SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)
[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 1996
OR
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission file number: 0-28150
NEUROCRINE BIOSCIENCES, INC.
(Exact name of registrant as specified in its charter)

DELAWARE	33-0525145
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
3050 SCIENCE PARK ROAD, SAN DIEGO, CA (Address of principal executive office)	92121 (Zip Code)

Registrant's telephone number, including area code: (619) 658-7600
Securities registered pursuant to Section 12(b) of the Act: NONE
Securities registered pursuant to Section 12(g) of the Act: COMMON STOCK, $0.001 PAR VALUE

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

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

The aggregate market value of the voting stock of the issuer held by non-affiliates of the issuer on February 28, 1997 was approximately $141,041,532, based upon the closing price of such stock on February 28, 1997. As of February 28, 1997, 16,846,331 shares of Common Stock of the registrant were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information required by Parts I and III of Form 10-K is incorporated by reference from the Registrant's Proxy Statement for the Annual Meeting of Shareholders to be held on May 27, 1997 (the "Proxy Statement"), which will be filed with the Securities and Exchange Commission within 120 days after the close of the Registrant's fiscal year ended December 31, 1996.

PART I

ITEM 1. BUSINESS

INTRODUCTION

Neurocrine Biosciences, Inc. is a leading neuroimmunology company focused on the discovery and development of novel therapeutics to treat diseases and disorders of the central nervous and immune systems. The Company's neuroscience and immunology disciplines provide a biological understanding of the molecular interactions between the central nervous, immune and endocrine systems leading to therapeutic opportunities for diseases and disorders such as anxiety, depression, Alzheimer's disease, obesity and multiple sclerosis.

Neurocrine is leveraging its resources through strategic alliances and other financing mechanisms to build its internal product development and commercialization capabilities. To date, Neurocrine has entered into strategic alliances with Janssen Pharmaceutica, N.V. ("Janssen"), a subsidiary of Johnson & Johnson, focused on the treatment of anxiety, depression and substance abuse; Ciba-Geigy Limited ("Ciba-Geigy") for the treatment of multiple sclerosis; and Eli Lilly and Co. ("Lilly") for the treatment of central nervous system disorders including obesity and dementias such as Alzheimer's disease. In conjunction with a number of institutional investors, the Company has also established a research and development subsidiary in Canada, Neuroscience Pharma (NPI) Inc. ("NPI"), to develop additional compounds for the treatment of Alzheimer's disease and other neurodegenerative diseases and disorders.

The following Business section contains forward-looking statements concerning the continuation of the Company's strategic alliances and the receipt of payments thereunder, the anticipated dates of selection of lead compounds for clinical development, the commencement and successful conclusion of clinical trials, the receipt of regulatory approvals, and the development of potential future products. Such forward-looking statements necessarily involve risks and uncertainties. The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including but not limited to uncertainties regarding the successful continuation of the Company's collaborative arrangements, the successful completion of clinical trials, the difficulty of obtaining the required regulatory approvals, and the failure to achieve product development and commercialization goals.

RISKS INHERENT IN THE COMPANY'S BUSINESS

Neurocrine was founded in 1992 and all of its product candidates are in research or early stages of development. The Company has not requested nor received regulatory approval for any product from the FDA or any other regulatory body. Any products resulting from the Company's research and development programs are not expected to be commercially available for the foreseeable future, if at all.

The development of new pharmaceutical products is highly uncertain and subject to a number of significant risks. Potential products that appear to be promising at early stages of development may not reach the market for a number of reasons. Such reasons include the possibilities that the potential products will be found ineffective or cause harmful side effects during preclinical testing or clinical trials, fail to receive necessary regulatory approvals, be difficult to manufacture on a large scale, be uneconomical, fail to achieve market acceptance or be precluded from commercialization by proprietary rights of third parties.

The Company's product candidates require significant additional research and development efforts. No assurance can be given that any of the Company's development programs will be successfully completed, that any investigational new drug application ("IND") will be accepted by the FDA, that clinical trials will commence as planned, that required regulatory approvals will be obtained on a timely basis, if at all, or that any products for which approval is obtained will be commercially successful. If any of the Company's development programs are not successfully completed, required regulatory approvals are not obtained, or products for which approvals are obtained are not commercially successful, the Company's business, financial condition and results of operations would be materially adversely affected.

BACKGROUND

Corticotropin Releasing Factor ("CRF")

Corticotropin releasing factor, the central regulator of the body's overall response to stress, affects multiple systems by functioning both as an endocrine factor and a neurotransmitter. CRF acts as a hormone at the pituitary gland causing the secretion of the steroid cortisol from the adrenal glands resulting in a number of metabolic effects, including suppression of the immune system. CRF also functions as a neurotransmitter in the brain and plays a critical role in coordinating psychological and behavioral responses to stress such as increased heart rate, anxiety, arousal and reduced appetite. In addition to neuroendocrine and neurotransmitter roles, accumulating evidence suggests that CRF may also integrate actions between the immune and central nervous systems in response to physiological and psychological stressors.

The body has several mechanisms to regulate the effects of CRF. The Company's recent cloning of human CRF receptors suggests that the diverse functions of CRF are mediated through distinct receptor subtypes which are differentially distributed in specific brain areas and in tissues outside of the central nervous system. These receptors may offer a mechanism to modulate specific actions of CRF without affecting the broad range of its activities. There are several diseases and disorders such as anxiety, depression and substance abuse in which CRF levels are increased. The deleterious effects of high levels of CRF may be countered by the administration of selective CRF receptor antagonists. A protein in the brain that binds to CRF and holds it in an inactive state, CRF-binding protein ("CRF-BP"), tightly regulates levels of CRF in certain brain regions. CRF-BP may provide a novel target to selectively increase levels of CRF in diseases that are associated with decreased levels of CRF, such as Alzheimer's disease and obesity.

Altered Peptide Ligands

The immune system employs highly specific T-cells that recognize and attack foreign antigens that invade the body. Occasionally, certain T-cells arise that inappropriately recognize the body's own tissues as foreign and attack healthy cells, resulting in autoimmune diseases such as multiple sclerosis and Type I diabetes. Recently, it has been found that the peptide recognition site on healthy tissue can be altered, creating molecular decoys that can be developed as potential drug candidates. The Company believes that these molecules, known as altered peptide ligands, are capable of binding to and deactivating T-cells implicated in certain autoimmune diseases.

Multiple sclerosis is a chronic disease caused by the immune system's attack on myelin, the insulating material that surrounds and protects nerve fibers in the central nervous system ("CNS"). This autoimmune reaction is led by T-cells which come in contact with myelin by utilizing T-cell receptors specific for myelin proteins. This interaction leads to a destructive inflammatory response mediated by molecules of the immune system known as cytokines. Cytokines such as gamma interferon, tumor necrosis factor-alpha and interleukin-6 are found at the site of inflammation and demyelination and play a role in further advancing nerve cell destruction. The use of altered peptide ligands of dominant antigens in autoimmune diseases may inactivate certain T-cells and decrease the production of destructive cytokines.

Neurosteroids

Neurosteroids are a class of steroidal compounds produced in the central nervous system that show a wide range of effects on neurons. Dehydroepiandrosterone ("DHEA") is the most abundant adrenal steroid in humans. Blood levels of this hormone peak by age 20 and then decrease throughout life, reaching their lowest levels by age 65. DHEA levels have been found to be decreased in Alzheimer's patients while DHEA has been shown to have memory-enhancing effects in animal studies. For example, studies have been performed in aged mice which perform more poorly than young mice in certain memory tasks. Administration of DHEA in the older animals has been shown to improve memory to the high levels seen in the younger animals. DHEA has also been shown to significantly reverse pharmacologically-induced amnesia and memory impairment in these animals.

In addition to the memory-enhancing effects of DHEA, preliminary data suggest that this steroid also increases neuronal survival. DHEA may also induce neuroprotection through inhibition of inflammatory cytokines in the brain which have recently

been implicated in neurodegeneration. In view of its cognitive enhancing and neuroprotective potential, DHEA replacement therapy may be beneficial for the treatment of neurodegenerative disorders such as Alzheimer's disease.

Neurogenomics

The brain and spinal cord are comprised of two major cell types--glial cells and neurons. Glial cells are the most prevalent cell type in the central nervous system, comprising over 75% of all brain cells. The gene products from these cells are crucial for the survival and development of neurons. Neurons are CNS cells which transmit and receive complex electrical and chemical messages from other neurons to control all cognitive processes. In certain pathological states, excessive glial activity results in the activation of cytosine and related genes. The proteins encoded by these genes may be implicated in the degenerative cascade leading to neurological disorders such as Alzheimer's disease, stroke, multiple sclerosis, Parkinson's disease, epilepsy and AIDS dementia. For example, in AIDS, the HIV virus does not attack neurons but does infect glial cells which in turn release inflammatory cytokines and other factors which are toxic to neurons. Similarly, in Alzheimer's disease, accumulating evidence suggests complex interactions between neurons, glia and a protein fragment known as beta amyloid leading to formation of senile plaques and neurodegeneration. Currently, it is estimated that only a small fraction of genes involved in neurodegeneration or regeneration have been identified. The identification of novel CNS genes involved in the neurodegenerative process may yield new therapeutic and diagnostic opportunities.

BUSINESS STRATEGY

The Company's strategy is to utilize its understanding of the biology of the central nervous, immune and endocrine systems to identify and develop novel therapeutics. There are five key elements to the Company's business strategy:

Target Multiple Product Platforms. Neurocrine is focusing on research and development programs which utilize its distinct biological and technological competencies. The Company believes certain central nervous system drug targets, such as CRF, CRF-BP and neurosteroids, represent significant market opportunities in psychiatric, neurologic and metabolic disorders. Immunological targets, such as altered peptide ligands, offer product opportunities related to autoimmune diseases. Neurogenomics allows the Company to combine its neuroscience and immunology expertise with new drug discovery technologies to identify novel gene-related product or gene therapy opportunities.

Identify Novel Neuroscience and Immunology Drug Targets for the Development of Therapeutics Which Address Large Unmet Market Opportunities. Neurocrine employs molecular biology as an enabling discipline to identify novel drug targets such as receptors, genes and gene-related products. The Company uses advanced technologies, including combinatorial chemistry, high-throughput screening, gene sequencing and bioinformatics, to discover and develop novel small molecule therapeutics for diseases and disorders of the central nervous and immune systems including anxiety, depression, Alzheimer's disease, obesity and multiple sclerosis.

Leverage Strategic Alliances to Enhance Development and Commercialization Capabilities. Neurocrine intends to leverage the development, regulatory and commercialization expertise of its corporate partners to accelerate the development of its potential products, while retaining full or co-promotion rights in North America. The Company intends to further leverage its resources by continuing to enter into strategic alliances and novel financing mechanisms to enhance its internal development and commercialization capabilities. To date, Neurocrine has entered into a strategic alliance with Janssen focusing on CRF receptor antagonists to treat anxiety, depression, and substance abuse; with Ciba-Geigy to develop altered peptide ligands for the treatment of MS; and with Lilly to collaborate in the discovery, development and commercialization of CRF binding protein ligand inhibitors for the treatment of central nervous system disorders including obesity and dementias such as Alzheimer's disease. The Company has also formed NPI, a research and development subsidiary, to finance its Neurosteroid and Neurogenomics programs.

Outsource Capital Intensive and Non-Strategic Activities. Neurocrine intends to focus its resources on research and development activities by outsourcing its requirements for manufacturing, preclinical testing, and clinical monitoring activities. The Company utilizes contract current Good Manufacturing Processes ("cGMP") manufacturing for both its Neurosteroid and Altered Peptide Ligand programs. Neurocrine believes that the ease of manufacturing of small molecule therapeutics will allow the Company to focus on its core discovery and development programs to generate additional product opportunities.

Acquire Complementary Products in Clinical Development. Neurocrine plans to acquire rights to products in various stages of clinical development in the fields of neurology and immunology to take advantage of the development and future commercialization capabilities it is developing in cooperation with its strategic partners. For example, Neurocrine has licensed rights to DHEA for the treatment of Alzheimer's disease which is currently being evaluated in a physician investigational new drug application ("physician-IND") Phase II clinical trial and in a Company-sponsored Phase II/III clinical trial in Canada under the regulatory authority of the Canadian Health Protection Board ("HPB").

TECHNOLOGY

Neurocrine utilizes advanced technologies to enhance its drug discovery capabilities and to accelerate the drug development process. These technologies include:

High-Throughput Screening. Neurocrine has assembled a chemical library of diverse, low molecular weight organic molecules for lead compound identification. The Company has implemented robotic screening capabilities linked to its library of compounds that facilitate the rapid identification of new drug candidates for multiple drug targets. The Company believes that the utilization of high-throughput screening and medicinal and peptide chemistry will enable the rapid identification and optimization of lead molecules.

Combinatorial Chemistry. Neurocrine has developed an automated combinatorial chemistry technology (Rapid Microscale Synthesis or "RMS") which is capable of rapidly producing large quantities of highly purified small organic molecules for evaluation as drug candidates. Unlike other combinatorial chemistry technologies, RMS enables individual chemists to optimize candidate compounds quickly and efficiently by producing hundreds of variations of existing lead molecules. In collaboration with Hewlett-Packard Company ("HP"), Neurocrine has automated this technology by adapting HP instrumentation with robotics leading to a flexible, bench top instrument.

Molecular Biology. Neurocrine scientists have utilized novel techniques for examination of gene expression in a variety of cellular systems. The Company has developed a sophisticated technique to evaluate the type and quantity of genes in various cellular systems prior to the isolation of genes. Neurocrine has also developed unique expression vectors and cell lines that allow for the highly efficient protein expression of specific genes.

Gene Sequencing. Neurocrine applies integrated automated DNA sequencing and gene identification technology in its Neurogenomics program. The systems utilized by Neurocrine allow for extended gene analysis in a rapid, high-throughput format with independent linkage into a sequence identification database. Neurocrine has optimized gene sequencing instrumentation for "differential display," a technique that may facilitate the rapid identification of novel genes.

Bioinformatics. Neurocrine's Neurogenomics program creates a significant amount of genetic sequence information. Applied genomics relies on information management systems to collect, store and rapidly analyze thousands of gene sequences. Neurocrine has developed a bioinformatics system which the Company believes will allow it to identify novel genes which are involved in neurodegeneration. Data are collected by automated instruments and stored and analyzed by Neurocrine using customized computational tools. To date, Neurocrine's molecular biologists have identified over 4,500 novel genes.

PRODUCTS UNDER DEVELOPMENT

The following table summarizes Neurocrine's most advanced products in development. This table is qualified in its entirety by reference to the more detailed descriptions appearing elsewhere in this Form 10-K.

PROGRAM	INDICATION	STATUS (1)	COMMERCIAL RIGHTS
Corticotropin Releasing Factor			
Receptor Antagonists	Anxiety	Preclinical	Janssen/Neurocrine
	Depression	Preclinical	Janssen/Neurocrine
	Stroke	Development	Neurocrine
	Substance Abuse	Research	Janssen/Neurocrine
Binding Protein Antagonists	Alzheimer's Disease	Development	Lilly/Neurocrine
	Obesity	Development	Lilly/Neurocrine
Altered Peptide Ligands	Multiple Sclerosis	Phase II	Ciba-Geigy/Neurocrine
	Type I Diabetes	Research	Neurocrine
Neurosteroids	Alzheimer's Disease	Physician-IND Phase II; Phase II/III	Neurocrine/NPI
Neurogenomics	Neurodegenerative Diseases	Research	Neurocrine/NPI

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(1) "Research" indicates identification and evaluation of compounds in in vitro and animal models.
"Development" indicates that lead compounds have been discovered that meet certain in vitro and in vivo criteria. These compounds may undergo structural modification and more extensive evaluation prior to selection for preclinical development.
"Preclinical" indicates that Neurocrine is conducting pharmacology testing, toxicology testing, formulation, process development and/or manufacturing, and is in the process of preparing an IND for regulatory submission.
"Physician-IND Phase II" indicates that an independent physician has received FDA approval to evaluate one of the Company's products in humans to determine safety and efficacy in an expanded patient population. This clinical trial is not under full control of the Company.
"Phase II" indicates that the Company has received FDA approval to evaluate one of the Company's products in humans to determine safety and efficacy in an expanded patient population.
"Phase II/III" indicates that the Company has received regulatory approval from the Canadian HPB to evaluate in Canada a multi-center Phase II/III clinical trial of DHEA.

Corticotropin Releasing Factor -- Receptor Antagonist Program

Anxiety

Anxiety is among the most commonly observed group of CNS disorders, which includes phobias or irrational fears, panic attacks, obsessive-compulsive disorders and other fear and tension syndromes. Estimates by the National Institute of Mental Health suggest that the most commonly diagnosed forms of anxiety disorders may affect 10% of the United States population. Of the pharmaceutical agents that are currently marketed for the treatment of anxiety disorders, a class of compounds known as the benzodiazepines, such as Valium, is the most frequently prescribed. In spite of their therapeutic efficacy, several side effects limit the utility of these anti-anxiety drugs. Most problematic among these are drowsiness, ataxia (the inability to stand up), amnesia, drug dependency and withdrawal reactions following the cessation of therapy.

Neurocrine is developing a new class of therapeutics that target stress-induced anxiety. In view of the evidence implicating CRF in anxiety-related disorders, Neurocrine is developing small molecule CRF receptor antagonists as anti-anxiety agents which

block the effects of overproduction of CRF. The Company believes that these compounds represent a class of molecules based on a novel mechanism of action which may offer the advantage of being more selective, thereby providing increased efficacy with reduced side effects. In animal studies used to evaluate anti-anxiety drugs, Neurocrine scientists have demonstrated the efficacy of its lead candidates following oral administration without evidence of apparent side effects. Neurocrine's corporate partner, Janssen, selected a drug candidate in 1996 and is currently undertaking preclinical testing on the drug candidate. Results obtained in animals are not necessarily predictive of results obtained in man, and no assurance can be given that the Company's partner will successfully complete preclinical testing or progress to clinical trials in a timely manner, or at all.

Depression

Depression is one of a group of neuropsychiatric disorders that is characterized by extremes of elation and despair, loss of body weight, decrease in aggressiveness and sexual behavior, and loss of sleep. This condition is believed to result from a combination of environmental factors, including stress, as well as an individual's biochemical vulnerability, which is genetically predetermined. The biochemical basis of depression is thought to involve elevated secretion of CRF and abnormally low levels of other neurotransmitters in the brain such as serotonin. Clinical depression was reported to affect 6% of the population, or approximately 25 million individuals in the United States in 1994. Current antidepressant therapies, including Prozac, increase the levels of several chemicals in the brain, such as serotonin. Because these drugs affect a wide range of neurotransmitters, they have been associated with a number of side effects. While newer, more selective drugs offer some safety improvement, their side effect profiles are still inadequate due to their unwanted effects on gastrointestinal and sexual function, and on appetite. Furthermore, most existing antidepressant therapies are limited by their slow onset of action.

Neurocrine is developing small molecule therapeutics to block the effects of overproduction of CRF for the treatment of depression. The Company has developed several CRF receptor antagonists and its corporate partner, Janssen, selected a drug candidate in 1996 for preclinical development. However, no assurance can be given that the Company's partner will successfully complete preclinical testing or progress to clinical trials in a timely manner, or at all.

Stroke

Stroke is an acute neurologic event caused by blockage or rupture of vessels which supply blood to the brain. Neuronal damage progresses over a period of four to six hours. According to the National Institutes of Health ("NIH") estimates, approximately 500,000 patients experience a stroke in the United States each year, with an approximately equal incidence in the rest of the world. Stroke results in an estimated 150,000 fatalities each year, making it the leading cause of death behind heart disease and cancer, and an estimated additional 150,000 stroke victims suffer permanent neurological damage. Survivors of stroke are at significantly increased risk of suffering another episode. Current treatments for stroke consist of surgery, steroid therapy and anti-platelet therapy. These treatments may help increase blood flow but do not affect the secondary mechanisms which cause nerve cell death.

Neurocrine believes its CRF receptor antagonist program may have utility in the treatment of stroke. Preliminary experiments in animal models of stroke show substantial enhancement of neuronal survival following treatment with a CRF receptor antagonist. The survival benefit is independent of increased blood flow and may be acting on secondary mechanisms. The Company is currently optimizing several series of small molecules. The Company selected a preclinical candidate in late 1996 and is currently involved in preclinical testing. However, no assurance can be given that the Company will successfully complete preclinical testing in a timely manner, or at all.

Substance Abuse

Substance abuse, including the use of cocaine and overuse of alcohol, was estimated to affect nearly 15 million individuals in the United States in 1994. Stress has been reported to enhance the reinforcement and withdrawal properties of abused substances such as cocaine, amphetamines and alcohol. Currently there are no pharmaceuticals marketed for most forms of drug abuse.

In view of the primary role of CRF in modulating stress responses, Neurocrine is developing orally active, small molecule drugs which block the CRF receptor. A small molecule CRF receptor antagonist may be effective not only for acute cocaine

detoxification, but also for long-term prophylaxis in the context of a drug prevention or treatment program. The same compounds developed for anxiety and depression may be used for the treatment of substance abuse. In collaboration with Janssen, Neurocrine intends to develop CRF receptor antagonists for this indication. However, no assurance can be given that the Company will successfully identify suitable candidate compounds for development in a timely manner, or at all.

Corticotropin Releasing Factor -- Binding Protein Antagonist Program

Alzheimer's Disease

Alzheimer's disease is a neurodegenerative brain disorder which leads to progressive memory loss and dementia. Alzheimer's disease generally follows a predictable course of deterioration over eight years or more, with the earliest symptom being impairment of short-term memory. Gradually, memory loss increases, reasoning abilities deteriorate, and individuals become depressed, agitated, irritable and restless. In the final stages of the disease, patients become unable to care for themselves. According to the National Alzheimer's Association, in 1994 over four million individuals in the United States suffered from Alzheimer's disease. Alzheimer's disease is the fourth leading cause of death for adults, responsible for over 100,000 deaths in 1994. Marketed therapies currently available for the treatment of Alzheimer's disease are severely limited. Tacrine, a therapy which has been recently approved, shows limited memory improvement in Alzheimer's patients; however, concerns regarding drug-induced elevations in liver enzymes have limited the widespread use of this product.

Neurocrine scientists have found that there are significant decreases in CRF levels in the brain areas that are affected in Alzheimer's disease. In spite of reduced CRF concentrations, CRF-BP levels are not decreased in areas of the brain affected by Alzheimer's disease, thereby providing the Company with a novel target for drug intervention. Consequently, Neurocrine is developing CRF-BP antagonists to displace CRF from the binding protein and effectively increase the amount of "free CRF" available to interact with the CRF receptors. This strategy is expected to selectively raise the concentration of CRF in brain areas involved in learning and memory processes. Because the therapeutic is designed to restore normal levels of CRF only in these areas, the Company believes that the drug will not induce the side effects associated with administering CRF directly, such as anxiety. The Company has identified a number of lead compounds which show efficacy following oral administration in animal models of learning and memory. Efforts are underway to further optimize these molecules, and the Company and its corporate partner, Lilly, expect to select lead compounds for development in 1997. However, no assurance can be given that the Company and its corporate partner will successfully identify suitable candidate compounds for development in a timely manner, or at all.

Obesity

Obesity is the most common nutritional disorder in Western societies. As many as three in 10 adult Americans weigh at least 20% in excess of their ideal body weight, with 35 million people in the United States characterized as clinically obese. Increased body weight is a significant public health problem because it is associated with a number of serious diseases, including type II diabetes, hypertension, hyperlipidemia and several cancers. Although obesity has been commonly considered to be a behavioral problem, there is now evidence that body weight is physiologically regulated. The regulation of body weight is complex and appears to consist of both centrally and peripherally acting mechanisms. Recently, d-fenfluramine has received FDA approval for the treatment of obesity and is being marketed by American Home Products. This drug displayed statistically significant weight reducing effects in a large multi center clinical trial. The Company believes that d-fenfluramine's actions on weight reduction may in part be due to modulation of CRF. The use of a CRF-BP antagonist may directly increase CRF levels without the inadvertent activation of other neurotransmitter systems.

Preliminary data indicate that CRF may act as a central regulator of both appetite and metabolism. Neurocrine has evaluated CRF-BP antagonists in a genetically mutant strain of obese animals as well as in animal models which were pharmacologically induced to overeat. Treatment with CRF-BP antagonists consistently normalized feeding behavior and weight in both types of models and did so without inducing excess CRF-related side effects such as anxiety. Neurocrine has developed several active series of lead molecules. Medicinal chemistry efforts have resulted in the generation of high-affinity molecules that show efficacy in elevating brain CRF levels. Neurocrine and its corporate partner, Lilly, anticipate selecting lead compounds in 1997 for further development. However, no assurance can be given that the Company and its corporate partner will successfully identify suitable candidate compounds for development in a timely manner, or at all.

Altered Peptide Ligand Program

Multiple Sclerosis ("MS")

Multiple sclerosis is a chronic immune mediated disease characterized by recurrent attacks of neurologic dysfunction due to damage in the CNS. The classic clinical features of MS include impaired vision and weakness or paralysis of one or more limbs. Patients develop a slow, steady deterioration of neurologic function over an average duration of approximately 30 years. The cause of MS is unknown but immunologic or infectious factors have been implicated. According to the National Multiple Sclerosis Society, there are an estimated 350,000 cases of multiple sclerosis in the United States and an equal number of patients in Europe with approximately 20,000 new cases diagnosed in the world each year. Currently available treatments for MS offer only limited efficacy. Steroids have been used to reduce the severity of acute flare-ups and speed recovery. Experimental therapy with other immunosuppressive agents has been tried, but with limited success. Betaseron (a form of beta-interferon) has been shown to delay the onset of flare-ups of the symptoms in approximately 30% of patients and has been approved for marketing by the FDA. In addition, Avonex, a similar form of beta-interferon, has received FDA advisory panel recommendation for approval. Clinical trial results show these therapies slowed, but did not prevent, the growth of lesions in the CNS which cause the disease. Patients treated with beta-interferon experience a variety of side effects, including "flu-like" symptoms.

One of the Company's co-founders, Dr. Lawrence Steinman, identified the dominant invading T-cell in the brains of patients who had died of MS. Dr. Steinman further identified the dominant target or recognition site on the myelin sheath to which invading T-cells bind. Neurocrine has exclusively licensed this technology and has designed altered peptide ligands which resemble native disease-causing molecules of the myelin sheath. These molecules have been altered to attract and bind to disease-causing T-cells and inhibit their destructive capabilities. Neurocrine's altered peptide ligand for the treatment of MS has been shown to reverse disease in animal models of MS and decrease the production of cytokines such as gamma interferon and tumor necrosis factor-alpha which contribute to the disease. These same molecules demonstrate the ability to turn off pathogenic T-cells from MS patients in vitro. Quantities of the Company's drug candidate were produced under cGMP conditions in preparation for a Phase I clinical trial. Together with Ciba-Geigy, the Company's collaborative partner for this program, Neurocrine filed an IND and received approval in 1996 to commence clinical trials. The Company and its corporate partner have completed Phase I clinical trials and are planning to enter multiple Phase II clinical trials in mid-1997. However, results obtained in animals or in earlier phases of clinical trials are not necessarily predictive of results obtained in humans, and no assurance can be given that the Company will successfully complete clinical trials in a timely manner, if at all.

Type I Diabetes

Type I diabetes, or juvenile-onset diabetes, is an autoimmune disease resulting from the destruction of insulin producing cells, causing impaired glucose metabolism resulting from a deficiency in the action of the hormone insulin. It is one of the most prevalent chronic conditions in the United States, afflicting approximately 500,000 patients in all age groups in 1994. Diabetics suffer from a number of complications of the disease including heart disease, circulatory problems, kidney failure, neurologic disorders and blindness. Current therapy for type I diabetes consists of daily insulin injections to regulate blood glucose levels.

Neurocrine is developing altered peptide ligands which target dominant antigens on insulin producing cells to treat type I diabetes. Pre- diabetic patients can now be identified using immune markers of the disease several years before they become insulin dependent. The Company believes that an altered peptide ligand specific for autoimmune T-cells involved in diabetes may stop the destruction of the insulin secreting cells in these pre-diabetic patients, thus allowing them to delay or avoid chronic insulin therapy. The Company believes that this program can leverage the technological expertise the Company has developed in its MS program to discover and design altered peptide ligand therapy useful in treating diabetics and pre-diabetics. Neurocrine has begun collaborations with a leading diabetes center, the Barbara Davis Center for Childhood Diabetes at the University of Colorado, to study the effects of altered peptide ligands on human T-cells from diabetic patients. However, no assurance can be given that the Company will successfully identify suitable candidate compounds for development in a timely manner, or at all.

Neurosteroid Program

Alzheimer's Disease

Alzheimer's disease is a neurodegenerative brain disorder which leads to progressive memory loss and dementia. The Company believes that DHEA, a naturally occurring hormone, may be useful in treatment of this disease based on a variety of mechanisms. DHEA may protect neurons from death by increasing growth factor levels in the brain, such as insulin-like growth factor-1. DHEA also appears to modulate several cytokines involved in inflammation, which are believed to be involved in the pathology of Alzheimer's disease. In addition, DHEA improves memory and learning processes in both animal models and humans and may prove beneficial in slowing the memory loss seen in Alzheimer's disease. Because DHEA is naturally occurring, it is expected to have few toxicity problems, which differentiates this drug from other compounds that are currently being tested as therapeutics for Alzheimer's disease.

A double-blind, placebo-controlled, physician-IND Phase II clinical trial of DHEA, is being conducted with investigators from the Alzheimer's Clinic at the University of California, San Francisco. This trial has been designed to determine efficacy as measured by improving memory in mild to moderate Alzheimer's patients. It is anticipated that approximately 60 patients will be treated for six months with either active drug or a placebo. These patients will be evaluated throughout the study to assess the progress of disease and retention of memory. The Company anticipates that this trial will be completed by the end of 1997. If results of this study are positive, the Company intends to initiate company-sponsored clinical trials. However, no assurance can be given that the Company will conclude the trial in a timely manner, or that the Company will begin its own clinical trials in a timely manner, or at all.

The Company has obtained regulatory approval and initiated a multi-center Phase II/III clinical trial of DHEA in Canada. This trial has been designed to determine efficacy as measured by improving memory in mild to moderate Alzheimer's patients. The Company anticipates that this trial will be completed by the end of 1998. However, results obtained in earlier clinical trials are not necessarily predictive of results obtained in later trials, and no assurance can be given that the Company will successfully complete clinical trials in a timely manner, if at all. Even if regulatory approval is granted in Canada, the Company may be required to undertake additional clinical testing to obtain regulatory approval from the FDA for sales in the United States.

Neurogenomics Program

Neurodegenerative Diseases and Disorders

Neurodegenerative diseases and disorders involve damage to the cellular structure of the brain either acutely, as in stroke or trauma, or chronically, as in epilepsy and Alzheimer's disease. To date, only a limited number of effective therapeutics exist to treat neurological disorders, resulting in significant economic and social costs. In 1994, over 26 million people in the United States were affected by neurological disorders.

Activation of glial cells is a common feature of many neurodegenerative diseases. The primary goal of Neurocrine's Neurogenomics program is to identify and characterize novel genes that are induced in glial cells under conditions that lead to neurodegeneration or regeneration. The Company is focusing on stroke, multiple sclerosis, AIDS dementia, epilepsy, Parkinson's disease and Alzheimer's disease. The unique conditions leading to neurodegeneration in each of the disorders have been established in both animal and cellular models of the disease. Neurocrine is actively isolating and analyzing genes associated with neuronal cell death utilizing state of the art molecular biology, gene sequencing and bioinformatics. In addition, activated genes which are neuroprotective or allow for the regeneration of neurons may also be identified.

Novel neurodegenerative genes that are discovered may include proteins, enzymes or receptors. Protein signaling molecules or the genes encoding such molecules may be utilized as therapeutics, while enzymes and receptors may serve as new targets for drug discovery. Neurocrine currently intends to place the receptors and enzymes encoded by these genes in high-throughput screens in an attempt to discover small molecule therapeutics to treat neurodegenerative disorders. To date, the Company has identified more than 4,500 novel genes of which a number are undergoing biological evaluation in in vitro and animal models. The Company currently intends to identify candidate genes as drugs or drug targets for one or more neurological diseases.

However, there can be no assurance that the Company will successfully identify suitable gene candidates for development in a timely manner, or at all.

STRATEGIC ALLIANCES

The Company's business strategy is to utilize strategic alliances and novel financing mechanisms to enhance its development and commercialization capabilities. To date, Neurocrine has completed the following alliances:

Janssen Pharmaceutica, N.V.

On January 1, 1995, Neurocrine entered into a research and development agreement (the "Janssen Agreement") with Janssen to collaborate in the discovery, development and commercialization of CRF receptor antagonists focusing on the treatment of anxiety, depression and substance abuse. The collaboration utilizes Neurocrine's expertise in cloning and characterizing CRF receptor subtypes, CRF pharmacology and medicinal chemistry. Pursuant to the Janssen Agreement, the Company has received $2.0 million in license payments, of which $1 million was received in 1996. Janssen is obligated to provide Neurocrine with $3.0 million in sponsored research payments per year during the term of the research program. The term of the research program is three years, subject to extension by mutual agreement of the parties. Janssen has the right to terminate the Janssen Agreement without cause at any time. However, in the event of such termination, Janssen remains obligated to continue all sponsored research payments for the term of the research program and all product and technology rights become the exclusive property of Neurocrine. In connection with the Janssen Agreement, Johnson & Johnson Development Corporation ("JJDC") purchased $5 million of the Company's Common Stock.

Neurocrine is entitled to receive up to $10.0 million in milestone payments for the indications of anxiety, depression, and substance abuse, and up to $9.0 million in milestone payments for other indications, if certain development milestones are achieved, of which $750,000 was received in 1995 and $1 million was received in 1996. The Company has granted Janssen an exclusive worldwide license to manufacture and market products developed under the Janssen Agreement. The Company is entitled to receive royalties on product sales throughout the world. The Company has certain rights to co-promote such products in North America. Janssen is responsible for funding all clinical development and marketing activities, including reimbursement to Neurocrine for its promotional efforts, if any. There can be no assurance that the Company's research under the Janssen Agreement will be successful in discovering any potential products or that Janssen will be successful in developing, receiving regulatory approvals or commercializing any potential products that may be discovered. As a result, there can be no assurance that any product development milestone or royalty payments will be made.

Ciba-Geigy Limited

In January 1996, the Company entered into a binding letter agreement with Ciba-Geigy (which has subsequently changed its name to Novartis) to develop altered peptide ligand therapeutics for the treatment of MS based upon the Company's drug development candidates and expertise in immunology and protein chemistry. In December 1996, the Company and Ciba-Geigy entered into a definitive agreement (the "Ciba-Geigy Agreement") incorporating the terms and conditions set forth in the letter agreement and certain other terms and conditions agreed to by the Company and Ciba-Geigy. Ciba-Geigy paid the Company a $5 million non-refundable fee prior to executing the Ciba-Geigy Agreement. In connection with the Ciba-Geigy Agreement, Ciba-Geigy purchased $10.0 million of the Company's Common Stock. Pursuant to the Ciba-Geigy Agreement, Ciba-Geigy is obligated to provide the Company with $3.5 million in research and development funding, plus certain other program expenses, each year for five years ending on December 31, 2000. In event that no product license application ("PLA") has been filed as a result of the collaboration by December 31, 2000, then Ciba-Geigy may be obligated to provide the Company with an additional $2.5 million per year thereafter until a Product License Application is filed, except in certain circumstances. Neurocrine is also entitled to receive milestone payments if certain research, development and regulatory milestones are achieved. Ciba-Geigy has the right to terminate the Ciba-Geigy Agreement on six months' notice which may be given at any time after December 30, 1997.

The Company has granted Ciba-Geigy an exclusive license outside of the United States and Canada to market altered peptide ligand products developed under the Ciba-Geigy Agreement for multiple sclerosis. The Ciba-Geigy Agreement provides that the Company and Ciba-Geigy will collaborate in the marketing of products developed under the Ciba-Geigy Agreement in the United States and Canada. The Company has the option to discontinue the collaborative marketing effort in the United States

and Canada, in which case Ciba-Geigy will have exclusive marketing rights in such territory. Neurocrine is entitled to receive royalties on product sales. Neurocrine is entitled to receive a share of the profits resulting from sales of altered peptide ligand products in North America subject to the recoupment of a portion of Ciba-Geigy's development costs. Neurocrine retains the right to convert its profit share to the right to receive royalty payments at its sole discretion in which case no repayment of development costs are due to Ciba-Geigy. Neurocrine is obligated to repay a portion of the development costs of any potential product developed pursuant to the collaboration unless the Company elects to convert to the right to receive royalty payments. There can be no assurance that the Company and Ciba-Geigy will be successful in developing or commercializing any potential products. As a result, there can be no assurance that any product development milestone, royalty, or profit sharing payments will be made.

Eli Lilly and Co.

On October 15, 1996, Neurocrine entered into a research and license agreement (the "Lilly Agreement") with Eli Lilly and Company to collaborate in the discovery, development and commercialization of CRF binding protein ligand inhibitors for the treatment of central nervous system disorders including obesity and dementias such as Alzheimer's disease. As of December 31, 1996, Neurocrine had received $1.3 million in research payments and received an additional $5.0 million in research payments in January 1997. Neurocrine expects to receive an additional $15.7 million in research payments over the first three years of the Lilly Agreement as well as additional sponsored research payments over the subsequent two-year period if certain milestones are met, and up to an additional $49.0 million in milestone payments for the first two products for dementia or obesity if certain development and regulatory milestones are achieved. The Company has granted Lilly an exclusive worldwide license to manufacture and market CRF binding protein ligand inhibitor products. Lilly is obligated to fund clinical development and marketing expenses (except as set forth below) and is responsible for clinical development, regulatory compliance, and manufacturing of products. Neurocrine is entitled to royalties on product sales. At its option, Neurocrine is entitled to receive a portion of the profits resulting from sales of products for the treatment of dementia in the United States subject to the Company's obligation to pay a portion of the development costs for such product. Lilly has agreed to provide the Company with access to a portion of its chemical compound library for screening against targets outside of the field of the Lilly Agreement and other Lilly program areas, subject to the Company's obligation to pay Lilly royalties on sales of products developed based on compounds in such library and milestone payments based upon certain development and regulatory milestones for such products. There can be no assurance that the Company's research under the Lilly Agreement will be successful in discovering any potential products or that Lilly will be successful in developing, receiving regulatory approvals, or commercializing any potential products that may be discovered. As a result there can be no assurance that any product development milestone, royalty, or profit sharing payments will be made.

Neuroscience Pharma Inc.

In March 1996, Neurocrine formed Neuroscience Pharma (NPI) Inc. ("NPI"), a research and development company. Neurocrine licensed to NPI certain technology and Canadian marketing rights to the Company's Neurosteroid and Neurogenomics programs in exchange for 49% of the outstanding Common Stock of NPI. A group of Canadian institutional investors have invested approximately $9.5 million in NPI in exchange for Preferred Stock of NPI which may be converted into 51% of the outstanding Common Stock of NPI. The Preferred Stock may also be converted into the Company's Common Stock at $7.45 per share. Pursuant to a Research and Development Agreement NPI has committed to expend an aggregate amount of $9.5 million for clinical development of the Neurosteroid program for Alzheimer's disease and for research activities related to the Neurogenomics program. Pursuant to such Research and Development Agreement, NPI is entitled to receive royalties on sales of products developed in these programs as well as exclusive Canadian marketing rights for such products in the event that the Company has not terminated the technology license and the marketing rights or that the investors have not converted their NPI Preferred Stock into shares of the Company's Common Stock. In connection with their investment in NPI, such investors received warrants exercisable for shares of the Company's Common Stock and are eligible to receive additional warrants in the future in the event that NPI receives certain Canadian government incentives for research activities.

Hewlett-Packard Company

The Company and Hewlett-Packard Company ("HP") have entered into a collaboration to adapt the Company's RMS combinatorial chemistry technology to certain HP instruments. In 1996, the parties collaborated to modify existing instrumentation to provide customers with a flexible automated method for generation of large numbers of chemical compounds.

Neurocrine received research funding and equipment from HP in exchange for technical support and consultation. The term of the collaboration has expired and the parties are currently determining whether to renew the collaboration for an additional term. There can be no assurance that the collaboration will be renewed or that, if renewed, the collaboration will be successful in developing an automated method for generating large numbers of chemical compounds.

Dependence on Strategic Alliances

The Company is dependent upon its corporate partners to provide adequate funding for certain of its programs. Under these arrangements, the Company's corporate partners are responsible for (i) selecting compounds for subsequent development as drug candidates, (ii) conducting preclinical testing and clinical trials and obtaining required regulatory approvals for such drug candidates, and/or (iii) manufacturing and commercializing any resulting drugs. Failure of these partners to select a compound discovered by the Company for subsequent development into marketable products, gain the requisite regulatory approvals or successfully commercialize products would have a material adverse effect on the Company's business, financial condition and results of operations. The Company's strategy for development and commercialization of certain of its products is dependent upon entering into additional arrangements with research collaborators, corporate partners and others, and upon the subsequent success of these third parties in performing their obligations. There can be no assurance that the Company will be able to enter into additional strategic alliances on terms favorable to the Company, or at all. Failure of the Company to enter into additional strategic alliances would have a material adverse effect on the Company's business, financial condition and results of operations.

The Company cannot control the amount and timing of resources which its corporate partners devote to the Company's programs or potential products. If any of the Company's corporate partners breach or terminate their agreements with the Company or otherwise fail to conduct their collaborative activities in a timely manner, the preclinical testing, clinical development or commercialization of product candidates will be delayed, and the Company will be required to devote additional resources to product development and commercialization, or terminate certain development programs. The Company's strategic alliances with Janssen, Ciba-Geigy and Lilly are subject to termination by Janssen, Ciba-Geigy, or Lilly, respectively. There can be no assurance that Janssen, Ciba-Geigy, or Lilly will not elect to terminate its strategic alliance with the Company prior to its scheduled expiration. In addition, if the Company's corporate partners effect a merger with a third party, there can be no assurance that the strategic alliances will not be terminated or otherwise materially adversely affected. Ciba-Geigy is in the process of completing a merger with Sandoz Ltd., another major pharmaceutical company. The termination of any current or future strategic alliances could have a material adverse effect on the Company's business, financial condition and results of operations. Neurocrine's corporate partners may develop, either alone or with others, products that compete with the development and marketing of the Company's products. Competing products, either developed by the corporate partners or to which the corporate partners have rights, may result in their withdrawal of support with respect to all or a portion of the Company's technology, which would have a material adverse effect on the Company's business, financial condition and results of operations. There can be no assurance that disputes will not arise in the future with respect to the ownership of rights to any products or technology developed with corporate partners. These and other possible disagreements between corporate partners and the Company could lead to delays in the collaborative research, development or commercialization of certain product candidates or could require or result in litigation or arbitration, which would be time-consuming and expensive, and would have a material adverse effect on the Company's business, financial condition and results of operations.

MANUFACTURING

The Company has in the past utilized, and intends to continue to utilize, third-party manufacturing for the production of material for use in clinical trials and for the potential commercialization of future products. The Company has no experience in manufacturing products for commercial purposes and does not have any manufacturing facilities. Consequently, the Company is dependent on contract manufacturers for the production of products for development and commercial purposes. In the event that the Company is unable to obtain or retain third-party manufacturing, it will not be able to commercialize its products as planned. The manufacture of the Company's products for clinical trials and commercial purposes is subject to cGMP regulations promulgated by the FDA. No assurance can be given that the Company's third-party manufacturers will comply with cGMP regulations or other regulatory requirements now or in the future. The Company's current dependence upon third parties for the manufacture of its products may adversely affect its profit margin, if any, on the sale of future products and the Company's ability to develop and deliver products on a timely and competitive basis.

MARKETING, SALES, AND PHARMACEUTICAL PRICING ISSUES

Neurocrine has retained certain marketing or co-promotion rights in North America to its products under development, and plans to establish its own North American marketing and sales organization. The Company currently has no experience in marketing or selling pharmaceutical products and does not have a marketing and sales staff. In order to achieve commercial success for any product candidate approved by the FDA, Neurocrine must either develop a marketing and sales force or enter into arrangements with third parties to market and sell its products. There can be no assurance that Neurocrine will successfully develop such experience or that it will be able to enter into marketing and sales agreements with others on acceptable terms, if at all. If the Company develops its own marketing and sales capabilities, it will compete with other companies that currently have experienced and well funded marketing and sales operations. To the extent that the Company enters into co-promotion or other marketing and sales arrangements with other companies, any revenues to be received by Neurocrine will be dependent on the efforts of others, and there can be no assurance that such efforts will be successful.

The Company's business may be materially adversely affected by the continuing efforts of government and third-party payers to contain or reduce the costs of health care through various means. For example, in certain foreign markets, pricing or profitability of prescription pharmaceuticals is subject to government control. In the United States, there have been, and the Company expects that there will continue to be, a number of federal and state proposals to implement similar government control in such jurisdictions. In addition, an increasing emphasis on managed care in the United States has put, and will continue to put, pressure on pharmaceutical pricing. Such initiatives and proposals, if adopted, could decrease the price that the Company receives for any products it may develop and sell in the future, and thereby have a material adverse effect on the Company's business, financial condition and results of operations. Further, to the extent that such proposals or initiatives have a material adverse effect on other pharmaceutical companies that are corporate partners or prospective corporate partners for certain of the Company's potential products, the Company's ability to commercialize its potential products may be materially adversely affected.

The Company's ability to commercialize pharmaceutical products may depend in part on the extent to which reimbursement for the costs of such products and related treatments will be available from government health administration authorities, private health insurers and other third-party payors. Significant uncertainty exists as to the reimbursement status of newly approved health care products, and third-party payors are increasingly challenging the prices charged for medical products and services. There can be no assurance that any third-party insurance coverage will be available to patients for any products developed by the Company. Government and other third-party payors are increasingly attempting to contain health care costs by limiting both coverage and the level of reimbursement for new therapeutic products, and by refusing, in some cases, to provide coverage for uses of approved products for disease indications for which the FDA has not granted marketing approval. If adequate coverage and reimbursement levels are not provided by government and third-party payors for the Company's products, the market acceptance of these products would be materially adversely affected.

COMPETITION

The biotechnology and pharmaceutical industries are subject to rapid and intense technological change. The Company faces, and will continue to face, competition in the development and marketing of its product candidates from academic institutions, government agencies, research institutions and biotechnology and pharmaceutical companies. Competition may arise from other drug development technologies, methods of preventing or reducing the incidence of disease, including vaccines, and new small molecule or other classes of therapeutic agents. There can be no assurance that developments by others will not render the Company's product candidates or technologies obsolete or noncompetitive.

Betaseron, a form of beta-interferon marketed by Berlex BioSciences, has been approved for the treatment of relapsing remitting multiple sclerosis. Avonex, a similar form of beta-interferon produced by Biogen, Inc., and Capoxen, produced by Teva, have recently been approved by the FDA for marketing in the United States. Tacrine, marketed by Warner-Lambert Co., and Aricept, marketed by Pfizer Inc, have recently been approved for the treatment of Alzheimer's dementia. Sales of these drugs may reduce the available market for any product developed by the Company for these indications. The Company is developing products for the treatment of anxiety disorders, which will compete with well-established products in the benzodiazepene class, including Valium, marketed by Hoffman-La Roche, Inc., and depression, which will compete with well-established products in the anti-depressant class, including Prozac, marketed by Eli Lilly & Co. Certain technologies under development by other pharmaceutical companies could result in treatments for these and other diseases and disorders being pursued by the Company.

For example, a number of companies are conducting research on molecules to block CRF to treat anxiety and depression. Other biotechnology and pharmaceutical companies are developing compounds to treat obesity, and one such drug, d-fenfluramine, is being marketed by American Home Products Corporation. In the event that one or more of these products and/or programs are successful, the market for the Company's products may be reduced or eliminated.

In addition, if Neurocrine receives regulatory approvals for its products, manufacturing efficiency and marketing capabilities are likely to be significant competitive factors. At the present time, Neurocrine has no commercial manufacturing capability, sales force or marketing experience. In addition, many of the Company's competitors and potential competitors have substantially greater capital resources, research and development resources, manufacturing and marketing experience and production facilities than does Neurocrine. Many of these competitors also have significantly greater experience than does Neurocrine in undertaking preclinical testing and clinical trials of new pharmaceutical products and obtaining FDA and other regulatory approvals.

PATENTS AND PROPRIETARY RIGHTS

The Company files patent applications both in the United States and in foreign countries, as it deems appropriate, for protection of its proprietary technology and products. As of December 31, 1996, only one patent has been issued to the Company; however the Company otherwise owns or has received exclusive licenses to four issued patents. The Company owns 64 patent applications pursuant to license agreements with academic and research institutions including the Beckman Research Institute of the City of Hope, the Salk Institute for Biological Studies, and Leland Stanford Junior University. The Company intends to file additional United States and foreign applications in the future as appropriate.

The Company's success will depend on its ability to obtain patent protection for its products, preserve its trade secrets, prevent third parties from infringing upon its proprietary rights, and operate without infringing upon the proprietary rights of others, both in the United States and internationally.

Because of the substantial length of time and expense associated with bringing new products through the development and regulatory approval processes in order to reach the marketplace, the pharmaceutical industry places considerable importance on obtaining patent and trade secret protection for new technologies, products and processes. Accordingly, the Company intends to seek patent protection for its proprietary technology and compounds. There can be no assurance as to the success or timeliness in obtaining any such patents, that the breadth of claims obtained, if any, will provide adequate protection of the Company's proprietary technology or compounds, or that the Company will be able to adequately enforce any such claims to protect its proprietary technology and compounds. Since patent applications in the United States are confidential until the patents issue, and publication of discoveries in the scientific or patent literature tend to lag behind actual discoveries by several months, the Company cannot be certain that it was the first creator of inventions covered by pending patent applications or that it was the first to file patent applications for such inventions.

The degree of patent protection afforded to pharmaceutical inventions is uncertain and any patents which may issue with regard to the Company's potential products will be subject to this uncertainty. There can be no assurance that competitors will not develop competitive products outside the protection that may be afforded by the claims of the Company's patents. For example, the Company is aware that other parties have been issued patents and have filed patent applications in the United States and foreign countries which claim alternative uses of DHEA, a potential product of the Company, and cover other therapeutics for the treatment of multiple sclerosis. DHEA is not a novel compound and is not covered by a composition of matter patent. The issued patents licensed to the Company covering DHEA are use patents containing claims covering therapeutic methods and the use of specific compounds and classes of compounds for neuroregeneration. Other potential products which the Company may develop may not consist of novel compounds and therefore would not be covered by composition of matter patent claims. Competitors may be able to commercialize DHEA products for indications outside of the protection provided by the claims of any use patents that may be issued to the Company. In this case, physicians, pharmacies and wholesalers could then substitute a competitor's product for the Company's product. Use patents may be unavailable or may afford a lesser degree of protection in certain foreign countries due to the patent laws of such countries.

The Company may be required to obtain licenses to patents or proprietary rights of others. As the biotechnology industry expands and more patents are issued, the risk increases that the Company's potential products may give rise to claims that such products infringe the patent rights of others. At least one patent containing claims covering compositions of matter consisting

of certain altered peptide ligand therapeutics for use in modulating the immune response has issued in Europe, and the Company believes that this patent has been licensed to a competitor of the Company. There can be no assurance that a patent containing corresponding claims will not issue in the United States. In addition, there can be no assurance that the claims of the European patent or any corresponding claims of any future United States patents or other foreign patents which may issue will not be infringed by the manufacture, use or sale of any potential altered peptide ligand therapeutics developed by the Company or Ciba-Geigy. Furthermore, there can be no assurance that the Company or Ciba-Geigy would prevail in any legal action seeking damages or injunctive relief for infringement of any patent that might issue under such applications or that any license required under any such patent would be made available or, if available, would be available on acceptable terms. Failure to obtain a required license could prevent the Company and Ciba-Geigy from commercializing any altered peptide ligand products which they may develop.

No assurance can be given that any licenses required under any patents or proprietary rights of third parties would be made available on terms acceptable to the Company, or at all. If the Company does not obtain such licenses, it could encounter delays in product introductions while it attempts to design around such patents, or could find that the development, manufacture or sale of products requiring such licenses could be foreclosed. Litigation may be necessary to defend against or assert such claims of infringement, to enforce patents issued to the Company, to protect trade secrets or know-how owned by the Company, or to determine the scope and validity of the proprietary rights of others. In addition, interference proceedings declared by the United States Patent and Trademark Office may be necessary to determine the priority of inventions with respect to patent applications of the Company or its licensors. Litigation or interference proceedings could result in substantial costs to and diversion of effort by, and may have a material adverse impact on, the Company. In addition, there can be no assurance that these efforts by the Company would be successful.

The Company also relies upon unpatented trade secrets and improvements, unpatented know-how and continuing technological innovation to develop and maintain its competitive position, which it seeks to protect, in part, by confidentiality agreements with its commercial partners, collaborators, employees and consultants. The Company also has invention or patent assignment agreements with its employees and certain, but not all, commercial partners and consultants. There can be no assurance that relevant inventions will not be developed by a person not bound by an invention assignment agreement. There can be no assurance that binding agreements will not be breached, that the Company would have adequate remedies for any breach, or that the Company's trade secrets will not otherwise become known or be independently discovered by competitors.

GOVERNMENT REGULATION

Regulation by government authorities in the United States and foreign countries is a significant factor in the development, manufacture and marketing of the Company's proposed products and in its ongoing research and product development activities. The nature and extent to which such regulation will apply to the Company will vary depending on the nature of any products which may be developed by the Company. It is anticipated that all of the Company's products will require regulatory approval by government agencies prior to commercialization. In particular, human therapeutic products are subject to rigorous preclinical testing and clinical trials and other approval procedures of the FDA and similar regulatory authorities in foreign countries. Various federal and state statutes and regulations also govern or influence testing, manufacturing, safety, labeling, storage and record-keeping related to such products and their marketing. The process of obtaining these approvals and the subsequent compliance with appropriate federal and state statutes and regulations require the expenditure of substantial time and financial resources. Any failure by the Company or its collaborators or licensees to obtain, or any delay in obtaining, regulatory approval could adversely affect the marketing of any products developed by the Company, its ability to receive product or royalty revenues and its liquidity and capital resources.

Preclinical testing is generally conducted in laboratory animals to evaluate the potential safety and the efficacy of a product. The results of these studies are submitted to the FDA as a part of an IND, which must be approved before clinical trials in humans can begin. Typically, clinical evaluation involves a time consuming and costly three-phase process. In Phase I, clinical trials are conducted with a small number of subjects to determine the early safety profile, the pattern of drug distribution and metabolism. In Phase II, clinical trials are conducted with groups of patients afflicted with a specific disease in order to determine preliminary efficacy, optimal dosages and expanded evidence of safety. In Phase III, large-scale, multi-center, comparative trials are conducted with patients afflicted with a target disease in order to provide enough data to demonstrate the efficacy and safety required by the FDA. The FDA closely monitors the progress of each of the three phases of clinical trials and may, at its discretion, re-evaluate,

alter, suspend or terminate the testing based upon the data which have been accumulated to that point and its assessment of the risk/benefit ratio to the patient.

A physician-IND is an IND that allows a physician to conduct a clinical trial under less rigorous regulatory review standards. A physician-IND clinical trial does not replace the need for Company-sponsored clinical trials, but can provide a preliminary indication as to whether further clinical trials are warranted and may sometimes facilitate the more formal regulatory review process.

The results of preclinical testing and clinical trials are submitted to the FDA in the form of an NDA or PLA for approval to commence commercial sales. In responding to an NDA or PLA, the FDA may grant marketing approval, request additional information or deny the application if the FDA determines that the application does not satisfy its regulatory approval criteria. There can be no assurance that approvals will be granted on a timely basis, or at all. Similar regulatory procedures must also be complied with in countries outside the United States.

To date the Company has submitted two IND applications in the United States and Canada with regard to its product candidates and has commenced clinical trials with regard to one potential product. A physician-IND Phase II clinical trial was initiated in March 1996 with regard to the use of DHEA for the treatment of Alzheimer's disease. However, such clinical trials are not under the full control of the Company. In addition, a physician-IND clinical trial does not replace the need for Company-sponsored clinical trials. A multi-center Phase II/III clinical trial was initiated in Canada in early 1997 with respect to the same potential product under the regulatory authority of the Canadian HPB. Even if Canadian regulatory approval is obtained, the Company may be required to undertake additional clinical testing to obtain FDA regulatory approval in the United States. No assurance can be given that the Company will be able to obtain FDA or other governmental regulatory approval for any products.

The results from preclinical testing and early clinical trials may not be predictive of results obtained in later clinical trials, and there can be no assurance that clinical trials conducted by the Company or its corporate partners will demonstrate sufficient safety and efficacy to obtain the requisite regulatory approvals or will result in marketable products. In addition, clinical trials are often conducted with patients having the most advanced stages of disease. During the course of treatment, these patients can die or suffer other adverse medical effects for reasons that may not be related to the pharmaceutical agent being tested but which can nevertheless adversely affect clinical trial results. A number of companies in the biotechnology and pharmaceutical industries have suffered significant setbacks in advanced clinical trials, even after promising results in earlier trials. If the Company's drug candidates are not shown to be safe and effective in clinical trials, the resulting delays in developing other compounds and conducting related preclinical testing and clinical trials, as well as the potential need for additional financing, would have a material adverse effect on the Company's business, financial condition and results of operations.

The rate of completion of clinical trials conducted by the Company or its corporate partners may be delayed by many factors, including slower than expected patient recruitment or unforeseen safety issues. Any delays in, or termination of, the Company's clinical trials would have a material adverse effect on the Company's business, financial condition and results of operations. There can be no assurance that Neurocrine will be permitted by regulatory authorities to undertake clinical trials for its products or, if such trials are conducted, that any of the Company's product candidates will prove to be safe and efficacious or will receive regulatory approvals.

The Company is required to conduct its research activities in compliance with NIH Guidelines for Research Involving Recombinant DNA Molecules and Animals. The Company is also subject to various Federal, state and local laws, regulations and recommendations relating to safe working conditions, laboratory manufacturing practices, and the use and disposal of hazardous or potentially hazardous substances, including radioactive compounds and infectious disease agents, used in connection with the Company's research. The extent of government regulation which might result from future legislation or administrative action cannot be predicted accurately.

SCIENTIFIC ADVISORY BOARD

Neurocrine has assembled a Scientific Advisory Board that currently consists of 16 individuals. Members of the Scientific Advisory Board are leaders in the fields of neurobiology, immunology, endocrinology, psychiatry and medicinal chemistry. Scientific Advisory Board members meet as a group at least yearly to advise the Company in the selection, implementation and

prioritization of its research programs. Certain members meet more frequently to advise the Company with regard to its specific programs.

The Scientific Advisory Board presently consists of the following individuals:

Floyd E. Bloom, M.D., is Chairman of the Department of Neuropharmacology at The Scripps Research Institute. Dr. Bloom is an internationally recognized expert in the fields of neuropharmacology and neurobiology. He is the current editor of the journal, Science.

Michael Brownstein, M.D., Ph.D., is Chief of the Laboratory of Cell Biology at the National Institute of Mental Health. He is a recognized expert in molecular pharmacology as it applies to the field of neuroendocrinology, where he has defined many of the pharmaceutically important neurotransmitter receptors and transporter systems.

Iain Campbell, Ph.D., is an Associate Member of the Department of Neuropharmacology at The Scripps Research Institute. Dr. Campbell is an expert in cytosine activation in autoimmune diseases and neuronal degeneration.

Burton G. Christensen, Ph.D., is currently retired from his position as Senior Vice President of Chemistry at Merck Research Laboratories. In his capacity as Senior Vice President, Dr. Christensen directed over 400 scientists and groups, who, under his direction, were responsible for the synthesis of finasteride (Proscar), a 5-alpha-reductase inhibitor for the treatment of benign prostatic hypertrophy.

George P. Chrousos, M.D., Sc.D., is Chief of the Pediatric Endocrinology Section at the National Institute of Child Health and Human Development. He has investigated the role of stress hormones in pathological conditions such as Cushing's disease, anxiety-related disorders and rheumatoid arthritis.

Caleb E. Finch, Ph.D., is the Arco and William F. Kieschnick Professor of Neurobiology of Aging at the University of Southern California. He is an internationally recognized expert in the field of molecular gerontology and the genomic control of mammalian development and aging. His recent work has focused on the role of cytokines in neuronal protection and aging.

Stephen M. Hedrick, Ph.D., is Professor and Chairman of Cell Biology at the University of California, San Diego. Dr. Hedrick is an expert in T-cell immunology and codiscovered the first T-cell receptor genes and identified the regions responsible for antigen binding. He is an editor for the Journal of Immunology.

Florian Holsboer, M.D., Ph.D., is Director at the Max Planck Institute fur Psychiatrie. Dr. Holsboer is an international expert on the role of glucocorticoids and neuropeptides, particularly CRF, in neuropsychiatric disorders. He coordinates the efforts of several hundred scientists and clinicians at the Max Planck Institute, a major European neuropsychiatric institute.

George F. Koob, Ph.D., is a Member of the Department of Neuropharmacology at The Scripps Research Institute and an Adjunct Professor in the Departments of Psychology and Psychiatry at the University of California, San Diego. Dr. Koob is an internationally recognized behavioral pharmacology expert on the role of peptides in the central nervous system, the neurochemical basis of addiction and in the development of preclinical behavioral procedures for the screening of anxiolytic and antidepressant drugs and memory enhancers.

Phillip J. Lowry, Ph.D., is Professor and Head of the Department of Biochemistry and Physiology at the University of Reading in Great Britain. Dr. Lowry is an internationally recognized biochemical endocrinologist whose work has focused on the purification and characterization of some of the key hormonal mediators of the endocrine response to stress. Dr. Lowry is a member of the European Neuroscience Steering Committee, the European Neuroendocrine Association and the Committee of British Endocrinology.

Joseph B. Martin, M.D., Ph.D., is Chancellor and Professor of Neurology at the University of California, San Francisco. Dr. Martin is an internationally recognized expert in clinical and basic research in neurology and neuroendocrinology and the etiology of hypothalamic diseases, and was one of the first neurologists to embrace the role of the central nervous system on immune function.

Bruce S. McEwen, Ph.D., is Professor and Head of the Harold and Margaret Milliken Hatch Laboratory of Neuroendocrinology at The Rockefeller University. Dr. McEwen has identified and studied the function of intracellular receptors for neuroactive steroid hormones in the brain and immune system, in relation to stress and sex differences. Dr. McEwen is also President of the Society for Neuroscience.

Charles B. Nemeroff, M.D., Ph.D., is Chairman and Professor of the Department of Psychiatry and Behavioral Sciences at Emory University School of Medicine. Dr. Nemeroff is an internationally recognized expert on the effects of neuropeptides on behavior and their relevance in clinically important conditions such as depression, anxiety and schizophrenia, and has published over 400 articles on this subject.

Lawrence J. Steinman, M.D., is Chief Scientist, Neuroimmunology of the Company and a member of Neurocrine's Founding Board of Scientific and Medical Advisors and its Executive Committee. See "Item 10 -- Executive Officers and Directors of the Registrant."

Wylie W. Vale, Ph.D., is Chief Scientist, Neuroendocrinology of the Company and a member of Neurocrine's Founding Board of Scientific and Medical Advisors and its Executive Committee. See "Item 10 -- Executive Officers and Directors of the Registrant."

Stanley J. Watson, Jr., M.D., Ph.D., is Professor and Associate Chair for Research in the Department of Psychiatry and Co-Director of the Mental Health Research Institute at the University of Michigan. Dr. Watson is a recognized expert in neuropeptides and their receptors and their role in psychiatric diseases and behavior. Dr. Watson is also a member of the Institute of Medicine of the National Academy of Sciences.

Each of the members of the Scientific Advisory Board have signed consulting agreements that contain confidentiality provisions and restrict the members of the Scientific Advisory Board from competing with the Company for the term of the agreement. Each member of the Scientific Advisory Board receives either a per diem consulting fee or a retainer fee and is anticipated to provide at least five days of consulting per year. Each member also has received stock or stock options in the Company, which vest over time. All but one member of the Scientific Advisory Board is a full-time employee of a university or research institute that has regulations and policies which limit the ability of such personnel to act as part-time consultants or in other capacities for any commercial enterprise, including the Company. A change in these regulations or policies could adversely affect the relationship of the Scientific Advisory Board member with the Company.

INSURANCE

The Company maintains product liability insurance for clinical trials in the amount of $5.0 million per occurrence and $5.0 million in the aggregate. The Company intends to expand its insurance coverage to include the sale of commercial products if marketing approval is obtained for products in development. However, insurance coverage is becoming increasingly expensive, and no assurance can be given that the Company will be able to maintain insurance coverage at a reasonable cost or in sufficient amounts to protect the Company against losses due to liability. There can also be no assurance that the Company will be able to obtain commercially reasonable product liability insurance for any products approved for marketing. A successful product liability claim or series of claims brought against the Company could have a material adverse effect on its business, financial condition and results of operations.

EMPLOYEES

As of December 31, 1996, the Company had 103 employees, consisting of 90 full-time and 13 part-time employees. Of the full-time employees, 35 hold Ph.D., M.D., or equivalent degrees. None of the Company's employees are represented by a collective bargaining arrangement, and the Company believes its relationship with its employees is good. The Company is highly dependent on the principal members of its management and scientific staff. The loss of services of any of these personnel could impede the achievement of the Company's development objectives. Furthermore, recruiting and retaining qualified scientific personnel to perform research and development work in the future will also be critical to the Company's success. There can be no assurance that the Company will be able to attract and retain personnel on acceptable terms given the competition among biotechnology, pharmaceutical and health care companies, universities and non-profit research institutions for experienced

scientists. In addition, the Company relies on members of its Scientific Advisory Board and a significant number of consultants to assist the Company in formulating its research and development strategy.

ITEM 2. PROPERTIES

The Company leases approximately 48,000 square feet of laboratory facilities at 3050 Science Park Road, San Diego, California. The lease extends through 2006. The Company has sublet 19,000 square feet of this facility to a third party for up to four years. The Company has also leased an additional 2,000 square-foot animal facility for a term of two years. The Company believes that its facilities will be adequate to meet its research and development needs through 1998.

ITEM 3. LEGAL PROCEEDINGS

Not applicable.

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

Not applicable.

PART II

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

The Company's Common Stock has been traded on the Nasdaq National Market System under the symbol NBIX since the Company's initial public offering on May 23, 1996. Prior to that time there was no established public trading market for the Company's Common Stock. The following table sets forth for the periods indicated the high and low sale price for the Common Stock.

	High	Low
FISCAL YEAR 1996		
4th Quarter	$ 13	$ 9-1/4
3rd Quarter	12-3/8	6-1/2
2nd Quarter (from May 23, 1996) .	13-1/4	8-1/8

As of February 28, 1997, there were approximately 482 holders of record of Common Stock.

DIVIDEND POLICY

The Company has not paid any cash dividends on its Common Stock since its inception and does not anticipate paying cash dividends on its Common Stock in the foreseeable future.

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data have been derived from the Financial Statements of the Company, which have been audited by Ernst & Young LLP, whose reports appear elsewhere herein. The information presented below should be read in conjunction with the Company's Financial Statements and Notes thereto included elsewhere in this Form 10-K. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

SELECTED FINANCIAL DATA

(In thousands, except net income (loss) per share)

	YEAR ENDED DECEMBER 31,				
	1996	1995	1994	1993	1992
STATEMENT OF OPERATIONS DATA:					
Revenues:					
Sponsored research	$ 7,344	$ 3,000	$ --	$ --	$ --
License fees	5,000	2,000	--	--	--
Milestones	4,000	750	--	--	--
Other revenues	2,872	356	162	--	--
Total revenues	19,216	6,106	162	--	--
Operating expenses:					
Research and development	12,569	7,740	6,231	2,804	406
General and administrative	3,697	2,728	2,223	1,550	216
Total operating expenses	16,266	10,468	8,454	4,354	622
Income (loss) from operations	2,950	(4,362)	(8,292)	(4,354)	(622)
Interest income, net	2,598	839	627	118	15
Other income (expense)	574	177	(41)	--	--
Net income (loss) before income taxes	6,122	(3,346)	(7,706)	(4,236)	(607)
Income taxes	248	--	--	--	--
Net income (loss)	5,874	(3,346)	(7,706)	(4,236)	(607)
Net income (loss) per share	0.35	(0.27)	(0.67)	(0.64)	(0.49)
Shares used in computing net income (loss) per share	16,589	12,184	11,433	6,635	1,247

	DECEMBER 31,				
	1996	1995	1994	1993	1992
BALANCE SHEET DATA:					
Cash, cash equivalents and short-term investments	$ 69,920	$ 18,696	$ 18,228	$ 21,639	$ 2,010
Total assets	77,957	24,012	22,344	24,436	2,475
Accumulated deficit	(10,022)	(15,895)	(12,549)	(4,843)	(607)
Total stockholders' equity	72,767	19,225	18,743	22,137	2,445

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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations of Neurocrine Biosciences, Inc. ("Neurocrine" or the "Company") contains forward-looking statements which involve risks and uncertainties, pertaining generally to the expected continuation of the Company's collaborative agreements, the receipt of research payments thereunder, the future achievement of various milestones in product development and the receipt of payments related thereto, the potential receipt of royalty payments, financial results and operations. Actual results could differ materially from those anticipated in such forward-looking statements as a result of various factors, including those set forth below, and those outlined in "Item 1 -- Business" above.

OVERVIEW

Since the founding of the Company in January 1992, Neurocrine has been engaged in the discovery and development of novel pharmaceutical products for diseases and disorders of the central nervous and immune systems. To date, Neurocrine has not generated any revenues from the sale of products, and does not expect to generate any product revenues for the foreseeable future. The Company's revenues are expected to come from its strategic alliances. Neurocrine has incurred a cumulative deficit of approximately $10.0 million as of December 31, 1996 and expects to incur additional operating losses in the future which are potentially greater than losses in prior years.

RESULTS OF OPERATIONS

Revenues increased to $19.2 million in 1996 compared with $6.1 million in 1995 and $162,000 in 1994. These increases were primarily due to increased sponsored research, license fees, and milestone revenues recognized under the Janssen, Ciba-Geigy, and Eli Lilly collaborations.

Research and development expenses increased to $12.6 million in 1996 compared with $7.7 million in 1995 and $6.2 million in 1994. These increases reflect continued additions to scientific personnel and related support expenditures as the Company increased its research, development, and clinical activities primarily in the CRF and Altered Peptide Ligand programs.

General and administrative expenses increased to $3.7 million in 1996 compared with $2.7 million in 1995 and $2.2 million in 1994. These increases reflect the additional administrative staff required to support increased research, development and clinical activities, increased facility expenses and expanded business development activities.

Interest income increased to $2.9 million in 1996 compared with $1.1 million in 1995 and $786,000 in 1994. These increases were due to increased investment income attributable to increased cash and short term investments purchased with proceeds from the Company's initial public offering in May 1996 and from payments received under its corporate collaborations.

Net income increased to $5.9 million or $0.35 per share for 1996 compared with a net loss of $3.3 million or $0.27 per share in 1995 and $7.7 million or $0.67 per share in 1994. The increase in net income over 1995 and 1994 was primarily attributable to the increased revenues earned under the Janssen, Ciba-Geigy and Eli Lilly corporate collaborations. The increase in net income per share for 1996 was partially offset by the inclusion of dilutive common stock equivalents in the calculation of weighed average shares used in computing net income per share.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 1996 the Company's cash, cash equivalents, and short-term investments totaled $69.9 million. This excludes approximately $9.1 million held by NPI which is available to fund certain of the Company's research and development activities.

Net cash provided by operating activities in 1996 increased to $6.7 million compared with a net use of cash in operating activities of $2.4 million in 1995 and $7.1 million in 1994. The 1996 increase in cash provided by operating activities and the 1995 decline in cash used in operating activities was primarily the result of the timing of cash receipts under the Janssen, Ciba-Geigy and Eli-Lilly collaborations.

Cash used in investing activities in 1996 was $48.6 million compared with $933,000 provided by investing activities in 1995 and $13.8 million used in investing activities in 1994. The 1996 increase in cash used in investing activities was the result of the purchase of additional short-term investments with proceeds from the Company's initial public offering and the sale of Common Stock to corporate collaborators in May 1996. The 1995 increase in cash provided by investing activities over the 1994 use of cash in investing activities was the result of timing differences of various investment purchases and sales/maturities and fluctuations in the Company's portfolio mix between cash and cash equivalent and short-term investment holdings.

Cash provided by financing activities in 1996 was $46.8 million compared with $3.2 million in 1995 and $3.9 million in 1994. This 1996 increase was the result of proceeds received from the Company's initial public offering and the sale of Common Stock to corporate collaborators in May 1996. The 1995 decrease was the result of the decline in number of securities sold to corporate collaborators and other private investors.

Neurocrine has primarily financed its operations through proceeds from the sale of Common Stock and corporate collaborations. In February 1994, the Company completed the final closing of a private placement offering which resulted in net proceeds of approximately $27.6 million. In May 1996, the Company sold 3.5 million shares of Common Stock in an initial public offering resulting in net proceeds to the Company of approximately $34.2 million. Concurrent with this offering the Company sold 714,286 shares of Common Stock to corporate collaborators, resulting in aggregate net proceeds to the Company of approximately $7.2 million. In June 1996 the Company sold an additional 180,000 shares of Common Stock to the underwriters of the initial public offering to cover over-allotments. This transaction resulted in net proceeds to the Company of approximately $1.8 million.

In February 1995, the Company entered into a three to five year collaborative research and development agreement with Janssen for the development of CRF receptor antagonists for the treatment of anxiety, depression and substance abuse. In 1996 Janssen paid the Company $3.0 million in sponsored research payments and $1.0 million in milestone payments.

In January 1996, the Company entered into an agreement with Ciba-Geigy to develop altered peptide ligands for the treatment of multiple sclerosis. In 1996 Ciba-Geigy paid the Company $8.5 million in license fees and research funding and $3.0 million in milestone payments.

In March 1996, the Company completed the formation of a research and development subsidiary, Neuroscience Pharma (NPI), Inc., with a group of Canadian investors.

In October 1996, the Company entered into a Collaborative Research Agreement with Eli Lilly and Company to discover and develop corticotropin releasing factor (CRF) - binding protein ligand inhibitors for the treatment of central-nervous system disorders, including obesity and dementia, such as that associated with Alzheimer's disease. Lilly paid the Company $1.3 million in research payments in 1996 and an additional $5.0 million in research payments in January 1997.

See "Business - Strategic Alliances," and Note 4 of "Notes to Financial Statements."

The Company believes that its existing capital resources, together with interest income and future payments due under the strategic alliances, will be sufficient to satisfy its current and projected funding requirements at least through 2000. However, no assurance can be given that such capital resources and payments will be sufficient to conduct its

research and development programs as planned. The amount and timing of expenditures will vary depending upon a number of factors, including progress of the Company's research and development programs.

The foregoing Management's Discussion and Analysis of Financial Condition and Results of Operations of Neurocrine Biosciences, Inc. ("Neurocrine" or the "Company") as well as other sections of this Form 10-K contain forward-looking statements which involve risks and uncertainties, pertaining generally to the expected continuation of the Company's collaborative agreements, the receipt of research payments thereunder, the future achievement of various milestones in product development and the receipt of payments related thereto, the potential receipt of royalty and profit-sharing payments, the anticipated dates of commencement of selection of development candidates and the commencement of clinical trials the successful continuation of the Company's research and development programs and the development of future products, the period of time the Company's existing capital resources will meet its funding requirements, and the Company's financial results and operations. Actual results could differ materially from those anticipated in such forward-looking statements as a result of various factors, including those set forth below, and those outlined in "Item 1 -- Business" above.

The Company's business is subject to significant risks, including but not limited to, the risks inherent in its research and development activities, including the successful continuation of the Company's strategic collaborations, the successful completion of clinical trials, the lengthy, expensive and uncertain process of seeking regulatory approvals, uncertainties associated both with obtaining and enforcing its patents and with patent rights of others, uncertainties regarding government reforms and of product pricing and reimbursement levels, technological change and competition, manufacturing uncertainties and dependence on third parties. Even if the Company's product candidates appear promising at an early stage of development, they may not reach the market for numerous reasons. Such reasons include the possibilities that the product will be ineffective or unsafe during clinical trials, will fail to receive necessary regulatory approvals, will be difficult to manufacture on large scale, will be uneconomical to market or will be precluded from commercialization by proprietary rights of third parties.

Neurocrine will require substantial additional funding for the continuation of its research and product development programs, for progress with preclinical testing and clinical trials, for operating expenses, for the pursuit of regulatory approvals for its product candidates, for the costs involved in filing and prosecuting patent applications and enforcing patent claims, if any, the cost of product in-licensing and any possible acquisitions, and may require additional funding for establishing manufacturing and marketing capabilities in the future. The Company may seek to access the public or private equity markets whenever conditions are favorable. The Company may also seek additional funding through strategic alliances and other financing mechanisms, potentially including off-balance sheet financing. There can be no assurance that adequate funding will be available on terms acceptable to the Company, if at all. If adequate funds are not available, the Company may be required to curtail significantly one or more of its research or development programs or obtain funds through arrangements with collaborative partners or others. This may require the Company to relinquish rights to certain of its technologies or product candidates.

Neurocrine expects to incur substantial additional operating expenses over the next several years as its research, development, preclinical testing and clinical trial activities increase. To the extent that the Company is unable to obtain third-party funding for such expenses, the Company expects that increased expenses will result in increased losses from operations. There can be no assurance that the Company's products under development will be successfully developed or that its products, if successfully developed, will generate revenues sufficient to enable the Company to earn a profit.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA

See the list of the Company's Financial Statements filed with this Form 10-K under Item 14 below.

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

Not Applicable.

PART III

ITEM 10. EXECUTIVE OFFICERS AND DIRECTORS OF THE REGISTRANT

(a) Information about the Company's directors required by this item will be contained in the Company's Notice of 1997 Annual Meeting of Stockholders and Proxy Statement, pursuant to Regulation 14A, to be filed with the Securities and Exchange Commission within 120 days after December 31, 1996. Such information is incorporated herein by reference.

(b) The information required by this Item concerning compliance with Section 16(a) of the Exchange Act is incorporated by reference from the section captioned "Compliance with Section 16(a) of the Exchange Act" contained in the Company's Notice of 1997 Annual Meeting of Stockholders and Proxy Statement, pursuant to Regulation 14A, to be filed with the Securities and Exchange Commission within 120 days after December 31, 1996.

(c) The executive officers and key employees of the Company are as follows:

NAME	AGE	POSITION
Harry F. Hixson, Jr., Ph.D. (1)	58	Chairman of the Board
Gary A. Lyons	45	President, Chief Executive Officer and Director
Wylie W. Vale, Ph.D. (1)(2)	55	Chief Scientist, Neuroendocrinology and Director
Lawrence J. Steinman, M.D. (2)	49	Chief Scientist, Neuroimmunology
Errol B. De Souza, Ph.D.	43	Executive Vice President, Research and Development
Paul W. Hawran	45	Senior Vice President and Chief Financial Officer
Stephen G. Marcus, M.D.	43	Senior Vice President, Medical and Regulatory Affairs and Chief Medical Officer

- ----------
(1) Member of Audit Committee.

(2) Part-time commitment pursuant to a consulting agreement.

Harry F. Hixson, Jr., Ph.D., has served as a Director and Chairman of the Board of the Company since September 1992. Dr. Hixson worked with Amgen, Inc. ("Amgen") from July 1985 through February 1991, most recently as President, Chief Operating Officer and director. While at Amgen, he was responsible for pharmaceutical development, manufacturing and United States and international marketing and sales. Dr. Hixson is a director of Biocircuits, Inc. and Somatix Therapy Corporation. Dr. Hixson holds a Ph.D. in Physical Biochemistry from Purdue University and an M.B.A. from the University of Chicago.

Gary A. Lyons has served as President, Chief Executive Officer and a Director of the Company since February 1993. Prior to joining the Company in February 1993, Mr. Lyons was Vice President of Business Development at Genentech, Inc. ("Genentech") since 1989. At Genentech, he was responsible for international licensing, acquisitions and partnering which resulted in over 20 corporate relationships. He was also responsible for Genentech's Corporate Venture Program which participated in early financing and/or formation of a number of biotechnology start-up companies such as Xenova Ltd., Tularik, Inc., Nexagen, Inc., CytoTherapeutics, Inc., Khepri, Incyte Pharmaceuticals, Inc., Genomyx, Inc. and GenVec. Mr. Lyons serves as Chairman of the Board of Genomyx, Inc. a privately held bio-instrumentation company. In addition, Mr. Lyons had operating responsibility for Genentech's two subsidiaries, Genentech Canada, Inc. and Genentech Limited (Japan). Previously, he served as Vice President of Sales and was responsible for building the marketing and sales organization for the commercial introduction of Genentech's first two pharmaceutical products, Protropin (human growth hormone) and Activase (TPA). Mr. Lyons holds a B.S. in Marine Biology from the University of New Hampshire and an M.B.A. from Northwestern University's J.L. Kellogg Graduate School of Management.

Wylie W. Vale, Ph.D., is a Founder and Chief Scientist, Neuroendocrinology and Chairman of the Company's Founding Board of Scientific and Medical Advisors and its Executive Committee. Dr. Vale was elected a Director of the Company in September 1992. He is a Professor at The Salk Institute for Biological Studies ("The Salk Institute") and is the Senior Investigator and Head of The Clayton Foundation Laboratories for Peptide Biology at The Salk Institute, where he has been employed for 25 years. Dr. Vale is the current Chairman of the Faculty and a current Member of the Board of Trustees of The Salk Institute. Dr. Vale is

recognized for his work on the identification of neuroendocrine factors such as somatostatin, growth hormone releasing factor, corticotropin releasing factor, CRF-BP, gonadotropin releasing hormone, activin and the activin receptor, the CRF1 receptor and urocortin, the native ligand for the CRF2 receptor. These scientific advances have distinguished him as one of the 10 most cited scientific authors in the world in the past decade. Dr. Vale received a B.A. in Biology from Rice University, and a Ph.D. in Physiology and Biochemistry from the Baylor College of Medicine.

Lawrence J. Steinman, M.D., became Chief Scientist, Neuroimmunology and a member of Neurocrine's Founding Board of Scientific and Medical Advisors and its Executive Committee in September 1992. Dr. Steinman is a Professor in the Department of Neurology and Neurological Sciences, Pediatrics and Genetics at Stanford University School of Medicine where he has been employed for more than the last five years, and is Professor of Immunology at the Weizmann Institute. Dr. Steinman has substantial expertise in the basic and clinical biology of immunological diseases of the central nervous system. Dr. Steinman has been honored with the Weir Mitchell Award of the American Academy of Neurology and the Senator Jacob Javits Neuroscience Investigators Award from the United States Congress. Dr. Steinman is a member of the Board of Directors of Centocor, Inc.

Errol B. De Souza, Ph.D., is a Founder and Executive Vice President, Research and Development for the Company. Dr. De Souza has served as President, Chief Executive Officer, and a Director of Neuroscience Pharma (NPI), Inc. since April 1996. Prior to joining the Company in October 1992, Dr. De Souza was Director of Central Nervous System Diseases Research for The Du Pont Merck Pharmaceutical Company ("Du Pont Merck"), where he directed the discovery efforts of over 100 scientists in the fields of neurobiology, molecular biology, pharmacology and chemistry commencing in May 1990. Prior to joining Du Pont Merck, Dr. De Souza was Chief of the Laboratory of Neurobiology at the National Institute on Drug Abuse, and he was an Associate Professor in the Department of Pathology at The Johns Hopkins University School of Medicine. Dr. De Souza received a B.A. in Physiology and a Ph.D. in Endocrinology from the University of Toronto and pursued post-doctoral training at The Johns Hopkins University School of Medicine and the University of Kentucky.

Paul W. Hawran became Senior Vice President and Chief Financial Officer of the Company in February 1996. In March 1996, Mr. Hawran became Vice President and Chief Financial Officer of Neuroscience Pharma, Inc., a subsidiary of the Company. Prior to joining the Company in May 1993 as Vice President, Mr. Hawran was employed by SmithKline Beecham Corporation ("SmithKline") from July 1984 to May 1993, most recently as Vice President and Treasurer. Prior to joining SmithKline in 1984, Mr. Hawran held various financial positions at Warner Communications (now Time Warner) where he was involved in corporate finance, financial planning and domestic and international budgeting and forecasting. Mr. Hawran received a B.S. in Finance from St. John's University and an M.S. in Taxation from Seton Hall University. He is a Certified Public Accountant and a member of the American Institute of Certified Public Accountants, California and Pennsylvania Institute of Certified Public Accountants and the Financial Executives Institute.

Stephen G. Marcus, M.D. has served as Senior Vice President, Medical and Regulatory Affairs and Chief Medical Officer since February 1997. Prior to joining the Company, Dr. Marcus served as Vice President, Clinical and Regulatory Affairs for Genetic Therapy, Inc., since 1993. Dr. Marcus was responsible for all clinical and regulatory activities at Genetic Therapy, Inc., where he filed numerous INDs, led clinical and regulatory activities leading to human gene therapy trials, and developed a gene therapy product for malignant brain tumors from Phase I clinical trials to Phase III trials in the U.S., Canada and Europe. From 1992 to 1993, Dr. Marcus was Vice President, Medical and Regulatory Affairs for Systemix, Inc., and from 1990 to 1992 was Director, Oncology Research Worldwide for Schering-Plough Corporation. Dr. Marcus received a B.S. from Brooklyn College in 1973 and an M.D. from New York Medical College in 1976. He is certified by the American Board of Internal Medicine and the American Board of Medical Examiners.

ADDITIONAL INFORMATION

Officers of the Company serve at the discretion of the Board of Directors. There are no family relationships among any of the directors, executive officers or key employees. No executive officer, key employee, promoter, or control person of the Company has, in the last five years, been subject to bankruptcy proceedings, criminal proceedings, or legal proceedings related to the violation of state or federal commodities or securities laws.

ITEM 11. EXECUTIVE COMPENSATION

Information required by this item will be contained in the Company's Notice of 1997 Annual Meeting of Stockholders and Proxy Statement, pursuant to Regulation 14A, to be filed with the Securities and Exchange Commission within 120 days after December 31, 1996 and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information required by this item will be contained in the Company's Notice of 1997 Annual Meeting of Stockholders and Proxy Statement, pursuant to Regulation 14A, to be filed with the Securities and Exchange Commission within 120 days after December 31, 1996 and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information required by this item will be contained in the Company's Notice of 1997 Annual Meeting of Stockholders and Proxy Statement, pursuant to Regulation 14A, to be filed with the Securities and Exchange Commission within 120 days after December 31, 1996 and is incorporated herein by this reference.

PART IV

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

(a) Documents filed as part of this report.

1. List of Financial Statements. The following financial statements of Neurocrine Biosciences, Inc. and Report of Ernst & Young LLP, Independent Accountants are included in this report:

Balance Sheet as of December 31, 1996, 1995, and 1994

Statement of Operations for the years ended December 31, 1996, 1995, 1994, 1993, and 1992

Statement of Stockholders' Equity for the years ended December 31, 1996, 1995, and 1994

Statement of Cash Flows for the years ended December 31, 1996, 1995, and 1994 Notes to Financial Statements

Report of Ernst & Young LLP, Independent Accountants

2. List of all Financial Statement schedules:

(i) All schedules are omitted because they are not applicable or the required information is shown in the Financial Statements or notes thereto.

3. List of Exhibits Required by Item 601 of Regulation S-K. See part (c) below.

(b) Reports on Form 8-K. No reports on Form 8-K were filed during the quarter ended December 31, 1996.

(c) Exhibits. The following exhibits are filed as part of, or incorporated by reference into, this report:

Exhibit Number	Description
3.1*	Articles of Incorporation of Neurocrine Biosciences, Inc., a Delaware corporation, as amended.
3.2*	Bylaws of the Registrant.
4.1*	Form of Lock-Up Agreement.
4.2*	Form of Common Stock Certificate.
4.3*	Form of warrant issued to existing warrant holders.
4.4*	Form of Series A Warrant issued in connection with the execution by the Registrant of the Unit Purchase Agreement (see Exhibit 10.20).
4.5*	New Registration Rights Agreement dated March 29, 1996 among the Registrant and the investors signatory thereto.
10.1*	Information and Registrations Rights Agreement dated September 15, 1992, as amended to date.
10.2*	1992 Incentive Stock Plan, as amended, and form of incentive stock option agreement and nonstatutory stock option agreement

Exhibit Number	Description
10.3*	1996 Employee Stock Purchase Plan.
10.4*	1996 Director Stock Option Plan and form of stock option agreement.
10.5*	Form of Director and Officer Indemnification Agreement.
10.6*	Employment Agreement dated March 1, 1993, between the Registrant and Gary A. Lyons, as amended.
10.7*	Employment Agreement dated July 1, 1993, between the Registrant and Errol B. De Souza, Ph.D.
10.8*	Employment Agreement dated May 8, 1993, between the Registrant and Paul W. Hawran.
10.9*	Consulting Agreement dated September 25, 1992, between the Registrant and Wylie A. Vale, Ph.D.
10.10*	Consulting Agreement effective as of January 1, 1992, between the Registrant and Lawrence J. Steinman, M.D.
10.11*	Lease Agreement dated June 1, 1993, between the Registrant and Hartford Accident and Indemnity Company, as amended.
10.12*	Exclusive License Agreement dated as of July 1, 1993, by and between the Beckman Research Institute of the City of Hope and the Registrant covering the treatment of nervous system degeneration and Alzheimer's disease.
10.13*	Exclusive License Agreement dated as of July 1, 1993, by and between the Beckman Research Institute of the City of Hope and the Registrant covering the use of Pregnenolone for the enhancement of memory.
10.14*	License Agreement dated May 20, 1992, by and between The Salk Institute for Biological Studies and the Registrant.
10.15*	License Agreement dated July 17, 1992, by and between The Salk Institute for Biological Studies and the Registrant.
10.16*	License Agreement dated November 16, 1993, by and between The Salk Institute for Biological Studies and the Registrant.
10.17*	License Agreement dated October 19, 1992, by and between The Board of Trustees of the Leland Stanford Junior University and the Registrant.
10.18*	Agreement dated January 1, 1995, by and between the Registrant and Janssen Pharmaceutica, N.V.
10.19*	Letter Agreement dated January 19, 1996, by and between the Registrant and Ciba-Geigy Limited.
10.20*#	Unit Purchase Agreement dated March 29, 1996, by and between Neuroscience Pharma (NPI) Inc., the Registrant and the investors signatory thereto.
10.21*#	Exchange Agreement dated March 29, 1996, by and between Neurocrine Biosciences (Canada) Inc., the Registrant and the investors signatory thereto.
10.22*#	Research and Development Agreement dated March 29, 1996, by and between Neurocrine Biosciences (Canada) Inc. and Neuroscience Pharma (NPI) Inc.
10.23*#	Intellectual Property and License Grants Agreement dated March 29, 1996, by and between the Registrant and Neurocrine Biosciences (Canada) Inc.

Exhibit Number	Description
10.24**	Development and Commercialization Agreement dated December 20, 1996, by and between Ciba-Geigy Ltd. and the Registrant.
10.25**	Letter and Purchase Order dated June 7, 1996, by and between Ciba-Geigy and the Registrant.
10.26**	Third Lease Amendment dated June 6, 1996, by and between Talcott Realty I Limited Partnership and the Registrant.
10.27**	Research and License Agreement dated October 15, 1996, between the Registrant and Eli Lilly and Company.
11.1	Computation of Net Earnings per Share.
21.1*	List of subsidiaries of the Registrant.
23.1	Consent of Ernst & Young LLP, independent auditors.
24.1	Power of Attorney (reference is made to the following page of this Form 10-K).
27.1	Financial data schedule.

* Incorporated herein by reference to the same-numbered exhibit previously filed with the Company's Registration Statement on Form S-1 (Registration No. 333-03172).

** Confidential treatment has been requested with respect to certain portions of the exhibit.

Confidential treatment has been granted with respect to certain portions of the exhibit.

(d) Financial Statement Schedules

See Item 14(a)(2) above.

SIGNATURES

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

NEUROCRINE BIOSCIENCES, INC.
a Delaware Corporation

By: /s/ Gary A. Lyons

Gary A. Lyons
President and Chief Executive Officer

Date: March 27, 1997

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Gary A. Lyons and Paul Hawran, jointly and severally his attorneys-in-fact, each with the power of substitution, for him in any and all capacities, to sign any amendment to this Report on Form 10-K, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact, or his substitute or substitutes, may or cause to be done by virtue hereof.

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

Signature	Title	Date
/s/ Gary A. Lyons --- Gary A. Lyons	President, Chief Executive Officer and Director (Principal Executive Officer)	March 27, 1997
/s/ Paul Hawran --- Paul Hawran	Chief Financial Officer (Principal Financial and Accounting Officer)	March 27, 1997
/s/ Harry F. Hixson, Jr. --- Harry F. Hixson, Jr.	Chairman of the Board of Directors	March 27, 1997
/s/ Howard C. Birndorf --- Howard C. Birndorf	Director	March 27, 1997
 --- David E. Robinson	Director	March , 1997
/s/ David Schnell --- David Schnell	Director	March 27, 1997
/s/ Wylie W. Vale --- Wylie W. Vale	Director	March 27, 1997

NEUROCRINE BIOSCIENCES, INC.
INDEX TO FINANCIAL STATEMENTS

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
Neurocrine Biosciences, Inc.

We have audited the accompanying balance sheets of Neurocrine Biosciences, Inc. as of December 31, 1996 and 1995, and the related statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Neurocrine Biosciences, Inc. at December 31, 1996 and 1995, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1996, in conformity with generally accepted accounting principles.

/s/ ERNST & YOUNG LLP

Ernst & Young LLP

San Diego, California
February 14, 1997

BALANCE SHEET

	DECEMBER 31,	
	1996	1995
ASSETS		
Current assets		
Cash and cash equivalents	$ 11,325,361	$ 6,392,749
Short-term investments, available-for-sale (Note 2)	58,594,853	12,303,460
Receivable under collaborative agreements (Note 6)	1,329,513	1,000,000
Other current assets	840,962	234,334
Total current assets	72,090,689	19,930,543
Furniture, equipment and leasehold improvements, net (Note 3)	3,546,420	2,772,844
Licensed technology and patent application costs, net (Notes 3 and 5)	1,443,403	919,049
Other assets	876,070	389,296
Total assets	$ 77,956,582	$24,011,732
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 800,157	$ 820,883
Accrued liabilities (Note 3)	1,564,889	879,287
Deferred revenue	918,750	500,000
Current portion of obligations under capital leases (Note 5)	783,718	741,294
Total current liabilities	4,067,514	2,941,464
Obligations under capital leases, less current portion (Note 5)	846,744	1,631,404
Deferred rent	275,356	213,925
Commitments (Note 5)		
Stockholders' equity (Notes 2 and 4):		
Preferred Stock, $0.001 par value, 5,000,000 shares authorized, no shares issued and outstanding		
Common stock, no par value:		
Authorized shares-100,000,000		
Issued and outstanding shares - 16,776,614 in 1996, and 11,723,101 in 1995	83,251,404	35,597,941
Deferred compensation	(377,057)	(342,679)
Notes receivable from stockholders	(127,704)	(138,177)
Unrealized gains on short-term investments	41,870	3,319
Accumulated deficit	(10,021,545)	(15,895,465)
Total stockholders' equity	72,766,968	19,224,939
Total liabilities and stockholders' equity	$ 77,956,582	$24,011,732

See accompanying notes.

STATEMENT OF OPERATIONS

	YEAR ENDED DECEMBER 31,		
	1996	1995	1994
Revenues:			
Sponsored research	$ 7,343,750	$3,000,000	$ -
License fees	5,000,000	2,000,000	-
Milestones	4,000,000	750,000	-
Other revenues	2,871,912	355,750	161,533
Total revenues	19,215,662	6,105,750	161,533
Operating expenses:			
Research and development	12,569,114	7,740,128	6,230,483
General and administrative	3,696,515	2,728,342	2,222,967
Total operating expenses	16,265,629	10,468,470	8,453,450
Income (loss) from operations	2,950,033	(4,362,720)	(8,291,917)
Interest income	2,870,407	1,137,004	785,640
Interest expense	(272,464)	(297,675)	(157,960)
Other income (expense)	573,627	177,001	(41,398)
Income (loss) before income taxes	6,121,603	(3,346,390)	(7,705,635)
Income taxes	247,683	-	-
Net income (loss)	$ 5,873,920	$(3,346,390)	$(7,705,635)
Net income (loss) per share	$ 0.35	$ (0.27)	$ (0.67)
Shares used in computing net income (loss) per share	16,589,415	12,183,582	11,433,482

See accompanying notes.

STATEMENT OF STOCKHOLDERS' EQUITY

	SHARES	AMOUNT	DEFERRED COMPENSATION	NOTES RECEIVABLE FROM STOCKHOLDERS	UNREALIZED GAINS (LOSSES) ON SHORT-TERM INVESTMENTS	ACCUMULATED DEFICIT	TOTAL STOCKHOLDERS' EQUITY
Balance at December 31, 1993	10,205,954	$27,141,773	$ --	$(160,924)	--	$ (4,843,440)	$22,137,409
Issuance of Common Stock for cash, net	879,592	4,087,884	--	--	--	--	4,087,884
Repurchase of shares	(26,120)	(1,359)	--	--	--	--	(1,359)
Payment on notes receivable	--	--	--	12,661	--	--	12,661
Compensation related to grant of stock options	--	235,368	--	--	--	--	235,368
Unrealized losses on short-term investments	--	--	--	--	(23,535)	--	(23,535)
Net loss	--	--	--	--	--	(7,705,635)	(7,705,635)
Balance at December 31, 1994	11,059,426	31,463,666	--	(148,263)	(23,535)	(12,549,075)	18,742,793
Issuance of Common Stock for cash	659,635	3,730,000	--	--	--	--	3,730,000
Issuance of Common Stock for services	4,040	20,200	--	--	--	--	20,200
Payment on notes receivable	--	--	--	10,086	--	--	10,086
Deferred compensation related to grant of stock options	--	384,075	(384,075)	--	--	--	--
Amortization of deferred compensation	--	--	41,396	--	--	--	41,396
Unrealized gains on short-term investments	--	--	--	--	26,854	--	26,854
Net loss	--	--	--	--	--	(3,346,390)	(3,346,390)
Balance at December 31, 1995	11,723,101	35,597,941	(342,679)	(138,177)	3,319	(15,895,465)	19,224,939
Issuance of Common Stock for cash	5,053,513	47,539,591	--	--	--	--	47,539,591
Payments on notes receivable	--	--	--	10,473	--	--	10,473
Deferred compensation related to grant of stock options	--	113,872	(113,872)	--	--	--	--
Amortization of deferred compensation	--	--	79,494	--	--	--	79,494
Unrealized gains on short-term investments	--	--	--	--	38,551	--	38,551
Net income	--	--	--	--	--	5,873,920	5,873,920
Balance at December 31, 1996	16,776,614	$83,251,404	$(377,057)	$(127,704)	$ 41,870	$(10,021,545)	$ 72,766,968

See accompanying notes.

STATEMENT OF CASH FLOWS

	YEAR ENDED DECEMBER 31,		
	1996	1995	1994
CASH FLOW FROM OPERATING ACTIVITIES:			
Net income (loss)	$ 5,873,920	$(3,346,390)	$(7,705,635)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	980,833	715,398	515,294
Deferred revenue	418,750	500,000	-
Compensation expense recognized for stock options	79,494	41,396	235,368
Deferred rent	61,431	213,925	-
Loss on sale of assets	25,370	-	-
Common Stock issued for technology	-	20,200	-
Write-off of licensed technology and patent application costs	-	-	190,720
Change in operating assets and liabilities:			
Accounts payable and accrued liabilities	664,876	356,429	(786)
Receivable under collaborative agreements	(329,513)	(1,000,000)	-
Other assets	(486,774)	9,516	(88,448)
Other current assets	(606,628)	67,797	(223,953)
Net cash flows provided by (used in) operating activities	6,681,759	(2,421,729)	(7,077,440)
CASH FLOW FROM INVESTING ACTIVITIES:			
Purchases of short-term investments	(85,171,207)	(17,854,139)	(43,394,769)
Sales/maturities of short-term investments	38,918,365	19,098,351	29,859,531
Purchase of licensed technology and expenditures for patent application costs	(663,796)	(263,261)	(235,541)
Purchases of furniture, equipment and leasehold improvements	(1,640,337)	(47,657)	-
Net cash flows provided by (used in) investing activities	(48,556,975)	933,294	(13,770,779)
CASH FLOW FROM FINANCING ACTIVITIES:			
Issuance of Common Stock, net	47,539,591	3,730,000	4,087,884
Principal payments on obligations under capital leases	(742,236)	(574,954)	(222,875)
Payments received on notes receivable from shareholders	10,473	10,086	12,661
Advance received on capital lease	-	-	49,399
Repurchase of Common Stock	-	-	(1,359)
Net cash flows provided by financing activities	46,807,828	3,165,132	3,925,710
Net increase (decrease) in cash and cash equivalents	4,932,612	1,676,697	(16,922,509)
Cash and cash equivalents at beginning of year	6,392,749	4,716,052	21,638,561
Cash and cash equivalents at end of year	$11,325,361	$6,392,749	$ 4,716,052
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Interest paid	$ 272,464	$ 298,332	$ 157,960
Taxes paid	$ 40,000	$ -	$ -
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES			
Furniture and equipment financed with obligations under capital leases	$ -	$ 689,791	$ 1,477,457

See accompanying notes.

NEUROCRINE BIOSCIENCES, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1996

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Business Activity: Neurocrine Biosciences, Inc. (the "Company") was incorporated in California on January 17, 1992 and was reincorporated in Delaware in March 1996. The Company is engaged in the discovery and development of therapeutics for the treatment of diseases and disorders of the central nervous and immune systems which includes anxiety, depression, Alzheimer's disease, obesity, stroke and multiple sclerosis.

Cash Equivalents: The Company considers as cash equivalents all highly liquid investments with a maturity of three months or less when purchased.

Short-Term Investments Available-for-Sale: In accordance with Statement of Financial Accounting Standards No. 115, "Accounting for Certain Debt and Equity Securities," short-term investments are classified as available-for-sale. Available-for-sale securities are carried at fair value, with the unrealized gains and losses reported in a separate component of stockholders' equity. The amortized cost of debt securities in this category is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization is included in investment income. Realized gains and losses and declines in value judged to be other-than-temporary, if any, on available-for-sale securities are included in investment income. The cost of securities sold is based on the specific identification method. Interest and dividends on securities classified as available-for-sale are included in interest income.

The Company invests its excess cash in high-grade commercial paper, investment grade debt instruments, and marketable debt securities of U.S. government agencies. Management has established guidelines relative to diversification and maturities that maintain safety and liquidity.

Furniture, Equipment and Leasehold Improvements: Furniture, equipment and leasehold improvements are carried at cost. Depreciation and amortization are provided over the estimated useful lives of the assets, ranging from five to seven years, using the straight-line method.

Licensed Technology and Patent Application Costs: Licensed technology consists of exclusive, worldwide, perpetual licenses to patents related to the Company's platform technology, which are capitalized at cost and amortized over periods of 10 to 17 years.

Asset Impairment: The Company adopted Statement of Financial Accounting Standards ("SFAS") No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," effective January 1, 1996. There was no effect on the financial statements from the adoption of SFAS No. 121.

Research and Development Revenue and Expenses: Revenue under strategic alliances is recognized over the term of the agreement. Advance payments received in excess of amounts earned are classified as deferred revenue. Research and development costs are expensed as incurred.

Net Income (Loss) Per Share: Net income (loss) per share is computed using the weighted average number of shares of common stock outstanding during each period. Common stock equivalent shares from stock options, warrants, and convertible preferred shares are excluded from the computation when their effect is antidilutive, except that, pursuant to the Securities and Exchange Commission Staff Accounting Bulletins, common and common equivalent shares issued at prices substantially below the public price during the 12-month period prior to the filing of the initial public offering have been included in the calculation as if they were outstanding for all periods through that date (using the treasury stock method). Income per share on a fully diluted basis was unchanged.

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

Reclassifications: Certain amounts in the financial statements as of and for the years ended December 31, 1995 and 1994 have been reclassified to conform with current classifications.

2. SHORT-TERM INVESTMENTS

The following is a summary of short-term investments:

	AVAILABLE-FOR-SALE SECURITIES							
	DECEMBER 31, 1996				DECEMBER 31, 1995			
	COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED FAIR VALUE	COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED FAIR VALUE
U.S. Government agency securities	$7,973,645	$ 24,706	$ (26,388)	$ 7,971,963	$ 6,982,363	--	$ (6,213)	$6,976,150
Certificates of deposit	484,022	--	--	484,022	222,310	--	--	222,310
Commercial paper	3,972,292	--	--	3,972,292	--	--	--	--
Corporate debt securities	46,123,024	80,288	(36,736)	46,166,576	5,095,468	9,532	--	5,105,000
Total debt securities	$58,552,983	$104,994	$(63,124)	$58,594,853	$12,300,141	$ 9,532	$ (6,213)	$12,303,460

Gross realized gains and losses were not material for any of the reported periods. The amortized cost and estimated fair value of debt securities, by contractual maturity, are shown below.

DECEMBER 31, 1996	COST	ESTIMATED FAIR VALUE
Due in one year or less	$14,793,352	$14,790,710
Due after one year through five years	43,759,631	43,804,143
	$58,552,983	$58,594,853

3. BALANCE SHEET DETAILS

Furniture, equipment and leasehold improvements consist of the following:

	DECEMBER 31,	
	1996	1995
Equipment	$3,738,213	$2,705,757
Furniture and fixtures	1,123,956	788,958
Leasehold improvements	646,939	418,155
	5,509,108	3,912,870
Less accumulated depreciation and amortization	(1,962,688)	(1,140,026)
Net furniture, equipment and leasehold improvements	$3,546,420	$2,772,844

Licensed technology and patent application costs consisted of $1,744,240 and $1,081,590 at December 31, 1996 and 1995, respectively, and accumulated amortization was $300,837 and $162,541 at December 31, 1996 and 1995, respectively.

Accrued liabilities consist of the following:

	DECEMBER 31,	
	1996	1995
Accrued employee benefits	$ 414,971	$ 259,394
Accrued clinical trial costs	256,141	--
Accrued income taxes	206,883	--
Accrued professional fees	143,407	335,000
Other accrued liabilities	543,487	284,893
	$1,564,889	$ 879,287

4. STOCKHOLDERS' EQUITY

Common Stock Issuances: The Company sold approximately 5,880,000 shares of Common Stock at $5.00 per share in various private financings from September 1993 through February 1994, resulting in net proceeds to the Company of approximately $27.6 million.

Concurrent with collaborative research and development agreements entered into in 1995 and 1996, the Company sold 434,783 shares to Johnson & Johnson Development Corporation ("JJDC"), an affiliate of Janssen Pharmaceutica, N.V. ("Janssen"), for $2.5 million, and 645,161 shares to Ciba-Geigy Limited ("Ciba-Geigy") at $7.75 per share.

In 1996, the Company sold 3,680,000 shares in an initial public offering resulting in net proceeds of approximately $36.0 million. Concurrent with the offering, JJDC and Ciba-Geigy purchased an aggregate of 714,286 shares for $7.5 million.

Options: The Company has reserved 3,300,000 shares of Common Stock for issuance upon exercise of options or stock purchase rights granted under the 1992 Incentive Stock Option Plan ("The Plan"). The Plan provides for the grant of stock options and stock purchase rights to officers, directors, and employees of, and consultants and advisors to, the Company. Options under the Plan have a term of up to 10 years from the date of grant and may be designated as incentive stock options or nonstatutory stock options.

The Company has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25), and related Interpretations, in accounting for its employee stock options because, as discussed below, the alternative fair value accounting provided for under FASB Statement No. 123, "Accounting for Stock-Based Compensation," requires use of option valuation models that were not developed for use in valuing employee stock options. As a result, deferred compensation is recorded only in the event that the fair market value of the stock on the date of the option grant exceeds the exercise price of the options. Such deferred compensation is amortized over the vesting period of the options. Compensation expense recognized during the years ended December 31, 1996 and 1995 was $79,494 and $41,396, respectively.

Pro forma information regarding net income (loss) and income (loss) per share is required by Statement 123, and has been determined as if the Company had accounted for its employee stock options under the fair value method of that Statement. The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model using the following weighted-average assumptions for both 1995 and 1996: a risk-free interest rate of 6.1%, dividend yield of 0.0%, a volatility factor of the expected market price of the Company's common stock of .41; and a weighted average expected life of the option of 5 years.

For purposes of pro forma disclosures, the estimated fair value of the options granted is amortized to expense over the options' vesting period. The Company's pro forma information for the years ended December 31, 1996 and 1995 follows:

	1996	1995
Pro forma net income (loss) (in thousands)	$5,375	($3,474)
Pro forma income (loss) per share	$ 0.33	($ 0.29)

The pro forma effect on net income for 1996 and net loss for 1995 is not likely to be representative of the effects on reported net income or loss in future years because these amounts reflect only two years or one year of vesting, respectively.

A summary of the Company's stock option activity and related information for the years ended December 31 follows:

	1996		1995		1994	
	OPTIONS (IN THOUSANDS)	WEIGHTED-AVERAGE EXERCISE PRICE	OPTIONS (IN THOUSANDS)	WEIGHTED-AVERAGE EXERCISE PRICE	OPTIONS (IN THOUSANDS)	WEIGHTED-AVERAGE EXERCISE PRICE
Outstanding-beginning of year	1,415	$3.61	906	$3.22	540	$2.51
Granted (below market)	255	$6.90	638	$4.28	380	$4.28
Granted (at market)	123	$9.30	-	-	-	-
Exercised	11	$3.60	-	-	-	-
Forfeited	43	$4.41	129	$4.18	14	$4.59
Outstanding-end of year	1,739	$4.48	1,415	$3.61	906	$3.22

The weighted-average fair value of options granted was $3.76 and $2.54 in 1996 and 1995, respectively.

A summary of options outstanding and exercisable as of December 31, 1996 follows:

OPTIONS (IN THOUSANDS)	EXERCISE PRICE RANGE	WEIGHTED-AVERAGE EXERCISE PRICE	WEIGHTED-AVERAGE CONTRACTUAL LIFE
539	$2.50	$2.50	6.8 years
926	$4.25 to $5.95	$4.41	8.3 years
274	$7.01 to $10.13	$8.58	9.7 years

OPTIONS EXERCISABLE (IN THOUSANDS)	EXERCISE PRICE RANGE	WEIGHTED-AVERAGE EXERCISE PRICE
500	$2.50	$2.50
424	$4.25 to $5.95	$4.38
14	$7.01 to $10.13	$8.38

Warrants: The Company has outstanding warrants to purchase 898,944 shares of Common Stock at exercise prices of $5.00 to $10.50 per share. The warrants generally expire between 1998 and 2007. At December 31, 1996, 168,005 warrants were exercisable, and the remainder will become exercisable in 1997.

Employee Stock Purchase Plan: In March 1996, the Board of Directors adopted the 1996 Employee Stock Purchase Plan (the "Purchase Plan"). A total of 125,000 shares of Common Stock is reserved for issuance under the Purchase Plan. The Purchase Plan permits eligible employees to purchase Common Stock through payroll deductions at a purchase price equal to 85% of the lesser of the fair market value per share of Common Stock on the start date of an offering period or on the date on which the shares are purchased. Through December 31, 1996 no shares had been issued pursuant to the Purchase Plan.

Director Option Plan: In March 1996 the Board of Directors adopted the 1996 Director Option Plan (the "Director Plan") which generally provides for the grant of ten-year options to purchase 10,000 shares of Common Stock to each non-employee director of the Company at each annual meeting of the stockholders commencing in 1997. Such options become exercisable over a three-year period following the date of grant. Through December 31, 1996 no shares had been issued pursuant to the Director Plan.

The following shares of Common Stock are reserved for future issuance at December 31, 1996:

Stock Options	1,945,458
Warrants	898,944
Employee stock purchase plan	125,000
Director option plan	100,000
Total	3,069,402

Of the shares available for future issuance under the stock option plan, 1,738,840 are outstanding grants and 206,618 remain available for future grant.

5. COMMITMENTS

Leases: The Company leases its corporate and laboratory facilities under an operating lease which expires in June 2006. Rent expense was approximately $1,298,000, $798,000 and $667,000 for the years ended December 31, 1996, 1995 and 1994, respectively, and sublease rental revenue totaled approximately $598,000, $177,000 and $133,000 for the years ended December 31, 1996, 1995 and 1994, respectively.

Furniture and equipment under capital leases were approximately $3,368,000 at December 31, 1996 and 1995. Accumulated depreciation of furniture and equipment under capital leases totaled $1,679,000 and $1,043,000 at December 31, 1996 and 1995, respectively.

Future minimum payments at December 31, 1996 are as follows:

	OBLIGATIONS UNDER CAPITAL LEASES	OPERATING LEASES
1997	$ 919,179	$ 1,336,496
1998	758,411	1,316,327
1999	129,190	1,355,816
2000	--	1,396,491
2001	--	1,438,386
Thereafter	--	7,031,941
Total minimum payments	1,806,780	$13,875,457
Amount representing interest	176,318	
Present value of net minimum payments	1,630,462	
Less current portion	783,718	
Long-term obligations under capital leases	$ 846,744	

Future minimum rental income to be received under noncancellable subleases at December 31, 1996 will be $570,237, $512,257, $527,625, $543,453 and $559,757 for the five years ending December 31, 1997 through 2001, respectively.

Licensing and Research Agreements: The Company has entered into licensing agreements with various universities and research organizations. Under the terms of these agreements, the Company has received licenses to technology, or technology claimed, in certain patents or patent applications. The Company is required to pay royalties on future sales of products employing the technology or falling under claims of a patent, and, certain agreements require minimum royalty payments. Certain agreements also require the Company to make payments of up to an aggregate of approximately $4.9 million upon the achievement of specified milestones.

6. COLLABORATIVE RESEARCH AND DEVELOPMENT AGREEMENTS

Janssen: In January 1995, the Company entered into a research and development agreement with Janssen (the "Janssen Agreement"), under which Janssen paid the Company $2.0 million in up-front license fees and is obligated to provide the Company with $3.0 million in sponsored research payments per year during the three-year term of the research program, with Janssen having the right to extend such term for up to two additional years.

The Company is entitled to receive up to $9.0 million in milestone payments if certain development milestones are achieved, of which $1,750,000 has been received through December 31, 1996. The Company has granted Janssen an exclusive worldwide license to manufacture and market products developed under the Janssen Agreement. The Company is entitled to receive royalties on product sales throughout the world. The Company has certain rights to co-promote such products in North America. Janssen is responsible for funding all clinical development and marketing activities, including reimbursement to Neurocrine for its promotional efforts, if any.

Janssen has the right to terminate the Agreement upon six months notice. However, in the event of termination, other than termination by Janssen for cause or as a result of the acquisition of Neurocrine, Janssen remains obligated to continue all sponsored research payments for the term of the research program and all product and technology rights become the exclusive property of Neurocrine.

Ciba-Geigy: In January 1996, the Company entered into an agreement with Ciba-Geigy under which Ciba-Geigy paid the Company $5.0 million in up-front license fees and is obligated to provide Neurocrine with $7.0 million in research and development funding during the first two years of the agreement and up to $15.5 million in further research and development funding thereafter. In addition, the Company is also entitled to receive milestone payments if certain development and regulatory milestones are achieved, of which $3.0 million has been received through December 31, 1996. In return, Ciba-Geigy received manufacturing and marketing rights outside of North America and will receive a percentage of profits on sales in North America. The Company will receive royalties for all sales outside North America and a percentage of profits on sales in North America, which the Company may at its option convert to a right to receive royalties on product sales. Neurocrine is obligated to repay a portion of the development costs for potential products developed in such collaboration unless the Company elects to convert to the right to receive royalty payments.

Eli Lilly: In October 1996, the Company entered into an agreement with Eli Lilly and Company ("Eli Lilly") under which the Company expects to receive up to $22.0 million in research payments. The Company is also entitled to milestone payments if certain development and regulatory accomplishments are achieved. In January 1997 Eli Lilly paid the Company a $5.0 million research payment. The Company will have the option to receive copromotion rights and share profits from commercial sales of select products which result from the collaboration in the U.S. or receive royalties on U.S. product sales. The Company will receive royalties on product sales for the rest of the world.

7. INCOME TAXES

At December 31, 1996, the Company had federal income tax net operating loss carryforwards of approximately $8.7 million and federal and California research tax credit carryforwards of approximately $740,000 and $116,000, respectively, which will begin to expire in 2007 unless previously utilized. The Company also has federal Alternative Minimum Tax credit carryforwards of approximately $130,000 which will carryforward indefinitely.

Pursuant to Internal Revenue Code Sections 382 and 383, annual use of the Company's net operating loss and credit carryforwards may be limited because of cumulative changes in ownership of more than 50% which occurred during 1992 and 1993. However, the Company does not believe such changes will have a material impact upon the utilization of these carryforwards.

The provision for income taxes in 1996 consists of federal alternative minimum taxes. Significant components of the Company's deferred tax assets as of December 31, 1995 and 1996 are shown below. A valuation allowance, which was decreased by $2.3 million in 1996, has been recognized to fully offset the deferred tax assets as of December 31, 1996 and 1995 as realization of such assets is uncertain.

	December 31,	
	1996	1995
Deferred tax assets:		
Net operating loss carryforwards	$ 3,038,000	$ 5,279,000
Tax credits	946,000	884,000
Capitalized research and development	594,000	656,000
Other, net	69,000	157,000
Total deferred tax assets	4,647,000	6,976,000
Valuation allowance for deferred tax assets	(4,647,000)	(6,976,000)
Net deferred tax assets	$	$

8. NEUROSCIENCE PHARMA (NPI) INC.

In March 1996, the Company established Neuroscience Pharma (NPI) Inc. ("NPI"), a subsidiary of the Company in Canada. The Company licensed to NPI certain technology and Canadian marketing rights.

A group of Canadian institutional investors (the "Canadian Investors") invested approximately $9.5 million in NPI in exchange for Preferred Stock of NPI which may be converted into a majority ownership interest in NPI or into 1,279,584 shares of the Company's Common Stock at the option of the investors. NPI has committed to use these funds for research and clinical development of certain of the Company's programs in exchange for royalties on sales of products developed in these programs as well as exclusive Canadian marketing rights for such products in certain situations. The Company has the right to terminate the agreement upon the purchase of the shares of NPI Preferred Stock held by the Canadian Investors in exchange for Common Stock at a predetermined price. In connection with their investment in NPI, the Canadian Investors received warrants exercisable for 383,875 shares of the Company's Common Stock at an exercise price of $10.50 per share and are also eligible to receive additional warrants in the future upon attainment of certain additional funding.

Since the Company does not have a majority interest in NPI, NPI is not consolidated. The Company will recognize its pro rata share of the cumulative profits of NPI as they are earned. All cumulative losses of NPI will be allocated to the majority owners as the Company has not contributed any assets with an accounting basis to NPI.

As of December 31, 1996 NPI had total assets consisting primarily of cash and cash equivalents of $9.4 million stated in U.S. dollars.

EXHIBIT INDEX

Exhibit Number	Description
3.1*	Articles of Incorporation of Neurocrine Biosciences, Inc., a Delaware corporation, as amended.
3.2*	Bylaws of the Registrant.
4.1*	Form of Lock-Up Agreement.
4.2*	Form of Common Stock Certificate.
4.3*	Form of warrant issued to existing warrant holders.
4.4*	Form of Series A Warrant issued in connection with the execution by the Registrant of the Unit Purchase Agreement (see Exhibit 10.20).
4.5*	New Registration Rights Agreement dated March 29, 1996 among the Registrant and the investors signatory thereto.
10.1*	Information and Registrations Rights Agreement dated September 15, 1992, as amended to date.
10.2*	1992 Incentive Stock Plan, as amended, and form of incentive stock option agreement and nonstatutory stock option agreement

Exhibit Number	Description
10.3*	1996 Employee Stock Purchase Plan.
10.4*	1996 Director Stock Option Plan and form of stock option agreement.
10.5*	Form of Director and Officer Indemnification Agreement.
10.6*	Employment Agreement dated March 1, 1993, between the Registrant and Gary A. Lyons, as amended.
10.7*	Employment Agreement dated July 1, 1993, between the Registrant and Errol B. De Souza, Ph.D.
10.8*	Employment Agreement dated May 8, 1993, between the Registrant and Paul W. Hawran.
10.9*	Consulting Agreement dated September 25, 1992, between the Registrant and Wylie A. Vale, Ph.D.
10.10*	Consulting Agreement effective as of January 1, 1992, between the Registrant and Lawrence J. Steinman, M.D.
10.11*	Lease Agreement dated June 1, 1993, between the Registrant and Hartford Accident and Indemnity Company, as amended.
10.12*	Exclusive License Agreement dated as of July 1, 1993, by and between the Beckman Research Institute of the City of Hope and the Registrant covering the treatment of nervous system degeneration and Alzheimer's disease.
10.13*	Exclusive License Agreement dated as of July 1, 1993, by and between the Beckman Research Institute of the City of Hope and the Registrant covering the use of Pregnenolone for the enhancement of memory.
10.14*	License Agreement dated May 20, 1992, by and between The Salk Institute for Biological Studies and the Registrant.
10.15*	License Agreement dated July 17, 1992, by and between The Salk Institute for Biological Studies and the Registrant.
10.16*	License Agreement dated November 16, 1993, by and between The Salk Institute for Biological Studies and the Registrant.
10.17*	License Agreement dated October 19, 1992, by and between The Board of Trustees of the Leland Stanford Junior University and the Registrant.
10.18*	Agreement dated January 1, 1995, by and between the Registrant and Janssen Pharmaceutica, N.V.
10.19*	Letter Agreement dated January 19, 1996, by and between the Registrant and Ciba-Geigy Limited.
10.20*#	Unit Purchase Agreement dated March 29, 1996, by and between Neuroscience Pharma (NPI) Inc., the Registrant and the investors signatory thereto.
10.21*#	Exchange Agreement dated March 29, 1996, by and between Neurocrine Biosciences (Canada) Inc., the Registrant and the investors signatory thereto.
10.22*#	Research and Development Agreement dated March 29, 1996, by and between Neurocrine Biosciences (Canada) Inc. and Neuroscience Pharma (NPI) Inc.
10.23*#	Intellectual Property and License Grants Agreement dated March 29, 1996, by and between the Registrant and Neurocrine Biosciences (Canada) Inc.

Exhibit Number	Description
10.24**	Development and Commercialization Agreement dated December 20, 1996, by and between Ciba-Geigy Ltd. and the Registrant.
10.25**	Letter and Purchase Order dated June 7, 1996, by and between Ciba-Geigy and the Registrant.
10.26**	Third Lease Amendment dated June 6, 1996, by and between Talcott Realty I Limited Partnership and the Registrant.
10.27**	Research and License Agreement dated October 15, 1996, between the Registrant and Eli Lilly and Company.
11.1	Computation of Net Earnings per Share.
21.1*	List of subsidiaries of the Registrant.
23.1	Consent of Ernst & Young LLP, independent auditors.
24.1	Power of Attorney (reference is made to page 33 of this form 10-K).
27.1	Financial data schedule

* Incorporated herein by reference to the same-numbered exhibit previously filed with the Company's Registration Statement on Form S-1 (Registration No. 333-03172).

** Confidential treatment has been requested with respect to certain portions of the exhibit.

Confidential treatment has been granted with respect to certain portions of the exhibit.

EXHIBIT 10.24

DEVELOPMENT AND COMMERCIALIZATION AGREEMENT

BY AND BETWEEN

CIBA-GEIGY LIMITED

AND

NEUROCRINE BIOSCIENCES, INC.

December 20, 1996

*Certain information on this page has been omitted and filed separately with the Commission. Confidential treatment has been requested with respect to the omitted portions.

TABLE OF CONTENTS

TABLE OF CONTENTS
(CONTINUED)

TABLE OF CONTENTS
(CONTINUED)

TABLE OF CONTENTS
(CONTINUED)

TABLE OF CONTENTS
(CONTINUED)

7

DEVELOPMENT AND COMMERCIALIZATION AGREEMENT

This DEVELOPMENT AND COMMERCIALIZATION AGREEMENT (the "Agreement"), effective as of December 20, 1996 (the "Effective Date"), is made by and between Neurocrine Biosciences, Inc, a California corporation having offices at 3050 Science Park Road, San Diego, California 92121-1102 ("Neurocrine"), and Ciba-Geigy Limited, a Swiss corporation having offices at Klybeckstrasse 141 CH-4002 Basel, Switzerland ("Ciba").

BACKGROUND

A. Ciba and Neurocrine desire to collaborate on the development and commercialization of altered peptide ligand compounds for the diagnosis, treatment and/or prevention of multiple sclerosis ("MS") in humans, on the terms and conditions set forth below.

B. Ciba and Neurocrine have entered into that certain Letter Agreement dated January 19, 1996, which agreement outlines the terms and conditions for this Agreement (the "Letter Agreement");

C. Ciba and Neurocrine have entered into those certain Stock Purchase Agreements executed January 22, 1996 and April 3, 1996, pursuant to which Ciba has acquired Neurocrine Common Stock, all as provided therein.

NOW THEREFORE, for and in consideration of the covenants, conditions, and undertakings hereinafter set forth, it is agreed by and between the parties as follows:

ARTICLE 1

DEFINITIONS

1.1 "Affiliate" shall mean any entity which controls, is controlled by or is under common control with Ciba or Neurocrine. An entity shall be regarded as in control of another entity for purposes of this definition if it owns or controls more than fifty percent (50%) of the shares of the subject entity entitled to vote in the election of directors (or, in the case of an entity that is not a corporation, for the election of the corresponding managing authority). A "Controlled Affiliate" shall mean an entity that is controlled by a party to this Agreement.

1.2 "Ciba Territory" shall mean all countries of the world, but excluding North America as defined under Section 1.20 below.

1.3 "Collaboration Products" shall mean the product or products within the Field selected by Ciba in accordance with Section 4.2.1 below for development and commercialization under this Agreement.

1.4 "Control" shall mean possession of the ability to grant an exclusive license or sublicense as provided for herein without violating the terms of any agreement or other arrangements with any third party.

1.5 "Cumulative Pre-Tax Operating Losses" shall mean, with respect to a Collaboration Product in a country of North America, the total cumulative amount of Pre-Tax Operating Losses (as defined in Section 1.25 below) with respect to Net Sales of such Collaboration Product in such country from the date of the first commercial sale of such Collaboration Product in such country after PLA approval through the end of the first calendar month for which there is Pre-Tax Operating Profit for such Collaboration Product in such country.

1.6 "Development Program" shall mean preclinical and clinical testing of the Collaboration Products, and regulatory affairs activities in each case as are necessary to obtain approval of governmental health regulatory authorities to manufacture and market Collaboration Products in the Major Countries.

1.7 "Development Plan and Budget" shall mean the plan and budget for the Development Program as established from time to time, in accordance with Article 3 below.

1.8 "Europe" shall mean Switzerland and all countries which are members of the European Union as of the Effective Date, whether or not such countries thereafter continue to be European Union members, and any countries which become members of the European Union after the Effective Date.

1.9 "FDA" shall mean the U.S. Food and Drug Administration.

1.10 "Field" shall mean the development, manufacture, use and sale of [*] compounds for diagnosis, treatment and/or prevention of [*], the mechanism of action of which is to modulate the [*]

* Certain information on this page has been omitted and filed separately with the Commission. Confidential treatment has been requested with respect to the omitted portions.

1.11 "FTE" shall mean one full time equivalent personnel working on the Research Program and/or the Development Program, wherein "one full time equivalent personnel" shall mean a full-time person dedicated to the Research Program or the Development Program or, in the case of less than a full-time dedicated person, a full-time, equivalent person year, based upon a total of one thousand eight hundred eighty (1,880) hours per year of work related to the Research Program or the Development Program. It is understood that each FTE shall be a qualified scientist or expert, as provided in Section 4.3 below.

1.12 "IND" shall mean an Investigational New Drug Application for a Collaboration Product, as defined in the U.S. Food, Drug and Cosmetic Act and the regulations promulgated thereunder, or a comparable filing in another country.

1.13 "Infeasibility Event" shall have the meaning defined in Section 9.1.2(b) below.

1.14 "Marketing Collaboration" shall have the meaning defined in Section 8.2.1 below.

1.15 "Major Country" shall mean the United States, Canada and/or any country in Europe.

1.16 "Manufacturing Costs" with respect to units of Collaboration Products shall mean (i) the direct costs set forth in Exhibit B associated with manufacturing such units ("Direct Manufacturing Costs") together with a reasonable allocation for Ciba's overhead costs associated with such manufacture of up to [*] of the Direct Manufacturing Costs, which allocation for manufacturing overhead shall be made in accordance with generally accepted cost accounting principles consistently applied by Ciba across all similar pharmaceutical manufacturing operations; and it being further understood that Direct Manufacturing Costs shall not include costs associated with excess capacity (except in the case the parties have agreed that a single-purpose plant be set up for the manufacture of Products), excess direct labor, inefficiencies, unusable material, except the usual rejects, waste, etc. or any other costs related to such manufacture that do not add value or that are not ongoing in the manufacturing process for such Collaboration Products; or (ii) with respect to Collaboration Products acquired from a non-Affiliate vendor, reasonable amounts actually paid to the vendor for such Collaboration Products.

1.17 "Net Sales" shall mean the total amount invoiced to third parties by Ciba, its Affiliates or permitted Sublicensees, upon sales of Collaboration Products, less the following reasonable and customary deductions to the extent deducted by the customer (or charged separately on the invoice and paid by the customer) from amounts invoiced: (i) all trade, cash and quantity credits, discounts, refunds or government rebates; (ii) amounts for claims or credits for returns; and (iii) duties and other governmental charges (including value added tax), all as determined in accordance with generally accepted accounting principles (as described in 1.34 below), as consistently applied by Ciba across all pharmaceutical products for financial reporting purposes. For the removal of doubt, Net Sales shall not include sales by Ciba to its Affiliates or its permitted Sublicensees for resale. A "sale" shall also include a transfer or other disposition for consideration other than cash, in which case such consideration shall be valued at the fair market value thereof.

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1.18 "Neurocrine Profit Share" shall have the meaning defined in Section 9.1 below.

1.19 "Neurocrine Technology" shall mean Neurocrine Patents and Neurocrine Know-How.

1.19.1 "Neurocrine Patents" shall mean all patents and all reissues, renewals, re-examinations and extensions thereof, and patent applications therefor, and any divisions or continuations, or continuations-in-part, thereof, to the extent the same claim (i) a composition of matter comprising a Collaboration Product or (ii) the manufacture, sale or use of a Collaboration Product and which in each case are Controlled by Neurocrine during the term of this Agreement.

1.19.2 "Neurocrine Know-How" shall mean confidential information, tangible and intangible, and materials, including, but not limited to: pharmaceutical, chemical, biological and biochemical products; technical and non-technical data and information, and/or the results of tests, assays, methods and processes; and specifications and/or other documents containing said information and data; in each case that is discovered, developed or acquired by Neurocrine prior to or during the term of this Agreement, to the extent such relates to the manufacture, sale or use within the Field of a Collaboration Product and to the extent that Neurocrine controls the same.

1.20 "North America" shall mean Canada and the United States of America including its territories and possessions including the Commonwealth of Puerto Rico ("USA"). References in this Agreement to Canada and the United States shall be deemed to include their respective territories and possessions.

1.21 "Phase II" shall mean that portion of the clinical studies for the FDA submission and approval process which provides for the initial trials of a Collaboration Product on a sufficient number of patients for the purposes of determining the efficacious therapeutic dose range and evaluating safety in the proposed therapeutic indication as more fully defined in 21 C.F.R. ss.213.21(b), or a similar clinical study in a country other than the United States.

1.22 "Phase III" shall mean that portion of the clinical studies for the FDA submission and approval process which provides for continued trials of a Collaboration Product on sufficient numbers of patients to establish the safety and efficacy of such Collaboration Product to support regulatory approval in the proposed therapeutic indication as more fully defined in 21 C.F.R. ss.312.21(c), or a similar clinical study in a country other than the United States.

1.23 "PLA" shall mean a Product License Application or a New Drug Application filed with the FDA or equivalents in any country.

1.24 "Plans and Budgets" shall mean, collectively, the Research Plan and Budget and the Development Plan and Budget in effect from time to time.

1.25 "Pre-Tax Operating Profit" shall mean, with respect to a Collaboration Product in a country of North America, Net Sales of such Collaboration Product in such country, [*]

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[*] If for any calendar quarter the calculation of Pre-Tax Operating Profit is less than zero, such amount shall be referred to herein also as a "Pre-Tax Operating Loss."

1.26 "Programs" shall mean, collectively, the Research Program and Development Program.

1.27 "Recoupable Development Costs" shall mean [*] of: (i) all direct costs set forth in Exhibit D incurred by Ciba in performing the Development Program ("Direct Development Costs") in accordance with the Development Plans and Budgets in effect from the effective date of the Letter Agreement (other than those paid to Neurocrine), as specified in Exhibit D; (ii) amounts paid to Neurocrine under Section 6.2.1 below in reimbursement for Neurocrine personnel to the extent such personnel were engaged in performing the Development Program, and (iii) amounts paid to Neurocrine under Section 6.2.2 below in reimbursement for expenses incurred by Neurocrine in performing the Development Program. It is understood that no overhead will be applied to the amounts described in part (ii) or (iii) of this Section 1.27. It is understood that, without limitation, the amounts paid to Neurocrine under Section 6.1 or 6.3, or under Section 6.2.1 below for Neurocrine personnel engaged in performing the Research Program, shall not be Recoupable Development Costs.

1.28 "Research Program" shall mean the developmental research activities within the Field relating to: (i) elucidation of the mechanism of action of APLs and their effects on pathology and cytokine modulation with the aim to identify surrogate markers for monitoring patients; (ii) performance of ADME, and clinical assay development (including surrogate markers); (iii) development of APLs for secondary target both to support broad patent claims and for potentially expanding patient/market segments; and (iv) such other research activities within the Field as the parties may agree upon; in each case as set forth in the Research Plan and Budget in effect from time to time.

1.29 "Research Plan and Budget" shall mean the plan and budget for the Research Program as established from time to time, in accordance with Article 3 below.

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1.30 "Steering Committee" shall have the meaning set forth in Section 2.1 below.

1.31 "Sublicensee" shall mean, with respect to a particular Collaboration Product, a third party to whom Ciba has granted a right or license to make, use or sell such Collaboration Product. As used in this Agreement, "Sublicensee" shall also include a third party who distributes such Collaboration Product, provided that such third party conducts marketing and promotion of such Collaboration Product within the applicable territory.

1.32 "Third Party Agreement" shall mean that certain License Agreement between Neurocrine and Leland Stanford Junior University effective as of November 30, 1994; and any other license or similar agreement entered into by Neurocrine or Ciba with respect to patent rights or technology, which license or other agreement Ciba and Neurocrine agree at any time are reasonably necessary to allow the manufacture, use or sale of any Collaboration Product in the applicable territory.

1.33 "Valid Claim" shall mean a claim of an issued and unexpired patent or a claim of a pending patent application within the Neurocrine Patents which has not been held invalid or unenforceable by a court or other government agency of competent jurisdiction from which no appeal can be or has been taken, and has not been admitted to be invalid or unenforceable through reexamination, disclaimer or otherwise; provided that if a claim of a pending application has not issued as a claim of an issued patent within the Neurocrine Patents within ten (10) years after the filing date from which such claim takes priority, such pending claim shall not be a Valid Claim for purposes of this Agreement.

1.34 Accounting Terms. With respect to accounting terms used herein, including without limitation "direct costs," it is understood that the same shall be calculated by Ciba in accordance with the International Accounting Standards code ("IASC"); provided, however, that for purposes of calculating costs and expenses, to the extent Ciba's calculation in accordance with the IASC is different than a calculation of such costs and expenses in accordance with U.S. generally accepted accounting principles, such costs and expenses for purposes of this Agreement shall not exceed the amounts calculated in accordance with U.S. GAAP.

ARTICLE 2

STEERING COMMITTEE

2.1 Steering Committee. Ciba and Neurocrine shall establish a steering committee to oversee, review and coordinate the Programs and the implementation thereof ("Steering Committee"). From time to time, the Steering Committee may establish subcommittees to oversee particular projects or activities (such as separate subcommittees to oversee the Research Program and the Development Program), and such subcommittees will be constituted as the Steering Committee agrees.

2.2 Membership. The Steering Committee shall be comprised of an equal number of representatives from each of Ciba and Neurocrine, selected by such party. The exact number of such representatives shall be three (3) for each of Ciba and Neurocrine (or such other number as the parties agree), with each party designating representatives from the research, clinical development and business organizations of each party. Subject to the foregoing provisions of this Section 2.2, Neurocrine and Ciba may replace its Steering Committee representatives or nominate deputies at any time, with prior written notice to the other party.

2.3 Steering Committee Meetings. During the performance of the Programs, the Steering Committee shall meet semi-annually, or as otherwise agreed by the Steering Committee Members. Unless the Steering Committee Members agree otherwise, at least one (1) meeting of the Steering Committee per full calendar year will be held at each party's facilities. At its meetings, the Steering Committee will (i) formulate and review the Research Program objectives and Development Program objectives, as appropriate, (ii) monitor the progress of the Research Program and Development Program toward the respective objectives, and (iii) review and approve the Plans and Budgets, pursuant to Section 3.2 below. With the consent of the Steering Committee Members, other representatives of Neurocrine or Ciba may attend Steering Committee or subcommittee meetings as non-voting observers.

2.4 Decision Making. Except as set forth in this Section 2.4, decisions of the Steering Committee shall be made by majority approval. In the event the required majority for a decision cannot be found within 30 days and all the members of each party take the same opposing positions in a matter of importance, the matter shall be submitted to the [*] who shall meet and discuss in good faith to resolve such matter; provided, however, that if such meeting and good faith discussions do not result in mutual agreement, [*] Non-attending members of the Steering Committee may represent themselves by proxies or deputies in any decision.

2.5 Project Team and Its Operations. A project team appointed by the Parties shall be charged with planning, implementation and coordinating the conduct of the Programs (the "Project Team").

2.5.1 Composition of the Project Team. Promptly following the Effective Date, the Parties agree to identify and communicate to the other Party the Project Team members in their organization. It is understood that the Project Team members have to be knowledgeable with respect to the activities to be carried out under the Plans and Budgets. The Project Team shall not be required to hold meetings, but may communicate by teleconference and other appropriate means. Nevertheless, the Project Team members shall be fully integrated in the Project Team. The Project Team leader (the "Project Team Leader") shall be appointed by Ciba.

2.5.2 Responsibilities of the Project Team Leader. The Project Team Leader shall have the responsibility for the operational aspects of the Programs, and shall prepare and submit to

* Certain information on this page has been omitted and filed separately with the Commission. Confidential treatment has been requested with respect to the omitted portions.

the Steering Committee issues and problems to be decided by the Steering Committee. In particular, the Project Team Leader shall (i) prepare those aspects of the Research Plan and Budget and the Development Plan and Budget as provided in Section 3.2 below based upon the Ciba standard format (after giving consideration to input from Neurocrine), in accordance with the Development objectives approved by the Steering Committee, including a detailed Research and Development task list as the basis for the Steering Committee to assign the various tasks to the Project Team, (ii) implement the Plans and Budgets through the Project Team; such implementation shall give due regard to the aim of a worldwide product registration and be in strict compliance with Good Laboratory Practice, Good Clinical Practice and Good Manufacturing Practice, as well as all applicable law and regulations in the country where the Programs are performed for the registration of Collaboration Products; (iii) interact with the Steering Committee on a regular basis to keep it apprised of the progress of the Programs, to bring to its attention any problems or issues which may have an impact on the content of the Plans and Budgets or the timing of the Programs (e.g. regulatory submissions) and to submit to its approval any deviations from the Plans and Budgets; and (iv) update the Plans and Budgets as often as may be requested by the Steering Committee.

2.5.3 Responsibilities of the Project Team Members. The Project Team members shall carry out the tasks assigned to them by the Project Team Leader in accordance with the Plans and Budgets and comply with Ciba working techniques; they shall be available for advice and consultation to the Project Team Leader, in particular in connection with the drafting and updating of the Plans and Budgets.

2.6 Other Matters. It is understood that nothing in this Article 2 shall be deemed to limit the right of Ciba or Neurocrine to raise issues or topics to be dealt with by the Steering Committee, within the scope of Sections 2.1 and 2.3 above.

ARTICLE 3

PLANS AND BUDGETS

3.1 General. Subject to the terms and conditions set forth herein, Ciba and Neurocrine shall cooperate during the performance of the Programs (i) with respect to the Research Program in accordance with a Research Plan and Budget, and (ii) with respect to the Development Program in accordance with the Development Plan and Budget, all as established in accordance with Section 3.2 below. The activities conducted in connection with the Programs will be overseen and administered by the Steering Committee, pursuant to Article 2.

3.2 Plans and Budgets.

3.2.1 Plans and Budgets.

(a) Within thirty (30) days of the Effective Date of this Agreement, the parties shall meet and agree on an initial Research Plan and Budget and an initial Development Plan and Budget, each of which shall be fixed through December 31, 1996, except as otherwise determined by the Steering Committee.

(b) By July 15 of each year, Ciba with the input of Neurocrine as to the activities proposed to be performed by Neurocrine as set forth in Section 3.2.1(c) below, shall prepare and provide to the Steering Committee a reasonably detailed Research Plan and Budget and Development Plan and Budget for the next calendar year pursuant to which the performance of the Research Program and the performance of the Development Program, respectively, will be carried out. By the same date a best estimate forecast of the overall budget for the year after the next calendar year shall be prepared ("the Estimate"). The Research Plan and Budget shall specify the objectives and work plan activities with respect to the Research Program, and the headcounts and other costs and expenses of the Research Program, including consultants and third party contractors. The Development Plan and Budget shall specify the objectives and work plan activities with respect to the Development Program, the headcounts and other costs and expenses associated therewith, including consultants and third party contractors, and shall include only such activities and expenses as are necessary for and specific to development of Collaboration Products for the purpose of obtaining regulatory approval for such Collaboration Products in the Major Countries.

(c) During the performance of the Programs, by June 1 of each year, Neurocrine shall submit to Ciba its proposed contributions to the Research Plan and Budget and Development Plan and Budget as well as the Estimate to be submitted to the Steering Committee for approval for the following calendar year.

3.2.2 Annual Approval. The Steering Committee shall review the proposed Plans and Budgets submitted by Ciba under Section 3.2.1 above as soon as reasonably feasible and shall establish and approve no later than August 31 of such year the final Plans and Budgets for the next succeeding year. All Plans and Budgets adopted pursuant to this Article 3 shall be reasonable and customary in relation to other similar products in the field of MS and shall be consistent with the other terms and conditions of this Agreement.

3.2.3 Periodic Reviews. The Steering Committee shall review the Research Plan and Budget and Development Plan and Budget on an ongoing basis and may make changes thereto; provided, however, the Plans and Budgets in effect for a year shall not be modified except as approved by the Steering Committee.

ARTICLE 4

RESEARCH AND DEVELOPMENT

4.1 Research Program. The Research Program shall be conducted by Neurocrine, and Neurocrine shall use all diligent efforts to conduct the Research Program in accordance with the Research Plan and Budget then in effect. Ciba shall pay to Neurocrine the funding for the activities conducted pursuant to the Research Program in accordance with the Research Plan and Budget then in effect, subject to Section 6.2 below.

4.2 Development Program.

4.2.1 Selection of Collaboration Products. It is understood that the Programs will focus on the development and commercialization of Neurocrine product compound candidates NBI [*] and/or such other compounds within the Field as are selected by Ciba, during the period specified in this Section 4.2.1 below, from compounds discovered in the course of performing the Research Program. Ciba shall have the right to select as Collaboration Products from time to time one or more of such compounds to be developed pursuant to the Development Program, by so notifying Neurocrine in writing at any time within five (5) years after the Effective Date.

4.2.2 Responsibilities. Subject to the requirements of Section 4.3, [*] shall be primarily responsible for conducting, directly or through third parties, the Development Program with respect to Collaboration Products in accordance with the Development Plan and Budget then in effect, including the time schedules therein [*] shall be consulted and kept fully informed with respect to the Development Program through its representatives on the Steering Committee and as otherwise reasonably requested. [*] will assist in or conduct portions of the Development Program as set forth in the Development Plan and Budget then in effect, and as contemplated in Section 4.3 below, which activities Ciba shall fund as set forth in Section 6.2 below. [*] shall not commission any such activities to contract research/development organizations without the prior agreement by the Steering Committee.

4.3 Neurocrine FTEs. During the five (5) year period beginning January 1, 1996, and ending December 31, 2000, Neurocrine shall devote to the Research Program and the Development Program a minimum of [*] Neurocrine FTEs per year. Thereafter, if a PLA has not been filed in the United States for a Collaboration Product, Neurocrine shall devote to the Research Program and the Development Program a minimum of [*] Neurocrine FTEs per year until such a PLA is filed (except as otherwise provided in Section 6.2.1 below). The Plans and Budgets shall at all times provide for such minimum numbers of Neurocrine FTEs. The Steering Committee shall allocate those responsibilities to be conducted by the Neurocrine FTEs between the Research Program and the Development Program; provided, however, that at least [*] of such Neurocrine FTEs shall at all times be allocated to the Development Program unless Neurocrine and Ciba otherwise agree. It is understood that the FTEs assigned to the Research Program and/or the Development Program shall be qualified scientists or experts (of whom at least half shall have a Ph.D., M.D., or

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equivalent degree or experience) as may be required for work to be conducted under the Research and/or Development Plans and Budgets then in effect. Neurocrine shall at all times during the Research and Development Programs keep contemporaneous written records of FTEs allocated to the Research Program and the Development Program.

4.4 Regulatory Filings. Ciba shall be responsible for the preparation and filing of all regulatory documents with respect to the Collaboration Products, which shall be prepared and filed in the name of Ciba in accordance with the Development Plan and Budget then in effect.

ARTICLE 5

RECORD KEEPING; PUBLICATION

5.1 Reports and Records.

5.1.1 Records. Neurocrine and Ciba shall maintain records of the Programs (or cause such records to be maintained) in sufficient detail and in good scientific manner as will properly reflect all work done and results achieved in the performance of the Programs (including all data in the form required under any applicable governmental regulations). Each party shall allow the other to have, subject to Article 16 below, prompt access to all records, materials and data generated on behalf of such party with respect to each Collaboration Product at reasonable times and in a reasonable manner. Such access shall be limited to access by representatives on the Steering Committee and such other representatives as the other party reasonably approves.

5.1.2 Reports. Each party shall on a quarterly basis provide the Steering Committee with an oral or written report summarizing the progress of those aspects of the Research Program and/or Development Program performed by such party with respect to each Collaboration Product during the preceding calendar quarter. Such reports shall be due within thirty (30) days after the end of each calendar quarter during the performance of the Research Program and Development Program, unless otherwise agreed by the parties.

5.2 Review of Publication. For scientific data resulting from the Research Program or the Development Program which the Steering Committee has approved in principle should be published, the party who produced such results shall have the right to publish the same in accordance with this Section 5.2. The Steering Committee shall approve (with or without conditions) or disapprove any such publication within thirty (30) days of a request to do so, taking into consideration the commercial and competitive consequences of such publication; and if the Steering Committee fails to so approve or disapprove within such period (other than due to an action or inaction of the party proposing such publication), the publication shall be deemed approved.

5.2.1 Notice. As soon as is practicable prior to the oral public disclosure, and prior to the submission to any outside person for publication of a manuscript describing any such scientific

data resulting from any stage of the Research Program or Development Program, in each case to the extent the contents of the oral disclosure or manuscript have not been previously disclosed pursuant to this Section 5.2 before such proposed disclosure, Neurocrine or Ciba, as the case may be, shall provide to the other party a written summary of any oral disclosure to be made, a copy of any visual or audiovisual aid to be used in conjunction with such oral disclosure, or a copy of the manuscript to be submitted, and shall allow the other party at least thirty (30) days to determine whether such oral disclosure or manuscript contains subject matter for which patent protection should be sought prior to publication or which either party believes should be modified to avoid disclosure of confidential information. With respect to publications by investigators or other third parties, such publications shall be subject to review by the other party under this Section 5.2 only to the extent that Neurocrine or Ciba (as the case may be) has the right to do so. It is understood that each party shall only have the right to publish under this Section 5.2 scientific data which such party (or its third party contractors) generated in performing the Research Program or Development Program.

5.2.2 Publication Rights. After the expiration of thirty (30) days from the date of mailing such manuscript or written summary of an oral disclosure, unless Neurocrine or Ciba has received a written notice as specified in Section 5.2.3 below, the authoring party shall be free to submit such manuscript for publication or to orally disclose or publish the disclosed research results in any manner consistent with academic standards.

5.2.3 Delay of Publication. Prior to the expiration of the thirty (30) day period specified in Section 5.2 above, the other party may notify the submitting party in writing of its determination that such oral presentation or manuscript contains confidential or proprietary material of such other party or material that consists of patentable subject matter for which patent protection should be sought. The notified party shall withhold its proposed public disclosure and confer with the other party to determine the best course of action to take in order to modify the disclosure or to obtain patent protection. After resolution of the confidentiality, regulatory or other issues, or the filing of a patent application or due consideration as to whether a patent application can reasonably be filed, but in no event more than sixty (60) days after the submitting party's receipt of the notice described above, the submitting party shall be free to submit the manuscript and/or make its public oral disclosure, subject to Article 16 below.

ARTICLE 6

PROGRAM FUNDING; PRE-MARKET PAYMENTS

6.1 Advance Payment. The parties acknowledge that Ciba has paid to Neurocrine a non- refundable, non-creditable fee in the amount of Five Million Dollars ($5,000,000) prior to the execution of this Agreement.

6.2 Funding of Research and Development.

6.2.1 Ciba Obligations. During the five (5) year period beginning January 1, 1996, and ending December 31, 2000, Ciba shall pay to Neurocrine [*] Dollars [*] per year to support [*] Neurocrine FTEs working on the Research Program and/or the Development Program. Thereafter, if a PLA has not been filed in the United States for a Collaboration Product, Ciba shall continue to pay to Neurocrine [*] Dollars [*] per year to support [*] Neurocrine FTEs working on the Development Program until such a PLA is filed, [*] for such period shall be proportionately reduced. It is understood that, except as provided in Section 6.2.2 below, the FTE costs to be paid under this Section 6.2.1 include all costs to be reimbursed to Neurocrine with respect to Neurocrine's performance of its responsibilities under the Research and/or Development Plans and Budgets. Neurocrine shall have no obligation to make performances in excess of those compensated by the amounts to be paid to Neurocrine under this Section 6.2.1 and Section 6.2.2 below.

6.2.2 Other Expenses. In addition to the funding for the Neurocrine FTEs performing the Programs pursuant to Section 6.2.1, Ciba shall reimburse Neurocrine for other expenses, if any, (i) expressly provided for in the applicable Research and/or Development Plans and Budgets, and (ii) incurred by Neurocrine in performing the Research and/or Development Programs in accordance with such Plans and Budgets. Such other reimbursable expenses would include, for example, costs paid to clinical trial sites with respect to clinical trials, costs of clinical trial materials, preclinical toxicology and other studies, and other research and development expenses paid to third parties with respect to activities the Steering Committee decides Neurocrine shall manage.

6.2.3 Payment. Ciba shall pay to Neurocrine semiannually in advance the amounts provided for in Sections 6.2.1 and 6.2.2 above, not later than January 1 and July 1 of each year; such payments to be used solely for the purposes as set out in this Agreement. [*] For the period from the end of the calendar month of the Effective Date through December 31, 1996, such amounts, to the extent they have not been paid before, shall be paid within ten (10) days from the Effective Date. Within thirty (30) days following the end of each calendar half-year in which Neurocrine FTEs are engaged in activities pursuant to the Research and/or Development Program for whom reimbursement is provided hereunder, Neurocrine shall provide to Ciba a summary of FTEs actually devoted to the programs, and other expenses to be reimbursed under Section 6.2.2, actually incurred by Neurocrine during such calendar half-year. If at the end of a calendar half-year the number of FTEs applied by Neurocrine to the Programs from January 1, 1996 through the end of such calendar half-year were less than those reimbursed to Neurocrine by Ciba hereunder, Neurocrine shall apply additional FTEs to the Programs in the next succeeding periods to make up such shortfall.

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If the number of FTEs applied by Neurocrine to the Programs during a calendar half-year were more than those reimbursed by Ciba, Neurocrine's obligation to supply FTEs in subsequent periods shall be reduced by the number of such additional FTEs. If the other expenses incurred by Neurocrine in accordance with Section 6.2 were less than those reimbursed in advance by Ciba, Ciba shall be entitled to credit the amount of the overpayment to the next payment due under this Section 6.2; and if such expenses reasonably incurred by Neurocrine were in excess of the amounts so advanced by Ciba, Ciba shall pay the difference to Neurocrine within thirty (30) days of receiving Neurocrine's report to such effect. Notwithstanding the above, Neurocrine shall not deviate from the approved Plans and Budgets without the prior approval of the Steering Committee, which shall not be withheld unreasonably.

6.3 Milestone Payments.

6.3.1 Milestones. Ciba agrees to make the following payments to Neurocrine upon the occurrence of each milestone specified below for the first Collaboration Product which meets such milestone:

MILESTONES	PAYMENT
[*]	
TOTAL OF 1-6:	

It is understood that an IND shall be considered "filed" when accepted by the FDA or its equivalent in another country. For the avoidance of doubt, it is understood and agreed that in the event Ciba develops a Collaboration Product for a different indication or route of administration, or one or more Collaboration Products different from that for which the milestones above have been paid to

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Neurocrine, no further milestones shall be due for such different indications, routes, or Collaboration Products (i.e., Ciba shall not have to pay Neurocrine more than one time for achievement of each of the milestones above, irrespective of how many different indications, routes of administration, or Collaboration Products the parties may decide to develop pursuant to this Agreement).

6.3.2 Credit Against Future Payments.

(a) [*] of the milestone payments set forth in Section 6.3.1 above with respect to milestones 4, 5 and 6 above shall be creditable against the royalty and Neurocrine Profit Share payments accrued under Article 9 on Net Sales of such Collaboration Products. The milestone payments due upon occurrence of milestones 1, 2 or 3 above shall not be creditable.

(b) Notwithstanding any of the foregoing, no royalty or Neurocrine Profit Share payment with respect to a Collaboration Product shall be reduced by more than [*] by reason of the credits under this Section 6.3.2; and in no event shall the credit under this Section 6.3.2 reduce the Neurocrine Profit Share to less than [*] of Pre-Tax Operation Profits.

6.3.3 Other Payment Terms.

(a) If at the time any milestone is achieved, any prior milestones (other than those under Milestone 1 above) have not been achieved, the payments for such prior milestones shall then be due. In addition, it is understood that certain Phase II trials currently anticipated for the first Collaboration Product may be designated as pivotal for PLA filing purposes without further pivotal studies being required prior to PLA filing; accordingly, in the event that Ciba determines to file a PLA using the results of such trials as pivotal data for registration purposes, Milestone 4 above shall be deemed to have been met for purposes of such Collaboration Product upon such determination by Ciba.

(b) Notwithstanding the foregoing, in the event one or more research milestones specified in Milestone 1 above remains unachieved at the time Milestone 4 or 5 (whichever is earlier) is achieved, the payment for such unachieved research milestone(s) shall then be due.

(c) The payments set forth in this Section 6.3 shall each be due and payable within thirty (30) days after the occurrence of the milestone event. Neurocrine and Ciba each agree to promptly notify the other in writing of its achievement of any milestone. For milestones accomplished by Neurocrine, such payment shall be due within thirty (30) days after written notice thereof to Ciba, subject to Ciba's verification during such thirty (30) day period that the milestone occurred.

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ARTICLE 7

USE OF PRECLINICAL AND CLINICAL DATA

7.1 Exchange. Ciba and Neurocrine shall each have access to and subject to the terms and conditions under this Agreement the right to use in connection with the Development Program, including incorporation in any regulatory filing for a Collaboration Product, any preclinical and/or clinical data with respect to Collaboration Products developed in the course of the Research Program or the Development Program. Ciba will provide to Neurocrine access to all regulatory filings made for clinical trial and marketing approval by Ciba in any country with respect to each Collaboration Product, together with the underlying preclinical and clinical data, at reasonable times and on reasonable notice, to the extent Ciba has the right to do so.

ARTICLE 8

MARKETING RIGHTS

8.1 Ciba Territory. Ciba shall have the exclusive right, with the right to further grant the right, to market, sell, and distribute the Collaboration Products for use in the Ciba Territory in full autonomy, subject to all other terms and conditions of this Agreement. Ciba agrees not to market, promote or distribute directly or indirectly any Collaboration Product for use outside of the Ciba Territory, except as provided in Section 8.2 below, and Ciba further agrees, subject to Section 8.2.4 below, not to provide Collaboration Products to any third party if Ciba knows or has reason to believe that Collaboration Products provided to such third party will be sold for use or used outside the Ciba Territory.

8.2 North America. Rights to market, sell, and distribute the Collaboration Products for use in North America shall be as follows:

8.2.1 Marketing Collaboration. Except as provided in Sections 8.2.4 and 9.1.3 below, Ciba and Neurocrine shall establish a marketing collaboration with respect to the marketing, promotion and distribution of the Collaboration Products in North America (the "Marketing Collaboration"). Upon request by either party prior to the first commercial sale of a Collaboration Product in Canada and/or USA, the parties shall determine the appropriate legal structure(s) for such Marketing Collaboration (which may be different in Canada and USA) to implement the arrangement contemplated in Sections 8.2.2, 8.2.3 and 9.1 below, and shall enter into a more detailed agreement(s) defining such arrangement (the "Marketing Collaboration Agreement"). The Marketing Collaboration Agreement(s) shall be solely between the respective Affiliates of Ciba in Canada and USA respectively and Neurocrine.

8.2.2 Operations. The respective Affiliates of Ciba shall be responsible for the establishment, control and implementation of the promotion, distribution and marketing strategy

plans and budgets for Collaboration Products in the USA and Canada through the Marketing Collaboration. However, to the extent consistent with the optimal commercialization of the Collaboration Products in Canada and/or USA, Neurocrine shall have the right to reasonably participate in the sales, marketing, and promotion activities in Canada and USA for such Collaboration Products. Neurocrine's role in the sales, marketing and promotion of the Collaboration Product will be defined more specifically in the respective Marketing Collaboration Agreements. In any case the Collaboration Products will be marketed under a trademark and a brand logo selected by Ciba.

8.2.3 Cost and Profit Sharing. [*] of the Marketing Collaboration will be shared by the parties in accordance with Section 9.1 below. Ciba (itself or through its Affiliates) shall be responsible for providing sales, marketing, and all other services necessary for the commercialization of each Collaboration Product in Canada and USA, and for the Marketing Collaboration to meet its obligations, including without limitation any costs associated with the launch, marketing and promotion of the Collaboration Product and reimbursement of costs incurred by Neurocrine in accordance with the Marketing Collaboration Agreement or in accordance with Section 8.2.2 above in connection with such launch, marketing, distribution and promotion. Accordingly, it is understood that Net Sales from Collaboration Products within the Marketing Collaboration will be credited to Ciba.

8.2.4 Ciba Exclusive. In the event that Neurocrine elects not to enter into or continue the Marketing Collaboration for a Collaboration Product in Canada and USA in accordance with Section 9.1.3 below, Ciba shall have the exclusive right to market, sell and distribute such Collaboration Product in Canada and USA in full autonomy, subject to the payment of the amounts set forth in Section 9.1.3 and all other terms and conditions of this Agreement.

8.3 Sublicensees. Subject to Article 11 below Ciba may grant sublicenses under its rights to market, sell and distribute Collaboration Products in the Ciba Territory and, with Neurocrine's approval, in North America; provided, however, that if Ciba has the exclusive right to market, sell and distribute such Collaboration Product in North America under Section 8.2.4 above, or if the desired sublicensee is an Affiliate of Ciba, then no such approval shall be required.

8.4 Covenants. It is understood that, with respect to any particular Collaboration Product, whether or not the manufacture, use and sale of such Collaboration Product by Neurocrine and/or Ciba in any country requires a license under intellectual property rights of the other, neither Neurocrine nor Ciba shall market, sell or distribute a Collaboration Product anywhere in the world except in accordance with this Agreement.

8.5 Conflicts of Interest. To avoid conflicts of interest with respect to other products and services of Ciba and its Affiliates, Ciba agrees that neither it nor its Controlled Affiliates shall price or discount Collaboration Products in a manner that discriminates against such Collaboration Products in favor of such other products or services.

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ARTICLE 9

ROYALTIES

9.1 Neurocrine Profit Share.

9.1.1 Calculation of Neurocrine Profit Share for Canada and USA. With respect to the sales of a Collaboration Product for use in Canada and USA through the Marketing Collaboration for such Collaboration Product, Ciba (itself or through its U.S. or Canadian Affiliates) shall pay to Neurocrine the Neurocrine Profit Share for such Collaboration Product. As used herein, the "Neurocrine Profit Share" for a Collaboration Product shall mean [*] of [*] from Net Sales of such Collaboration Product in Canada and USA; provided, however, that (on a country-by-country and product-by-product basis) Ciba shall be entitled to retain an additional [*] (the "Ciba Differential") (i.e., so that the Neurocrine Profit share is only [*] until such time as the cumulative Ciba Differential retained by Ciba in the U.S. and Canada, respectively, equals or exceeds the sum of (i) the Recoupable Development Costs for such Collaboration Product and (ii) the [*] for such Collaboration Product from such Net Sales in such country. It is understood and agreed that once any Recoupable Development Costs have been recovered by Ciba through the mechanism outlined in this Section 9.1.1 or otherwise reimbursed to Ciba, such recovered or reimbursed amounts shall cease to be Recoupable Development Costs for all purposes of this Agreement.

9.1.2 Repayment of Recoupable Development Costs.

(a) In the event that a Collaboration Product can reasonably be commercialized in neither the United States nor Canada, Ciba may terminate this Agreement in accordance with Section 9.1.2(c) and Section 18.4 below, at which point Neurocrine shall repay to Ciba [*] of the Recoupable Development Costs (to the extent such Recoupable Development Costs have not otherwise been recouped by Ciba). At Neurocrine's election, such payment shall be made in cash, and/or in shares of Neurocrine Common Stock (the "Shares") valued at a price (the "Repayment Price") equal to the greater of [*] per share [*] or the fair market value thereof as of the date of such election by Neurocrine. In the event that the Shares shall be subdivided or combined after the date hereof by way of stock split, reverse stock split, or other form of corporate re-organization of Neurocrine, the Repayment Price of [*] per share shall be proportionately adjusted.

(b) For purposes of this Section 9.1.2, it will be deemed that a Collaboration Product can reasonably be commercialized neither in the United States nor in Canada if one of the following events or an event of similar magnitude occurs (each of these events being referred to as an "Infeasibility Event"):

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(i) Both of the following conditions are met: (A) the potential Collaboration Product would necessarily infringe, in a manner that would block the commercialization of such Product, a patent owned by a third party that is issued in the USA and Canada ("Infringed Rights"); and (B) neither party is able to secure a license under such Infringed Rights on reasonable terms and conditions within a reasonable time period.

(ii) All three (3) of the following conditions are met: (A) [*] (B) no other Collaboration Products with similar market potential are then part of the Plan and Budget then in effect, and (C) it is likely that the nature of the adverse events described in (A) above would result from all Collaboration Products.

(iii) Both of the following conditions are met: (A) [*] and (B) no other Collaboration Products with similar market potential are then part of a Plan and Budget then in effect or all data produced with respect to remaining Collaboration Products demonstrate that [*]

(iv) Both of the following conditions are met: If (A) [*] and (B) Ciba and/or Neurocrine as a consequence of this notification decide(s) not to market the Collaboration Product in the USA or give(s) up marketing the Collaboration Product in the USA, provided that Ciba can show reasonable grounds for this consequence.

(c) To exercise its right to terminate pursuant to this Section 9.1.2, Ciba shall provide to Neurocrine a notice of Ciba's intention to terminate under this Section 9.1.2, describing the particular Infeasibility Event which Ciba believes has occurred. The Steering Committee shall determine within sixty (60) days after Neurocrine's receipt of such notice whether the Infeasibility Event has in fact occurred. If the Steering Committee finds that the Infeasibility Event has occurred, Ciba shall have the right to terminate the Agreement under Section 18.4 within one hundred twenty (120) days after Ciba's notice, which termination shall take effect upon ninety (90) days notice, unless Neurocrine has provided to the Steering Committee a reasonable plan to overcome the Infeasibility Event, which plan shall be duly considered by the Steering Committee. If there is any other dispute as to whether an Infeasibility Event has occurred, the matter shall be resolved in accordance with Sections 19.1 and 19.2 below. Unless Ciba withdraws its notice of termination under this Section within ninety (90) days after its delivery to Neurocrine, this Agreement shall terminate at the end of such period regardless of whether the Steering Committee agrees that an Infeasibility Event has occurred or whether Neurocrine disputes Ciba's right to terminate under this Section 9.1.2. If any such dispute proceeds to arbitration and the arbitration

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concludes that Ciba did not have the right to terminate under this Section 9.1.2, the termination shall be deemed a termination by Ciba under Section 18.3 below.

9.1.3 Neurocrine Election. At Neurocrine's election with respect to any Collaboration Product, to be notified to Ciba [*] the Marketing Collaboration(s) shall not be formed, or if formed shall thereupon terminate, with respect to such Collaboration Product, and Ciba or its Affiliates shall have the exclusive rights with respect to such Collaboration Product provided in Section 8.2.4 above. In addition, in such event Section 9.1.2 shall not apply with respect to any Recoupable Development Costs attributable to such Collaboration Product incurred before or after Neurocrine's election, and in lieu of the Neurocrine Profit Share described in Section 9.1.1 above, Ciba shall pay to Neurocrine royalties on Annual Net Sales by Ciba, its Affiliates and Sublicensees of such Collaboration Product in North America equal to the following percentages of such Annual Net Sales in North America:

Annual Net Sales in North America	Royalty on Incremental Amount of Net Sales
[*]	[*]

In the event that it is impracticable for Ciba to consolidate sales for Canada and the United States, the parties agree to establish separate royalty scales, consistent with the foregoing, to allow for separate calculations of royalties on Canadian and U.S. Net Sales and achieve the same results as if they were consolidated. [*].

9.2 Running Royalties. In addition to the amount to be paid under Section 9.1 above, Ciba shall pay royalties to Neurocrine equal to the following percentages of Annual Net Sales by Ciba, its Affiliates and permitted Sublicensees permitted of Collaboration Products sold for use in the Ciba Territory:

Annual Net Sales in the Ciba Territory	Royalty on Incremental Amount of Net Sales
[*]	[*]

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9.3 Calculation of Royalties.

9.3.1 Annual Net Sales. For purposes of Section 9.1.3 and Section 9.2 above, "Annual Net Sales" for a territory shall mean total Net Sales of Collaboration Products for use in such territory for a particular calendar year after the first commercial sale of the first Collaboration Product in the applicable territory (i.e. Canada and USA, in the case of Section 9.1.3 above, and the Ciba Territory in the case of Section 9.2 above), and units of Collaboration Products shall be considered sold in the year in which the order is accepted, the units are shipped to a customer, or the invoice is sent, whichever occurs first. In the event that during the term of this Agreement Annual Net Sales for a territory are accumulated in a period of less than one (1) full calendar year, for purposes of determining the incremental royalty rate under Section 9.1.3 above and/or Section 9.2 for such period, the royalty to be paid shall be based on annualizing the Annual Net Sales according to the formula (12/X)(Y), where X is the number of calendar months (any calendar month in which sales activity occurs in the territory on fifteen (15) or more days shall qualify as a calendar month for purposes of this calculation) in the period, and Y is the sum of all Net Sales during the period in that territory.

9.3.2 No Patents. Subject to Section 9.5 below, in the event that the sale of a Collaboration Product is not covered by a Valid Claim in the country in which such Collaboration Product is sold, the royalty rates in Section 9.1.3 and Section 9.2 above payable with respect to Net Sales of such Collaboration Products in such country shall be reduced by [*]

9.3.3 Several Patents. No cumulation of royalties shall be made in the event a Collaboration Product is covered by Valid Claims of more than one patent.

9.4 Third Party Payments.

9.4.1 Reimbursement to Neurocrine. Subject to Section 9.4.3 below, Ciba shall reimburse Neurocrine for [*] of the running royalties paid by Neurocrine under that certain License Agreement between Stanford University and Neurocrine effective as of November 30, 1994 (the "Stanford Agreement"), and subject to Section 9.4.2 below, [*] percent [*] of any running royalty by Neurocrine under any other Third Party Agreement entered into by Neurocrine, in each case as a result of the development and commercialization of Collaboration Products in accordance with this Agreement.

9.4.2 Ciba Third Party Agreements/Credits to Ciba. Ciba shall also be solely responsible for the payment of any running royalties due on Net Sales to third parties under Third Party Agreements entered into by Ciba; provided, however, that subject to Section 9.5 below, [*] of (i) payments made by Ciba pursuant to such a Third Party Agreement, and (ii) amounts paid to Neurocrine under Section 9.4.1 above with respect to Third Party Agreements other than the Stanford Agreement, shall be credited against royalties due to Neurocrine under Section 9.1.3 and Section 9.2 above on Net Sales of the Collaboration Product and country for which such payments were made under such Third Party Agreements, up to a maximum of [*]

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percent [*] of amount of the royalties due Neurocrine under Section 9.1.3 and Section 9.2 above on such Net Sales.

9.4.3 Canada and USA. In the event that a Marketing Collaboration is formed for a Collaboration Product in Canada and USA pursuant to Section 8.2 above, all running royalties due to third parties under the Third Party Agreements on Net Sales of Collaboration Products for use in Canada and USA shall be deducted from the resulting revenues to the Marketing Collaboration as costs of goods prior to determining the [*] (or [*] as the case may be), and Ciba shall pay or reimburse Neurocrine for such running royalties under the Third Party Agreements on Net Sales through the Marketing Collaboration.

9.5 Minimum Royalty Rate. Notwithstanding any other provision of this Agreement, in no event shall the net royalties paid to Neurocrine on Net Sales of Collaboration Products under Section 9.1.3 or Section 9.2 above be reduced to less than [*] of such Net Sales. As used in this Section 9.5, "net royalties" shall mean the amount of royalties actually paid to and retained by Neurocrine after all credits and adjustments provided under this Agreement, and after deducting any amounts paid by Neurocrine to third parties under any Third Party Agreement(s) and not reimbursed by Ciba thereunder.

ARTICLE 10

PAYMENTS; BOOKS AND RECORDS

10.1 Royalty Reports and Payments. After the first commercial sale of a Collaboration Product in any country, Ciba agrees to make quarterly written reports to Neurocrine within seventy-five (75) days after the end of each calendar quarter, which report shall include, in reasonable detail (i) a calculation of royalties due to Neurocrine with respect to net sales of Collaboration Products in such quarter, and (ii) the Neurocrine Profit Shares for such quarter, each such report shall state the number, description, and aggregate Net Sales of the Collaboration Product sold during the calendar quarter. Concurrently with the making of such reports, Ciba shall pay to Neurocrine the royalties and Neurocrine Profit Shares specified in Article 9.

10.2 Payment Method. All payments under this Agreement shall be made by bank wire transfer in immediately available funds to a bank account designated by Neurocrine. All payments hereunder shall be made in U.S. dollars.

10.3 Currency Conversion. Sales outside the United States accrued in currencies other than Swiss Francs shall be converted into Swiss Francs according to Ciba's standard method of exchange conversion of foreign sales for statistical purposes, such as used for Ciba's annual report to its shareholders. The conversion of amounts payable under this Agreement from Swiss Francs into U.S. dollars shall be made using the average of the buying and selling rates of exchange as published in The Wall Street Journal on the last business day of the month in which such payment was due.

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10.4 Taxes.

10.4.1 General. All payments under this Agreement will be made without any deduction or withholding for or on account of any tax unless such deduction or withholding is required by any applicable law. If the paying party is so required to deduct or withhold such party will:

(1) promptly notify the other party of such requirement;

(2) pay to the relevant authorities the full amount required to be deducted or withheld promptly upon the earlier of determining that such deduction or withholding is required or receiving notice that such amount has been assessed against the other party;

(3) promptly forward to the other party an official receipt (or certified copy), or other documentation reasonably acceptable to the other party, evidencing such payment to such authorities.

In case the other party cannot take a full credit against its tax liability for the withholding tax deducted or withheld by the paying party then such party may propose a change to the then current arrangement with respect to the flow of monies under this Agreement in order to reduce or eliminate the extra cost for any party.

In case no solution can be found in order to reduce or eliminate above referred extra cost or the other party has sound business reasons to reject the paying party's proposals and the other Party can demonstrate by means of written documentation, certified by a mutually agreed external auditor, that the other party cannot take a full credit against its tax liability then the amount of taxes to be paid by the other party exceeding the tax credit, if any, will be reimbursed by the paying party up to fifty percent (50%) of such amount.

10.4.2 Marketing Collaboration. In the event Neurocrine and one or more of Ciba's Affiliates enter into the Marketing Collaboration in Canada and USA pursuant to Section 8.2, then (a) the Affiliate of Ciba which is party to the Marketing Collaboration Agreement with respect to the jurisdiction in question (the "Ciba Affiliate Party") shall indemnify Neurocrine and any deemed joint venture established pursuant to the Marketing Collaboration Agreement from and against any tax or similar governmental charge assessed with respect to and directly attributable to the Ciba Affiliate Party's interest in the income or assets of any such deemed joint venture as to which taxes or governmental charges should be allocated to the Ciba Affiliate Party, and (b) Neurocrine shall indemnify the Ciba Affiliate Party and any deemed joint venture established pursuant to the Marketing Collaboration Agreement from and against any tax or similar governmental charge assessed with respect to and directly attributable to Neurocrine's interest in the income or assets of any such deemed joint venture as to which taxes or governmental charges should be allocated to Neurocrine.

10.5 Records; Inspection.

10.5.1 Generally. Ciba, Neurocrine and their Affiliates and Sublicensees shall keep complete, true and accurate books of account and records for the purpose of determining the amounts payable or accountable hereunder. Such books and records shall be kept at one of the prin cipal place of business of Ciba, its Affiliate or Sublicensee as the case may be, for at least three (3) years following the end of the calendar quarter to which they pertain. Such records will be open for inspection during such three (3) year period by a independent auditor of Neurocrine for the purpose of verifying the amounts payable by Ciba pursuant to Article 9. Such inspections may be made no more than once each calendar year, at reasonable times mutually agreed by Neurocrine and Ciba. The auditing party's representative or agent will be obliged to execute a reasonable confidentiality agreement prior to commencing any such inspection. Such auditor shall only report inaccuracies in amounts payable under this Agreement. With respect to audits of Ciba's books and records, Ciba may request that an independent auditor familiar with Ciba's record keeping systems be present at the audit to assist Neurocrine's auditor in using Ciba's internal record management system. Each party shall bear the costs and expenses of its representative for inspections conducted under this Section 10.5, unless a variation or error producing an underpayment in amounts payable exceeding five percent (5%) of the amount paid for any period covered by the inspection is established in the course of any such inspection, whereupon all costs relating to the inspection for such period and any unpaid amounts that are discovered will be paid by the party to the favor of which the deviation occurred, together with interest on such unpaid amounts at the rate specified in Section 10.2 above.

10.5.2 Reimbursable Costs. Without limiting Section 10.5.1 above, it is understood that Section 10.5.1 shall apply with respect to Recoupable Development Costs, Manufacturing Costs and Other Operating Costs, provided that for such items the three (3) year period specified in 10.5.1 shall begin with the period in which Ciba recoups such amounts under Section 9.1 above. Within seventy-five (75) days after the end of each year during the term of the Development Program until all Recoupable Development Costs are recouped by Ciba under Section 9.1 above, Ciba shall provide to Neurocrine a written report describing in reasonable detail the Recoupable Development Costs incurred during such year, and the total Recoupable Development Costs incurred from the commencement of the Development Program through the end of such year.

ARTICLE 11

DUE DILIGENCE

11.1 Ciba. Ciba shall use the same diligent efforts with respect to the development, marketing, sale, promotion and monitoring of each Collaboration Product as Ciba expends for its own products being developed with similar market potential.

11.2 Exclusivity of Efforts. During the performance of the Programs, and thereafter until the approval of a PLA for a Collaboration Product in a Major Country, Ciba and Neurocrine each

agree not to develop or commercialize a product within the Field or to grant to a third party a license to sell any product specifically intended, at the time the license is granted, for use within the Field, other than Collaboration Products under this Agreement, subject to the following: In the event that such Collaboration Product can be developed additionally for (an) indication(s) other than MS ("Other Indications"), the parties may agree to develop and commercialize such Collaboration Product for Other Indications according to the terms of this Agreement. If Neurocrine does not agree to such development, Ciba may perform such development on its own and at its own expense; provided, however, to the extent Section 8.2 and Section 9.1.2 above would otherwise apply to such Collaboration Product: (i) no costs associated with such Other Indications for such Collaboration Product shall be included in Recoupable Development Costs hereunder; (ii) all costs associated with such Other Indications for a Collaboration Product, including without limitation the costs to launch and promote such Collaboration Product for such Other Indications, as well as the revenues from sales of such Collaboration Product for such Other Indications, shall all be excluded from the calculation of Pre-Tax Operating Profit for purposes of determining Neurocrine's Profit Share from such Collaboration Product; and (iii) the royalties specified in Article 9 above shall apply to all Net Sales of such Collaboration Product for such Other Indications throughout the world.

ARTICLE 12

MANUFACTURING RIGHTS

12.1 Manufacturing.

12.1.1 Generally. Subject to Sections 12.2 and 12.3 below, Ciba shall have the exclusive right to manufacture or have manufactured the Collaboration Products anywhere in the world for sale or use throughout the world. Neurocrine shall use its best efforts to make available to Ciba any necessary and/or useful manufacturing know-how of third parties manufacturing Collaboration Products.

12.1.2 Manufacture in U.S.. To the extent required by 35 U.S.C. ss.200 et seq, all Collaboration Products for sale in the United States shall be substantially manufactured in the United States. Neurocrine agrees to use good faith efforts to obtain a waiver of any such requirement under the Stanford License.

12.1.3 Manufacture by [*]. Neither [*] nor any entities controlled by [*] shall manufacture the Collaboration Products for the Marketing Collaboration without the written consent of Neurocrine.

12.2 Clinical Materials. Neurocrine shall use reasonable efforts to manufacture or have manufactured and supply to Ciba, and Ciba shall purchase from Neurocrine, such quantities of Collaboration Products as are reasonably required by Ciba to perform its obligations under the Development Program through Phase II trials in the United States pursuant to the Development

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Plan and Budget then in effect. All other Collaboration Products for use in the Development Program shall be manufactured or supplied by Ciba. The transfer price that Ciba shall pay to Neurocrine for quantities of such Collaboration Products pursuant to Section 6.2.2 shall be one hundred percent (100%) of Neurocrine's Manufacturing Costs of such Collaboration Products.

12.3 Canada and USA. In the event that a Marketing Collaboration is formed under Section 8.2 above to market a Collaboration Product in Canada and USA and Ciba elects to manufacture the Collaboration Product for commercialization in the USA and/or Canada, Ciba shall supply Collaboration Products for sale in Canada and USA at a price equal to Ciba's Manufacturing Cost for such Collaboration Products; provided, however, that if a third party can supply the Collaboration Product to the Marketing Collaboration in equivalent quality and reliability, in sufficient quantities and at a price that is less than Ciba's Manufacturing Cost for such Collaboration Product, either (i) the Collaboration Product shall be supplied to the Marketing Collaboration from such third party, or (ii) the Collaboration Product shall be supplied by Ciba at a price equal to the unit price at which the third party would supply such Collaboration Product. In connection with the Marketing Collaboration Agreement, the parties shall enter into a supply agreement ("Supply Agreement") with Ciba or their Affiliates on reasonable and customary terms with respect to the supply arrangements contemplated in this Section 12.3 for such Collaboration Products in Canada and USA.

ARTICLE 13

LICENSE GRANTS

13.1 Grant to Ciba. Subject to the terms and conditions of this Agreement, Neurocrine hereby grants to Ciba an exclusive license with the right to sublicense, under the Neurocrine Technology to manufacture, have manufactured, develop, use, sell, import, and otherwise distribute Collaboration Products for use within the Ciba Territory and North America. Without limiting the foregoing, it is understood that the license granted hereunder shall extend to the use of Collaboration Products for MS as well as any other indication outside the Field.

13.2 Grant to Neurocrine. Unless Neurocrine elects, pursuant to Section 8.2 above, not to establish or continue the Marketing Collaboration for a Collaboration Product in Canada and USA, Ciba hereby grants to Neurocrine such non-exclusive licenses under Ciba's patents and technology, as are necessary for the Marketing Collaboration as contemplated in Article 8 above. Such licenses shall be specified in further detail in the Marketing Collaboration Agreement.

13.3 No Rights Beyond Collaboration Products. Except as expressly provided in Section 11.2, nothing in this Agreement shall be deemed to grant to Ciba rights in products or technology other than the Collaboration Products or be deemed to restrict Neurocrine's right to exploit any Neurocrine Technology, as applicable, in products other than Collaboration Products.

ARTICLE 14

INTELLECTUAL PROPERTY

14.1 Ownership of Inventions. Title to all inventions and other intellectual property made solely by Ciba personnel in connection with the Research Program or the Development Program shall be owned by Ciba. Title to all inventions and other intellectual property made solely by Neurocrine personnel in connection with the Research Program or the Development Program shall be owned by Neurocrine. Title to all inventions and other intellectual property made jointly by personnel of Neurocrine and Ciba in connection with the Research Program or the Development Program shall be jointly owned by Ciba and Neurocrine. Subject to the exclusive rights granted to Ciba under this Agreement, and subject to the exclusivity of efforts described in Section 11.2, it is understood that neither party shall have any obligation to account to the other for profits, or to obtain any approval of the other party to license or exploit a joint invention, by reason of joint ownership of any invention or other intellectual property.

14.2 Patent Prosecution.

14.2.1 Neurocrine's Sole Inventions. Subject to Section 14.2.3 below, Neurocrine shall control, at its own expense (subject to 14.2.4 below), the worldwide preparation, filing, prosecution and maintenance of the patent applications and patents based on inventions within the Neurocrine Technology in consultation with Ciba under 14.2.5 below, in such countries as it deems appropriate, and conduct of any interferences, re-examinations, reissues, oppositions or requests for patent term extensions within the Neurocrine Technology using counsel of its choice.

14.2.2 Ciba's Sole Inventions. Subject to Section 14.2.1 above and 14.2.3 below, Ciba shall control, at its own expense (subject to 14.2.4 below), the worldwide preparation, filing, prosecution and maintenance of patent applications and patents owned or controlled by Ciba or its Controlled Affiliates relating to a Collaboration Product or its manufacture, sale or use (the "Ciba Patents") in consultation with Neurocrine under 14.2.5 below in such countries as it deems appropriate, and conduct of any interferences, re-examination, re-issues, oppositions or requests for patent term extensions within the Ciba Patents using counsel of its choice.

14.2.3 Joint Inventions. Subject to prior submission to Neurocrine, Ciba shall have the right to file, prosecute and maintain patent applications, patents and other intellectual property protection for inventions that are owned jointly by Ciba and Neurocrine under Section 14.1 above, and Neurocrine agrees to take all reasonable action to cooperate with Ciba in this regard. Ciba shall keep Neurocrine informed of the status of each joint invention for which patent applications have been filed and shall consult with Neurocrine with respect to the drafting of such patent applications and responses required during prosecution in each country wherein patent protection is sought for such joint invention prior to submission of such patent application(s) and/or response(s). Each party shall promptly reimburse the other for one-half (1/2) of the reasonable out-of-pocket expenses in connection with such activities as they are incurred, unless and until Neurocrine notifies Ciba that

Neurocrine will no longer reimburse Ciba for any further costs under this Section 14.2.3 related to any patent or patent application, in which case all right, title and interest in and to such patent or application (as the case may be) and any patents issuing thereon shall be owned by Ciba (in which case such patent applications and patents issuing therefrom shall be within the Ciba Patents for purposes of this Agreement), and in such event Neurocrine shall promptly execute any document(s) required to transfer Neurocrine's right, title and interest in and to such patent application(s) or patent(s) subsequent to such notification to Neurocrine. In the event Ciba elects not to take such action or reimburse Neurocrine's costs with respect to any jointly owned inventions in accordance with this Section 14.2, then Neurocrine shall have the right to file, prosecute and maintain such patent applications or patents at its sole expense, in which case all right, title and interest in and to such patent or application (as the case may be) and any patents issuing thereon shall be owned by Neurocrine and, in such event, Ciba shall promptly execute any document(s) required to transfer Ciba's entire right, title and interest in and to such patent application(s) or patent(s) upon receipt of a request from Neurocrine to do so.

14.2.4 Sharing Other Costs. Ciba and Neurocrine shall share equally the reasonable out-of-pocket expenses incurred by Neurocrine or Ciba with respect to the filing, prosecution, and maintenance of patents (i) under the Stanford License Agreement and (ii) any other patents, patent applications or other intellectual property (including the Neurocrine Patents) owned by Ciba or Neurocrine (except joint inventions by the said parties) or licensed to Neurocrine or Ciba (individually or collectively, the "Third Party Technology") which the parties reasonably agree are necessary or materially beneficial to the commercialization of the Collaboration Products. With respect to any interferences, re-examinations, reissues, oppositions, requests for patent term extensions or the like, Ciba shall pay the costs thereof for the Ciba Territory, and Neurocrine shall bear a percentage of the cost of such proceedings in [*] equal to the percentage of [*] (i.e. [*]), if any, in effect at the time such costs are incurred. With respect to any such action for which Ciba shall pay more than one-half (1/2) of the out-of-pocket costs, Ciba shall have the right to control such action; if in such case Ciba fails to commence the particular action within the earlier of one hundred twenty (120) days after a request by Neurocrine to do so, or the time by which such action must be taken to preserve the right to do so, or Ciba thereafter fails diligently to pursue such action, Neurocrine shall have the right to take such action at its own expense, in which case the license granted to Ciba hereunder with respect to any Neurocrine Patent that is the subject of such action shall thereafter become non-exclusive, and Section 11.2 shall not apply with respect to any grant by Neurocrine of a license thereunder.

14.2.5 Cooperation. Each of Neurocrine and Ciba shall keep the other reasonably informed as to the status of patent matters pertaining to the Neurocrine Patents and Ciba Patents, as applicable, including providing to the other party copies of any significant documents that such party receives from or sends to patent offices, such as notices of interferences, re-examinations, oppositions or requests for patent term extensions, all as reasonably requested by the other party. Neurocrine and Ciba shall each cooperate with and assist the other in connection with such activities, at the other party's request and expense, and shall use good faith efforts to consult with

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each other regarding the prosecution and maintenance of the Ciba Patents and the Neurocrine Patents as is reasonably appropriate.

14.3 Defense of Third Party Infringement Claims. If the production, sale or use of any Collaboration Product pursuant to this Agreement results in a claim, suit or proceeding (collectively, "Actions") alleging patent infringement against Neurocrine or Ciba (or their respective Affiliates or Sublicensees), such party shall promptly notify the other party hereto in writing. The party subject to such Action shall have the exclusive right to defend and control the defense of any such Action using counsel of its own choice, and the Action, subject to Article 17, shall be at such party's own expense; provided, however, that the other party may participate in the defense and/or settlement thereof at its own expense with counsel of its choice. Except as agreed in writing by Ciba and Neurocrine, the party named in the Action shall not enter into any settlement relating to a Collaboration Product, if such settlement admits the invalidity or unenforceability of any patent within the Neurocrine Patents or the Ciba Patents, as applicable, of the other party. The party in the Action agrees to keep the other party hereto reasonably informed of all material developments in connection with any such Action.

14.4 Enforcement. Subject to the provisions of this Section 14.4, in the event that Neurocrine or Ciba reasonably believes that any Neurocrine Patents or Ciba Patents necessary for the manufacture, use or sale of a Collaboration Product is infringed or misappropriated by a third party or is subject to a declaratory judgment action arising from such infringement in such country, in each case with respect to the manufacture, sale or use of a product within the Field, Ciba or Neurocrine (respectively) shall promptly notify the other party hereto. The party whose patent is so allegedly infringed or misappropriated, or is subject to such declaratory judgment action, (for purposes of this Section 14.4, the "Owner") shall have the initial right (but not the obligation) to enforce such patent or defend any declaratory judgment action with respect thereto (for purposes of this Section 14.4, an "Enforcement Action").

14.4.1 Initiating Actions. In the event that the Owner fails to initiate an Enforcement Action to enforce the Neurocrine Patents or the Ciba Patents, as applicable, against a commercially significant infringement by a third party in a country, which infringement consists of the manufacture, sale or use of a product within the Field in such country, within one hundred eighty (180) days of a request by the other party to this Agreement ("Other Party") to initiate such Enforcement Action, such Other Party may initiate an Enforcement Action against such infringement at its own expense with the Owner's prior written approval, which approval shall not be unreasonably withheld. The Owner shall cooperate in such Enforcement Action at the Other Party's expense, provided that the Other Party indemnifies the Owner against any liability to other parties to the litigation arising therefrom. The party initiating or defending any such Enforcement Action shall keep the Other Party hereto reasonably informed of the progress of any such Enforcement Action, and such Other Party shall have the right to participate with counsel of its own choice at its own expense.

14.4.2 Recoveries. The party initiating the Enforcement Action under this Section 14.4 shall have the right to retain any recoveries therein but shall reimburse the Other Party all the cost and expenditure as documented which the latter may have reasonably incurred at the initiating party's request in the context of the infringement.

14.5 Third Party Rights. The foregoing provisions of this Article 14 shall be subject to and limited by any Third Party Agreements pursuant to which Neurocrine and Ciba, as the case may be, acquired any particular Neurocrine Patents or Ciba Patents.

ARTICLE 15

REPRESENTATIONS AND WARRANTIES

15.1 Neurocrine Warranties. Neurocrine warrants and represents to Ciba that (i) it has the full right and authority to enter into this Agreement and grant the rights and licenses granted herein; (ii) it has not previously granted and will not grant any rights in conflict with the rights and licenses granted herein; (iii) to its knowledge and belief and after diligent search, Neurocrine has not received from a third party notice that the manufacture, sale or use of a product in the Field would infringe any intellectual property rights of such third party and no action, suit or claim has been initiated or threatened against Neurocrine with respect to the Neurocrine Technology or its right to enter into and perform its obligations under this Agreement; (iv) it has not previously granted, and will not grant during the term of this Agreement, any right, license or interest in or to the Neurocrine Technology, or any portion thereof, to manufacture, sell or use a Collaboration Product that is in conflict with the rights or licenses granted under this Agreement; and (v) the agreements listed in Exhibit A is a complete and accurate list of all agreements between Neurocrine and third parties pertaining to the Collaboration Products that are in existence as of the Effective Date.

15.2 Ciba Warranties. Ciba warrants and represents to Neurocrine that (i) it has the full right and authority to enter into this Agreement and grant the rights and licenses granted herein; (ii) it has not previously granted and will not grant any rights in conflict with the rights and licenses granted herein; (iii) to its knowledge and belief and after diligent search, Ciba has not received from a third party notice that the manufacture, sale or use of a product in the Field would infringe any intellectual property rights of such third party and no action, suit or claim has been initiated or threatened against Ciba with respect to the Ciba Technology or its right to enter into and perform its obligations under this Agreement; (iv) it has not previously granted, and will not grant during the term of this Agreement, any right, license or interest in or to the Ciba Technology, or any portion thereof, to manufacture, sell or use a Collaboration Product that is in conflict with the rights or licenses granted under this Agreement; and (v) as of the Effective Date, Ciba has not entered into an agreement with any third party to acquire rights to any patent or technology which Ciba believes is reasonably necessary to allow the manufacture, use or sale of a Collaboration Product in any country and which would require the payment of royalties on Net Sales of such Collaboration Product.

15.3 Disclaimer of Warranties. NEUROCRINE AND CIBA EXPRESSLY DISCLAIM ANY WARRANTIES OR CONDITIONS, EXPRESS, IMPLIED, STATUTORY OR OTHERWISE, WITH RESPECT TO THE RESEARCH, PRODUCT DEVELOPMENT, AND THE NEUROCRINE AND CIBA INTELLECTUAL PROPERTY, INCLUDING, WITHOUT LIMITATION, ANY WARRANTY OF MERCHANTABILITY, NONINFRINGEMENT, OR FITNESS FOR A PARTICULAR PURPOSE, VALIDITY OF NEUROCRINE OR CIBA TECHNOLOGY, PATENTED OR UNPATENTED, AND NONINFRINGEMENT OF THE INTELLECTUAL PROPERTY RIGHTS OF THIRD PARTIES.

ARTICLE 16

CONFIDENTIALITY

16.1 Confidential Information. Except as expressly provided herein, the parties agree that, for the term of this Agreement and for seven (7) years thereafter, the receiving party shall not publish or otherwise disclose and shall not use for any purpose any information furnished to it by the other party hereto pursuant to this Agreement which if disclosed in tangible form is marked "Confidential" or with other similar designation to indicate its confidential or proprietary nature or if disclosed orally is confirmed in writing within a reasonable time after such disclosure to be confidential or proprietary by the party disclosing such information at the time of such disclosure ("Confidential Information"). Notwithstanding the foregoing, Confidential Information shall not include information that, in each case as demonstrated by written documentation:

(a) was already known to the receiving party, other than under an obligation of confidentiality, at the time of disclosure;

(b) was generally available to the public or otherwise part of the public domain at the time of its disclosure to the receiving party;

(c) became generally available to the public or otherwise part of the public domain after its disclosure and other than through any act or omission of the receiving party in breach of this Agreement; or

(d) was subsequently lawfully disclosed to the receiving party by a person other than a party or developed by the receiving party without reference to any information or materials disclosed by the disclosing party.

16.2 Permitted Disclosures. Notwithstanding the provisions of Section 16.1 above, each party hereto may disclose the other party's Confidential Information to the extent such disclosure is reasonably necessary to exercise the rights granted to it under this Agreement (including the right to grant sublicenses, as applicable), in filing or prosecuting patent applications, prosecuting or defending litigation, as required by law or applicable governmental regulations, submitting

information to tax or other governmental authorities, or conducting clinical trials hereunder with respect to Collaboration Products, provided that if a party is required by law or applicable governmental regulations, to make any such disclosure of the other party's Confidential Information, to the extent it may legally do so, it will give reasonable advance notice to the latter party of such disclosure and, save to the extent inappropriate in the case of patent applications or otherwise, will use its reasonable efforts to secure confidential treatment of such information prior to its disclosure (whether through protective orders or otherwise). If the party whose Confidential Information is to be disclosed has not filed a patent application with respect to such Confidential Information, it may require the other party to delay the proposed disclosure (to the extent the disclosing party may legally do so), for a reasonable period of time to allow for the filing of such an application.

ARTICLE 17

INDEMNIFICATION

17.1 Indemnification of Neurocrine. Ciba shall indemnify each of Neurocrine and its Affiliates and the directors, officers, and employees of Neurocrine and such Affiliates and the successors and assigns of any of the foregoing (the "Neurocrine Indemnitees"), and hold each Neurocrine Indemnitee harmless from and against any and all liabilities, damages, settlements, claims, actions, suits, penalties, fines, costs or expenses (including, without limitation, reasonable attorneys' fees and other expenses of litigation) (any of the foregoing, a "Claim") incurred by any Neurocrine Indemnitee, arising from or occurring as a result of (a) claims relating to any Collaboration Product(s) used, sold or otherwise distributed by Ciba, its Affiliates or Sublicensees, except to the extent such claim is caused by the negligence or willful misconduct of a Neurocrine Indemnitee and/or breach of Neurocrine's representations and warranties under Article 15; or (b) subject to Section 9.4.2 above, infringement claims brought by third parties with respect to the manufacture, sale or use of Collaboration Products hereunder or the conduct of the Research Program or Development Program.

17.2 Indemnification of Ciba. Neurocrine shall indemnify each of Ciba and its Affiliates and the directors, officers, and employees of Ciba and such Affiliates and the successors and assigns of any of the foregoing (the "Ciba Indemnitees"), and hold each Ciba Indemnitee harmless from and against any and all liabilities, damages, settlements, claims, actions, suits, penalties, fines, costs or expenses (including, without limitation, reasonable attorneys' fees and other expenses of litigation) (any of the foregoing, a "Claim") incurred by any Ciba Indemnitee, arising from or occurring as a result of (i) the negligence or willful misconduct of Neurocrine, or (ii) breach by Neurocrine's representations and warranties under Article 15.

17.3 Procedure. A party (the "Indemnitee") that intends to claim indemnification under this Article shall promptly notify the other party (the "Indemnitor") in writing of any loss, claim, damage, liability or action in respect of which the Indemnitee or any of its Affiliates, Sublicensees or their directors, officers, employees or agents intend to claim such indemnification, and, except for matters

described in Section 17.1(b) above, the Indemnitor shall have sole control of the defense and/or settlement thereof. The indemnity agreement in this Article shall not apply to amounts paid in settlement of any loss, claim, damage, liability or action if such settlement is effected without the consent of the Indemnitor, which consent shall not be withheld unreasonably. The failure to deliver written notice to the Indemnitor within a reasonable time after the commencement of any such action, if prejudicial to its ability to defend such action, shall relieve such Indemnitor of any liability to the Indemnitee under this Article but the omission so to deliver written notice to the Indemnitor shall not relieve the Indemnitor of any liability that it may have to any Indemnitee otherwise than under this Article. The Indemnitee under this Article, its employees and agents, shall cooperate fully with the Indemnitor and its legal representatives in the investigation of any action, claim or liability covered by this indemnification.

ARTICLE 18

TERM AND TERMINATION

18.1 Term. This Agreement shall become effective as of the Effective Date and, unless earlier terminated pursuant to the other provisions of this Article 18, shall continue in full force and effect on a product-by-product and country-by-country basis, until the later of: (i) such time as neither the manufacture, sale nor use of the particular Collaboration Product would infringe a Valid Claim in such country; or (ii) [*] years after the first commercial sale of such Collaboration Product in such country.

18.2 Termination for Cause. Either party to this Agreement may terminate this Agreement in the event the other party shall have materially breached or defaulted in the performance of any of its material obligations hereunder, and such default shall have continued for sixty (60) days after written notice thereof was provided to the breaching party by the non-breaching party. Any termination shall become effective at the end of such sixty (60) day period unless the breaching party (or any other party on its behalf) has cured any such breach or default prior to the expiration of the sixty (60) day period.

18.3 Termination Upon Notice. Ciba may terminate this Agreement upon six (6) months written notice to Neurocrine; provided, however, that such notice may not be delivered prior to December 30, 1997.

18.4 Termination For Infeasibility. Ciba may terminate this Agreement according to the procedure defined in Section 9.1.2 above upon the occurrence of any Infeasibility Event referring to all Collaboration Products under development; provided that such termination shall not take effect prior to January 1, 1998.

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18.5 Effect of Termination.

18.5.1 Accrued Obligations. Termination of this Agreement for any reason shall not release any party hereto from any liability which, at the time of such termination, has already accrued to the other party or which is attributable to a period prior to such termination nor preclude either party from pursuing all rights and remedies it may have hereunder or at law or in equity with respect to any breach of this Agreement.

18.5.2 Survival. Articles 1, 16, 18, 19 and 20, Sections 5.1.1, 10.2, 10.3, 10.4, 10.5, 13.3, 14.1 and 14.2.3 of this Agreement shall survive expiration or termination of this Agreement for any reason. In addition:

(a) It is understood that following an expiration (but not an earlier termination, except as provided in this Section 18.5), this Agreement shall not be deemed to prevent Ciba from continuing to commercialize Collaboration Products in the Ciba Territory without obligation to Neurocrine, other than with respect to paying any royalties or other obligations owed to third parties as a result of such commercialization under any Third Party Agreement(s).

(b) Upon the expiration, but not an earlier termination, of this Agreement, any Marketing Collaboration formed with respect to a Collaboration Product shall survive, and the provisions of Section 8.2, 8.3, 8.4, 8.5, 9.1.1, 9.1.3, 9.4.3, 12.3 and Article 10, applicable to such Collaboration Product shall also survive. In the event that Neurocrine has elected not to enter into or continue or in the event that Neurocrine elects not to continue a Marketing Collaboration for a Collaboration Product this Agreement shall not be deemed to prevent Ciba from continuing respectively from starting to commercialize such Collaboration Product in Canada and USA without obligation to Neurocrine other than with respect to paying any royalties or other obligations owed to third parties as a result of such commercialization and any Third Party Agreements(s).

(c) In the event of a termination by Ciba under Section 18.2 by reason of a material breach by Neurocrine, Ciba shall have an exclusive, worldwide license, with the right to grant and authorize sublicenses, under the Neurocrine Technology to make, have made, develop, use and sell the Collaboration Products and in addition to the other Articles surviving as set forth above, Sections 8.3, 9.1.3, 9.2, 9.3, 9.4, 9.5, 14.3, 14.4 and 14.5, and Article 10, shall also survive provided that (i) any royalties thereafter payable by Ciba to Neurocrine with respect to sales of such Collaboration Product shall be reduced by [*] of the amounts stated in Article 9 above.

(d) In the event of a termination of this Agreement by Neurocrine under Section 18.2 by reason of a material breach by Ciba, or by reason of a termination of this Agreement by Ciba under Section 18.3 or 18.4: (i) Ciba's obligations and Neurocrine's rights (but not Ciba's rights or Neurocrine's obligations) under Section 5.2 and Sections 5.1.1 and 7.1 shall also survive; (ii) Neurocrine shall have an exclusive, worldwide license, with the right to grant and authorize sublicenses under any Ciba Patents (as defined in 14.2.2 above), to import, export, make, use and

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sell Collaboration Products; (iii) Neurocrine shall have the right to use and disclose to third parties for any purpose the items and information described in Sections 5.1.1 and 7.1, or provided to Neurocrine as described below (including without limitation the right to reference any regulatory filings made with respect to Collaboration Products); and (iv) with respect to a termination by Ciba under Section 18.4, Neurocrine's obligations under Section 9.1.2 shall also survive. In any such event, Ciba shall provide to Neurocrine within thirty (30) days of such termination all data, including all clinical data developed or obtained by Ciba pursuant to the Development Program; and any regulatory documents prepared for submission or submitted by Ciba to any health regulatory agency with respect to any Collaboration Product. Upon any termination described in this part 18.5.2(d), Ciba shall diligently proceed in good faith to assign to Neurocrine all governmental filings, including all INDs, PLAs, NDAs and the like (and any foreign equivalents thereof) with respect to Collaboration Products and to otherwise assist Neurocrine as Neurocrine may reasonably request to enable Neurocrine or its designee to commercialize the Collaboration Product(s) in an expeditious manner. In the event that Neurocrine elects to exercise the license granted to it under (ii) above with respect to a Collaboration Product (it being understood that Neurocrine may terminate such license with respect to any particular Ciba Patent(s) or Collaboration Products(s) by so notifying Ciba), Neurocrine shall pay to Ciba a reasonable royalty on net sales by Neurocrine of such Collaboration Product the sale of which would, but for such license, infringe a valid claim of an issued patent within the Ciba Patents in the country for which such Collaboration Product is sold; such royalty shall not exceed [*] of the royalties specified in Section 9.2 above, applied on a worldwide basis. If the parties are unable to agree upon such royalty the matter shall be resolved, consistent with the foregoing, pursuant to Section 19.2 below, except that the arbitration shall be completed within sixty (60) days after the appointment of the Panel.

(e) It is understood that upon a termination by Ciba under Section 18.3 or 18.4 above, Ciba's obligation to make payments under Section 6.2 above shall continue until the effective date of such termination. In addition, in such event, Ciba shall reimburse Neurocrine for any noncancellable commitments that were pre-approved by the Steering Committee. In the event of such a termination, the parties shall agree upon a reasonable plan to wind-down Ciba's activities under the Development Program.

ARTICLE 19

DISPUTE RESOLUTION

19.1 Disputes. If the parties are unable to resolve any dispute between them arising out of this Agreement, either party may, by written notice to the other, have such dispute referred to the Chief Executive Officer of Neurocrine and a member of the Management Committee of the Pharmaceutical Division of Ciba, for attempted resolution by good faith negotiations within twenty-one (21) days after such notice is received. Unless otherwise mutually agreed, the negotiations between the designated officers should be conducted by telephone, with three (3) days and times

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within the period stated above offered by the designated officer of Ciba to the designated officer of Neurocrine for consideration.

19.2 Full Arbitration. Any dispute, controversy or claim arising out of or relating to the validity, construction, enforceability or performance of this Agreement, including disputes relating to alleged breach or to termination of this Agreement shall be settled by binding arbitration in the manner described in this Section 19.2. The arbitration shall be conducted pursuant to the Commercial Rules and Supplementary Procedures for Large, Complex Disputes of the American Arbitration Association then in effect. Notwithstanding those rules, the following provisions shall apply to the arbitration hereunder:

19.2.1 Arbitrators. The arbitration shall be conducted by a single arbitrator; provided that at the request of either party, the arbitration shall be conducted by a panel of three (3) arbitrators, with one (1) arbitrator chosen by each of Neurocrine and Ciba and the third appointed by the other two (2) arbitrators. If the parties are unable to agree upon a single arbitrator, or the third arbitrator in case of a panel of three (3), such single or third arbitrator (as the case may be) shall be appointed in accordance with the rules of the American Arbitration Association. In any event, the arbitrator or arbitrators selected in accordance with this Section 19.2.1 are referred to herein as the "Panel."

19.2.2 Proceedings. The parties and the arbitrators shall use their best efforts to complete the arbitration within six (6) months after the appointment of the Panel under Section 19.2.1 above, unless a party can demonstrate to the Panel that the complexity of the issues or other reasons warrant the extension of one or more of the time tables. In such case, the Panel may extend such time table as reasonably required. The Panel shall, in rendering its decision, apply the substantive law of the State of New York, without regard to its conflict of laws provisions, except that the interpretation of and enforcement of this Article 19 shall be governed by the U.S. Federal Arbitration Act. The proceeding shall be conducted in English and shall take place in New York, New York. The fees of the Panel shall be paid by the losing party which party shall be designated by the Panel. If the Panel is unable to designate a losing party, it shall so state and the fees shall be split equally between the parties. Neither party shall initiate an arbitration hereunder unless it has attempted to resolve the matter in accordance with Section 19.1 above. Any award with respect to late payments due hereunder shall include interest at commercially reasonable rates from the date such payments were due.

ARTICLE 20

MISCELLANEOUS

20.1 Governing Law. This Agreement and any dispute arising from the performance or breach hereof shall be governed by and construed and enforced in accordance with, the laws of the State of New York, without reference to conflicts of laws principles or the U.N. Convention on the Sale of Goods.

20.2 Force Majeure. Nonperformance of any party shall be excused to the extent that performance is rendered impossible by strike, fire, earthquake, flood, governmental acts or orders or restrictions, failure of suppliers, or any other reason where failure to perform is beyond the reasonable control of the nonperforming party.

20.3 No Implied Waivers; Rights Cumulative. No failure on the part of Neurocrine or Ciba to exercise and no delay in exercising any right under this Agreement, or provided by statute or at law or in equity or otherwise, shall impair, prejudice or constitute a waiver of any such right, nor shall any partial exercise of any such right preclude any other or further exercise thereof or the exercise of any other right.

20.4 Independent Contractors. Nothing contained in this Agreement is intended implicitly, or is to be construed, to constitute Neurocrine or Ciba as partners in the legal sense. No party hereto shall have any express or implied right or authority to assume or create any obligations on behalf of or in the name of any other party or to bind any other party to any contract, agreement or undertaking with any third party.

20.5 Notices. All notices, requests and other communications hereunder shall be in writing and shall be personally delivered or sent by registered or certified mail, return receipt requested, postage prepaid, in each case to the respective address specified below, or such other address as may be specified in writing to the other parties hereto:

Ciba:	Ciba-Geigy Limited Klybeckstrasse 141 CH-4002 Basel, Switzerland Attn: Head, Pharma Licensing cc: Legal Department, Pharma Counsel
Neurocrine:	Neurocrine Biosciences, Inc, 3050 Science Park Road San Diego, California 92121-1102 Attn: Gary A. Lyons, President, CEO
with a copy to:	Wilson Sonsini Goodrich & Rosati 650 Page Mill Road Palo Alto, California 94304-1050 Attn: Kenneth A. Clark, Esq.

20.6 Assignment. This Agreement shall not be assignable by either party to any third party hereto without the written consent of the other party hereto; except that either party may assign this Agreement without the other party's consent to a Controlled Affiliate and/or an entity that acquires substantially all of the business or assets of the assigning party, in each case whether by merger, acquisition, or otherwise; provided that in the case of an assignment to a Controlled Affiliate, the

assigning party shall remain fully responsible for all of its obligations hereunder. It is understood that Ciba or its successor may assign this Agreement to an entity that acquires substantially all of its pharmaceutical business and assets.

20.7 Modification. No amendment or modification of any provision of this Agreement shall be effective unless in writing signed by all parties hereto. No provision of this Agreement shall be varied, contradicted or explained by any oral agreement, course of dealing or performance or any other matter not set forth in an agreement in writing and signed by all parties.

20.8 Severability. If any provision hereof should be held invalid, illegal or unenforceable in any jurisdiction, the parties shall negotiate in good faith a valid, legal and enforceable substitute provision that most nearly reflects the original intent of the parties and all other provisions hereof shall remain in full force and effect in such jurisdiction and shall be liberally construed in order to carry out the intentions of the parties hereto as nearly as may be possible. Such invalidity, illegality or unenforceability shall not affect the validity, legality or enforceability of such provision in any other jurisdiction.

20.9 Publicity. Each of the parties hereto agrees not to disclose to any third party the terms of this Agreement without the prior written consent of the other party hereto, except to advisors, investors and others on a strict need-to-know basis, or to the extent required by law. Notwithstanding the foregoing, the parties shall agree upon a press release to announce the execution of this Agreement, together with a corresponding Question & Answer outline for use in responding to inquiries about the Agreement; thereafter, Ciba and Neurocrine may each disclose to third parties the information contained in such press release and Question & Answer outline at the agreed date and time and thereafter without the need for further approval by the other.

20.10 Counterparts. This Agreement may be executed in two counterparts, each of which shall be deemed an original, and all of which together, shall constitute one and the same instrument.

20.11 Headings. Headings used herein are for convenience only and shall not in any way affect the construction of or be taken into consideration in interpreting this Agreement.

20.12 Export Laws. Notwithstanding anything to the contrary contained herein, all obligations of Neurocrine and Ciba are subject to prior compliance with United States and foreign export regulations and such other United States and foreign laws and regulations as may be applicable, and to obtaining all necessary approvals required by the applicable agencies of the governments of the United States and foreign jurisdictions. Neurocrine and Ciba shall cooperate with each other and shall provide assistance to the other as reasonably necessary to obtain any required approvals.

20.13 Entire Agreement. This Agreement and the Exhibits hereto constitute the entire agreement, both written or oral, with respect to the subject matter hereof, and supersede all prior or contemporaneous understandings or agreements, including but not limited to the Letter Agreement

dated January 19, 1996, whether written or oral, between Neurocrine and Ciba with respect to such subject matter.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and delivered in duplicate originals as of the date first above written.

NEUROCRINE BIOSCIENCES, INC.

By: /s/ GARY LYNN

Name: Gary Lynn

Title: President/CEO

CIBA-GEIGY LIMITED

By: /s/ HANS F. MOHR

Hans F. Mohr
Head, Pharma Licensing

By: /s/ OLIVIER BASSI

Olivier Bassi
Division Counsel

EXHIBIT A

NEUROCRINE THIRD PARTY AGREEMENTS

1. Agreement pertaining to "Peptide Determinant Associated with Immunity" dated as of November 30, 1994 between Neurocrine and The Board of Trustees of the Leland Stanford Junior University;

2. Cooperative Research and Development Agreement between Neurocrine and the National Institutes of Health, Neuroimmunology Branch executed as of June 30, 1995.

Any provisions of such Third Party Agreements that are required to be included in this Agreement are hereby incorporated by reference.

EXHIBIT B

DIRECT MANUFACTURING COSTS

As used in Section 1.16, and subject to Section 1.34, "direct costs" shall mean the following items:

[*]

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EXHIBIT C

OTHER OPERATING COSTS

As used herein, "Other Operating Costs" shall mean a reasonable allocation for Ciba's overhead costs associated with the following items to the manufacture and sale of a Collaboration Product in the United States or Canada, which allocation shall be made in accordance with generally accepted cost accounting principles consistently applied by Ciba across all similar pharmaceutical operations:

[*]

[*]

* not allocated elsewhere

** no allocation shall be made for manufacturing operations if the Collaboration Product is manufactured by a Third Party

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EXHIBIT D

DIRECT COSTS INCURRED BY CIBA
PERFORMING THE DEVELOPMENT PROGRAM

As used in Section 1.27, and subject to Section 1.34, "direct costs" shall mean the following items:

[*]

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EXHIBIT 10.25

Pharmaceuticals Division

CIBA

Ciba-Geigy Corporation
556 Morris Avenue
Summit, NJ 07901-1398
Telephone 908 277-5000

Mr. Gary Lyons
Neurocrine Biosciences, Inc.
3050 Science Park Road
San Diego, CA 92121-1102

Dear Gary:

This is to confirm the need for, and Ciba's commitment to fund, the production of [*] of NBI-5788, subject to the contractual standards and cGMP regulations. Production and subsequent delivery are anticipated to be staggered per the purchase order or as agreed between Ciba and Neurocrine Biosciences with payment due upon delivery or shortly thereafter, as requested.

Should you have any questions, do not hesitate to contact me at (908) 277-7283.

Sincerely,

/s/ RONALD M. CALIFRE
- ---------------------------------
Ronald M. Califre
Senior Vice President,
Medicine & Clinical Development

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NEUROCRINE

PAGE NO.	P.O. NO.	ORDER DATE	VEND. NO.
1	17806	06/07/96	BAC

Biosciences, Inc.
3050 Science Park Road
San Diego, CA 92121-1102
Phone: (619) 658-7600
FAX: (619) 658-7602

PURCHASE ORDER

V		S	
E	BACHEM, INC.	H	NEUROCRINE BIOSCIENCES
N	P. O. Box 3426	I	3050 SCIENCE PARK RD
D	TORRANCE, CA 90510	P	SUITE 100
O	FAX: (310) 530-1571		SAN DIEGO, CA 92121
R		T	DR. PRASAD SUNKARA
		O	

ORDER DATE	CANCELLATION DATE	SHIP VIA	F.O.B.	TERMS
06/07/96	12/31/99			NET 30

RESALE NO.	RESPONSIBILITY	BRANCH
	PRASAD SUNKARA	

ITEM NO. / MFG. NO.	DESCRIPTION	REQ. DATE / LOCATION	QUANTITY ORDERED	QUANTITY BACK ORD.	QTY REC	UNIT PRICE	EXTENSION
	[*] NBI PEPTIDE #5788 AT THE PRICE OF [*] ACCORDING TO ACCOMPANYING CONTRACT FOR MANUFACTURE AND cGMP REGULATIONS. DELIVERY IS AS FOLLOWS: [*] THIS INFORMATION IS PROPRIETARY AND SHOULD REMAIN CONFIDENTIAL	06/07/96	1		[*]		[*]

SUB TOTAL [*] [*]

PURCHASE ORDER #	TOTAL ORDER VALUE
17806	

/SIG/
- ----------
Authorized Signature

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ORDER TERMS AND CONDITIONS

1. Invoices must bear exact same prices and terms or authorization for changes must be received from our company in writing prior to shipping.

2. Gods not in accordance with specifications will be rejected and held at vendor's risk awaiting disposal. Vendor must pay freight on all rejected material.

3. The right is reserved to cancel all or part of this order if not delivered within the time specified.

4. Packing slips must accompany all shipments.

5. By acceptance of this order, vendor warrants that all merchandise shipped under this order does comply with all laws and regulations of Federal and State governments.

6. Back orders must be prepaid when less than a minimum freight shipment.

7. In the event of interruption of our business in whole or in part by reason of fire, flood, windstorm, earthquake, war, strike, embargo, acts of God, governmental action, or any causes beyond our control, we shall have the option of cancelling undelivered orders in whole or part.

8. Acceptance of this purchase order, or shipment of any part of it will constitute an agreement to all of its specifications as to terms, delivery and prices.

EXHIBIT 10.26

THIRD LEASE AMENDMENT

This Lease Amendment (Amendment) is made as of June 6, 1996, between TALCOTT REALTY I LIMITED PARTNERSHIP (Landlord) and NEUROCRINE BIOSCIENCES, INC. (Tenant).

RECITALS:

Landlord's predecessor-in-interest, Hartford Accident and Indemnity Company, and Tenant entered into a lease dated June 1, 1993, as amended by First Lease Amendment dated July 8, 1993, Landlord's Subordination Agreement dated December 6, 1993, Landlord's Subordination Agreement dated November 18, 1994, Second Lease Amendment dated June 30, 1995, and Letter Agreement dated December 20, 1995 (Lease) for space known as Suite 100 (Premises) in the building located at 3050 Science Park Road, San Diego, California (Building). Tenant desires to extend the Term of the Lease and to expand the Premises to include the entire Building and Landlord has agreed to such extension and expansion, subject to the terms hereof. Any capitalized term used herein and not otherwise defined shall have the meaning given to it in the Lease.

NOW THEREFORE, the parties hereby agree to amend the Lease as follows:

1. The Termination Date of the Lease shall be the later of June 30, 2006 or the last day of the 120th full calendar month after the Hybritech Space Commencement Date (as defined in Section 2 of this Amendment).

2. Commencing on the later of June 17, 1996 or the date Landlord delivers possession of the Hybritech Space, as defined in and subject to Section 8 of this Amendment (the Hybritech Space Commencement Date):

(a) In Section II.A. of the Lease, the Premises shall be deemed to consist of the entire Building (approximately [*] rentable square feet).

(b) Sections II.J. & K. of the Lease shall be modified as follows:

(1) From the Hybritech Space Commencement Date to the date which is 61 days after the Hybritech Space Commencement Date (expected to be June 17, 1996 to August 16, 1996), the Monthly Installments of Base Rent shall be at the rate of [*] per month, and effective the 62nd day after the Hybritech Space Commencement Date (expected to be August 17, 1996), the Base Rent shall be [*] per annum and Monthly Installments of Base Rent shall be [*]. For purposes of illustration only, if the Hybritech Space Commencement Date is June 17, 1996, the Monthly Installments of Base Rent for the months of June, July and August of 1996 would be computed as follows:

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For the month of June: on June 1, 1996, Tenant would have paid a Monthly Installment of Base Rent in the amount of [*] (Old Monthly Installment). After prorating the Old Monthly Installment for 16 days and the Monthly Installment of Base Rent at the rate payable for the last 14 days of June, the resulting payment for June would be [*], entitling Tenant to a credit of $1,144.16 against the Monthly Installment of Base Rent for July.

For the month of July: [*], computed by deducting the credit from June from the Monthly Installment of Base Rent at the rate due for July.

For the month of August: [*], computed by prorating the Monthly Installment of Base Rent at the rate due for the first 16 days of August and the Monthly Installment of Base Rent at the rate due for the last 15 days of August.

(2) The Base Rent shall thereafter increase as follows: commencing on the first day of the fourth Lease Year (January 1, 1997) and on the first day of each Lease Year thereafter, the Base Rent to be paid by Tenant during such Lease Year shall automatically increase, without notice to Tenant, to the greater of (A) an amount equal to [*] percent of the Base Rent for the immediately preceding Lease Year or (B) the lesser of (1) an amount equal to [*] percent of the Base Rent for the immediately preceding Lease Year or (2) the "CPI Amount". The CPI Amount shall be determined as follows: the level of the CPI (as defined below) on the first day of the third Lease Year shall be deemed to be the "base level". If the CPI on the first day of the fourth Lease Year or on any anniversary of such date thereafter is in excess of the base level, the CPI Amount for such Lease Year shall be an amount equal to the Base Rent for the third Lease Year increased by the same percentage as the percentage change in the CPI above the base level. For purposes of this section, the Base Rent for the third Lease Year shall be deemed to be [*] plus the product of the Monthly Amortization Payment (as defined in Section 6(b)) multiplied by 12. "CPI" shall mean the United States Bureau of Labor Statistics Consumer Price Index for Urban Wage Earners and Clerical Workers (Revised Series), All Items, San Diego, California. The CPI for a specific date (as required by this Lease) shall be deemed to mean the CPI published on that date or, if not published on that date, the most recent publication of the CPI prior to such date. If the CPI is changed or no longer published, the most comparable index (in the reasonable opinion of Landlord) then published shall be used for these purposes. Monthly Installments of Base Rent shall be increased accordingly.

(c) In Section II.L. of the Lease, Tenant's Proportionate Share shall be 100 percent. Tenant's Proportionate Share of Excess Expenses for calendar year 1996 shall be prorated based on Tenant's Proportionate Share of 49.72 percent from January 1, 1996 through the Hybritech Space Commencement Date and 100 percent from that date through December 31, 1996.

(d) Landlord and Tenant acknowledge that, as of the date of this Amendment, Landlord is holding security required under Section 11.0.(i) of the Lease in cash in the amount of [*] (Cash). The security required under Section II.O.(i) shall be increased to [*] and the additional [*] (Additional Subsection (i) Security) shall be delivered

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to Landlord upon the execution of this Amendment in cash or as a Letter of Credit, in the form attached to the Lease as Attachment 10. If Tenant delivers the Additional Subsection (i) Security in cash, it will be held by Landlord subject to the same requirements regarding the payment of interest on the Cash. If this Amendment is terminated pursuant to Section 8 hereof, then the Additional Subsection (i) Security shall be immediately returned to Tenant.

(e) In Section II.T. of the Lease, Tenant shall be entitled to a maximum of 72 covered parking spaces in the parking facility which is shown on the Land and Building Plan. In addition, Tenant shall be entitled to the nonexclusive use in common with Landlord and others in the Building (and others in the building located at 3040 Science Park Road to the extent applicable) a maximum of 69 uncovered parking spaces in the parking facility which is shown on the Land and Building Plan.

(f) Delete Attachment 2 of the Lease (Plan showing the Premises) and add Attachment 2A (Revised Plan showing the Premises) attached hereto.

3. In Section II.P., Landlord's Mailing Address shall be 100 Pearl Street, Hartford, Connecticut 06103.

4. Delete Section 7 of the Additional Terms and substitute the following:

Line 3 after "Premises' add ", including repairing and maintaining the elevator, security system, chillers and air handling equipment serving the Building".

Line 4 after "maintain" add "the roof (including the roof membrane), foundation, load bearing walls and structural portions of the Building, common areas outside the Building, the "shell" of the Premises and".

Line 5 after "Section 11)." add "If replacement of the elevator, security system, or chillers serving the Building is necessary prior to the Termination Date, in Landlord's reasonable judgment, Landlord shall replace such items at Landlord's expense (subject to the Expense Escalation attachment to the Lease). "

5. Delete Section II.A. of the Additional Terms.

6. (a) Landlord acknowledges that Tenant may desire to make certain alterations to the Premises (in accordance with the Lease) and may purchase from Hybritech Incorporated certain laboratory benches in the Hybritech Space (collectively the Work). At Tenant's request, Landlord shall make available to Tenant up to [*] (Allowance) for so much of the Work as is completed within 210 days after the Hybritech Space Commencement Date. So much of the Allowance as equals the cost of the Work (up to the total amount of the Allowance) shall be paid to Tenant within 30 days after receipt from Tenant of copies of the invoices for which payment is requested together with: (1) Tenant's certification that each invoice is true and complete, that the full amount shown thereon is due and owing to the party requesting payment, that Tenant has not received nor shall it receive any rebate, setoff or other similar consideration from the party

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to whom the payment is due (other than payments to a parent, subsidiary or affiliate of Tenant which are not in excess of market value) and that the total amount shown on the invoices submitted to Landlord represents the total amount due and owing Tenant under this Section 6, (2) lien waivers for all the Work, and Tenant's certification that the lien waivers represent all the Work and (3) Tenant's certification and the certification of Tenant's architect (if any) and Tenant's contractor that the Work is substantially completed in a good and workmanlike manner, subject to normal punchlist items, and has been accepted by Tenant. If Landlord fails to pay to Tenant the Allowance (or any portion thereof) as and when the Allowance (or portion thereof) becomes due and payable hereunder, then Tenant shall, subject to Section 6(b) of this Amendment, have the right to offset against all future payments of Base Rent any and all amounts that Landlord so fails to pay, until such amounts are exhausted.

(b) To the extent the Allowance is paid to Tenant in accordance with Section 6(a) of this Amendment (Paid Allowance), the Paid Allowance shall be amortized monthly with interest at the rate of 12 percent per annum over a period equal to the number of full calendar months in the Term remaining after such payment is made (Monthly Amortization Payment). Monthly Installments of Base Rent shall thereafter be increased by an amount equal to the Monthly Amortization Payment and Base Rent shall be increased by an amount equal to the product of the Monthly Amortization Payment multiplied by 12.

(c) For purposes of illustration only, if the Paid Allowance equals [*] and is paid to Tenant on November 17, 1996, then the Monthly Amortization Payment would be [*], assuming the Hybritech ISpace Commencement Date is June 17, 1996 (based on an amortization period of 115 months) and the Monthly Installment of Rent due on December 1, 1996 would be increased to [*]. If the CPI for January 1, 1997, determined in accordance with Section 2(a), is 3 percent higher than the "base level", then the Base Rent due for calendar year 1997, beginning with the installment due on January 1, 1997, would be [*] (computed by increasing the Base Rent for calendar year 1996, deemed to be [*] [*] plus [*], by 3 percent). Monthly Installments of Base Rent would be [*].

7. Landlord acknowledges that Tenant may sublet a portion of the Premises (Immusol Space) to Immusol, Inc. (Immusol) for a period of 2 to 5 years, subject to Landlord's consent which shall not be unreasonably withheld. Immusol may desire to construct certain improvements in such space, subject to the terms of the Lease. Pursuant to the sublease between Tenant and Immusol, Tenant may grant to Immusol an allowance (Immusol Allowance) to construct such improvements. Landlord hereby agrees that if Immusol elects to construct such improvements, Tenant may, subject to the requirements of Section 6 of this Amendment and such additional requirements as Tenant may impose in the sublease, use the Allowance to finance the Immusol Allowance and that, accordingly, the Allowance also may be used to pay for improvements made by Immusol.

8. Tenant acknowledges that Hybritech Incorporated (Hybritech) currently leases that portion of the Building not occupied by Tenant (Hybritech Space) and the Hybritech lease expires on June

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16, 1996 (Expected Expiration Date) . If Landlord is unable to deliver possession of the Hybritech Space to Tenant within 90 days after the Expected Expiration Date (the Outside Commencement Date), then Tenant, as its sole remedy, may terminate this Amendment by notice to Landlord given within 10 days after the Outside Commencement Date. Landlord shall not be liable to Tenant or any third party for its failure to deliver possession of the Hybritech Space to Tenant. If Landlord fails to deliver the Hybritech Space to Tenant within one year after the Expected Expiration Date, this Amendment shall terminate and Landlord and Tenant shall have no further obligations to the other, except as may otherwise be provided in this Lease.

9. After the Hybritech Space Commencement Date has been determined, Landlord and Tenant shall execute a supplemental agreement specifying the Hybritech Space Commencement Date, Termination Date and such other information as Landlord shall reasonably require.

10. In Section 4 of the General Terms, Covenants and Conditions, in Line 3 after "office use" add "or the Permitted Use".

11. Delete Section 29 of the General Terms, Covenants and Conditions.

12. (a) Landlord shall deliver the Hybritech Space to Tenant in "as is" condition and Landlord shall have no responsibility for making any improvements to the Hybritech Space. For purposes of the first sentence of this Section 12, "as is" condition shall be deemed to mean the condition then existing on the Hybritech Space Commencement Date subject to the following:

(1) Notwithstanding the foregoing, Tenant acknowledges that Hybritech has notified Landlord of its intent to remove certain items from the Hybritech Space (Hybritech Items). If Hybritech removes such items or any other items before or after the Hybritech Space Commencement Date, Tenant shall be responsible for the replacement of such items (provided, however, that Tenant shall not be obligated to replace any of such items) and Landlord shall have no responsibility for such replacement. The Allowance may be utilized for such costs. If the removal causes any damage to the Premises, Landlord shall promptly repair such damage at its expense.

(2) Tenant further acknowledges that Hybritech has been notified by Landlord's property manager that Landlord believes the Hybritech Items claimed by Hybritech are Landlord's property and may not be removed. If Hybritech nevertheless proceeds to remove such items (or any other items which are the property of Landlord), Landlord shall, upon Tenant's reasonable request, attempt to prevent their removal or, if necessary, seek damages from Hybritech after removal, provided Tenant shall indemnify and defend Landlord for, from and against all claims, expenses, liabilities and losses, including reasonable attorneys' fees, resulting from such action. Landlord may, in its sole discretion, assign to Tenant any claim it may have against Hybritech for the removal of such items, in which event Landlord shall cooperate with Tenant in any action commenced by Tenant in its reasonable judgment, provided that Tenant shall reimburse Landlord for its reasonable expenses incurred with regard to such cooperation.

(3) Anything in Sections 12(a)(1) and (2) to the contrary notwithstanding and without waiving any rights or claims either Landlord or Tenant may otherwise have with respect to the

Hybritech Items, the parties wish to avoid the expense and aggravation a dispute over such items would create and, therefore, Tenant may pursue a settlement regarding the Hybritech Items, including the payment of a fee as consideration to Hybritech for the assignment of any rights Hybritech may have in the Hybritech Items. Subject to delivery to Landlord of the settlement documentation and a certification from Hybritech that Tenant has satisfied all conditions of such a settlement (including the payment, if any, of any consideration therefor), Landlord hereby consents to such a settlement and assigns any right, title and interest it may have in such items to Tenant. A "quitclaim" bill of sale for the Hybritech Items executed by Hybritech shall be deemed to satisfy the requirement of settlement documentation.

(b) For purposes of Section 8 of the General Terms, Covenants and Conditions, Tenant shall not be required to remove any of the improvements existing in the Hybritech Space as of the date hereof. For purposes of the first sentence of Section 12 of the General Terms, Covenants and Conditions, the Hybritech Space shall be separately considered from the remainder of the Premises and Tenant's possession shall be deemed to begin on the Hybritech Space Commencement Date. For purposes of the second sentence of Section 12 of the General Terms, Covenants and Conditions: (1) the following items shall be deemed to be Landlord's property and not removable by Tenant: the items designated as "Landlord's Property" on the schedule entitled "List of Property" (attached to this Amendment); any items paid for out of the Allowance; and, except to the extent identified as "Tenant's Property" on the List of Property, any items paid for out of the initial allowance provided Tenant under the lease; and (2) the following items shall be deemed to be Tenant's property: the items identified as "Tenant's Property" on the List of Property; the Hybritech Items (or any of them) which Tenant acquires from Hybritech pursuant to Section 12(a)(3) of this Amendment; and any item installed and paid for by Tenant.

13. Section 30 of the General Terms, Covenants and Conditions is restated here for purposes of this Amendment. Landlord shall be responsible for any commission due CB Commercial Real Estate Services arising from or in connection with the transaction contemplated by this Amendment.

14. If the Building (including leasehold improvements in the Premises, but excluding Tenant's property) is damaged by earthquake, Tenant shall be responsible for the payment to Landlord of 50 percent of the deductible amount under a policy of earthquake insurance carried by Landlord covering the Premises (to the extent such deductible amount is allocable to the Premises), which payment shall be amortized without interest in equal monthly payments over the greater of: (a) the number of months remaining in the Term as of the date of the casualty and (b) 60 months. Such payments shall be made with Monthly Payments of Base Rent, provided that in no event shall Tenant be required to make any payments becoming due after the Termination Date (i.e., if the amortization period exceeds the remaining number of months in the Term). Anything in Section l(b) in the Expense Escalation attachment to the Lease to the contrary notwithstanding, Landlord shall not include the remaining 50 percent of the cost of such repair in Operating Expenses. Landlord shall seek the lowest, economically reasonable deductible for earthquake insurance coverage for the Building (consistent with Landlord's national insurance program), which at the date hereof is deemed to be not greater than 5 percent of the total insurable value of

the Building. Landlord shall not obtain a higher deductible without first discussing it with Tenant (e.g., Tenant may choose to pay for a smaller deductible).

15. Except as modified herein, the Lease is ratified and confirmed and shall remain in full force and effect.

IN WITNESS WHEREOF, the parties have executed this Amendment.

(Landlord)	(Tenant)
TALCOTT REALTY I LIMITED PARTNERSHIP	NEUROCRINE BIOSCIENCES, INC.
By Talcott Equities Limited Partnership	
Its Managing General Partner	By [SIG.]
By Talcott Corporation	----------
Its General Partner	

	[Print Name]
By JAMES H. KIMENKER	Its Senior Vice President & CFO
----------	----------
James H. Kimenker	[Title]
Senior Vice President	

LIST OF PROPERTY

Landlord's Property

1. Control air compressor.

2. Dryer for control air compressor.

3. Boiler, low pressure.

4. CO2 distribution system.

5. Chiller.

6. Control equipment (h.v.a.c.r.).

7. D.I. water system (first floor).

8. Electrical distribution equipment.

9. Emergency management equipment.

10. Emergency generator.

11. Evaluation equipment (panic hardware).

12. Fire alarm system.

13. Fire fighting equipment.

14. Filter systems (air).

15. Glass ware racks.

16. Lab benches.

17. Liquid nitrogen tanks or equipment.

18. Neutralization system.

19. Reagent racks.

20. 23 fume hoods first floor. NBI may remove energy valves on 19 of these and restore to normal operating efficiency.

21. Scrubbers (air).

22. Ultraviolet sterilizes (water).

23. Wall mounted casework.

24. Water heater.

25. Circulation pumps.

Tenant's Property

1. Air compressor.

2. Air dryer.

3. Autoclaves.

4. Boiler high pressure.

5. Bio safety hoods.

6. Clean rooms.

7. Cage washer.

8. Dish washer.

9. Dish dryer.

10. Filter systems (water).

11. High purity water system.

12. Liopizer.

13. 6 fume hoods second floor (tenant's property).

14. Security systems.

15. Vacuum systems.

16. Water purification system.

17. Telephone systems (P.B.X.)

18. Gas distribution equipment.

19. DI water system (second floor).

[FIRST FLOOR MAP]

[ATTACHMENT 2A]

[SECOND FLOOR MAP]

EXHIBIT 10.27

RESEARCH AND LICENSE AGREEMENT

This Agreement, effective as of October 15, 1996 ("Effective Date"), between ELI LILLY AND COMPANY, a corporation organized under the laws of the State of Indiana, having its principal place of business at Lilly Corporate Center, Indianapolis, Indiana 46285, and its Affiliates, hereinafter collectively called "Lilly",

AND

NEUROCRINE BIOSCIENCES, INC., a corporation organized under the laws of the State of Delaware, having its principal place of business at 3050 Science Park Road, San Diego, California 92121-1102, and its Affiliates, hereinafter collectively called "Neurocrine".

RECITALS

1. Neurocrine is in the business of conducting research in the field of mammalian receptor systems. An objective of Neurocrine's research is the discovery of potential human drug receptor targets, assays for use in drug discovery and compounds having activity at such receptor targets.

2. Neurocrine is engaged in a specific research program aimed at understanding the pharmacological implications of Corticotropin Releasing Factor and, in particular, Corticotropin Releasing Factor-Binding Protein and Corticotropin Releasing Factor-Receptor 2. The purpose of such program is to identify high affinity Corticotropin Releasing Factor-Binding Protein Ligand Inhibitors and Corticotropin Releasing Factor-Receptor 2 Agonists, as well as to

better understand the interaction between Corticotropin Releasing Factor, Corticotropin Releasing Factor-Binding Protein and Corticotropin Releasing Factor-Receptor 2 and various disease states, such as Alzheimer's disease and eating disorders.

3. Lilly is in the business of discovering, developing and marketing pharmaceuticals and animal health products. Lilly has substantial experience and expertise in developing drugs which are useful in nervous system disorders.

4. Lilly is interested in funding and collaborating with Neurocrine in screening compounds developed by Lilly or Neurocrine using Corticotropin Releasing Factor-Binding Protein and Corticotropin Releasing Factor-Receptor 2 assay systems developed by Neurocrine, looking to the possible commercial development of therapeutic agents useful in treating Corticotropin Releasing Factor related disorders. Lilly is also interested in funding and collaborating with Neurocrine on increasing the level of understanding regarding the interaction between Corticotropin Releasing Factor and Corticotropin Releasing Factor Receptor-2 and various Corticotropin Releasing Factor related disorders.

5. Neurocrine is willing to collaborate with Lilly on identifying compounds suitable for commercial development for treating Corticotropin Releasing Factor related disorders and to use its novel Corticotropin Releasing Factor-Binding Protein and Corticotropin Releasing Factor- Receptor 2 assay systems (providing same to Lilly as appropriate) in screening compounds furnished by Lilly and Neurocrine. Neurocrine is also willing to continue research on Corticotropin Releasing Factor-Binding Protein and Corticotropin Releasing Factor-Receptor 2 to make the results of its research available to Lilly.

NOW, THEREFORE, in consideration of the above premises and the mutual covenants hereinafter recited, the parties agree as follows:

ARTICLE I

DEFINITIONS

Section 1.00 General. When used in this Agreement, each of the following terms shall have the meaning, set forth in this Article I.

Section 1.01 "Affiliate" means (a) any corporation or business entity of which Lilly or Neurocrine, at the time in question, owns or controls, directly or indirectly, fifty percent (50%) or more of the stock of said corporation having the right to vote for directors thereof or otherwise control the management of said corporation or business entity, or (b) any corporation, individual or business entity which now or hereafter owns or controls, directly or indirectly, fifty percent (50%) or more of the stock of Lilly or Neurocrine having the right to vote for directors thereof.

Section 1.02 "Corticotropin Releasing Factor" means that certain 41 amino acid peptide referred to as rat/human Corticotropin Releasing Factor and described in Rivier, et al., Characterization of rat hypothalamic corticotropin-release factor, Vol. 80 Proceedings of the National Academy of Sciences (1983).

Section 1.03 "Corticotropin Releasing Factor-Binding Protein" means that certain protein described in Potter, et al., Cloning and characterization of the cDNAs for the human and rat corticotropin releasing factor binding proteins, Vol. 349 Nature (1991), homologs or splice variants that bind bioactive compounds,

including but not limited, to Corticotropin Releasing Factor or Urocortin, with an affinity of at least [*].

Section 1.04 "Corticotropin Releasing Factor-Binding Protein Ligand Inhibitor" means a compound which inhibits or dissociates the binding of bioactive compounds including, but not limited to, Corticotropin Releasing Factor or Urocortin from Corticotropin Releasing Factor-Binding Protein at a concentration of [*].

Section 1.05 "Corticotropin Releasing Factor-Receptor 1" means that certain receptor described in Chen, et al., Expression cloning of a humancorticotropin releasing factor receptor, Vol. 90 Proceedings of the National Academy of Sciences (1993).

Section 1.06 "Corticotropin Releasing Factor-Receptor 2" means that certain receptor described in Liaw, et al., Cloning and characterization of the human corticotropin-releasing factor-2 receptor complimentary deoxyribonucleic acid, Vol. 137 Endocrinology (1966), homologs or splice variants that bind Corticotropin Releasing Factor or Urocortin with an affinity of at least [*].

Section 1.07 "Corticotropin Releasing Factor-Receptor 2 Agonist" means a compound which activates the Corticotropin Releasing Factor-Receptor 2 and has selectively for such Receptor over Corticotropin Releasing Factor-Receptor 1 and other neuropeptide receptors.

Section 1.08 "Cost of Manufacturing" shall include standard cost of production, variances, royalties, distribution expenses, and all other amounts customarily deducted by Lilly as determined in accordance with the method of accounting normally employed by Lilly in compiling cost of goods in accordance with United States generally accepted accounting principles ("GAAP"). In

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determining such Cost pursuant to this Agreement, Lilly will treat such determination in the same manner as for all other products sold by Lilly.

Section 1.09 "Dementia" means a disorder characterized by a general loss of intellectual abilities involving impairment of memory, judgment and abstract thinking as well as changes in personality. Such disorders include disorders caused by Alzheimer's disease, multi-infarct dementia, central nervous system infection, brain trauma, Wernicke-Korsakoff syndrome, Huntington's chorea, multiple sclerosis and Parkinson's disease, but do not include disorders caused by delirium, depression or other functional mental disorder.

Section 1.10 "Direct Marketing Expenses" includes all costs necessary, at Lilly's discretion, to market Product for sale. Such costs will include, but not necessarily be limited to, promotional materials, advertising campaigns, compensation and benefits of assigned marketing personnel, marketing surveys, supplies, telephone, telecommunication costs, facilities, and other costs associated with Product. Expenses will be determined from the books and records of Lilly maintained in accordance with GAAP. In determining such Expenses pursuant to this Agreement, Lilly will treat such determination in the same manner as for all other products sold by Lilly.

Section 1.11 "Excluded Compound" means a Lilly Compound which (i) is either a Project Team Compound or is actively being considered by Lilly as a candidate for becoming a Project Team Compound as of the Effective Date or (ii) operates as a pharmaceutically active agent via a mechanism of action other than through Corticotropin Releasing Factor receptors or as a Corticotropin Releasing Factor-Binding Protein Ligand Inhibitor and, as a consequence of which, Lilly, therefore, does not develop or promote in its Phase III Clinical Trials as having

pharmaceutical activity via a Corticotropin Releasing Factor receptor or as a Corticotropin Releasing Factor-Binding Protein Ligand Inhibitor mechanism of action. A list of compounds falling within the scope of (i), above, is set forth in Appendix I attached hereto. Further, should Lilly ever determine, or have Neurocrine determine, a dose response curve on any compound listed in Appendix I in any assay which utilizes Existing Neurocrine Technology or Project Technology, such compound shall no longer be considered an Excluded Compound if such response curve indicates that such compound's affinity is weaker than [*]

Section 1.12 "Existing Lilly Compound" means any Lilly Compound in Lilly's possession on or before October 31, 1996, the identification, selection or development of which as a pharmaceutical health product for the treatment of indications associated with the Field is based upon the use of Existing Neurocrine Technology or Project Technology. The individual optical isomers of a racemic mixture and the salts and solvates of a chemical compound in Lilly's possession on or before October 31, 1996, shall be deemed to also be in Lilly's possession as of that time.

Section 1.13 "Existing Neurocrine Compound" means any Neurocrine Compound in Neurocrine's possession on or before October 31, 1996, the identification, selection or development of which as a pharmaceutical health product for the treatment of indications associated with the Field is based upon the use of Existing Neurocrine Technology or Project Technology. The individual optical isomers of a racemic mixture and the salts and solvates of a chemical compound in Neurocrine's possession on or before October 31, 1996, shall be deemed to also be in Neurocrine's possession as of that time.

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Section 1.14 "Existing Neurocrine Technology" means Neurocrine's confidential and/or proprietary technical information, data and materials including DNA sequences, target cell lines, expression vectors and genes in the Field, to the extent such Technology was in Neurocrine's possession on or before October 31, 1996.

Section 1.15 "Field" means Corticotropin Releasing Factor-Binding Protein Ligand Inhibitors and Corticotropin Releasing Factor-Receptor 2 Agonists and all diseases and disorders associated with same which are mediated by the central nervous system regardless of peripheral effects.

Section 1.16 "Gross Profits" means Net Sales of Product in the United States less the sum of (i) the Cost of Manufacturing such Products plus [*] and (ii) Direct Marketing Expenses.

Section 1.17 "Joint Compound" means a chemical compound conceived and synthesized jointly by Lilly and Neurocrine.

Section 1.18 "Lilly Compound" means a chemical compound conceived and synthesized or acquired by Lilly.

Section 1.19 "Lilly Information" means information and data provided to Neurocrine by Lilly concerning Lilly Compounds and data and information generated by Neurocrine concerning Lilly Compounds. Such Information shall be the property of Lilly.

Section 1.20 "Lilly's Strategic Focus" means those therapeutic areas and diseases in which Lilly, at the time in question, has an interest in developing and marketing pharmaceutically active agents.

Section 1.21 "Major Europe" means Germany, Italy, France and the United Kingdom.

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Section 1.22 "Net Sales" means, with respect to Product, the gross amount invoiced by Lilly to unrelated third parties for the Product less:

(a) trade, quantity and cash discounts allowed;

(b) commissions, discounts, refunds, rebates, chargebacks, retroactive price adjustments, and any other allowances which effectively reduce the net selling price;

(c) actual product returns and allowances;

(d) that portion of the sales value associated with delivery systems to the extent such delivery systems can be sold separately from Product;

(e) any tax imposed on the production, sale, delivery or use of the product;

(f) allowance for distribution expenses; and

(g) any other similar and customary deductions.

Such amounts shall be determined from the books and records of Lilly maintained in accordance with GAAP consistently applied. Such formula for determining Net Sales shall, furthermore, be employed by Lilly in substantially the same manner in determining the net sales of all of Lilly's other products.

In the event Product is sold as part of a combination product or as a bundle of products (hereinafter "combination product"), the Net Sales from the combination product, for the purposes of determining royalty payments, shall be determined by multiplying the Net Sales of the combination product (as defined in the above Net Sales Definition) by the fraction, A/A+B where A is the average sale price of Product when sold separately in finished form and B is the average sale price of the other product(s) sold separately in finished form. In the event that

such average sale price cannot be determined for both Product and other product(s) in combination, Net Sales for purposes of determining royalty payments shall be calculated by multiplying the Net Sales of the combination products by the fraction C/C+D where C is Lilly's cost of goods of Product and D is Lilly's cost of goods of the other product(s), determined in accordance with the method of accounting normally employed by Lilly in computing cost of goods.

Section 1.23 "Neurocrine Compound" means a chemical compound conceived and synthesized or acquired by Neurocrine provided Neurocrine has the ability to transfer rights to same to Lilly.

Section 1.24 "New Compound" means any Lilly Compound or Neurocrine Compound synthesized or acquired by Lilly or Neurocrine, respectively, on or after November 1, 1996, the identification, selection or development of which as a pharmaceutical health product for the treatment of indications associated with the Field is based upon the use of Existing Neurocrine Technology or Project Technology.

Section 1.25 "Obesity" means a condition involving an increase in body weight beyond the limitation of skeletal and physical requirements and disorders associated with such condition such as diabetes mellitus, atherosclerosis and hypertension.

Section 1.26 "Patent Rights" means patents and patent applications owned or controlled by Neurocrine or by Lilly relating to Products, Project Technology or Existing Neurocrine Technology and all divisions, continuations, continuations-in-part, reissues, extensions and foreign counterparts thereof at least one claim of which covers the making, using or selling of Products, Project Technology or Existing Neurocrine Technology. "Neurocrine Patent Rights" means patents and

patent applications owned or controlled by Neurocrine. "Lilly Patent Rights" means patents and patent applications owned or controlled by Lilly. A list of certain particularly relevant Neurocrine Patent Rights is set forth in Appendix II.

Section 1.27 "Phase I Clinical Trials" means small scale human clinical trials, the protocols of which are as previously disclosed to Neurocrine prior to the start of such trials, conducted in normal volunteers and designed to indicate product safety.

Section 1.28 "Phase II Clinical Trials" means small scale human clinical trials, the protocols of which are as previously disclosed to Neurocrine prior to the start of such trials, conducted in patients and designed to indicate a statistically significant level of efficacy in the particular indication tested, as well as to obtain some indication of the dosage regimen required.

Section 1.29 "Phase III Clinical Trials" means large scale human clinical trials, the protocols of which are as previously disclosed to Neurocrine prior to the start of such trials, conducted in patients and designed to establish Product efficacy in the particular indication tested and required to obtain clinical registration of Product with health regulatory authorities. Successful completion of such Clinical Trials shall be deemed to have occurred if such Trials establish the end points they were designed to show.

Section 1.30 "Positive Hit" means a compound from the Research Records Cassette which, in Neurocrine's reasonable opinion, has interesting activity in the assay system employed and has a KI of less than [*].

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Section 1.31 "Product" means a composition for use as a pharmaceutical consisting of an Existing Lilly Compound, an Existing Neurocrine Compound, a New Compound or a Joint Compound, but excluding Excluded Compounds.

Section 1.32 "Product Decision" means a decision made at [*] discretion after completion of Phase II Clinical Trials that the compound tested in such trials continues to be a viable pharmaceutical candidate for the treatment of Dementia or Obesity and that, therefore, Phase III Clinical Trials on such compound for either or both of such indications are warranted.

Section 1.33 "Project" means the research and development program to be conducted by Neurocrine in the Field in collaboration with Lilly according to the schedule and staffing in Appendix III and the screening by Neurocrine of Neurocrine Compounds, Joint Compounds and those Lilly Compounds submitted by Lilly pursuant to Section 2.03.

Section 1.34 "Project Team Compound" means a compound which has been accepted for further development by Lilly's Project Team Approval Committee, or its successor, or by whatever decision making mechanism is employed by Lilly in deciding what compounds are suitable for clinical development and is provided resources for such development by Lilly's Portfolio Management Committee, or its successor, or by whatever decision making mechanism is employed by Lilly in deciding how resources should be allocated for clinical development. In making a decision as to whether to accept any Existing Lilly Compound, Existing Neurocrine Compound, New Compound or Joint Compound for further development, or in deciding to provide resources for the development of such Compound, Lilly agrees that it shall treat any of such

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Compounds in the same manner as it treats its own compounds of similar commercial significance.

Section 1.35 "Project Technology" means the confidential and/or proprietary technical information and data concerning Corticotropin Releasing Factor-Binding Protein Ligand Inhibitors, Corticotropin Releasing Factor-Receptor 2 Agonists and related DNA sequences, binding assays, functional assays, in vivo assays and biological materials, including target cell lines, expression vectors and genes, developed or acquired by Lilly and/or Neurocrine in connection with the Project during the term of the Project. Non-patented Project Technology which relates to Corticotropin Releasing Factor-Binding Protein Ligand Inhibitors and Corticotropin Releasing Factor-Receptor 2 Agonists, as well as formulations thereof and methods of using same, shall be the property of Lilly. All other non-patented Project Technology shall be the property of Neurocrine.

Section 1.36 "Research Records Cassette" means a library, as presented to Neurocrine on September 12, 1996, consisting of approximately [*] compounds preselected from Lilly's archive historical library, wherein the compounds are provided in 96-well format.

Section 1.37 "Research Team" means six (6) representatives, three (3) from Neurocrine and three (3) from Lilly, who are designated to direct and monitor the Project.

Section 1.38 "Scientific Person Year" means a total of 47 weeks or 1,880 person hours per year of scientific work, on or directly related to the Project, carried out by Neurocrine employees having at least a Bachelors Degree in a science, or experience equivalent thereto.

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Scientific work on or directly related to the Project to be performed by Neurocrine employees can include, but is not limited to, experimental laboratory work, recording and writing up results, reviewing literature and references, holding scientific discussions, attending appropriate seminars and symposia, managing and leading scientific staff, and carrying out Project management duties or such other activities as may be appropriate to the conduct of the Project.

Section 1.39 "United States" means the United States of America and its territories and possessions.

Section 1.40 "Urocortin" means the certain sequence described in Donaldson, et al, Cloning and characterization of human urocortin, Vol. 137 Endocrinology (1996).

ARTICLE II

STAFFING, PLANNING AND EXECUTION OF PROJECT

Section 2.00 Neurocrine Effort on Project. Neurocrine and Lilly shall use reasonably diligent efforts to conduct work on the Project so as to endeavor to achieve the schedule and goals set forth in Appendix III. Initially Neurocrine shall assign the personnel specified in Appendix III to the Project. Neurocrine may reassign any of these personnel to any other project without the approval of the Research Team, provided that if Neurocrine fails to achieve its goals as set forth in Appendix III within the timetable set by the Research Team for the attainment of such goals, Lilly shall then have the right to review Neurocrine's staffing of the Project and Lilly may, further, request that certain Neurocrine employees be utilized on the Project. Lilly shall, further, have the ability to request that Neurocrine shift its focus on the Project from research to

development if Lilly believes such shift will further the progress of the Project. If any of these personnel ceases to be an employee of Neurocrine, Neurocrine shall assign a substitute of equal suitability as evidenced by equal or greater educational background or laboratory experience. Neurocrine shall for each year during the term of the Project assign to the Project sufficient personnel to devote [*] Scientific Person Years. At least [*] of the Scientific Person Years shall be provided by scientists with a Ph.D. degree or equivalent scientific experience. In 1997 and each year thereafter during the term of the Project, the Research Team will by October 31 of that year prepare and submit to Lilly and Neurocrine the schedules, goals, staffing and budget for the upcoming year.

Section 2.01 Research Team Formation. Promptly upon signing of this Agreement by both parties, Neurocrine and Lilly shall each appoint[*] representatives to serve as members of the Research Team. The respective individual representatives for each party may be changed, from time to time at the discretion of Neurocrine or Lilly, upon written notification by the party making such change to the other. Neurocrine and Lilly within sixty (60) days after the Effective Date shall agree upon an initial plan for research tasks to be completed under the Project. Such plan, once complete, shall be attached to this Agreement as Appendix III. The Research Team shall review (and where necessary modify), and approve subject, of course, to final review by Lilly and Neurocrine, all plans for research to be done under the Project, and shall review the personnel assigned to the Project and all results of work done under the Project. From time to time, the Research Team may establish subcommittees to oversee particular projects or activities, and such subcommittees will be constituted as the Research Team agrees. The Research Team shall meet regularly according to a mutually

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agreed schedule (alternating sites of the meeting between San Diego and Indianapolis, with each Party being responsible for the travel, lodging and other expenses incurred by its own members of the Research Team), provided such meetings occur at least semi-annually, to review the Project, to modify the scope and goals of the Project if deemed necessary by the Research Team, to prepare the schedules and budget pursuant to Section 2.00 and to prepare the reports required under Section 4.00. Upon conclusion of any meeting of the Research Team, the Team shall appoint one of its members to prepare written minutes of the meeting, which minutes shall be reviewed and approved, if appropriate, by both Lilly and Neurocrine. Any modification to the scope and goals of the Project as described in Appendix III shall require the approval of the Research Team, and the appropriate written amendment to Appendix III. Decisions with regard to the scope and goals of the Research Team shall be made by [*] and if the Research Team is unable to reach such [*] on any such issue involving the Project, the issue shall be referred to the [*] or the equivalent thereof, for further discussion. If such discussions fail to resolve such issue, if the issue arises prior to the start of Phase I Clinical Trials on any Product associated with such issue, the parties may then resolve such issue by any mechanism available, including litigation. For all unresolved issues which arise after the start of Phase I Clinical Trials on any Product associated with such issue, the [*] or the equivalent thereof, shall have the final decision.

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Section 2.02 Conduct of Studies. All work done in connection with the Project shall be carried out in strict compliance with any federal, state, or local laws, regulations, or guidelines governing the conduct of research at the site where such work is being conducted.

Section 2.03 Screening Lilly Compounds. As a part of the Project, Lilly shall have the right to submit such Lilly Compounds as it deems appropriate to Neurocrine for testing using assay systems developed by Neurocrine in connection with Existing Neurocrine Technology or Project Technology. The number and scheduling of such submissions and the particular assays used shall be determined by the Research Team. Neurocrine agrees that it shall not subject any Lilly Compound so submitted to any binding or other assay which has not been previously specifically authorized by the Research Team. Complete results from any such assay shall be provided to Lilly pursuant to the schedule established by the Research Team.

Section 2.04 Treatment of Lilly Compounds. Neurocrine agrees that it will not chemically or physically analyze or have analyzed any Lilly Compound to determine its structure. Neurocrine shall not permit any third party to observe or have access to any Lilly Compound. All information, results and data generated in connection with any assay of Lilly Compounds shall be Project Technology. Lilly agrees to provide Neurocrine with handling instructions including all safety information relating to the particular compound known to Lilly.

Section 2.05 Screening of Neurocrine Compounds and Joint Compounds. As part of the Project, Neurocrine shall test all Neurocrine Compounds and Joint Compounds using assay systems developed by Neurocrine in connection with Existing Neurocrine Technology or Project Technology. The scheduling of such

testing and the particular assays used shall be determined by the Research Team. Complete results from any such assay shall be provided to Lilly pursuant to the schedule established by the Research Team. All information, results and data Generated in connection with any assay of Joint Compounds or Neurocrine Compounds shall be Project Technology.

Section 2.06 Electronic Mail Transmissions. If Lilly and Neurocrine determine that, during the term of the Project, it is necessary to communicate with one another by electronic mail or some other similar medium of communication, Lilly and Neurocrine shall each bear its own out-of-pocket expenses required in order to provide such method of communication. Further, if such a method of communication is employed, the parties will utilize all reasonably appropriate diligence in order to protect the confidentiality and security of information transmitted between Lilly and Neurocrine.

ARTICLE III

FUNDING OF PROJECT

Section 3.00 Duration and Amount of Funding. Lilly shall provide Neurocrine with financial support for the Project for the period from November 1, 1996 to October 31, 1999, unless the Project is terminated early pursuant to Article X. The financial support provided to Neurocrine by Lilly shall be [*] per Scientific Person Year for [*] Scientific Person Years for each twelve (12) month period of the Project. The amount per Scientific Person Year set forth above shall not be adjusted for inflation during the term of the Project. Consistent with the foregoing, the budget prepared by the Research Team and submitted to Neurocrine and Lilly by September 15 of each year pursuant to

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Section 2.00 shall be a total budget including costs for the proposed Scientific Person Years and any other anticipated Project expenses and shall be reviewed and approved with or without modification by both Lilly and Neurocrine within sixty (60) days of submission by the Research Team. In the event that the parties cannot agree on a budget for the upcoming year before the end of the sixty-day period, the budget for that upcoming year will be for the number of Scientific Person Years provided hereinabove, i.e., [*] and the activities of the Project shall be adjusted accordingly. The amount per Scientific Person Year shall be the total amount paid to Neurocrine by Lilly for Neurocrine's effort on the Project with Neurocrine being responsible for all wages, supplies, facilities, utilities and all other employee-related expenses in connection with performing services for the Project.

Section 3.01 Manner of Payments. All funding by Lilly during this Project shall be paid to Neurocrine by Lilly in U.S. Dollars. Unless otherwise agreed in writing by Lilly, payments shall be made in four equal installments. During the first year of the Project, the first installment shall be paid within thirty (30) days of the Effective Date, and the remaining three installments shall be paid on or before February 15, May 15 and August 15, respectively. During subsequent years of the Project, such installments shall be paid on or before November 15, February 15, May 15 and August 15, respectively.

Section 3.02 Accounting. Neurocrine shall provide Lilly on a semi-annual basis during the term of the Project a report detailing how Neurocrine allocated Scientific Person Years to the Project. Such report shall provide Lilly with the names of the Neurocrine employees which make up the Scientific Person Years the amount of each employees time devoted to the Project, associated with the

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tasks listed in Appendix III during the semi-annual period at issue. Neurocrine shall, further, maintain records in reasonable detail of all monies paid by Neurocrine for research under the Project and shall provide Lilly, within ninety (90) days of the end of each calendar year, with a report stating the dollar amount of funds supplied by Lilly that were expended on research activities during any year for which the report is made, using Neurocrine's standard project accounting procedures, and such supporting details as are reasonably required by Lilly.

Within one year from receipt of the reports, Lilly may, at its expense, request an audit by Neurocrine's independent certified public accountants. The independent certified public accountant shall have the right to examine all necessary records kept pursuant to this Section and report to Lilly the findings of said examination of records insofar as necessary to verify the reports. Said findings shall be maintained in confidence by Lilly.

ARTICLE IV

RESULTS OF PROJECT

Section 4.00 Reports. Neurocrine shall disclose to the Research Team all Project Technology reasonably promptly following its discovery. Disclosure of Project Technology may take the form of visits by Lilly personnel, at reasonable times and upon reasonable prior notice, to the facilities being used for the Project to permit observation of the procedures being employed. The Research Team shall submit to Neurocrine and Lilly a detailed written report on the progress of the Project within sixty (60) days following each calendar quarter of the term of

the Project and, within ninety (90) days after completion of the Project, shall provide Neurocrine and Lilly with a comprehensive final written report.

Section 4.01 Assay Materials. During the Project, Neurocrine shall provide Lilly promptly upon Lilly's request with samples of cell lines or any materials required to conduct in vitro assays which are Existing Neurocrine Technology, as set forth in Appendix IV, as well as those in vitro or in vivo assays which are produced or developed within the scope of the Project, immediately upon development by Neurocrine, along with sufficient technical information and know how to enable Lilly to conduct such in vitro or in vivo assays or binding studies and/or functional assays with such cell lines or materials. Lilly shall then be entitled to use same to test any Lilly Compound Lilly so desires or any Neurocrine Compound or Joint Compound the Research Team desires. All information, results and data generated in connection with any such testing by Lilly during the course of the Project shall be Project Technology. No later than sixty (60) days following termination of the Project, Neurocrine shall provide to Lilly any remaining Existing Neurocrine Technology and the Project Technology including without limitation DNA sequences encoding Corticotropin Releasing Factor-Binding Protein and Corticotropin Releasing Factor-Receptor 2, binding sites, binding assays, functional assays and in vitro or in vivo assays.

Section 4.02 Patentable Inventions. If a patentable invention is conceived in the course of the parties' work on the Project and is reduced to practice during such work on the Project or within six months of termination of the Project, Lilly and Neurocrine shall discuss such invention and the desirability of filing a United States patent application covering such invention as well as any foreign counterparts. The party owning the invention (or both parties if the invention is a

joint invention) shall make the final decision with respect to any such filings. All patent applications and patents on inventions made in the course of the parties' work on the Project solely by employees of Lilly shall be owned by Lilly. All patent applications and patents on inventions made in the course of the parties' work on the Project solely by employees of Neurocrine shall be owned by Neurocrine. All patent applications and patents on inventions made jointly by employees of Lilly and employees of Neurocrine shall be jointly owned. If such joint invention is within the Field, Article V shall determine Lilly's rights with respect to Neurocrine's interest in such joint invention. If such joint invention is outside the Field, Lilly shall have a right of first negotiation as to Neurocrine's interest in such joint invention and the parties shall negotiate in good faith the terms under which Lilly can exclusively commercialize such invention. Should Lilly choose not to commercialize such invention, Neurocrine shall then have a right of first negotiation as to Lilly's share of such joint invention and the parties shall negotiate in good faith the terms under which Neurocrine can exclusively commercialize such invention. If the parties, despite good faith negotiations, fail to reach agreement on terms which would allow either Lilly or Neurocrine, as appropriate, to exclusively commercialize such invention, either party may develop and commercialize such invention and such development/commercialization shall not in any way affect the other parties right to develop and commercialize such joint invention as well.

Lilly shall bear its own expenses incurred in filing, prosecuting and maintaining patent applications, and any patents resulting therefrom, under this Section 4.3. Lilly shall, further, file all applications on joint inventions and Lilly shall be totally responsible for the preparation, prosecution and maintenance of

such applications and any patents resulting therefrom. Neurocrine agrees to cooperate with Lilly as needed in the preparation and prosecution of such applications covering joint inventions.

Neurocrine shall bear its own expenses incurred in filing, prosecuting and maintaining patent applications and any patents resulting therefrom under this Section 4.3 or the Neurocrine Patent Rights set forth in Appendix II to the extent such patents or applications do not contain claims to an Existing Neurocrine Compound or a New Compound which is a Neurocrine Compound. If such patent applications or patents contain claims to an Existing Neurocrine Compound or a New Compound which is a Neurocrine Compound, the parties shall share equally all expenses incurred in filing, prosecuting and maintaining such applications/patents, provided such expenses were incurred after the Effective Date.

Each party shall provide to the other a copy of any patent application which discloses Existing Neurocrine Technology or Project Technology, prior to filing in the United States if reasonably possible, for review and comment by the other party. Any such patent application shall be maintained in confidence by the receiving party pursuant to Section 9.00.

If Lilly files a patent application on a joint invention encompassed by this Article and yet, later, decides that it no longer wishes to continue prosecution and/or maintenance of such application (or any patent resulting therefrom), Lilly shall inform Neurocrine of its decision to discontinue prosecution and/or maintenance prior to discontinuance. Neurocrine may then elect to continue prosecution and/or maintenance of such application or patent at its sole expense, provided that if it does elect to continue prosecution and/or maintenance,

Neurocrine shall reimburse Lilly for all out-of-pocket expenses previously incurred by Lilly in filing, prosecuting or maintaining such application or patent and Lilly shall provide all reasonable assistance (including preparing any papers required to allow Neurocrine to prosecute and/or maintain such application) required by Neurocrine in prosecuting and/or maintaining such application or patent. If Lilly elects to discontinue prosecuting and/or maintenance of an application or patent encompassed hereunder, and Neurocrine elects to continue prosecution and/or maintenance of such application or patent, Lilly shall lose all ownership rights to such application or patent and such rights shall vest totally in Neurocrine. The decision by Lilly not to proceed into the National Phase of the Patent Cooperation Treaty patenting process in every country originally designated as a Designated Country in any Patent Cooperation Treaty patent application encompassed by this Article, shall not, by itself, be considered as an election to discontinue prosecution.

If Neurocrine files during the term of this Agreement or has filed prior to the Effective Date a patent application on Existing Neurocrine Technology or Project Technology owned by Neurocrine and yet, later, decides that it no longer wishes to continue prosecution and/or maintenance of such application (or any patent resulting therefrom), Neurocrine shall inform Lilly of its decision to discontinue prosecution and/or maintenance prior to discontinuance. Lilly may then elect to continue prosecution and/or maintenance of such application or patent at its sole expense, provided that if it does elect to continue prosecution and/or maintenance, Lilly shall reimburse Neurocrine for all out-of-pocket expenses previously incurred by Neurocrine in filing, prosecuting or maintaining such application or patent and Neurocrine shall provide all reasonable assistance

(including preparing any papers required to allow Lilly to prosecute and/or maintain such application) required by Lilly in prosecuting and/or maintaining such application or patent. If Neurocrine elects to discontinue prosecuting and/or maintenance of an application or patent encompassed hereunder, and Lilly elects to continue prosecution and/or maintenance of such application or patent, Neurocrine shall lose all ownership rights to such application or patent and such rights shall vest totally in Lilly. The decision by Neurocrine not to proceed into the National Phase of the Patent Cooperation Treaty patenting process in every country originally designated as a Designated Country in any Patent Cooperation Treaty patent application encompassed by this Article, shall not, by itself, be considered as an election to discontinue prosecution. Should Neurocrine ever fail to inform Lilly in a timely manner of its decision to discontinue prosecution or maintenance of a patent or patent application encompassed hereunder prior to such discontinuance, and such patent or patent application, therefore, goes abandoned, Lilly shall have the right to deduct from any payments owed Neurocrine by Lilly pursuant to Article V the damages caused to Lilly by Neurocrine's action. Should the parties fail to mutually agree on the extent of Lilly's damages, both parties agree to submit the issue of damages to a third party who is mutually acceptable to both parties and such third party's decision on such issue shall be final.

Section 4.03 Publications. Lilly and Neurocrine agree that neither party shall publish the results of their studies carried out under this Agreement without the prior approval of the other party. Each party agrees to provide the other the opportunity to review any proposed manuscripts or abstracts which relate to the Project at least thirty (30) days prior to their intended submission for

publication and to not submit such manuscript or abstracts without the written authorization of the reviewing party. If such written authorization is not provided, within such period, authorization shall be presumed to be granted. Furthermore, such authorization shall not be unreasonably denied. Nothing contained in this Section 4.4 shall prohibit the inclusion of information necessary for a patent application provided the non-filing party is given a reasonable opportunity to review the information to be included. Finally, Lilly and Neurocrine both agree to withhold publication of any manuscript or abstract for a maximum of sixty (60) days if either party reasonably believes such manuscript or abstract would jeopardize the patentability of any invention made under this Agreement.

ARTICLE V

COMMERCIAL RIGHTS

Section 5.00 License to Lilly. In consideration for the payments made to Neurocrine by Lilly pursuant to Article VI and Article III, as well as in consideration for access to the Research Records Cassette as described in Article VII and the co-promotion option granted by Lilly as described in Article VIII, Neurocrine grants Lilly

(a) an exclusive, worldwide, right and license within the Field to make, use and have used Existing Neurocrine Technology and Project Technology owned or acquired by Neurocrine for the purpose of assay modification or development, and the screening, identification, selection and/or development of drugs subject to Neurocrine retaining the right to use Existing

Neurocrine Technology and Project Technology owned or acquired by Neurocrine for Lilly's benefit in connection with this Agreement;

(b) an exclusive, worldwide, right and license to make, have made, use, sell and have sold for any indication within the Field any New Compound synthesized or developed by Neurocrine in the course of the Project or any Existing Neurocrine Compound;

(c) an exclusive, worldwide, right and license to make, have made, use, sell and have sold for any indication within the Field Neurocrine's interest in any Joint Compounds; and

(d) an exclusive, worldwide, license within the Field under any Neurocrine Patent Rights which would be infringed by Lilly's exercise of its rights under this Agreement.

Section 5.01 Collaboration. In the event the parties become aware of technology of a third party within the Field, the Research Team will determine whether such technology should be brought into the Project and how the cost of acquiring the technology should be shared by the parties. Any such cost sharing will recognize those expenses already incurred by a party hereto in connection with acquiring the technology. The Research Team will make a recommendation to Neurocrine and Lilly concerning the acquisition of technology and the sharing of cost. Each party shall then have thirty (30) days in which to accept or reject the recommendation or propose an alternative arrangement. The parties will conduct any negotiations concerning acquiring such technology in good faith with

the interest of advancing the Project. Neurocrine and Lilly shall not collaborate with any third party on research within the Field during the term of the Project.

Section 5.02 Commercialization Efforts. Lilly agrees to exercise reasonably diligent efforts toward developing and commercializing Products according to its usual business practices for products of similar potential and value. In connection with developing a particular Existing Lilly Compound, Existing Neurocrine Compound, Joint Compound or New Compound, Lilly shall provide to Neurocrine an annual report summarizing the efforts devoted to such a Compound in that year, including all protocols used by Lilly to test any of such Compounds in any Phase I, Phase II and/or Phase III Clinical Trials conducted by Lilly during that year. All such reports and all information contained in such reports, including without limitation, information relating to the purpose for which such Compounds are being developed, which of such Compounds are being developed and the status of such development, are Lilly Information. The obligation to provide such reports shall begin upon selection of a particular Existing Lilly Compound, Existing Neurocrine Compound, Joint Compound or New Compound for development and shall continue until development is terminated or upon the first sale of Product consisting of such Compound, provided however, upon the sale by Neurocrine of all or substantially all of its assets to which this Agreement relates, such reporting obligations shall be limited, at Lilly's option, to stating that such development is continuing or is terminated and reporting when the milestones of Section 6.1(e) have been reached.

Section 5.03 Sublicenses. [*]

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[*]

Section 5.04 Assay of Excluded Compounds. Neurocrine acknowledges and agrees that subjecting an Excluded Compound to assays using Existing Neurocrine Technology or Project Technology shall not result in any royalty or milestone obligations to Neurocrine.

Section 5.05 Regulatory Responsibility. Unless otherwise agreed between the parties, [*] shall have sole responsibility for all governmental health authority regulatory aspects associated with developing Products.

ARTICLE VI

COMMERCIAL TERMS

Section 6.00 Payment by Lilly. In addition to the Project funds of Article III, Lilly agrees to pay Neurocrine the following monies in consideration for the rights and licenses granted by Neurocrine and the obligations assumed by Neurocrine hereunder:

(a) [*] United States Dollars [*] to be paid by Lilly to Neurocrine within thirty (30) days of the date when Neurocrine informs Lilly, in writing, that it has finished screening the Research Records Cassette against Neurocrine's Corticotropin Releasing Factor-Binding Protein Ligand Inhibitor assays (to the extent such

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payment has not already been made to Neurocrine pursuant to Section 10.8, below);

(b) A running royalty, subject to Section 8.3, of [*] of the Net Sales of each Product sold by Lilly for the treatment of Dementia in countries outside of the United States;

(c) A running royalty of [*] of the Net Sales of each Product sold by Lilly for the treatment of indications associated with the Field other than Dementia in countries outside of the United States;

(d) A running royalty of [*] of the Net Sales of each Product sold by Lilly for the treatment of indications associated with the Field other than Dementia in the United States; and

(e) Milestone payments as follows:

Milestone Event	Milestone Payment (United States Dollars) First Product for Dementia or Obesity	Second Product for Dementia or Obesity
[*]	[*]	[*]
[*]	[*]	[*]
[*]	[*]	[*]
[*]	[*]	[*]
[*]	[*]	[*]
[*]	[*]	[*]

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The milestones set forth above will be paid for the first Product to achieve the required status and the first of such Products to obtain Project Team Compound status shall determine the milestone stream associated with the particular indication at issue (i.e., if the first Product to obtain Project Team Compound status is being developed for the treatment of Obesity, the larger milestone stream set forth in the table above shall be associated with Obesity and the smaller milestone stream set forth in the Table above shall be associated with Dementia and vice versa if the first Product to obtain Project Team Compound status is being developed for the treatment of Dementia). Further, no Product will receive more than one milestone stream (i.e., no milestone payment required for a second indication of any Product) and no milestone payment need be made more than once.

Section 6.01 Term of Royalty Payment. Running royalties paid by Lilly pursuant to Section 6.1(b), (c) or (d) shall be paid on a country-by-country basis from the date of the first sale of each Product in a particular country until the later of (a) the last to expire of any Patent Rights in the particular country for which a valid claim thereof covers the sale of the Product or (b) the last to expire of any Patent Rights in the country in which the Product is manufactured for which a valid claim of such Patent Rights covers all making, using or selling of the Product in the country of manufacture. As used herein, the term "valid claim" refers to a claim of an issued patent which has not been found to be unpatentable,

invalid or unenforceable by a court or other authority in the subject country, from which decision no appeal is taken or can be taken.

Section 6.02 Payments. Royalty payments hereunder shall be made to Neurocrine or its designee quarterly within sixty (60) days following the end of each calendar quarter for which royalties are due and shall be made in United States dollars. Each royalty payment shall be accompanied by a statement stating the Net Sales of Product during the relevant three (3) month period. Lilly's current standard exchange rate methodology will be employed for the translation of foreign currency sales into United States dollars. This methodology is used by Lilly in the translation of its foreign currency operating results for external reporting, is consistent with generally accepted accounting principles, and is approved and reviewed by Lilly's independent certified public accountants.

Section 6.03 Records. Lilly shall keep and maintain records of sales of Product. Such records shall be open to inspection, at any reasonable time within two (2) years after the royalty period to which such records relate, by Lilly's independent certified public accountant and such inspection shall be at Neurocrine's expense. The independent certified public accountant shall have the right to examine the records kept pursuant to this Section 6.4 and report to Neurocrine the findings of said examination of records insofar as necessary to verify the statements made pursuant to Section 6.3. Said findings shall be maintained in confidence by Neurocrine. If the accountant's findings vary by more than five (5) percent from Lilly's statement and such variance is to the disadvantage of Neurocrine, Lilly will refund Neurocrine the cost of such audit examination.

Section 6.04 Taxes. Any and all taxes levied on account of royalties accruing under this Article shall be paid by Neurocrine. If laws or regulations require withholding of said taxes, such taxes will be deducted by Lilly from such remittable royalty and will be paid by Lilly to the proper taxing authority, and proof of payment shall be sent to Neurocrine, in the form of a copy of the wire transfer Lilly utilized to make such payments, within sixty (60) days following payment thereof.

ARTICLE VII

RESEARCH RECORDS CASSETTE

Section 7.00 Supply of the Research Records Cassette. By January 1, 1997, Lilly shall supply Neurocrine with a copy of the Research Records Cassette (or a portion thereof should Lilly have insufficient quantities of any of the compounds contained in such Cassette). The compounds contained within such Cassette shall be supplied to Neurocrine in the form of [*] solution and all compounds supplied to Neurocrine hereunder shall be supplied blinded. Neurocrine agrees that it (i) will store the Research Records Cassette in a locked, secure facility and will ensure that only authorized Neurocrine employees have access to the Research Records Cassette; (ii) will not test the compounds of the Research Records Cassette other than as allowed in Section 7.2; (iii) will not attempt to determine the structures of the compounds contained in the Research Records Cassette; and (iv) will not attempt to replicate the Research Records Cassette or any compound contained therein without Lilly's prior written permission. Neurocrine, further, agrees that Lilly shall have the ability to audit Neurocrine's compliance with its obligations with respect to the Research

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Records Cassette under this Section at such times and intervals as is reasonably convenient to both parties.

Section 7.01 Neurocrine's Use of the Research Records Cassette. Should Neurocrine develop or obtain an assay outside the Field and wish to test the Research Records Cassette against such assay in order to assess the activity of the compounds contained within such Cassette in such assay system, Neurocrine may do so provided at least [*] of such assays are predictive of pharmacological uses which fall within Lilly's Strategic Focus. Prior to actually testing the compounds contained within such Cassette against the assay at issue, Neurocrine shall supply Lilly with sufficient information regarding the assay system, and the known and the potential pharmacological uses associated with such assay system, for Lilly to determine whether the pharmacological uses associated with such assay system fall within Lilly's Strategic Focus. Lilly shall consider the information supplied by Neurocrine as expeditiously as reasonably practical, and shall then inform Neurocrine, in writing, as to whether the pharmacological uses associated with the assay system fall within Lilly's Strategic Focus, should such uses fall within Lilly's Strategic Focus, Lilly shall have the ability to prevent Neurocrine's testing of the Research Records Cassette in the assay at issue only if (i) Lilly has an internal program which would compete with the assay at issue; (ii) Lilly already has a contractual obligation, or has a good faith belief that it is about to enter into a transaction for which Lilly had been engaged in substantial negotiations prior to receipt of the information from Neurocrine, which would prohibit Neurocrine from testing the Research Records Cassette in the assay at issue, (iii) Lilly has a good faith belief that it has already tested the Research Records Cassette in the assay at issue; or (iv) Lilly has

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a good faith belief that the assay at issue is not predictive of the pharmacological utility claimed by Neurocrine. All other tests of the Research Records Cassette by Neurocrine within Lilly's Strategic Focus shall be allowed. Furthermore, all tests of the Research Records Cassette by Neurocrine outside of Lilly's Strategic Focus shall be allowed, provided Neurocrine complies with the requirements in this first sentence of this Section 7.2 that at least[*] assays tested by Neurocrine are predictive of pharmacological uses which fall within Lilly's Strategic Focus. At the time Lilly informs Neurocrine as to whether the pharmacological uses associated with the assay system fall within Lilly's Strategic Focus, Lilly shall also notify Neurocrine, in writing, as to whether any of items (i) - (iv), above, apply.

Section 7.02 Results. Once Neurocrine has completed its testing of the compounds contained within the Research Records Cassette, it shall provide Lilly with a written copy of its test results and shall, further, advise Lilly, in writing, of any Positive Hits which resulted from its testing. Neurocrine shall, further, at Lilly's discretion, destroy or return to Lilly all remaining portions of the Cassette. Within thirty (30) days of receipt of the list of Positive Hits from Neurocrine, Lilly shall then provide Neurocrine with the structures of such Positive Hits, such additional quantity of material as is reasonably necessary for Neurocrine to conduct dose response curve studies on such Positive Hits and a list of any patents and/or patent applications which Lilly owns the claims of which cover the Positive Hits, to the extent Lilly does not have pre-existing obligations with respect to such Hits which would prevent such disclosure.

Section 7.03 Ownership and Patent Applications. To the extent Lilly does not already own a patent or patent application which covers any particular

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Positive Hit, Neurocrine shall own all inventions, patentable or otherwise, information and data generated during the course of its work under this Article with respect to such Hit. Should a patentable invention arise during the course of such work, Lilly and Neurocrine shall consult with each other as to the desirability of filing a patent application on such invention. If the parties concur that filing of a patent application is appropriate, Neurocrine shall file such application and Neurocrine shall be totally responsible for the preparation, prosecution and maintenance of such application and any patents resulting therefrom. Lilly agrees to cooperate with Neurocrine as needed in the preparation and prosecution of such application. Neurocrine agrees that, if such application contains a claim which encompasses the Positive Hit within the scope of such claim, it will grant Lilly a worldwide, non-exclusive license (with right to sublicense) with respect to such Positive Hit and will supply Lilly with a copy of such patent application within fifteen (15) days of the filing of such application with the United States Patent Office so that Lilly can consider whether such filings unduly prejudices its interests in the Positive Hit or compounds similar in structure thereto. If Lilly reasonably believes such filing unduly prejudices its interest, Lilly and Neurocrine agree to discuss in good faith how to ameliorate Lilly's concerns regarding such application. Should Neurocrine ultimately commercialize such Positive Hit, the non-exclusive license granted to Lilly above shall terminate.

Finally, if Neurocrine files a patent application on an invention encompassed by this Article and yet, later, decides that it no longer wishes to continue prosecution and/or maintenance of such application (or any patent resulting therefrom), Neurocrine shall inform Lilly of its decision to discontinue

prosecution and/or maintenance prior to discontinuance. Lilly may then elect to continue prosecution and/or maintenance of such application or patent at its sole expense, provided that if it does elect to continue prosecution and/or maintenance, Lilly shall reimburse Neurocrine for all out-of-pocket expenses previously incurred by Neurocrine in filing, prosecuting or maintaining such application or patent and Neurocrine shall provide all reasonable assistance (including preparing any papers required to allow Lilly to prosecute and/or maintain such application) required by Lilly in prosecuting and/or maintaining such application or patent. If Neurocrine elects to discontinue prosecuting and/or maintenance of an application or patent encompassed hereunder, and Lilly elects to continue prosecution and/or maintenance of such application or patent, Neurocrine shall lose all ownership rights to such application or patent and such rights shall vest totally in Lilly. The decision by Neurocrine not to proceed into the National Phase of the Patent Cooperation Treaty patenting process in every country originally designated as a Designated Country in any Patent Cooperation Treaty patent application encompassed by this Article shall not, by itself, be considered as an election to discontinue prosecution.

Section 7.04 License. Lilly shall grant Neurocrine a worldwide license to any patents owned by Lilly which would be infringed by Neurocrine's exercise of its rights under this Agreement, to the extent Lilly does not have a pre-existing obligation which would be inconsistent with such license grant to Neurocrine. Such license grant, moreover shall be limited to Positive Hits (non-exclusive license unless such Positive Hit is being commercially developed by Neurocrine in which case the license shall be exclusive) and those pharmacological uses associated with same as disclosed to Lilly by Neurocrine pursuant to Section 7.00,

above (exclusive license). All other uses shall remain the exclusive property of Lilly. Any licenses granted to Neurocrine herein may be sublicensed to a third party provided the terms of such sublicense are consistent with the terms of Neurocrine's license as described in this Article.

Section 7.05 Compensation. Compensation to Lilly for providing Neurocrine access to the Research Records Cassette and for the licenses granted to Neurocrine pursuant to Section 7.5, above, shall be as set forth in Sections 7.7 and 7.8, below.

Section 7.06 License Outside of Lilly's Strategic Focus. As compensation for pharmaceutical uses which are not within Lilly's Strategic Focus (as determined pursuant to the provisions of Section 7.2, above), Neurocrine agrees to pay Lilly the following monies:

(a) a running royalty of [*] of the net sales (where net sales shall be as defined in Section 1.23 above except that "Neurocrine" shall be substituted for "Lilly" and "product" shall be substituted for "Product" in the definition set forth in such Section) of any product [where product shall be defined as the Positive Hit or any compound generated by Neurocrine as part of a structure activity relationship (SAR) study around such Positive Hit] sold by Neurocrine, or any sublicensees thereof, for such pharmaceutical uses in any country in the world; and

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(b) milestone payments as follows:

Milestone Event	Milestone Payment (U.S. Dollars)
[*]	[*]
[*]	[*]
[*]	[*]
[*]	[*]

The milestones set forth above in this Section 7.4 will be paid for each product which achieves the required status and such milestones shall be payable upon the first to occur of (i) the sublicense of Neurocrine's rights on product to a third party (in which case such sublicense milestone and any milestones previously achieved by Neurocrine shall be payable) or (ii) FDA approval of the product (in which case all milestones shall be payable).

Section 7.07 License Inside Lilly's Strategic Focus. With respect to any license granted to Neurocrine pursuant to the provisions of Section 7.5, above, which encompasses pharmaceutical uses which are within Lilly's Strategic Focus (as determined pursuant to the provisions of Section 7.1, above), Neurocrine agrees to grant Lilly a first right of negotiation should Neurocrine elect to seek a partner to develop such Positive Hit (or any compound generated by Neurocrine as part of an SAR study around such Positive Hit) for any of such

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pharmaceutical uses. Such first right of negotiation shall last for a [*] month period, which period shall commence upon Neurocrine's notification to Lilly, via registered mail, that Neurocrine is interested in collaborating with another party on developing the Positive Hit or any compound generated by Neurocrine as part of an SAR study around such Positive Hit.

Should Neurocrine and Lilly, despite good faith negotiations, fall to reach agreement on an appropriate co-development agreement during the requisite [*] month period, Neurocrine shall then be free to pursue opportunities with other partners. Lilly, moreover, shall have the right to continue to negotiate with Neurocrine on an appropriate co-development agreement even after expiration of Lilly's [*] month period of exclusivity. However, in order to accept an opportunity with a partner other than Lilly, Neurocrine must achieve economics greater than [*] above the last offer received from Lilly (to the extent Lilly has made an offer), calculated as follows:

[*]
[*]
[*]

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Item (c) above, shall be calculated by multiplying the probability of reaching each clinical development milestone from the following chart by the milestone payment set forth below.

[*]

The discount rate for the probablized net present value cash flow calculation shall be [*] Should Neurocrine be able to obtain an arrangement with a party other than Lilly which exceeds the economics described above, Neurocrine shall pay Lilly the following monies:

(a) a running royalty of [*] of the net sales (where net sales is as defined in Section 7.7, above) of any product (where product is also as defined in Section 7.7, above) sold by Neurocrine, or any sublicensee thereof, for pharmaceutical uses within Lilly's Strategic Focus in any country in the world; and

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(b) milestone payments as follows:

[*]

The milestones set forth above will be paid for each product which achieves the required status and such milestones shall be payable upon the first to occur of (i) the sublicense of Neurocrine's rights on product to a third party (in which case, such sublicense milestone and any milestones previously achieved by Neurocrine shall be payable) or (ii) FDA approval of the product (in which case, all milestones shall be payable).

Finally, should Neurocrine be unable to obtain an arrangement with a party other than Lilly which exceeds the economics described above within [*] year of the expiration of Lilly's right of first negotiation, Neurocrine shall then grant Lilly a further first right of negotiation with respect to such product. Such additional first right of negotiation shall last for a [*] period as well. If, after expiration of this additional first right of negotiation period, the parties still are unable to reach an arrangement with respect to the product, Neurocrine shall then be free and clear to make an arrangement with another party.

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However, upon expiration of such additional first right of negotiation period, Neurocrine shall pay Lilly all of the milestones set forth above except for the sublicense milestone. Such sublicense milestone, moreover, shall become payable should Neurocrine later sublicense its rights on product to a third party.

However, in the event that Lilly does not make a good faith offer to Neurocrine in the additional [*] first right of negotiation period, upon expiration of such period, Neurocrine shall be obligated to pay to Lilly any milestones heretofore achieved, and shall be further obligated to pay remaining milestones as follows: (i) upon the sublicense of Neurocrine's rights on product to a third party (in which case, such sublicense milestone and any additional milestones achieved by Neurocrine as of the time of such sublicense shall be payable) or (ii) upon FDA approval of the product (in which case, all milestones shall be payable).

Section 7.08 Term of Royalty Payment. Running royalties paid by Neurocrine, or a sublicensee thereof, pursuant to Section 7.7(a) or 7.8(a), shall be paid on a country-by-country basis from the date of the first commercial sale of each product in a particular country until the later of (a) the last to expire of any patent rights in the particular country for which a valid claim thereof covers the sale of the product, or (b) the last to expire of any patent rights in the country in which the product is manufactured for which a valid claim of such patent rights covers all making, using or selling of the product in the country of manufacture. As used herein, the term "valid claim" refers to a claim of an issued patent which has not been found to be unpatentable, invalid or unenforceable by a court or other authority in the subject country, from which decision no appeal is taken or can be taken.

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Section 7.09 Payments. Royalty payments made pursuant to this Article shall be made to Lilly or its designee quarterly within sixty (60) days following the end of each calendar quarter for which royalties are due and shall be made in United States dollars. Each royalty payment shall be accompanied by a statement stating the net sales of product during the relevant three (3) month period. Exchange rates obtained from the Wall Street Journal as of the close of each calendar quarter for which royalties are due will be employed for the translation of foreign currency sales into United States dollars.

Section 7.10 Records. Neurocrine shall keep and maintain records of sales of product. Such records shall be open to inspection, at any reasonable time within two (2) years after the royalty period to which such records relate, by Neurocrine's independent certified public accountant and such inspection shall be at Lilly's expense. The independent certified public accountant shall have the right to examine the records kept pursuant to this Section 7.11 and report to Lilly the findings of said examination of records insofar as necessary to verify the statements made pursuant to Section 7.10. Said findings shall be maintained in confidence by Lilly. If the accountants' findings vary by more than five (5) percent from Neurocrine's statement, and such statement is to the disadvantage of Lilly, Neurocrine will refund Lilly the cost of such audit examination.

Section 7.11 Taxes. Any and all taxes levied on account of royalties accruing under this Article shall be paid by Lilly. If laws or regulations require withholding of said taxes, such taxes will be deducted by Neurocrine from such remittable royalty and will be paid by Neurocrine to the proper taxing authority, and proof of payment shall be sent to Lilly within sixty (60) days following payment thereof.

Section 7.12 Commercialization Efforts. Should any Positive Hits result from Neurocrine's testing pursuant to this Article, Neurocrine agrees to exercise reasonably diligent efforts toward developing and commercializing any products which result from such Hits according to its usual business practices for products of similar potential and value. In connection with developing such Hits, or any compound generated by Neurocrine as part of an SAR study around such Positive Hit, Neurocrine shall provide to Lilly an annual report summarizing the efforts devoted to such a compound in that year. All such reports and all information contained in such reports, including without limitation, information relating to the purpose for which such compounds are being developed, which of such compounds are being developed and the status of such development, shall be maintained in confidence by Lilly. The obligation to provide such reports shall begin once a compound is identified as a Positive Hit and shall continue until development of such compound, or any compound generated by Neurocrine as part of an SAR study around such compound, is terminated or upon the first sale of product comprising any of such compounds.

ARTICLE VIII

CO-PROMOTION

Section 8.00 Co-Promotion Option. Lilly hereby grants to Neurocrine an option to co-promote any Product sold by Lilly for Dementia in the United States. Lilly shall totally fund the development effort of any such Product up to [*]. At that point in time Lilly shall advise Neurocrine, in writing, of the fact that a Product being developed for Dementia has reached [*] and shall provide Neurocrine with an estimate of all remaining costs required to

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obtain FDA approval of Product for Dementia and a budget for such costs. Neurocrine shall then have [*] in which to advise Lilly, in writing, as to whether it intends to exercise its co-promotion option. If Neurocrine elects to exercise its option, Neurocrine shall then be responsible for [*] of all further external expenses associated with obtaining regulatory approval of such Product from the FDA. Neurocrine shall, further, be responsible for [*] of any internal expenses incurred by Lilly in obtaining such regulatory approval as well, and such internal expenses shall be charged to Neurocrine on a fully allocated basis. Should Neurocrine elect not to exercise its co-promotion option within the requisite [*] day period, Neurocrine shall lose all rights to co-promote such Product for Dementia and Lilly shall then remain totally responsible for obtaining regulatory approval of such Product from the FDA.

Section 8.01 Compensation/Exercise of Options. If Neurocrine elects to exercise its option to co-promote as set forth in Section 8.1, above, Neurocrine shall receive [*] of the Gross Profits on sales of such Product for Dementia in the United States. To retain its right to co-promote such Product for Dementia in the United States, Neurocrine shall provide at least [*] of the sales details (as determined by IMS audit or any other sales or promotional audit mutually acceptable to the parties) required for such Product on an annual basis.

Alternatively, if Neurocrine determines that it would like to provide less than [*] of the sales details, Neurocrine may do so and still retain its right to co-promote, provided it reimburses Lilly for the additional details which Lilly is then required to conduct in order to adequately detail the market.

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Such reimbursement to Lilly shall be on a fully allocated cost per detail basis. In no respect, however, shall Neurocrine's level of detail effort fall below [*] of the sales details required for such Product on an annual basis. Should Neurocrine ever be unable to participate even at this minimal [*] detail level, Neurocrine will lose its right to co-promote such Product for Dementia in the United States. Compensation to Neurocrine for such sales of Product for Dementia in the United States shall then be provided by a running royalty of [*] of the Net Sales of such Product for Dementia in the United States.

With respect to such co-promotion arrangement, each party agrees to bear their own costs of promotion and detailing. All methods and materials used in any such co-promotion shall be within the bounds of the New Drug Application for the Product and shall be subject to prior review by Lilly. The remaining conditions of a co-promotion agreement between the parties, including the procedures utilized to establish the total details expected by the parties on an annual basis, shall be negotiated and agreed upon no later than [*] months prior to the anticipated introduction of Product in the United States and shall contain such terms as are normal and customary in the pharmaceutical industry for similar co-promotion arrangements.

Section 8.02 Co-Promotion/No Exercise of Option. If Neurocrine fails to exercise its option to co-promote as set forth in Section 8.1, above, within the requisite [*] day time period, Neurocrine shall lose its right to co-promote such Product for Dementia in the United States. Compensation to Neurocrine for such sales of Product for Dementia in the United States shall then be provided by a running royalty of [*] of the Net Sales of such Product for

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Dementia in the United States. In addition, the running royalty rate on Net Sales of such Product for Dementia in countries outside of the United States shall increase from [*] to [*]

Section 8.03 Co-Promotion/Obesity. Within [*] after Lilly notifies Neurocrine, in writing, of the [*] for any Product for Obesity, Neurocrine may notify Lilly, in writing, of its desire to co-promote such Product. The parties will then meet promptly to discuss in good faith whether it would be commercially appropriate, and on what basis it would be commercially appropriate, for Neurocrine to participate in marketing such Product with Lilly in the United States. The ultimate decision as to whether or not it is commercially appropriate for Neurocrine to participate in marketing such Product, however, shall be [*], provided [*] makes such decision in good faith.

ARTICLE IX

CONFIDENTIALITY

Section 9.00 Except as otherwise expressly provided in this Agreement, both Lilly and Neurocrine shall use their best efforts to retain in confidence and not use except as provided in this Agreement all information relating to Existing Neurocrine Technology or Project Technology or received from the other during the course of the Project including Lilly Information. Such information may, however, be disclosed insofar as such disclosure is necessary (where possible, with adequate safeguards for confidentiality) to allow either party to defend against litigation with a third-party, to file and prosecute patent applications or to comply with governmental regulations provided Neurocrine shall not use Lilly

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Information in any patent application without Lilly's written approval and Lilly shall not use Existing Neurocrine Technology or Project Technology owned by Neurocrine in any patent application without Neurocrine's written approval. Such obligation of confidentiality shall be waived as to information which (i) is in the public domain, (ii) comes into the public domain through no fault of the party claiming waiver, (iii) the party claiming waiver can show by written records was known by it prior to disclosure hereunder, or (iv) is disclosed to the party claiming waiver without obligation of confidentiality by a third party having a lawful right to make such disclosure. Either Neurocrine or Lilly, in furtherance of the objectives of the Project, may disclose confidential information obtained or generated under this Agreement to third parties who have agreed in writing to be bound by the same or similar obligations of confidence set forth herein, and provided such third parties agree not to use such confidential information other than in furtherance of the objectives of the Project. All obligations of confidentiality and nonuse imposed upon Neurocrine and Lilly under this Agreement shall expire on the later of ten years from termination of the Project, as such term is described in Section 10.2, or expiration of all royalty obligations pursuant to Article VI or Article VII whichever is later.

ARTICLE X

TERM AND TERMINATION

Section 10.00 Agreement Term. This Agreement shall become effective on the Effective Date and shall remain in effect, unless terminated earlier pursuant to Sections 10.5 or 10.6, until the later of the expiration of all royalty obligations pursuant to Article VI or Article VII, or the expiration of all obligations of

confidentiality under Article IX, whereupon Lilly shall have fully paid up licenses pursuant to Section 5.1.

Section 10.01 Project Term. Unless extended pursuant to Sections 10.3 or 10.4, or terminated early pursuant to Sections 10.5 or 10.6, the Project shall terminate on October 31,1999.

Section 10.02 Voluntary Extension of Project. By mutual agreement of Neurocrine and Lilly, the Project may be extended for additional periods which contemplate additional funding by Lilly and continuing studies by Neurocrine and Lilly.

Section 10.03 Mandatory Extension of Project. The term of the Project shall be automatically extended for two (2) additional years provided at least one (1) Project Team Compound results from Project during the first three years of the Project and either (i) Neurocrine and Lilly discover a new disease or disorder within the Field other than Obesity or Dementia or (ii) the Research Team determines that continuation of the Project is of interest to both Lilly and Neurocrine. If at least two (2) Project Team Compounds have not resulted from the Project, Lilly may terminate Project early, with three (3) months written notice to Neurocrine, provided such notice may not be provided to Neurocrine prior to July 31, 2000. During such mandatory extension of Project, Lilly agrees that during the fourth year of such Project, Lilly shall provide funding for the Project pursuant to the provisions of Article III. In the fifth year of such Project, however, the Research Team shall determine the goals to be achieved during such fifth year and then shall determine, in good faith, whether Neurocrine is able to provide [*] Scientific Person Years worth of expertise capable of helping achieve the goals set by the Research Team. If the Research Team, in

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good faith, determines that Neurocrine is not able to provide such amount of expertise, Lilly can then reduce the number of Scientific Person Years being funded at Neurocrine, provided, however, that in no event shall Lilly reduce the number of Scientific Person Years being funded at Neurocrine to less than nine (9) Scientific Person Years. If such mandatory extension of Project occurs, all terms of the present Agreement, except for the number of Scientific Person Years funded by Lilly in the fifth year of the Project, shall apply to such extension.

Section 10.04 Early Termination-Breach. If either party shall be in default of any of its material obligations under this Agreement and shall fail to remedy such default within ninety (90) days after receipt of written notice thereof, the party not in default shall have the option of terminating the Project or this Agreement upon giving three (3) months written notice of such termination. In the event Neurocrine assigns this Agreement to an acquiring third-party pursuant to Section 15.6, Neurocrine's co-promotion options under Article VIII shall terminate but all other provisions of this Agreement shall survive.

Section 10.05 Early Termination-Blocking Patents. If any third party patents which would make it impractical to continue the Project and/or this Agreement come to the attention of either of the Parties, both Parties shall have the right to terminate the Project or this Agreement upon giving three (3) months written notice of such termination.

Section 10.06 Effect of Termination-Project. Termination of the Project shall not affect the rights and obligations of the parties accrued under this Agreement prior to termination. In particular, all licenses granted under Articles V (provided Lilly is not the defaulting party) and VII (provided Neurocrine is not a defaulting party), all royalties owed under Articles VI and

VII, Neurocrine's co-promotion options under Article VIII (provided Neurocrine is not a defaulting party) and all obligations under Article IX shall survive. All levels of continued funding from the notice of termination, if termination is pursuant to Section 10.5, above, until the effective date of termination shall be in accordance with the budget then in effect at the time of notice of termination.

Section 10.07 Effect of Termination-Agreement. Termination of this Agreement shall not affect the rights and obligations of the parties accrued under this Agreement prior to termination. In particular, all royalties owed under Articles VI and VII and all obligations under Article IX shall survive.

Section 10.08 Failure to Timely Deliver Records and Cassette. If Lilly fails to deliver the Research Records Cassette by January 1, 1997, such failure to deliver the Cassette in a timely manner shall be considered a breach of this Agreement. Neurocrine's sole remedy for such breach shall be a lump sum payment from Lilly to Neurocrine of [*] United States dollars [*] which payment shall be considered liquidated damages recompensing Neurocrine's injuries for Lilly's breach.

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ARTICLE XI

DISCLOSURE OF AGREEMENT

Section 11.00 Disclosure of Agreement. Except as provided below, neither Neurocrine nor Lilly shall release any information to any third party with respect to the existence and terms of this Agreement without the prior written consent of the other. This prohibition includes, but is not limited, to further press releases, educational and scientific conferences, promotional materials, governmental filings, and discussions with public officials and the media.

If either party determines a release of further information is required by law or governmental regulation, it shall notify the other in writing at least thirty (30) days before the time of the proposed release. The notice shall include the exact text of the proposed release and the time and manner of the release. At the other party's request and before the release, the party desiring to release such further information shall consult with the other party on the necessity for the disclosure and the text of the proposed further release. In no event shall a release include further information regarding the existence or terms of this Agreement that is not required by law or governmental regulation or unless already publicly disclosed.

Appendix V is a press release, and questions and answers thereto, and other information regarding the Agreement, which the parties will prepare and release within thirty (30) days of signing this Agreement. Lilly and Neurocrine acknowledge that release of the materials contained in Appendix V does not violate the provisions of this Section 11.1. Except for those materials in Appendix V, the restriction of Section 11.1 shall apply.

ARTICLE XII

REPRESENTATIONS, WARRANTIES AND ACKNOWLEDGMENTS

Section 12.00 Warranty of Title. Lilly and Neurocrine hereby warrant that they have the right to enter into this Agreement, to grant the rights contained herein and to provide the information and biological materials hereunder.

Section 12.01 Prior Art. Except for broad-based university-owned patents for which non-exclusive licenses are available, Lilly and Neurocrine represent and warrant that, as of October 1, 1996, they and their employees have no knowledge of any United States or foreign pending patent application or issued patent which might be infringed by the practice of Existing Neurocrine Technology or in carrying out the Project.

Section 12.02 Employee Obligations. Lilly and Neurocrine represent and warrant that all of their respective employees, officers, and consultants have legal obligations whether imposed by agreement or law requiring assignment to Neurocrine or Lilly, as appropriate, all inventions relating to Existing Neurocrine Technology, Project Technology and Existing Lilly Compound made during the course of and as the result of their association with Neurocrine or Lilly, as appropriate, and obligating the individual to maintain as confidential Neurocrine's or Lilly's, as appropriate, confidential information as well as any confidential information of a third party which Neurocrine or Lilly may receive.

Section 12.03 Acknowledgment of Reliance. Neurocrine acknowledges that Lilly in entering into this Agreement has materially relied on the representations and warranties of Neurocrine contained in this Article XII. Lilly acknowledges that Neurocrine in entering into this Agreement has materially relied on the representations and warranties of Lilly contained in this Article XII.

Section 12.04 Acknowledgment of Lilly's Research. Neurocrine acknowledges and agrees that Lilly has substantial existing technology relating to Dementia, Obesity as well as, potentially, other disorders associated with Corticotropin Releasing Factor, and that Lilly will continue to maintain an ongoing independent research effort outside the Field directed to Dementia, Obesity and such other disorders. This effort may result in drugs with no royalty obligations to Neurocrine. This research effort will not affect any royalties owed to Neurocrine under this Agreement.

ARTICLE XIII

INFRINGEMENT OF THIRD PARTY'S RIGHTS

Section 13.00 Settlement. If a third party asserts that a patent or other right owned by it is infringed by the unauthorized use of Existing Neurocrine Technology or Project Technology or the making, use or sale by Lilly or its sublicenses of an Existing Neurocrine Compound, a Joint Compound or a New Compound developed or acquired by Neurocrine, Neurocrine and Lilly working together may attempt to resolve the problem raised by the asserted infringement. The matter shall be deemed resolved if Neurocrine or Lilly obtains: (a) a license permitting Lilly to use Existing Neurocrine Technology and Project Technology and to make, have made, use and sell such Existing Neurocrine Compound, Joint Compound or New Compound in such country with no additional royalties payable by Lilly; or (b) a statement or representation from such third party that: (1) no action will be taken against Lilly or Lilly's sublicenses, or (2) that the patent or other right is not infringed by Lilly or Lilly's sublicensees; or (c) a holding that

the patent is invalid, or the patent or other right is unenforceable or not infringed by a court of competent jurisdiction from which no appeal has or can be taken.

Section 13.01 Litigation. If the use of Existing Neurocrine Technology or Project Technology or the making, use or sale of an Existing Neurocrine Compound, a Joint Compound or a New Compound developed or acquired by Neurocrine, results in a claim for patent infringement against Lilly, the party to this Agreement first having notice of such claim shall promptly notify the other party in writing, which notice shall set forth the facts of such claim in reasonable detail. Neurocrine shall cooperate with Lilly at Lilly's request and expense, in the defense of any such claim. Neurocrine shall have the right to be represented by counsel of its own choice and at Neurocrine's expense.

Section 13.02 Royalty Reduction. If, as a result of settlement procedures or litigation under Sections 13.1 or 13.2, Lilly is required to pay the third party a royalty or make any payment of any kind for the right to make, have made, use, and sell or continue to make, have made, use, and sell such Existing Neurocrine Compound, Joint Compound or New Compound, or to use Existing Neurocrine Technology or Project Technology in a particular country, Lilly may deduct, from the amount of royalties owed to Neurocrine in connection with the same country, [*] of the amount of the royalty or such other amount payable to the third party up to, but no more than, [*] of the amounts otherwise payable to Neurocrine in connection with the particular country.

Section 13.03 Third Party Infringement. If any patent obtained by Neurocrine for Existing Neurocrine Technology, Project Technology, an Existing Neurocrine Compound or a New Compound which is a Neurocrine Compound is infringed by a third party, the party to this Agreement first having knowledge of

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such infringement shall promptly notify the other in writing, which notice shall set forth the facts of such infringement in reasonable detail. Neurocrine shall have the primary right, but not the obligation, to institute, prosecute, and control any action or proceeding with respect to such infringement of its Patent Rights, by counsel of its own choice, and Lilly shall have the right, at its own expense, to be represented in such action by counsel of its own choice. If Neurocrine shall fail to bring such action or proceeding within a period of one hundred twenty (120) days after receiving written notice from Lilly or otherwise having knowledge of such infringement, Lilly shall have the right to bring and control any such action by counsel of Lilly's own choice, and Neurocrine shall have the right, at its own expense, to be represented in any such action by counsel of its own choice. If one party brings any such action or proceeding, the second party agrees, if necessary, to be joined as a party plaintiff and to give the first party reasonable assistance and authority to file and to prosecute such suit. The costs and expenses of all suits brought by either party under this Section 13.4 shall be reimbursed on a pro-rata basis to both parties out of any damages or other monetary awards recovered therein in favor of Neurocrine and/or Lilly. Any remaining damages shall then belong to the party bringing and prosecuting such action or proceeding. No settlement or consent judgment or other voluntary final disposition of a suit under this Section 13.4 may be entered into without the joint consent of Neurocrine and Lilly (which consent shall not be withheld unreasonably).

ARTICLE XIV

GOVERNMENT CONTROL

Section 14.00 Authority. This Agreement is made subject to any restrictions concerning the export of products or technical information from the United States which may be imposed upon or related to Neurocrine or Lilly from time to time by the government of the United States. Furthermore, each party hereto agrees that it will not export, directly or indirectly, any technical information acquired from the other under this Agreement or any products using such technical information to any country for which the United States government or any agency thereof at the time of export requires an export license or other governmental approval, without first obtaining the written consent to do so from the Department of Commerce or other agency of the United States government when required by an applicable statute or regulation.

ARTICLE XV

MISCELLANEOUS PROVISIONS

Section 15.00 No Agency. It is understood and agreed that Neurocrine shall have the status of an independent contractor under this Agreement and that nothing in this Agreement shall be construed as authorization for either Lilly or Neurocrine to act as agent for the other. Members of the Research Team shall be and shall remain employees of Neurocrine or Lilly, as the case may be, and Lilly shall not incur any liability for any act or failure to act by members of the Research Team who are employees of Neurocrine. Likewise, Neurocrine shall not incur any liability for any act or failure to act by employees of Lilly, including members of the Research Team who are employees of Lilly.

Section 15.01 Force Majeure. Both parties to the Agreement shall be excused from the performance of their obligations under this Agreement if such performance is prevented by force majeure and notice of such prevention of performance is promptly provided by the nonperforming party to the other party. Such excuse shall be continued so long as the condition constituting force majeure continues and the nonperforming party takes reasonable efforts to remove the condition. For purposes of this Agreement, force majeure shall include conditions beyond the control of the parties, including without limitation, an act of God, voluntary or involuntary compliance with any regulation, law or order of any government, war, civil commotion, epidemic, failure or default of public utilities or common carriers, destruction of production facilities or materials by fire, earthquake, storm or like catastrophe.

Section 15.02 Amendment. This Agreement may not be amended, supplemented, or otherwise modified except by an instrument in writing signed by both parties.

Section 15.03 Notices. Any notice required or permitted to be given under this Agreement shall be in writing and shall be deemed to have been sufficiently given for all purposes if mailed by first class certified or registered mail, postage prepaid. Unless otherwise specified in writing, the mailing addresses of the parties shall be as described below.

For Neurocrine: Neurocrine Biosciences, Inc.
3050 Science Park Road
San Diego, California 92121-1102
Attention: President

For Lilly: Eli Lilly and Company

Lilly Corporate Center
Indianapolis, Indiana 46285

Attention: Patent Division

Section 15.04 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Indiana excluding any choice of law rules which may direct the application of the law of any other jurisdiction.

Section 15.05 Assignment. Neither party may assign its rights and obligations under this Agreement without the prior written consent of the other except a party may make such an assignment without the other party's consent in the event of a merger or in connection with the sale of all or substantially all of its assets to which this Agreement relates.

Section 15.06 Consents Not Unreasonably Withheld. Whenever provision is made in this Agreement for either party to secure the consent or approval of the other, such consent or approval shall not unreasonably be withheld, and whenever in this Agreement provisions are made for one party to object to or disapprove a matter, such objection or disapproval shall not unreasonably be exercised.

Section 15.07 No Strict Construction. This Agreement has been prepared jointly and shall not be strictly construed against either party.

Section 15.08 Entire Agreement. The parties acknowledge and agree that this Agreement includes the Appendices and, in combination with the Confidentiality Agreement previously executed between Lilly and Neurocrine, and the amendments thereto effective January 26 and March 27, 1996, respectively (Appendix VI), constitutes the entire agreement and understanding relating to

the subject matter of this Agreement, provided, however, that should there be any conflict between the terms of this Agreement (excluding Appendices) and the terms of an Appendix, then this Agreement (excluding Appendices) shall control. As such, with the exception of the Confidentiality Agreement, and the amendments thereto, between Lilly and Neurocrine, the instant Agreement supersedes all previous communications, proposals, representations and agreements, whether oral or written, relating to the subject matter of this Agreement.

Section 15.09 Severability Each party agrees that, should any provision of this Agreement be determined by a court of competent jurisdiction to violate or contravene any applicable law or policy, such provision will be severed or modified by the court to the extent necessary to comply with the applicable law or policy, and such modified provision and the remainder of the provisions hereof will continue in full force and effect.

Section 15.10 Waiver The waiver of a breach hereunder may be effected only by a writing signed by the waiving party and shall not constitute a waiver of any other breach.

Section 15.11 Headings The captions or headings of the Sections and Articles are inserted only as a matter of convenience or for reference and shall have no effect on the meaning of the provisions hereof.

Section 15.12 Counterparts This Agreement may be executed in one or more counterparts, each of which shall be an original, but all of which taken together shall constitute one and the same agreement.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement, in duplicate originals, by their respective officers thereunto duly authorized, the day and year herein written.

ELI LILLY AND COMPANY	NEUROCRINE BIOSCIENCES, INC.
By: /SIG/	By: GARY A. LYONS
Sidney Taurel	Gary A. Lyons
President and Chief Operating Officer	President
Date: Oct 15, 1996	Date: Oct 12, 1996

APPENDIX I

PROJECT TEAM COMPOUNDS AND POTENTIAL PROJECT TEAM COMPOUNDS

[*]	[*]
[*]	[*]
[*]	[*]
[*]	[*]
[*]	[*]
[*]	[*]
[*]	[*]

The above-mentioned list shall include the non-salt, salt, and solvate forms of any compounds set forth above, as well as the racemate and stereoisomer forms of any chiral compounds.

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APPENDIX II

NEUROCRINE PATENT RIGHTS

TITLE	SERIAL NUMBER	FILING DATE	STATUS
[*]	[*]	[*]	[*]
[*]	[*]	[*]	[*]
[*]	[*]	[*]	[*]
[*]	[*]	[*]	[*]
[*]	[*]	[*]	[*]
[*]	[*]	[*]	[*]

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APPENDIX III

RESEARCH AND DEVELOPMENT PROGRAM

APPENDIX IV

EXISTING NEUROCRINE TECHNOLOGY PROVIDED PURSUANT TO SECTION 4.01

[*]

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APPENDIX V

PRESS RELEASE

APPENDIX VI

MUTUAL CONFIDENTIALITY AGREEMENT

In order to encourage a complete and free exchange of information during discussions regarding neurosteroids for the treatment of central nervous system disorders, and regarding CRF receptor antagonists and CRF binding proteins for the same use to be held in the period ending November 30, 1993, between Neurocrine Biosciences, Inc. having an address at 1020 Prospect Street, Suite 317, La Jolla, California 92037, (NEUROCRINE) and Eli Lilly and Company having an address at Lilly Corporate Center, Indianapolis, Indiana 46285 (LILLY), and specifically to protect the confidential and proprietary name of certain information to be disclosed during the discussions ("Information"), the parties agree as follows:

Each party receiving Information from the other agrees:

1. To receive and to hold such Information in confidence;

2. To exercise all reasonable precautions to prevent the disclosure of such Information to others; and

3. To use such Information only to evaluate a possible future relationship between the parties.

The foregoing commitments shall expire on November 30, 1998, and shall not impose any obligation upon any party with respect to any portion of the Information which such party can establish:

1. Was known to the receiving party prior to the receipt of the same directly or indirectly from the disclosing party; or

2. Is now, or becomes in the future, public knowledge other than through acts or omissions of the receiving party; or

3. Is disclosed at any time to the receiving party by a third party that had a lawful right to disclose it.

Information disclosed other than in written form shall be subject to the terms of this Agreement only if confirmed in writing to the other parties within thirty (30) days of initial disclosure and specifying with particularity that Information disclosed other than in written form which is subject to the Agreement.

It is further agreed that the furnishing of Information shall not constitute any grant, option, or license under any patent or other rights now or hereinafter held by any party.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed by their duly authorized representatives.

NEUROCRINE BIOSCIENCES, INC.	LILLY RESEARCH LABORATORIES A Division of ELI LILLY AND COMPANY
By: GARY LYONS	By: JOHN G. WHITNEY
Printed:	John G. Whitney, Ph.D.
Title:	Vice President
Date: 6/9/93	Date: 5/27/93

AMENDMENT

TO

MUTUAL CONFIDENTIALITY AGREEMENT

AMENDMENT (effective as of the date of signature by the last signing party) to the Mutual Confidentiality Agreement, dated as of June 9, 1993, (the "Agreement"), by and between Neurocrine Biosciences, Inc. ("Neurocrine"), and Eli Lilly and Company ("Lilly").

WHEREAS, Neurocrine and Lilly desire to amend the Agreement, as more fully set forth herein;

NOW, THEREFORE, in consideration of the premises and the mutual agreements hereinafter set forth, the parties hereby agree to amend the Agreement as follows:

The scope of the Agreement shall be enlarged to cover discussions regarding antagonist(s) of the interaction of CRF and CRF binding protein. Additionally, the Agreement shall relate to discussions held on or after December 20, 1995. The Agreement shall now expire on December 20, 2000.

All other terms of the Agreement shall remain in place without revision.

NEUROCRINE BIOSCIENCES, INC.

By: /SIG/

Title: Exec. V.P. R&D

Date: 7/26/96

ELI LILLY AND COMPANY

By: /SIG/

Title: Vice President

Date: Dec 20, 1995

AMENDMENT

TO

MUTUAL CONFIDENTIALITY AGREEMENT

AMENDMENT (effective as of the date of signature by the last signing party) to the Mutual Confidentiality Agreement, dates as of June 3, 1993 and as amended January 26, 1996 (the "Agreement") by and between Neurocrine Biosciences, Inc. ("Neurocrine"), and Eli Lilly and Company ("Lilly").

WHEREAS, Neurocrine and Lilly desire to amend the agreement solely for the purpose of allowing Eli Lilly to more fully evaluate Neurocrine's CRF-binding protein program;

NOW, THEREFORE, in consideration of the premises and the mutual agreements hereinafter set forth, the parties hereby agree to amend the Agreement as follows:

Neurocrine will provide information regarding chemical structures to Lilly. With regard to any such information regarding chemical structures, Lilly agrees to use such information solely for the purposes of evaluating a possible future relationship between the parties, and shall not use the information for any other purpose, including use in the development of any compounds or to assist in the development of any research or commercial program. Upon the request of Neurocrine, all information provided to Lilly regarding chemical structures shall be returned or destroyed, with the exception that one copy of the information may be retained solely for the purpose of insuring compliance with the restrictions provided herein.

Notwithstanding anything set forth above, the foregoing commitments shall not impose any obligation on Lilly with respect to any information regarding the structures which Lilly can establish:

1. Was known to Lilly prior to the receipt of same from Neurocrine; or

2. Is now, or becomes in the future, public knowledge other than through acts or omissions of Lilly; or

3. Is disclosed at any time to Lilly by a third party that had a lawful right to disclose it.

All other terms of the Agreement shall remain in place without revision including the Agreements expiration on December 20, 2000.

NEUROCRINE BIOSCIENCES, INC.	ELI LILLY AND COMPANY
By: /SIG/	By: STEVEN M. PAUL
Title: /TITLE/	Title: Steven M. Paul, Vice President
Date: 3/27/96	Date: 3/26/96

EXHIBIT 11.1

NEUROCRINE BIOSCIENCES, INC.

STATEMENT OF COMPUTATION OF NET INCOME (LOSS) PER SHARE

(in thousands, except per share data)

	Year Ended December 31,		
	1994	1995	1996
Net income (loss)	$(7,706)	$(3,346)	$ 5,875
Weighted average common shares outstanding during the period	10,934	11,685	14,981
Common equivalent shares outstanding during the period:			
Dilutive stock options, convertible preferred stock and warrants (computed using the modified treasury stock method)	--	--	1,608
Shares related to SAB No. 55, 64, and 83	499	499	--
Shares used in computing net income (loss) per share	11,433	12,184	16,589
Primary net income (loss) per common share(1)	$ (0.67)	$ (0.27)	$ 0.35

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(1) Fully diluted net income (loss) per share is within 3% of primary net income (loss) per share.

EXHIBIT 23.1

CONSENT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

We consent to the use of our report dated February 14, 1997, included in the 1996 Annual Report (Form 10-K) of Neurocrine Biosciences, Inc. for the year ended December 31, 1996.

We also consent to the incorporation by reference in the Registration Statement (Form S-8 No. 333-14589) pertaining to the 1992 Incentive Stock Option Plan, 1996 Employee Stock Purchase Plan and the 1996 Director Option Plan of Neurocrine Biosciences, Inc. of our report dated February 14, 1997, with respect to the financial statements included in this Annual Report (Form 10-K) for the year ended December 31, 1996.

/s/ ERNST & YOUNG LLP

ERNST & YOUNG LLP

San Diego, California
March 27, 1997

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U.S. DOLLARS

YEAR	
	DEC-31-1996
	JAN-01-1996
	DEC-31-1996
	1
	11,325,361
	58,594,853
	1,329,513
	0
	0
	72,090,689
	3,546,420
	0
	77,956,582
	4,067,514
	0
	0
	0
	83,251,404
	0
	77,956,582
	0
	19,215,662
	0
	16,265,629
	(573,627)
	0
	272,464
	6,121,603
	247,683
	0
	0
	0
	0
	5,873,920
	.35
	.35