

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549FORM S-8  
REGISTRATION STATEMENT  
UNDER THE SECURITIES ACT OF 1933NEUROCRINE BIOSCIENCES, INC.  
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE

33-0525145

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(STATE OF INCORPORATION)-----  
(I.R.S. EMPLOYER IDENTIFICATION NO.)3050 SCIENCE PARK ROAD  
SAN DIEGO, CALIFORNIA 92121  
(ADDRESS, INCLUDING ZIP CODE, OF REGISTRANT'S PRINCIPAL EXECUTIVE OFFICES)NEUROCRINE BIOSCIENCES, INC. AMENDED 1992 INCENTIVE STOCK PLAN  
NEUROCRINE BIOSCIENCES, INC. AMENDED 1996 DIRECTOR OPTION PLAN  
NORTHWEST NEUROLOGIC, INC. RESTATED 1997 INCENTIVE STOCK PLAN  
(FULL TITLE OF EACH PLAN)GARY A. LYONS  
PRESIDENT, CHIEF EXECUTIVE OFFICER AND  
DIRECTOR  
3050 SCIENCE PARK ROAD  
SAN DIEGO, CA 92121  
(619) 658-7600  
(NAME, ADDRESS, AND TELEPHONE NUMBER, INCLUDING AREA CODE, OF AGENT FOR  
SERVICE)COPIES TO:  
MICHAEL J. O'DONNELL  
WILSON SONSINI GOODRICH & ROSATI  
PROFESSIONAL CORPORATION  
650 PAGE MILL ROAD  
PALO ALTO, CA 94304  
(650) 493-9300

## CALCULATION OF REGISTRATION FEE

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	AMOUNT TO BE REGISTERED (1)	PROPOSED MAXIMUM OFFERING PRICE PER SHARE	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE	AMOUNT OF REGISTRATION FEE
1992 Incentive Stock Plan Common Stock, \$0.001 par value	600,000 shares	\$ 7.99(2)	\$4,795,899.84(2)	\$1,414.79
1996 Director Option Plan Common Stock, \$0.001 par value	100,000 shares	\$ 8.03(2)	\$ 803,125.00(2)	\$ 236.92
1997 Stock Incentive Plan Common Stock, \$0.001 par value	105,414 shares	\$ 1.16	\$ 121,862.50	\$ 35.95
<b>TOTAL</b>	<b>805,414</b>		<b>\$5,720,887.34</b>	<b>\$1,687.66</b>

- (1) This Registration Statement shall also cover any additional shares of Common Stock which become issuable under the 1992 Incentive Stock Plan, 1996 Director Option Plan and/or 1997 Stock Incentive Plan as a result of any stock dividend, stock split, recapitalization or other similar transaction effected without the receipt of consideration which results in an increase in the number of the outstanding shares of Common Stock of Neurocrine Biosciences, Inc.



- (2) Estimated in accordance with Rule 457(h) solely for the purpose of calculating the registration fee based upon the average of the high and low prices of the Common Stock as reported on the Nasdaq National Market System on June 23, 1998.

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## PART I

## INFORMATION REQUIRED IN THE PROSPECTUS

## ITEM 1. PLAN INFORMATION.

The Registrant will send or give the documents containing the information specified in this Item 1 to employees, officers, directors or others as specified by Rule 428(b)(1). In accordance with the rules and regulations of the Securities and Exchange Commission (the "Commission") and the instructions to Form S-8, the Registrant is not filing such documents with the Commission either as part of this Registration Statement or as prospectuses or prospectus supplements pursuant to Rule 424.

## ITEM 2. REGISTRATION INFORMATION AND EMPLOYEE PLAN ANNUAL INFORMATION.

The Registrant will send or give the documents containing the information specified in this Item 2 to employees, officers, directors or others as specified by Rule 428(b)(1). In accordance with the rules and regulations of the Commission and the instructions to Form S-8, the Registrant is not filing such documents with the Commission either as part of this Registration Statement or as prospectuses or prospectus supplements pursuant to Rule 424.

## PART II

## INFORMATION REQUIRED IN THE REGISTRATION STATEMENT

## ITEM 3. INCORPORATION OF DOCUMENTS BY REFERENCE.

There are hereby incorporated by reference the following documents and information heretofore filed with the Commission:

(1) The Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1997, filed with the Commission on April 10, 1998;

(2) The Registrant's Current Report on Form 8-K filed with the Commission on March 13, 1998;

(3) The Registrant's Report on Form 10-Q for the quarterly period ended March 31, 1998, filed with the Commission on May 15, 1998;

(4) The description of the Registrant's Common Stock which is contained in items 1 and 2 of its Registration Statement on Form 8-A filed pursuant to Section 12(g) of the Exchange Act

on April 2, 1996, and any further amendment or report filed hereafter for the purpose of updating such description; and

(5) All documents subsequently filed by the Registrant pursuant to Sections 13(a), 13(c), 14 and 15(d) of the Exchange Act, prior to the filing of a post-effective amendment which indicates that all securities offered have been sold or which deregisters all securities then remaining unsold, shall be deemed to be incorporated by reference in this registration statement and to be part hereof from the date of filing such documents.

ITEM 4. DESCRIPTION OF SECURITIES.

Not applicable.

ITEM 5. INTERESTS OF NAMED EXPERTS AND COUNSEL.

Not applicable.

ITEM 6. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

Section 145 of the Delaware General Corporation Law generally allows the Registrant to indemnify directors and officers for all expenses, judgments, fines and amounts in settlement actually paid and reasonably incurred in connection with any proceedings so long as such party acted in good faith and in a manner reasonably believed to be in or not opposed to the Registrant's best interests and, with respect to any criminal proceedings, if such party had no reasonable cause to believe his or her conduct to be unlawful. Indemnification may only be made by the Registrant if the applicable standard of conduct set forth in Section 145 has been met by the indemnified party upon a determination made (i) by the Board of Directors by a majority vote of the directors who are not parties to such proceedings, even though less than a quorum, or (ii) if there are no such directors, or if such directors so direct, by independent legal counsel in a written opinion, or (iii) by the stockholders.

Article VII of the Registrant's Certificate of Incorporation and Article VI, Sections 6.1, 6.2 and 6.3 of the Registrant's Bylaws provide for indemnification of its directors and officers, and permit indemnification of employees and other agents to the maximum extent permitted by the Delaware General Corporation Law. In addition, the Registrant has entered into indemnification agreements with its officers and directors.

ITEM 7. EXEMPTION FROM REGISTRATION CLAIMED.

Not applicable.

## ITEM 8. EXHIBITS.

See Exhibit Index on the page following the signature page below.

## ITEM 9. UNDERTAKINGS.

(a) The undersigned Registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement to include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement.

(2) That, for purposes of determining any liability under the Securities Act, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(b) The undersigned Registrant hereby undertakes that, for purposes of determining any liability under the Securities Act, each filing of the Registrant's annual report pursuant to Section 13(a) or Section 15(d) of the Exchange Act (and, where applicable, each filing of an employee benefit plan's annual report pursuant to Section 15(d) of the Exchange Act) that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(c) Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of Registrant pursuant to the Delaware General Corporation Law, the Restated Articles of Incorporation or the Bylaws of Registrant, Indemnification Agreements entered into between Registrant and its officers and directors, or otherwise, Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered hereunder, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

## SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant, Neurocrine Biosciences, Inc., certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-8 and has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of San Diego, State of California, on this 24th day of June, 1998.

NEUROCRINE BIOSCIENCES, INC.

By: /S/ GARY A. LYONS  
 Gary A. Lyons  
 President and Chief Executive Officer

## POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each such person whose signature appears below constitutes and appoints, jointly and severally, Gary A. Lyons and Paul W. Hawran his attorneys-in-fact, each with the power of substitution, for him in any and all capacities, to sign any amendments to this Registration Statement on Form S-8 (including post-effective amendments), and to file the same, with all 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 do or cause to be done by virtue hereof.

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES ACT OF 1933, THIS REGISTRATION STATEMENT HAS BEEN SIGNED BY THE FOLLOWING PERSONS IN THE CAPACITIES AND ON THE DATES INDICATED.

SIGNATURE	TITLE	DATE
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/S/ GARY A. LYONS ----- Gary A. Lyons	President, Chief Executive Officer and Director (Principal Executive Officer)	June 24, 1998
/S/ PAUL W. HAWRAN ----- Paul W. Hawran	Chief Financial Officer (Principal Financing and Accounting Officer)	June 24, 1998

/S/ JOSEPH A. MOLLICA ----- Joseph A. Mollica	Chairman of the Board of Directors	June 24, 1998
/S/ HARRY F. HIXSON, JR. ----- Harry F. Hixson, Jr.	Director	June 24, 1998
/S/ WYLIE W. VALE ----- Wylie W. Vale	Director	June 24, 1998
----- Richard F. Pops	Director	June __, 1998
/S/ DAVID E. ROBINSON ----- David E. Robinson	Director	June 24, 1998
/S/ ERROL B. DESOUZA ----- Errol B. DeSouza	Director	June 24, 1998



## INDEX TO EXHIBITS

Exhibit Number - - - - -	Document - - - - -
4.1	Neurocrine Biosciences, Inc. Amended 1992 Incentive Stock Plan and related form of agreement.
4.2	Neurocrine Biosciences, Inc. Amended 1996 Director Option Plan and related form of agreement.
4.3	Northwest NeuroLogic, Inc. Restated 1997 Stock Incentive Plan and related forms of agreement.
5.1	Opinion of Wilson Sonsini Goodrich & Rosati, a Professional Corporation.
23.1	Consent of Ernst & Young LLP, Independent Auditors.
23.2	Consent of Counsel (which is contained in Exhibit 5.1).
24.1	Power of Attorney (which is included as part of the signature page of this Registration Statement).

## NEUROCRINE BIOSCIENCES, INC.

AMENDED 1992 INCENTIVE STOCK PLAN  
(as amended May 27, 1997  
and May 27, 1998)

1 Purpose of the Plan. The purposes of this Incentive Stock Plan are to attract and retain the best available personnel, to provide additional incentive to the employees of Neurocrine Biosciences, Inc. (the "Company") and to promote the success of the Company's business.

Options granted hereunder may be either Incentive Stock Options or Nonstatutory Stock Options, at the discretion of the Board and as reflected in the terms of the written option agreement. The Board also has the discretion to grant Stock Purchase Rights.

## 2 Definitions.

2.1 "Board" shall mean the Committee, if one has been appointed, or the Board of Directors of the Company, if no Committee is appointed.

2.2 "Code" shall mean the Internal Revenue Code of 1986, as amended.

2.3 "Committee" shall mean the Committee appointed by the Board of Directors in accordance with Section 4(a) of the Plan, if one is appointed.

2.4 "Common Stock" shall mean the Common Stock of the Company.

2.5 "Company" shall mean Neurocrine Biosciences, Inc.

2.6 "Consultant" shall mean any person who is engaged by the Company or any Parent or Subsidiary to render consulting services and is compensated for such consulting services, and any director of the Company whether compensated for such services or not.

2.7 "Continuous Status as an Employee or Consultant" shall mean the absence of any interruption or termination of service as an Employee or Consultant, as applicable. Continuous Status as an Employee or Consultant shall not be considered interrupted in the case of sick leave, military leave, or any other leave of absence approved by the Board; provided that such leave is for a period of not more than 90 days or reemployment upon the expiration of such leave is guaranteed by contract or statute.

2.8 "Employee" shall mean any persons, including officers and directors, employed by the Company or any Parent or Subsidiary of the Company. The payment of a director's fee by the Company shall not be sufficient to constitute "employment" by the Company.

2.9 "Incentive Stock Option" shall mean an Option intended to qualify as an incentive stock option within the meaning of Section 422 of the Code.

2.10 "Nonstatutory Stock Option" shall mean an Option not intended to qualify as an Incentive Stock Option.

2.11 "Option" shall mean a stock option granted pursuant to the Plan.

2.12 "Optioned Stock" shall mean the Common Stock subject to an Option or Stock Purchase Right.

2.13 "Optionee" shall mean an Employee or Consultant who receives an Option.

2.14 "Parent" shall mean a "parent corporation," whether now or hereafter existing, as defined in Section 424(e) of the Code.

2.15 "Plan" shall mean this 1992 Incentive Stock Plan.

2.16 "Purchaser" shall mean an Employee or Consultant who exercises a Stock Purchase Right.

2.17 "Share" shall mean a share of the Common Stock, as adjusted in accordance with Section 11 of the Plan.

2.18 "Stock Purchase Right" shall mean a right to purchase Common Stock pursuant to the Plan or the right to receive a bonus of Common Stock for past services.

2.19 "Subsidiary" shall mean a "subsidiary corporation," whether now or hereafter existing, as defined in Section 424(f) of the Code.

3 Stock Subject to the Plan. Subject to the provisions of Section 11 of the Plan, the maximum aggregate number of shares under the Plan is 4,700,000 shares of Common Stock. The Shares may be authorized but unissued, or reacquired Common Stock.

If an Option or Stock Purchase Right should expire or become unexercisable for any reason without having been exercised in full, then the unpurchased Shares which were subject thereto shall, unless the Plan shall have been terminated, become available for future grant or sale under the Plan. Notwithstanding any other provision of the Plan, shares issued under the Plan and later repurchased by the Company shall not become available for future grant or sale under the Plan.

#### 4 Administration of the Plan.

##### 4.1 Procedure.

(a) Multiple Administrative Bodies. The Plan may be administered by different Committees with respect to different groups of Employees and Consultants.

(b) Section 162(m). To the extent that the Administrator determines it to be desirable to qualify Options granted hereunder as "performance-based compensation" within the meaning of Section 162(m) of the Code, the Plan shall be administered by a Committee of two or more "outside directors" within the meaning of Section 162(m) of the Code.

(c) Rule 16b-3. To the extent desirable to qualify transactions hereunder as exempt under Rule 16b-3, the transactions contemplated hereunder shall be structured to satisfy the requirements for exemption under Rule 16b-3.

(d) Other Administration. Other than as provided above, the Plan shall be administered by (A) the Board or (B) a Committee, which committee shall be constituted to satisfy applicable laws.

4.2 Powers of the Board. Subject to the provisions of the Plan, the Board shall have the authority, in its discretion: (i) to grant Incentive Stock Options, Nonstatutory Stock Options or Stock Purchase Rights; (ii) to determine, upon review of relevant information and in accordance with Section 7 of the Plan, the fair market value of the Common Stock; (iii) to determine the exercise price per share of Options or Stock Purchase Rights, to be granted, which exercise price shall be determined in accordance with Section 7 of the Plan; (iv) to determine the Employees or Consultants to whom, and the time or times at which, Options or Stock Purchase Rights shall be granted and the number of shares to be represented by each Option or Stock Purchase Right; (v) to interpret the Plan; (vi) to prescribe, amend and rescind rules and regulations relating to the Plan; (vii) to determine the terms and provisions of each Option and Stock Purchase Right granted (which need not be identical) and, with the consent of the holder thereof, modify or amend any provisions (including provisions relating to exercise price) of any Option or Stock Purchase Right; (viii) to accelerate or defer (with the consent of the Optionee) the exercise date of any Option, consistent with the provisions of Section 5 of the Plan; (ix) to authorize any person to execute on behalf of the Company any instrument required to effectuate the grant of an Option or Stock Purchase Right previously granted by the Board; (x) to allow Optionees to satisfy withholding tax obligations by electing to have the Company withhold from the Shares to be issued upon exercise of an Option or Stock Purchase Right that number of Shares having a Fair Market Value equal to the amount required to be withheld. The Fair Market Value of the Shares to be withheld shall be determined on the date that the amount of tax to be withheld is to be determined. All elections by an Optionee to have Shares withheld for this purpose shall be made in such form and under such conditions as the Administrator may deem necessary or advisable; and (xi) to make all other determinations deemed necessary or advisable for the administration of the Plan.

4.3 Effect of Board's Decision. All decisions, determinations and interpretations of the Board shall be final and binding on all Optionees, Purchasers and any other holders of any Options or Stock Purchase Rights granted under the Plan.

#### 5 Eligibility.

5.1 Options and Stock Purchase Rights may be granted to Employees and Consultants, provided that Incentive Stock Options may only be granted to Employees. An Employee or Consultant who has been granted an Option or Stock Purchase Right may, if such Employee or Consultant is otherwise eligible, be granted additional Option(s) or Stock Purchase Right(s).

5.2 Each Option shall be designated in the written option agreement as either an Incentive Stock Option or a Nonstatutory Stock Option. However, notwithstanding such designation, to the extent that the aggregate fair market value of the Shares with respect to which Options designated as Incentive Stock Options are exercisable for the first time by any Optionee during any calendar year (under all plans of the Company) exceeds \$100,000, such Options shall be treated as Nonstatutory Stock Options.

5.3 For purposes of Section 5(b), Options shall be taken into account in the order in which they were granted, and the fair market value of the Shares shall be determined as of the time the Option with respect to such Shares is granted.

5.4 The Plan shall not confer upon any Optionee or holder of a Stock Purchase Right any right with respect to continuation of employment by or the rendition of consulting services to the Company, nor shall it interfere in any way with his or her right or the Company's right to terminate his or her employment or services at any time, with or without cause.

5.5 The following limitations shall apply to grants of Options to Employees:

(a) No Employee shall be granted, in any fiscal year of the Company, Options to purchase more than 250,000 Shares.

(b) In connection with his or her initial employment, an Employee may be granted Options to purchase up to an additional 250,000 Shares which shall not count against the limit set forth in subsection (i) above.

(c) The foregoing limitations shall be adjusted proportionately in connection with any change in the Company's capitalization as described in Section 11.

(d) If an Option is canceled in the same fiscal year of the Company in which it was granted (other than in connection with a transaction described in Section 12), the canceled Option shall be counted against the limit set forth in subsection (i) above. For this purpose, if the exercise price of an Option is reduced, such reduction will be treated as a cancellation of the Option and the grant of a new Option.

6 Term of Plan. The Plan shall become effective upon the earlier to occur of its adoption by the Board of Directors or its approval by vote of holders of a majority of the outstanding shares of the Company entitled to vote on the adoption of the Plan. It shall continue in effect for a term of ten (10) years unless sooner terminated under Section 13 of the Plan.

7 Exercise Price and Consideration.

7.1 The per Share exercise price for the Shares to be issued pursuant to exercise of an Option or Stock Purchase Right shall be such price as is determined by the Board, but shall be subject to the following:

(a) In the case of an Incentive Stock Option;

i. granted to an Employee who, at the time of grant of such Incentive Stock Option, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the per Share exercise price shall be no less than 110% of the fair market value per Share on the date of grant.

ii. granted to any other Employee, the per Share exercise price shall be no less than 100% of the fair market value per Share on the date of grant.

(b) In the case of a Nonstatutory Stock Option or a Stock Purchase Right, the per Share exercise price shall be no less than 85% of the fair market value per Share on the date of grant. In the case of a Nonstatutory Stock Option intended to qualify as "performance-based compensation" within the meaning of Section 162(m) of the Code, the per Share exercise price shall be no less than 100% of the Fair Market Value per Share on the date of grant.

(c) Notwithstanding the foregoing, Options may be granted with a per Share exercise price of less than 100% of the Fair Market Value per Share on the date of grant pursuant to a merger or other corporate transaction.

For purposes of this Section 7(a), in the event that an Option or Stock Purchase Right is amended to reduce the exercise price, the date of grant of such Option or Stock Purchase Right shall thereafter be considered to be the date of such amendment.

7.2 The fair market value shall be determined by the Board in its discretion; provided, however, that where there is a public market for the Common Stock, the fair market value per Share shall be the mean of the bid and asked prices (or the closing price per share if the Common Stock is listed on the National Association of Securities Dealers Automated Quotation ("NASDAQ") National Market System) of the Common Stock for the date of grant, as reported in the Wall Street Journal (or, if not so reported, as otherwise reported by the NASDAQ System) or, in the event the Common Stock is listed on a stock exchange, the fair market value per Share shall be the closing price on such exchange on the date of grant of the Option or Stock Purchase Right, as reported in the Wall Street Journal.

7.3 The consideration to be paid for the Shares to be issued upon exercise of an Option or Stock Purchase Right, including the method of payment, shall be determined by the Board (and in the case of an Incentive Stock Option, shall be determined at the time of grant) and may consist entirely of cash, check, promissory note, other Shares of Common Stock which (i) either have been owned by the Optionee for more than six (6) months on the date of surrender or were not acquired directly or indirectly, from the Company, and (ii) have a fair market value on the date of surrender equal to the aggregate exercise price of the Shares as to which said Option shall be exercised, or any combination of such methods of payment, or such other consideration and method of payment for the issuance of Shares to the extent permitted under Sections 408 and 409 of the California General Corporation Law. In making its determination as to the type of consideration to accept, the Board shall consider if acceptance of such consideration may be reasonably expected to benefit the Company (Section 315(b) of the California General Corporation Law).

#### 8 Options.

8.1 Term of Option. The term of each Option shall be the term stated in the Option Agreement; provided, however, that the term shall be no more than ten (10) years from the date of grant thereof. In the case of an Incentive Stock Option granted to an Optionee who, at the time the Option is granted, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the term of the Option shall be five (5) years from the date of grant thereof or such shorter term as may be provided in the Option Agreement.

#### 8.2 Exercise of Option.

(a) Procedure for Exercise; Rights as a Shareholder. Any Option granted hereunder shall be exercisable at such times and under such conditions as determined by the Board, including performance criteria with respect to the Company and/or the Optionee, and as shall be permissible under the terms of the Plan, but in no case at a rate of less than 20% per year over five (5) years from the date the Option is granted.

An Option may not be exercised for a fraction of a Share.

An Option shall be deemed to be exercised when written notice of such exercise has been given to the Company in accordance with the terms of the Option by the person entitled to exercise the Option and full payment for the Shares with respect to which the Option is exercised has been received by the Company. Full payment may, as authorized by the Board, consist of any consideration and method of payment allowable under Section 7 of, the Plan. Until the issuance (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company) of the stock certificate evidencing such Shares no right to vote or receive dividends or any other rights as a shareholder shall exist with respect to the Optioned Stock, notwithstanding the exercise of the Option. The Company shall issue (or cause to be issued) such stock certificate promptly upon exercise of the Option. In the event that the exercise of a Nonstatutory Stock Option pursuant to Section 5(b), the Company shall issue a separate stock certificate evidencing the Shares treated as acquired upon exercise of an Incentive

Stock Option and a separate stock certificate evidencing the Shares treated as acquired upon exercise of a Nonstatutory Stock Option and shall identify each such certificate accordingly in its stock transfer records. No adjustment will be made for a dividend or other right for which the record date is prior to the date the stock certificate is issued, except as provided in Section 11 of the Plan.

Exercise of an Option in any manner shall result in a decrease in the number of Shares which thereafter may be available, both for purposes of the Plan and for sale under the Option, by the number of Shares as to which the Option is exercised.

(b) Termination of Status as an Employee or Consultant. In the event of termination of an Optionee's Continuous Status as an Employee or Consultant (as the case may be), such Optionee may, but only within such period of time as is determined by the Board, with such determination in the case of an Incentive Stock Option not exceeding three (3) months and in the case of Nonstatutory Stock Option not exceeding six (6) months after the date of termination, with such determination in the case of an Incentive Stock Option being made at the time of grant of the Option, exercise the Option to the extent that such Employee or Consultant was entitled to exercise it at the date of such termination (but in no event later than the date of expiration of the term of such Option as set forth in the Option Agreement). To the extent that such Employee or Consultant was not entitled to exercise the Option at the date of such termination, or if such Employee or Consultant does not exercise such Option (which such Employee or Consultant was entitled to exercise) within the time specified herein, the Option shall terminate.

(c) Disability of Optionee. Notwithstanding the provisions of Section 8(b)(ii) above, in the event of termination of an Optionee's Continuous Status as an Employee or Consultant as a result of such Employee's or Consultant's total and permanent disability (as defined in Section 22(e)(3) of the Code), such Employee or Consultant may, but only within six (6) months (or such other period of time not exceeding twelve (12) months as in determined by the Board, with such determination in the case of an Incentive Stock Option being made at the time of grant of the Option) from the date of such termination (but in no event later than the date of expiration of the term of such Option as set forth in the Option Agreement), exercise the Option to the extent such Employee or Consultant was entitled to exercise it at the date of such termination. To the extent that such Employee or Consultant was not entitled to exercise the Option at the date of termination, or if such Employee or Consultant does not exercise such Option (which such Employee or Consultant was entitled to exercise) within the time specified herein, the Option shall terminate.

(d) Death of Optionee. In the event of the death of an Optionee:

i. during the term of the Option who is at the time of his or her death an Employee or Consultant of the Company and who shall have been in Continuous Status as an Employee or Consultant since the date of grant of the Option, the Option may be exercised, at any time within six (6) months (but in no event later than the date of expiration of the term of such Option as set forth in the Option Agreement), by the Optionee's estate or by a person who acquired the right to exercise the Option by bequest or inheritance, but only to the extent that the right to exercise would have accrued had the



Optionee continued living and remained in Continuous Status as an Employee or Consultant six (6) months (or such other period of time as is determined by the Board at the time of grant of the Option) after the date of death; or

ii. within thirty (30) days (or such other period of time not exceeding three (3) months as is determined by the Board, with such determination in the case of an Incentive Stock Option being made at the time of grant of the Option) after the termination of Continuous Status as an Employee or Consultant, the Option may be exercised, at any time within six (6) months (or such other period of time as is determined by the Board at the time of grant of the Option) following the date of death (but in no event later than the date of expiration of the term of such Option as set forth in the Option Agreement), by the Optionee's estate or by a person who acquired the right to exercise the Option by bequest or inheritance, but only to the extent of the right to exercise that had accrued at the date of termination.

#### 9 Stock Purchase Rights.

9.1 Rights to Purchase. After the Board of Directors determines that it will offer an Employee or Consultant a Stock Purchase Right, it shall deliver to the offeree a stock purchase agreement or stock bonus agreement, as the case may be, setting forth the terms, conditions and restrictions relating to the offer, including the number of Shares which such person shall be entitled to purchase, and the time within which such person must accept such offer, which shall in no event exceed six (6) months from the date upon which the Board of Directors or its Committee made the determination to grant the Stock Purchase Right. The offer shall be accepted by execution of a stock purchase agreement or stock bonus agreement in the form determined by the Board of Directors.

9.2 Issuance of Shares. Forthwith after payment therefor, the Shares purchased shall be duly issued; provided, however, that the Board may require that the Purchaser make adequate provision for any Federal and State withholding obligations of the Company as a condition to the Purchaser purchasing such Shares.

9.3 Repurchase Option. Unless the Board determines otherwise, the stock purchase agreement or stock bonus agreement shall grant the Company a repurchase option exercisable upon the voluntary or involuntary termination of the Purchaser's employment with the Company for any reason (including death or disability). If the Board so determines, the purchase price for shares repurchased may be paid by cancellation of any indebtedness of the Purchaser to the Company. The repurchase option shall lapse at such rate as the Board may determine.

9.4 Other Provisions. The stock purchase agreement or stock bonus agreement shall contain such other terms, provisions and conditions not inconsistent with the Plan as may be determined by the Board of Directors.

10 Non-Transferability of Options and Stock Purchase Rights. Unless determined otherwise by the Administrator, an Option or Stock Purchase Right may not be sold, pledged, assigned, hypothecated,

transferred, or disposed of in any manner other than by will or by the laws of descent or distribution and may be exercised, during the lifetime of the Optionee, only by the Optionee. If the Administrator makes an Option or Stock Purchase Right transferable, such Option or Stock Purchase Right shall contain such additional terms and conditions as the Administrator deems appropriate.

#### 11 Adjustments upon Changes in Capitalization or Merger.

11.1 Changes in Capitalization. Subject to any required action by the shareholders of the Company, the number of shares of Common Stock covered by each outstanding Option or Stock Purchase Right, and the number of shares of Common Stock which have been authorized for issuance under the Plan but as to which no Options or Stock Purchase Rights have yet been granted or which have been returned to the Plan upon cancellation or expiration of an Option or Stock Purchase Right, as well as the price per share of Common Stock covered by each such outstanding Option or Stock Purchase Right, shall be proportionately adjusted for any increase or decrease in the number of issued shares of Common Stock resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Common Stock, or any other increase or decrease in the number of issued shares of Common Stock effected without receipt of consideration by the Company. The conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." Such adjustment shall be made by the Board, whose determination in that respect shall be final, binding and conclusive. Except as expressly provided herein, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares of Common Stock subject to an Option or Stock Purchase Right.

11.2 Dissolution or Liquidation. In the event of the proposed dissolution or liquidation of the Company, the Administrator shall notify the Optionee or Purchaser at least fifteen (15) days prior to such proposed action. To the extent it has not been previously exercised, the Option or Stock Purchase Right shall terminate immediately prior to the consummation of such proposed action.

(a) Merger or Asset Sale. In the event of a merger, sale of all or substantially all of the assets of the Company, tender offer or other transaction or series of related transactions resulting in a change of ownership of more than 50% of the voting securities of the Company ("Change in Control"), approved by the majority of the members of the Board on the Board prior to the commencement of such Change in Control, each outstanding Option shall be assumed or an equivalent option or right substituted by the successor corporation or a Parent or Subsidiary of the successor corporation; provided however, in the event that within one year of the date of the completion of the Change in Control, the successor corporation or a Parent or Subsidiary of the successor corporation terminates the employment of an Optionee without Cause (as defined below), such Optionee shall fully vest in and have the right to exercise the options assumed or substituted for the Option as to all of the Optioned Stock, including Shares as to which it would not otherwise be exercisable. In the event that the successor corporation refuses to assume or substitute for the Option, the Optionee shall fully vest in and have the right to exercise the Option as to all of the Optioned Stock, including Shares as to which it would not otherwise be exercisable. If an Option becomes fully vested and exercisable in lieu of assumption or substitution in the event of a Change of Control, the

Administrator shall notify the Optionee in writing or electronically that the Option shall be fully vested and exercisable for a period of fifteen (15) days from the date of such notice, and the Option shall terminate upon the expiration of such period. For the purposes of this paragraph, the Option shall be considered assumed if, following the Change of Control, the option confers the right to purchase, for each Share of Optioned Stock subject to the Option immediately prior to the Change in Control, the consideration (whether stock, cash, or other securities or property) received in the Change of Control by holders of Common Stock for each Share held on the effective date of the transaction (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding Shares); provided, however, that if such consideration received in the Change of Control is not solely common stock of the successor corporation or its Parent, the Administrator may, with the consent of the successor corporation, provide for the consideration to be received upon the exercise of the Option, for each Share of Optioned Stock subject to the Option, to be solely common stock of the successor corporation or its Parent equal in fair market value to the per share consideration received by holders of Common Stock in the Change of Control. For purposes of this paragraph, termination shall be for "Cause" in the event of the occurrence of any of the following: (a) any intentional action or intentional failure to act by employee which was performed in bad faith and to the material detriment of the successor corporation or its Parent or Subsidiary; (b) employee willfully and habitually neglects the duties of employment; or (c) employee is convicted of a felony crime involving moral turpitude, provided that in the event that any of the foregoing events is capable of being cured, the successor corporation or its Parent or Subsidiary shall provide written notice to the employee describing the nature of such event and the employee shall thereafter have five (5) business days to cure such event.

In the event of a Change in Control which is not approved by the majority of the members of the Board on the Board prior to the commencement of a Change in Control, each Optionee shall fully vest in and have the right to exercise all outstanding Options as to all of the Optioned Stock, including Shares as to which it would not otherwise be exercisable.

12 Date of Granting Options. The date of grant of an Option or Stock Purchase Right shall, for all purposes, be the date on which the Board makes the determination granting such Option or stock Purchase Right. Notice of the determination shall be given to each Employee or Consultant to whom an Option or Stock Purchase Right is so granted within a reasonable time after the date of such grant.

#### 13 Amendment and Termination of the Plan.

13.1 Amendment and Termination. The Administrator may at any time amend, alter, suspend or discontinue the Plan, but no amendment, alteration, suspension or discontinuation shall be made which would impair the rights of any Optionee under any grant theretofore made, without his or her consent. In addition, to the extent necessary and desirable to comply with Section 422 of the Code (or any other Applicable Laws or regulation, the requirements of the NASD or an established stock exchange), the Company shall obtain shareholder approval of any Plan amendment in such a manner and to such a degree as required.

13.2 Effect of Amendment or Termination. Any such amendment or termination of the Plan shall not affect Options or Stock Purchase Rights already granted, and such Options and Stock Purchase Rights shall remain in full force and effect as if this Plan had not been amended or terminated, unless mutually agreed otherwise between the Optionee and the Administrator, which agreement must be in writing and signed by the Optionee and the Company.

14 Conditions Upon Issuance of Shares. Shares shall not be issued pursuant to the exercise of an Option or Stock Purchase Rights unless the exercise of such Option or Stock Purchase Rights and the issuance and delivery of such Shares pursuant thereto shall comply with all relevant provisions of law, including, without limitation, the Securities Act of 1933, as amended, the Exchange Act, the rules and regulations promulgated thereunder, and the requirements of any stock exchange upon which the Shares may then be listed, and shall be further subject to the approval of counsel for the Company with respect to such compliance.

As a condition to the exercise of an Option or Stock Purchase Right, the Company may require the person exercising such Option or Stock Purchase Right to represent and warrant at the time of any such exercise that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares if, in the opinion of counsel for the Company, such a representation is required by any of the aforementioned relevant provisions of law.

15 Reservation of Shares. The Company, during the term of this Plan, will at all times reserve and keep available such number of Shares as shall be sufficient to satisfy the requirements of the Plan.

The inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder, shall relieve the Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority shall not have been obtained.

16 Option, Stock Purchase and Stock Bonus Agreements. Options shall be evidenced by written option agreements in such form as the Board shall approve. Upon the exercise of Stock Purchase Rights, the Purchaser shall sign a stock purchase agreement or stock bonus agreement in such form as the Board shall approve.

17 Shareholder Approval. Continuance of the Plan shall be subject to approval by the shareholders of the Company within twelve (12) months before or after the date the Plan is adopted. Such shareholder approval shall be obtained in the degree and manner required under Applicable Laws and the rules of any stock exchange upon which the Common Stock is listed.

18 Information to Optionees and Purchasers. The Company shall provide to each Optionee and Purchaser, during the period for which such Optionee or Purchaser has one or more Options to Stock Purchase Rights outstanding, a balance sheet and an income statement at least annually. The Company shall not be required to provide such information to key employees whose duties in connection with the Company assure their access to equivalent information.

## NEUROCRINE BIOSCIENCES, INC.

## STOCK OPTION AGREEMENT

Unless otherwise defined herein, the terms defined in the Amended 1992 Incentive Stock Plan (the "Plan") shall have the same defined meanings in this Option Agreement.

## I. NOTICE OF STOCK OPTION GRANT

[Optionee's Name and Address]

You have been granted an option to purchase Common Stock of the Company, subject to the terms and conditions of the Plan and this Option Agreement, as follows:

Grant Number \_\_\_\_\_

Date of Grant \_\_\_\_\_

Vesting Commencement Date \_\_\_\_\_

Exercise Price per Share \$ \_\_\_\_\_

Total Number of Shares Granted \_\_\_\_\_

Total Exercise Price \$ \_\_\_\_\_

Type of Option:  Incentive Stock Option

Nonstatutory Stock Option

Term/Expiration Date: \_\_\_\_\_

## Vesting Schedule:

This Option may be exercised, in whole or in part, in accordance with the following schedule:

[25% of the Shares subject to the Option shall vest twelve months after the Vesting Commencement Date, and 1/48 of the Shares subject to the Option shall vest each month thereafter, subject to the Optionee continuing to be an Employee or Consultant on such dates].

## Termination Period:

This Option may be exercised for thirty (30) days (or such other period of time not exceeding six (6) months, as is determined by the Board) after Optionee's Continuous Status as an Employee or Consultant terminates. Upon the death or Disability of the Optionee, this Option may be exercised for six (6) months after Optionee's Continuous Status as an Employee or Consultant. In no event shall this Option be exercised later than the Term/Expiration Date as provided above.

## II. AGREEMENT

1. Grant of Option. The Plan Administrator of the Company hereby grants to the Optionee named in the Notice of Grant attached as Part I of this Agreement (the "Optionee") an option (the "Option") to purchase the number of Shares, as set forth in the Notice of Grant, at the exercise price per share set forth in the Notice of Grant (the "Exercise Price"), subject to the terms and conditions of the Plan, which is incorporated herein by reference. Subject to Section 13(b) of the Plan, in the event of a conflict between the terms and conditions of the Plan and the terms and conditions of this Option Agreement, the terms and conditions of the Plan shall prevail.

If designated in the Notice of Grant as an Incentive Stock Option ("ISO"), this Option is intended to qualify as an Incentive Stock Option under Section 422 of the Code. However, if this Option is intended to be an Incentive Stock Option, to the extent that it exceeds the \$100,000 rule of Code Section 422(d) it shall be treated as a Nonstatutory Stock Option ("NSO").

## 2. Exercise of Option.

(a)Right to Exercise. This Option is exercisable during its term in accordance with the Vesting Schedule set out in the Notice of Grant and the applicable provisions of the Plan and this Option Agreement.

(b)Method of Exercise. This Option is exercisable by delivery of an exercise notice, in the form attached as Exhibit A (the "Exercise Notice"), which shall state the election to exercise the Option, the number of Shares in respect of which the Option is being exercised (the "Exercised Shares"), and such other representations and agreements as may be required by the Company pursuant to the provisions of the Plan. The Exercise Notice shall be completed by the Optionee and delivered to the President, the Chief Financial Officer or Secretary of the Company. The Exercise Notice shall be accompanied by payment of the aggregate Exercise Price as to all Exercised Shares. This Option shall be deemed to be exercised upon receipt by the Company of such fully executed Exercise Notice accompanied by such aggregate Exercise Price.

No Shares shall be issued pursuant to the exercise of this Option unless such issuance and exercise complies with Applicable Laws. Assuming such compliance, for income tax purposes the Exercised Shares shall be considered transferred to the Optionee on the date the Option is exercised with respect to such Exercised Shares.

3. Method of Payment. Payment of the aggregate Exercise Price shall be by any of the following, or a combination thereof, at the election of the Optionee:

(a) cash; or

(b) check; or

(c) consideration received by the Company under a cashless exercise program implemented by the Company in connection with the Plan; or

(d) surrender of other Shares which (i) in the case of Shares acquired upon exercise of an option, have been owned by the Optionee for more than six (6) months on the date of surrender, AND (ii) have a Fair Market Value on the date of surrender equal to the aggregate Exercise Price of the Exercised Shares;

4. Non-Transferability of Option. This Option may not be transferred in any manner otherwise than by will or by the laws of descent or distribution and may be exercised during the lifetime of Optionee only by the Optionee. The terms of the Plan and this Option Agreement shall be binding upon the executors, administrators, heirs, successors and assigns of the Optionee.

5. Term of Option. This Option may be exercised only within the term set out in the Notice of Grant, and may be exercised during such term only in accordance with the Plan and the terms of this Option Agreement.

6. Entire Agreement; Governing Law. The Plan is incorporated herein by reference. The Plan and this Option Agreement constitute the entire agreement of the parties with respect to the subject matter hereof and supersede in their entirety all prior undertakings and agreements of the Company and Optionee with respect to the subject matter hereof, and may not be modified adversely to the Optionee's interest except by means of a writing signed by the Company and Optionee. This agreement is governed by the internal substantive laws, but not the choice of law rules, of California.

7. Tax Consultation. Optionee understands that Optionee may suffer adverse tax consequences as a result of Optionee's exercise of this Option or disposition of the Shares. Optionee represents that the Company has advised Optionee to consult with a tax consultant of Optionee's choosing in connection with the exercise of this Option or disposition of the Shares and that Optionee is not relying on the Company for any tax advice.

8. NO GUARANTEE OF CONTINUED SERVICE. OPTIONEE ACKNOWLEDGES AND AGREES THAT THE VESTING OF SHARES PURSUANT TO THE VESTING SCHEDULE HEREOF IS EARNED ONLY BY CONTINUING AS AN EMPLOYEE OR CONSULTANT AT THE WILL OF THE COMPANY (AND NOT THROUGH THE ACT OF BEING HIRED, BEING GRANTED AN OPTION OR PURCHASING SHARES HEREUNDER). OPTIONEE FURTHER ACKNOWLEDGES AND AGREES THAT THIS AGREEMENT, THE TRANSACTIONS CONTEMPLATED HEREUNDER AND THE VESTING SCHEDULE SET FORTH HEREIN DO NOT CONSTITUTE AN EXPRESS OR

IMPLIED PROMISE OF CONTINUED ENGAGEMENT AS AN EMPLOYEE OR CONSULTANT FOR THE VESTING PERIOD, FOR ANY PERIOD, OR AT ALL, AND SHALL NOT INTERFERE WITH OPTIONEE'S RIGHT OR THE COMPANY'S RIGHT TO TERMINATE OPTIONEE'S RELATIONSHIP AS AN EMPLOYEE OR CONSULTANT AT ANY TIME, WITH OR WITHOUT CAUSE.

By your signature and the signature of the Company's representative below, you and the Company agree that this Option is granted under and governed by the terms and conditions of the Plan and this Option Agreement. Optionee has reviewed the Plan and this Option Agreement in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Option Agreement and fully understands all provisions of the Plan and Option Agreement. Optionee hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Administrator upon any questions relating to the Plan and Option Agreement. Optionee further agrees to notify the Company upon any change in the residence address indicated below.

OPTIONEE: NEUROCRINE BIOSCIENCES, INC.

Signature By -----

Print Name Title -----

Residence Address



CONSENT OF SPOUSE

The undersigned spouse of Optionee has read and hereby approves the terms and conditions of the Plan and this Option Agreement. In consideration of the Company's granting his or her spouse the right to purchase Shares as set forth in the Plan and this Option Agreement, the undersigned hereby agrees to be irrevocably bound by the terms and conditions of the Plan and this Option Agreement and further agrees that any community property interest shall be similarly bound. The undersigned hereby appoints the undersigned's spouse as attorney-in-fact for the undersigned with respect to any amendment or exercise of rights under the Plan or this Option Agreement.

-----  
Spouse of Optionee

## EXHIBIT A

NEUROCRINE BIOSCIENCES, INC.  
AMENDED 1992 INCENTIVE STOCK PLAN  
EXERCISE NOTICE

Neurocrine Biosciences, Inc.  
3050 Science Park Road  
San Diego, CA 92121

Attention: Secretary

1. Exercise of Option. Effective as of today, \_\_\_\_\_, 199\_\_, the undersigned ("Purchaser") hereby elects to purchase \_\_\_\_\_ shares (the "Shares") of the Common Stock of Neurocrine Biosciences, Inc. (the "Company") under and pursuant to the Amended 1992 Incentive Stock Plan (the "Plan") and the Stock Option Agreement dated , 19\_\_ (the "Option Agreement"). The purchase price for the Shares shall be \$ , as required by the Option Agreement.

2. Delivery of Payment. Purchaser herewith delivers to the Company the full purchase price for the Shares.

3. Representations of Purchaser. Purchaser acknowledges that Purchaser has received, read and understood the Plan and the Option Agreement and agrees to abide by and be bound by their terms and conditions.

4. Rights as Shareholder. Until the issuance (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company) of the Shares, no right to vote or receive dividends or any other rights as a shareholder shall exist with respect to the Optioned Stock, notwithstanding the exercise of the Option. The Shares so acquired shall be issued to the Optionee as soon as practicable after exercise of the Option. No adjustment will be made for a dividend or other right for which the record date is prior to the date of issuance, except as provided in Section 11 of the Plan.

5. Tax Consultation. Purchaser understands that Purchaser may suffer adverse tax consequences as a result of Purchaser's purchase or disposition of the Shares. Purchaser represents that the Company has advised Purchaser to consult with a tax consultant of Purchaser's choosing in connection with the purchase or disposition of the Shares and that Purchaser is not relying on the Company for any tax advice.

6. Entire Agreement; Governing Law. The Plan and Option Agreement are incorporated herein by reference. This Agreement, the Plan and the Option Agreement constitute the entire agreement of the parties with respect to the subject matter hereof and supersede in their entirety all prior undertakings and agreements of the Company and Purchaser with respect to the subject matter hereof, and may not be

modified adversely to the Purchaser's interest except by means of a writing signed by the Company and Purchaser. This agreement is governed by the internal substantive laws, but not the choice of law rules, of California.

Submitted by:

Accepted by:

PURCHASER:

NEUROCRINE BIOSCIENCES, INC.

Signature

-----  
By

Print Name

-----  
Its

Address:

Address:

Neurocrine Biosciences, Inc.  
3050 Science Park Road  
San Diego, CA 92121

-----  
Date Received

## NEUROCRINE BIOSCIENCES, INC.

1996 DIRECTOR OPTION PLAN  
(AS AMENDED MAY 27, 1998)

1 Purposes of the Plan. The purposes of this 1996 Director Option Plan are to attract and retain the best available personnel for service as Outside Directors (as defined herein) of the Company, to provide additional incentive to the Outside Directors of the Company to serve as Directors, and to encourage their continued service on the Board.

All options granted hereunder shall be nonstatutory stock options.

2 Definitions. As used herein, the following definitions shall apply:

(a) "Board" means the Board of Directors of the Company.

(b) "Code" means the Internal Revenue Code of 1986, as amended.

(c) "Common Stock" means the Common Stock of the Company.

(d) "Company" means Neurocrine Biosciences, Inc.

(e) "Continuous Status as a Director" means the absence of any interruption or termination of service as a Director.

(f) "Director" means a member of the Board.

(g) "Employee" means any person, including officers and Directors, employed by the Company or any Parent or Subsidiary of the Company. The payment of a Director's fee by the Company shall not be sufficient in and of itself to constitute "employment" by the Company.

(h) "Exchange Act" means the Securities Exchange Act of 1934, as amended.

(i) "Fair Market Value" means, as of any date, the value of Common Stock determined as follows:

(i) If the Common Stock is listed on any established stock exchange or a national market system, including without limitation the Nasdaq National Market of the National Association of Securities Dealers, Inc. Automated Quotation ("NASDAQ") System, the Fair Market Value of a Share of Common Stock shall be the closing sales price for such stock (or the closing bid, if no sales were reported) as quoted on such system or exchange (or the exchange with the greatest volume of trading

in Common Stock) on the day of determination, as reported in The Wall Street Journal or such other source as the Board deems reliable;

(ii) If the Common Stock is quoted on the NASDAQ System (but not on the National Market thereof) or regularly quoted by a recognized securities dealer but selling prices are not reported, the Fair Market Value of a Share of Common Stock shall be the mean between the high bid and low asked prices for the Common Stock on the day of determination, as reported in The Wall Street Journal or such other source as the Board deems reliable, or;

(iii) In the absence of an established market for the Common Stock, the Fair Market Value thereof shall be determined in good faith by the Board.

(j) "New Outside Director" means an Outside Director who becomes a Director after the effective date of this Plan.

(k) "Option" means a stock option granted pursuant to the Plan.

(l) "Optioned Stock" means the Common Stock subject to an Option.

(m) "Optionee" means an Outside Director who receives an Option.

(n) "Outside Director" means a Director who is not an Employee.

(o) "Parent" means a "parent corporation", whether now or hereafter existing, as defined in Section 424(e) of the Code.

(p) "Plan" means this Neurocrine Biosciences, Inc. 1996 Director Option Plan.

(q) "Share" means a share of the Common Stock, as adjusted in accordance with Section 10 of the Plan.

(r) "Subsidiary" means a "subsidiary corporation", whether now or hereafter existing, as defined in Section 424(f) of the Internal Revenue Code of 1986.

3 Stock Subject to the Plan. Subject to the provisions of Section 10 of the Plan, the maximum aggregate number of Shares which may be optioned and sold under the Plan is two hundred thousand (200,000) Shares (the "Pool") of Common Stock. The Shares may be authorized but unissued, or reacquired Common Stock.

If an Option should expire or become unexercisable for any reason without having been exercised in full, the unpurchased Shares which were subject thereto shall, unless the Plan shall have been terminated, become available for future grant under the Plan; provided, however, that Shares that have

actually been issued under the Plan shall not be returned to the Plan and shall not become available for future distribution under the Plan.

#### 4 Administration and Grants of Options under the Plan.

(a) Procedure for Grants. The provisions set forth in this Section 4(a) shall not be amended more than once every six months, other than to comport with changes in the Code, the Employee Retirement Income Security Act of 1974, as amended, or the rules thereunder. All grants of Options to Outside Directors under this Plan shall be automatic and nondiscretionary and shall be made strictly in accordance with the following provisions:

(i) No person shall have any discretion to select which Outside Directors shall be granted Options or to determine the number of Shares to be covered by Options granted to Outside Directors.

(ii) Each New Outside Director shall be automatically granted an Option to purchase ten thousand (10,000) Shares (a "First Option") on the date on which such person first becomes a Director, whether through election by the stockholders of the Company or appointment by the Board to fill a vacancy.

(iii) Each New Outside Director or Outside Director shall be automatically granted an Option to purchase ten thousand (10,000) Shares (a "Subsequent Option") on the date of each annual meeting of the stockholders of the Company (commencing with the 1997 annual meeting), if on such date, he shall have served on the Board for at least six (6) months.

(iv) Notwithstanding the provisions of subsections (ii) and (iii) hereof, any exercise of an Option made before the Company has obtained stockholder approval of the Plan in accordance with Section 16 hereof shall be conditioned upon obtaining such stockholder approval of the Plan in accordance with Section 16 hereof.

(v) The terms of a First Option granted hereunder shall be as follows:

(A) the term of the First Option shall be ten (10) years.

(B) the First Option shall be exercisable only while the Outside Director remains a Director of the Company, except as set forth in Section 8 hereof.

(C) the exercise price per Share shall be 100% of the fair market value per Share on the date of grant of the First Option. In the event that the date of grant of the First Option is not a trading day, the exercise price per Share shall be the Fair Market Value on the next trading day immediately following the date of grant of the First Option.

(D) the First Option shall become exercisable as to 1/36 of the Shares subject to the First Option at the end of each full month following the date of grant, subject to continued service as an Outside Director.

(vi) The terms of a Subsequent Option granted hereunder shall be as follows:

(A) the term of the Subsequent Option shall be ten (10) years.

(B) the Subsequent Option shall be exercisable only while the Outside Director remains a Director of the Company, except as set forth in Section 8 hereof.

(C) the exercise price per Share shall be 100% of the fair market value per Share on the date of grant of the Subsequent Option. In the event that the date of grant of the Subsequent Option is not a trading day, the exercise price per Share shall be the Fair Market Value on the next trading day immediately following the date of grant of the Subsequent Option.

(D) the Subsequent Option shall become exercisable as to 1/36 of the Shares subject to the Subsequent Option at the end of each full month following the date of grant, subject to continued service as an Outside Director.

(vii) In the event that any Option granted under the Plan would cause the number of Shares subject to outstanding Options plus the number of Shares previously purchased under Options to exceed the Pool, then the remaining Shares available for Option grant shall be granted under Options to the Outside Directors on a pro rata basis. No further grants shall be made until such time, if any, as additional Shares become available for grant under the Plan through action of the stockholders to increase the number of Shares which may be issued under the Plan or through cancellation or expiration of Options previously granted hereunder.

5 Eligibility. Options may be granted only to Outside Directors. All Options shall be automatically granted in accordance with the terms set forth in Section 4 hereof. An Outside Director who has been granted an Option may, if he is otherwise eligible, be granted an additional Option or Options in accordance with such provisions.

The Plan shall not confer upon any Optionee any right with respect to continuation of service as a Director or nomination to serve as a Director, nor shall it interfere in any way with any rights which the Director or the Company may have to terminate his or her directorship at any time.

6 Term of Plan. The Plan shall become effective upon the earlier to occur of its adoption by the Board or its approval by the stockholders of the Company as described in Section 16 of the Plan. It shall continue in effect for a term of ten (10) years unless sooner terminated under Section 11 of the Plan.

7 Form of Consideration. The consideration to be paid for the Shares to be issued upon exercise of an Option, including the method of payment, shall consist of (i) cash, (ii) check, (iii) other shares which (x) in the case of Shares acquired upon exercise of an Option, have been owned by the Optionee for more than six (6) months on the date of surrender, and (y) have a Fair Market Value on the date of surrender equal to the aggregate exercise price of the Shares as to which said Option shall be exercised, (iv) delivery of a properly executed exercise notice together with such other documentation as the Company and the broker, if applicable, shall require to effect an exercise of the Option and delivery to the Company of the sale or loan proceeds required to pay the exercise price, or (v) any combination of the foregoing methods of payment.

#### 8 Exercise of Option.

(a) Procedure for Exercise; Rights as a Stockholder. Any Option granted hereunder shall be exercisable at such times as are set forth in Section 4 hereof; provided, however, that no Options shall be exercisable until stockholder approval of the Plan in accordance with Section 16 hereof has been obtained.

An Option may not be exercised for a fraction of a Share.

An Option shall be deemed to be exercised when written notice of such exercise has been given to the Company in accordance with the terms of the Option by the person entitled to exercise the Option and full payment for the Shares with respect to which the Option is exercised has been received by the Company. Full payment may consist of any consideration and method of payment allowable under Section 7 of the Plan. Until the issuance (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company) of the stock certificate evidencing such Shares, no right to vote or receive dividends or any other rights as a stockholder shall exist with respect to the Optioned Stock, notwithstanding the exercise of the Option. A share certificate for the number of Shares so acquired shall be issued to the Optionee as soon as practicable after exercise of the Option. No adjustment shall be made for a dividend or other right for which the record date is prior to the date the stock certificate is issued, except as provided in Section 10 of the Plan.

Exercise of an Option in any manner shall result in a decrease in the number of Shares which thereafter may be available, both for purposes of the Plan and for sale under the Option, by the number of Shares as to which the Option is exercised.

(b) Rule 16b-3. Options granted to Outside Directors must comply with the applicable provisions of Rule 16b-3 promulgated under the Exchange Act or any successor thereto and shall contain such additional conditions or restrictions as may be required thereunder to qualify Plan transactions, and other transactions by Outside Directors that otherwise could be matched with Plan transactions, for the maximum exemption from Section 16 of the Exchange Act.

(c) Termination of Continuous Status as a Director. In the event an Optionee's Continuous Status as a Director terminates (other than upon the Optionee's death or disability), the



Optionee may exercise his or her Option, but only within three (3) months from the date of such termination, and only to the extent that the Optionee was entitled to exercise it on the date of such termination (but in no event later than the expiration of its ten (10) year term). To the extent that the Optionee was not entitled to exercise an Option on the date of such termination, and to the extent that the Optionee does not exercise such Option (to the extent otherwise so entitled) within the time specified herein, the Option shall terminate.

(d) Disability of Optionee. In the event Optionee's Continuous Status as a Director terminates as a result of disability, the Optionee may exercise his or her Option, but only within twelve (12) months from the date of such termination, and only to the extent that the Optionee was entitled to exercise it on the date of such termination (but in no event later than the expiration of its ten (10) year term). To the extent that the Optionee was not entitled to exercise an Option on the date of termination, or if he or she does not exercise such Option (to the extent otherwise so entitled) within the time specified herein, the Option shall terminate.

(e) Death of Optionee. In the event of an Optionee's death, the Optionee's estate or a person who acquired the right to exercise the Option by bequest or inheritance may exercise the Option, but only within twelve (12) months following the date of death, and only to the extent that the Optionee was entitled to exercise it on the date of death (but in no event later than the expiration of its ten (10) year term). To the extent that the Optionee was not entitled to exercise an Option on the date of death, and to the extent that the Optionee's estate or a person who acquired the right to exercise such Option does not exercise such Option (to the extent otherwise so entitled) within the time specified herein, the Option shall terminate.

9 Non-Transferability of Options. The Option may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or by the laws of descent or distribution and may be exercised, during the lifetime of the Optionee, only by the Optionee.

10 Adjustments Upon Changes in Capitalization, Dissolution, Merger, Asset Sale or Change of Control.

(a) Changes in Capitalization. Subject to any required action by the stockholders of the Company, the number of Shares covered by each outstanding Option, the number of Shares which have been authorized for issuance under the Plan but as to which no Options have yet been granted or which have been returned to the Plan upon cancellation or expiration of an Option, as well as the price per Share covered by each such outstanding Option, and the number of Shares issuable pursuant to the automatic grant provisions of Section 4 hereof shall be proportionately adjusted for any increase or decrease in the number of issued Shares resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Common Stock, or any other increase or decrease in the number of issued Shares effected without receipt of consideration by the Company; provided, however, that conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." Except as expressly provided herein, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and

no adjustment by reason thereof shall be made with respect to, the number or price of Shares subject to an Option.

(b) Dissolution or Liquidation. In the event of the proposed dissolution or liquidation of the Company, to the extent that an Option has not been previously exercised, it will terminate immediately prior to the consummation of such proposed action.

(c) Merger or Asset Sale. In the event of a merger of the Company with or into another corporation, or the sale of substantially all of the assets of the Company, each outstanding Option shall be assumed or an equivalent option shall be substituted by the successor corporation or a Parent or Subsidiary of the successor corporation. In the event that the successor corporation does not agree to assume the Option or to substitute an equivalent option, each outstanding Option shall become fully vested and exercisable, including as to Shares as to which it would not otherwise be exercisable. If an Option becomes fully vested and exercisable in the event of a merger or sale of assets, the Board shall notify the Optionee that the Option shall be fully exercisable for a period of thirty (30) days from the date of such notice, and the Option shall terminate upon the expiration of such period. For the purposes of this paragraph, the Option shall be considered assumed if, following the merger or sale of assets, the option or right confers the right to purchase, for each Share of Optioned Stock subject to the Option immediately prior to the merger or sale of assets, the consideration (whether stock, cash, or other securities or property) received in the merger or sale of assets by holders of Common Stock for each Share held on the effective date of the transaction (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding Shares).

#### 11 Amendment and Termination of the Plan.

(a) Amendment and Termination. Except as set forth in Section 4, the Board may at any time amend, alter, suspend, or discontinue the Plan, but no amendment, alteration, suspension, or discontinuation shall be made which would impair the rights of any Optionee under any grant theretofore made, without his or her consent. In addition, to the extent necessary and desirable to comply with Rule 16b-3 under the Exchange Act (or any other applicable law or regulation), the Company shall obtain stockholder approval of any Plan amendment in such a manner and to such a degree as required.

(b) Effect of Amendment or Termination. Any such amendment or termination of the Plan shall not affect Options already granted and such Options shall remain in full force and effect as if this Plan had not been amended or terminated.

12 Time of Granting Options. The date of grant of an Option shall, for all purposes, be the date determined in accordance with Section 4 hereof.

13 Conditions Upon Issuance of Shares. Shares shall not be issued pursuant to the exercise of an Option unless the exercise of such Option and the issuance and delivery of such Shares pursuant thereto shall comply with all relevant provisions of law, including, without limitation, the Securities Act of 1933, as amended, the Exchange Act, the rules and regulations promulgated thereunder, state securities

laws, and the requirements of any stock exchange upon which the Shares may then be listed, and shall be further subject to the approval of counsel for the Company with respect to such compliance.

As a condition to the exercise of an Option, the Company may require the person exercising such Option to represent and warrant at the time of any such exercise that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares, if, in the opinion of counsel for the Company, such a representation is required by any of the aforementioned relevant provisions of law.

Inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder, shall relieve the Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority shall not have been obtained.

14 Reservation of Shares. The Company, during the term of this Plan, will at all times reserve and keep available such number of Shares as shall be sufficient to satisfy the requirements of the Plan.

15 Option Agreement. Options shall be evidenced by written option agreements in such form as the Board shall approve.

16 Stockholder Approval. Continuance of the Plan shall be subject to approval by the stockholders of the Company at or prior to the first annual meeting of stockholders held subsequent to the granting of an Option hereunder. Such stockholder approval shall be obtained in the degree and manner required under applicable state and federal law.

## NEUROCRINE BIOSCIENCES, INC.

## DIRECTOR OPTION AGREEMENT

Neurocrine Biosciences, Inc., a Delaware corporation (the "Company"), has granted to \_\_\_\_\_ (the "Optionee"), an option to purchase a total of Ten Thousand (10,000) shares of the Company's Common Stock (the "Optioned Stock"), at the price determined as provided herein, and in all respects subject to the terms, definitions and provisions of the Company's 1996 Director Option Plan (the "Plan") adopted by the Company which is incorporated herein by reference. The terms defined in the Plan shall have the same defined meanings herein.

1 Nature of the Option. This Option is a nonstatutory option and is not intended to qualify for any special tax benefits to the Optionee.

2 Exercise Price. The exercise price is \$\_\_\_\_\_ for each share of Common Stock.

3 Exercise of Option. This Option shall be exercisable during its term in accordance with the provisions of Section 8 of the Plan as follows:

(a) Right to Exercise.

(i) This Option shall become exercisable as follows: One thirty-sixth (1/36th) of the Optioned Stock shall be exercisable on June 27, 1997 and an additional one thirty-sixth (1/36th) of the Optioned Stock shall be exercisable on the twenty-seventh day of each month thereafter, so that one hundred percent (100%) of the Optioned Stock shall be exercisable three (3) years after the date of grant.

(ii) This Option may not be exercised for a fraction of a share.

(iii) In the event of Optionee's death, disability or other termination of service as a Director, the exercisability of the Option is governed by Section 8 of the Plan.

(b) Method of Exercise. This Option shall be exercisable by written notice which shall state the election to exercise the Option and the number of Shares in respect of which the Option is being exercised. Such written notice, in the form attached hereto as Exhibit A, shall be signed by the Optionee and shall be delivered in person or by certified mail to the Secretary of the Company. The written notice shall be accompanied by payment of the exercise price.

4 Method of Payment. Payment of the exercise price shall be by any of the following, or a combination thereof, at the election of the Optionee:

(a) cash;

(b) check; or

(c) surrender of other shares which (x) in the case of Shares acquired upon exercise of an Option, have been owned by the Optionee for more than six (6) months on the date of surrender, and (y) have a Fair Market Value on the date of surrender equal to the aggregate exercise price of the Shares as to which said Option shall be exercised; or

(iv) delivery of a properly executed exercise notice together with such other documentation as the Company and the broker, if applicable, shall require to effect an exercise of the Option and delivery to the Company of the sale or loan proceeds required to pay the exercise price.

5 Restrictions on Exercise. This Option may not be exercised if the issuance of such Shares upon such exercise or the method of payment of consideration for such shares would constitute a violation of any applicable federal or state securities or other law or regulations, or if such issuance would not comply with the requirements of any stock exchange upon which the Shares may then be listed. As a condition to the exercise of this Option, the Company may require Optionee to make any representation and warranty to the Company as may be required by any applicable law or regulation.

6 Non-Transferability of Option. This Option may not be transferred in any manner otherwise than by will or by the laws of descent or distribution and may be exercised during the lifetime of Optionee only by the Optionee. The terms of this Option shall be binding upon the executors, administrators, heirs, successors and assigns of the Optionee.

7 Term of Option. This Option may not be exercised more than ten (10) years from the date of grant of this Option, and may be exercised during such period only in accordance with the Plan and the terms of this Option.

8 Taxation Upon Exercise of Option. Optionee understands that, upon exercise of this Option, he or she will recognize income for tax purposes in an amount equal to the excess of the then Fair Market Value of the Shares purchased over the exercise price paid for such Shares. Since the Optionee is subject to Section 16(b) of the Securities Exchange Act of 1934, as amended, under certain limited circumstances the measurement and timing of such income (and the commencement of any capital gain holding period) may be deferred, and the Optionee is advised to contact a tax advisor concerning the application of Section 83 in general and the availability a Section 83(b) election in particular in connection with the exercise of the Option. Upon a resale of such Shares by the Optionee, any difference between the sale price and the Fair

Market Value of the Shares on the date of exercise of the Option, to the extent not included in income as described above, will be treated as capital gain or loss.

DATE OF GRANT: May 27, 1997

NEUROCRINE BIOSCIENCES, INC.  
a Delaware corporation

By: \_\_\_\_\_

Title: \_\_\_\_\_

Optionee acknowledges receipt of a copy of the Plan, a copy of which is attached hereto, and represents that he or she is familiar with the terms and provisions thereof, and hereby accepts this Option subject to all of the terms and provisions thereof. Optionee hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Board upon any questions arising under the Plan.

Dated: \_\_\_\_\_

## EXHIBIT A

## DIRECTOR OPTION EXERCISE NOTICE

Neurocrine Biosciences, Inc.  
3050 Science Park Road  
San Diego, CA 92121  
Attention: Lori Gentner

1 Exercise of Option. The undersigned ("Optionee") hereby elects to exercise Optionee's option to purchase \_\_\_\_\_ shares of the Common Stock (the "Shares") of Neurocrine Biosciences, Inc. (the "Company") under and pursuant to the Company's 1996 Director Option Plan and the Director Option Agreement dated \_\_\_\_\_ (the "Agreement").

2 Representations of Optionee. Optionee acknowledges that Optionee has received, read and understood the Agreement.

3 Federal Restrictions on Transfer. Optionee understands that the Shares must be held indefinitely unless they are registered under the Securities Act of 1933, as amended (the "1933 Act"), or unless an exemption from such registration is available, and that the certificate(s) representing the Shares may bear a legend to that effect. Optionee understands that the Company is under no obligation to register the Shares and that an exemption may not be available or may not permit Optionee to transfer Shares in the amounts or at the times proposed by Optionee.

4 Tax Consequences. Optionee understands that Optionee may suffer adverse tax consequences as a result of Optionee's purchase or disposition of the Shares. Optionee represents that Optionee has consulted with any tax consultant(s) Optionee deems advisable in connection with the purchase or disposition of the Shares and that Optionee is not relying on the Company for any tax advice.

5 Delivery of Payment. Optionee herewith delivers to the Company the aggregate purchase price for the Shares that Optionee has elected to purchase and has made provision for the payment of any federal or state withholding taxes required to be paid or withheld by the Company.

6 Entire Agreement. The Agreement is incorporated herein by reference. This Exercise Notice and the Agreement constitute the entire agreement of the parties and supersede in their entirety all prior

undertakings and agreements of the Company and Optionee with respect to the subject matter hereof. This Exercise Notice and the Agreement are governed by California law except for that body of law pertaining to conflict of laws.

Submitted by:

Accepted by:

OPTIONEE:

NEUROCRINE BIOSCIENCES, INC.

- - - - -

By: - - - - -

Title:

Address:

- - - - -  
- - - - -

Dated: - - - - -

Dated: - - - - -



## NORTHWEST NEUROLOGIC, INC.

RESTATED 1997 STOCK INCENTIVE PLAN  
(INCLUDES AMENDMENTS ADOPTED THROUGH MARCH 7, 1998)

## ARTICLE 1

## PURPOSE

The purpose of the Plan is to provide a means by which selected Employees, Directors and Consultants may be given an opportunity to acquire shares of the Company. By means of the Plan, the Company seeks to retain the services of persons who are currently Employees, Directors or Consultants, to secure and retain the services of new Employees, Directors and Consultants, and to provide incentives for such persons to exert maximum efforts for the success of the Company. Accordingly, the Plan provides for granting Incentive Stock Options, Nonqualified Stock Options and Stock Bonuses and provides for Sales of Stock, or any combination of the foregoing, as is best suited to the circumstances of the particular person under consideration.

## ARTICLE 2

## DEFINITIONS

The following definitions shall be applicable throughout the Plan unless specifically modified herein:

(a) "1934 Act" means the Securities Exchange Act of 1934, as amended and in effect from time to time, or any successor statute.

(b) "Award" means, individually or collectively, any Option, Stock Bonus or Sale of Stock.

(c) "Board" means the Board of Directors of the Company.

(d) "Code" means the Internal Revenue Code of 1986, as amended and in effect from time to time, or any successor statute. Reference in the Plan to any section of the Code shall be deemed to include any amendments or successor provisions to any such section.

(e) "Committee" means a committee of the Board that is selected as provided in Section 4.1(b) to administer the Plan.

(f) "Common Stock" means the Common Stock, \$.10 par value, of the Company.

(g) "Company" means the Common Stock, \$.10 par value, of the Company.

(h) "Consultant" means any person, including an adviser, engaged by the Company or a Subsidiary to render services and who does not render such services as an Employee or Director.

(i) "Director" means an individual who is serving on the Board on the date the Plan is adopted by the Board or is elected to the Board after such date.

(j) "Disability" means the condition of being permanently "disabled" within the meaning of Section 22(e)(3) of the Code; namely, being unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment, which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than 12 months.

(k) "Employee" means any person (including a person who also serves as a Director) in an employment relationship with the Company or a Subsidiary.

(l) "Fair Market Value" shall be determined, as of any specified date, as follows:

i. At any time the Common Stock is not listed on a securities exchange, traded in the over-the-counter market or quoted as to price on an automated securities quotation system when a determination of the Fair Market Value of the Common Stock is required to be made hereunder, the Board shall determine the Fair Market Value in such manner as it deems appropriate;

ii. If the Common Stock is traded in the over-the-counter market at the time a determination of its Fair Market Value is required to be made hereunder, Fair Market Value shall be deemed to be equal to the average of the reported closing bid and asked prices of the Common Stock on the business day preceding the date of such determination, or if such prices are not reported on that date, on the last preceding date on which such prices for the Common Stock are so reported; and

iii. If the Common Stock becomes listed on a stock exchange, the Board may, by resolution, revise the foregoing definition of Fair Market Value by reference to trading prices of the Common Stock as reported for such stock exchange.

(m) "Holder" means an Employee, a Director or a Consultant who has been granted an Award, and any assignee or transferee of such person as permitted under the Plan. For purposes of Section 7.8, if an Option has been transferred as Permitted under the Plan, "Holder" shall refer to the Employee, Consultant or Director who was granted the Award and shall not refer to that person's assignee or transferor.

(n) "Incentive Stock Option" or "ISO" means an "incentive stock option" within the meaning of Section 422 of the Code.

(o) "Nonemployee Director" means a Nonemployee Director as defined in Rule 16b-3(b)(3)(i) of the 1934 Act.

(p) "Nonqualified Stock Option" or "NQO" means a stock option other than an ISO.

(q) "Option" means an Award granted Pursuant to Article 6 and described in Article 7 of the Plan. "Option" includes both ISOs and NQOs.

(r) "Optionee" means the recipient of an Option.

(s) "Option Agreement" means a written agreement between the Company and a Holder with respect to an Option.

(t) "Plan" means the Northwest NeuroLogic, Inc. 1997 Stock Incentive Plan, as set forth herein and as it may be hereafter amended from time to time.

(u) "Rule 16b-3" means Rule 16b-3 promulgated under the 1934 Act, as such rule may be amended from time to time, and any successor rule, regulation or statute fulfilling the same or similar function.

(v) "Sale of Stock" means any sale of Common Stock as provided in Article 9.

(w) "Stock Bonus" means an Award granted pursuant to Article 6 and described in Article 8 of the Plan.

(x) "Stock Bonus Agreement" means a written agreement between the Company and a Holder with respect to a Stock Bonus.

(y) "Stock Sale Agreement" means a written agreement between the Company and a Holder with respect to a Sale of Stock.

(z) "Subsidiary" means a "subsidiary corporation," whether now or hereafter existing, as defined in Section 424(f) of the Code; namely, any corporation in which the Company directly or indirectly controls 50 percent or more of the total combined voting power of all classes of stock having voting power.

### ARTICLE 3

#### EFFECTIVE DATE AND DURATION OF THE PLAN

The Plan shall be effective as of May 6, 1997, the date of its adoption by the Board, provided the Plan is approved by the shareholders of the Company within 12 months thereafter. Until the Plan has been approved by shareholders, any Awards made under the Plan shall be conditioned upon such approval. No

Awards may be granted under the Plan after May 5, 2007. The Plan shall remain in effect until all Awards granted under the Plan have been satisfied or expired.

#### ARTICLE 4

##### ADMINISTRATION

###### 4.1 Administration of Plan.

(a) Board. Unless a Committee is appointed pursuant to Section 4.1(b), the Plan shall be administered by the Board.

(b) Committee. The Board, if it so determines, may delegate to a Committee of the Board consisting of two or more Directors any or all authority for administration of the Plan; provided, however, that only the Board may amend or terminate the Plan as provided in Article 11. If a Committee is appointed, all references in the Plan to the Board shall mean and relate to such Committee, except as limited by the immediately preceding sentence and unless the context requires otherwise. Any Committee appointed by the Board to administer the Plan at a time when the Common Stock is registered under the 1934 Act shall consist solely of two or more Nonemployee Directors. The Board may from time to time remove members from, or add members to, the Committee. Vacancies on the Committee, however caused, shall be filled by the Board.

4.2 Authority of the Board. Subject to the provisions of the Plan, the Board shall have sole authority, in its discretion to determine: (i) which Employees, Directors and Consultants shall receive Awards; (ii) the time or times when Awards shall be granted; (iii) the type or types of Awards to be granted; and (iv) the number of shares of Common Stock that may be issued under each Award. In making such determinations, the Board may take into account the nature of the services rendered by the respective individuals, their present and potential contribution to the success of the Company, and such other factors as the Board in its discretion shall deem relevant. The Board shall also have such additional powers as are delegated to it by the Plan. Subject to the express provisions of the Plan, the Board is authorized to: (i) construe the Plan and the respective agreements executed thereunder; (ii) prescribe such rules and regulations relating to the Plan as it may deem advisable to carry out the Plan; (iii) determine the terms, restrictions and provisions of each Award, including such terms, restrictions and provisions as shall be requisite in the judgment of the Board to cause designated Options to qualify as ISOs; (iv) advance the lapse of any waiting period, accelerate any exercise date, waive or modify any restriction applicable to an Award; and (v) make all other determinations in the judgment of the Board necessary or advisable for administering the Plan. The Board may correct any defect or supply any omission or reconcile any inconsistency in any agreement relating to an Award in the manner and to the extent it shall deem expedient to carry it into effect. The determinations of the Board on the matters referred to in this Article 4 shall be final and conclusive.

4.3 Liability of Board Members. No member of the Board shall be liable for any action or determination made in good faith with respect to the Plan or any Award.

4.4 Costs of Plan. The costs and expenses of administering the Plan shall be borne by the Company.

#### ARTICLE 5

##### ELIGIBILITY

Employees, Directors and Consultants are eligible to receive Options, Stock Bonuses and Sales of Stock; provided, however, only Employees are eligible to receive ISOs. Any Award may be granted on more than one occasion to the same person, and may include an ISO, an NQO, a Stock Bonus, a Sale of Stock, or any combination thereof.

#### ARTICLE 6

##### GRANT OF AWARDS; SHARES SUBJECT TO THE PLAN

The Board may from time to time grant Options and Stock Bonuses and offer Common Stock for sale under the Plan. Subject to Article 10, the aggregate number of shares of Common Stock that may be issued under the Plan shall not exceed 158,750 shares; provided, however, that 46,250 of such shares may be granted only pursuant to NQOs and not ISOs. Shares shall be deemed to have been issued under the Plan only to the extent actually issued and delivered pursuant to an Award. To the extent that an Award is cancelled, expires, is settled in cash in lieu of Common Stock or is exchanged for other Awards, the shares of Common Stock subject to such Award shall again be available for the grant of Awards under the Plan.

#### ARTICLE 7

##### OPTIONS

7.1 Option Period. The term of each Option granted pursuant to Article 6 shall be as specified by the Board at the date of grant, except that no ISO shall be exercisable after the expiration of 10 years from the date of grant.

7.2 Limitations on Exercise of Option. An Option shall be exercisable in whole or in such installments and at such times as determined by the Board.

7.3 Special Limitation on ISOs. To the extent that the aggregate Fair Market Value (determined at the time the respective ISO is granted) of Common Stock with respect to which ISOs are exercisable for the first time by an individual during any calendar year under all incentive stock option plans of the Company exceeds \$100,000, such ISOs shall be treated as not constitute ISOs because of such limitation and shall notify the Holder of such determination as soon as practicable after such determination.

7.4 ISOs Granted to Certain Shareholders. No ISO shall be granted to a person if, at the time the ISO is granted, the person possesses more than 10 percent of the total combined voting power of all classes of stock of the Company, unless (i) at the time such ISO is granted the exercise price is at least 110 percent

of the Fair Market Value of the Common Stock subject to the Option and (ii) such ISO by its terms is not exercisable after the expiration of five years from the date of grant.

7.5 Separate Stock Certificates. Separate stock certificates shall be issued by the Company for those shares acquired pursuant to the exercise of an ISO and for those shares acquired pursuant to the exercise of a NQO.

7.6 Option Agreement. Each Option shall be evidenced by an Option Agreement in such form and containing such provisions not inconsistent with the provisions of the Plan as the Board from time to time shall approve, including, without limitation, provisions to qualify an ISO under Section 422 of the Code. An Option Agreement may provide for the payment of the exercise price, in whole or in part, by the delivery of a number of shares of Common Stock (plus cash if necessary) having a Fair Market Value (as of the exercise date of the Option) equal to such exercise price. Moreover, an Option Agreement may provide for a "cashless exercise" of the Option by establishing procedures, which would take effect only after the Common Stock is registered under the 1934 Act, whereby the Holder, by a properly executed written notice, would direct: (i) an immediate market sale of all or a part of the shares of Common Stock to which the Holder is entitled upon exercise of the Option; (ii) the Company's delivery of the shares of Common Stock directly to a brokerage firm; and (iii) the brokerage firm's delivery to the Company of the exercise price and any withholding taxes attributable to the issuance from the proceeds of the sale of the Common Stock. Such Option Agreement may also include, without limitation, provisions relating to: (i) vesting of Options; (ii) tax matters (including provisions covering any applicable employee wage withholding requirements); and (iii) any other matters not inconsistent with the terms and provisions of the Plan that the Board shall in its sole discretion determine. The terms and conditions of the respective Option Agreements need not be identical.

7.7 Exercise Price and Payment. Subject to Section 7.4, the price at which a share of Common Stock may be purchased upon exercise of an Option shall be determined by the Board, but such exercise price: (i) shall not be less than the Fair Market Value of a share of Common Stock on the date such Option is granted if the Option is an ISO; and (ii) shall be subject to adjustment as provided in Article 10. An Option or portion thereof may be exercised by delivery of an irrevocable notice of exercise to the Company. The exercise price of an Option or portion thereof shall be paid in full in the manner prescribed by the Board.

#### 7.8 Termination of Employment or Service.

(a) In the event the employment or service of a Holder of an Option with the Company terminates for any reason other than because of Disability or death, such Option may be exercised at any time prior to the expiration date of the Option or the expiration of three months after the date of such termination, whichever is the shorter period, but only if and to the extent the Holder was entitled to exercise the Option at the date of such termination.

(b) In the event the employment or service of a Holder of an Option with the Company terminates because of Disability, such Option may be exercised at any time prior to the expiration date of the Option or the expiration of one year after the date of such termination, whichever is the shorter period, but only if and to the extent the Holder was entitled to exercise the Option at the date of such termination.

(c) In the event of the death of a Holder of an Option while employed by or providing service to the Company, such Option may be exercised at any time prior to the expiration date of the Option or the expiration of one year after the date of such death, whichever is the shorter period, but only if and to the extent the Holder was entitled to exercise the Option on the date of death. An ISO may be exercised only by the person or persons to whom such Holder's rights under the ISO shall pass by the Holder's will or by the laws of descent and distribution of the state or country of domicile at the time of death.

(d) The Board, at the time of grant or at any time thereafter, may extend the three-month and one-year expiration periods any length of time not later than the original expiration date of the Option, and may increase the portion of the Option that is exercisable, subject to such terms and conditions as the Board may determine.

(e) To the extent that the Option of any deceased Holder or of any Holder whose employment or service terminates is not exercised within the applicable period specified above, all further rights to purchase Common Stock pursuant to such Option shall cease and terminate.

(f) If an Optionee's employment or consulting relationship with the Company is terminated contemporaneously with the start of an employment or consulting relationship with the Company's parent corporation, that optionee's option shall not terminate, and vesting shall continue as if the optionee were continuing to be employed by or consulting for the Company.

7.9 Rights As a Shareholder. The Holder of an Option under the Plan shall have no rights as a shareholder with respect to the Common Stock subject to such Option until the date of issue to the Holder of a stock certificate for such shares. Except as otherwise expressly provided in the Plan, no adjustment shall be made for dividends or other rights for which the record date occurs prior to the date such stock certificate is issued.

7.10 Options in Substitution for Stock Options Granted by Other Corporations. Options may be granted under the Plan from time to time in substitution for stock options held by individuals employed by or serving as directors or consultants of corporations who become Employees, Directors or Consultants as a result of a merger or consolidation of the employing corporation with the Company, or the acquisition by the Company of the assets of the employing . . .

## ARTICLE 8

## STOCK BONUSES

8.1 Terms and Conditions. The Board may award Common Stock under the Plan as Stock Bonuses. The Board may not require the recipient to pay any monetary consideration for a Stock Bonus other than amounts necessary to satisfy any applicable federal, state or local tax withholding requirements.

8.2 Stock Bonus Agreement. Shares awarded as a Stock Bonus shall be subject to such terms, conditions and restrictions as shall be determined by the Board. At the time any Stock Bonus is granted under this Article 8, the Company and the Holder shall enter into a Stock Bonus Agreement setting forth any terms, conditions and restrictions applicable to the Stock Bonus. The terms and provisions of the respective Stock Bonus Agreements need not be identical.

## ARTICLE 9

## SALES OF STOCK

9.1 Sales of Stock. The Board may offer and sell shares of Common Stock under the Plan for such consideration (including promissory notes and services) as determined by the Board.

9.2 Stock Sale Agreement. Shares sold under this Article 9 shall be subject to such terms, conditions and restrictions as shall be determined by the Board. At the time any Award is granted under this Article 9, the Company and the Holder shall enter into a Stock Sale Agreement setting forth any terms, conditions and restrictions applicable to the Sale of Stock. The terms and provisions of the respective Stock Sale Agreements need not be identical.

## ARTICLE 10

## CHANGES IN CAPITAL STRUCTURE

10.1 Adjustments by Board. If the outstanding Common Stock is hereafter increased or decreased or changed into or exchanged for a different number or kind of shares or other securities of the Company or of another corporation by reason of any reorganization, merger, consolidation, plan of exchange, recapitalization, reclassification, stock split-up, combination of shares, dividend payable in shares, or similar event, appropriate adjustment shall be made by the Board in the number and kind of shares available for Awards. In addition, the Board shall make appropriate adjustment in the number and kind of shares as to which outstanding Options, or portions thereof then unexercised, shall be exercisable, the exercise price of such outstanding Options and all other matters deemed appropriate by the Board, so that the Holder's proportionate interest before and after the occurrence of the event is maintained. Notwithstanding the foregoing, the Board shall have no obligation to effect any adjustment that would or might result in the issuance of fractional shares, and any fractional shares resulting from any adjustment may be disregarded or provided for in any manner determined by the Board. Any such adjustment made by the Board shall be conclusive. Any adjustment provided for in this Section 10.1 shall be subject to any required shareholder



action. In the event of the dissolution of the Company or a merger, consolidation, plan of exchange or similar transaction affecting the Company, in lieu of providing for Options as provided above in this Section 10.1 or in lieu of having the Options continue unchanged, the Board may, in its sole discretion, provide a 30-day period prior to such event during which Holders shall have the right to exercise Options in whole or in part without any limitation on exercisability and, upon the expiration of such 30-day period, all unexercised Options shall immediately terminate.

10.2 No Restriction on Corporate Acts. The existence of the Plan and the Awards granted hereunder shall not affect in any way the right or power of the Board or the shareholders of the Company to make or authorize any adjustment, recapitalization, reorganization or other change in the Company's capital structure or its business, any merger or consolidation of the Company, any issue of debt or equity securities senior to or affecting Common Stock or the rights thereof, the dissolution or liquidation of the Company, or any sale, lease, exchange or other disposition of all or any part of its assets or business, or any other corporate act or proceeding. No Employee, Director, Consultant, beneficiary or other person shall have any claim against the Company as a result of any such action.

10.3 No Adjustment for Issuances of Other Securities by Company. Except as herein expressly provided, the issuance by the Company of shares of stock of any class or securities convertible into shares of stock of any class, for cash, property, labor or services, upon direct sale, upon the exercise of rights or warrants to subscribe therefor, or upon conversion of shares or obligations of the Company convertible into such shares or other securities, and in any case whether or not for fair value, shall not affect, and no adjustment by reason thereof shall be made with respect to, the number of shares of Common Stock subject to Awards theretofore granted or the exercise price per share, if applicable.

#### ARTICLE 11

##### AMENDMENT AND TERMINATION OF THE PLAN

The Board in its discretion may terminate the Plan at any time with respect to any shares for which Awards have not then been granted. The Board shall have the right to alter or amend the Plan or any part thereof from time to time; provided, that, except as provided in Article 10, no change in any Award may be made which would impair the rights of a Holder without the consent of the Holder.

#### ARTICLE 12

##### MISCELLANEOUS

12.1 No Right To An Award. Neither the adoption of the Plan by the Company nor any action of the Board shall be deemed to give an Employee, a Director or a Consultant any right to be granted an Award or any of the rights hereunder except as may be evidenced by an Award or by an Option Agreement, Stock Bonus Agreement or Stock Sale Agreement duly executed on behalf of the Company, and then only to the extent and on the terms and conditions expressly set forth therein.

12.2 No Employment Rights Conferred. Nothing in the Plan shall: (i) confer upon any Employee, Director or Consultant any right with respect to continuation of employment (or service) with the Company; or (ii) interfere in any way with the right of the Company to terminate the Employees employment (or service as a Director, in accordance with applicable corporate law, or service as a Consultant) at any time for any reason, with or without cause.

12.3 Securities Law Restrictions. No Common Stock shall be issued under the Plan unless counsel for the Company is satisfied that such issuance shall be in compliance with applicable federal and state securities laws. Certificates for shares delivered under the Plan may be subject to such stop-transfer orders and other restrictions as the Board may deem advisable under the rules and regulations of any applicable federal and state securities laws. The Board may cause a legend or legends to be placed on any such certificates making appropriate reference to such restrictions.

12.4 Withholding. The Company shall have the right to deduct in connection with all Awards any taxes required by law to be withheld and to require any payments required to enable it to satisfy its withholding obligations. With the consent of the Board, the recipient of an Award may deliver shares of Common Stock to the Company to satisfy any withholding obligation.

#### 12.5 Restriction on Transfer.

(a) Restriction on Transfer. An Award shall not be transferable otherwise than by will or the laws of descent and distribution; provided, however, that, with the consent of the Board, which consent may be withheld in its sole discretion or conditioned on such requirements as the Board shall deem appropriate, all or any portion of a NQO may be assigned or transferred to the optionee's immediate family (i.e., children, grandchildren, spouse, parents and siblings), to trusts for the benefit of the optionee's immediate family members, and pursuant to qualified domestic relations orders. No consideration may be paid for the transfer of any NQO, and, after any permitted transfer, the NQO shall continue to be subject to the same terms and conditions as were applicable to it immediately prior to its transfer, except that: (i) subsequent transfers of transferred options shall be prohibited except by will or the laws of descent and distribution; (ii) for purposes of Section 7.8, the term "Holder" shall refer to the original Optionee; (iii) the events of termination of employment specified in Section 7.8 shall continue to be applied with respect to the original Optionee, following which the NQO shall be exercisable by the transferee only to the extent, and for the periods, specified in Section 7.8; and (iv) the original Optionee shall remain subject to withholding taxes upon exercise of the NQO by the transferee. Before permitting any transfer, the Board may require the transferee to agree in writing to be bound by all other terms and conditions applicable to the NQO prior to its transfer.

(b) Exercise of ISOs. ISOs may be exercisable during the lifetime of the Optionee only by the Optionee, or by the Optionee's guardian or legal representative.

12.6 Governing Law. To the extent that federal laws (such as the Code and the federal securities laws) do not otherwise control, the Plan shall be construed in accordance with Oregon law, without giving effect to the principles of conflicts of laws thereof.

12.7 Headings. Headings contained in the Plan are for reference purposes and shall not affect the meaning or interpretation of the Plan.

Adopted by the Board of Directors: May 6, 1997.

Approved by the Shareholders: October 23, 1997.

NORTHWEST NEUROLOGIC, INC.  
NONQUALIFIED STOCK OPTION AGREEMENT

EFFECTIVE DATE:

BETWEEN: Northwest NeuroLogic, Inc., an Oregon corporation (the "Company")  
AND: (the "Optionee")

-----  
Street Address            City            State    Zip Code

Number of Option Shares: -----

Option Price per Share:            \$  
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Vesting Schedule:	Percentage of Shares Vested	Date of Vesting
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The Company has adopted a 1997 Stock Incentive Plan (the "Plan") that provides for the grant of nonqualified options to purchase shares of the Company's Common Stock, no par value (the "Stock"). The Optionee is now employed by the Company or a Subsidiary (as defined in the Plan), and the Company desires to afford the Optionee the opportunity to obtain stock ownership in the Company so that the Optionee may have a proprietary interest in the Company's success. The Company's Board of Directors (the "Board") has granted to the Optionee an option to purchase shares of Stock, upon and subject to the terms and conditions of the Plan and of this Agreement.

NOW, THEREFORE, the parties agree as follows:

1. Grant; Terms of Option. Subject to the terms and conditions of this Agreement and the Plan, the Company grants to the Optionee the right and option (the "Option") to purchase any part of an aggregate number of shares of the Company's authorized but unissued Stock stated in the caption of this Agreement at the price per share stated in the caption of this Agreement, this price being \_\_\_\_\_ percent of the fair market value of the Stock as determined pursuant to the Plan on the date of the grant of the Option. It is the intent of the Board that the Option is a nonqualified stock option and

is not an "incentive stock option," as defined in Section 422 of the Internal Revenue Code of 1986, as amended. The Option is granted upon the following terms and conditions:

(a) Term of Option. Subject to reductions in the Option term provided in subparagraphs (c) and (e) below, the Option shall continue in effect through the \_\_\_\_\_ anniversary of the date of this Agreement.

(b) Timing of Right to Exercise. Except as provided in subparagraph 1(c) hereof, the Option may be exercised from time to time over the term of the Option in the amounts specified in the vesting schedule set forth in the caption of this Agreement. If the Optionee does not purchase in any one year the full number of shares that the Optionee is then entitled to purchase, the Optionee's rights shall be cumulative, and, subject to the other provisions of this Agreement, the Optionee may purchase those shares thereafter during the term of the Option.

(c) Termination of Employment. Except as provided in this subparagraph (c), the Option shall not be exercised unless at the time of such exercise the Optionee is in the employ of the Company or a Subsidiary and shall have so served continuously since the effective date of this Agreement. If the employment of the Optionee with the Company or Subsidiary terminates by reason of the Optionee's death or disability, the Option may be exercised by the Optionee at any time prior to the expiration date of the Option or the expiration of one year after the date of such termination, whichever is the shorter period, but only if and to the extent the Optionee was entitled to exercise the Option at the date of such termination. If the employment of the Optionee by the Company or Subsidiary terminates for any other reason, the Option may be exercised by the Optionee at any time prior to the expiration date of the Option or the expiration of three months after the date of such termination, whichever is the shorter period, but only if and to the extent the Optionee was entitled to exercise the Option at the date of such termination. In such event, to the extent that the Option is not exercised within the applicable period, all further rights to purchase shares pursuant to the Option shall cease and terminate at the expiration of such period.

(d) Manner of Exercise. Shares may be purchased pursuant to the Option only upon receipt by the Company of written notice from the Optionee of the Optionee's desire to purchase, specifying the number of shares the Optionee desires to purchase and the date on which the Optionee desires to complete the purchase. The Option may not be exercised for a fraction of a share. If required to comply with any applicable federal or state securities laws, the notice also shall contain a representation that it is the Optionee's intention to acquire the shares for investment and not for resale. On the date specified for completion of the purchase of the shares, the Optionee shall pay the Company the full purchase price of the shares in cash or by such other method of payment as shall be approved by the Board. No shares shall be issued until full payment has been made, and the Optionee shall have none of the rights of a shareholder until shares are issued. Upon notification of the amount due and prior to or concurrently with delivery of the certificate representing the shares, the Optionee shall pay to the Company any amounts necessary to satisfy applicable federal, state and local withholding tax requirements.

(e) Changes in Capital Structure. Except as provided in the final sentence of this subparagraph (e), if the outstanding Stock is increased or decreased or changed into or exchanged for a different number or kind of shares or other securities of the Company or of another corporation by reason of any reorganization, merger, consolidation, plan of exchange, recapitalization, reclassification, stock split-up, combination of shares, dividend payable in shares, or similar event, the Board shall make appropriate adjustment in the number and kind of shares as to which the Option, or portion thereof then unexercised, shall be exercisable, the exercise price of the Option and all other matters deemed appropriate by the Board, so that the Optionee's proportionate interest shall be maintained as before the occurrence of such event. Any such adjustment made by the Board shall be conclusive. In the event of the dissolution of the Company or a merger, consolidation, plan of exchange or similar transaction affecting the Company, in lieu of adjusting the Option as described above or in lieu of having the Option continue unchanged, the Board may, in its sole discretion, provide a 30-day period immediately prior to such event during which the Optionee shall have the right to exercise the Option in whole or in part without any limitation on exercisability and upon the expiration of such 30-day period any unexercised portion of the Option shall immediately terminate.

2. Conditions. The obligations of the Company under this Agreement shall be subject to the approval of such state or federal authorities or agencies as may have jurisdiction in the matter. The Company shall use its best efforts to take such steps as may be required by state or federal law or applicable regulations, including rules and regulations of the Securities and Exchange Commission, any quotation system on which the Stock may then be traded and any stock exchange on which the Stock may then be listed, in connection with the issuance or sale of any shares acquired pursuant to this Agreement or the trading or listing of such shares on any such system or exchange. The Company shall not be obligated to issue or deliver shares under this Agreement if, upon advice of its legal counsel, such issuance or delivery would violate state or federal securities laws.

### 3. Provisions Relating to Transferability.

(a) Restrictions on Transfer. With the consent of the Board, which consent may be withheld in its sole discretion or conditioned on such requirements as the Board shall deem appropriate, all or any portion of the Option may be assigned or transferred to the Optionee's immediate family (i.e., children, grandchildren, spouse, parents and siblings), to trusts for the benefit of the Optionee's immediate family members, and pursuant to qualified domestic relations orders. No consideration may be paid for any permitted transfer of the Option and, after any permitted transfer, the Option shall continue to be subject to the same terms and conditions as were applicable to it immediately prior to its transfer, except that: (i) subsequent transfers of the portion of the Option that has been transferred shall be prohibited except by will or the laws of descent and distribution; (ii) for purposes of subparagraph 1(c), the term "Optionee" shall refer to the original Optionee and not the transferee; (iii) the events of termination of employment specified in subparagraph 1(c) shall continue to be applied with respect to the original Optionee, following which the Option shall be exercisable by the transferee only to the extent, and for the period specified in subparagraph 1(c); and (iv) the original Optionee shall remain subject to withholding taxes upon exercise

of the Option by the transferee. Before permitting any transfer, the Board may require the transferee to agree in writing to be bound by all other terms and conditions applicable to the Option prior to its transfer. Except with the consent of the Board, the Option shall not be transferable otherwise than by will or the laws of descent and distribution.

(b) Exercise by Legal Representative or Successor. Whenever the word "Optionee" is used in any provision of this Agreement under circumstances when the provision should logically be construed to apply to the Optionee's guardian, legal representative, executor, administrator, or the person or persons to whom the Option may be transferred by testamentary disposition or by the laws of descent and distribution, the word "Optionee" shall be deemed to include such person or persons.

4. Legends. Certificates representing the shares subject to this Agreement shall bear such legends as the Board shall deem appropriate to reflect any restrictions on transfer imposed by federal or applicable state securities laws.

5. Continuing Relationship. Nothing in the Plan or in this Agreement shall confer upon the Optionee any right to continue as an employee of the Company or any Subsidiary or interfere in any way with the right of the Company or Subsidiary to terminate the Optionee's employment at any time for any reason, with or without cause.

6. Binding Effect. This Agreement shall be binding upon and shall inure to the benefit of any successor of the Company, but, except as provided above, the Option shall not be assigned or otherwise disposed of by the Optionee.

7. The Plan. The Option is subject to the terms and conditions of the Plan. In the event of a conflict between the Plan and this Agreement, the terms of the Plan shall control. The Optionee agrees to be bound by the rules and regulations for the administration of the Plan, as presently prescribed or hereafter amended, and by any amendment, construction or interpretation of the Plan properly adopted by the Company's Board.

8. Administration of Agreement by Committee. At such time as a committee of the Board is appointed to administer the Plan, all decisions relating to this Agreement shall be made by such committee and all references in this Agreement to the Board shall mean and refer to such committee.

9. Notices. Parties to this Agreement shall give all notices to the other parties concerning this Agreement by personal delivery, by telecopier or by registered or certified mail, return receipt requested, addressed as follows:

If to the Company:	Northwest NeuroLogic, Inc. 2611 S.W. Third Avenue, Suite 200 Portland, Oregon 97201 Attention: Chief Executive Officer
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If to the Optionee: at the Optionee's address stated in the caption of this Agreement.

Any party may, by written notice to the other parties, designate a new address to which notices shall thereafter be delivered. Notice hereunder shall be deemed effective upon the earlier of actual receipt or three days after being sent by registered or certified mail.

IN WITNESS WHEREOF, the parties have executed this Agreement effective as of the date stated above.

NORTHWEST NEUROLOGIC, INC.

By \_\_\_\_\_  
Title \_\_\_\_\_

OPTIONEE  
\_\_\_\_\_



NORTHWEST NEUROLOGIC, INC.  
INCENTIVE STOCK OPTION AGREEMENT

EFFECTIVE DATE: -----, ----

BETWEEN: Northwest NeuroLogic, Inc.,  
an Oregon corporation (the "Company")

AND: ----- (the "Optionee")

-----  
Street Address City State Zip Code

Number of Option Shares: -----

Option Price per Share: \$ -----

Vesting Schedule: Percentage of Shares Vested Number of Years After Date of Agreement

The Company has adopted a 1997 Stock Incentive Plan (the "Plan") that provides for the grant of options meeting the requirements of Section 422 of the Internal Revenue Code to purchase shares of the Company's Common Stock, no par value (the "Stock"). The Optionee is now employed by the Company or a Subsidiary (as defined in the Plan), and the Company desires to afford the Optionee the opportunity to obtain stock ownership in the Company so that the Optionee may have a proprietary interest in the Company's success. The Company's Board of Directors (the "Board") has granted to the Optionee an option to purchase shares of Stock, upon and subject to the terms and conditions of the Plan and of this Agreement.

NOW, THEREFORE, the parties agree as follows:

1. Grant; Terms of Option. Subject to the terms and conditions of this Agreement and the Plan, the Company grants to the Optionee the right and option (the "Option") to purchase any part of an aggregate number of shares of the Company's authorized but unissued Stock stated in the caption of

this Agreement at the price per share stated in the caption of this Agreement, this price being the fair market value of the Stock as determined pursuant to the Plan on the date of the grant of the Option. It is the intent of the Board that the Option qualify as an "incentive stock option" under the tax laws. The Option is granted upon the following terms and conditions:

(a) Term of Option. Subject to reductions in the Option term provided in subparagraphs (c) and (e) below, the Option shall continue in effect through the tenth anniversary of the date of this Agreement.

(b) Timing of Right to Exercise. Except as provided in subparagraph (c), the Option may be exercised from time to time over the term of the Option in the amounts specified in the vesting schedule set forth in the caption of this Agreement. If the Optionee does not purchase in any one year the full number of shares that the Optionee is then entitled to purchase, the Optionee's rights shall be cumulative, and, subject to the other provisions of this Agreement, the Optionee may purchase those shares thereafter during the term of the Option.

(c) Termination of Employment. Except as provided in this subparagraph (c), the Option shall not be exercised unless at the time of such exercise the Optionee is in the employ of the Company or a Subsidiary and shall have so served continuously since the effective date of this Agreement. If the employment of the Optionee with the Company or Subsidiary terminates by reason of the Optionee's death or disability, the Option may be exercised by the Optionee at any time prior to the expiration date of the Option or the expiration of one year after the date of such termination, whichever is the shorter period, but only if and to the extent the Optionee was entitled to exercise the Option at the date of such termination. If the employment of the Optionee by the Company or Subsidiary terminates for any other reason, the Option may be exercised by the Optionee at any time prior to the expiration date of the Option or the expiration of three months after the date of such termination, whichever is the shorter period, but only if and to the extent the Optionee was entitled to exercise the Option at the date of such termination. In such event, to the extent that the Option is not exercised within the applicable period, all further rights to purchase shares pursuant to the Option shall cease and terminate at the expiration of such period.

(d) Manner of Exercise. Shares may be purchased pursuant to the Option only upon receipt by the Company of written notice from the Optionee of the Optionee's desire to purchase, specifying the number of shares the Optionee desires to purchase and the date on which the Optionee desires to complete the purchase. The Option may not be exercised for a fraction of a share. If required to comply with any applicable federal or state securities laws, the notice also shall contain a representation that it is the Optionee's intention to acquire the shares for investment and not for resale. On the date specified for completion of the purchase of the shares, the Optionee shall pay the Company the full purchase price of the shares in cash or by such other method of payment as shall be approved by the Board. No shares shall be issued until full payment has been made, and the Optionee shall have none of the rights of a shareholder until shares are issued. Upon notification of the amount due and prior to or concurrently with delivery of the certificate representing the shares, the Optionee

shall pay to the Company any amounts necessary to satisfy applicable federal, state and local withholding tax requirements.

(e) Changes in Capital Structure. Except as provided in the final sentence of this subparagraph (e), if the outstanding Stock is increased or decreased or changed into or exchanged for a different number or kind of shares or other securities of the Company or of another corporation by reason of any reorganization, merger, consolidation, plan of exchange, recapitalization, reclassification, stock split-up, combination of shares, dividend payable in shares, or similar event, the Board shall make appropriate adjustment in the number and kind of shares as to which the Option, or portion thereof then unexercised, shall be exercisable, the exercise price of the Option and all other matters deemed appropriate by the Board, so that the Optionee's proportionate interest shall be maintained as before the occurrence of such event. Any such adjustment made by the Board shall be conclusive. In the event of the dissolution of the Company or a merger, consolidation, plan of exchange or similar transaction affecting the Company, in lieu of adjusting the Option as described above or in lieu of having the Option continue unchanged, the Board may, in its sole discretion, provide a 30-day period immediately prior to such event during which the Optionee shall have the right to exercise the Option in whole or in part without any limitation on exercisability and upon the expiration of such 30-day period any unexercised portion of the Option shall immediately terminate.

2. Conditions. The obligations of the Company under this Agreement shall be subject to the approval of such state or federal authorities or agencies as may have jurisdiction in the matter. The Company shall use its best efforts to take such steps as may be required by state or federal law or applicable regulations, including rules and regulations of the Securities and Exchange Commission, any quotation system on which the Stock may then be traded and any stock exchange on which the Stock may then be listed, in connection with the issuance or sale of any shares acquired pursuant to this Agreement or the trading or listing of such shares on any such system or exchange. The Company shall not be obligated to issue or deliver shares under this Agreement if, upon advice of its legal counsel, such issuance or delivery would violate state or federal securities laws.

### 3. Nontransferability.

(a) Restriction. The Option is not transferable other than by will or the laws of descent and distribution and, during the Optionee's lifetime, may be exercised only by the Optionee.

(b) Exercise by Legal Representative or Successor. Whenever the word "Optionee" is used in any provision of this Agreement under circumstances when the provision should logically be construed to apply to the Optionee's guardian, legal representative, executor, administrator, or the person or persons to whom the Option may be transferred by testamentary disposition or by the laws of descent and distribution, the word "Optionee" shall be deemed to include such person or persons.

4. Legends. Certificates representing the shares subject to this Agreement shall bear such legends as the Board shall deem appropriate to reflect any restrictions on transfer imposed by federal or applicable state securities laws.

5. Continuing Relationship. Nothing in the Plan or in this Agreement shall confer upon the Optionee any right to continue as an employee of the Company or any Subsidiary or interfere in any way with the right of the Company or Subsidiary to terminate the Optionee's employment at any time for any reason, with or without cause.

6. Binding Effect. This Agreement shall be binding upon and shall inure to the benefit of any successor of the Company, but, except as provided above, the Option shall not be assigned or otherwise disposed of by the Optionee.

7. The Plan. The Option is subject to the terms and conditions of the Plan. In the event of a conflict between the Plan and this Agreement, the terms of the Plan shall control. The Optionee agrees to be bound by the rules and regulations for the administration of the Plan, as presently prescribed or hereafter amended, and by any amendment, construction or interpretation of the Plan properly adopted by the Company's Board.

8. Administration of Agreement by Committee. At such time as a committee of the Board is appointed to administer the Plan, all decisions relating to this Agreement shall be made by such committee and all references in this Agreement to the Board shall mean and refer to such committee.

9. Notices. Parties to this Agreement shall give all notices to the other parties concerning this Agreement by personal delivery, by telecopier or by registered or certified mail, return receipt requested, addressed as follows:

If to the Company: Northwest NeuroLogic, Inc.  
2611 S.W. Third Avenue, Suite 200  
Portland, Oregon 97201  
Attention: Chief Executive Officer

If to Optionee: at Optionee's address stated in the caption of this Agreement.

Any party may, by written notice to the other parties, designate a new address to which notices shall thereafter be delivered. Notice hereunder shall be deemed effective upon the earlier of actual receipt or three days after being sent by registered or certified mail.

IN WITNESS WHEREOF, the parties have executed this Agreement effective as of the date stated above.

NORTHWEST NEUROLOGIC, INC.  
  
By \_\_\_\_\_  
Title \_\_\_\_\_

OPTIONEE  
  
\_\_\_\_\_

June 25, 1998

Neurocrine Biosciences, Inc.  
3050 Science Park Road  
San Diego, California 92121

RE: Registration Statement on Form S-8

Gentlemen:

We have examined the Registration Statement on Form S-8 to be filed by you with the Securities and Exchange Commission on or about June 26, 1998 (the "Registration Statement") in connection with the registration under the Securities Act of 1933, as amended, for an aggregate of 805,414 shares (the "Shares") of your Common Stock under the Neurocrine Biosciences, Inc. Amended 1992 Incentive Stock Plan, Neurocrine Biosciences, Inc. Amended 1996 Director Option Plan and the Northwest NeuroLogic, Inc. Restated 1997 Stock Incentive Plan. Such shares of Common Stock are referred to herein as the "Shares", and such plans are referred to herein as the "Plans". As your counsel in connection with this transaction, we have examined the proceedings taken and are familiar with the proceedings proposed to be taken by you in connection with the issuance and sale of the Shares pursuant to the Plans.

It is our opinion that, when issued and sold in the manner described in the Plans and pursuant to the agreements which accompany each grant under the Plans, upon completion of the actions being taken, or contemplated by us as your counsel to be taken by you prior to the issuance of the Shares pursuant to the Registration Statement and the Plans, and upon completion of the actions being taken in order to permit such transactions to be carried out in accordance with the securities laws of the various states where required, the Shares will be legally and validly issued, fully paid and nonassessable.

We consent to the use of this opinion as an exhibit to the Registration Statement, and further consent to the use of our name wherever appearing in the Registration Statement and any amendments thereto.

Very truly yours,

WILSON SONSINI GOODRICH & ROSATI  
Professional Corporation

/S/ WILSON SONSINI GOODRICH &amp; ROSATI

## CONSENT OF ERNST &amp; YOUNG LLP, INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statement (Form S-8) pertaining to the Neurocrine Biosciences, Inc. Amended 1992 Incentive Stock Plan, the Neurocrine Biosciences, Inc. Amended 1996 Director Option Plan and the Northwest NeuroLogic, Inc. Restated 1997 Stock Incentive Plan of our report dated February 3, 1998, except for Note 10, for which the date is February 27, 1998, with respect to the financial statements of Neurocrine Biosciences, Inc. included in its Annual Report on Form 10-K for the year ended December 31, 1997.

ERNST &amp; YOUNG LLP

San Diego, California  
June 23, 1998