included \$42,992 and \$37,503 in assets held pursuant to IRC section 457 retirement plans. The assets are invested with external investment managers and are recorded at fair value. The Institute's liabilities related to these funds were \$41,913 and \$36,999 at September 30, 2010 and 2009, respectively, and are included in accounts payable and accrued expenses in the balance sheets.

Funds Held for Others

The Institute held assets totaling \$9,300 and \$8,554 in agency funds at September 30, 2010 and 2009, respectively. The assets held are primarily included in investments in the balance sheets. The corresponding liability, which is equal to assets held, is included in annuities, trust agreements, and agency funds on the balance sheets.

Compensated Absences

Employees at the Institute are entitled to paid vacation based upon length of service and other factors. The Institute accrues a liability for vacation benefits that employees have earned but not yet taken. At September 30, 2010 and 2009, accrued compensated absences of \$73,917 and \$71,348, respectively, are included in accounts payable and accrued expenses in the balance sheets.

Workers' Compensation Insurance

The Institute provides workers' compensation insurance to its employees. Liabilities for the Institute's retained risk related to such coverage are determined by an actuary and are included in accounts payable and accrued expenses in the balance sheets. At September 30, 2010 and 2009, the estimated liabilities for workers' compensation amounted to \$7,810 and \$9,292, respectively.

Revenue Recognition

The Institute's revenue recognition policies are as follows:

- *Tuition and fees* - Student tuition and fees are recorded as revenues during the year the related academic services are rendered and displayed net of financial aid on the statements of activities. Tuition and fees totaled \$71,506 and \$68,030 at September 30, 2010 and 2009, respectively. Student financial aid totaled \$41,920 and \$38,868 at September 30, 2010 and 2009, respectively. Student tuition and fees received in advance of services to be rendered are recorded as deferred revenue.

- *Investment return (loss)* - Investment transactions are recorded on the trade date. Investment income and realized and unrealized gains and losses, net of investment management fees, are reported as increases or decreases to the appropriate net asset category.
- *Gifts* - Gifts from donors, including contributions receivable from unconditional promises to give, are recorded as revenues in the year received. Gifts are recorded at fair value using quoted market prices, market prices for similar assets, independent appraisals, or as estimated by Institute management. Gift revenue from contributions to be collected in the form of securities or other investments is adjusted to reflect the year-end value of securities and/or investments to be contributed. Donor-restricted gifts, which are received and either spent, or deemed spent, within the same year, are reported as unrestricted revenue. Gifts of long-lived assets with no donor-imposed time restrictions are reported as unrestricted revenue in the year received. Gifts restricted to the acquisition or construction of long-lived assets are reported as temporarily restricted revenue and released to unrestricted net assets when long-lived assets are placed in service. Gifts that are subject to other time or purpose restrictions are reported as temporarily restricted revenue and released to unrestricted net assets when donor restrictions are fulfilled. Gifts received for endowment investment are held in perpetuity and recorded as permanently restricted revenue. Conditional promises to give are not recorded until donor-imposed conditions have been substantially met. Conditional promises to give totaled \$108,904 and \$127,657 at September 30, 2010 and 2009, respectively. At September 30, 2010 and 2009, respectively, conditional promises included \$77,500 and \$85,000 for research programs from a foundation that shares a common board member with the Institute.
- *Grants and contracts* - Revenues from grants and contracts are reported as increases in unrestricted net assets as allowable expenditures under such agreements are incurred. Certain grants and contracts provide for the reimbursement of indirect facilities and administrative costs based on rates negotiated with the Office of Naval Research, the Institute's federal cognizant agency for the negotiation and approval of facilities and administrative and other indirect cost rates. Amounts received in excess of expenditures are recorded as deferred revenue.
- *Auxiliary enterprises* - Revenues from supporting services, such as dining facilities, faculty and student housing, and bookstores are recorded at time of delivery of a product or service. Amounts received in advance of deliveries of products or services are recorded as deferred revenue.

Expenses

Expenses are generally reported as decreases in unrestricted net assets. The statements of activities present expenses by functional classification in accordance with the overall educational and research mission of the Institute.

Building and improvements depreciation and plant operation expenses are allocated to functional classifications based on square footage occupancy of Institute facilities. Equipment depreciation is allocated to functional classifications based on average equipment purchases attributed to each classification. Interest expense on external debt, net of amounts capitalized, is allocated to the functional categories that have benefited from the proceeds of such debt. Interest expense, net of

California Institute of Technology
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capitalized interest, for the years ended September 30, 2010 and 2009, was \$8,436 and \$5,959, respectively, and capitalized interest was \$1,078 and \$926, respectively.

New Accounting Pronouncements

During the year ended September 30, 2010, the Institute adopted a new accounting standard that expanded pension and other postretirement benefit plan disclosures related to the fair value of each plan's assets. Adoption of this standard had no material impact on the financial statements.

During the year ended September 30, 2009, the Institute adopted a new accounting standard that required the Institute to change the measurement date of its defined benefit pension and other postretirement plan assets and obligations to coincide with its fiscal year-end date. The following table summarizes the incremental effects of the measurement date provision on the Institute's balance sheet at September 30, 2009:

	Before measurement date change	Adjustment	After measurement date change
Deferred United States government billings	\$ 443,984	\$ 5,729	\$ 449,713
Total assets	3,505,788	5,729	3,511,517
Accounts payable and accrued expenses	379,266	49	379,315
Accumulated postretirement benefit obligation	494,660	7,618	502,278
Total liabilities	1,411,330	7,667	1,418,997
Unrestricted net assets	568,124	(1,938)	566,186
Total net assets	2,094,458	(1,938)	2,092,520
Total liabilities and net assets	3,505,788	5,729	3,511,517

During the year ended September 30, 2009, the Institute adopted a new accounting standard that governs how not-for-profit organizations classify the net assets of donor-restricted endowment funds subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 ("UPMIFA"). The new standard requires that net appreciation related to permanent endowments be classified as temporarily restricted net assets until appropriated for expenditures. In addition, the standard requires enhanced disclosures for all endowment funds. The State of California adopted UPMIFA effective January 1, 2009. As of the enactment date, the Institute recorded an adjustment to reclassify \$467,791 from unrestricted to temporarily restricted net assets related to the adoption of this standard.

In September 2009, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2009-12, which allows the Institute to measure the fair value of its investments in certain entities, as defined by the standard, at net asset value (NAV). The investments covered by the

standard are generally classified as alternative investments by the Institute. The Institute chose to early adopt the recognition and valuation provisions of the standard for the year ended September 30, 2009. The Institute has historically used NAV as a basis for determining the fair value of applicable investments and therefore the adoption had no material impact on the financial statements. During the year ended September 30, 2010, the Institute adopted the disclosure requirements of this standard.

In January 2010, the FASB issued an update to ASU 2009-12. The update expands required disclosures about fair value measurements. In particular, this guidance requires: (1) separate disclosure of the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements along with the reasons for such transfers; (2) information about purchases, sales, issuances and settlements to be presented separately in the reconciliation for Level 3 fair value measurements; (3) fair value measurement disclosures for each class of assets and liabilities; and (4) disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements that fall in either Level 2 or Level 3. This guidance is effective for the Institute's fiscal year beginning October 1, 2010 except for (2) above, which is effective for the fiscal year beginning October 1, 2011. The Institute is currently evaluating the impact that this guidance will have on its financial statement disclosures.

C. Contributions Receivable, net

Contributions receivable consist of unconditional promises to give to the Institute in the future. Contributions receivable are initially recorded at fair value including a discount to the present value of the future cash flows at an appropriate risk-adjusted rate. Discount rates on all outstanding contributions at September 30, 2010 and 2009 range from 2.64% to 5.84%.

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Contributions receivable consisted of the following at September 30, 2010 and 2009:

	2010	2009
Contributions receivable at beginning of year, net	\$ 197,931	\$ 212,964
Discount at beginning of year	15,266	18,275
Allowance for doubtful accounts at beginning of year	<u>197</u>	<u>236</u>
Contributions receivable at beginning of year, gross	213,394	231,475
New contributions received	3,508	50,379
Contribution payments received	(74,741)	(64,280)
Adjustments to fair value of securities to be contributed	505	(2,310)
Write offs and other adjustments	<u>64</u>	<u>(1,870)</u>
Contributions receivable at end of year, gross	142,730	213,394
Discount at end of year	(10,662)	(15,266)
Allowance for doubtful accounts at end of year	<u>(99)</u>	<u>(197)</u>
Contributions receivable at end of year, net	<u>\$ 131,969</u>	<u>\$ 197,931</u>

Gross contributions receivable carried the following restrictions at September 30, 2010 and 2009:

	2010	2009
Endowment for programs, activities, and scholarships	\$ 27,452	\$ 40,550
Building construction	1,414	1,937
Education, general and time restrictions	<u>113,864</u>	<u>170,907</u>
Total contributions receivable, gross	<u>\$ 142,730</u>	<u>\$ 213,394</u>

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Gross contributions receivable are expected to be realized as follows at September 30, 2010 and 2009:

	2010	2009
Within one year	\$ 54,615	\$ 62,526
Between one year and five years	65,897	124,670
More than five years	<u>22,218</u>	<u>26,198</u>
Total contributions receivable, gross	<u>\$ 142,730</u>	<u>\$ 213,394</u>

At September 30, 2010 and 2009, contributions receivable of \$75,611 and \$97,808, respectively, were due from a foundation that shares a common board member with the Institute. At September 30, 2010 and 2009, contributions receivable of \$19,200 and \$37,671, respectively, were due from this board member in the form of securities.

At September 30, 2010 and 2009, contributions receivable of \$14,507 and \$19,024 were due from another foundation that shares a common board member with the Institute.

D. Investments

Investments consisted of the following at September 30, 2010 and 2009:

	2010	2009
Short-term investments	\$ 321,147	\$ 455,099
Fixed-income securities	69,815	69,401
Equity securities	522,553	419,955
Other investment funds	-	19,039
Alternative investments:		
Absolute return strategies	513,511	408,864
Private equity	176,491	151,621
Real Assets	205,073	188,271
Real estate mortgages, notes, and other investments	<u>25,075</u>	<u>27,839</u>
Total investments	<u>\$ 1,833,665</u>	<u>\$ 1,740,089</u>

At September 30, 2010 and 2009, short-term investments included \$271,969 and \$453,885, respectively, in cash and cash equivalents.

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At September 30, 2009, other investment funds consisted of amounts held by a fund whose trustee had restricted redemptions by shareholders. During the year ended September 30, 2010, the Institute redeemed its holdings in the fund in exchange for cash.

Investments were categorized as follows at September 30, 2010 and 2009:

	2010	2009
Investment pool	\$ 1,600,757	\$ 1,462,206
Separately invested endowments	45,536	53,242
Trusts, annuities, and other	<u>187,372</u>	<u>224,641</u>
Total investments	<u>\$ 1,833,665</u>	<u>\$ 1,740,089</u>

At September 30, 2010 and 2009, endowment investments were \$1,631,076 and \$1,508,460, respectively.

Investment return/(loss) consisted of the following for the years ended September 30, 2010 and 2009:

	2010	2009
Interest and dividend income	\$ 12,099	\$ 10,038
Net realized gains/(losses)	96,899	(24,829)
Net unrealized appreciation/(depreciation)	<u>15,712</u>	<u>(127,714)</u>
Total investment return/(loss)	<u>\$ 124,710</u>	<u>\$ (142,505)</u>

Investment return includes realized and unrealized losses related to the interest rate swap agreement as discussed in Note B.

E. Deferred United States Government Billings

The Institute's contract with NASA provides for the reimbursement of certain employee benefit costs incurred but not yet billed to the JPL contract. Therefore, the Institute has recorded deferred United States government billings related to the portion of its accumulated postretirement benefit obligation, accrued vacation, workers' compensation, and pension benefit liabilities attributable to JPL, as the Institute expects to recover these amounts through future charges to JPL contracts. Although these deferred billing amounts may not be currently funded, and therefore may need to be funded as part of future NASA budgets, the Institute believes it has the contractual right to require that such funding be made available at the time these employee benefit costs become payable by the Institute.

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Deferred United States government billings related to deferred reimbursements of the following liabilities at September 30, 2010 and 2009:

	2010	2009
Accumulated postretirement benefit obligation	\$ 416,280	\$ 386,278
Accrued vacation benefits	59,363	57,640
Other benefit liabilities	<u>5,082</u>	<u>5,795</u>
Total deferred United States government billings	<u>\$ 480,725</u>	<u>\$ 449,713</u>

F. Property, Plant, and Equipment, net

Property, plant, and equipment consisted of the following at September 30, 2010 and 2009:

	2010	2009
Land and land improvements	\$ 55,961	\$ 50,634
Buildings and building improvements	822,245	723,580
Equipment	500,475	495,890
Construction in progress	77,925	142,795
Less: accumulated depreciation	<u>(609,400)</u>	<u>(574,275)</u>
Total property, plant, and equipment, net	<u>\$ 847,206</u>	<u>\$ 838,624</u>

Depreciation expense for the years ended September 30, 2010 and 2009, was \$59,454 and \$55,355, respectively.

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G. Bonds and Notes Payable

Bonds and notes payable consisted of the following at September 30, 2010 and 2009:

Bonds Payable:	2010	2009
California Educational Facilities Authority (CEFA) revenue bonds:		
2009 Series due November 1, 2039, with interest at 5.00% (gross of issue premium of \$668 and \$691, respectively)	\$ 80,668	\$ 80,691
2006 Series A due October 2036, with variable interest rates reset weekly (0.20% and 0.22%, respectively)	82,500	82,500
2006 Series B due October 2036, with variable interest rates reset weekly (0.18% and 0.30%, respectively)	82,500	82,500
Series 1998 due October 2028, with interest at 4.25% (net of issue discount of \$2,057 and \$2,172, respectively)	48,508	48,393
Series 1998 due October 2027, with interest at 4.5% (net of issue discount of \$2,169 and \$2,289, respectively)	51,131	51,011
Series 1994 due January 2024, with variable interest rates reset weekly (0.20% and 0.22%, respectively)	30,000	30,000
Total bonds	<u>375,307</u>	<u>375,095</u>
Notes payable:		
Bank of America revolving bank credit facility expiring January 2011, with variable interest rates (0.42% and 0.41%, respectively)	51,830	5,100
Bank of America revolving bank credit facility expiring January 2011, with variable interest rates (0.37% at September 30, 2009)	-	50,000
Bank of America revolving bank credit facility expiring June 2013, with variable interest rates	-	-
Commercial paper note program (\$100,000 authorized), weighted-average interest (0.25% at September 30, 2009)	-	5,000
Bank of New York money market loan program with no expiration date, with variable interest rates	-	-
JPMorgan Chase money market loan program with no expiration date, with variable interest rates	-	-
Wells Fargo revolving bank credit facility expiring June 2013, with variable interest rates	-	-
Total notes payable	<u>51,830</u>	<u>60,100</u>
Total bonds and notes payable	<u>\$ 427,137</u>	<u>\$ 435,195</u>

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As of September 30, 2010, the Institute had available to it six unsecured revolving lines of credit (the "Lines of Credit"). The Institute has internally-mandated aggregate borrowing limits under the Lines of Credit, which include the following amounts: \$100.0 million for borrowings to finance working capital; \$25.0 million for borrowings to finance acquisitions of real estate and temporary funding for capital projects; and \$200.0 million for borrowings secured to preserve liquidity. All credit facilities and money market loan program agreements are uncollateralized.

The table below summarizes the material terms of the Lines of Credit, including permitted uses of any funds drawn under each individual Line of Credit at September 30, 2010:

Financial Institution	Permitted Maximum Amount	Outstanding Amounts	Facility Maturity	Purpose
Bank of America	\$ 100,000	\$ 51,830	January 2011	General working capital and capital projects
JPMorgan Chase	62,000	-	None	General working capital and capital projects
Bank of America	50,000	-	January 2011	General working capital and capital projects
Bank of New York	50,000	-	None	General working capital and capital projects
Bank of America	50,000	-	June 2013	Liquidity for variable rate bonds and commercial paper
Wells Fargo	50,000	-	June 2013	Liquidity for variable rate bonds and commercial paper

The lines of credit from Bank of New York, JPMorgan Chase, and the Bank of America line of credit for \$50,000 maturing in January 2011 all are uncommitted. Maturity dates for individual advances made by these institutions are to be determined at the time advances are made.

Financial covenants under certain of the Lines of Credit require that the Institute maintain a ratio of unrestricted cash and investments to total adjusted debt outstanding equal to at least 0.5 to 1.0.

In July 2009, the Institute activated a facility that permits the issuance of an aggregate total of \$100,000 in taxable or tax-exempt commercial paper to finance capital projects. Currently, the Institute has imposed an internal limit on borrowing under the commercial paper program of \$20,000.

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Principal repayments on bonds and notes payable were as follows at September 30, 2010:

<u>Year Ending</u> <u>September 30</u>	<u>Amount</u>
2011	\$ 246,830
2012	-
2013	-
2014	-
2015	-
Thereafter	<u>180,307</u>
Total	<u>\$ 427,137</u>

Under certain circumstances, the CEFA Series 1994 and 2006 Series A and 2006 Series B variable rate revenue bonds could fail to be remarketed, requiring the Institute to repurchase the outstanding bonds totaling approximately \$195,000. Therefore, those bonds have been classified as repayable in the following year in the table above.

The fair value of bonds payable and commercial paper is estimated based on quoted market prices for the bonds or paper or similar financial instruments and was \$385,926 and \$390,969 at September 30, 2010 and 2009, respectively. Amounts outstanding under the Lines of Credit totaling \$51,830 and \$55,100 at September 30, 2010 and 2009, respectively, are carried at cost, which approximates fair value.

In 2006, the Institute entered into an interest rate swap agreement in conjunction with issuance of the 2006 Series A and B variable rate revenue bonds. Under the terms of the agreement, which expires October 1, 2036, the Institute pays the counterparty a fixed interest rate of 3.549% and receives a variable rate, indexed at 67% of one-month LIBOR (0.17% at September 30, 2010), on a \$165,000 underlying notional principal amount.

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H. Net Assets

Temporarily restricted net assets were available for the following purposes at September 30, 2010 and 2009:

	2010	2009
Educational and research funds	\$ 91,936	\$ 105,747
Contributions receivable	107,944	164,299
Capital projects	264	78,592
Life income and annuity funds	32,275	23,882
Endowments	468,321	442,670
	<hr/>	<hr/>
Total temporarily restricted net assets	\$ 700,740	\$ 815,190

The changes in temporarily restricted net assets related to capital projects are due primarily to the completion of three major Campus buildings and the release of temporarily restricted gifts related to construction.

Permanently restricted net assets were available for the following purposes at September 30, 2010 and 2009:

	2010	2009
Student loan funds	\$ 15,470	\$ 14,962
Contributions receivable	24,025	33,632
Life income and annuity funds	30,282	27,742
Endowments	692,550	634,808
	<hr/>	<hr/>
Total permanently restricted net assets	\$ 762,327	\$ 711,144

Reclassifications and redesignations of net assets in the Statement of Activities for the year ended September 30, 2010 include the effects of out-of-period reclassifications among unrestricted, temporarily restricted, and permanently restricted net asset categories. The reclassifications increased unrestricted net assets by \$25,046, decreased temporarily restricted net assets by \$26,058, and increased permanently restricted net assets by \$1,012. The reclassifications are primarily due to the recognition of the effect of expirations of temporary donor restrictions on gifts for acquisition of buildings and equipment that were not appropriately released to unrestricted net assets in the period that the related fixed assets were placed into service, primarily in the fiscal year ended September 30, 2009. The adjustments did not affect overall net assets and were not considered material to the financial statements.

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Endowment net assets consisted of the following at September 30, 2010:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (59,580)	\$ 468,321	\$ 692,550	\$ 1,101,291
Board-designated endowment funds	530,668	-	-	530,668
Total endowment net assets	\$ 471,088	\$ 468,321	\$ 692,550	\$ 1,631,959

Endowment net assets consisted of the following at September 30, 2009:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (63,439)	\$ 442,670	\$ 634,808	\$ 1,014,039
Board-designated endowment funds	492,980	-	-	492,980
Total endowment net assets	\$ 429,541	\$ 442,670	\$ 634,808	\$ 1,507,019

Changes in endowment net assets for the years ended September 30, 2010 and 2009, were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance as of October 1, 2008	\$ 1,026,043	\$ 39,208	\$ 594,207	\$ 1,659,458
Effect of change in accounting principle	(429,493)	429,493	-	-
Investment return:				
Investment income	5,911	3,680	55	9,646
Net (decline) appreciation in market value	(158,008)	22,848	(124)	(135,284)
Total investment return	(152,097)	26,528	(69)	(125,638)
Contributions and pledge payments	12,136	450	32,764	45,350
Additions to board-designated endowments	29,691	-	-	29,691
Appropriation for expenditure	(49,729)	(45,112)	(676)	(95,517)
Redesignations, reclassifications and other	(7,010)	(7,897)	8,582	(6,325)
Balance as of September 30, 2009	429,541	442,670	634,808	1,507,019
Investment return:				
Investment income	436	-	-	436
Net appreciation in market value	73,950	70,417	1,340	145,707
Total investment return	74,386	70,417	1,340	146,143
Contributions and pledge payments	-	675	45,949	46,624
Additions to board-designated endowments	29,148	-	-	29,148
Appropriation for expenditure	(53,686)	(48,021)	(775)	(102,482)
Redesignations, reclassifications and other	(8,301)	2,580	11,228	5,507
Balance as of September 30, 2010	\$ 471,088	\$ 468,321	\$ 692,550	\$ 1,631,959

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The \$429,493 effect of the change in accounting principle noted above is included in the overall effect of the change in accounting principle related to endowments in the statement of activities for the year ended September 30, 2009. The amount above excludes \$38,298 of the overall effect of the change in accounting principle for endowments that is related to items not considered endowment net assets under the Institute's definition.

I. Retirement Plans

A small number of employees who participated in a defined benefit pension plan that was terminated in 1993 participate in a successor defined benefit pension plan. Retirement benefits under that plan are determined based on years of service and career average compensation, and accrued partially on a fixed-dollar basis and partially on a variable-dollar basis. Financial and actuarial information for the plan is based on a September 30 measurement date.

Certain financial information regarding the successor defined benefit plan was as follows for the years ended September 30, 2010 and 2009:

	2010	2009
Change in the benefit obligation:		
Benefit obligation at beginning of year	\$ 4,871	\$ 4,828
Service cost	34	35
Interest cost	239	254
Measurement date change	-	51
Benefits paid	(152)	(98)
Actuarial loss/(gain)	379	(199)
	<u> </u>	<u> </u>
Benefit obligation at end of year	\$ 5,371	\$ 4,871

The accumulated benefit obligation for the defined benefit pension plan was \$5,347 and \$4,853, respectively, at September 30, 2010 and 2009.

	2010	2009
Change in fair value of plan assets:		
Fair value of plan assets at beginning of year	\$ 3,033	\$ 2,426
Actual return on plan assets	224	145
Employer contributions	404	444
Benefits paid	(152)	(98)
Measurement date change	-	118
Plan expenses	(3)	(2)
	<u> </u>	<u> </u>
Fair value of plan assets	\$ 3,506	\$ 3,033

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	2010	2009
Funded status at valuation date:		
Funded status	<u>\$ (1,865)</u>	<u>\$ (1,838)</u>
Net amount recognized at end of year	<u>\$ (1,865)</u>	<u>\$ (1,838)</u>

The unfunded benefit obligation is recognized in accounts payable and accrued expenses in the balance sheets. The statements of activities include the effects of changes in the accumulated benefit obligation that are not otherwise recognized in periodic pension cost. The effect for the Campus was a decrease in unrestricted net assets of \$164 and \$14 for the years ended September 30, 2010 and 2009, respectively, and is recorded in other changes in unrestricted net assets. The effect related to JPL for the years ended September 30, 2010 and 2009, respectively, was an increase of \$146 to JPL direct expense and revenue and to deferred U.S. government billings, and a decrease to JPL direct expense and revenue of \$188, and to deferred U.S. government billings, respectively, as any cost associated with this adjustment related to JPL will ultimately be recoverable from NASA.

As discussed in Note B, the Institute was required to measure plan assets and liabilities at September 30, effective for the year ended September 30, 2009. Previously, the Institute used a June 30 measurement date. This change required that the Institute adjust unrestricted net assets for the effect of this change in accounting principle. The adjustment for the Campus was \$11 for the year ended September 30, 2009, and is reflected in accounts payable and accrued expenses in the balance sheets and as a change in accounting principle for pension and postretirement plans in the statements of activities. The adjustment related to JPL was \$38 for the year ended September 30, 2009, and is reflected in accounts payable and accrued expenses in the balance sheets, as well as in both JPL direct expense and revenue, and in deferred U.S. government billings, as any cost associated with this adjustment related to JPL will ultimately be recoverable from NASA.

Differences between accumulated periodic pension expense and the unfunded accumulated pension obligation are recorded in unrestricted net assets. At September 30, 2010 and 2009, those differences were as follows:

	2010	2009
Amounts recognized in unrestricted net assets:		
Net actuarial loss	<u>\$ 749</u>	<u>\$ 438</u>
Total amounts recognized as unrestricted net assets	<u>\$ 749</u>	<u>\$ 438</u>

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Net periodic cost related to the plan for the years ended September 30, 2010 and 2009, included the following components:

	2010	2009
Service cost	\$ 34	\$ 35
Interest cost	239	254
Recognized actuarial loss	6	43
Expected return on plan assets	<u>(160)</u>	<u>(137)</u>
Net periodic cost	<u>\$ 119</u>	<u>\$ 195</u>

Estimated contributions to the retirement plan in the next year are \$474.

Estimated future benefit payments are expected to be paid as follows:

<u>Year Ending</u> <u>September 30</u>	<u>Benefit Payments</u>
2011	\$ 242
2012	271
2013	323
2014	348
2015	363
2016-2020	1,948

Participant annuities may be fixed or variable and reflect the value of designated plan equity and fixed-income securities. Plan assets are invested in separate accounts by the funding agent and carry a target allocation of 19% equities, 76% fixed-income, and 5% short-term investments. At September 30, 2010 and 2009, total retirement plan assets were invested as follows:

	2010	2009
Equity securities	16.00%	16.00%
Fixed-income securities	81.00%	83.00%
Cash	3.00%	1.00%

The following weighted-average assumptions were used to determine the Institute's benefit obligations under the plan at September 30, 2010 and 2009:

	2010	2009
Discount rate	4.90%	5.70%
Expected return on plan assets	5.25%	5.25%
Long-term rate of compensation increase	4.00%	4.00%

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To develop the expected long-term rate of return on assets, the Institute considers the historical returns and future expectations for each asset class, as well as the asset allocation of the retirement plan's investment portfolio. Estimated future return was based on expected returns for various asset categories. The evaluation of the historical and future returns resulted in the selection of 5.25% for the expected return on plan assets.

The following weighted-average assumptions were used to determine the Institute's net periodic benefit cost under the plan for the years ended September 30, 2010 and 2009:

	2010	2009
Discount rate	5.70%	7.00%
Expected return on plan assets	5.25%	5.25%
Long-term rate of compensation increase	4.00%	4.00%

As described in Note K, the Institute uses a hierarchy to report the fair value of invested assets, including the invested assets for the defined benefit Plan. All of the Plan's investments fall within Level 2 of that hierarchy.

The following table summarizes the investments of the Institute's defined benefit plan assets as of September 30, 2010 and 2009:

	2010	2009
Short-term investments	\$ 95	\$ 39
Fixed income securities	2,850	2,510
International equity securities	326	276
Domestic equity securities	235	208
	<hr/>	<hr/>
Total	\$ 3,506	\$ 3,033

J. Postretirement and Postemployment Benefits Other Than Pensions

The Institute's employees may be eligible for certain health and life insurance benefits upon retirement. The Institute's obligation related to these benefits is actuarially determined and has been recorded in the accompanying balance sheets. Any actuarial deferrals resulting from changes in the accumulated postretirement benefit obligation are amortized over the average future working lifetime of Institute employees.

The Institute's postretirement benefits are funded on a pay-as-you-go basis; therefore, there are no plan assets. As a result, a formal investment policy has not been developed.

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Certain financial information regarding the plan was as follows for the years ended September 30, 2010 and 2009, and is based on a September 30 measurement date:

	2010	2009
Change in the accumulated postretirement benefit obligation:		
Accumulated postretirement benefit obligation at beginning of year	\$ 502,278	\$ 344,259
Service cost	15,385	10,119
Interest cost	29,074	23,689
Participant contributions	3,987	3,192
Measurement date change	-	8,452
Benefits paid	(18,897)	(20,870)
Actuarial loss	7,805	133,437
	<u>539,632</u>	<u>502,278</u>
Benefit obligation at end of year	\$ 539,632	\$ 502,278
	2010	2009
Components of net periodic postretirement benefit cost:		
Service cost	\$ 15,385	\$ 10,119
Interest cost	29,074	23,689
Amortization of prior year service credit	(3,337)	(3,337)
Amortization of loss	7,093	-
	<u>48,215</u>	<u>30,471</u>
Net periodic benefit cost	\$ 48,215	\$ 30,471
	2010	2009
Change in the fair value of plan assets:		
Employer contributions	\$ 14,910	\$ 14,267
Participant contributions	3,987	2,344
Benefits paid	(18,897)	(16,611)
	<u>-</u>	<u>-</u>
Fair value of plan assets at end of year	\$ -	\$ -

The accumulated postretirement benefit obligation is recognized as a liability in the balance sheets. The statements of activities include the effects of changes in the postretirement benefit obligation that are not otherwise recognized in periodic postretirement benefit cost. The effect for the Campus was an increase in unrestricted net assets of \$1,643 and a decrease in unrestricted net assets of \$34,224 for the years ended September 30, 2010 and 2009, respectively, and is recorded in other changes in unrestricted net assets. The effect related to JPL for the years ended September 30, 2010 and 2009, respectively, was an increase of \$5,692 and \$111,003 to both JPL direct expense and revenue and to deferred U.S. government billings, as any cost associated with this adjustment related to JPL will ultimately be recoverable from NASA.

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As discussed in Note B, the Institute was required to measure plan assets and liabilities at September 30, effective for the year ended September 30, 2009. Previously, the Institute used a June 30 measurement date. This change required that the Institute adjust unrestricted net assets for the effect of this change in accounting principle. The adjustment for the Campus was \$1,927 for the year ended September 30, 2009, and is reflected in the accumulated postretirement benefit obligation in the balance sheet and as a change in accounting principle for pension and postretirement plans in the statement of activities. The adjustment related to JPL was \$5,691 for the year ended September 30, 2009, and is reflected in the balance sheets, as well as in both JPL direct expense and revenue, and in deferred U.S. government billings, as any cost associated with this adjustment related to JPL will ultimately be recoverable from NASA.

	2010	2009
Funded status at valuation date:		
Funded status	\$ (539,632)	\$ (502,278)
	<u> </u>	<u> </u>
Net amount recognized at end of year	\$ (539,632)	\$ (502,278)
	<u> </u>	<u> </u>
	2010	2009
Amounts recognized in the balance sheets:		
Accumulated postretirement obligation	\$ (539,632)	\$ (502,278)
	<u> </u>	<u> </u>
Total amounts recognized in balance sheets	\$ (539,632)	\$ (502,278)
	<u> </u>	<u> </u>
	2010	2009
Amounts recognized as changes in unrestricted net assets:		
Prior service credit	\$ (18,568)	\$ (21,905)
Net loss	141,471	140,759
	<u> </u>	<u> </u>
Total amounts recognized in unrestricted net assets	\$ 122,903	\$ 118,854
	<u> </u>	<u> </u>

An estimated prior service credit of \$3,337 and net loss of \$7,060 will be amortized from unrestricted net assets into net periodic benefit cost during the year ending September 30, 2011.

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The following weighted-average assumptions were used to determine the Institute's obligation under the plan at September 30, 2010 and 2009:

	2010	2009
Discount rate	5.20%	5.90%
Health care cost trend rate	10.00%	11.00%

The following weighted-average assumptions were used to determine the Institute's net periodic benefit cost under the plan for the years ended September 30, 2010 and 2009:

	2010	2009
Discount rate	5.90%	7.10%
Health care cost trend rate	11.00%	9.00%

At September 30, 2010, the assumed health care cost trend rates for subsequent years were as follows:

<u>Year Ending</u> <u>September 30</u>	<u>Health Care Cost</u> <u>Trend Rate</u>
2011	9.25%
2012	8.50%
2013	8.00%
2014	7.50%
2015	7.00%
2016	6.50%
2017	6.25%
2018	6.00%
2019	5.75%
2020	5.50%
2021	5.25%
2022	5.00%
2023	4.75%
2024 and thereafter	4.50%

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A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	1% Increase	1% Decrease
Effect on the total of service and interest cost components	\$ 8,932	\$ (7,008)
Effect on accumulated postretirement benefit obligation	\$ 86,642	\$ (69,979)

The Institute and its retirees are expected to contribute approximately \$17,788, and \$4,413, respectively during the year ending September 30, 2011.

At September 30, 2010, the estimated future benefit payments were as follows:

<u>Year Ending September 30</u>	<u>Benefit Payments</u>
2011	\$ 19,400
2012	21,200
2013	23,000
2014	24,700
2015	26,300
2016-2020	152,700

K. Fair Value

During the year ended September 30, 2009, the Institute adopted a new accounting standard which establishes a fair value hierarchy that ranks the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest ranking to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest ranking to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as noted below.

Fair value for Level 1 is based upon quoted prices in active markets that the Institute has the ability to access for identical assets and liabilities. Market price data is generally obtained from exchange dealer markets. The Institute does not adjust the quoted price for such assets and liabilities.

Fair value for Level 2 is generally based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the instruments. Inputs are obtained from various sources, including market participants, dealers, and brokers.

Interest rate swap arrangements have inputs that can generally be corroborated by market data and are therefore generally classified as Level 2. Interest rate swaps are valued using observable inputs, such as quotations received from counterparties, dealers, or brokers, whenever available and considered

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reliable. In instances in which models are used, the value of the interest rate swap depends upon the contractual terms of, and specific risks inherent in, the instrument, as well as the availability and reliability of observable inputs. Such inputs include market prices for reference securities, credit curves, assumptions for nonperformance risk, and correlations of such inputs.

Fair value for Level 3 is based on valuation techniques that use significant inputs that are unobservable, as assets and liabilities in Level 3 trade infrequently or not at all. Assets and liabilities included in Level 3 primarily consist of the Institute's ownership in alternative investments.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The following is a summary of the levels within the fair value hierarchy for the Institute's assets and liabilities as of September 30, 2010 and 2009:

	Level 1	Level 2	Level 3	2010 Total
Assets:				
Cash & cash equivalents	\$ 42,733	\$ -	\$ -	\$ 42,733
Investments:				
Short-term investments	321,137	10	-	321,147
Fixed-income securities	27,767	41,993	55	69,815
Equity securities	410,025	109,315	3,213	522,553
Alternative investments:				
Absolute return strategies	-	-	513,511	513,511
Private equity	-	-	176,491	176,491
Real assets	-	-	205,073	205,073
Real estate & other	-	-	25,075	25,075
Total investments	<u>758,929</u>	<u>151,318</u>	<u>923,418</u>	<u>1,833,665</u>
Interests in trusts held by others			20,063	20,063
Defined contribution plans	<u>7,716</u>	<u>20,328</u>	<u>14,948</u>	<u>42,992</u>
Total assets	<u>\$ 809,378</u>	<u>\$ 171,646</u>	<u>\$ 958,429</u>	<u>\$ 1,939,453</u>
Liabilities:				
Interest rate swap	\$ -	\$ 41,458	\$ -	\$ 41,458
Defined contribution plans	<u>7,633</u>	<u>19,370</u>	<u>14,910</u>	<u>41,913</u>
Total liabilities	<u>\$ 7,633</u>	<u>\$ 60,828</u>	<u>\$ 14,910</u>	<u>\$ 83,371</u>

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	Level 1	Level 2	Level 3	2009 Total
Assets:				
Cash & cash equivalents	\$ 28,190	\$ -	\$ -	\$ 28,190
Investments:				
Short-term investments	455,097	2	-	455,099
Fixed-income securities	27,207	42,141	53	69,401
Equity securities	184,420	232,493	3,042	419,955
Other	-	-	19,039	19,039
Alternative investments:				
Absolute return strategies	-	-	408,864	408,864
Private equity	-	-	151,621	151,621
Real assets	-	-	188,271	188,271
Real estate & other	-	3	27,836	27,839
Total investments	<u>666,724</u>	<u>274,639</u>	<u>798,726</u>	<u>1,740,089</u>
Interests in trusts held by others	-	-	11,972	11,972
Defined contribution plans	<u>6,191</u>	<u>16,496</u>	<u>14,816</u>	<u>37,503</u>
Total assets	<u>\$ 701,105</u>	<u>\$ 291,135</u>	<u>\$ 825,514</u>	<u>\$ 1,817,754</u>
Liabilities:				
Interest rate swap	\$ -	\$ 27,357	\$ -	\$ 27,357
Defined contribution plans	<u>6,152</u>	<u>16,048</u>	<u>14,799</u>	<u>36,999</u>
Total liabilities	<u>\$ 6,152</u>	<u>\$ 43,405</u>	<u>\$ 14,799</u>	<u>\$ 64,356</u>

The Institute generally uses net asset value (“NAV”) to determine the fair value of investments that (a) do not have readily determinable fair values and (b) either have certain specific attributes of an investment company or prepare their financial statements consistent with the measurement principles of an investment company. Accordingly, in circumstances in which NAV per share of any such investment is determinative of fair value, the Institute estimates the fair value using NAV per share of the investment (or its equivalent) without further adjustment as a practical expedient. Funds valued using NAV invest in both marketable securities as well as securities that do not have readily determinable fair values. The fair values of the securities that do not have readily determinable fair values are determined by each fund’s general partner and are based on appraisals or other estimates that include considerations such as the cost of the securities, prices of recent significant placements of securities of the same issuer, and subsequent developments concerning the companies to which the securities relate. At September 30, 2010, the Institutes’ related investments by major investment category were as follows:

Fixed Income Securities

This category includes an investment in a bond fund that invests in sovereign debt instruments of global markets. The fund has a fair value of \$38,991 at September 30, 2010 and allows for monthly redemptions with a ten-day notice.

Equity Securities

At September 30, 2010, this category includes \$109,161 in funds that invest in publicly traded equity securities of companies in global markets. The funds allow either daily or monthly redemptions with up to 15 days notice.

Absolute Return Strategies

This category includes investments in hedge funds whose investment objectives are to earn significant risk-adjusted returns by investing and trading in various securities and financial instruments, including publically traded and privately issued common and preferred shares of domestic and foreign companies, corporate debt, bonds, swaps, options, futures contracts and commodities. Investments with a total fair value of \$432,865 allow redemptions from quarterly to triennially, with notice periods ranging from 45 to 180 days. One investment with a fair value of \$19,355 allows monthly redemptions with a ten-day notice. In addition, investments with a total fair value of \$61,291 and unfunded commitments of \$8,107 do not allow redemptions and have remaining lives of up to seven years.

Private Equity

This category consists of several investments in private equity funds. The funds' holdings primarily include privately-owned foreign and domestic companies (or in other funds with investments in privately-owned foreign and domestic companies) in a wide variety of industries. The total unfunded commitment for these investments was \$76,021 at September 30, 2010. The Institute does not have any redemption rights in these investments and the investments have remaining lives of up to eight years.

Real Assets

This category includes investments in limited partnerships that invest in foreign and domestic real estate, domestic energy, or domestic timber industries. The fair value of these investments was \$176,393, and the total unfunded commitment was \$65,751 at September 30, 2010. The Institute does not have any redemption rights in these investments, and the investments have remaining lives of up to ten years.

This category also includes an investment in a fund with an investment objective to earn the returns of a commodities benchmark as selected by the Institute, plus an additional return, with the use of various strategies in the fixed income markets. The fair value of this investment at September 30, 2010 is \$28,680. The investment allows redemptions annually with a 90-day notice.

The methods described above may produce fair value calculations that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Institute believes its valuation methods are appropriate and consistent with those of other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in different estimates of fair value.

California Institute of Technology
Notes to Financial Statements
September 30, 2010 and 2009
(Dollars in Thousands)

The following table is a summary of changes in the fair value of the Institute's Level 3 instruments for the year ended September 30, 2010:

	Beginning Balance	Net Purchases / (Sales)	Change in Fair Value	Ending Balance
Assets:				
Investments:				
Fixed-income securities	\$ 53	\$ 1	\$ 1	\$ 55
Equity securities	3,042	200	(29)	3,213
Other	19,039	(19,012)	(27)	-
Alternative investments:				
Absolute return strategies	408,864	37,292	67,355	513,511
Private equity	151,621	262	24,608	176,491
Real assets	188,271	22,425	(5,623)	205,073
Real estate and other	27,836	(289)	(2,472)	25,075
Total investments	798,726	40,879	83,813	923,418
Interests in trusts held by others	11,972	7,778	313	20,063
Defined contribution plans	14,816	(486)	618	14,948
Total assets	\$ 825,514	\$ 48,171	\$ 84,744	\$ 958,429
Liabilities:				
Defined contribution plans	\$ 14,799	\$ (504)	\$ 615	\$ 14,910
Total liabilities	\$ 14,799	\$ (504)	\$ 615	\$ 14,910

During the year ended September 30, 2010 and 2009, there were no transfers between Level 3 and other levels.

Changes in the fair value of investments are included in investment return in the statement of activities. Changes in the fair value of interests in trusts held by others are included in gifts in the statements of activities.

L. Commitments and Contingencies

Contingencies

The Institute receives funding or reimbursement from agencies of the United States government for various activities that are subject to audit, and is a defendant in various legal actions incident to the conduct of its activities. Except as specifically discussed below, management does not expect that liabilities, if any, related to these audits or legal actions will have a material impact on the Institute's financial position.

The Institute was named as a potentially responsible party ("PRP") by NASA under the Comprehensive Environmental Response, Compensation, and Liability Act, as amended. As a PRP, the Institute may be jointly liable for contribution towards clean-up costs, estimated to be in excess of \$100,000, of the NASA/JPL Superfund site.

California Institute of Technology
Notes to Financial Statements
September 30, 2010 and 2009
(Dollars in Thousands)

Officials of the Institute presently are not able to predict the impact, if any, that final resolution of the matter will have on the Institute's financial position or changes in its net assets. However, the Institute believes that it will have recourse to the United States government for any liabilities it may incur in connection with being named a PRP for that site.

Commitments

The Institute was committed under certain construction and services contracts in the amount of approximately \$73,505 and \$52,947 at September 30, 2010 and 2009, respectively.

At September 30, 2010 and 2009, the Institute had outstanding commitments to invest \$149,879 and \$207,591, respectively, with alternative investment managers and/or limited partnerships over the next ten years.

The Institute's workers' compensation insurance carrier requires that the Institute maintain an unsecured letter of credit for claims that do not exceed certain deductible amounts. At September 30, 2010 and 2009, the amount of the letter of credit facility was \$7,350. The letter of credit was not used during the years ended September 30, 2010 or 2009, and therefore no liability has been recorded in the balance sheets.

The Institute is currently providing funding for the operation of certain local water treatment facilities, subject to receipt of funding from NASA. Annual costs are not expected to exceed \$5,000.

The Institute leases equipment and buildings, primarily for JPL, under operating leases expiring at various dates through 2015. Rent expense incurred under operating lease obligations was \$6,875 and \$6,973 for the years ended September 30, 2010 and 2009, respectively.

At September 30, 2010, future minimum payments under operating leases of greater than one year in duration were as follows:

<u>Year Ending</u> <u>September 30</u>	<u>Amount</u>
2011	\$ 6,355
2012	6,308
2013	5,727
2014	811
2015	-
Total	<u>\$ 19,201</u>

Approximately \$19,060 of the future minimum lease payments listed above may be recoverable from JPL under the Institute's cost-reimbursable contract with NASA.

California Institute of Technology
Notes to Financial Statements
September 30, 2010 and 2009
(Dollars in Thousands)

The Institute rents equipment and buildings to students, faculty, and other organizations under operating leases expiring at various dates through 2015. Rental income received under operating lease obligations was \$8,562 and \$8,525 at September 30, 2010 and 2009, respectively.

At September 30, 2010, minimum future rentals from operating leases of greater than one year in duration were as follows:

<u>Year Ending</u> <u>September 30</u>	<u>Amount</u>
2011	\$ 8,077
2012	7,792
2013	6,398
2014	5,167
2015	<u>4,961</u>
Total	<u>\$ 32,395</u>

M. Supplemental Cash Flow Information

The following are additional supplemental disclosures related to the statements of cash flows:

	2010	2009
Cash paid during the year for interest, net of amounts capitalized	\$ 7,104	\$ 4,970
Non-cash investing and financing activities:		
Securities received to satisfy pledge payments	22,237	14,908
In-kind receipt of securities, property, plant, and equipment	5,887	1,972
Accrued purchases of property, plant, and equipment at year end	6,448	6,851

N. Subsequent Events

Subsequent events were evaluated from September 30, 2010, through January 24, 2011, which was the date the financial statements were issued.

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APPENDIX C
FORM OF THE INDENTURE

[See Attached]

CALIFORNIA INSTITUTE OF TECHNOLOGY

and

**U.S. BANK NATIONAL ASSOCIATION
as Trustee**

INDENTURE

Dated as of December 1, 2011

**CALIFORNIA INSTITUTE OF TECHNOLOGY TAXABLE BONDS,
SERIES 2011**

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INDENTURE

THIS INDENTURE, dated as of December 1, 2011, by and between the **CALIFORNIA INSTITUTE OF TECHNOLOGY**, (as hereinafter in Section 1.01 further defined, the “Institute”), and **U.S. BANK NATIONAL ASSOCIATION**, a national banking association duly organized and existing under and by virtue of the laws of the United States, with a corporate trust office in Los Angeles, California, being qualified to accept and administer the trusts hereby created (as hereinafter in Section 1.01 further defined, the “Trustee”),

WITNESSETH:

WHEREAS, for its lawful purposes, the Institute is authorized to finance or refinance the acquisition, construction, improvements or equipping of capital projects, including higher educational facilities, to carry out any corporate purposes it deems appropriate and to issue its bonds for the purpose of carrying out any of its powers;

WHEREAS, the Institute owns and operates higher educational facilities the main campus of which is located in Pasadena, California, and intends to obtain financing and refinancing with respect thereto through the issuance by the Institute of the Bonds (as defined herein); and

WHEREAS, the Trustee agrees to accept and administer the trusts created hereby.

GRANTING CLAUSES

NOW, THEREFORE, THIS INDENTURE FURTHER WITNESSETH: That the Institute in consideration of the premises, of the acceptance by the Trustee of the trusts hereby created, and of the purchase and acceptance of the Bonds (as defined herein) by the holders thereof, and for the purpose of fixing and declaring the terms and conditions upon which the Bonds are to be issued, authenticated, delivered, secured and accepted by all persons who shall from time to time be or become holders thereof, and in order to secure the payment of all of the Bonds at any time issued and outstanding hereunder and the interest and premium, if any, thereon according to their tenor, purport and effect, and in order to secure the performance and observance of all of the covenants and conditions therein and herein contained, the Institute has executed this Indenture and does hereby grant a security interest in, release, assign, transfer, pledge and grant and convey unto the Trustee and its successors and assigns forever the following described property:

(A) Amounts on deposit from time to time in the Bond Fund (as defined below) and any accounts created pursuant thereto, including the earnings thereon, subject to the provisions of this Indenture permitting the application thereof for the purposes, and on the terms and conditions set forth herein.

(B) Any and all other real or personal property of any kind from time to time hereafter by delivery or by writing of any kind specifically conveyed, pledged, assigned or transferred, as and for additional security hereunder for the Bonds, by the Institute, in its sole and absolute discretion, in favor of the Trustee,

which is hereby authorized to receive any and all such property at any and all times and to hold and apply the same subject to the terms hereof.

TO HAVE AND TO HOLD all said properties pledged, assigned and conveyed by the Institute hereunder, including all additional property which by the terms hereof has or may become subject to the encumbrance hereof, unto the Trustee and its successors in trust and its assigns forever, subject, however, to permitted encumbrances and to the rights reserved hereunder.

IN TRUST NEVERTHELESS, for the equal and proportionate benefit and security of the holders from time to time of the Bonds issued, authenticated, delivered and outstanding hereunder, without preference, priority or distinction as to lien or otherwise of any of said Bonds over any other or others of said Bonds to the end that each holder of such Bonds has the same rights, privileges and lien under and by virtue hereof; and conditioned, however, that if the Institute shall well and truly pay or cause to be paid fully and promptly when due all liabilities, obligations and sums at any time secured hereby, and shall promptly, faithfully and strictly keep, perform or observe or cause to be kept, performed and observed all of its covenants, warranties and agreements contained herein, then and in such event, this Indenture shall be and become void and of no further force and effect; otherwise, the same shall remain in full force and effect, and upon the trusts and subject to the covenants and conditions hereafter set forth.

ARTICLE I

DEFINITIONS

Section 1.01 Definitions. Unless the context otherwise requires, the terms defined in this Section 1.01 shall, for all purposes of this Indenture and of any Indenture Supplemental Hereto or amendment supplemental thereto, have the meanings herein specified, to be equally applicable to both the singular and plural forms of any of the terms herein defined.

The term “**1998 Bonds**” means the California Educational Facilities Authority Revenue Bonds (California Institute of Technology), Series 1998.

The term “**1998 Indenture**” means that certain Indenture, dated as of October 1, 1998, by and between the Authority and the 1998 Trustee.

The term “**1998 Redemption Fund**” means the Redemption Fund defined in and established pursuant to the 1998 Indenture.

The term “**1998 Trustee**” means U.S. Bank National Association (successor to U.S. Bank Trust National Association).

The term “**Authority**” means the California Educational Facilities Authority, a public instrumentality and authority of the State of California.

The term “**Beneficial Owner**” means, with respect to any Bond, the beneficial owner of such Bond as determined in accordance with the applicable rules of the Securities Depository for the Bonds.

The term **“Bond Fund”** means the fund by that name established pursuant to Section 5.01 of this Indenture.

The term **“Bondholder”** or **“Holder”** means, with respect to any Bond, the person in whose name such Bond is registered.

The term **“Bonds”** means the California Institute of Technology Taxable Bonds, Series 2011 issued hereunder.

The term **“Business Day”** means any day other than a Saturday, a Sunday or a day on which banking institutions in the city in which the Principal Corporate Trust Office of the Trustee is located are authorized or obligated by law or executive order to be closed.

The terms **“Certificate of the Institute,” “Request of the Institute,” “Requisition of the Institute”** or **“Statement of the Institute”** mean, respectively, a written certificate, request, requisition or statement of the Institute executed by its President, the Vice President for Business and Finance, the Chief Investment Officer, the Associate Vice President for Finance and Treasurer, the Controller, the Assistant Treasurer or such other person, acting singly, as may be designated by any of such officials to sign for the Institute.

The term **“Closing Date”** means December 5, 2011.

The term **“Code”** means the Internal Revenue Code of 1986, as amended, or any successor code or law, and any regulations in effect or promulgated thereunder.

The term **“Continuing Disclosure Undertakings”** has the meaning ascribed to such term in Section 6.06 of this Indenture.

The term **“Depository”** means The Depository Trust Company and its successors and assigns, or any other depository selected as set forth in Section 2.09 hereof that agrees to follow the procedures required to be followed by such depository in connection with the Bonds.

The term **“DTC”** means The Depository Trust Company and its successors and assigns.

The term **“DTC Participants”** means those broker-dealers, banks and other financial institutions from time to time for which DTC holds Bonds as securities depository.

The term **“EMMA”** means the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access system or any successor thereof.

The term **“Event of Default”** as used with respect to this Indenture has the meaning specified in Section 7.01 hereof.

The term **“Fiscal Year”** means the period beginning October 1 of each year and ending on the next succeeding September 30 or any other twelve month period hereafter selected and designated by the Institute as the Fiscal Year of the Institute.

The term **“Fitch”** means Fitch Ratings, a corporation organized and existing under the laws of the State of New York, its successors and their assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, Fitch shall be deemed to refer to any other nationally recognized securities rating agency (other than Moody’s and S&P) designated by the Institute by notice to the Trustee.

The term **“Indenture”** means this indenture, as originally executed or as it may from time to time be supplemented, modified or amended by any supplemental indenture entered into pursuant to the provisions hereof.

The term **“Information Services”** means Financial Information, Inc.’s “Daily Called Bond Service,” 1 Cragwood Road, 2nd Floor, South Plainfield, New Jersey 07080, Attention: Editor; Standard and Poor’s J.J. Kenny Information Services” “Called Bond Service,” 55 Water Street, 45th Floor, New York, New York 10041; Moody’s “Municipal and Government,” 99 Church Street, 8th Floor, New York, New York 10007, Attention: Municipal News Reports; and any other service providing information with respect to the called bonds that the Institute may designate in writing to the Trustee.

The term **“Institute”** means California Institute of Technology, a California nonprofit corporation, and its successors and assigns.

The term **“Interest Payment Date”** means May 1 and November 1 of each year, commencing May 1, 2012.

The term **“Investment Securities”** means any of the following obligations as and to the extent that such obligations are at the time legal investments under the Act for moneys held hereunder and then proposed to be invested (the Trustee is entitled to rely upon any investment direction from the Institute as a certification that such investment constitutes an Investment Security):

(1) direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States of America or any Federal Reserve Bank and CATS and TIGRS) or obligations the timely payment of the principal of and interest on which are unconditionally guaranteed by the United States of America;

(2) bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies, provided that such obligations are backed by the full faith and credit of the United States of America (stripped securities shall constitute Investment Securities only if they have been stripped by the agency itself); U.S. Export-Import Bank (direct obligations or fully guaranteed certificates of beneficial ownership), Farmers Home Administration (certificates of beneficial ownership), Federal Financing Bank, General Services Administration (participation certificates), U.S. Maritime Administration (guaranteed Title XI financing), U.S. Department of Housing and Urban Development (project notes, local authority bonds, new communities debentures-U.S. government guaranteed debentures, U.S. public housing notes and bonds-U.S. government guaranteed public housing notes and bonds),

Government National Mortgage Association (GNMA-guaranteed mortgage-backed bonds, GNMA-guaranteed pass-through obligations), and Federal Housing Administration Debentures;

(3) bonds, debentures, notes, or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities shall constitute Investment Securities only if they have been stripped by the agency itself): Federal Home Loan Bank System (Senior debt obligations), Federal Home Loan Mortgage Corporation (“FHLMC”) (Participation Certificates, Senior debt obligations), Federal National Mortgage Association (“FNMA”) (Mortgage-backed securities and senior debt obligations), Student Loan Marketing Association (Senior debt obligations), Resolution Funding Corp. (obligations) or Farm Credit System (Consolidated system wide bonds and notes);

(4) bonds or notes issued by any state or municipality which are rated by S&P and Moody’s in one of the two highest rating categories assigned by such agencies;

(5) repurchase agreements with either a primary dealer on the reporting dealer list of the Federal Reserve or any bank, which, in either case, is rated “A” or better by S&P and Moody’s, provided that (a) the term of such repurchase agreement is not greater than thirty (30) days, (b) the Trustee or third party acting solely as agent for the Trustee has possession of the collateral, (c) the collateral is valued weekly and the market value of the collateral is maintained at an amount equal to at least 104% (or, if the collateral consists of obligations of FHLMC or FNMA, 105%) of the amount of cash transferred by the Trustee to the dealer bank or securities firm under the repurchase agreement plus interest, (d) failure to maintain the requisite collateral levels will require the Trustee to liquidate the collateral immediately, (e) the repurchase securities are either obligations of, or fully guaranteed as to principal and interest by, the United States or any federal agency backed by the full faith and credit of the United States; (f) the repurchase securities are free and clear of any third-party lien or claim; and (g) there shall have been delivered to the Trustee and the Institute an Opinion of Counsel to the effect that such repurchase agreement meets all guidelines under State law for legal investment of public funds;

(6) investment agreements, including guaranteed investment contracts (“GICs”) forward purchase agreements and reserve fund put agreements with banks or other financial institutions rated, or with senior unsecured debt rated, by S&P and Moody’s, in one of the two highest rating categories assigned by such agencies;

(7) money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of AAAM-G; AAA-m; or AA-m and if rated by Moody’s rated Aaa, Aa1 or Aa2;

(8) certificates of deposit secured at all times by collateral described in (1) and/or (2) above or collateral that may be used by a national bank for purpose of satisfying its obligations to collateralize pursuant to federal law, issued by commercial banks, savings and loan associations or mutual savings banks;

(9) certificates of deposit, savings accounts, deposit accounts or money market deposits which are fully insured by FDIC, including BIF and SAIF;

(10) unsecured certificates of deposit, time deposits, money market deposits, demand deposits and bankers' acceptances of any bank (including those of the Trustee, its parent and its affiliates) the short-term obligations of which are rated on the date of purchase "A-1+" or better by S&P and "P-1" by Moody's and certificates of deposit (including those of the Trustee, its parent and its affiliates);

(11) commercial paper rated, at the time of purchase, "Prime-1" by Moody's and "A-1" or better by S&P;

(12) federal funds or bankers acceptances with a maximum term of one year of any bank which has an unsecured, uninsured and unguaranteed obligation rating of "Prime-1" or "A-3" or better by Moody's and "A-1" or "A" or better by S&P;

(13) shares in a California common law trust established pursuant to Title 1, Division 7, Chapter 5 of the Government Code of the State which invests exclusively in investments permitted by Section 53635 of Title 5, Division 2, Chapter 4 of the Government Code of the State as it may be amended;

(14) obligations of a bank or other financial institution rated at least "Aa3" by the Rating Agency; and

(15) any other investments for which each Rating Agency then rating the Bonds confirms that such investment will not adversely affect its ratings of the Bonds.

Notwithstanding the foregoing, no investments will be made so as to cause a downgrading of any ratings assigned to the Bonds.

The term "**Moody's**" means Moody's Investors Service, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and assigns and, if such entity shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency (other than S&P or Fitch) designated by the Institute by notice to the Trustee.

The term "**Nominee**" has the meaning ascribed to such term in Section 2.02(b) of this Indenture.

The term "**Opinion of Counsel**" means a written opinion of counsel (which may be counsel for the Institute) acceptable to the Trustee and the Institute. If and to the extent required by the provisions of Section 1.02 of this Indenture, each Opinion of Counsel shall include the statements provided for in Section 1.02 of this Indenture.

The term "**Optional Redemption Account**" means the account by that name within the Bond Fund established pursuant to Section 5.01(c)(3) of this Indenture.

The term **“Outstanding,”** when used as of any particular time with reference to the Bonds, means (subject to the provisions of Section 11.09 hereof) all Bonds theretofore, or thereupon being, authenticated and delivered by the Trustee under this Indenture except, (a) Bonds theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation; (b) Bonds with respect to which all liability of the Institute shall have been discharged in accordance with Section 10.02 of this Indenture; and (c) Bonds for the transfer or exchange of which, or in lieu of or in substitution for which, other Bonds shall have been authenticated and delivered by the Trustee pursuant to this Indenture.

The term **“Principal Corporate Trust Office”** means the corporate trust office of the Trustee, which at the date of execution of this Indenture is that specified in Section 11.06 of this Indenture, provided, however, that for transfer, registration, exchange, payment and surrender of Bonds such term means the office or agency of the Trustee at which, at any particular time, its corporate trust agency business shall be conducted, or such other office designated by the Trustee from time to time.

The term **“Principal Payment Date”** means, with respect to any Bond, any date on which the principal of such Bond becomes due, whether at maturity, call for redemption or acceleration.

The term **“Proceeds Fund”** means the fund by that name established pursuant to Section 3.03 hereof.

The term **“Purchase Contract”** means the Purchase Contract, dated November [28], 2011, between Goldman Sachs & Co., acting on its own behalf and on behalf of Morgan Stanley & Co. LLC, Barclays Capital Inc. and Wells Fargo Securities, as underwriters, and the Institute, delivered in connection with the sale of the Bonds.

The term **“Rating Agency”** means Fitch, Moody’s or S&P to the extent they then are providing or maintaining a rating on the Bonds at the request of the Institute, or in the event that Fitch, Moody’s or S&P no longer maintains a rating on the Bonds, any other nationally recognized rating agency then providing or maintaining a rating on the Bonds at the request of the Institute and approved by the Institute.

The term **“Record Date”** means, with respect to any Interest Payment Date for the Bonds, the fifteenth day of the calendar month immediately preceding such Interest Payment Date, whether or not such day is a Business Day.

The term **“Request of the Institute”** has the meaning specified under the definition herein of the terms **“Certificate of the Institute,” “Request of the Institute,” “Requisition of the Institute”** or **“Statement of the Institute.”**

The term **“Responsible Officer”** of the Trustee means and includes every vice president, every assistant vice president, every trust officer and every officer and assistant officer of the Trustee, other than those specifically above mentioned, with regular responsibility for the administration of matters related to this Indenture.

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

The term “**Securities Depositories**” means The Depository Trust Company, 55 Water Street, 50th Floor, New York, N.Y. 10041-0099 Attention: Call Notification Department, Fax (212) 855-7232, or, in accordance with then-current guidelines of the Securities and Exchange Commission, such other addresses and/or such other securities depositories, or no such depositories, as the Institute may designate to the Trustee in writing.

The term “**Special Record Date**” means the date established by the Trustee pursuant to Section 2.02(c) of this Indenture as a record date for the payment of defaulted interest on Bonds.

The term “**State**” means the State of California.

The term “**Supplemental Indenture**” or “**Indenture Supplemental Hereto**” means any indenture amending or supplementing this Indenture hereafter duly authorized and entered into between the Institute and the Trustee in accordance with the provisions of this Indenture.

The term “**Tax-Exempt Bonds**” has the meaning ascribed to such term in Section 6.06 of this Indenture.

The term “**Trustee**” means U.S. Bank National Association, a national banking association duly organized and existing under and by virtue of the laws of the United States, or its successor as Trustee as provided hereunder.

The term “**Yield**” shall have the meaning ascribed to such term by Section 148(h) of the Code.

Section 1.02 Content of Certificates and Opinions. Every certificate (other than the certificate provided for in Sections 2.10 and 11.04 hereof) or opinion with respect to compliance with a condition or covenant provided for in this Indenture shall include (a) a statement that the person or persons making or giving such certificate or opinion have read such condition or covenant and the definitions herein relating thereto; (b) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based; (c) a statement that, in the opinion of the signers, they have made or caused to be made such examination or investigation as is necessary to enable them to express an informed opinion as to whether or not such condition or covenant has been complied with; and (d) a statement as to whether, in the opinion of the signers, such condition or covenant has been complied with.

Any such certificate or opinion made or given by an officer of the Institute may be based, insofar as it relates to legal matters, upon a certificate or opinion of or representations by counsel, unless such member or officer knows that the certificate or opinion or representations with respect to the matters upon which such certificate or opinion is based as aforesaid are

erroneous, or in the exercise of reasonable care should have known that the same were erroneous. Any such certificate or opinion made or given by counsel may be based, insofar as it relates to factual matters (with respect to which information is in the possession of the Institute) upon the certificate or opinion of or representations by an officer of the Institute, unless such counsel knows that the certificate or opinion or representations with respect to the matters upon which the opinion of such counsel may be based as aforesaid are erroneous or in the exercise of reasonable care should have known that the same were erroneous.

Any determination of the Trustee given in accordance with Article IX (regarding amendment of the Indenture) may, be based solely on the written representation of a financial consultant or advisor, or the Opinion of Counsel or advice of counsel, selected by such party and not objected to by the other such party.

ARTICLE II

THE BONDS

Section 2.01 Authorization of Bonds. The Bonds are designated generally as the “California Institute of Technology Taxable Bonds, Series 2011.” The aggregate principal amount of Bonds which may be issued and Outstanding under this Indenture shall not exceed [_____ (\$_____)], exclusive of Bonds executed and authenticated as provided in Section 2.07 hereof. This Indenture constitutes a continuing agreement with the Trustee and the Holders of all of the Bonds Outstanding, to secure the full and final payment of the principal (or redemption price) of, and interest on all Bonds, subject to the covenants, agreements, provisions and conditions herein contained.

Section 2.02 Terms of Bonds.

(a) Terms of the Bonds.

(i) The Bonds shall be issued as book-entry Bonds in denominations of \$1,000 and any integral multiple thereof. The Bonds shall be dated the date of delivery and shall bear interest at ____/per annum from the Interest Payment Date to which interest has been paid as of the date on which it is authenticated or, if it is authenticated on or before the Record Date for the first Interest Payment Date, from its dated date; provided, however, that if, at the time of authentication of any Bond, interest is in default on such Bond, such Bond shall bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon. Interest on the Bonds shall be calculated on the basis of a 360-day year and twelve 30-day months and shall be payable in arrears on each Interest Payment Date, upon maturity or upon prior redemption.

(ii) the Bonds shall mature on _____ 1, [2041] (subject to the right of prior redemption as provided in Article IV hereof).

(b) General Terms of the Bonds.

The Bonds, when issued, will be registered in the name of Cede & Co., as nominee for DTC, and shall be evidenced by one Bond for each maturity in the total aggregate principal amount of the Bonds of such maturity. Registered ownership of the Bonds, or any portion thereof, may not thereafter be transferred except as set forth in Section 2.04 hereof. So long as Cede & Co., as nominee of DTC, or any successor nominee (the "Nominee") is the registered owner of the Bonds, references herein to the Bondholders, Holders or registered owners shall mean the Nominee as aforesaid and shall not mean the Beneficial Owners of the Bonds.

The principal of and premium, if any, on the Bonds shall be payable in lawful money of the United States of America upon surrender at the Principal Corporate Trust Office of the Trustee. The interest on any Bond shall be payable to the person whose name appears on the registration books of the Trustee as the registered owner thereof as of the close of business on the Record Date for each Interest Payment Date, such interest to be paid by check mailed by first class mail, postage prepaid, on such Interest Payment Date, to the registered owner at its address as it appears on such registration books. Notwithstanding the foregoing, however, any Holder of all the Bonds and any Holder of \$1,000,000 or more in an aggregate principal amount of the Bonds shall be entitled to receive payments of interest on the Bonds held by it by wire transfer of immediately available funds to such bank or trust company located within the United States of America as such Holder shall designate in writing to the Trustee by the Record Date for such payment. So long as Cede & Co. is the registered owner of the Bonds, principal of, premium, if any, and interest on the Bonds are payable by wire transfer in same day funds by the Trustee to Cede & Co., as nominee for the Depository.

(c) Any such interest not so punctually paid or duly provided for shall forthwith cease to be payable to the Bondholder on such Record Date and shall be paid to the person in whose name the Bond is registered at the close of business on a Special Record Date for the payment of such defaulted interest. The Special Record Date shall be fixed by the Trustee, notice thereof being given to the Bondholders not less than 10 days prior to such Special Record Date.

Section 2.03 Execution of Bonds. The Bonds shall be executed for and on behalf of the Institute by its Associate Vice President for Finance and Treasurer and attested to by its Secretary signed in the name and on behalf of the Institute. The Bonds shall then be delivered to the Trustee for registration and authentication by it. In case any of the officers who shall have signed or attested any of the Bonds shall cease to be such officer or officers before the Bonds so signed or attested shall have been authenticated or delivered by the Trustee or issued by the Institute, such Bonds may nevertheless be authenticated, delivered and issued and, upon such authentication, delivery and issue, shall be as binding upon the Institute as though those who signed and attested the same had continued to be such officers of the Institute. Also, any Bond may be signed and attested on behalf of the Institute by such persons as on the actual date of the execution of such Bond shall be the proper officers although on the nominal date of such Bond any such person shall not have been such officer. The signatures of the Associate Vice President for Finance and Treasurer and the Secretary may be mechanically or photographically reproduced on the Bonds. The corporate seal (or a facsimile thereof) shall be affixed, impressed, imprinted, engraved or otherwise reproduced on the Bonds if required by the Institute's bylaws or authorizing resolutions.

Only such of the Bonds as shall bear thereon a certificate of authentication and registration in substantially the form set forth in Exhibit A hereto, manually executed by the Trustee, shall be valid or obligatory for any purpose or entitled to the benefits of this Indenture, and such certificate of the Trustee shall be conclusive evidence that the Bonds so authenticated have been duly authenticated and delivered hereunder and are entitled to the benefits of this Indenture.

Section 2.04 Transfer of Bonds. The registration of any Bond may, in accordance with its terms, be transferred, upon the books required to be kept pursuant to the provisions of Section 2.06 of this Indenture, by the person in whose name it is registered, in person or by its duly authorized attorney, upon surrender of such Bond for cancellation, accompanied by delivery of a written instrument of transfer in a form acceptable to the Trustee, duly executed. The Trustee shall require the payment by the Holder requesting such transfer of any tax or other governmental charge required to be paid with respect to such transfer, and there shall be no other charge to any Holder for any such transfer. The cost of printing Bonds and any services rendered or expenses incurred by the Trustee in connection with any transfer shall be paid by the Institute.

No registration of transfers of Bonds shall be required to be made during the period established by the Trustee for selection of Bonds for redemption and after a Bond has been selected for redemption.

Section 2.05 Exchange of Bonds. Bonds may be exchanged at the Principal Corporate Trust Office of the Trustee for a like aggregate principal amount of the Bonds of the same maturity of other authorized denominations. The Trustee shall require the payment by the Holder requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange, and there shall be no other charge to any Holder for any such exchange. The cost of printing Bonds and any services rendered or expenses incurred by the Trustee in connection with any exchange shall be paid by the Institute.

No exchanges of Bonds shall be required to be made during the period established by the Trustee for selection of Bonds for redemption and after a Bond has been selected for redemption.

Section 2.06 Bond Register. The Trustee will keep or cause to be kept, at its Principal Corporate Trust Office, books for the registration of transfer of the Bonds, which shall at all reasonable times during normal business hours upon reasonable notice be open to inspection by the Institute; and, upon presentation for such purpose, the Trustee shall, under such reasonable regulations as it may prescribe, register the transfer or cause to be registered the transfer, on said books, of Bonds as hereinbefore provided.

Section 2.07 Temporary Bonds. The Bonds may be initially issued in temporary form exchangeable for definitive Bonds when ready for delivery. The temporary Bonds may be printed, lithographed or typewritten, shall be of such denomination as may be determined by the Institute, shall be in registered form and may contain such reference to any of the provisions of this Indenture as may be appropriate. Every temporary Bond shall be executed by the Institute and authenticated by the Trustee upon the same conditions and in substantially the same manner as the definitive Bonds. If the Institute issues temporary Bonds, it will execute and furnish definitive Bonds without delay, and thereupon the temporary Bonds may be surrendered, for

cancellation, in exchange therefor at the Principal Corporate Trust Office of the Trustee, and the Trustee shall authenticate and deliver in exchange for such temporary Bonds an equal aggregate principal amount of definitive Bonds of authorized denominations, of the same maturity or maturities. Until so exchanged, the temporary Bonds shall be entitled to the same benefits under this Indenture as definitive Bonds authenticated and delivered hereunder.

Section 2.08 Bonds Mutilated, Lost, Destroyed or Stolen. If any Bond shall become mutilated, the Institute, at the expense of the Holder of said Bond, shall execute, and the Trustee shall thereupon authenticate and deliver, a new Bond of like tenor and principal amount in exchange and substitution for the Bond so mutilated, but only upon surrender to the Trustee of the Bond so mutilated. Every mutilated Bond so surrendered to the Trustee shall be cancelled by it and delivered to, or upon the order of, the Institute. If any Bond issued hereunder shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Trustee and, if such evidence be satisfactory to it and indemnity satisfactory to it shall be given, the Institute, at the expense of the Holder, shall execute, and the Trustee shall thereupon authenticate, register and deliver, a new Bond of like tenor in lieu of and in substitution for the Bond so lost, destroyed or stolen. If any Bond mutilated, lost, destroyed or stolen shall have matured or shall have been called for redemption, instead of issuing a substitute Bond the Trustee may pay the same without surrender upon receipt of indemnity satisfactory to the Trustee. The Institute may require payment from the Holder of a sum not exceeding the actual cost of preparing each new Bond issued under this Section and of the expenses which may be incurred by the Institute and the Trustee. Any Bond issued under the provisions of this Section in lieu of any Bond alleged to be lost, destroyed or stolen shall constitute an original additional contractual obligation on the part of the Institute whether or not the Bond so alleged to be lost, destroyed or stolen be at any time enforceable by anyone, and shall be entitled to the benefits of this Indenture with all other Bonds secured by this Indenture.

Section 2.09 Book-Entry System; Use of Depository. Notwithstanding any provision of this Indenture to the contrary:

(a) The Bonds shall initially be registered as provided in Section 2.02 hereof. Registered ownership of the Bonds, or any portion thereof, may not thereafter be transferred except:

(i) To any successor of the Depository or its nominee, or to any substitute depository designated pursuant to clause (ii) of this subsection (a) (“substitute depository”); provided that any successor of the Depository or substitute depository shall be qualified under any applicable laws to provide the service proposed to be provided by it;

(ii) To any substitute depository designated by the Institute and not objected to by the Trustee, upon (1) the resignation of the Depository or its successor (or any substitute depository or its successor) from its functions as depository or (2) a determination by the Institute that the Depository or its successor (or any substitute depository or its successor) is no longer able to carry out its functions as depository; provided that any such substitute depository shall be qualified under any applicable laws to provide the services proposed to be provided by it; or

(iii) To any person as provided below, upon (1) the resignation of the Depository or its successor (or substitute depository or its successor) from its functions as depository; provided that no substitute depository which is not objected to by the Trustee can be obtained or (2) a determination by the Institute that it is in its best interests to remove the Depository or its successor (or any substitute depository or its successor) from its functions as depository.

(b) In the case of any transfer pursuant to clause (i) or clause (ii) of subsection (a) hereof, upon receipt of the Outstanding Bonds by the Trustee, together with a Request of the Institute to the Trustee, a single new Bond for each maturity shall be executed and delivered in the aggregate principal amount of the Bonds of such maturity then Outstanding, registered in the name of such successor or such substitute depository, or their nominees, as the case may be, all as specified in such Request of the Institute. In the case of any transfer pursuant to clause (iii) of subsection (a) hereof, upon receipt of the Outstanding Bonds by the Trustee, new Bonds shall be executed and delivered in such denominations numbered in consecutive order from R 1 up and registered in the names of such persons as are requested in such a Request of the Institute, subject to the limitations of Section 2.02 hereof, provided the Trustee shall not be required to deliver such new Bonds within a period less than sixty (60) days from the date of receipt of such Request of the Institute.

(c) In the case of partial redemption or an advance refunding of the Bonds evidencing all or a portion of the principal amount then Outstanding, the Depository shall make an appropriate notation on the Bonds indicating the date and amounts of such reduction in principal.

(d) The Institute and the Trustee shall be entitled to treat the person in whose name any Bond is registered as the Bondholder thereof for all purposes of this Indenture and any applicable laws, notwithstanding any notice to the contrary received by the Trustee or the Institute; and neither the Institute nor the Trustee shall have any responsibility for transmitting payments to, communication with, notifying, or otherwise dealing with any beneficial owners of the Bonds. Neither the Institute nor the Trustee will have any responsibility or obligations, legal or otherwise, to the beneficial owners or to any other party including the Depository or its successor (or substitute depository or its successor), except for the Holder of any Bond.

(e) Except as provided in subsection (i) below, all of the Outstanding Bonds shall be so registered in the registration books kept by the Trustee, and the provisions of subsection (j) of this Section shall apply thereto.

(f) The Institute and the Trustee shall have no responsibility or obligation to any DTC Participant or to any Beneficial Owner, except as otherwise expressly provided herein. Without limiting the immediately preceding sentence, the Institute and the Trustee shall have no responsibility or obligation with respect to (1) the accuracy of the records of DTC, the Nominee or any DTC Participant with respect to any ownership interest in the Bonds, (2) the delivery to any DTC Participant or any other person, other than a Bondholder as shown in the registration books kept by the Trustee, of any notice with respect to the Bonds, including any notice of redemption or (3) the payment to any DTC Participant or any other person, other than a Bondholder, as shown in the registration books kept by the Trustee, of any amount with respect to principal of, premium, if any, or interest on the Bonds. The Trustee shall pay all principal of,

premium, if any, and interest on the Bonds only to or upon the order of the respective Bondholders, as shown on the applicable Record Date in the registration books kept by the Trustee, or their respective attorneys duly authorized in writing, and all such payments shall be valid and effective to fully satisfy and discharge the obligations with respect to payment of principal of, premium, if any, and interest on the Bonds to the extent of the sum or sums so paid. The Institute and the Trustee may treat and consider the person in whose name each Bond is registered in the registration books kept by the Trustee as the Holder and absolute owner of such Bond for the purpose of payment of principal of, premium, if any, and interest on such Bond, for the purpose of giving notices of redemption and other matters with respect to such Bond, for the purpose of registering transfers with respect to such Bond, and for all other purposes whatsoever.

(g) No person other than a Bondholder, as shown in the registration books kept by the Trustee, shall receive a certificated Bond evidencing the right to receive payment of principal, premium, if any, and interest pursuant to this Indenture.

(h) The Institute and the Trustee shall, if not previously on file, execute and deliver to DTC a letter of representation in customary form with respect to the Bonds (the “Representation Letter”), but such Representation Letter shall not in any way limit the provisions of subsection (f) of this Section or in any other way impose upon the Institute any obligation whatsoever with respect to persons having interests in the Bonds other than the Bondholders, as shown on the registration books kept by the Trustee. The Trustee shall take all action necessary for all representations of the Trustee in the Representation Letter with respect to the Trustee to be complied with at all times.

(i) The Institute may terminate the services of DTC with respect to the Bonds. DTC may determine to discontinue providing its services with respect to the Bonds at any time by giving written notice and all known information on the DTC Participants and the Beneficial Owners having an interest in the Bonds to the Institute and the Trustee and discharging its responsibilities with respect thereto under applicable law. Upon the discontinuance or termination of the services of DTC with respect to the Bonds, unless a substitute Securities Depository is appointed by the Institute to undertake the functions of DTC hereunder, the Institute is obligated to deliver Bond certificates to or upon the order of the Beneficial Owners of such Bonds, as described in this Indenture, and such Bonds shall no longer be restricted to being registered in the registration books kept by the Trustee in the name of the Nominee, but may be registered in whatever name or names Bondholders transferring or exchanging such Bonds shall designate, in accordance with the provisions of this Indenture.

(j) So long as any Bond is registered in the name of the Nominee, all payments with respect to principal, premium, if any, and interest on such Bond and all notices with respect to such Bond shall be made and given, respectively, in the manner provided in the Representation Letter. Bondholders shall have no lien or security interest in any rebate or refund paid by DTC to the Trustee which arises from the payment by the Trustee of principal of, premium, if any, or interest on the Bonds in immediately available funds to DTC.

(k) In the event DTC ceases to act as the Securities Depository for the Bonds, all references to DTC or the DTC Participants herein shall be to their successors.

Section 2.10 Disposition of Cancelled Bonds. When paid in full, each Bond shall be delivered to the Trustee, who shall forthwith cancel such Bond and deliver a certificate evidencing such cancellation to the Institute. The Trustee shall destroy such cancelled Bonds in accordance with its customary procedures.

Section 2.11 CUSIP Numbers. The Institute in issuing the Bonds may use “CUSIP” numbers (if then generally in use), and, if so, the Trustee shall use “CUSIP” numbers in notices of redemption as a convenience to Holders; provided that any such notice may state that no representation is made as to the correctness of such numbers either as printed on the Bonds or as contained in any notice of a redemption and that reliance may be placed only on the other identification numbers printed on the Bonds, and any such redemption shall not be affected by any defect in or omission of such CUSIP numbers.

ARTICLE III

ISSUANCE OF BONDS; APPLICATION OF PROCEEDS; ESTABLISHMENT OF PROCEEDS FUND

Section 3.01 Authentication and Delivery of Bonds. At any time after the execution of this Indenture, the Institute may execute and the Trustee shall authenticate, register and deliver Bonds in the aggregate principal amount set forth in Section 2.01 of this Indenture, in each case exclusive of Bonds executed and authenticated as provided in Section 2.07 hereof.

Section 3.02 Application of Proceeds of the Bonds. (a) The proceeds received by the Institute from the sale of the Bonds being the sum of \$_____ (consisting of the aggregate principal amount of the Bonds, [plus original issue premium of \$_____,] [less original issue discount] less an underwriters’ discount of \$_____), shall be deposited with the Trustee, which shall forthwith set aside or transfer such proceeds as follows:

(1) The Trustee shall deposit in the Proceeds Fund the sum of \$_____;
and

(2) The Trustee shall transfer to the 1998 Trustee, for deposit by the 1998 Trustee in the 1998 Redemption Fund for the purposes of redeeming all of the 1998 Bonds, the sum of \$_____.

(b) The Trustee may establish such temporary funds or accounts on its records as it may deem appropriate to facilitate such transfers and deposits.

Section 3.03 Establishment and Application of Proceeds Fund. The Trustee shall establish, maintain and hold a separate fund designated as the “Proceeds Fund.” The moneys in the Proceeds Fund shall be held and applied as directed by the Institute in the next sentence. The Institute hereby directs that all amounts be wired to the Institute on the day of Closing as set forth in a Request of the Institute.

ARTICLE IV

REDEMPTION

Section 4.01 Terms of Redemption. The Bonds are subject to redemption prior to their stated maturity in whole or in part on any date, at the option of the Institute, at the Make-Whole Redemption Price, as specified by the Institute in a Request of the Institute delivered to the Trustee prior to the date of redemption, together with accrued interest to the date fixed for redemption.

For purposes of this Section 4.01, the following definitions shall apply:

“Comparable Treasury Issue” shall mean the United States Treasury security or securities selected by a Designated Investment Banker as having an actual or interpolated maturity comparable to the remaining term of the Bonds to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of a comparable maturity to the remaining term of such Bonds.

“Comparable Treasury Price” shall mean, with respect to any redemption date, the average of the Reference Treasury Dealer Quotations for such redemption date or, if the Designated Investment Banker obtains only one Reference Treasury Dealer Quotation, such Reference Treasury Dealer Quotation.

“Designated Investment Banker” shall mean Goldman, Sachs & Co. or one of the other Reference Treasury Dealers appointed by the Institute.

“Make-Whole Redemption Price” shall mean the greater of:

- (1) 100% of the principal amount of any Bonds being redeemed; and
- (2) the sum of the present values of the remaining scheduled payments of principal and interest on any Bonds being redeemed (exclusive of interest accrued to the date of redemption) discounted to the redemption date on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus [___] basis points.

“Reference Treasury Dealer” shall mean Goldman, Sachs & Co., or other securities dealer as specified by the Institute from time to time, that is a primary United States Government securities dealer in the City of New York (each a “Primary Treasury Dealer”); provided, however, that if such dealer ceases to be a Primary Treasury Dealer, the Institute will substitute another Primary Treasury Dealer.

“Reference Treasury Dealer Quotations” shall mean, with respect to each Reference Treasury Dealer and any redemption date for a particular Bond, the average, as determined by the Designated Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Designated

Investment Banker by such Reference Treasury Dealer at 3:30 P.M., New York City time, on the Valuation Date.

“Treasury Rate” shall mean, with respect to any redemption date, the rate per annum equal to the semiannual equivalent yield to maturity or interpolated (on a day count basis) of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

“Valuation Date” shall mean any date that is two to forty-five Business Days preceding the redemption date, as determined by the Institute.

Section 4.02 Selection of Bonds for Redemption. If less than all of the Bonds are called for redemption, the Trustee shall select the Bonds or any given portion thereof to be redeemed from the Bonds Outstanding or such given portion thereof not previously called for redemption, pro rata.

If the Bonds are registered in book-entry only form and so long as DTC or a successor Securities Depository is the sole registered owner of the Bonds, if less than all of the Bonds of a maturity are called for prior redemption, the particular Bonds or portions thereof to be redeemed shall be selected on a pro rata pass-through distribution of principal basis in accordance with DTC procedures, provided that, so long as the Bonds are held in book-entry form, the selection for redemption of such Bonds shall be made in accordance with the operational arrangements of DTC then in effect.

It is the Institute’s intent that redemption allocations made by DTC be made on a pro rata pass-through distribution of principal basis as described above. However, the Institute can provide no assurance that DTC, DTC’s direct and indirect participants or any other intermediary will allocate the redemption of Bonds on such basis. If the DTC operational arrangements do not allow for the redemption of the Bonds on a pro rata pass-through distribution of principal basis as discussed above, then the Bonds will be selected for redemption, in accordance with DTC procedures, by lot. The Trustee can provide no assurance as to how DTC, or any other parties, will allocate redemption payments.

Section 4.03 Notice of Redemption. Notice of redemption shall be given by the Trustee as hereinafter provided to (i) the respective Holders of any Bonds designated for redemption at their addresses appearing on the registration books of the Trustee on the date such notice is mailed; (ii) the Securities Depositories; (iii) one or more Information Services; and (iv) the Municipal Securities Rulemaking Board. Each notice of redemption shall state the date of such notice, the redemption date, the redemption price (including any premium), the place or places of redemption (including the name and appropriate address or addresses of the Trustee), the CUSIP number (if any) of the maturity or maturities, and, if less than all the Bonds of any maturity are to be redeemed, the distinctive certificate numbers of the Bonds of such maturity to be redeemed and, in the case of Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice shall also state that on said date there will become due and payable on each of said Bonds the redemption price thereof or of said specified portion of the principal amount thereof in the case of a Bond to be redeemed in part only,

together with interest accrued thereon to the redemption date, and that from and after such redemption date interest thereon shall cease to accrue, and shall require that such Bonds be then surrendered at the address or addresses of the Trustee specified in the redemption notice.

Any notice of redemption shall be mailed by first class mail, postage prepaid, to Bondholders not less than ten (10) days or more than thirty (30) days prior to the date fixed for redemption. Notices to the Information Services shall be mailed by the Trustee by certified, registered or overnight mail at the time of the mailing of notices to Bondholders. Notices to the Securities Depositories shall be given by telecopy or by certified, registered or overnight mail at the time of the mailing of notices to Bondholders. If U.S. mail is no longer available, for whatever reason, at the time of such redemption, a means of nationally recognized transmission, in the Trustee's reasonable judgment, shall be employed in order to communicate the notices referenced herein to the intended recipients.

Notice of redemption of Bonds shall be given by the Trustee, at the expense of the Institute. Failure by the Trustee to give notice pursuant to this Section 4.03, or the insufficiency of any such notice, shall not affect the sufficiency of the proceedings for redemption of any Bond for which notice was properly given.

The notice with respect to any redemption of Bonds shall state that: (i) such redemption is conditional upon the receipt by the Trustee, on or prior to the date fixed for such redemption, of such moneys sufficient to pay the principal of, and premium, if any, and accrued but unpaid interest to the redemption date on, such Bonds to be redeemed, and that if such moneys shall not have been so received said notice shall be of no force and effect and such Bonds shall not be required to be redeemed; and (ii) such notice is revocable at any time by the Trustee, at the direction of the Institute, prior to the date fixed for redemption. In the event a notice of redemption of Bonds contains such conditions and sufficient moneys are not so received or the notice is so revoked, the redemption of Bonds as described in the conditional notice of redemption shall not be made and the Trustee shall, within a reasonable time after the date on which such redemption was to occur, give notice to the persons and in the manner in which the notice of redemption was given, that sufficient moneys were not so received or the notice was so revoked and that there will be no redemption of Bonds pursuant to the notice of redemption.

Section 4.04 Partial Redemption of Bonds. Upon surrender of any Bond redeemed in part only, the Institute shall execute and the Trustee shall authenticate, register and deliver to the Holder thereof, at the expense of the Institute, a new Bond or Bonds of authorized denominations equal in aggregate principal amount to the unredeemed portion of the Bond surrendered. In the event of any partial redemption of a Bond which is registered in the name of the Nominee, DTC may elect to make a notation on the Bond certificate which reflects the date and amount of the reduction in principal amount of said Bond in lieu of surrendering the Bond certificate to the Trustee for exchange. The Institute and the Trustee shall be fully released and discharged from all liability upon, and to the extent of, payment of the redemption price for any partial redemption and upon the taking of all other actions required hereunder in connection with such redemption.

Section 4.05 Effect of Redemption. Notice of redemption having been duly given as aforesaid and moneys for payment of the redemption price of, together with interest accrued to

the redemption date on, the Bonds (or portions thereof) so called for redemption being held by the Trustee, on the redemption date designated in such notice, the Bonds (or portions thereof) so called for redemption shall become due and payable at the redemption price specified in such notice and interest accrued thereon to the redemption date, interest on the Bonds so called for redemption shall cease to accrue from and after the redemption date, said Bonds (or portions thereof) shall cease to be entitled to any benefit or security under this Indenture, and the Holders of said Bonds shall have no rights in respect thereof except to receive payment of said redemption price and accrued interest to the redemption date.

All Bonds fully redeemed pursuant to the provisions of this Article IV shall upon surrender thereof be cancelled by the Trustee, who shall deliver a certificate evidencing such cancellation to the Institute. The Trustee shall destroy such Bonds.

ARTICLE V

ESTABLISHMENT OF BOND FUND

Section 5.01 Bond Fund.

(a) Upon the receipt of a payment from the Institute pursuant to Section 6.01 of this Indenture, the Trustee shall deposit all such amounts in the “California Institute of Technology Series 2011 Bond Fund” (the “Bond Fund”), which the Trustee shall establish and maintain and hold in trust.

(b) The Trustee shall deposit in the Bond Fund from time to time, upon receipt thereof, all payments received by the Trustee from the Institute pursuant to Section 6.01 of this Indenture, and, subject to Section 5.02 of this Indenture, any income received from the investment of moneys on deposit in the Bond Fund.

(c) The Trustee shall disburse and apply amounts in the Bond Fund only as hereinafter in this paragraph (c) authorized:

(1) On each Interest Payment Date, the Trustee shall apply moneys in the Bond Fund to pay the interest on the Bonds as such shall become due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity pursuant to this Indenture).

(2) The Trustee shall apply moneys in the Bond Fund to pay the principal of the Bonds as such principal becomes due and payable.

(3) In the event that the Institute makes a prepayment pursuant to Article IV of this Indenture, such prepayment shall be forthwith deposited in the Optional Redemption Account within the Bond Fund which the Trustee shall establish and maintain and shall be applied thereafter to the redemption of Bonds in the manner directed by the Institute as promptly as practicable in accordance with the provisions of this Indenture.

(d) In making payments of principal of, premium, if any, and interest on the Bonds, the Trustee shall use all amounts pledged therefor under this Indenture received by the Trustee.

(e) At least six (6) Business Days before each Interest Payment Date, the Trustee shall determine the amount, if any, credited or to be credited to the Bond Fund during the period from the day after the last Interest Payment Date to the next succeeding Interest Payment Date from any source. The Trustee shall give notice to the Institute of such amount and the amount due, which notice shall be mailed, telecopied or delivered in such a manner that the Institute will receive such notice by the fifth Business Day before such next succeeding Interest Payment Date. Any verbal notice shall be supplemented by notice given in accordance with the preceding sentence. Failure by the Trustee to give notice pursuant to this paragraph, or the insufficiency of any such notice, shall not affect the payment obligations of the Institute under Section 6.01 of this Indenture, including without limitation the timing thereof.

(f) If the Trustee has not received any payment required to be made by the Institute to pay principal or the redemption price of, or interest on the Bonds by the due date, the Trustee shall immediately notify the Institute of such insufficiency by telephone, telecopy, electronic mail or telegram and confirm such notification by written notice. Failure by the Trustee to give notice pursuant to this paragraph, or the insufficiency of any such notice, shall not affect the payment obligations of the Institute under this Indenture, including without limitation the timing thereof.

(g) Except to the extent such moneys are required to be held for the payment of principal of, redemption premium, if any, or interest on the Bonds then due and payable or to effect the discharge of liability on the Bonds pursuant to Article X hereof, so long as no Event of Default (or any event which would be an Event of Default hereunder with the passage of time or the giving of notice) exists hereunder, on the fifth day after each Interest Payment Date, the Trustee, unless otherwise instructed by the Institute, shall return to the Institute (free and clear of the pledge and lien of this Indenture) any moneys then on deposit in the Bond Fund.

Section 5.02 Investment of Moneys in Funds. Any moneys in any of the funds and accounts to be established by the Trustee pursuant to this Indenture shall be invested upon the Request of the Institute (such direction to specify the particular investment to be made), by the Trustee, if and to the extent then permitted by law, in Investment Securities. In the absence of such written direction, the Trustee shall invest solely in units of a money-market fund or portfolio that is rated by each Rating Agency at least as high as the then current rating of such Rating Agency on the Bonds if such Rating Agency is then rating the Bonds provided that such fund or portfolio is an Investment Security. Moneys in any fund or account shall be invested in Investment Securities with respect to which payments of principal thereof and interest thereon are scheduled to be paid or are otherwise payable (including Investment Securities payable at the option of the Holder) not later than the date on which such moneys will be required by the Trustee. For investment purposes only, the Trustee may commingle the funds and accounts established hereunder (other than any fund or account established pursuant to Article X hereof) but shall account for each separately. Any Investment Securities that are registrable securities shall be registered in the name of the Trustee.

Any interest, profit or loss on any investments of moneys in any fund or account under this Indenture shall be credited or charged to the respective funds from which such investments are made. The Trustee may sell or present for redemption any obligations so purchased whenever it shall be necessary in order to provide moneys to meet any payment, and the Trustee shall not be liable or responsible for any loss, fee, tax or other charge resulting from any investment, reinvestment or liquidation hereunder. Unless otherwise directed by the Institute, the Trustee may make any investment permitted under this Section 5.02 through or with its own commercial banking or investment departments.

The Institute acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the Institute the right to receive brokerage confirmations of security transactions as they occur, the Institute specifically waives receipt of such confirmations to the extent permitted by law. The Trustee will furnish the Institute periodic cash transaction statements which include detail for all investment transactions made by the Trustee hereunder.

The Trustee or any of its affiliates may act as sponsor, advisor or manager in connection with any investments made by the Trustee hereunder. The Trustee is hereby authorized, in making or disposing of any investment permitted by this Section, to deal with itself (in its individual capacity) or with any one or more of its affiliates, whether it or such affiliate is acting as an agent of the Trustee or for any third person or is dealing as principal for its own account.

Section 5.03 Amount Remaining in Funds and Accounts. Any amounts remaining in the Bond Fund or any other fund or account established hereunder after payment in full of the Bonds (or after provision for payment thereof as provided herein) and the fees, charges and expenses of the Trustee, shall belong and be paid to the Institute by the Trustee.

ARTICLE VI

COVENANTS

Section 6.01 Punctual Payment. The Institute is unconditionally and generally obligated to pay the principal (whether at maturity, by redemption or acceleration), and premium, if any, and interest on the Bonds, and the Institute covenants that it will promptly pay or cause to be paid such principal of, premium, if any, and interest on each Bond issued hereunder at the times and places and in the manner provided herein and in the Bonds, according to the true intent and meaning thereof.

Section 6.02 Extension of Payment of Bonds. The Institute shall not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any of the claims for interest by the purchase or funding of such Bonds or claims for interest or by any other arrangement except with the written consent of the Bondholders and, if the maturity of any of the Bonds or the time of payment of any such claims for interest shall be extended without consent required herein, such Bonds or claims for interest shall not be entitled, in case of any default hereunder, to the benefits of this Indenture, except subject to the prior payment in full of the principal of all of the Bonds then Outstanding and of all claims for interest thereon which shall not have been so extended. Nothing in this Section shall be deemed to limit

the right of the Institute to issue bonds for the purpose of refunding any Outstanding Bonds, and such issuance shall not be deemed to constitute an extension of maturity of Bonds.

Section 6.03 Protection of Lien. The Institute hereby agrees not to make or create or suffer to be made or created any assignment or lien having priority or preference over the assignment and lien hereof upon the interests granted hereby or any part thereof except as otherwise specifically provided herein.

Section 6.04 Power to Issue Bonds and Make Pledge. The Institute is duly authorized pursuant to law to issue the Bonds and to enter into this Indenture and to pledge the payments and other assets purported to be pledged under this Indenture in the manner and to the extent provided in this Indenture. The Bonds and the provisions of this Indenture are and will be the legal, valid and binding obligations of the Institute enforceable in accordance with their terms, and the Institute and Trustee shall at all times, to the extent permitted by law and subject to the provisions of this Indenture, defend, preserve and protect said pledge and all the rights of the Bondholders under this Indenture against all claims and demands of all persons whomsoever.

Section 6.05 Accounting Records and Financial Statements. (a) The Trustee shall at all times keep, or cause to be kept, proper books of record and account, prepared in accordance with the Trustee's accounting practices for books of record and account relating to similar trust accounts and in accordance with the customary standards of the industry for such books of record and account, in which complete and accurate entries shall be made of all transactions made by it relating to the proceeds of Bonds, and all funds and accounts established pursuant to this Indenture. Such books of record and account shall be available for inspection by the Institute and any Bondholder, or their respective agents or representatives duly authorized in writing, at reasonable hours, upon reasonable notice and under reasonable circumstances.

(b) The Trustee shall file and furnish to the Institute on or before the 15th day of each month, a complete financial statement (which need not be audited) covering receipts, disbursements, allocation and application of funds received by the Trustee pursuant to this Indenture and any other moneys (other than proceeds of the Bonds held by the Institute) in any of the funds and accounts held by the Trustee pursuant to this Indenture for the preceding month.

Section 6.06 Continuing Disclosure. The Institute has entered into continuing disclosure undertakings (the "Continuing Disclosure Undertakings") in connection with tax-exempt revenue bonds issued for the benefit of the Institute (the "Tax-Exempt Bonds"). Holders and prospective purchasers of the Bonds may obtain copies of the information provided by the Institute under those Continuing Disclosure Undertakings on the Municipal Securities Rulemaking Board's Electronic Municipal Market Access system ("EMMA"). Each Continuing Disclosure Undertaking terminates when the related Tax-Exempt Bonds are paid or deemed paid in full. The Institute hereby covenants that unless otherwise available on EMMA or any successor thereto or to the functions thereof, copies of the Institute's audited financial statements will either be posted on the Institute's website or filed with the Trustee.

ARTICLE VII

EVENTS OF DEFAULT; REMEDIES ON DEFAULT

Section 7.01 Events of Default; Acceleration; Waiver of Default. Each of the following events shall constitute an “Event of Default” hereunder.

(a) Failure by the Institute to make the due and punctual payment of the principal of, or premium (if any) on, any Bond as the same shall become due and payable (whether at maturity, by proceedings for redemption, by declaration or otherwise);

(b) Failure by the Institute to make the due and punctual payment of any installment of interest on any Bond when and as such interest installment shall become due and payable;

(c) Failure by the Institute to perform or observe any other of the covenants, agreements or conditions on its part in this Indenture, other than as referred to in paragraphs (a) and (b) above, or in the Bonds contained, and such default shall have continued for a period of thirty (30) days after written notice thereof, specifying such default and requiring the same to be remedied, shall have been given to the Institute by the Trustee, or the Institute and the Trustee by the Holders of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding;

(d) The entry of a decree or order by a court having jurisdiction in the premises adjudging the Institute a bankrupt or insolvent, or approving as properly filed a petition seeking reorganization, arrangement, adjustment or composition of or in respect of the Institute under the Federal Bankruptcy Code or any other applicable Federal or state law, or appointing a receiver, liquidator, assignee, or sequestrator (or other similar official) of the Institute or of any substantial part of its property, or ordering the winding up or liquidation of its affairs, and the continuance of any such decree or order unstayed and in effect for a period of sixty (60) consecutive days; or

(e) The Institute institutes proceedings to be adjudicated a bankrupt or insolvent, or the consent by the Institute is given to bankruptcy or insolvency proceedings being instituted against it, or the filing by the Institute of a petition or answer or consent seeking reorganization or relief under the Federal Bankruptcy Code or any other similar applicable Federal or state law, or the consent by the Institute to the filing of any such petition or to the appointment of a receiver, liquidator, assignee, trustee or sequestrator (or other similar official) of the Institute or of any substantial part of its property, or the making by the Institute of an assignment for the benefit of creditors, or the admission by the Institute in writing of its inability to pay its debts generally as they become due.

No default specified in (c) above shall constitute an Event of Default unless the Institute shall have failed to correct such default within the applicable 30-day period; provided, however, that if the default shall be such that it can be corrected, but cannot be corrected within such

period, it shall not constitute an Event of Default if corrective action is instituted by the Institute within the applicable period and diligently pursued until the default is corrected.

Upon the occurrence and continuation of an Event of Default, the Trustee may, and upon the written request of the Holders of not less than a majority in aggregate principal amount of the Bonds then Outstanding shall, by notice in writing delivered to the Institute, declare the principal of all Bonds then Outstanding and the interest accrued thereon immediately due and payable, and such principal and interest shall thereupon become and be immediately due and payable. Interest on the Bonds shall cease to accrue from and after the date of declaration of any such acceleration. Notwithstanding the foregoing, the Trustee shall not be required to take any action upon the occurrence and continuation of an Event of Default under Section 7.01 (c) above until a Responsible Officer of the Trustee has actual knowledge of such Event of Default.

The preceding paragraph, however, is subject to the condition that if, at any time after the principal of the Bonds shall have been so declared due and payable, and before any judgment or decree for the payment of the moneys due shall have been obtained or entered as hereinafter provided, there shall have been deposited with the Trustee a sum which, together with any other amounts then held in the Bond Fund, is sufficient to pay all the principal of such Bonds matured prior to such declaration and all matured installments of interest (if any) upon all the Bonds, and the reasonable expenses (including reasonable attorneys' fees) of the Trustee, and any and all other defaults actually known to the Trustee (other than in the payment of principal of and interest on such Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee in its sole discretion or provision deemed by the Trustee to be adequate shall have been made therefor, then, and in every such case, the Holders of at least a majority in aggregate principal amount of the Bonds in each case then Outstanding (by written notice to the Institute and to the Trustee) may, on behalf of the Holders of all Bonds, rescind and annul such declaration with respect to the Bonds and its consequences and waive such default; provided that no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon.

Section 7.02 Institution of Legal Proceedings by Trustee. In addition, if one or more of the Events of Default hereunder shall happen and be continuing, the Trustee in its sole discretion may, and upon the written request of the Holders of a majority in aggregate principal amount of the Bonds then Outstanding, and upon being indemnified to its satisfaction in its sole discretion therefor (including with respect to any expenses or liability the Trustee may incur) shall, proceed to protect or enforce its rights or the rights of the Holders under this Indenture, by a suit in equity or action at law, either for the specific performance of any covenant or agreement contained herein, or in aid of the execution of any power herein granted, or by mandamus or other appropriate proceeding for the enforcement of any other legal or equitable remedy as the Trustee shall deem most effectual in support of any of its rights or duties hereunder.

Section 7.03 Application of Moneys Collected by Trustee. Any moneys collected by the Trustee and moneys in the Bond Fund on or after the occurrence of an Event of Default shall be applied in the order following, at the date or dates fixed by the Trustee and, in the case of distribution of such moneys on account of principal (or premium, if any) or interest, upon presentation of the Bonds, and stamping thereon the payment, if only partially paid, and upon surrender thereof, if fully paid:

First: To the payment of costs and expenses of collection, just and reasonable compensation to the Trustee for its own services and for the services of counsel, agents and employees by it properly engaged and employed, and for advances made pursuant to the provisions of this Indenture with interest on all such advances at a rate per annum equal to the yield on the Bonds plus two percent.

Second: In case the principal of none of the Outstanding Bonds shall have become due and remains unpaid, to the payment of interest in default on the Outstanding Bonds in the order of the maturity thereof, such payments to be made ratably and proportionately to the persons entitled thereto without discrimination or preference, except as specified in Section 6.02; provided, however, that no payment of interest shall be made with respect to any Bonds held by the Institute, or actually known by the Trustee to be held by any affiliate of the Institute, or any nominee of the Institute or any affiliate of the Institute, until interest due on all Bonds not so registered shall have been paid

Third: In case the principal of any of the Outstanding Bonds shall have become due by declaration or otherwise and remains unpaid, first to the payment of principal of all Outstanding Bonds then due and unpaid, then to the payment of interest in default in the order of maturity thereof, and then to the payment of the premium thereon, if any; in every instance such payment to be made ratably to the persons entitled thereto without discrimination or preference, except as specified in Section 6.02; provided, however, that no payment of principal or premium or interest shall be made with respect to any Bonds held by the Institute, or known by the Trustee to be held by any affiliate of the Institute or any nominee of the Institute, or any affiliate of the Institute, until all amounts due on all Bonds not so held have been paid.

Section 7.04 Effect of Delay or Omission to Pursue Remedy. No delay or omission of the Trustee or of any Holder of Bonds to exercise any right or power arising from any default shall impair any such right or power or shall be construed to be a waiver of any such default or acquiescence therein, and every power and remedy given by this Article VII to the Trustee or to the Holders of Bonds may be exercised from time to time, and as often as shall be deemed expedient. In case the Trustee shall have proceeded to enforce any right under this Indenture, and such proceedings shall have been discontinued or abandoned because of waiver or for any other reason, or shall have been determined adversely to the Trustee, then and in every such case the Institute and the Trustee, and the Holders of the Bonds, severally and respectively, shall be restored to their former positions and rights hereunder in respect to the trust estate; and all remedies, rights and powers of the Institute, the Trustee and the Holders of the Bonds shall continue as though no such proceedings had been taken.

Section 7.05 Remedies Cumulative. No remedy herein conferred upon or reserved to the Trustee or to any Holder of the Bonds is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing at law or in equity.

Section 7.06 Trustee Appointed Agent for Bondholders. The Trustee is hereby appointed the agent and attorney of the Holders of all Bonds Outstanding hereunder for the purpose of filing any claims relating to the Bonds.

Section 7.07 Power of Trustee to Control Proceedings. In the event that the Trustee, upon the happening of an Event of Default, shall have taken some action, by judicial proceedings or otherwise, pursuant to its duties hereunder, whether upon its own discretion or upon the request of the Holders of a majority in aggregate principal amount of the Bonds then Outstanding, it shall have full power, in the exercise of its discretion for the best interests of the Holders of the Bonds, with respect to the continuance, discontinuance, withdrawal, compromise, settlement or other disposal of such action; provided, however, that the Trustee shall not, unless there no longer continues an Event of Default hereunder, discontinue, withdraw, compromise or settle, or otherwise dispose of any litigation pending at law or in equity, if at the time there has been filed with it a written request signed by the Holders of at least a majority in aggregate principal amount of the Bonds Outstanding hereunder opposing such discontinuance, withdrawal, compromise, settlement or other disposal of such litigation.

All rights of action under this Indenture or under any of the Bonds secured hereby which are enforceable by the Trustee may be enforced by it without the possession of any of the Bonds, or the production thereof at the trial or other proceedings relative thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in its name as Trustee of an express trust for the equal and ratable benefit of the Bondholders, subject to the provisions of this Indenture.

Section 7.08 Limitation on Bondholders' Right to Sue. No Holder of Bonds issued hereunder shall have the right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon this Indenture, unless (a) such Holder shall have previously given to the Trustee written notice of the occurrence of an Event of Default hereunder; (b) the Holders of at least a majority in aggregate principal amount of all the Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers hereinbefore granted or to institute such action, suit or proceeding in its own name; (c) said Holders shall have tendered to the Trustee indemnity satisfactory to it against the costs, expenses (including reasonable attorneys' fees) and liabilities to be incurred in compliance with such request; and (d) the Trustee shall have refused or omitted to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

Such notification, request, tender of indemnity and refusal or omission are hereby declared, in every case, to be conditions precedent to the exercise by any Holder of Bonds of any remedy hereunder; it being understood and intended that no one or more Holders of Bonds shall have any right in any manner whatever by its action to enforce any right under this Indenture, except in the manner herein provided, and that all proceedings at law or in equity to enforce any provision of this Indenture shall be instituted, had and maintained in the manner herein provided and for the equal benefit of all Holders of the Outstanding Bonds, subject to the provisions of this Indenture.

The right of any Holder of any Bond to receive payment of the principal of and premium, if any, and interest on such Bond out of the funds pledged herein, as herein provided, on and after the respective due dates expressed in such Bond, or to institute suit for the enforcement of any such payment on or after such respective dates, shall not be impaired or affected without the

consent of such Holder, notwithstanding the foregoing provisions of this Section or Section 7.07 of this Indenture or any other provision of this Indenture.

ARTICLE VIII

THE TRUSTEE

Section 8.01 Duties, Immunities and Liabilities of Trustee. (a) The Trustee shall, prior to an Event of Default, and after the curing or waiving of all Events of Default which may have occurred, perform such duties and only such duties as are specifically set forth in this Indenture. The Trustee shall, during the existence of any Event of Default which has not been cured or waived, exercise such of the rights and powers vested in it by this Indenture, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs.

(b) The Institute may remove the Trustee at any time unless an Event of Default shall have occurred and then be continuing, and shall remove the Trustee if at any time requested to do so by an instrument or concurrent instruments in writing signed by the Holders of not less than a majority in aggregate principal amount of the Bonds then Outstanding (or their attorneys duly authorized in writing) or if at any time the Trustee shall cease to be eligible in accordance with subsection (e) of this Section, or shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or a receiver of the Trustee or its property shall be appointed, or any public officer shall take control or charge of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation, in each case by giving written notice of such removal to the Trustee, and thereupon shall appoint, with the consent of the Institute, a successor Trustee by an instrument in writing.

(c) The Trustee may at any time resign by giving written notice of such resignation to the Institute 30 days prior to such resignation, and by giving the Bondholders notice of such resignation by mail at the addresses shown on the Bond registration books maintained by the Trustee. Upon receiving such notice of resignation, the Institute shall promptly appoint a successor Trustee by an instrument in writing.

(d) Any removal or resignation of the Trustee and appointment of a successor Trustee shall become effective upon acceptance of appointment by the successor Trustee. Notwithstanding any other provision of this Indenture, no removal, resignation or termination of the Trustee shall take effect until a successor acceptable to the Institute shall be appointed. If no successor Trustee shall have been appointed and have accepted appointment within forty five (45) days of giving notice of removal or notice of resignation as aforesaid, the resigning Trustee or any Bondholder (on behalf of himself and all other Bondholders) may petition any court of competent jurisdiction for the appointment of a successor Trustee, and such court may thereupon, after such notice (if any) as it may deem proper, appoint such successor Trustee. Any successor Trustee appointed under this Indenture shall signify its acceptance of such appointment by executing and delivering to the Institute and to its predecessor Trustee a written acceptance thereof, and thereupon such successor Trustee, without any further act, deed or conveyance, shall become vested with all the moneys, estates, properties, rights, powers, trusts, duties and obligations of such predecessor Trustee, with like effect as if originally named Trustee herein;

but, nevertheless at the Request of the Institute or the request of the successor Trustee, such predecessor Trustee shall execute and deliver any and all instruments of conveyance or further assurance and do such other things as may reasonably be required for more fully and certainly vesting in and conveying to such successor Trustee all the right, title and interest of such predecessor Trustee in and to any property held by it under this Indenture and shall pay over, transfer, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions herein set forth. Upon request of the successor Trustee, the Institute shall execute and deliver any and all instruments as may be reasonably required for more fully and certainly vesting in and confirming to such successor Trustee all such moneys, estates, properties, rights, powers, trusts, duties and obligations. Upon acceptance of appointment by a successor Trustee as provided in this subsection, the Institute shall mail a notice of the succession of such Trustee to the trusts hereunder to the Bondholders at the addresses shown on the bond registration books maintained by the Trustee. If the Institute fails to mail such notice within thirty (30) days after acceptance of appointment by the successor Trustee, the successor Trustee shall cause such notice to be mailed at the expense of the Institute.

(e) Any Trustee appointed under the provisions of this Indenture shall be a trust or banking institution or corporation having trust powers, doing business and having a corporate trust office in the State or, if it shall not have a corporate trust office in the State, having the power under State law to perform all the duties of the Trustee hereunder as evidenced by an opinion of its counsel, having a combined capital (exclusive of borrowed capital) and surplus of at least \$75,000,000 and subject to supervision or examination by State or federal authorities. In case at any time the Trustee shall cease to be eligible in accordance with the provisions of this subsection (e), the Trustee shall resign immediately in the manner and with the effect specified in this Section.

Section 8.02 Merger or Consolidation. Any company into which the Trustee may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which the Trustee may sell or transfer all or substantially all of its corporate trust business, provided such company shall be eligible under subsection (e) of Section 8.01 hereof, shall be the successor to such Trustee without the execution or filing of any paper or any further act, anything herein to the contrary notwithstanding.

Section 8.03 Rights of Trustee. (a) The recitals of facts herein and in the Bonds contained shall be taken as statements of the Institute, and the Trustee does not assume any responsibility for the correctness of the same, or make any representations as to the validity or sufficiency of this Indenture or the Bonds, or incur any responsibility in respect thereof, other than in connection with the duties or obligations herein or in the Bonds assigned to or imposed upon it. The Trustee shall, however, be responsible for its representations contained in its certificate of authentication on the Bonds. The Trustee shall not be liable in connection with the performance of its duties hereunder, except for its own negligence or willful misconduct.

(b) The Trustee shall not be liable for any error of judgment made in good faith by a Responsible Officer, unless it shall be proved that the Trustee was negligent or engaged in willful misconduct in ascertaining the pertinent facts.

(c) The Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Holders of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee under this Indenture. The permissive right of the Trustee to do things enumerated in this Indenture shall not be construed as a duty.

(d) The Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture at the request, order or direction of any of the Bondholders pursuant to the provisions of this Indenture unless such Bondholders shall have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities which may be incurred therein or thereby.

(e) The Trustee shall not be deemed to have knowledge of any Event of Default unless and until it shall have actual knowledge thereof, or shall have received written notice thereof, at its Principal Corporate Trust Office. Except as otherwise expressly provided herein, the Trustee shall not be bound to ascertain or inquire as to the performance or observance of any of the terms, conditions, covenants or agreements herein or of any of the documents executed in connection with the Bonds or as to the existence of an Event of Default hereunder.

(f) No provision of this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of its rights or powers. The Trustee has no obligation or liability to the Bondholders for the payment of interest, principal, or redemption premium, if any, with respect to the Bonds, except as set forth in this Indenture.

(g) The Trustee shall not be bound to ascertain or inquire as to the validity or genuineness of any collateral given to or held by it. The Trustee shall not be responsible for the recording or filing of any document relating to this Indenture or of financing statements (or continuation statements in connection therewith) or of any supplemental instruments or documents of further assurance as may be required by law in order to perfect the security interests in any collateral given to or held by it.

(h) The Trustee shall not be concerned with or accountable to anyone for the subsequent use or application of any moneys which shall be released or withdrawn in accordance with the provisions hereof.

(i) The Trustee makes no representation or warranty, express or implied as to the title, value, design, compliance with specifications or legal requirements, quality, durability, operation, condition, merchantability or fitness for any particular purpose for the use contemplated by the Institute of the projects constructed, rehabilitated, purchased or otherwise acquired or refinanced with the proceeds of the Bonds. In no event shall the Trustee be liable for incidental, indirect, special or consequential damages in connection with or arising from this Indenture for the existence, furnishing or use of the projects constructed, rehabilitated, purchased or otherwise acquired or refinanced with the proceeds of the Bonds.

(j) The Trustee shall have no responsibility or liability with respect to any information, statements or recital in any offering memorandum or other disclosure material prepared or distributed with respect to the issuance of the Bonds.

(k) All indemnifications and releases from liability granted herein to the Trustee shall extend to the directors, officers, employees and agents of the Trustee.

Section 8.04 Right of Trustee to Rely on Documents. The Trustee shall be protected in acting upon any notice, requisition, resolution, request, consent, order, certificate, report, opinion, bond or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties. The Trustee may consult with counsel, who may be counsel of or to the Institute, with regard to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith and in accordance therewith.

The Trustee shall not be bound to recognize any person as the Holder of a Bond unless and until such Bond is submitted for inspection, if required, and such Holder's title thereto is satisfactorily established, if disputed.

Whenever in the administration of the trusts imposed upon it by this Indenture the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action hereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a Certificate of the Institute, and such Certificate shall be full warranty to the Trustee for any action taken or suffered in good faith under the provisions of this Indenture in reliance upon such Certificate, but in its discretion the Trustee may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as it may deem reasonable.

Section 8.05 Preservation and Inspection of Documents. All documents received by the Trustee under the provisions of this Indenture shall be retained in its possession and shall be subject at all reasonable times to the inspection of the Institute and any Bondholder, and their agents and representatives duly authorized in writing, at reasonable hours, upon reasonable notice and under reasonable conditions.

Section 8.06 Compensation and Indemnification of Trustee. The Institute shall pay to the Trustee from time to time reasonable compensation for all services rendered hereunder and all reasonable expenses, charges, legal and consulting fees and other disbursements and those of its attorneys, agents and employees incurred in and about the performance of its powers and duties hereunder. The Institute further covenants and agrees to the extent permitted by law to indemnify the Trustee against any loss, expense and liability (other than those which are due to the Trustee's negligence or willful misconduct) which it may incur arising out of or in the exercise and performance of its powers and duties hereunder, including the costs and expenses of defending against any claim of liability. The obligations of the Institute under this Section shall survive resignation or removal of the Trustee hereunder and payment of the Bonds and discharge of this Indenture.

ARTICLE IX

MODIFICATION OF INDENTURE

Section 9.01 Modification without Consent of Bondholders. Subject to the conditions and restrictions in this Indenture contained, the Institute and the Trustee, from time to time and at any time, may enter into an Indenture or Supplemental Indentures, which indenture or indentures thereafter shall form a part hereof, including, without limitation, for one or more of the following purposes, provided that the Trustee shall have received a written representation from the Institute to the effect that such amendment or modification will not materially and adversely affect the interests of the Holders of the Bonds:

(a) to add to the covenants and agreements of the Institute in this Indenture contained, other covenants and agreements thereafter to be observed, or to assign or pledge additional security for the Bonds, or to surrender any right or power herein reserved to or conferred upon the Institute;

(b) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing, correcting or supplementing any defective provision, contained in this Indenture, or in regard to such matters or questions arising under this Indenture as the Institute may deem necessary or desirable and not inconsistent with this Indenture;

(c) to modify, amend or supplement this Indenture or any Supplemental Indenture in such manner as to permit the qualification hereof or thereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, and, if they so determine, to add to this Indenture or any Supplemental Indenture such other terms, conditions and provisions as may be permitted by said Trust Indenture Act of 1939, as amended, or similar federal statute; or

(d) for any other purpose provided such amendment or modification will not materially and adversely affect the interests of the Holders of the Bonds.

Any Supplemental Indenture authorized by the provisions of this Section 9.01 may be executed by the Institute and the Trustee without the consent of the Holders of any of the Bonds at the time Outstanding, notwithstanding any of the provisions of Section 9.02 hereof, but the Trustee shall not be obligated to enter into any such Supplemental Indenture which affects the Trustee's own rights, duties or immunities under this Indenture or otherwise.

The Trustee shall mail notice of any modification of the Indenture pursuant to this Section 9.01 and an executed copy of a Supplemental Indenture or Indenture Supplemental Hereto, as applicable, authorized by this Section 9.01 to each Rating Agency then rating the Bonds promptly after execution thereof by the Institute and the Trustee.

Section 9.02 Modification with Consent of Bondholders. With the written consent of the Holders of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding, the Institute and the Trustee may from time to time and at any time, enter into an Indenture or Supplemental Indentures for the purpose of adding any provisions to or changing in

any manner or eliminating any of the provisions of this Indenture or of any Supplemental Indenture; provided, however, that no such Supplemental Indenture shall (1) extend the fixed maturity of any Bonds or reduce the rate of interest thereon or extend the time of payment of interest, or reduce the amount of the principal thereof, or reduce any premium payable on the redemption thereof without consent of the Holder of each Bond so affected; or (2) reduce the aforesaid percentage of Holders of Bonds whose consent is required for the execution of such Supplemental Indentures or extend the time of payment or permit the creation of any lien on the funds pledged herein prior to or on a parity with the lien of this Indenture or deprive the Holders of the Bonds of the lien created by this Indenture upon the funds pledged herein, without the consent of the Institute and the Holders of all the Bonds then Outstanding. Upon receipt by the Trustee of a Certificate of the Institute authorizing the execution of any such Supplemental Indenture, and upon the filing with the Trustee of evidence of the consent of the Bondholders, as aforesaid, the Trustee shall join with the Institute in the execution of such Supplemental Indenture unless such Supplemental Indenture affects the Trustee's own rights, duties or immunities under this Indenture or otherwise, in which case the Trustee may in its discretion, but shall not be obligated to, enter into such Supplemental Indenture.

It shall not be necessary for the consent of the Bondholders under this Section 9.02 to approve the particular form of any proposed Supplemental Indenture, but it shall be sufficient if such consent shall approve the substance thereof.

Promptly after the execution by the Institute and the Trustee of any Supplemental Indenture pursuant to the provisions of this Section 9.02, the Trustee shall mail a notice, setting forth in general terms the substance of such Supplemental Indenture, to the Bondholders at the addresses shown on the Bond registration books maintained by the Trustee. Any failure of the Trustee to give such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such Supplemental Indenture.

The Trustee shall mail an executed copy of such Supplemental Indenture to the Institute and each Rating Agency then rating the Bonds promptly after execution by the Institute and the Trustee.

Section 9.03 Effect of Supplemental Indenture. Upon the execution of any Supplemental Indenture pursuant to the provisions of this Article IX, this Indenture shall be and shall be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under this Indenture of the Institute, the Trustee and all Holders of Outstanding Bonds shall thereafter be determined, exercised and enforced hereunder subject in all respects to such modifications and amendments, and all the terms and conditions of any such Supplemental Indenture shall be part of the terms and conditions of this Indenture for any and all purposes.

Section 9.04 Opinion of Counsel as to Supplemental Indenture. Subject to the provisions of Section 8.04 of this Indenture, the Trustee may (but is not required to) receive an Opinion of Counsel as conclusive evidence that any Supplemental Indenture executed pursuant to the provisions of this Article IX complies with the requirements of this Article IX.

Section 9.05 Notation of Modification on Bonds; Preparation of New Bonds. Bonds authenticated and delivered after the execution of any Supplemental Indenture pursuant to the provisions of this Article IX may bear a notation, in form approved by the Institute, as to any matter provided for in such Supplemental Indenture, and if such Supplemental Indenture shall so provide, new Bonds, so modified as to conform, in the opinion of the Institute, to any modification of this Indenture contained in any such Supplemental Indenture, may be prepared by the Institute, authenticated by the Trustee and delivered without cost to the Holders of the Bonds then Outstanding, upon surrender for cancellation of such Bonds, in equal aggregate principal amounts.

ARTICLE X

SATISFACTION AND DISCHARGE

Section 10.01 Discharge of Indenture. Bonds may be paid by the Institute in any of the following ways, provided that the Institute also pays or causes to be paid any other sums payable hereunder by the Institute:

- (a) by paying or causing to be paid the principal of and premium, if any, and interest on the Bonds Outstanding, as and when the same become due and payable;
- (b) by depositing with the Trustee, in trust, at or before maturity, money or securities in the necessary amount (as provided in Section 10.03 hereof) to pay or redeem all Bonds Outstanding; or
- (c) by delivering to the Trustee, for cancellation by it, all Bonds Outstanding.

If the Institute shall pay all Bonds then Outstanding as provided above and shall also pay or cause to be paid all other sums payable hereunder by the Institute, then and in that case, at the election of the Institute (evidenced by a Certificate of the Institute, filed with the Trustee, signifying the intention of the Institute to discharge all such indebtedness and this Indenture), and notwithstanding that any Bonds shall not have been surrendered for payment, this Indenture and the pledge of certain funds made under this Indenture and all covenants, agreements and other obligations of the Institute under this Indenture shall cease, terminate, become void and be completely discharged and satisfied, except only as provided in this Indenture, including Section 10.02 hereof. In such event, upon Request of the Institute, the Trustee shall cause an accounting for such period or periods as may be requested by the Institute to be prepared and filed with the Institute and shall execute and deliver to the Institute all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee shall pay over, transfer, assign or deliver to the Institute all moneys or securities or other property held by it pursuant to this Indenture which are not required for the payment or redemption of Bonds not theretofore surrendered for such payment or redemption and which are not required for the payment of fees, expenses and amounts owed to the Trustee.

Section 10.02 Discharge of Liability on Bonds. Upon the deposit with the Trustee, in trust, at or before maturity, of money or securities in the necessary amount (as provided in

Section 10.03 hereof) to pay or redeem any Outstanding Bond, whether upon or prior to its maturity or the redemption date of such Bond (provided that, if such Bond is to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as in Article IV provided or provision satisfactory to the Trustee shall have been made for the giving of such notice), then all liability of the Institute in respect of such Bond shall cease, terminate and be completely discharged, except only that thereafter the Holder thereof shall be entitled to payment of the principal of and interest on such Bond by the Institute, and the Institute shall remain liable for such payment but only out of the money or securities deposited with the Trustee as aforesaid for its payment; provided further, however, that the provisions of Section 10.04 hereof shall apply in all events.

The Institute may at any time surrender to the Trustee for cancellation by it any Bonds previously issued and delivered, which the Institute may have acquired in any manner whatsoever, and such Bonds, upon such surrender and cancellation, shall be deemed to be paid and retired.

Section 10.03 Deposit of Money or Securities with Trustee. Whenever in this Indenture it is provided or permitted that there be deposited with or held in trust by the Trustee money or securities in the amount necessary to pay or redeem any Bonds, such amount (which may include money or securities held by the Trustee in the funds established pursuant to this Indenture) shall be equal (taking into account income which will accrue from the investment thereof on the date of deposit of such funds but without taking into account any income from the subsequent reinvestment thereof) to the principal amount of such Bonds and all unpaid interest thereon to maturity, except that, in the case of Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption shall have been given as provided in Article IV or provision satisfactory to the Trustee shall have been made for the giving of such notice, the amount to be deposited or held shall be the principal amount of such Bonds and all unpaid interest thereon to the redemption date, together with the redemption premiums, if any, and shall be:

(a) lawful money of the United States of America; or

(b) noncallable notes, bills and bonds issued by the Department of the Treasury (including without limitation (1) obligations issued or held in book entry form on the books of the Department of the Treasury and (2) the interest component of Resolution Funding Corporation strips for which separation of principal and interest is made by request to the Federal Reserve Bank of New York in book entry form), United States Treasury Obligations, State and Local Government Series and Zero Coupon United States Treasury Bonds,

provided, in each case, that the Trustee shall have been irrevocably instructed (by the terms of this Indenture or by Request of the Institute) to apply such money to the payment of such principal of and premium, if any, and interest on such Bonds and provided, further, that the Institute and the Trustee shall have received a verification report of a firm of certified public accountants or other financial services firm acceptable to the Institute verifying that the money or securities so deposited or held together with earnings thereon will be sufficient to make all

payments of principal of and premium, if any, and interest on the Bonds to be discharged to and including the earlier of their respective maturity dates or the date they are to be redeemed.

Section 10.04 Payment of Bonds after Discharge of Indenture. Notwithstanding any provision of this Indenture, and subject to applicable escheat laws, any moneys held by the Trustee in trust for the payment of the principal of or premium, if any, or interest on any Bonds and remaining unclaimed for one year after the principal of all the Outstanding Bonds has become due and payable (whether at maturity or upon call for redemption or by declaration as provided in this Indenture), if such moneys were so held at such date, or one year after the date of deposit of such moneys if deposited after said date when all of the Bonds became due and payable, shall be repaid to the Institute free from the trusts created by this Indenture, and all liability of the Trustee with respect to such moneys shall thereupon cease; provided, however, that before the repayment of such moneys to the Institute as aforesaid, the Trustee may (at the cost of the Institute) first mail to the Holders of Bonds which have not yet been paid, at the addresses shown on the registration books maintained by the Trustee, a notice, in such form as may be deemed appropriate by the Trustee, with respect to the Bonds so payable and not presented and with respect to the provisions relating to the repayment to the Institute of the moneys held for the payment thereof.

ARTICLE XI

MISCELLANEOUS

Section 11.01 Successor Is Deemed Included in All References to Predecessor. Whenever in this Indenture either the Institute or the Trustee is named or referred to, such reference shall be deemed to include the successors or assigns thereof, and all the covenants and agreements in this Indenture contained by or on behalf of the Institute or the Trustee shall bind and inure to the benefit of the respective successors and assigns thereof whether so expressed or not.

Section 11.02 Limitation of Rights to Parties and Bondholders. Nothing in this Indenture or in the Bonds expressed or implied is intended or shall be construed to give to any person other than the Institute, the Trustee and the Holders of the Bonds any legal or equitable right, remedy or claim under or in respect of this Indenture or any covenant, condition or provision therein or herein contained; and all such covenants, conditions and provisions are and shall be held to be for the sole and exclusive benefit of the Institute, the Trustee and the Holders of the Bonds.

Section 11.03 Waiver of Notice. Whenever in this Indenture the giving of notice by mail or otherwise is required, the giving of such notice may be waived in writing by the person entitled to receive such notice and in any such case the giving or receipt of such notice shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

Section 11.04 Destruction of Bonds. Whenever in this Indenture provision is made for the cancellation by the Trustee and the delivery to the Institute of any Bonds, the Trustee shall, in lieu of such cancellation and delivery, destroy such Bonds (in the presence of an officer,

employee or agent of the Institute, if the Institute shall so require) and at the request of the Institute deliver a certificate of such destruction to the Institute.

Section 11.05 Severability of Invalid Provisions. If any one or more of the provisions contained in this Indenture or in the Bonds shall for any reason be held to be invalid, illegal or unenforceable in any respect, then such provision or provisions shall be deemed severable from the remaining provisions contained in this Indenture and such invalidity, illegality or unenforceability shall not affect any other provision of this Indenture, and this Indenture shall be construed as if such invalid or illegal or unenforceable provision had never been contained herein. The Institute hereby declares that it would have entered into this Indenture and each and every other Section, paragraph, sentence, clause or phrase hereof and authorized the issuance of the Bonds pursuant thereto irrespective of the fact that any one or more Sections, paragraphs, sentences, clauses or phrases of this Indenture may be held illegal, invalid or unenforceable.

Section 11.06 Notices. It shall be sufficient service of any notice, request, complaint or demand on the Institute or the Trustee if the same shall have been actually received when mailed by first class mail or overnight mail, postage prepaid, addressed as follows:

As to the
Institute: California Institute of Technology
271 South Chester Avenue
Pasadena, California 91125
Attention: Assistant Treasurer
(Mail Code 117-15)

With a copy to: California Institute of Technology
1200 East California Boulevard
Mail Code 108-31
Pasadena, California 91125
Attention: General Counsel

As to the
Trustee: U.S. Bank National Association
633 West Fifth Street, 24th Floor
Los Angeles, CA 90071
Attention: Corporate Trust Services
Telephone: 213-615-6023
Facsimile: 213-615-6197

The Institute or the Trustee, may, by notice given hereunder, designate any further or different addresses to which subsequent notices, certificates or other communications shall be sent. If requested by the Institute or the Trustee, any notice required to be given hereunder in writing may be given by any form of telephonic or electronic transmission capable of making a written record. The Trustee and the Institute shall exchange written information appropriate to receiving such form of telephonic or electronic transmission.

Section 11.07 Evidence of Rights of Bondholders. Any request, consent or other instrument required or permitted by this Indenture to be signed and executed by Bondholders may be in any number of concurrent instruments of substantially similar tenor and shall be

signed or executed by such Bondholders in person or by an agent or agents duly appointed in writing. Proof of the execution of any such request, consent or other instrument or of a writing appointing any such agent, or of the holding by any person of Bonds transferable by delivery, shall be sufficient for any purpose of this Indenture and shall be conclusive in favor of the Trustee and of the Institute if made in the manner provided in this Section.

The fact and date of the execution by any person of any such request, consent or other instrument or writing may be proved by the certificate of any notary public or other officer of any jurisdiction, authorized by the laws thereof to take acknowledgments of deeds, certifying that the person signing such request, consent or other instrument acknowledged the execution thereof, or by an affidavit of a witness of such execution duly sworn to before such notary public or other officer.

The ownership of Bonds shall be proved by the Bond registration books held by the Trustee.

Any request, consent, or other instrument or writing of the Holder of any Bond shall bind every future Holder of the same Bond and the Holder of every Bond issued in exchange therefor or in lieu thereof, in respect of anything done or suffered to be done by the Trustee or the Institute in accordance therewith or reliance thereon.

Section 11.08 Disqualified Bonds. In determining whether the Holders of the requisite aggregate principal amount of Bonds have concurred in any demand, request, direction, consent or waiver under this Indenture, Bonds which are owned or held by or for the account of the Institute or by any person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the Institute shall be disregarded and deemed not to be Outstanding for the purpose of any such determination; provided, however, that the Trustee shall not be deemed to have knowledge that any Bond is owned or held by or for the account of the Institute unless the Institute is the registered Holder or the Trustee has received written notice that any other registered Holder is the owner or is holding for the account of the Institute. Bonds so owned which have been pledged in good faith may be regarded as Outstanding for the purposes of this Section if the pledgee shall establish to the satisfaction of the Trustee the pledgee's right to vote such Bonds and that the pledgee is not a person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the Institute. In case of a dispute as to such right, any decision by the Trustee taken upon the advice of counsel shall be full protection to the Trustee.

Section 11.09 Money Held for Particular Bonds. The money held by the Trustee for the payment of the interest, principal, or redemption price due on any date with respect to particular Bonds (or portions of Bonds in the case of Bonds redeemed in part only) shall, on and after such date and pending such payment, be set aside on its books and held in trust by it for the Holders of the Bonds entitled thereto, subject, however, to the provisions of Section 10.04 hereof.

Section 11.10 Funds and Accounts. Any fund required by this Indenture to be established and maintained by the Trustee may be established and maintained in the accounting records of the Trustee, either as a fund or an account, and may, for the purposes of such records,

any audits thereof and any reports or statements with respect thereto, be treated either as a fund or as an account; but all such records with respect to all such funds shall at all times be maintained in accordance with customary standards of the industry, to the extent practicable, and with due regard for the requirements of Sections 5.02 hereof and for the protection of the security of the Bonds and the rights of every Holder thereof.

Section 11.11 Article and Section Headings and References. The headings or titles of the several Articles and Sections hereof, and any table of contents appended to copies hereof, shall be solely for convenience of reference and shall not affect the meaning, construction or effect of this Indenture.

All references herein to “Articles,” “Sections” and other subdivisions are to the corresponding Articles, Sections or subdivisions of this Indenture; the words “herein,” “hereof,” “hereby,” “hereunder” and other words of similar import refer to this Indenture as a whole and not to any particular Article, Section or subdivision hereof; and words of the masculine gender shall mean and include words of the feminine and neuter genders.

Section 11.12 Waiver of Personal Liability. No trustee, officer, agent or employee of the Institute shall be individually or personally liable for the payment of the principal of, or premium, if any, or interest on the Bonds or be subject to any personal liability or accountability by reason of the issuance thereof.

Section 11.13 Execution in Several Counterparts. This Indenture may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original; and all such counterparts, or as many of them as the Institute and the Trustee shall preserve undestroyed, shall together constitute but one and the same instrument.

Section 11.14 Governing Law; Venue. This Indenture shall be construed in accordance with and governed by the Constitution and the laws of the State applicable to contracts made and performed in the State. This Indenture shall be enforceable in the State, and any action arising out of this Indenture shall be filed and maintained in Los Angeles County Superior Court, County of Los Angeles, California unless the Institute waives this requirement.

Section 11.15 Complete Agreement. This Indenture represents the complete agreement between the parties with respect to the Bonds and related matters.

Section 11.16 Action to be Taken on Days Other Than Business Days. Except as otherwise specifically provided herein, whenever this Indenture requires any action to be taken on a day which is not a Business Day, such action shall be taken on the next succeeding Business Day with the same force and effect as if taken on such day. If any payment is made on the next Business Day as aforesaid, no interest shall accrue for the intervening period.

IN WITNESS WHEREOF, the CALIFORNIA INSTITUTE OF TECHNOLOGY has caused this Indenture to be signed and attested in its name by its duly authorized officers and its seal to be hereunto affixed, and U.S. BANK NATIONAL ASSOCIATION, in token of its acceptance of the trusts created hereunder, has caused this Indenture to be signed in its corporate name by its officer hereunto duly authorized, all as of the day and year first above written.

**CALIFORNIA INSTITUTE OF
TECHNOLOGY**

By: _____
Sharon E. Patterson
Associate Vice President for
Finance and Treasurer

**U.S. BANK NATIONAL ASSOCIATION,
as Trustee**

By: _____
Authorized Officer

EXHIBIT A
FORM OF BOND

No. R-1

\$ _____

CALIFORNIA INSTITUTE OF TECHNOLOGY TAXABLE BOND, SERIES 2011

Rate of Interest: Maturity Date: Dated Date: CUSIP:

Registered Owner: CEDE & CO.

Principal Amount:

The California Institute of Technology (the "Institute"), for value received, hereby promises to pay to the Registered Owner identified above, or registered assigns, on the Maturity Date specified above (subject to any right of prior redemption hereinafter mentioned), the Principal Amount specified above, in lawful money of the United States of America and to pay interest thereon in like money from the interest payment date to which interest has been paid or, if this Bond is authenticated on or before _____, 2012, in which event it shall bear interest from the Dated Date specified above (provided that, if interest on this Bond is in default, it shall bear interest from the last interest payment date to which interest has been paid or made available for payment), until payment of such principal sum shall be discharged as provided in the Indenture hereinafter mentioned. Interest shall be computed at the Rate of Interest per annum set forth above, payable on May 1 and November 1 in each year commencing on May 1, 2012, based on a 360-day year of twelve 30-day months. The principal hereof is payable upon surrender hereof at the corporate trust office of U.S. Bank National Association in St. Paul, Minnesota, or other office specified by the Trustee (together with any successor as trustee under the Indenture, herein called the "Trustee"). Except as otherwise provided in the Indenture, the interest hereon is payable to the person whose name appears on the bond registration books of the Trustee as the registered owner hereof as of the close of business on the applicable Record Date, such interest to be paid by check mailed on each interest payment date by first class mail to such registered owner at its address as it appears on such registration books. Notwithstanding the foregoing, however, any registered owner of all the Bonds and any registered owner of \$1,000,000 or more in an aggregate principal amount of the Bonds shall be entitled to receive payments of interest on the Bonds held by it by wire transfer of immediately available funds to such bank or trust company located within the continental United States of America as the registered owner shall designate in writing to the Trustee by the Record Date for such payment.

This Bond is one of a duly authorized issue of bonds of the Institute designated as the "California Institute of Technology Taxable Bonds, Series 2011" (the "Bonds"), in the aggregate principal amount of _____ million dollars (\$ _____), issued pursuant to an Indenture, dated as of December 1, 2011, between the Institute and the Trustee (as it may be supplemented,

modified or amended by any supplemental indenture, herein called the “Indenture”). The proceeds of the Bonds will be used by the Institute for the purposes and on the terms and conditions set forth in the Indenture.

This Bond is an unsecured general obligation of the Institute payable from the Institute’s general funds and any funds provided under the Indenture.

Reference is hereby made to the Indenture (a copy of which is on file at said office of the Trustee) for a description of the rights thereunder of the registered owners of the Bonds, of the nature and extent of the security, of the rights, duties and immunities of the Trustee and of the rights and obligations of the Institute thereunder, to all of the provisions of which Indenture and supplemental indentures the registered owner of this Bond, by acceptance hereof, assents and agrees.

The Bonds are subject to redemption prior to their stated maturity in whole or in part on any date, at the option of the Institute, at the Make-Whole Redemption Price (as defined in the Indenture), as specified by the Institute in a Request of the Institute delivered to the Trustee prior to the date of redemption, together with accrued interest to the date fixed for redemption.

Notice of any redemption, identifying among other things the Bonds or portions thereof to be redeemed, shall be given by the Trustee not less than 10 and not more than 30 days before the date fixed for redemption by first class mail to each of the registered owners of Bonds designated for redemption at their addresses appearing on the bond registration books of the Trustee and to the Institute. If U.S. mail is no longer available, for whatever reason, at the time of such redemption, a means of nationally recognized transmission, in the Trustee’s reasonable judgment, shall be employed in order to communicate the notices referenced herein to the intended recipients. Receipt of such notice by such registered owners shall not be a condition precedent to such redemption. Failure by the Trustee to give notice of redemption, or the insufficiency of any such notice, shall not affect the sufficiency of the proceedings for redemption of any Bond for which notice was properly given.

If this Bond is called for redemption and payment is duly provided herefor as specified in the Indenture, interest shall cease to accrue hereon from and after the date fixed for redemption.

If an Event of Default, as defined in the Indenture, shall occur, the principal of all Bonds may be declared due and payable upon the conditions, in the manner and with the effect provided in the Indenture. The Indenture provides that in certain events such declaration and its consequences may be rescinded by the registered owners of at least a majority in aggregate principal amount of the Bonds then outstanding.

The Bonds are issuable as registered Bonds in denominations of \$1,000 and any integral multiple thereof. Subject to the limitations and upon payment of the charges, if any, provided in the Indenture, Bonds may be exchanged, at the designated corporate trust office of the Trustee, for a like aggregate principal amount of Bonds of the same maturity of other authorized denominations.

This Bond is transferable by the registered owner hereof, in person or by its attorney duly authorized in writing, at said office of the Trustee, but only in the manner, subject to the

limitations and upon payment of the charges provided in the Indenture and upon surrender and cancellation of this Bond. Upon such transfer a new registered Bond or Bonds, of the same maturity and of authorized denomination or denominations, for the same aggregate principal amount will be issued to the transferee in exchange herefor.

The Institute and the Trustee may treat the registered owner hereof as the absolute owner hereof for all purposes, and the Institute and the Trustee shall not be affected by any notice to the contrary.

The Institute and the Trustee may amend the Indenture for certain purposes without the consent of the registered owners of the Bonds. With the written consent of the Holders of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding, the Institute and the Trustee may amend the Indenture; provided, however, that no such amendment shall (1) extend the fixed maturity of any Bonds or reduce the rate of interest thereon or extend the time of payment of interest, or reduce the amount of the principal thereof, or reduce any premium payable on the redemption thereof or (2) reduce the aforesaid percentage of registered owners of Bonds whose consent is required for the execution of supplemental indentures or extend the time of payment or permit the creation of any lien on funds pledged in the Indenture prior to or on a parity with the lien of the Indenture or deprive the registered owners of the Bonds of the lien created by the Indenture on the funds pledged therein, without the consent the registered owners of all the Bonds then Outstanding.

No trustee, officer, agent or employee of the Institute shall be individually or personally liable for the payment of this Bond or the interest or premium, if any, hereon or be subject to any personal liability or accountability by reason of the issuance hereof.

Unless this Bond is presented by an authorized representative of The Depository Trust Company, a New York corporation ("DTC"), to the Trustee for registration of transfer, exchange, or payment, and any Bond issued is registered in the name of Cede & Co. or in such other name as is requested by an authorized representative of DTC (and any payment is made to Cede & Co. or to such other entity as is requested by an authorized representative of DTC), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered owner hereof, Cede & Co., has an interest herein.

This Bond shall not be entitled to any benefit under the Indenture, or become valid or obligatory for any purpose, until the certificate of authentication and registration hereon endorsed shall have been manually signed by the Trustee.

IN WITNESS WHEREOF, the California Institute of Technology has caused this Bond to be executed in its name and on its behalf by the facsimile signature of its Associate Vice President for Finance and Treasurer, and its seal to be reproduced hereon, all as of the Dated Date recited above.

**CALIFORNIA INSTITUTE OF
TECHNOLOGY**

By: _____
Sharon E. Patterson
Associate Vice President for Finance and
Treasurer

Attested by:

Mary L. Webster
Secretary

[SEAL]

FORM OF TRUSTEE'S CERTIFICATE OF
AUTHENTICATION AND REGISTRATION

This is one of the Bonds described in the within-mentioned Indenture which has been authenticated and registered this ____ day of _____, 2011.

U.S. BANK NATIONAL ASSOCIATION, as
Trustee

By: _____
Authorized Officer

ASSIGNMENT

For value received the undersigned do(es) hereby sell, assign and transfer unto

**(print or type name, address, taxpayer identification no.
and zip code of assignee)**

the within-mentioned registered Bond and hereby irrevocably constitute(s) and appoint(s) _____ attorney, to transfer the same on the books of the Trustee with full power of substitution in the premises.

Dated: _____

Signature

NOTE: The signature to the assignment must correspond to the name as written on the face of this Bond in every particular, without any alteration or change whatsoever.

Signature Guaranteed By:

NOTE: The signature(s) to the assignment must be guaranteed by an eligible guarantor institution.

APPENDIX D

BOOK ENTRY SYSTEM

The information in this APPENDIX D concerning The Depository Trust Company, a subsidiary of The Depository Trust & Clearing Corporation (“DTC”), New York, New York, and DTC’s book-entry system has been obtained from DTC, and the Institute take no responsibility for the accuracy thereof. The Institute cannot and does not give any assurances that DTC, Direct Participants or Indirect Participants will distribute to the Beneficial Owners (all as defined below): (a) payments of principal of, premium, if any, and interest on (“Debt Service”) the Bonds; (b) confirmations of ownership interest in the Bonds; or (c) notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will do so on a timely basis or that DTC, Direct Participants or Indirect Participants will act in the manner described in this Offering Memorandum. The current “Rules” applicable to DTC are on file with the Securities and Exchange Commission, and the current “Procedures” of DTC to be followed in dealing with DTC Participants are on file with DTC.

Neither the Institute, nor the Trustee will have any responsibility or obligations to DTC, the Direct Participants, the Indirect Participants of DTC or the Beneficial Owners with respect to: (1) the accuracy of any records maintained by DTC or any Direct Participants or Indirect Participants of DTC; (2) the payment by DTC or any Direct Participants or Indirect Participants of DTC of any amount due to any Beneficial Owner in respect of the Debt Service on the Bonds; (3) the delivery by DTC or any Direct Participants or Indirect Participants of DTC of any notice to any Beneficial Owner that is required or permitted to be given to owners under the terms of the Indenture; or (4) any consent given or other action taken by DTC as registered owner of the Bonds.

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for the Bonds, in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange

Commission. More information about DTC can be found at www.dtcc.com. Such website and the information therein are not incorporated into the Offering Memorandum by reference or otherwise.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

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

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

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

Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Institute or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in

bearer form or registered in “street name,” and will be the responsibility of such Participant and not of DTC, the Trustee, or the Institute, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Institute or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

In the event that the book-entry system described above is no longer used with respect to the Bonds, the provisions of the Indenture relating to place of payment, transfer and exchange of the Bonds, regulations with respect to exchanges and transfers, bond register, Bonds mutilated, destroyed or stolen, and evidence of signatures of Bond Owners and ownership of Bonds will govern the payment, registration, transfer, exchange and replacement of the Bonds. Interested persons should contact the Institute for further information regarding such provisions of the Indenture.

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APPENDIX E

FORM OF OPINION OF SPECIAL COUNSEL

Upon issuance of the Bonds, Latham & Watkins LLP in Los Angeles, California, Special Counsel to the Institute, proposes to render its final approving opinion with respect to the Bonds in substantially the following form:

[Date of Delivery]

California Institute of Technology
Pasadena, California

\$ _____ California Institute of Technology Taxable Bonds, Series 2011

Ladies and Gentlemen:

We have acted as special counsel to the California Institute of Technology, a California nonprofit corporation (the "Institute") in connection with its issuance of \$ _____ California Institute of Technology Taxable Bonds, Series 2011 (the "Bonds"). The Bonds are being issued pursuant to that certain Indenture, dated as of December 1, 2011 (the "Indenture"), by and between the Institute and U.S. Bank National Association, as trustee (the "Trustee"). Goldman, Sachs & Co. (the "Representative"), acting for itself and on behalf of Morgan Stanley & Co. LLC ("Morgan Stanley"), Barclays Capital Inc. ("Barclays") and Wells Fargo Securities ("Wells"), is purchasing the Bonds from the Institute pursuant to a Purchase Contract dated December __, 2011 (the "Purchase Contract"), between the Institute and the Representative for itself and on behalf of Morgan Stanley, Barclays and Wells. This letter is furnished to you pursuant to Section 3(d)(4) of the Purchase Contract.

As such counsel, we have examined such matters of fact and questions of law as we have considered appropriate for purposes of this letter. We have examined, among other things, the Indenture and the Bonds, opinions of the General Counsel to the Institute and counsel to the Trustee, certificates of the Institute, the Trustee and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth below.

Except as otherwise stated herein, as to factual matters we have, with your consent, relied upon the foregoing and upon oral or written statements and representations of officers and other representatives of the Institute and others. We have not independently verified such factual matters.

We are opining as to the effect on the subject transaction only of the federal laws of the United States and the internal laws of the State of California, and we express no opinion with respect to the applicability to the opinions expressed herein, or the effect thereon, of the laws of any other jurisdiction or as to any matters of municipal law or the laws of any local agencies within any state. Except as otherwise stated herein, our opinions are based upon our consideration of only those statutes, rules and regulations which, in our experience, are normally applicable to public taxable bond issuances. We express no opinion as to any state or federal laws or regulations applicable to the subject transactions because of the legal or regulatory status of any parties to the Indenture or the legal or regulatory status of any of their affiliates. Various issues pertaining to the due authorization, execution and delivery of the Indenture and the Bonds and the legal existence and good standing of the Institute are addressed in the opinion of the General Counsel of the Institute, separately provided to you. We express no opinion with

respect to those matters, and to the extent elements of those opinions are necessary to the conclusions expressed herein, we have, with your consent, assumed such matters.

Subject to the foregoing and the other matters set forth herein, we express the following opinions or confirmations, as of the date hereof,

(1) The Bonds constitute the legally valid and binding obligations of the Institute enforceable against the Institute in accordance with their terms and the terms of the Indenture.

(2) The Indenture constitutes a legally valid and binding obligation of the Institute, enforceable against the Institute in accordance with its terms.

Our opinions are subject to:

(a) the effects of bankruptcy, insolvency, reorganization, preference, fraudulent transfer, moratorium or other similar laws relating to or affecting the rights or remedies of creditors;

(b) the effects of general principles of equity, whether considered in a proceeding in equity or at law (including the possible unavailability of specific performance or injunctive relief), concepts of materiality, reasonableness, good faith, fair dealing and the discretion of the court before which a proceeding is brought;

(c) the invalidity under certain circumstances under law or court decisions of provisions for the indemnification or exculpation of or contribution to a party with respect to a liability where such indemnification, exculpation or contribution is contrary to public policy; and

(d) we express no opinion with respect to (i) consents to, or restrictions upon, governing law, jurisdiction, venue, service of process, arbitration, remedies or judicial relief; (ii) advance waivers of claims, defenses, rights granted by law, or notice, opportunity for hearing, evidentiary requirements, statutes of limitation, trial by jury or at law, or other procedural rights; (iii) waivers of broadly or vaguely stated rights; (iv) provisions for exclusivity, election or cumulation of rights or remedies; (v) provisions authorizing or validating conclusive or discretionary determinations; (vi) provisions for the payment of attorneys' fees where such payment is contrary to law or public policy and we call to your attention the provisions of Sections 1717 and 1717.5 of the California Civil Code, which limit and create obligations for the payment of attorneys' fees; (vii) proxies, powers and trusts; (viii) provisions prohibiting, restricting, or requiring consent to assignment or transfer of any right or property; (ix) provisions for liquidated damages, default interest, late charges, monetary penalties, prepayment or make-whole premiums or other economic remedies to the extent such provisions are deemed to constitute a penalty; (x) provisions permitting, upon acceleration of any indebtedness, collection of that portion of the stated principal amount thereof which might be determined to constitute unearned interest thereon; and (xi) the severability, if invalid, of provisions to the foregoing effect.

We express no opinion or confirmation as to federal or state securities laws, tax laws, antitrust or trade regulation laws, insolvency or fraudulent transfer laws, antifraud laws, compliance with fiduciary duty requirements, pension or employee benefit laws, usury laws, environmental laws, laws and regulations relating to commodities trading, futures and swaps; FINRA rules; NFA rules; or the rules of any stock exchange, clearing organization, designated contract market or other regulated entity for trading, processing, clearing or reporting transactions in securities, commodities, futures or swaps (without limiting other laws or rules excluded by customary practice).

The opinions set forth above are also subject to (i) the unenforceability of contractual provisions waiving or varying the rules listed in Section 9-602 of the Uniform Commercial Code as now in effect in the State of California (the “California UCC”), (ii) the unenforceability under certain circumstances of contractual provisions respecting self-help or summary remedies without notice of or opportunity for hearing or correction, (iii) the effect of provisions of the California UCC and other general legal principles that impose a duty to act in good faith and in a commercially reasonable manner, and (iv) the effect of Sections 9-406, 9-407, 9-408 and 9-409 of the California UCC on any provision of the Indenture that purports to prohibit, restrict, require consent for or otherwise condition the assignment of rights under the Indenture. Additionally we express no opinion with respect to California Civil Code Section 711 on any provisions of the Indenture which could be a restraint on alienation of property.

With your consent, we have assumed (a) that the Indenture and the Bonds have been duly authorized, executed and delivered by the parties thereto, (b) the genuineness of all signatures and the legal capacity of all natural persons, (c) that the Indenture and Bonds constitute legally valid and binding obligations of the parties thereto other than the Institute, enforceable against each of them in accordance with their respective terms, and (d) that the status of the Indenture and the Bonds as legally valid and binding obligations of the parties is not affected by any (i) breaches of, or defaults under, agreements or instruments, (ii) violations of statutes, rules, regulations or court or governmental orders, or (iii) failures to obtain required consents, approvals or authorizations from, or make required registrations, declarations or filings with, governmental authorities.

Very truly yours,

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