UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITES AND EXCHANGE ACT OF 1934

For the quarterly period ended JUNE 30, 1998

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934

For the transition period from ________ to _________

Commission file number 0-28150

NEUROCRINE BIOSCIENCES, INC.
(Exact name of registrant as specified in its charter)

DELAWARE 33-0525145
(State or other jurisdiction of (IRS Employer Identification No.)
incorporation or organization)

10555 SCIENCE CENTER DRIVE
SAN DIEGO, CALIFORNIA 92121
(Address of principal executive offices)

(619) 658-7600
(Registrant's telephone number, including area code)

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

Yes X No

The number of outstanding shares of the registrant's Common Stock, par value of $.001, was 18,161,626 as of July 31, 1998.

NEUROCRINE BIOSCIENCES, INC
FORM 10-Q
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PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

NEUROCRINE BIOSCIENCES, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 1998	December 31, 1997
	(Unaudited)	(Note)
SETS		
Current assets		
Cash and cash equivalents	$ 10,643,020	$ 15,771,099
Short-term investments, available-for-sale	54,555,970	59,321,095
Receivables under collaborative agreements	225,302	193,784
Receivables from related parties and other	695,795	940,100
Prepaid expenses	425,268	151,553
Total current assets	66,545,355	76,377,631
Property and equipment, net	9,853,342	8,846,179
Licensed technology and patent application costs, net	1,076,079	1,185,384
Investment in Neuroscience Pharma, Inc.	3,901,288	3,343,740
Other assets	2,159,877	2,150,451
Total assets	$ 83,535,941	$ 91,903,385
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 614,357	$ 1,822,173
Accrued expenses, other current liabilities and current portion of long-term debt	2,791,852	5,547,697
Total current liabilities	3,406,209	7,369,870
Long-term liabilities	1,705,871	1,381,040
Stockholders' equity		
Preferred Stock, $0.001 par value, 5,000,000 shares authorized, no shares issued and outstanding		
Common stock, $0.001 par value, 100,000,000 shares authorized, issued and outstanding shares - 18,144,225 in 1998 and 17,686,802 in 1997	92,479,580	88,047,176
Accumulated deficit	(14,055,719)	(4,894,701)
Total stockholders' equity	78,423,861	83,152,475
Total liabilities and stockholders' equity	$ 83,535,941	$ 91,903,385

Note: The balance sheet at December 31, 1997 was derived from the audited financial statements at that date, but does not include all of the disclosures required by generally accepted accounting principals.

See accompanying notes to condensed consolidated financial statements.

NEUROCRINE BIOSCIENCES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months Ended June 30, 1998	Three Months Ended June 30, 1997	Six Months Ended June 30, 1998	Six Months Ended June 30, 1997
Sponsored research	$ 1,887,500	$ 2,637,500	$ 3,775,000	$ 5,275,000
Milestones	-	1,000,000	1,250,000	6,000,000
Other revenues	403,265	1,163,694	1,402,236	2,380,085
Total revenues	2,290,765	4,801,194	6,427,236	13,655,085
Operating expenses				
Research and development	4,866,448	4,440,251	9,907,484	9,029,329
General and administrative	1,338,838	1,343,901	2,867,318	2,488,450
Special charges	5,509,701	-	5,509,701	-
Total operating expenses	11,714,987	5,784,152	18,284,503	11,517,779
Income (loss) from operations	(9,424,222)	(982,958)	(11,857,267)	2,137,306
Other income and expenses				
Interest income	1,000,038	910,037	2,119,511	1,833,268
Interest expense	(30,072)	(40,785)	(64,205)	(88,411)
Other income	478,404	239,512	640,943	439,025
Income (loss) before income taxes	(7,975,852)	125,806	(9,161,018)	4,321,188
Income taxes	-	22,393	-	76,393
Net income (loss)	$(7,975,852)	$ 103,413	$(9,161,018)	$ 4,244,795
Earnings (loss) per common Share				
Basic	$ (0.45)	$ 0.01	$ (0.51)	$ 0.25
Diluted	$ (0.45)	$ 0.01	$ (0.51)	$ 0.22
Shares used in the calculation of earnings (loss) per share				
Basic	17,874,018	16,889,170	17,790,297	16,859,987
Diluted	17,874,018	19,190,139	17,790,297	19,219,160

See accompanying notes to condensed consolidated financial statements.

NEUROCRINE BIOSCIENCES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Six Months Ended June 30, 1998	Six Months Ended June 30, 1997
Cash flow from operating activities:		
Net income (loss)	$(9,161,018)	$ 4,244,795
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Non-cash portion of special charges	4,799,984	-
Depreciation and amortization	780,837	559,185
Deferred revenues	(1,750,000)	1,750,000
Deferred expenses	241,303	272,639
Change in operating assets and liabilities:		
Other current assets	(60,928)	(6,810,888)
Other non-current assets	(566,974)	(3,718,032)
Accounts payable and accrued liabilities	(2,066,403)	(83,934)
Net cash flows used in operating activities	(7,783,199)	(3,786,235)
Cash flow from investing activities:		
Purchases of short-term investments	(27,062,723)	(38,986,324)
Sales/maturities of short-term investments	31,832,942	56,870,228
Purchases of property and equipment, net	(1,678,695)	(2,437,681)
Net cash flows provided by investing activities	3,091,524	15,446,223
Cash flow from financing activities:		
Issuance of Common Stock, net	109,320	365,781
Principal payments on long term	(546,772)	(410,898)
Notes receivable payments from stockholders	1,048	5,237
Net cash flows used in financing activities	(436,404)	(39,880)
Net (decrease) increase in cash and cash equivalents	(5,128,079)	11,620,108
Cash and cash equivalents at beginning of the period	15,771,099	11,325,361
Cash and cash equivalents at end of the period	$10,643,020	$22,945,469

Supplemental schedule of non-cash investing and financing activities:
During 1998, the Company recorded non-cash items of $1.4 million relating to the conversion of a note receivable to an investment in NPI and $4.2 million for the acquisition of NNL.

See accompanying notes to condensed consolidated financial statements.

NEUROCRINE BIOSCIENCES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. BASIS OF PRESENTATION

The condensed consolidated financial statements included herein are unaudited. These financial statements include the accounts of Neurocrine Biosciences, Inc. and Northwest NeuroLogic, Inc., a wholly owned subsidiary since its acquisition on May 28, 1998. All significant intercompany transactions were eliminated in consolidation.

The condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. The financial statements include all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the financial position, results of operations, and cash flows for the periods presented. The results of operations for the interim periods shown in this report are not necessarily indicative of results expected for the full year. The financial statements should be read in conjunction with the audited financial statements and notes for the year ended December 31, 1997, included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission.

2. NET INCOME PER SHARE

In accordance with Financial Accounting Standards Board Statement No. 128, "Earnings per Share" ("SFAS 128"), basic earnings per share is calculated by dividing net income by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution of securities that could share in the earnings of the Company such as common stock which may be issuable upon exercise of outstanding common stock options, warrants and preferred stock. These shares are excluded when their effects are antidilutive. As required by SFAS 128, the Company has restated the earnings per share presentations for the periods ended June 30, 1997.

3. COMPREHENSIVE INCOME

In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 130, "Comprehensive Income" ("SFAS 130"), which applies to financial statements issued for periods beginning after December 15, 1997. SFAS 130 requires the disclosure of all components of comprehensive income, including net income and other comprehensive income. Comprehensive income includes changes in equity during a period from transactions and other events and circumstances generated from non-owner sources. For the three and six months ended June 30, 1998 and 1997, comprehensive income is calculated as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	1998	1997	1998	1997
Net income (loss)	$(7,975,852)	$ 103,413	$(9,161,018)	$4,244,795
Unrealized gains (losses) on investments	(11,978)	3,482	5,094	(79,678)
Comprehensive income (loss)	$(7,987,830)	$ 106,895	$(9,155,924)	$4,165,117

4. ACCOUNTING FOR PENSIONS AND HEDGING ACTIVITIES

In February 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 132, "Employee's Disclosures about Pension and Other Post-retirement Benefits", which is effective for periods beginning after December 15, 1997 ("SFAS 132"). SFAS 132 revises disclosures about pension and other post-retirement benefit plans. The Company believes this statement will have no material impact on its financial position or results of operations.

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. No. 133, "Accounting for Derivative Instruments and Hedging Activities", which is effective for all fiscal quarters of fiscal years beginning after June 15, 1999 ("SFAS 133"). SFAS 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. SFAS No. 133 requires an entity to recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. The Company is currently evaluating the impact SFAS No. 133 will have on its financial statements, if any.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management's Discussion and Analysis of Financial Condition and Results of Operations of Neurocrine Biosciences, Inc. ("Neurocrine" or the "Company") contains forward-looking statements which involve risks and uncertainties, pertaining generally to the expected continuation of the Company's collaborative agreements, the receipt of research payments thereunder, the future achievement of various milestones in product development and the receipt of payments related thereto, the potential receipt of royalty payments, pre-clinical testing and clinical trials of potential products, the period of time the Company's existing capital resources will meet its funding requirements, and financial results and operations. Actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth below and those outlined in the Company's 1997 Annual Report on Form 10-K filed with the Securities and Exchange Commission.

OVERVIEW

Since the founding of the Company in January 1992, Neurocrine has been engaged in the discovery and development of novel pharmaceutical products for diseases and disorders of the central nervous and immune systems. To date, Neurocrine has not generated any revenues from the sale of products, and does not expect to generate any product revenues in the foreseeable future. The Company's revenues are expected to come from its strategic alliances. The Company expects to generate further net losses as its operating expenses are anticipated to rise significantly in future periods as products are advanced through the various stages of clinical development. Neurocrine has incurred a cumulative deficit of approximately $14.1 million as of June 30, 1998 and expects to incur operating losses in the future, which are potentially greater than losses in prior years.

RESULTS OF OPERATIONS

Three months ended June 30, 1998 compared with three months ended June 30, 1997

Revenues for the second quarter of 1998 were $2.3 million compared to $4.8 million for the comparable period in 1997. The decline of $2.5 million in revenues resulted from the completion of sponsored research under the Janssen collaboration and milestone payments received under the Novartis collaboration during 1997.

The research completed under the Janssen collaboration resulted in a clinical compound (R121919). Janssen is currently conducting Phase I trials with R121919 for anxiety/depression and is expected to progress to Phase II trials near the end of the third quarter of 1998. Phase II trials for multiple sclerosis under the Novartis collaboration is currently in progress.

Research and development expenses increased to $4.9 million for the second quarter of 1998 compared to $4.4 million for the same period in 1997. This increase reflects higher costs associated with increased scientific personnel and related support expenditures as the Company broadens its research and clinical development pipeline. General and administrative expenses remained constant at $1.3 million during the second quarter of 1998 compared to the same period in 1997.

Special charges for the second quarter of 1998 consisted of $4.2 million related to the acquisition of Northwest Neurologic, Inc. ("NNL"), $1.3 million related to the in-licensing of two chemical compounds for insomnia and glioblastoma, and additional investment in the Company's Canadian affiliate.

Interest income increased to $1.0 million during the second quarter of 1998 compared to $910,000 for the same period last year. This increase was due to higher effective interest yields on the Company's investment portfolio during the second quarter of 1998.

Net losses for the second quarter of 1998 were $8.0 million or $0.45 per share ($0.14 per share excluding special charges) compared to net income of $103,000 or approximately $0.01 per share for the same period in 1997. The decrease in net earnings and earnings per share resulted primarily from non-recurring collaborative revenues of $2.5 million reported in 1997 and special charges of $5.5 million reported during the second quarter of 1998.

To date, the Company's revenues have come from funded research and achievements of milestones under corporate collaborations. The nature and amount of these revenues from period to period may lead to substantial fluctuations in the results of quarterly revenues and earnings. Accordingly, results and earnings of one period are not predictive of future periods.

Six months ended June 30, 1998 compared with six months ended June 30, 1997

Revenues for the first half 1998 were $6.4 million compared to $13.7 million for the comparable period in 1997. The decline in revenues of $7.3 million resulted from the completion of sponsored research under Janssen collaboration, milestone payments received under the Novartis collaboration and a $5.0 million research support payment received under the Eli Lilly collaboration during 1997.

The research completed under the Janssen collaboration resulted in a clinical compound (R121919). Janssen is currently conducting Phase I trials with R121919 for anxiety/depression and is expected to progress to Phase II trials near the end of the third quarter of 1998. Phase II trials for multiple sclerosis under the Novartis collaboration is in progress.

Research and development expenses increased to $9.9 million for the first half of 1998 compared with $9.0 million for the same period in 1997. This increase reflects higher costs associated with increased scientific personnel and related support expenditures as the Company broadens its research and clinical development pipeline.

General and administrative expenses increased to $2.9 million during the first half of 1998 compared to $2.5 million for the same period in 1997. The increase resulted primarily from additional administrative personnel, business development and professional service expenses to support the expanded research and clinical development efforts.

Special charges for the first half of 1998 consisted of $4.2 million related to the acquisition of Northwest Neurologic, Inc. ("NNL"), $1.3 million related to the in-licensing of two chemical compounds for insomnia and glioblastoma, and additional investment in the Company's Canadian affiliate.

Interest income increased to $2.1 million during the first half of 1998 compared to $1.8 million for the same period last year. This increase primarily resulted from higher effective interest yields on the Company's investment portfolio during 1998.

Net losses for the first half of 1998 were $9.2 million or $0.51 per share ($0.21 per share excluding special charges) compared to net income of $4.2 million or $0.25 per share ($0.22 per share assuming dilution) for the same period in 1997. The decrease of $13.4 million in net earnings resulted primarily from $7.3 million of non-recurring collaborative revenues recorded in 1997, including a $5.0 million research support payment received from Eli Lilly, and special charges of $5.5 million reported in 1998.

To date, the Company's revenues have come from funded research and achievements of milestones under corporate collaborations. The nature and amount of these revenues from period to period may lead to substantial fluctuations in the results of year-to-date revenues and earnings. Accordingly, results and earnings of one period are not predictive of future periods.

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 1998, the Company's cash, cash equivalents, and short-term investments totaled $65.2 million. Cash held by the Company excludes approximately $5.9 million held by NPI, which is available to fund certain of the Company's research and development activities.

Cash used in operating activities during 1998 was $7.8 million compared to net cash provided of $2.3 million for the same period in 1997. The increase in cash used in operating activities during 1998 was primarily the result of the recognition of deferred revenues, decreased revenues under the Company's collaborations and payment of current liabilities.

Cash provided by investing activities during 1998 was $3.1 million compared to net cash used of $6.5 million during the same period in 1997. The increase in cash provided was primarily the result of timing differences in investment purchases and sales/maturities and fluctuations in the Company's portfolio mix between cash equivalent and short-term investment holdings.

Cash used in financing activities during 1998 was $436,000 compared to net cash provided of $81,000 for the same period in 1997. The increase in net cash used was primarily due to principal payments on long-term obligations.

The Company believes that its existing capital resources, together with interest income and future payments due under the strategic alliances, will be sufficient to satisfy its current and projected funding requirements at least through the year 2000. However, no assurance can be given that such capital resources and payments will be sufficient to conduct its research and development programs as planned. The amount and timing of expenditures will vary depending upon a number of factors, including progress of the Company's research and development programs.

OTHER EVENTS

The Company entered into a patent license agreement with David Fitzgerald and Ira Pastan on April 28, 1998, and with the National Institutes of Health on May 7, 1998 (collectively the "Patent Agreements"). Under the Patent Agreements, the Company obtained an exclusive license covering the therapeutic application of an anti-cancer compound referred to as IL-4(38-37)-PE38KDEL (IL-4 Fusion Toxin). The Company is obligated to make milestone payments upon attainment of certain clinical development and regulatory accomplishments and royalty payments based upon sales by the Company of products developed under the Patent Agreements. During the quarter ended June 30, 1998, the Company initiated Phase I human clinical trials with the anti-cancer compound in patients with malignant brain tumors.

On May 28, 1998, the Company acquired Northwest NeuroLogic, Inc., an Oregon corporation ("NNL"). The Company purchased all of the outstanding capital stock of NNL and assumed all of its outstanding stock options in exchange for 392,608 shares of the Company's Common Stock and options to purchase 105,414 shares of Common Stock. The acquisition was accounted for as a purchase transaction. The aggregate purchase price of $4.2 million was allocated to the fair value of the net assets acquired, the majority of which was acquired in-process research and development. There can be no assurance that the Company will be successful in developing these compounds, that they will receive necessary FDA approvals to proceed to the next phase of clinical testing, or that they will ultimately be developed into commercially viable products.

The Company's results of operations include NNL's results of operations from the date of acquisition. There can be no assurance that the Company will not incur additional charges in subsequent quarters to reflect costs associated with the transaction or that the Company will be successful in its efforts to integrate the operations of NNL into those of the Company.

The Company may make further acquisitions and investments and enter into further collaborations, joint ventures and strategic alliances, some of which may be material, when it believes such transactions will complement its overall business strategy. However, such transactions, and in particular the acquisitions of research and development companies, are inherently risky and there can be no assurance that the recently completed acquisition or any such future transactions or joint ventures will be successful and will not adversely affect the Company's business, operating results, or financial condition.

On June 30, 1998, the Company entered into a Sublicense and Development Agreement (the "Sublicense Agreement") with DOV Pharmaceutical, Inc. ("DOV"). Under the Sublicense Agreement, the Company obtained an exclusive sublicense to the patent rights and know-how relating to NBI-34060, a compound in clinical development, for the treatment of insomnia and all therapeutic indications. Under the Sublicense Agreement, the Company will be responsible for worldwide development and commercialization of this compound. In conjunction with the Sublicense Agreement, the Company made an equity investment in DOV and will make milestone payments based upon the attainment of certain clinical development and regulatory accomplishments. DOV will also receive royalties on the worldwide sales by the Company of approved products resulting from the collaboration. In addition, the Company issued warrants (the "Warrants") exercisable for an aggregate of 75,000 shares of Common Stock at an exercise price of approximately $8.04 per share upon the occurrence of certain events.

YEAR 2000 COMPLIANCE

Although the Company believes its key financial, information and operational systems are Year 2000 compliant, there can be no assurances that other defects will not be discovered in the future. The Company is unable to control whether the firms and vendors it does business with currently, and in the future, will have systems which are Year 2000 compliant. The Company has not yet verified that the parties it conducts business with are Year 2000 Compliant. The Company's operations could be affected to the extent that firms and vendors would be unable to provide services or ship products. However, management does not believe the Year 2000 changes will have a material impact on its business, financial condition or results of operations.

CAUTION ON FORWARD-LOOKING STATEMENTS

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

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

Continued profitability is not expected as the Company's operating expenses are anticipated to rise significantly in future periods as products are advanced through the various development and clinical stages. Neurocrine expects to incur additional operating expenses over the next several years as its research, development, preclinical testing and clinical trial activities increase. To the extent that the Company is unable to obtain third party funding for such expenses, the Company expects that increased expenses will result in increased losses from operations. There can be no assurance that the Company's products under development will be successfully developed or that its products, if successfully developed, will generate revenues sufficient to enable the Company to earn a profit.

PART II. OTHER INFORMATION

Item 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

On May 28, 1998, the Company acquired Northwest NeuroLogic, Inc. ("NNL"), pursuant to the Agreement and Plan of Reorganization dated May 1, 1998 (the "Agreement"). In connection with the acquisition of NNL, the Company issued an aggregate of 392,608 shares of the Company's Common Stock (the "Merger Shares") to the existing stockholders of NNL in exchange for all of the outstanding shares of capital stock of NNL. The Merger Shares were issued pursuant to an exemption from the registration requirements of the Securities Act of 1933, as amended (the "Securities Act"), afforded by Section 4 (2) thereof. The stockholders of NNL had access to all relevant information regarding the Company necessary to evaluate the investment and represented that the shares were being acquired for investment intent. Additionally, the stockholders of NNL were provided with information statements prior to the vote to approve the transaction. There was no general solicitation or advertising involved in the acquisition, and the Company used reasonable care to assure that the stockholders of NNL were not underwriters. At the closing of the acquisition, the Company assumed the outstanding stock options held by NNL optionees based on an exchange ratio as set forth in the Agreement. The 105,414 shares of Common Stock underlying the options were registered on a Registration Statement on Form S-8 filed with the Commission on June 26, 1998.

On June 30, 1998, the Company issued to certain investors warrants (the "Warrants") to purchase shares of Common Stock of the Company in connection with the Sub-License and Development Agreement between the Company and DOV Pharmaceutical, Inc. dated June 30, 1998. The Warrants are exercisable for an aggregate of 75,000 shares of Common Stock at an exercise price of approximately $8.04 per share.

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

(a) The Company's Annual Meeting of Stockholders was held on May 27, 1998 (the "Annual Meeting").

(b) The following Class II Directors were elected at the Annual Meeting:

Name	Position	Term Expires
Richard Pops	Class II Director	2001
David Robinson	Class II Director	2001

The following Class I and III Directors continue to serve their respective terms which expire on the Company's Annual Meeting of Stockholders in the year as noted:

Name	Position	Term Expires
Joseph Mollica	Class I Director	2000
Wylie Vale	Class I Director	2000
Errol DeSouza	Class I Director	2000
Gary Lyons	Class III Director	1999
Harry Hixson	Class III Director	1999

(c) At the Annual Meeting, stockholders voted on four matters: (i) the election of two Class II directors for a term of three years expiring in 2001, (ii) the amendment of the 1992 Incentive Stock Plan (the "1992 Plan") to increase the number of shares of Common Stock reserved for issuance thereunder from 4,100,000 to 4,700,000 shares, (iii) the amendment of the 1996 Director Option Plan (the "Director Plan") to increase the number of shares of Common Stock reserved for issuance thereunder from 100,000 to 200,000 shares, and (iv) the ratification of the appointment of Ernst & Young LLP as the Company's independent auditors. The matters voted upon at the meeting and the voting results were as follows:

(i) The election of Richard Pops and David Robinson as Class II Directors for a term of three years: For 12,404,075, Withhold 51,324.

(ii) Approval of amendment to the Company's 1992 Incentive Stock Plan, increasing the number of shares of Common Stock reserved for issuance from 4,100,000 to 4,700,000 Shares: For 11,845,420, Against 581,914, Abstain 28,065.

(iii) Approval of amendment to the Company's 1996 Director Option Plan, increasing the number of shares of Common Stock reserved for issuance from 100,000 to 200,000 Shares: For 11,941,921, Against 479,139, Abstain 34,339.

(iv) Ratification of the appointment of Ernst & Young LLP as independent auditors for the fiscal year ending December 31, 1997: For 12,423,485, Against 17,754, Abstain 14,160.

Item 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) The exhibits to this report are listed in the table below.

Exhibit No.	Exhibit Description
2.1*	Agreement and Plan of Reorganization dated May 1, 1998, between Northwest NeuroLogic, Inc., NBI Acquisition Corp. and the Registrant.
2.2*	Registration Rights Agreement dated May 28, 1998, between certain investors and the Registrant.
2.3	Form of Warrant pursuant to the Agreement and Plan of Reorganization dated May 1, 1998.
10.1*	Patent License Agreement dated May 7, 1998 between the U.S. Public Health Service and the Registrant.
10.2*	Patent License Agreement dated April 28, 1998, between and among Ira Pastan, David Fitzgerald and the Registrant.
10.3*	Sub-License and Development Agreement dated June 30, 1998, by and between DOV Pharmaceutical, Inc. and the Registrant.
10.4*	Warrant Agreement dated June 30, 1998, between DOV Pharmaceutical, Inc. and the Registrant.
10.5*	Warrant Agreement dated June 30, 1998, between Jeff Margolis and the Registrant.
10.6*	Warrant Agreement dated June 30, 1998, between Stephen Ross and the Registrant.
27.1	Financial Data Schedule

* Portions of this Exhibit have been omitted pursuant to a confidentiality request filed with the Securities and Exchange Commission.

(b) Reports on Form 8-K. During the quarter ended June 30, 1998, the Company filed no current Reports on Form 8-K.

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NEUROCRINE BIOSCIENCES, INC.

Dated: 08/14/98

/s/ Paul W. Hawran
PAUL W. HAWRAN
Senior Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit 2.1

AGREEMENT AND PLAN OF REORGANIZATION

BY AND AMONG

NEUROCRINE BIOSCIENCES, INC.,

NBI ACQUISITION CORP.

AND

NORTHWEST NEUROLOGIC, INC.

Dated as of May 1, 1998

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AGREEMENT AND PLAN OF REORGANIZATION

This AGREEMENT AND PLAN OF REORGANIZATION (this "Agreement") is made and entered into as of May 1, 1998 among Neurocrine Biosciences, Inc., a Delaware corporation ("Parent"), NBI Acquisition Corp., a Delaware corporation and a wholly owned subsidiary of Parent ("Merger Sub"), and Northwest NeuroLogic, an Oregon corporation (the "Company").

RECITALS

A. The Boards of Directors of each of the Company, Parent and Merger Sub believe it is in the best interests of each Company and their respective stockholders that Parent acquire the Company through the statutory merger of Merger Sub with and into the Company (the "Merger") and, in furtherance thereof, have adopted this Agreement and approved the Merger.

B. Pursuant to the Merger, among other things, and subject to the terms and conditions of this Agreement, (i) all of the issued and outstanding shares of capital stock of the Company ("Company Capital Stock") shall be converted into the right to receive shares of voting Common Stock of Parent ("Parent Common Stock") and (ii) all outstanding options ("Company Options") to acquire or receive shares of Company Capital Stock shall be converted into the right to receive options ("Parent Options") to acquire Common Stock of Parent.

C. A portion of the shares of Parent Common Stock and Parent Options otherwise issuable by Parent in connection with the Merger shall be placed in escrow by Parent, the release of which amount shall be contingent upon certain events and conditions, all as set forth in the Escrow Agreement referred to in Article VII hereof.

D. The Company, Parent and Merger Sub desire to make certain representations and warranties and other agreements in connection with the Merger.

E. Certain stockholders of the Company have executed Voting and Non-Disposition Agreements.

NOW, THEREFORE, in consideration of the covenants, promises and representations set forth herein, and for other good and valuable consideration, intending to be legally bound hereby the parties agree as follows:

ARTICLE I

THE MERGER

I.1 The Merger. At the Effective Time (as defined in Section 1.2) and subject to and upon the terms and conditions of this Agreement and the applicable provisions of the Delaware General Corporation Law ("Delaware Law") and the Oregon Business Corporation Act ("Oregon Law"), Merger Sub shall be merged with and into the Company, the separate corporate existence of Merger Sub shall cease, and the Company shall continue as the surviving corporation and as a wholly owned subsidiary of Parent. The Company as the surviving corporation after the Merger is hereinafter sometimes referred to as the "Surviving Corporation." At the election of Parent, any direct wholly owned subsidiary of Parent may be substituted for Merger Sub as a constituent corporation in the Merger. In such event, the parties hereto agree to execute the appropriate amendment of this Agreement to reflect such substitution.

I.2 Effective Time. Unless this Agreement is earlier terminated pursuant to Section 8.1, the closing of the Merger (the "Closing") will take place as promptly as practicable, but no later than five (5) business days, following satisfaction or waiver of the conditions set forth in Article VI, at the offices of Wilson Sonsini Goodrich & Rosati, 650 Page Mill Road, Palo Alto, California, unless another place or time is agreed to by Parent and the Company. The date upon which the Closing actually occurs is herein referred to as the "Closing Date." On the Closing Date, the parties hereto shall cause the Merger to be consummated by filing an Agreement of Merger (or like instrument) with the Secretaries of State of the States of Delaware and Oregon (the "Certificate of Merger"), in accordance with the relevant provisions of applicable law (the time of acceptance by the Secretary of State of Delaware of such filing being referred to herein as the "Effective Time").

I.3 Effect of the Merger. At the Effective Time, the effect of the Merger shall be as provided in the applicable provisions of Delaware Law and Oregon Law. Without limiting the generality of the foregoing, and subject thereto, at the Effective Time, all the property, rights, privileges, powers and franchises of the Company and Merger Sub shall vest in the Surviving Corporation, and all debts, liabilities and duties of the Company and Merger Sub shall become the debts, liabilities and duties of the Surviving Corporation.

I.4 Articles of Incorporation; Bylaws

(a) Unless otherwise determined by Parent prior to the Effective Time, at the Effective Time, the Articles of Incorporation of the Company shall be the Articles of Incorporation of the Surviving Corporation until thereafter amended as provided by law and such Articles of Incorporation.

(b) Unless otherwise determined by Parent, the Bylaws of the Company, as in effect immediately prior to the Effective Time, shall be the Bylaws of the Surviving Corporation until thereafter amended.

I.5 Directors and OfficersI.5 Directors and OfficersI.5 Directors and Officers. The director(s) of Merger Sub immediately prior to the Effective Time shall be the initial director(s) of the Surviving Corporation, each to hold office in accordance with the Articles of Incorporation and Bylaws of the Surviving Corporation. The officers of Merger Sub immediately prior to the Effective Time shall be the initial officers of the Surviving Corporation, each to hold office in accordance with the Bylaws of the Surviving Corporation.

I.6 Maximum Shares to Be Issued; Effect on CapitalI.6 Maximum Shares to Be Issued; Effect on Capital StockI.6 Maximum Shares to Be Issued; Effect on Capital Stock. The maximum number of shares of Parent Common Stock to be issued (including Parent Common Stock to be reserved for issuance upon exercise of any of the Company Options to be assumed by Parent) in exchange for the acquisition by Parent of all outstanding Company Capital Stock and Company Options shall be the Aggregate Share Number (as defined in Section 1.6(g)(iii)). No adjustment shall be made in the number of shares of Parent Common Stock issued in the Merger as a result of any cash proceeds received by the Company from the date hereof to the Effective Time pursuant to the exercise of options, warrants or other rights to acquire Company Capital Stock. Subject to the terms and conditions of this Agreement, as of the Effective Time, by virtue of the Merger and without any action on the part of Merger Sub, the Company or the holder of any shares of the Company Capital Stock, the following shall occur:

(a) Conversion of Company Capital Stock. Each share of Company Capital Stock issued and outstanding immediately prior to the Effective Time (other than any shares of Company Stock to be canceled pursuant to Section 1.6(b) and any Dissenting Shares as defined and to the extent provided in Section 1.7(a)) will be canceled and extinguished and be converted automatically into the right to receive (subject to Section 1.8 with regard to the Escrow Amount) that number of shares of Parent Common Stock equal to the Exchange Ratio (as defined in Section 1.6(g)(v) below), upon surrender of the certificate representing such share of Company Capital Stock in the manner provided in Section 1.8.

(b) Cancellation of Parent-Owned and Company-Owned Stock. Each share of Company Capital Stock owned by Merger Sub, Parent, the Company or any direct or indirect wholly owned subsidiary of Parent or the Company immediately prior to the Effective Time shall be canceled and extinguished without any conversion thereof.

(c) Stock Options. At the Effective Time, all options to purchase Company Capital Stock then outstanding under the Company's 1997 Stock Incentive Plan (the "Option Plan") or otherwise shall be assumed by Parent in accordance with provisions described below.

(i) At the Effective Time, each outstanding Company Option under the Option Plan or otherwise, whether vested or unvested, shall be, in connection with the Merger, assumed by Parent. Each Company Option so assumed by Parent under this Agreement shall continue to have, and be subject to, the same terms and conditions set forth in the Option Plan and/or as provided in the respective option agreements governing such Company Option immediately prior to the Effective Time, except that: (A) such Company Option shall be exercisable for that number of whole shares of Parent Common Stock equal to the product of the number of shares of Company Capital Stock that were issuable upon exercise of such Company Option immediately prior to the Effective Time multiplied by the Exchange Ratio, rounded down (in the case of Company Options granted under the Option Plan) to the nearest whole number of shares of Parent Common Stock (subject to Section 1.8 with regard to the Escrow Amount), (B) the per share exercise price for the shares of Parent Common Stock issuable upon exercise of such assumed Company Option shall be equal to the quotient determined by dividing the exercise price per share of Company Capital Stock at which such Company Option was exercisable immediately prior to the Effective Time by the Exchange Ratio, rounded up to the nearest whole cent, (C) with regard to Company Options held by persons listed on Schedule 1.9(a) attached hereto, such Company Option shall be subject to forfeiture in accordance with the vesting schedules set forth in Section 1.9 hereof, and (D) such Company Option shall be exercisable for a term equal to the lesser of (i) the remaining term of the Company Option and (ii) five (5) years from the Effective Time.

(ii) It is the intention of the parties that the Company Options assumed by Parent qualify following the Effective Time as incentive stock options as defined in Section 422 of the Code to the extent the Company Options qualified as incentive stock options immediately prior to the Effective Time.

(d) Capital Stock of Merger Sub. Each share of Common Stock of Merger Sub issued and outstanding immediately prior to the Effective Time shall be converted into and exchanged for one validly issued, fully paid and nonassessable share of Common Stock of the Surviving Corporation. After the Effective Time, each stock certificate of Merger Sub evidencing ownership of any such shares shall evidence ownership of such shares of capital stock of the Surviving Corporation.

(e) Adjustments to Exchange Ratio. The Exchange Ratio shall be adjusted to reflect fully the effect of any stock split, reverse split, stock dividend (including any dividend or distribution of securities convertible into Parent Common Stock or Company Capital Stock), reorganization, recapitalization or other like change with respect to Parent Common Stock or Company Capital Stock occurring after the date hereof and prior to the Effective Time.

(f) Fractional Shares. No fraction of a share of Parent Common Stock will be issued, but in lieu thereof, each holder of shares of Company Capital Stock who would otherwise be entitled to a fraction of a share of Parent Common Stock (after aggregating all fractional shares of Parent Common Stock to be received by such holder) shall be entitled to receive from Parent an amount of cash (rounded to the nearest whole cent) equal to the product of (i) such fraction, multiplied by (ii) $8.43333 (calculated as set forth in Section 1.6(g)(vi).

(g) Definitions.

(i) Aggregate Common Number. The "Aggregate Common Number" shall mean 591,250 (or the aggregate number of shares of Company Capital Stock outstanding immediately prior to the Effective Time).

(ii) Aggregate Option Number. The "Aggregate Option Number" shall mean 158,750 (or the aggregate number of shares of Company Capital Stock issuable upon the exercise of all outstanding Company Options, warrants and other rights to acquire shares of Company Capital Stock immediately prior to the Effective Time).

(iii) Aggregate Share Number. The "Aggregate Share Number" shall be 498,022 shares of Common Stock of Parent (which is equal to $4,200,000 divided by the Market Price), as appropriately adjusted to reflect the effect of any stock split, stock dividend, reorganization, recapitalization or the like with respect to the Parent Common Stock occurring after the date hereof and prior to the Effective Time (a "Recapitalization of the Parent Common Stock").

(iv) Escrow Amount. The "Escrow Amount" shall be [***] shares of Parent Common Stock (which is equal to the product obtained by multiplying (x) the sum of the Aggregate Common Number and the Aggregate Option Number by (y) the Exchange Ratio by (z) [***]. The Escrow Amount shall be composed of [***] Vested Securities and [***]. Unvested Securities as of the Effective Time, as set forth on Schedule 1.6 attached hereto.

(v) Exchange Ratio. The "Exchange Ratio" shall be 0.66403 (which is equal to the quotient obtained by dividing (x) the Aggregate Share Number by (y) the sum of (A) the Aggregate Common Number plus (B) the Aggregate Option Number).

(vi) Market Price. The Market Price of the Parent Common Stock shall mean $8.43333 per share of Parent Common Stock (which is equal to the average closing price of a share of Parent Common Stock, as reported on the Nasdaq National Market, over the fifteen (15) consecutive trading days ending on the date preceding the date of public disclosure of the Letter Agreement between Parent and the Company dated February 27, 1998, which disclosure date was March 3, 1998).

(vii) Vested Securities. "Vested Securities" means shares of Parent Common Stock, Parent Options or Milestone Warrants which are vested pursuant to the vesting schedule set forth in Section 1.9 as of the relevant time.

(viii) Unvested Securities. "Unvested Securities" means shares of Parent Common Stock, Parent Options or Milestone Warrants which are unvested pursuant to the vesting schedule set forth in Section 1.9 as of the relevant time.

I.7 Dissenting Shares

(a) Notwithstanding any provision of this Agreement to the contrary, any shares of Company Capital Stock held by a holder who has demanded and perfected appraisal or dissenters' rights for such shares in accordance with Oregon Law and who, as of the Effective Time, has not effectively withdrawn or lost such appraisal or dissenters' rights ("Dissenting Shares") shall not be converted into or represent a right to receive Parent Common Stock pursuant to Section 1.6, but the holder thereof shall only be entitled to such rights as are granted by applicable law.

(b) Notwithstanding the provisions of subsection (a), if any holder of shares of Company Capital Stock who demands appraisal of such shares under Oregon Law shall effectively withdraw or lose (through failure to perfect or otherwise) the right to appraisal, then, as of the later of the Effective Time and the occurrence of such event, such holder's shares shall automatically be converted into and represent only the right to receive Parent Common Stock and cash in lieu of fractional shares as provided in Section 1.6, without interest thereon, upon surrender of the certificate representing such shares.

(c) The Company shall give Parent (i) prompt notice of any written demands for appraisal of any shares of Company Capital Stock, withdrawals of such demands, and any other instruments served pursuant to Oregon Law and received by the Company and (ii) the opportunity to participate in all negotiations and proceedings with respect to demands for appraisal under Oregon Law. The Company shall not, except with the prior written consent of Parent, voluntarily make any payment with respect to any demands for appraisal of capital stock of the Company or offer to settle or settle any such demands.

I.8 Surrender of Certificates

(a) Exchange Agent. American Stock Transfer & Trust Company shall act as exchange agent (the "Exchange Agent") in the Merger.

(b) Parent to Provide Common Stock. Promptly after the Effective Time, Parent shall make available to the Exchange Agent for exchange in accordance with this Article I and as set forth on Schedule 1.6, the aggregate number of shares of Parent Common Stock issuable in exchange for outstanding shares of Company Capital Stock or upon exercise of Parent Options; provided, however, that on behalf of the holders of Company Capital Stock and Company Options, Parent shall deposit into an escrow account a number of shares of Parent Common Stock equal to the Escrow Amount out of the aggregate number of shares of Parent Common Stock otherwise issuable pursuant to sections 1.6(a) and 1.6(c), provided, further, that shares of Parent Common Stock issuable upon exercise of the Parent Options shall not be deposited in the escrow account until exercise of the relevant Parent Option. Parent shall deposit into the escrow account shares of Parent Common Stock issued pursuant to Section 1.6(a) promptly after the Effective Time and shares of Parent Common Stock issued pursuant to the exercise of Parent Options promptly after exercise thereof. The portion of the Escrow Amount contributed on behalf of each holder of Company Capital Stock and Company Options shall be in proportion to the aggregate number of shares of Parent Common Stock and Parent Options which such holder would otherwise be entitled to receive under sections 1.6(a) and 1.6(c) by virtue of ownership of outstanding shares of Company Capital Stock and Company Options.

(c) Exchange Procedures. Promptly after the Effective Time, the Surviving Corporation shall cause to be mailed to each holder of record of a certificate or certificates (the "Certificates") which immediately prior to the Effective Time represented outstanding shares of Company Capital Stock and which shares were converted into the right to receive shares of Parent Common Stock pursuant to Section 1.6, (i) a letter of transmittal (which shall specify that delivery shall be effected, and risk of loss and title to the Certificates shall pass, only upon delivery of the Certificates to the Exchange Agent and shall be in such form and have such other provisions as Parent may reasonably specify) and (ii) instructions for use in effecting the surrender of the Certificates in exchange for certificates representing shares of Parent Common Stock. Upon surrender of a Certificate for cancellation to the Exchange Agent or to such other agent or agents as may be appointed by Parent, together with such letter of transmittal, duly completed and validly executed in accordance with the instructions thereto, the holder of such Certificate shall be entitled to receive in exchange therefor a certificate representing the number of whole shares of Parent Common Stock (less the number of shares of Parent Common Stock, if any, (a) to be deposited in the Escrow Fund on such holder's behalf pursuant to the Escrow Agreement referred to in Article VII hereof, and (b) subject to transfer restrictions in connection with the Company's right to repurchase), plus cash in lieu of fractional shares in accordance with Section 1.6, to which such holder is entitled pursuant to Section 1.6, and the Certificate so surrendered shall forthwith be canceled. As soon as practicable after the Effective Time, and subject to and in accordance with the provisions of the Escrow Agreement referred to in Article VII hereof, Parent shall cause to be distributed to the Escrow Agent (as defined in the Escrow Agreement referred to in Article VII) a certificate or certificates representing that number of shares of Parent Common Stock and Parent Options equal to the Escrow Amount, which certificate shall be registered in the names of the stockholders to whom such shares would otherwise be issued. Such shares shall be beneficially owned by the holders on whose behalf such shares were deposited in the Escrow Fund and shall be available to compensate Parent as provided in the Escrow Agreement referred to in Article VII. Until so surrendered, each outstanding Certificate that, prior to the Effective Time, represented shares of Company Capital Stock will be deemed from and after the Effective Time, for all corporate purposes, other than the payment of dividends, to evidence the ownership of the number of full shares of Parent Common Stock into which such shares of Company Capital Stock shall have been so converted and the right to receive an amount in cash in lieu of the issuance of any fractional shares in accordance with Section 1.6.

(d) Distributions With Respect to Unexchanged Shares. No dividends or other distributions with respect to Parent Common Stock declared or made after the Effective Time and with a record date after the Effective Time will be paid to the holder of any unsurrendered Certificate with respect to the shares of Parent Common Stock represented thereby until the holder of record of such Certificate shall surrender such Certificate. Subject to applicable law, following surrender of any such Certificate, there shall be paid to the record holder of the certificates representing whole shares of Parent Common Stock issued in exchange therefor, without interest, at the time of such surrender, the amount of dividends or other distributions with a record date after the Effective Time theretofore payable with respect to such whole shares of Parent Common Stock.

(e) Transfers of Ownership. If any certificate for shares of Parent Common Stock is to be issued in a name other than that in which the Certificate surrendered in exchange therefor is registered, it will be a condition of the issuance thereof that the Certificate so surrendered will be properly endorsed and otherwise in proper form for transfer and that the person requesting such exchange will have paid to Parent or any agent designated by it any transfer or other taxes required by reason of the issuance of a certificate for shares of Parent Common Stock in any name other than that of the registered holder of the Certificate surrendered, or established to the satisfaction of Parent or any agent designated by it that such tax has been paid or is not payable.

(f) No Liability. Notwithstanding anything to the contrary in this Section 1.8, none of the Exchange Agent, the Surviving Corporation or any party hereto shall be liable to a holder of shares of Parent Common Stock or Company Capital Stock for any amount properly paid to a public official pursuant to any applicable abandoned property, escheat or similar law.

I.9 Forfeiture and Repurchase of Parent Common StockI.9 Forfeiture and Repurchase of Parent Common StockI.9 Forfeiture and Repurchase of Parent Common Stock.

(a) Vesting Schedule. The shares of Parent Common Stock issued pursuant to Section 1.6(a) and/or issuable upon exercise of the Milestone Warrants shall be subject to the right of Parent to repurchase, and the Parent Options held by those employees and consultants of the Company listed on Schedule 1.9(a) attached hereto shall be subject to the risk of forfeiture, according to the following schedule: [***] of such shares and Parent Options shall vest at the Effective Time; the remainder of such shares and Parent Options shall be subject to forfeiture or repurchase, as applicable, by Parent as set forth below, with such risk of forfeiture or repurchase right lapsing as to an additional [***] of each such person's shares and Parent Options on each anniversary of the Effective Time, provided that:

(i) Dr. Roger Cone and Dr. Susan Amara. With respect to Dr. Roger Cone and Dr. Susan Amara, all of such person's Parent Common Stock issued pursuant to Section 1.6(a) above or shares of Parent Common Stock issued upon exercise of Milestone Warrants not vested pursuant to this section as of the date of termination shall be subject to repurchase by Parent at a price per share equal to: (x) the quotient obtained by dividing [***] paid by such person for the [***] by the Exchange Ratio, in the case of Parent Common Stock obtained pursuant to [***], or (y) the [***] by such person in the case of [***], in the event of: (A) the holder's voluntary termination of employment with or services to Parent, or (B) the involuntary termination of the holder's employment with or services to Parent for Cause (as defined below and not as defined in their Consulting Agreements). Parent Options owned by Dr. Susan Amara after the Effective Time not vested pursuant to this Section as of the date of termination shall be subject to forfeiture and shall not be exercisable in event of: (i) Dr. Amara's voluntary termination of employment with or services to Parent, or (ii) the involuntary termination of the Dr. Amara's employment with or services to Parent for Cause (as defined below and not as defined in her Consulting Agreement). In the event of the holder's termination by reason of [***], the Unvested Securities shall continue to vest and not be subject to repurchase on the schedule specified in Section 1.9(a). With regard to Dr. Amara, the vesting schedule set forth in Section 1.9(a) above shall be deemed to apply first to shares of Parent Common Stock and second to Parent Options, such that the Vested Securities held by Dr. Amara on the relevant date shall be composed of the maximum possible number of shares of Parent Common Stock and the minimum possible number of shares of Parent Common Stock subject to Parent Options.

(ii) Other Current Employees/Consultants. With respect to each other employee and consultant of the Company listed on Schedule 1.9(a), all of such person's Parent Common Stock issued upon exercise Milestone Warrants not vested pursuant to this section as of the date of termination shall be subject to repurchase by Parent at a price per share equal to the purchase price paid by such person upon exercise of such Milestone Warrants, in the event of: (A) the holder's voluntary termination of employment with or services to the Surviving Corporation, or (B) the involuntary termination of the holder's employment with or services to the Surviving Corporation for Cause (but not in the event that he or she is required by Parent to relocate outside the Portland, Oregon area). In addition, for each such person, all of such person's Parent Options, to the extent not vested pursuant to this Section as of the date of termination, shall be subject to forfeiture and shall not be exercisable in the event of: (i) the holder's voluntary termination of employment with or services to the Surviving Corporation, or (ii) the involuntary termination of the holder's employment with or services to Surviving Corporation for Cause (but not in the event that he or she is required by Parent to relocate outside the Portland, Oregon area). In the event of the holder's termination by reason of death or permanent disability, the Unvested Securities shall continue to vest on the schedule specified in Section 1.9(a).

(b) Definition of "Cause". For purposes of this Section 1.9, "Cause" shall mean the discharge of the employee or consultant resulting from a determination by the Board of Directors of Parent that the employee or consultant: (i) has been convicted of any felony or a misdemeanor involving dishonesty, fraud, theft or embezzlement, or has committed any other crime or offense involving money or property of the Company; (ii) has failed or refused in any material respect, to follow reasonable policies or directives established by the Board of Directors of Parent; (iii) has inadequately performed the duties and responsibilities of his or her position; or (iv) has failed or refused to attend to duties or obligations of his or her position. With respect to subsections 1.9(b)(ii), (iii) and (iv), "Cause" shall require that the employee or consultant shall be given notice of the defect and shall have failed to cure the defect within a thirty (30) day period thereafter, unless the defect is by nature incapable of being cured within a reasonable period of time, in which case no notice and cure period shall apply.

I.10 Lockup Period and Restrictions on Future TransfersI.10 Lockup Period and Restrictions on Future TransfersI.10 Lockup Period and Restrictions on Future Transfers. All shares of Parent Common Stock issued to the persons listed on Schedule 1.9(a) shall be subject to a [***] lockup provision from the Effective Time as set forth substantially in the form of Lockup Agreement attached hereto as Exhibit C-2. [***] of the shares of Parent Common Stock issued to persons other than those listed on Schedule 1.9(a) shall be subject to a [***] lockup provision from the Effective Time and all of the shares of Parent Common Stock issuable to such persons other than those listed on Schedule 1.9(a) shall be subject to the stock restrictions set forth in substantially the form of Lockup Agreement attached hereto as Exhibit C-1. All future transfers of Parent Common Stock shall be made in accordance with Parent's Insider Trading Policy attached hereto as Exhibit H.

I.11 No Further Ownership Rights in Company Capital Stock No Further Ownership Rights in Company Capital Stock. All shares of Parent Common Stock issued upon the surrender for exchange of shares of Company Capital Stock in accordance with the terms hereof (including any cash paid in respect thereof) shall be deemed to have been issued in full satisfaction of all rights pertaining to such shares of Company Capital Stock, and there shall be no further registration of transfers on the records of the Surviving Corporation of shares of Company Capital Stock which were outstanding immediately prior to the Effective Time. If, after the Effective Time, Certificates are presented to the Surviving Corporation for any reason, they shall be canceled and exchanged as provided in this Article I.

I.12 Lost, Stolen or Destroyed Certificates. In the event any Certificates evidencing shares of Company Capital Stock shall have been lost, stolen or destroyed, the Exchange Agent shall issue in exchange for such lost, stolen or destroyed Certificates, upon the making of an affidavit of that fact by the holder thereof, such shares of Parent Common Stock and cash for fractional shares, if any, as may be required pursuant to Section 1.6; provided, however, that Parent may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen or destroyed Certificates to deliver a bond in such sum as it may reasonably direct as indemnity against any claim that may be made against Parent or the Exchange Agent with respect to the Certificates alleged to have been lost, stolen or destroyed.

I.13 Tax Consequences. It is intended by the parties hereto that the Merger shall constitute a tax-free reorganization within the meaning of Section 368 of the Internal Revenue Code of 1986, as amended (the "Code").

I.14 Taking of Necessary Action; Further Action. If, at any time after the Effective Time, any such further action is necessary or desirable to carry out the purposes of this Agreement and to vest the Surviving Corporation with full right, title and possession to all assets, property, rights, privileges, powers and franchises of the Company and Merger Sub, the officers and directors of the Company and Merger Sub are fully authorized in the name of their respective corporations or otherwise to take, and will take, all such lawful and necessary action.

I.15 Restrictive Legends and Stop-Transfer Orders

(a) Legends. Parent shall cause the legend set forth below or legends substantially equivalent thereto, to be placed upon any certificate(s) evidencing ownership of the Parent Common Stock issued pursuant to Section 1.6(a) above to the persons listed on Schedule 5.10, together with any other legends that may be required by state or federal securities laws:

> THE SHARES REPRESENTED BY THIS CERTIFICATE WERE ISSUED IN A TRANSACTION TO WHICH RULE 145 APPLIES AND MAY ONLY BE TRANSFERRED IN CONFORMITY WITH RULE 145(D) OR IN ACCORDANCE WITH A WRITTEN OPINION OF COUNSEL, REASONABLY ACCEPTABLE TO THE ISSUER IN FORM AND SUBSTANCE, THAT SUCH TRANSFER IS EXEMPT FROM REGISTRATION UNDER THE SECURITIES ACT OF 1933.

In addition, Parent shall cause the legend set forth below or legends substantially equivalent thereto, to be placed upon any certificate(s) evidencing ownership of the Parent Common Stock issued to those persons listed on Schedule 1.9(a):

> THE SHARES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO CERTAIN RIGHTS OF REPURCHASE HELD BY THE ISSUER OR ITS ASSIGNEE(S), AS SET FORTH IN THE AGREEMENT AND PLAN OF REORGANIZATION (THE "AGREEMENT") BETWEEN THE ISSUER AND NORTHWEST NEUROLOGIC, INC., A COPY OF WHICH MAY BE OBTAINED AT THE PRINCIPAL OFFICE OF THE ISSUER. THE SHARES REPRESENTED BY THIS CERTIFICATE SHALL NOT BE TRANSFERRED, SOLD, PLEDGED, HYPOTHECATED OR OTHERWISE EXCHANGED PRIOR TO THE EXPIRATION OF THE ISSUER'S RIGHT OF REPURCHASE SET FORTH IN SECTION 1.9 OF THE AGREEMENT.

(b) Stop-Transfer Notices. In order to ensure compliance with the restrictions referred to herein, Parent may issue appropriate "stop transfer" instructions to its transfer agent.

(c) Refusal to Transfer. Parent and its transfer agent shall not be required (i) to transfer on its books any shares of Parent Common Stock that have been sold or otherwise transferred in violation of any of the provisions of this Agreement or (ii) to treat as owner of such shares of Parent Common Stock or to accord the right to vote or pay dividends to any purchaser or other transferee to whom such shares shall have been so transferred.

ARTICLE II

REPRESENTATIONS AND WARRANTIES OF THE COMPANY

The Company hereby represents and warrants to Parent and Merger Sub, subject to such exceptions as are specifically disclosed in the disclosure letter (referencing the appropriate section number) supplied by the Company to Parent prior to execution of this Agreement (the "Company Schedules") and dated as of the date hereof, as follows:

II.1 Organization of the Company. The Company is a corporation duly organized and validly existing under the laws of the State of Oregon. The Company has the corporate power to own its properties and to carry on its business as now being conducted. The Company is duly qualified to do business and in good standing as a foreign corporation in each jurisdiction in which the failure to be so qualified would have a material adverse effect on the business, assets (including intangible assets), financial condition or results of operations of the Company (hereinafter referred to as a "Material Adverse Effect"). The Company has delivered a true and correct copy of its Articles of Incorporation and Bylaws, each as amended to date, to Parent.

II.2 Company Capital Structure

(a) As of the Closing Date, the authorized capital stock of the Company shall consist of 10,000,000 shares of authorized Common Stock, of which 591,250 shares are issued and outstanding, 10,000,000 shares of authorized Preferred Stock, of which no shares are issued and outstanding, and no other shares of Capital Stock. As of the Closing Date, the Company Capital Stock shall be held of record by the persons, with the addresses of record and in the amounts set forth on Schedule 2.2(a). All outstanding shares of Company Capital Stock are duly authorized, validly issued, fully paid and non assessable and not subject to preemptive rights created by statute, the Articles of Incorporation or Bylaws of the Company or any agreement to which the Company is a party or by which it is bound.

(b) The Company has reserved 158,750 shares of Common Stock for issuance to employees and consultants pursuant to the Option Plan, of which, as of the date hereof and the Closing Date, 158,750 shares are subject to outstanding, unexercised options and no shares remain available for future grant. The Company has reserved 158,750 shares of Common Stock for issuance upon exercise of outstanding Company Options granted outside the Option Plan. Schedule 2.2(b) sets forth for each outstanding Company Option the name of the holder of such option, the domicile address of such holder, the number of shares of Common Stock subject to such option, the exercise price of such option and the vesting schedule for such option, including the extent vested to date and whether the exercisability of such option will be accelerated and become exercisable by reason of the transactions contemplated by this Agreement. Except as described in Schedule 2.2(b), all Company Options have been issued and granted in all material respects in compliance with all applicable securities laws and all other applicable legal requirements. Except as described in Schedules 2.2(a) and 2.2(b), there are no outstanding shares of Company Capital Stock or options, warrants, calls, rights, commitments or agreements of any character, written or oral, to which the Company is a party or by which it is bound obligating the Company to issue, deliver, sell, repurchase or redeem, or cause to be issued, delivered, sold, repurchased or redeemed, any shares of the capital stock of the Company or obligating the Company to grant, extend, accelerate the vesting of, change the price of, otherwise amend or enter into any such option, warrant, call, right, commitment or agreement. The holders of Company Options have been or will be given, or shall have properly waived, any required notice prior to the Merger. As a result of the Merger, Parent will be the record and sole beneficial owner of all capital stock of the Surviving Corporation and rights to acquire or receive such capital stock.

II.3 Subsidiaries. The Company does not have and has never had any subsidiaries or affiliated companies and does not otherwise own and has never otherwise owned any shares of capital stock or any interest in, or control, directly or indirectly, any other corporation, partnership, association, joint venture or other business entity.

II.4 Authority. Subject only to the requisite approval of the Merger and this Agreement by the Company's stockholders, the Company has all requisite corporate power and authority to enter into this Agreement and to consummate the transactions contemplated hereby. The vote required of the Company's stockholders to duly approve the Merger and this Agreement is a majority of all shares of Company Capital Stock entitled to vote thereon. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been duly authorized by all necessary corporate action on the part of the Company, subject only to the approval of the Merger by the Company's stockholders. The Company's Board of Directors has unanimously approved the Merger and this Agreement. This Agreement has been duly executed and delivered by the Company and constitutes the valid and binding obligation of the Company, enforceable in accordance with its terms. Except as set forth on Schedule 2.4, subject only to the approval of the Merger and this Agreement by the Company's stockholders, the execution and delivery of this Agreement by the Company does not, and, as of the Effective Time, the consummation of the transactions contemplated hereby will not, conflict with, or result in any violation of, or default under (with or without notice or lapse of time, or both), or give rise to a right of termination, cancellation or acceleration of any obligation or loss of any benefit under (any such event, a "Conflict") (i) any provision of the Articles of Incorporation or Bylaws of the Company or (ii) any mortgage, indenture, lease, contract or other agreement or instrument, permit, concession, franchise, license, judgment, order, decree, statute, law, ordinance, rule or regulation applicable to the Company or its properties or assets. No consent, waiver, approval, order or authorization of, or registration, declaration or filing with, any court, administrative agency or commission or other federal, state, county, local or foreign governmental authority, instrumentality, agency or commission ("Governmental Entity") or any third party (so as not to trigger any Conflict) is required by or with respect to the Company in connection with the execution and delivery of this Agreement or the consummation of the transactions contemplated hereby, except for (i) the filing of the Agreement of Merger with the Delaware and Oregon Secretaries of State, (ii) such consents, waivers, approvals, orders, authorizations, registrations, declarations and filings as may be required under applicable federal and state securities laws and (iii) such other consents, waivers, authorizations, filings, approvals and registrations which are set forth on Schedule 2.4.

II.5 Company Financial Statements

(a) Schedule 2.5 sets forth the Company's unaudited balance sheets as of December 31, 1997 (the "Balance Sheet") and the related unaudited statement of operations for the 12-month period then ended (collectively, the "Company Financials"). Except as disclosed in Schedule 2.5, the Company Financials are correct in all material respects and have been prepared in accordance with generally accepted accounting principles ("GAAP") applied on a basis consistent throughout the periods indicated and consistent with each other, except that the Company Financials do not include footnotes. As adjusted by the disclosures in Schedule 2.5, the Company Financials present fairly the financial condition and operating results of the Company as of the dates and during the periods indicated therein.

II.6 No Undisclosed Liabilities. Except as set forth in Schedule 2.6, the Company does not have any liability, indebtedness, obligation, expense, claim, deficiency, guaranty or endorsement of any type, whether accrued, absolute, contingent, matured, unmatured or other (whether or not required to be reflected in financial statements in accordance with GAAP), which individually or in the aggregate, (i) has not been reflected in the Balance Sheet, or (ii) has not arisen in the ordinary course of the Company's business since the date of the Balance Sheet, consistent with past practices, and is not material.

II.7 No Changes. Except as set forth in Schedule 2.7, since the date of the Balance Sheet, there has not been, occurred or arisen any:

(a) transaction by the Company except in the ordinary course of business as conducted on the date of the Balance Sheet and consistent with past practices;

(b) amendments or changes to the Articles of Incorporation or Bylaws of the Company;

(c) capital expenditure or commitment by the Company, either individually or in the aggregate, exceeding $10,000;

(d) destruction of, damage to or loss of any material assets, business or customer of the Company (whether or not covered by insurance);

(e) labor trouble or claim of wrongful discharge or other unlawful labor practice or action;

(f) change in accounting methods or practices (including any change in depreciation or amortization policies or rates) by the Company;

(g) revaluation by the Company of any of its assets;

(h) declaration, setting aside or payment of a dividend or other distribution with respect to the capital stock of the Company, or any direct or indirect redemption, purchase or other acquisition by the Company of any of its capital stock;

(i) increase in the salary or other compensation payable or to become payable to any of its officers, directors, employees, consultants or advisors, or the declaration, payment or commitment or obligation of any kind for the payment of a bonus or other additional salary or compensation to any such person except as otherwise contemplated by this Agreement;

(j) sale, lease, license or other disposition of any of the assets or properties of the Company, except in the ordinary course of business as conducted on that date and consistent with past practices;

(k) amendment or termination of any material contract, agreement or license to which the Company is a party or by which it is bound;

(l) loan by the Company to any person or entity, incurring by the Company of any indebtedness, guaranteeing by the Company of any indebtedness, issuance or sale of any debt securities of the Company or guaranteeing of any debt securities of others, except for advances to employees for travel and business expenses in the ordinary course of business, consistent with past practices;

(m) waiver or release of any right or claim of the Company, including any write-off or other compromise of any account receivable of the Company;

(n) commencement or notice or threat of commencement of any lawsuit or proceeding against or investigation of the Company or its affairs;

(o) notice of any claim of ownership by a third party of the Company's Intellectual Property (as defined in Section 2.11 below) or of infringement by the Company of any third party's Intellectual Property rights;

(p) issuance or sale by the Company of any of its shares of capital stock, or securities exchangeable, convertible or exercisable therefor, or of any other of its securities;

(q) change in pricing, royalties or reimbursement rates set or charged by the Company to its customers or licensees or in pricing, royalties or reimbursement rates set or charged by persons who have licensed Intellectual Property to the Company;

(r) event or condition of any character that has or could be reasonably expected to have a Material Adverse Effect on the Company; or

(s) negotiation or agreement by the Company or any officer or employees thereof to do any of the things described in the preceding clauses (a) through (r) (other than negotiations with Parent and its representatives regarding the transactions contemplated by this Agreement).

II.8 Tax and Other Returns and Reports

(a) Definition of Taxes. For the purposes of this Agreement, "Tax" or, collectively, "Taxes", means any and all federal, state, local and foreign taxes, assessments and other governmental charges, duties, impositions and liabilities, including taxes based upon or measured by gross receipts, income, profits, sales, use and occupation, and value added, ad valorem, transfer, franchise, withholding, payroll, recapture, employment, excise and property taxes, together with all interest, penalties and additions imposed with respect to such amounts and any obligations under any agreements or arrangements with any other person with respect to such amounts and including any liability for taxes of a predecessor entity.

(b) Tax Returns and Audits. Except as set forth in Schedule 2.8:

(i) The Company as of the Effective Time will have prepared and filed all required federal, state, local and foreign returns, estimates, information statements and reports ("Returns") relating to any and all Taxes concerning or attributable to the Company or its operations and such Returns are true and correct and have been completed in accordance with applicable law.

(ii) The Company as of the Effective Time: (A) will have paid or accrued all Taxes it is required to pay or accrue and (B) will have withheld with respect to its employees all federal and state income taxes, FICA, FUTA and other Taxes required to be withheld.

(iii) The Company has not been delinquent in the payment of any Tax nor is there any Tax deficiency outstanding, proposed or assessed against the Company, nor has the Company executed any waiver of any statute of limitations on or extending the period for the assessment or collection of any Tax.

(iv) No audit or other examination of any Return of the Company is currently in progress, nor has the Company been notified of any request for such an audit or other examination.

(v) The Company does not have any liabilities for unpaid federal, state, local and foreign Taxes which have not been accrued or reserved against in accordance with GAAP on the Balance Sheet, whether asserted or unasserted, contingent or otherwise, and the Company has no knowledge of any basis for the assertion of any such liability attributable to the Company, its assets or operations.

(vi) The Company has provided to Parent copies of all federal and state income and all state sales and use Tax Returns for all periods since the date of Company's incorporation.

(vii) There are (and as of immediately following the Effective Time there will be) no liens, pledges, charges, claims, security interests or other encumbrances of any sort ("Liens") on the assets of the Company relating to or attributable to Taxes.

(viii) The Company has no knowledge of any basis for the assertion of any claim relating or attributable to Taxes which, if adversely determined, would result in any Lien on the assets of the Company.

(ix) None of the Company's assets are treated as "tax-exempt use property" within the meaning of Section 168(h) of the Code.

(x) As of the Effective Time, there will not be any contract, agreement, plan or arrangement, including but not limited to the provisions of this Agreement, covering any employee or former employee of the Company that, individually or collectively, could give rise to the payment of any amount that would not be deductible pursuant to Section 280G or 162 of the Code.

(xi) The Company has not filed any consent agreement under Section 341(f) of the Code or agreed to have Section 341(f)(2) of the Code apply to any disposition of a subsection (f) asset (as defined in Section 341(f)(4) of the Code) owned by the Company.

(xii) The Company is not a party to a tax sharing or allocation agreement nor does the Company owe any amount under any such agreement.

(xiii) The Company is not, and has not been at any time, a "United States real property holding corporation" within the meaning of Section 897(c)(2) of the Code.

(xiv) The Company's tax basis in its assets for purposes of determining its future amortization, depreciation and other federal income tax deductions is accurately reflected on the Company's tax books and records.

II.9 Restrictions on Business ActivitiesII.9 Restrictions on Business ActivitiesII.9 Restrictions on Business Activities. There is no agreement (noncompete or otherwise), commitment, judgment, injunction, order or decree to which the Company is a party or otherwise binding upon the Company which has or reasonably could be expected to have the effect of prohibiting or impairing any business practice of the Company, any acquisition of property (tangible or intangible) by the Company or the conduct of business by the Company. Without limiting the foregoing, the Company has not entered into any agreement under which the Company is restricted from selling, licensing or otherwise distributing any of its products to any class of customers, in any geographic area, during any period of time or in any segment of the market.

II.10 Title to Properties; Absence of Liens and EncumbrancesII.10 Title to Properties; Absence of Liens and EncumbrancesII.10 Title to Properties; Absence of Liens and Encumbrances.

(a) The Company owns no real property, nor has it ever owned any real property. Schedule 2.10(a) sets forth a list of all real property currently, or at any time in the past, leased by the Company, the name of the lessor, the date of the lease and each amendment thereto and, with respect to any current lease, the aggregate annual rental and/or other fees payable under any such lease. All such current leases are in full force and effect, are valid and effective in accordance with their respective terms, and there is not, under any of such leases, any existing default or event of default (or event which with notice or lapse of time, or both, would constitute a default).

(b) The Company has good and valid title to, or, in the case of leased properties and assets, valid leasehold interests in, all of its tangible properties and assets, real, personal and mixed, used or held for use in its business, free and clear of any Liens (as defined in Section 2.8(b)(vii)), except as reflected in the Company Financials or in Schedule 2.10(b) and except for liens for taxes not yet due and payable and such imperfections of title and encumbrances, if any, which are not material in character, amount or extent, and which do not materially detract from the value, or materially interfere with the present use, of the property subject thereto or affected thereby.

II.11 Intellectual Property

(a) The Company owns, or is licensed or otherwise possesses legally enforceable rights to use, all patents, trademarks, trade names, service marks, copyrights, and any applications therefor, maskworks, net lists, schematics, technology, know-how, computer software programs or applications (in both source code and object code form), and tangible or intangible proprietary information or material that are used in the business of the Company as currently conducted or as proposed to be conducted by the Company (the "Company Intellectual Property Rights").

(b) Schedule 2.11(a) sets forth a complete list of all patents, registered and material unregistered trademarks, registered copyrights, trade names and service marks, and any applications therefor, included in the Company Intellectual Property Rights, and specifies, where applicable, the jurisdictions in which each such Company Intellectual Property Right has been issued or registered or in which an application for such issuance and registration has been filed, including the respective registration or application numbers and the names of all registered owners. Schedule 2.11(b) sets forth a complete list of all licenses, sublicenses and other agreements as to which the Company is a party and pursuant to which the Company or any other person is authorized to use any Company Intellectual Property Right or trade secret of the Company, and includes the identity of all parties thereto, a description of the nature and subject matter thereof, the applicable royalty or other fees and the term thereof. The execution and delivery of this Agreement by the Company, and the consummation of the transactions contemplated hereby, will neither cause the Company to be in violation or default under any such license, sublicense or agreement, nor entitle any other party to any such license, sublicense or agreement to terminate or modify such license, sublicense or agreement. Except as set forth in Schedules 2.11(a) or 2.11(b), the Company is the sole and exclusive owner or licensee of, with all right, title and interest in and to (free and clear of any liens or encumbrances), the Company Intellectual Property Rights, and has sole and exclusive rights (and is not contractually obligated to pay any compensation to any third party in respect thereof) to the use thereof or the material covered thereby in connection with the services or products in respect of which the Company Intellectual Property Rights are being used.

(c) No claims with respect to the Company Intellectual Property Rights have been asserted or are, to the Company's knowledge, threatened by any person, nor are there any valid grounds for any such claims, (i) to the effect that the manufacture, sale, licensing or use of any of the products of the Company infringes on any copyright, patent, trade mark, service mark, trade secret or other proprietary right, (ii) against the use by the Company of any trademarks, service marks, trade names, trade secrets, copyrights, maskworks, patents, technology, know-how or computer software programs and applications used in the Company's business as currently conducted or as proposed to be conducted by the Company, or (iii) challenging the ownership by the Company, validity or effectiveness of any of the Company Intellectual Property Rights. All registered trademarks, service marks and copyrights held by the Company are valid and subsisting. The Company has not infringed, and the business of the Company as currently conducted or as proposed to be conducted does not infringe, any copyright, patent, trademark, service mark, trade secret or other proprietary right of any third party. There is no material unauthorized use, infringement or misappropriation of any of the Company Intellectual Property Rights by any third party, including any employee or former employee of the Company. No Company Intellectual Property Right or product of the Company or any of its subsidiaries is subject to any outstanding decree, order, judgment, or stipulation restricting in any manner the licensing thereof by the Company. The Company has taken all reasonable measures and precautions to protect and maintain the confidentiality, secrecy and value of the Company Intellectual Property Rights. Except as set forth on Schedule 2.11(c), each current and former employee, consultant or contractor of the Company has executed a proprietary information and confidentiality agreement substantially in the Company's standard forms and in any event restricting the use and disclosure of the Company Intellectual Property and providing for the assignment to the Company of Company Intellectual Property developed by such employees, consultants and contractors. All software included in the Company Intellectual Property Rights is original with the Company and has been either created by employees of the Company on a work-for-hire basis or by consultants or contractors who have created such software themselves and have assigned all rights they may have had in such software to the Company.

II.12 Agreements, Contracts and CommitmentsII.12 Agreements, Contracts and CommitmentsII.12 Agreements, Contracts and Commitments. Except as set forth on Schedule 2.12(a), the Company does not have, is not a party to nor is it bound by:

(i) any collective bargaining agreements,

(ii) any agreements or arrangements that contain any severance pay or post-employment liabilities or obligations,

(iii) any bonus, deferred compensation, pension, profit sharing or retirement plans, or any other employee benefit plans or arrangements,

(iv) any employment or consulting agreement, contract or commitment with an employee or individual consultant or salesperson or any consulting or sales agreement, contract or commitment under which any firm or other organization provides services to the Company,

(v) any agreement or plan, including, without limitation, any stock option plan, stock appreciation rights plan or stock purchase plan, any of the benefits of which will be increased, or the vesting of benefits of which will be accelerated, by the occurrence of any of the transactions contemplated by this Agreement or the value of any of the benefits of which will be calculated on the basis of any of the transactions contemplated by this Agreement,

(vi) any fidelity or surety bond or completion bond,

(vii) any lease of personal property having a value individually in excess of $10,000,

(viii) any agreement of indemnification or guaranty,

(ix) any agreement, contract or commitment containing any covenant limiting the freedom of the Company to engage in any line of business or to compete with any person,

(x) any agreement, contract or commitment relating to capital expenditures and involving future payments in excess of $10,000,

(xi) any agreement, contract or commitment relating to the disposition or acquisition of assets or any interest in any business enterprise outside the ordinary course of the Company's business,

(xii) any mortgages, indentures, loans or credit agreements, security agreements or other agreements or instruments relating to the borrowing of money or extension of credit, including guaranties referred to in clause (viii) hereof,

(xiii) any purchase order or contract for the purchase of raw materials involving $10,000 or more,

(xiv) any construction contracts,

(xv) any distribution, joint marketing or development agreement,

(xvi) any contract requiring that the Company give any notice, obtain any consent, or provide any information to any person prior to consummating the Merger,

(xvii) any contract involving a governmental body, to which any governmental body is a party, under which any governmental body has any rights or obligations, or indirectly or directly benefitting any governmental body,

(xviii) any agreement pursuant to which the Company has granted or may grant in the future, to any party, a license or option or other right to use or acquire any technology or Company Intellectual Property Right, or

(xix) any other agreement, contract or commitment that involves $10,000 or more or is not cancelable without penalty within thirty (30) days, or that could reasonably be expected to have a material adverse effect on the business condition, assets, liabilities or financial performance of the Company or any of the transactions contemplated by this Agreement.

Except for such alleged breaches, violations and defaults, and events that would constitute a breach, violation or default with the lapse of time, giving of notice, or both, as are all noted in Schedule 2.12(b), the Company has not breached, violated or defaulted under, or received notice that it has breached, violated or defaulted under, any of the terms or conditions of any agreement, contract or commitment required to be set forth on Schedule 2.12(a) or Schedule 2.11(b) (any such agreement, contract or commitment, a "Contract"). Each Contract is in full force and effect and is enforceable in accordance with its terms and, except as otherwise disclosed in Schedule 2.12(b), is not subject to any default thereunder of which the Company has knowledge by any party obligated to the Company pursuant thereto. The Contracts collectively constitute all of the contracts necessary to enable the Company to conduct its business in the manner in which it is currently being conducted and in the manner in which it is proposed to be conducted.

II.13 Interested Party Transactions. Except as set forth on Schedule 2.13, no officer, director or stockholder of the Company (nor any ancestor, sibling, descendant or spouse of any of such persons, or any trust, partnership or corporation in which any of such persons has or has had an interest), has or has had, directly or indirectly, (i) an economic interest in any entity which furnished or sold, or furnishes or sells, services or products that the Company furnishes or sells, or proposes to furnish or sell, (ii) an economic interest in any entity that purchases from or sells or furnishes to, the Company, any goods or services or (iii) a beneficial interest in any contract or agreement set forth in Schedule 2.12(a) or Schedule 2.11(b); provided, that ownership of no more than one percent (1%) of the outstanding voting stock of a publicly traded corporation shall not be deemed an "economic interest in any entity" for purposes of this Section 2.13.

II.14 Compliance with Laws. The Company has complied in all material respects with, is not in violation of, and has not received any notices of violation with respect to, any foreign, federal, state or local statute, law or regulation.

II.15 Litigation. Except as set forth in Schedule 2.15, there is no action, suit or proceeding of any nature pending or to the Company's knowledge threatened against the Company, its properties or any of its officers or directors, in their respective capacities as such. Except as set forth in Schedule 2.15, to the Company's knowledge, there is no investigation pending or threatened against the Company, its properties or any of its officers or directors by or before any governmental entity. Schedule 2.15 sets forth, with respect to any pending or threatened action, suit, proceeding or investigation, the forum, the parties thereto, the subject matter thereof and the amount of damages claimed or other remedy requested. No governmental entity has at any time challenged or questioned the legal right of the Company to manufacture, offer or sell any of its products in the present manner or style thereof.

II.16 Insurance. With respect to the insurance policies and fidelity bonds covering the assets, business, equipment, properties, operations, employees, officers and directors of the Company, there is no claim by the Company pending under any of such policies or bonds as to which coverage has been questioned, denied or disputed by the underwriters of such policies or bonds. All premiums due and payable under all such policies and bonds have been paid and the Company is otherwise in material compliance with the terms of such policies and bonds (or other policies and bonds providing substantially similar insurance coverage). The Company has no knowledge of any threatened termination of, or material premium increase with respect to, any of such policies.

II.17 Minute Books. The minute books of the Company made available to counsel for Parent are the only minute books of the Company and contain a reasonably accurate summary of all meetings of directors (or committees thereof) and stockholders or actions by written consent since the time of incorporation of the Company.

II.18 Environmental Matters

(a) "Environmental Claim" means any notice, claim, act, cause of action or investigation by any person alleging potential liability (including potential liability for investigatory costs, cleanup costs, governmental response costs, natural resources damages, property damages, personal injuries or penalties) arising out of, based on or resulting from (i) the presence, or release into the environment, of any Hazardous Materials (as hereinafter defined) or (ii) any violation, or alleged violation, of any Environmental Laws. "Environmental Laws" means all federal, state, local and foreign laws and regulations relating to pollution or the environment (including ambient air, surface water, ground water, land surface or subsurface strata) or the protection of human health, including laws and regulations relating to emissions, discharges, releases or threatened releases of Hazardous Materials, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of Hazardous Materials. "Hazardous Materials" means chemicals, pollutants, contaminants, wastes, toxic substances, radioactive and biological materials, asbestos-containing materials (ACM), hazardous substances, petroleum and petroleum products or any fraction thereof.

(b) The Company has been and is in compliance (which compliance includes, but is not limited to, the possession of all permits and other governmental authorizations required under applicable Environmental Laws and compliance with the terms and conditions thereof) in all material respects with all Environmental Laws and the Company has not received any notice of any alleged claim, violation of or liability under any Environmental Laws which has not heretofore been cured or for which there is any remaining liability;

(c) The Company has not received notice of any Environmental Claim filed or threatened against it, or against any person or entity whose liability for any Environmental Claim the Company has retained or assumed either contractually or by operation of law and there are no past or present actions, activities, circumstances, conditions, events or incidents, that could reasonably be expected to form the basis of any Environmental Claim against the Company, the business thereof, or against any person or entity whose liability for any Environmental Claim the Company has retained or assumed either contractually or by operation of law;

(d) The Company has not disposed of, emitted, discharged, handled, stored, transported, used or released any Hazardous Materials, arranged for the disposal, discharge, storage or release of any Hazardous Materials, or exposed any employee or other individual to any Hazardous Materials or condition so as to give rise to any liability or corrective or remedial obligation under any Environmental Laws; and

(e) To the actual knowledge of the Company, no Hazardous Materials are present in or on any premises leased or used at any time by the Company or for its business, and no reasonable likelihood exists that any Hazardous Materials will come to be present in or on any such premises leased or used at any time by the Company for its business, so as to give rise to any material liability or corrective or remedial obligation under any Environmental Laws.

II.19 Brokers' and Finders' Fees; Third Party ExpensesII.19 Brokers' and Finders' Fees; Third Party ExpensesII.19 Brokers' and Finders' Fees; Third Party Expenses. Except as set forth on Schedule 2.19, the Company has not incurred, nor will it incur, directly or indirectly, any liability for brokerage or finders' fees or agents' commissions or any similar charges in connection with this Agreement or any transaction contemplated hereby. Schedule 2.19 sets forth the principal terms and conditions of any agreement, written or oral, with respect to such fees. Schedule 2.19 also sets forth the Company's current reasonable estimate of all Third Party Expenses (as defined in Section 5.4) expected to be incurred by the Company in connection with the negotiation and effectuation of the terms and conditions of this Agreement and the transactions contemplated hereby.

II.20 Employee Matters and Benefit Plans

(a) Definitions. With the exception of the definition of "Affiliate" set forth in Section 2.20(a)(i) below (which definition shall apply only to this Section 2.20), for purposes of this Agreement, the following terms shall have the meanings set forth below:

(i) "Affiliate" shall mean any other person or entity under common control with the Company within the meaning of Section 414(b), (c), (m) or (o) of the Code and the regulations thereunder;

(ii) "ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended;

(iii) "Company Employee Plan" shall refer to any plan, program, policy, practice, contract, agreement or other arrangement providing for compensation, severance, termination pay, performance awards, stock or stock-related awards, fringe benefits or other employee benefits or remuneration of any kind, whether formal or informal, funded or unfunded and whether or not legally binding, including without limitation, each "employee benefit plan", within the meaning of Section 3(3) of ERISA which is or has been maintained, contributed to, or required to be contributed to, by the Company or any Affiliate for the benefit of any "Employee" (as defined below), and pursuant to which the Company or any Affiliate has or may have any material liability contingent or otherwise;

(iv) "Employee" shall mean any current, former, or retired employee, officer, or director of the Company or any Affiliate;

(v) "Employee Agreement" shall refer to each management, employment, severance, consulting, relocation, repatriation, expatriation, visas, work permit or similar agreement or contract between the Company or any Affiliate and any Employee or consultant;

(vi) "IRS" shall mean the Internal Revenue Service;

(vii) "Multiemployer Plan" shall mean any "Pension Plan" (as defined below) which is a "multiemployer plan", as defined in Section 3(37) of ERISA; and

(viii) "Pension Plan" shall refer to each Company Employee Plan which is an "employee pension benefit plan", within the meaning of Section 3(2) of ERISA.

(b) Schedule. Schedule 2.20(b) contains an accurate and complete list of each Company Employee Plan and each Employee Agreement, together with a schedule of all liabilities, whether or not accrued, under each such Company Employee Plan or Employee Agreement. The Company does not have any plan or commitment, whether legally binding or not, to establish any new Company Employee Plan or Employee Agreement, to modify any Company Employee Plan or Employee Agreement (except to the extent required by law or to conform any such Company Employee Plan or Employee Agreement to the requirements of any applicable law, in each case as previously disclosed to Parent in writing, or as required by this Agreement), or to enter into any Company Employee Plan or Employee Agreement, nor does it have any intention or commitment to do any of the foregoing.

(c) Documents. The Company has provided to Parent (i) correct and complete copies of all documents embodying or relating to each Company Employee Plan and each Employee Agreement including all amendments thereto and written interpretations thereof; (ii) the most recent annual actuarial valuations, if any, prepared for each Company Employee Plan; (iii) the three most recent annual reports (Series 5500 and all schedules thereto), if any, required under ERISA or the Code in connection with each Company Employee Plan or related trust; (iv) if the Company Employee Plan is funded, the most recent annual and periodic accounting of Company Employee Plan assets; (v) the most recent summary plan description together with the most recent summary of material modifications, if any, required under ERISA with respect to each Company Employee Plan; (vi) all IRS determination letters and rulings relating to Company Employee Plans and copies of all applications and correspondence to or from the IRS or the Department of Labor ("DOL") with respect to any Company Employee Plan; (vii) all communications material to any Employee or Employees relating to any Company Employee Plan and any proposed Company Employee Plans, in each case, relating to any amendments, terminations, establishments, increases or decreases in benefits, acceleration of payments or vesting schedules or other events which would result in any material liability to the Company; and (viii) all registration statements and prospectuses prepared in connection with each Company Employee Plan.

(d) Employee Plan Compliance. Except as set forth on Schedule 2.20(d), (i) the Company has performed in all material respects all obligations required to be performed by it under each Company Employee Plan, and each Company Employee Plan has been established and maintained in all material respects in accordance with its terms and in compliance with all applicable laws, statutes, orders, rules and regulations, including but not limited to ERISA or the Code; (ii) no "prohibited transaction", within the meaning of Section 4975 of the Code or Section 406 of ERISA, has occurred with respect to any Company Employee Plan; (iii) there are no actions, suits or claims pending, or, to the knowledge of the Company, threatened or anticipated (other than routine claims for benefits) against any Company Employee Plan or against the assets of any Company Employee Plan; and (iv) each Company Employee Plan can be amended, terminated or otherwise discontinued after the Effective Time in accordance with its terms, without liability to the Company, Parent or any of its Affiliates (other than ordinary administration expenses typically incurred in a termination event); (v) there are no inquiries or proceedings pending or, to the knowledge of the Company or any affiliates, threatened by the IRS or DOL with respect to any Company Employee Plan; and (vi) neither the Company nor any Affiliate is subject to any penalty or tax with respect to any Company Employee Plan under Section 402(i) of ERISA or Section 4975 through 4980 of the Code.

(e) Pension Plans. The Company does not now, nor has it ever, maintained, established, sponsored, participated in, or contributed to, any Pension Plan which is subject to Part 3 of Subtitle B of Title I of ERISA, Title IV of ERISA or Section 412 of the Code.

(f) Multiemployer Plans. At no time has the Company contributed to or been requested to contribute to any Multiemployer Plan.

(g) No Post-Employment Obligations. Except as set forth in Schedule 2.20(g), no Company Employee Plan provides, or has any liability to provide, life insurance, medical or other employee benefits to any Employee upon his or her retirement or termination of employment for any reason, except as may be required by statute, and the Company has never represented, promised or contracted (whether in oral or written form) to any Employee (either individually or to Employees as a group) that such Employee(s) would be provided with life insurance, medical or other employee welfare benefits upon their retirement or termination of employment, except to the extent required by statute.

(h) Effect of Transaction.

(i) Except as set forth on Schedule 2.20(h)(i), the execution of this Agreement and the consummation of the transactions contemplated hereby will not (either alone or upon the occurrence of any additional or subsequent events) constitute an event under any Company Employee Plan, Employee Agreement, trust or loan that will or may result in any payment (whether of severance pay or otherwise), acceleration, forgiveness of indebtedness, vesting, distribution, increase in benefits or obligation to fund benefits with respect to any Employee.

(ii) Except as set forth on Schedule 2.20(h)(ii), no payment or benefit which will or may be made by the Company or Parent or any of their respective affiliates with respect to any Employee will be characterized as an "excess parachute payment", within the meaning of Section 280G(b)(1) of the Code.

(i) Employment Matters. The Company (i) is in compliance in all material respects with all applicable foreign, federal, state and local laws, rules and regulations respecting employment, employment practices, terms and conditions of employment and wages and hours, in each case, with respect to Employees; (ii) has withheld all amounts required by law or by agreement to be withheld from the wages, salaries and other payments to Employees; (iii) is not liable for any arrears of wages or any taxes or any penalty for failure to comply with any of the foregoing; and (iv) is not liable for any payment to any trust or other fund or to any governmental or administrative authority, with respect to unemployment compensation benefits, social security or other benefits or obligations for Employees (other than routine payments to be made in the normal course of business and consistent with past practice).

(j) Labor. No work stoppage or labor strike against the Company is pending or, to the best knowledge of the Company, threatened. Except as set forth in Schedule 2.20(j), the Company is not involved in or, to the knowledge of the Company, threatened with, any labor dispute, grievance, or litigation relating to labor, safety or discrimination matters involving any Employee, including, without limitation, charges of unfair labor practices or discrimination complaints, which, if adversely determined, would, individually or in the aggregate, result in liability to the Company. Neither the Company nor any of its subsidiaries has engaged in any unfair labor practices within the meaning of the National Labor Relations Act which would, individually or in the aggregate, directly or indirectly result in a liability to the Company. Except as set forth in Schedule 2.20(j), the Company is not presently, nor has it been in the past, a party to, or bound by, any collective bargaining agreement or union contract with respect to Employees and no collective bargaining agreement is being negotiated by the Company.

II.21 Tax Treatment. To the Company's knowledge, neither the Company nor any of its directors, officers or stockholders has taken any action which the Company is aware would interfere with the tax-free status of the Merger as a reorganization under Section 368 of the Code.

II.22 No Existing Discussions. Neither the Company nor any of its representatives, agents, or employees are engaged, directly or indirectly, in any discussions or negotiations with any other person relating to any action or activity proscribed by Section 4.2 hereof.

II.23 Vote Required. The affirmative vote of the holders of a majority of the shares of Company Common Stock outstanding is the only vote of the holders of any class or series of the Company's Capital Stock necessary to approve this Agreement, the Merger and the other transactions contemplated by this Agreement.

II.24 Representations CompleteII.24 Representations CompleteII.24 Representations Complete. None of the representations or warranties made by the Company (as modified by the Company Schedules), nor any statement made in any schedule or certificate furnished by the Company pursuant to this Agreement, or furnished in or in connection with documents mailed or delivered to the stockholders of the Company in connection with soliciting their consent to this Agreement and the Merger, contains or will contain at the Effective Time, any untrue statement of a material fact, or omits or will omit at the Effective Time to state any material fact necessary in order to make the statements contained herein or therein, in the light of the circumstances under which made, not misleading.

ARTICLE III

REPRESENTATIONS AND WARRANTIES OF PARENT AND MERGER SUB

Parent and Merger Sub represent and warrant to the Company as follows:

III.1 Organization, Standing and Power Organization, Standing and Power. Parent is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware. Merger Sub is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware. Each of Parent and Merger Sub has the corporate power to own its properties and to carry on its business as now being conducted and is duly qualified to do business and is in good standing in each jurisdiction in which the failure to be so qualified would have a material adverse effect on Parent and Merger Sub as a whole.

III.2 Authority. Parent and Merger Sub have all requisite corporate power and authority to enter into this Agreement and to consummate the transactions contemplated hereby. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been duly authorized by all necessary corporate action on the part of Parent and Merger Sub. This Agreement has been duly executed and delivered by Parent and Merger Sub and constitutes the valid and binding obligations of Parent and Merger Sub, enforceable in accordance with its terms.

III.3 Capital Structure

(a The authorized stock of Parent consists of 50,000,000 shares of Common Stock, of which approximately 17,707,815 shares were issued and outstanding as of February 28, 1998, and 5,000,000 shares of Preferred Stock, none of which is issued or outstanding. The authorized capital stock of Merger Sub consists of 1,000 shares of Common Stock, 1,000 shares of which, as of the date hereof, are issued and outstanding and are held by Parent. All such shares have been duly authorized, and all such issued and outstanding shares have been validly issued, are fully paid and nonassessable and are free of any liens or encumbrances other than any liens or encumbrances created by or imposed upon the holders thereof. The outstanding stock of Merger Sub is free of liens and encumbrances.

(b The shares of Parent Common Stock to be issued pursuant to the Merger, when issued, will be duly authorized, validly issued, fully paid, nonassessable and issued in compliance with applicable federal, Oregon and Delaware securities laws.

III.4 SEC Documents; Parent Financial Statements. Parent has furnished or made available to the Company true and complete copies of all reports or registration statements filed by it with the Securities and Exchange Commission (the "SEC") since December 31, 1996, all in the form so filed (all of the foregoing being collectively referred to as the "SEC Documents"). As of their respective filing dates, the SEC Documents complied in all material respects with the requirements of the Securities Act of 1933 (the "Securities Act") or the Securities Exchange Act of 1934 (the "Exchange Act") as the case may be, and none of the SEC Documents contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements made therein, in light of the circumstances in which they were made, not misleading, except to the extent corrected by a document subsequently filed with the SEC. The financial statements of Parent, including the notes thereto, included in the SEC Documents (the "Parent Financial Statements") comply as to form in all material respects with applicable accounting requirements and with the published rules and regulations of the SEC with respect thereto, have been prepared in accordance with GAAP consistently applied (except as may be indicated in the notes thereto or, in the case of unaudited statements, as permitted by Form 10-Q of the SEC) and present fairly the consolidated financial position of Parent at the dates thereof and the consolidated results of its operations and cash flows for the periods then ended (subject, in the case of unaudited statements, to normal audit adjustments). There has been no change in Parent accounting policies except as described in the notes to the Parent Financial Statements; provided, however, the Parent may have restated or may restate one or more of the Parent Financial Statements to reflect acquisitions entered into subsequent to the respective dates thereof.

III.5 Litigation There is no action, suit, proceeding, claim, arbitration or investigation pending, or as to which Parent has received any notice of assertion against Parent, which in any manner challenges or seeks to prevent, enjoin, alter or materially delay any of the transactions contemplated by this Agreement. Parent is not subject to any material litigation except as disclosed in the SEC Documents.

ARTICLE IV

CONDUCT PRIOR TO THE EFFECTIVE TIME

IV.1 Conduct of Business of the Company.

(a Company Conduct. During the period from the date of this Agreement and continuing until the earlier of the termination of this Agreement or the Effective Time, the Company agrees (except to the extent that Parent shall otherwise consent in writing) to carry on its business in the usual, regular and ordinary course in substantially the same manner as heretofore conducted, to pay its debts and Taxes when due, to pay or perform other obligations when due, and, to the extent consistent with such business, to use all reasonable efforts consistent with past practice and policies to preserve intact its present business organization, keep available the services of its present officers and key employees and preserve their relationships with customers, suppliers, corporate partners, collaborators, licensors, licensees, and others having business dealings with it, all with the goal of preserving unimpaired its goodwill and ongoing businesses at the Effective Time. The Company shall promptly notify Parent of any event or occurrence or emergency not in the ordinary course of its business, and any material event involving or adversely affecting the Company or its business. Except as expressly contemplated by this Agreement, the Company shall not, without the prior written consent of Parent:

(i Enter into any commitment, activity or transaction not in the ordinary course of business;

(ii Transfer to any person or entity any rights to any Company IntellectualProperty Rights;

(iii Enter into or amend any material agreements pursuant to which any other party is granted manufacturing, marketing, distribution, licensing or similar rights of any type or scope;

(iv Amend or otherwise modify (or agree to do so), except in the ordinary course of business, or violate the terms of, any of the material agreements to which the Company is a party, or enter into material capital commitments or material long term obligations;

(v Commence or settle any litigation;

(vi Declare, set aside or pay any dividends on or make any other distributions (whether in cash, stock or property) in respect of any of its capital stock, or split, combine or reclassify any of its capital stock or issue or authorize the issuance of any other securities in respect of, in lieu of or in substitution for shares of capital stock of the Company, or repurchase, redeem or otherwise acquire, directly or indirectly, any shares of its capital stock (or options, warrants or other rights exercisable therefor);

(vii Except for the issuance of shares of Company Capital Stock upon exercise or conversion of presently outstanding Company Options, issue, grant, deliver or sell or authorize or propose the issuance, grant, delivery or sale of, or purchase or propose the purchase of, any shares of its capital stock or securities convertible into, or subscriptions, rights, warrants or options to acquire, or other agreements or commitments of any character obligating it to issue any such shares or other convertible securities;

(viii Cause or permit any amendments to its Articles of Incorporation or Bylaws;

(ix Acquire or agree to acquire by merging or consolidating with, or by purchasing any assets or equity securities of, or by any other manner, any business or any corporation, partnership, association or other business organization or division thereof, or otherwise acquire or agree to acquire any assets which are material, individually or in the aggregate, to the business of the Company;

(x Purchase, sell, lease, license or otherwise dispose of any properties or assets, except in the ordinary course of business and consistent with past practice;

(xi Incur any indebtedness for borrowed money or guarantee any such indebtedness or issue or sell any debt securities of the Company or guarantee any debt securities of others;

(xii Grant any severance or termination pay to any director, officer employee or consultant, except payments made pursuant to standard written agreements outstanding on the date hereof (which such agreements are disclosed on Schedule 2.12(a);

(xiii Adopt or amend any employee benefit, bonus, or severance plan, program, policy or arrangement, or enter into any employment contract, extend any employment offer, pay or agree to pay any special bonus or special remuneration to any director, officer, employee or consultant, or increase the salaries or wage rates of its directors, officers, employees or consultants;

(xiv Revalue any of its assets, including without limitation writing down the value of inventory or writing off notes or accounts receivable other than in the ordinary course of business and consistent with past practice;

(xv Take any action which would, to the knowledge of the Company, jeopardize the tax-free reorganization hereunder;

(xvi Pay, discharge or satisfy, in an amount in excess of $5,000, in any one case, or $10,000 in the aggregate (of like cases or similar items), any claim, liability or obligation (absolute, accrued, asserted or unasserted, contingent or otherwise), other than the payment, discharge or satisfaction in the ordinary course of business of liabilities reflected or reserved against in the Company Financial Statements;

(xvii Make or change any material election in respect of Taxes, adopt or change any accounting method in respect of Taxes, enter into any closing agreement, settle any claim or assessment in respect of Taxes, or consent to any extension or waiver of the limitation period applicable to any claim or assessment in respect of Taxes;

(xviii Enter into any strategic alliance, research collaboration, joint development or joint marketing arrangement or agreement;

(xix Fail to pay or otherwise satisfy its monetary obligations as they become due, except such as are being contested in good faith;

(xx Waive or commit to waive any rights with a value in excess of $5,000, in any one case, or $10,000, in the aggregate;

(xxi Cancel, materially amend or renew any insurance policy other than in the ordinary course of business;

(xxii Alter, or enter into any commitment to alter, its interest in any corporation, association, joint venture, partnership or business entity in which the Company directly or indirectly holds any interest on the date hereof; or

(xxiii Take, or agree in writing or otherwise to take, any of the actions described in Sections 4.1(i) through (xxii) above, or any other action that would prevent the Company from performing or cause the Company not to perform its covenants hereunder.

(b Parent Conduct. Parent shall promptly notify the Company of any event or occurrence which is not in the ordinary course of business of Parent and which is material and adverse to the business of Parent. Parent agrees to disclose to the Company prior to the Effective Time any material change in its capitalization as set forth in Section 3.3 hereto.

IV.2 No Solicitation. Until the earlier of the Effective Time and the date of termination of this Agreement pursuant to the provisions of Section 8.1 hereof, the Company will not (nor will the Company permit any of the Company's officers, directors, stockholders, agents, representatives or affiliates to) directly or indirectly, take any of the following actions with any party other than Parent and its designees: (a) solicit, initiate, entertain, or encourage any proposals or offers from, or conduct discussions with or engage in negotiations with, any person relating to any possible acquisition of the Company (whether by way of merger, purchase of capital stock, purchase of assets or otherwise), any material portion of its capital stock or assets or any equity interest in the Company, (b) provide information with respect to it to any person, other than Parent, relating to, or otherwise cooperate with, facilitate or encourage any effort or attempt by any such person with regard to, any possible acquisition of the Company (whether by way of merger, purchase of capital stock, purchase of assets or otherwise), any material portion of its capital stock or assets or any equity interest in the Company, (c) enter into an agreement with any person, other than Parent, providing for the acquisition of the Company (whether by way of merger, purchase of capital stock, purchase of assets or otherwise), any material portion of its capital stock or assets or any equity interest in the Company, or (d) make or authorize any statement, recommendation or solicitation in support of any possible acquisition of the Company (whether by way of merger, purchase of capital stock, purchase of assets or otherwise), any material portion of its capital stock or assets or any equity interest in the Company by any person, other than by Parent. The Company shall immediately cease and cause to be terminated any such contacts or negotiations with third parties relating to any such transaction or proposed transaction. In addition to the foregoing, if the Company receives prior to the Effective Time or the termination of this Agreement any offer or proposal relating to any of the above, the Company shall immediately notify Parent thereof, including information as to the identity of the offeror or the party making any such offer or proposal and the specific terms of such offer or proposal, as the case may be, and such other information related thereto as Parent may reasonably request. Except as contemplated by this Agreement, disclosure by the Company of the terms hereof (other than the prohibition of this section) shall be deemed to be a violation of this Section 4.2.

ARTICLE V

ADDITIONAL AGREEMENTS

V.1 Company Stockholder Approva. As promptly as practicable after the execution of this Agreement and at such time as is permitted by applicable law, the Company shall submit this Agreement and the transactions contemplated hereby to its stockholders for approval and adoption as provided by Oregon Law and its Articles of Incorporation and Bylaws. The Company shall use its best efforts to solicit and obtain the consent of its stockholders sufficient to approve the Merger and this Agreement and to enable the Closing to occur as promptly as practicable. The materials submitted to the Company's stockholders shall be subject to review and approval by Parent and include information regarding the Company, the terms of the Merger and this Agreement and the unanimous recommendation of the Board of Directors of the Company in favor of the Merger and this Agreement.

V.2 Access to Information. Access to Information. The Company shall afford Parent and its accountants, counsel and other representatives, reasonable access during normal business hours during the period prior to the Effective Time to: (a) all of its properties, books, contracts, commitments and records, and (b) all other information concerning the business, properties and personnel (subject to restrictions imposed by applicable law) of it as Parent may reasonably request. No information or knowledge obtained in any investigation pursuant to this Section 5.2 shall affect or be deemed to modify any representation or warranty contained herein or the conditions to the obligations of the parties to consummate the Merger.

V.3 Confidentiality. Subject to Section 5.5 hereof, the parties agree that neither they nor their agents shall disclose to any person who is not a direct participant in the negotiations or due diligence regarding the proposed transactions any of the terms or conditions of the proposed transactions. In addition, each party will maintain in strict confidence all confidential information ("Confidential Information") obtained from any other party or its agents during the course of the due diligence and negotiation. Confidential Information means nonpublic information concerning the disclosing party's business, business plans, products or technology, whether disclosed before or after the date of this Agreement, which is clearly marked "confidential or "proprietary" and orally disclosed information which is communicated with indicia of confidentiality and promptly thereafter confirmed in writing to be confidential. Confidential Information shall not include any information in writing which is or becomes publicly known or available not through improper action of the receiving party, is already known by the receiving party prior to disclosure, is independently developed by the receiving party without using Confidential Information of the other party, or is obtained by the receiving party from a third party without breach of a confidentiality obligation. In the event that the transaction is not consummated, or any time upon the request of any party, all material furnished by such party or its agents to any other party or its agents, and all copies or extracts thereof in notes and analyses prepared therefrom, shall be returned to the disclosing party or destroyed and certified as destroyed.

V.4 Expenses. Whether or not the Merger is consummated, all fees and expenses incurred in connection with the Merger including, without limitation, all legal, accounting, financial advisory, consulting and all other fees and expenses of third parties ("Third Party Expenses") incurred by a party in connection with the negotiation and effectuation of the terms and conditions of this Agreement and the transactions contemplated hereby, shall be the obligation of the respective party incurring such fees and expenses; provided, however, that expenses payable to legal counsel to the Company in connection with the Merger shall not be paid by the Company or Parent but instead shall be borne pro rata among the holders of the Company's Common Stock and Company's Options on an as-converted basis to the extent that such legal fees and expenses exceed [***].

V.5 Public Disclosure. Unless otherwise required by law (including, without limitation, federal and state securities laws) or, as to Parent, by the rules and regulations of the National Association of Securities Dealers, Inc., prior to the Effective Time, no further disclosure (whether or not in response to an inquiry) of the terms of this Agreement shall be made by any party hereto except as contemplated herein, unless approved by Parent and the Company prior to release, provided that such approval shall not be unreasonably withheld.

V.6 Consents. The Company shall use its best efforts to obtain the consents, waivers and approvals under any of the Contracts as may be required in connection with the Merger (all of such consents, waivers and approvals are set forth in Company Schedules) so as to preserve all rights of and benefits to the Company thereunder.

V.7 FIRPTA Compliance. On or prior to the Closing Date, the Company shall deliver to Parent a properly executed statement in a form reasonably acceptable to Parent for purposes of satisfying Parent's obligations under Treasury Regulation Section 1.1445-2(c)(3).

V.8 Reasonable Efforts. Subject to the terms and conditions provided in this Agreement, each of the parties hereto shall use its reasonable efforts to ensure that its representations and warranties remain true and correct in all material respects, and to take promptly, or cause to be taken, all actions, and to do promptly, or cause to be done, all things necessary, proper or advisable under applicable laws and regulations to consummate and make effective the transactions contemplated hereby, to obtain all necessary waivers, consents and approvals, to effect all necessary registrations and filings, and to remove any injunctions or other impediments or delays, legal or otherwise, in order to consummate and make effective the transactions contemplated by this Agreement for the purpose of securing to the parties hereto the benefits contemplated by this Agreement; provided that Parent shall not be required to agree to any divestiture by Parent or the Company or any of Parent's subsidiaries or affiliates of shares of capital stock or of any business, assets or property of Parent or its subsidiaries or affiliates or the Company or its affiliates, or the imposition of any material limitation on the ability of any of them to conduct their businesses or to own or exercise control of such assets, properties and stock.

V.9 Notification of Certain Matters. The Company shall give prompt notice to Parent, and Parent shall give prompt notice to the Company, of (i) the occurrence or non-occurrence of any event, the occurrence or non-occurrence of which is likely to cause any representation or warranty of the Company and Parent, respectively, contained in this Agreement to be untrue or inaccurate at or prior to the Effective Time and (ii) any failure of the Company or Parent, as the case may be, to comply with or satisfy any covenant, condition or agreement to be complied with or satisfied by it hereunder; provided, however, that the delivery of any notice pursuant to this Section 5.9 shall not limit or otherwise affect any remedies available to the party receiving such notice.

V.10 Affiliate Agreements. Schedule 5.10 sets forth those persons who, in the Company's reasonable judgment, are or may be "affiliates" of the Company within the meaning of Rule 145 (each such person an "Affiliate") promulgated under the Securities Act ("Rule 145"). The Company shall provide Parent such information and documents as Parent shall reasonably request for purposes of reviewing such list. The Company shall deliver or cause to be delivered to Parent, concurrently with the execution of this Agreement (and in any case prior to the Closing) from each of the Affiliates of the Company, an executed Affiliate Agreement in substantially the form attached hereto as Exhibit A. Parent shall be entitled to place appropriate legends on the certificates evidencing any Parent Common Stock to be received by such Affiliates pursuant to the terms of this Agreement, and to issue appropriate stop transfer instructions to the transfer agent for Parent Common Stock, consistent with the terms of such Affiliate Agreements.

V.11 Additional Documents and Further Assurances. Each party hereto, at the request of the other party hereto, shall execute and deliver such other instruments and do and perform such other acts and things as may be necessary or desirable for effecting completely the consummation of this Agreement and the transactions contemplated hereby.

V.12 Nasdaq National Market Listing. Parent shall authorize for listing on the Nasdaq National Market the shares of Parent Common Stock issuable, and those required to be reserved for issuance, in connection with the Merger, upon official notice of issuance.

V.13 Company's Financial Statements. The Company will use best reasonable efforts to facilitate on a timely basis the preparation of financial statements as required by Parent to comply with applicable SEC regulations.

V.14 Milestone Warrants. Upon completion of the following milestones (the "Milestones"), Parent shall issue to the persons and in the proportions listed on Schedule 5.14 attached hereto warrants (the "Milestone Warrants") in substantially the form attached hereto as Exhibit E, provided, however, that with respect to any such person who becomes an employee or consultant of Parent or the Surviving Corporation at or after the Effective Time, such person must still be then employed by or providing services to Parent or the Surviving Corporation to be issued any portion of such Milestone Warrant. In the event that any such person is no longer employed by or providing services to Parent or the Surviving Corporation, such person's allocation of the Milestone Warrants shall be allocated to the other persons listed on Schedule 5.14 on a pro rata basis. The Milestone Warrants shall entitle the holders thereof to purchase an aggregate of the number of shares of Common Stock of Parent set forth below at a per share exercise price equal to the average of the closing prices of Parent's Common Stock on the principal securities exchange on which Parent's Common Stock is then traded, or if not so traded, the National Market System of the National Association of Securities Dealers Automated Quotation System, in either case as reported in The Wall Street Journal, for the fifteen (15) trading days ending on the last trading day prior to the date which such Milestone is completed. The Milestone Warrants shall have a term of ten (10) years from the date of Closing, provided, however, that: (1) in event of the closing of an acquisition of all of the outstanding capital stock or all or substantially all of the assets of Parent or any other event set forth in Section 10 of the Milestone Warrant, Parent's right to repurchase shares issued upon exercise of Milestone Warrants shall lapse, and (2) in event of the closing of an acquisition of all the outstanding capital stock or all or substantially all of the assets of Parent, the acquiring party shall be required to assume any obligations of Parent under this Section 5.14 with respect to unissued Milestone Warrants. The holders of the Milestone Warrants shall be included in Parent's existing piggyback registration rights, provided that the requisite consent of the other holders of registrable securities of Parent can be obtained. Parent agrees to use its reasonable efforts to obtain such consent.

(a Milestone Warrant One. An aggregate of 50,000 shares (as adjusted for stock splits, stock dividends, recapitalizations, and the like) for [***].

(b Milestone Warrant Two. An aggregate of 50,000 shares (as adjusted for stock splits, stock dividends, recapitalizations, and the like) if within [***].

V.15 Oregon Health Sciences University Laboratory Funding. Parent shall provide funding to Dr. Roger Cone's research laboratory at the Oregon Health Sciences University in the amount [***] commencing on the Closing Date; provided, however, that Parent's obligation to make or continue making funding payments shall be expressly contingent upon: (1) the continuous use of such funding in accordance with the Research Plan agreed upon by Parent and Dr. Roger Cone substantially in the form attached hereto as Exhibit F (as Parent and Dr. Cone may mutually agree to modify such Research Plan), and (2) the grant by the Oregon Health Sciences University of rights reasonably acceptable to Parent with regard to the intellectual property resulting from such research. Funding shall be due and payable in equal quarterly installments within fifteen (15) days after the end of each of Parent's fiscal quarters.

V.16 Name and Physical Location of the Surviving Corporation. [***] Dr. Roger Cone (who shall be referred to as "Company Management") shall mutually agree to do so.

V.17 [***].

V.18 Employment and Consulting Arrangements.

(a All Company employees who continue as employees of the Surviving Corporation after the Closing shall be entitled to benefits comparable to the benefits Parent provides its employees at the same level as such employees of the Surviving Corporation will be after the Closing.

(b Steve Kurtz. The Company shall enter into an employment agreement (the "Employment Agreement") with Stephen Kurtz substantially in the form attached hereto as Exhibit B.

(c Paul Woloshin. As soon as practicable after the execution of this Agreement, the Company and Paul Woloshin will enter into a consulting agreement with a [***] term, whereby: (i) the Company shall pay Mr. Woloshin an annual fee of [***]. The parties shall negotiate in good faith to reach a definitive agreement with regard to the aforementioned arrangement.

V.19 Appointment to Parent Scientific Advisory BoardV.19 Appointment to Parent Scientific Advisory BoardV.19 Appointment to Parent Scientific Advisory Board. Parent shall appoint Dr. Roger Cone and Dr. Susan Amara to Parent's Scientific Advisory Board substantially in accordance with the Consulting Agreements attached hereto as Exhibit G-1 and G-2, respectively.

V.20 [***].

V.21 Registration on Form S-8V.21 Registration on Form S-8V.21 Registration on Form S-8. Parent shall, as soon as practicable following the Effective Time, register the shares of Parent Common Stock issuable upon exercise of the Parent Options on a registration statement on Form S-8.

VI.1 Conditions to Obligations of Each Party to Effect the MergerVI.1 Conditions to Obligations of Each Party to Effect the MergerVI.1 Conditions to Obligations of Each Party to Effect the Merger.

The respective obligations of each party to this Agreement to effect the Merger shall be subject to the satisfaction at or prior to the Closing of the following conditions:

(a Stockholder Approval. This Agreement and the Merger shall have been approved and adopted by the stockholders of the Company by the requisite vote under applicable law and the Company's Articles of Incorporation.

(b Securities Law Compliance. The issuance of the Parent Common Stock in the Merger shall be exempt from the registration requirement of the federal securities laws and shall have been qualified or shall be exempt under all applicable state securities laws.

(c No Injunctions or Restraints; Illegality. No temporary restraining order, preliminary or permanent injunction or other order issued by any court of competent jurisdiction or other legal or regulatory restraint or prohibition preventing the consummation of the Merger shall be in effect.

(d Consulting and Noncompetition Agreements. Dr. Susan Amara and Dr. Roger Cone shall each have executed and delivered to Parent a Consulting Agreement in substantially the form of Exhibit G-1 and G-2, respectively, and such agreements shall be in full force and effect.

(e Registration Rights Agreement. Parent and certain of the Company's stockholders shall have executed a Registration Rights Agreement in substantially the form of Exhibit J and such agreement shall be in full force and effect.

VI.2 Additional Conditions to Obligations of the Company. The obligations of the Company to consummate the Merger and the transactions contemplated by this Agreement shall be subject to the satisfaction at or prior to the Closing of each of the following conditions, any of which may be waived, in writing, exclusively by the Company:

(a Representations and Warranties. The representations and warranties of Parent and Merger Sub contained in this Agreement shall be true and correct in all material respects on and as of the Closing Date, except for changes contemplated by this Agreement and except for those representations and warranties which address matters only as of a particular date (which shall remain true and correct as of such date), with the same force and effect as if made on and as of the Closing Date and the Company shall have received a certificate to such effect signed by duly authorized officers of Parent and Merger Sub.

(b Agreements and Covenants. Parent and Merger Sub shall have performed or complied in all material respects with all agreements and covenants required by this Agreement to be performed or complied with by them on or prior to the Effective Time, and the Company shall have received a certificate to such effect signed by duly authorized officers of Parent and Merger Sub.

VI.3 Additional Conditions to the Obligations of Parent and Merger SubVI.3 Additional Conditions to the Obligations of Parent and Merger Sub. The obligations of Parent and Merger Sub to consummate the Merger and the transactions contemplated by this Agreement shall be subject to the satisfaction at or prior to the Closing of each of the following conditions, any of which may be waived, in writing, exclusively by Parent:

(a Representations and Warranties. The representations and warranties of the Company contained in this Agreement shall be true and correct in all respects on and as of the Closing Date, except for changes contemplated by this Agreement and except for those representations and warranties which address matters only as of a particular date (which shall remain true and correct as of such date), with the same force and effect as if made on and as of the Closing Date; and Parent and Merger Sub shall have received a certificate to such effect signed on behalf of the Company by a duly authorized executive officer of the Company;

(b Agreements and Covenants. The Company shall have performed or complied in all respects with all agreements and covenants required by this Agreement to be performed or complied with by it on or prior to the Effective Time, and Parent and Merger Sub shall have received a certificate to such effect signed by a duly authorized officer of the Company;

(c Third Party Consents. Parent shall have been furnished with evidence satisfactory to it that the Company has obtained all necessary consents, approvals and waivers in order to consummate the transactions contemplated herein.

(d Legal Opinion. Parent shall have received a legal opinion from Tonkon Torp LLP, legal counsel to the Company, in substantially the form attached hereto as Exhibit D.

(e Affiliate Agreements. All directors, officers and persons identified by the Company as being an Affiliate of the Company shall have delivered to Parent an executed Affiliate Agreement, in substantially the form attached hereto as Exhibit A, which shall be in full force and effect.

(f No Material Adverse Change. There shall not have occurred any material adverse change in the business, assets (including intangible assets) financial condition or results of operations of the Company since January 1, 1998.

(g Vote of Company Stockholders. Holders of at least 95% of the outstanding Company Capital Stock shall have voted in favor of the Merger and the consummation of the transactions contemplated hereby.

(h Lockup Agreements. The persons listed on Schedule 1.9(a) shall each have executed a Lockup Agreement substantially in the form set forth on Exhibit C-2 and all other persons who receive Parent Common Stock pursuant to Section 1.6(a) hereof shall each have executed a Lockup Agreement substantially in the form set forth on Exhibit C-1.

(i Valid Existence Certificate. The Company shall have delivered to counsel for Parent a certificate evidencing the Company's valid existence under Oregon Law.

(j Financial Statements Certificate. The Company shall have delivered to Parent a certificate signed by Paul Woloshin attesting to the best of his knowledge as to the accuracy of the Company's Financials delivered pursuant to Section 2.5 hereof.

(k Escrow Agreement. Parent, the Escrow Agent and the stockholders of the Company shall have executed the Escrow Agreement substantially in the form attached hereto as Exhibit I.

(l Stock Restriction Agreements. Each of the employees and consultants listed on Schedule 1.9(a) shall have executed Stock Restriction Agreements with respect to the shares of Parent Common Stock issued to such persons hereunder or issuable to such persons upon exercise of Milestone Warrants substantially in the form attached hereto as Exhibit K and such agreements shall be in full force and effect.

(m Option Amendments. Each of the holders of Company Options shall have executed an Amendment to Stock Option Agreement (providing for the application of the vesting schedule set forth in Section 1.9 hereof to the Parent Options) substantially in the form attached hereto as Exhibit L.

(n Resignations of Company Officers/Directors. The Company's officers and directors shall have delivered to Parent's counsel resignations effective as of the Effective Time and taken all steps reasonably necessary to ensure that the officers and directors referred to in Section 1.5 hereof shall be the officers and directors of the Surviving Corporation.

(o Non-Competition Agreement. The Company and Paul Woloshin shall have executed a non-competition agreement whereby Mr. Woloshin shall not compete with the Company in the fields of neurotransporters and melanocortin receptors for a period of [***] after the Effective Time, substantially in the form attached hereto as Exhibit M.

ARTICLE VII

SURVIVAL OF REPRESENTATIONS AND WARRANTIES; ESCROW

VII.1 Survival of Representations and WarrantiesVII.1 Survival of Representations and Warranties. All of the Company's representations and warranties in this Agreement or in any instrument delivered pursuant to this Agreement (each as modified by the Company Schedules) shall survive the Merger and continue until 5:00 p.m., Pacific Time, on the date which is one year following the date of Closing of this Agreement (the "Expiration Date").

VII.2 Escrow ArrangementsVII.2 Escrow Arrangements. The parties will enter into an Escrow Agreement in substantially the form attached hereto as Exhibit I.

ARTICLE VIII

TERMINATION, AMENDMENT AND WAIVER

VIII.1 Termination. Except as provided in Section 8.2 below, this Agreement may be terminated and the Merger abandoned at any time prior to the Effective Time:

(a by mutual consent of the Company and Parent;

(b by Parent or the Company if: (i) the Effective Time has not occurred before 5:00 p.m. (Pacific time) on June 30, 1998 (provided that the right to terminate this Agreement under this clause 8.1(b)(i) shall not be available to any party whose willful failure to fulfill any obligation hereunder has been the cause of, or resulted in, the failure of the Effective Time to occur on or before such date); (ii) there shall be a final nonappealable order of a federal or state court in effect preventing consummation of the Merger; or (iii) there shall be any statute, rule, regulation or order enacted, promulgated or issued or deemed applicable to the Merger by any governmental entity that would make consummation of the Merger illegal;

(c by Parent if there shall be any action taken, or any statute, rule, regulation or order enacted, promulgated or issued or deemed applicable to the Merger, by any Governmental Entity, which would: (i) prohibit Parent's or the Company's ownership or operation of all or any portion of the business of the Company or (ii) compel Parent or the Company to dispose of or hold separate all or a portion of the business or assets of the Company or Parent as a result of the Merger;

(d by Parent if it is not in material breach of its obligations under this Agreement and there has been a breach of any representation, warranty, covenant or agreement contained in this Agreement on the part of the Company and (i) such breach has not been cured within ten (10) business days after written notice to the Company (provided that, no cure period shall be required for a breach which by its nature cannot be cured), and (ii) as a result of such breach the conditions set forth in Section 6.3(a) or 6.3(b), as the case may be, would not then be satisfied;

(e by the Company if it is not in material breach of its obligations under this Agreement and there has been a breach of any representation, warranty, covenant or agreement contained in this Agreement on the part of Parent or Merger Sub and (i) such breach has not been cured within ten (10) business days after written notice to Parent (provided that, no cure period shall be required for a breach which by its nature cannot be cured), and (ii) as a result of such breach the conditions set forth in Section 6.2(a) or 6.2(b), as the case may be, would not then be satisfied; or

(f by Parent if more than five percent (5%) of the outstanding shares of Company Common Stock shall be qualified to be Dissenting Shares after the first meeting of or action by the Company's stockholders to approve this Agreement and the Merger.

Where action is taken to terminate this Agreement pursuant to this Section 8.1, it shall be sufficient for such action to be authorized by the Board of Directors (as applicable) of the party taking such action.

VIII.2 Effect of Termination. In the event of termination of this Agreement as provided in Section 8.1, this Agreement shall forthwith become void and there shall be no liability or obligation on the part of Parent, Merger Sub or the Company, or their respective officers, directors or stockholders, provided that each party shall remain liable for any breaches of this Agreement prior to its termination; and provided further that the provisions of Sections 5.3 and 5.4 and Article VIII of this Agreement shall remain in full force and effect and survive any termination of this Agreement.

VIII.3 Termination Fee. If the Board of Directors of the Company does not unanimously recommend approval by the Company's stockholders of the Merger and this Agreement and this Agreement is terminated by the Parent pursuant to Section 8.1(f), then the Company shall pay to Parent, in cash, within three (3) business days after such termination, a nonrefundable fee in the amount of $100,000.

VIII.4 Amendment. This Agreement may not be amended at any time, except by an instrument in writing signed on behalf of each party hereto, provided that after this Agreement has been adopted by the stockholders of the Company, no such amendment shall reduce the amount or change the form of consideration to be paid to the stockholders of the Company pursuant to this Agreement or alter or change any of the terms or conditions of this Agreement if such alteration or change would adversely affect the stockholders of the Company.

VIII.5 Extension; Waiver. At any time prior to the Effective Time, Parent and Merger Sub, on the one hand, and the Company, on the other, may, to the extent legally allowed, (i) extend the time for the performance of any of the obligations of the other party hereto, (ii) waive any inaccuracies in the representations and warranties made to such party contained herein or in any document delivered pursuant hereto, and (iii) waive compliance with any of the agreements or conditions for the benefit of such party contained herein. Any agreement on the part of a party hereto to any such extension or waiver shall be valid only if set forth in an instrument in writing signed on behalf of such party.

ARTICLE IX

GENERAL PROVISIONS

IX.1 Notices. All notices and other communications hereunder shall be in writing and shall be deemed given if delivered personally or by commercial delivery service, or mailed by registered or certified mail (return receipt requested) or sent via facsimile (with acknowledgment of complete transmission) to the parties at the following addresses (or at such other address for a party as shall be specified by like notice):

(i) if to Parent or Merger Sub, to:

Neurocrine Biosciences, Inc.
3050 Science Park Road
San Diego, CA 92121
Attention: President and Chief Executive Officer
Telephone No.: (619) 658-7650
Facsimile No.: (619) 658-7602

with a copy to:

Wilson Sonsini Goodrich & Rosati, P.C.
650 Page Mill Road
Palo Alto, California 94304
Attention: Michael J. O'Donnell, Esq.
Telephone No.: (415) 493-9300
Facsimile No.: (415) 493-6811

(ii) if to the Company, to:

Northwest NeuroLogic, Inc.
2611 S.W. 3rd Avenue, Suite 200
Portland, OR 97201
Attention: President
Telephone No.: (503) 243-6422
Facsimile No.: (503) 228-3290

with a copy to:

Tonkon Torp LLP
1600 Pioneer Tower
888 SW Fifth Avenue
Portland, OR 97204
Attention: Carol Dey Hibbs
Telephone No.: (503) 802-2016
Facsimile No.: (503) 972-3716

IX.2 Interpretation. The words "include," "includes" and "including" when used herein shall be deemed in each case to be followed by the words "without limitation." The table of contents and headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

IX.3 Counterparts. This Agreement may be executed in one or more counterparts, all of which shall be considered one and the same agreement and shall become effective when one or more counterparts have been signed by each of the parties and delivered to the other party, it being understood that all parties need not sign the same counterpart.

IX.4 Entire Agreement; Assignment. This Agreement, the Schedules and Exhibits hereto, and the documents and instruments and other agreements among the parties hereto referenced herein: (a) constitute the entire agreement among the parties with respect to the subject matter hereof and supersede all prior agreements and understandings, both written and oral, among the parties with respect to the subject matter hereof; (b) are not intended to confer upon any other person any rights or remedies hereunder; and (c) shall not be assigned by operation of law or otherwise except as otherwise specifically provided, except that Parent and Merger Sub may assign their respective rights and delegate their respective obligations hereunder to their respective affiliates.

IX.5 Severability. In the event that any provision of this Agreement or the application thereof, becomes or is declared by a court of competent jurisdiction to be illegal, void or unenforceable, the remainder of this Agreement will continue in full force and effect and the application of such provision to other persons or circumstances will be interpreted so as reasonably to effect the intent of the parties hereto. The parties further agree to replace such void or unenforceable provision of this Agreement with a valid and enforceable provision that will achieve, to the extent possible, the economic, business and other purposes of such void or unenforceable provision.

IX.6 Other Remedies. Except as otherwise provided herein, any and all remedies herein expressly conferred upon a party will be deemed cumulative with and not exclusive of any other remedy conferred hereby, or by law or equity upon such party, and the exercise by a party of any one remedy will not preclude the exercise of any other remedy.

IX.7 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of California, regardless of the laws that might otherwise govern under applicable principles of conflicts of laws thereof. Each of the parties hereto agrees that process may be served upon them in any manner authorized by the laws of the State of California for such persons and waives and covenants not to assert or plead any objection which they might otherwise have to such jurisdiction and such process.

IX.8 Rules of Construction. The parties hereto agree that they have been represented by counsel during the negotiation and execution of this Agreement and, therefore, waive the application of any law, regulation, holding or rule of construction providing that ambiguities in an agreement or other document will be construed against the party drafting such agreement or document.

IX.9 Specific Performance. The parties hereto agree that irreparable damage would occur in the event that any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached. It is accordingly agreed that the parties shall be entitled to an injunction or injunctions to prevent breaches of this Agreement and to enforce specifically the terms and provisions hereof in any court of the United States or any state having jurisdiction, this being in addition to any other remedy to which they are entitled at law or in equity.

[remainder of page intentionally left blank]

IN WITNESS WHEREOF, Parent, Merger Sub and the Company have caused this Agreement to be signed by their duly authorized respective officers, all as of the date first written above.

NORTHWEST NEUROLOGIC, INC.	NEUROCRINE BIOSCIENCES, INC.
By: /s/ Roger D. Cone President	By: /s/ Paul W. Hawran Senior Vice President and Chief Financial Officer

NBI ACQUISITION CORP.

By: /s/ Paul W. Hawran
Senior Vice President and
Chief Financial Officer

INDEX OF EXHIBITS

Exhibit	Description
Exhibit A	Form of Company Affiliate Agreement
Exhibit B	Employment Agreement (Steve Kurtz)
Exhibit C-1	Form of Lockup Agreement (180-day)
Exhibit C-2	Form of Lockup Agreement (90-day)
Exhibit D	Form of Legal Opinion of Counsel to the Company
Exhibit E	Form of Milestone Warrant
Exhibit F	Research Plan for Oregon Health Sciences University
Exhibit G-1	Form of Consulting Agreement (Dr. Roger Cone)
Exhibit G-2	Form of Consulting Agreement (Dr. Susan Amara)
Exhibit H	Parent's Insider Trading Policy
Exhibit I	Escrow Agreement
Exhibit J	Registration Rights Agreement
Exhibit K	Form of Stock Restriction Agreement
Exhibit L	Form of Amendment to Stock Option Agreement
Exhibit M	Form of Non-Competition Agreement (Paul Woloshin)

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Schedule	Description
1.6	Escrow Amount
1.9(a)	Employees and Consultants of the Company Subject to Vesting Schedules and Lockup Periods
2.2(a)	Company Stockholder List
2.2(b)	Option List
2.4	Governmental and Third Party Consents
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2.6	Undisclosed Liabilities
2.7	No Changes
2.8	Tax Returns and Audits
2.10(a)	Leased Real Property
2.10(b)	Liens on Property
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2.11(c)	Confidentiality Agreements
2.12(a)	Agreements, Contracts and Commitments
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2.13	Interested Party Transactions
2.15	Litigation
2.19	Brokers/Finders Fees; Third Party Expenses
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2.20(d)	Employee Plan Compliance
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2.20(j)	Labor
5.10	Company Affiliate List
5.14	Milestone Warrant Holder List

Schedule 1.6
Escrow Account

The following shares of Parent Common Stock will be placed in the escrow account or, in the case of options, will be subject to the escrow account and will be placed in the escrow account upon exercise of the applicable option:

Name	[***] Shares in Escrow	[***] Shares in Escrow	[***] Options in Escrow	[***] Options in Escrow
[***]	[***]	[***]	[***]	[***]
Total	53,088	29,665	6,839	10,011

Schedule 1.9(a)
Continuing Employees and Consultants of the Company
Subject to Vesting Schedule and Lockup Periods

1. The following people are the persons (besides Roger Cone and Susan Amara) who are expected to be employees or consultants of the Company holding Company stock or stock options at the time the Merger is closed:

   [***]

2. If any of the foregoing persons is not employed by or serving as a consultant to the Company at the date of Closing, we will so advise you, and any such persons will not be subject to the vesting schedule of Section 1.9 and shall not be deemed to be a person listed on this Schedule 1.9(a).

Schedule 2.2(a)
Company Stockholder List

Stockholder	Number of Shares of Common Stock
Roger Cone c/o Vollum Institute 3181 S.W. Sam Jackson Park Road Portland, OR 97201-3098	[***]
Richard Sessions c/o Vollum Institute 3181 S.W. Sam Jackson Park Road Portland, OR 97201-3098	[***]
Oregon Health Sciences University 3181 S.W. Sam Jackson Park Road Portland, OR 97201-3098	[***]
Susan Amara c/o Vollum Institute 3181 S.W. Sam Jackson Park Road Portland, OR 97201-3098	[***]
Cascadia Pacific Management 4370 NE Halsey Portland, OR 97213 (assignee of shares originally to be issued to Oregon Research and Technology Development Fund)	[***]
TOTAL SHARES	591,250

Schedule 2.2(b)
Option List

1. The Stock Option Ledger attached hereto as Appendix A is correct as of the date of this Agreement.

2. When NNL granted the option to Jeffery Arriza, a Pennsylvania resident, as specified on the Stock Option Ledger, the filing to qualify the option grant for an exemption under Pennsylvania securities law was filed late.

Schedule 2.4
Governmental and Third Party Consents

1. The license agreement between Oregon Health Sciences University and the Company, dated February 1, 1997, may arguably require notice of the Merger. That notice has been given.

2. The Leases between the Company and Oregon Biotechnology Innovation Center ("OBIC") require OBIC's consent to the assignment of the Leases in the context of the Merger. That consent will be obtained prior to Closing.

Schedule 2.5
Company Financials

1. Attached hereto as Appendix B is the Company's unaudited balance sheet as of December 31, 1997 and the related unaudited statement of operations for the 12-month period then ended.

2. In order to be correct in all material respects, the attached Financial Statements need to be adjusted to reflect the following:

   a. The Company needs to deduct from its earnings the spread between the exercise price of all discounted options that vested during 1997 and the fair market value of the underlying option shares at the time of vesting.

   b. Accrued vacation is not reflected in the Financial Statements.

Schedule 2.6
Undisclosed Liabilities

1. Paragraph 2 of Schedule 2.5 is incorporated herein by reference.

2. In 1998, the Company will need to deduct from its 1998 earnings the spread between the exercise price of all discounted options that vest during 1998 and the fair market value of the underlying option shares at the time of vesting.

3. Contractual obligations (rather than liabilities stemming from breaches) under contracts listed on Schedules 2.10(a), 2.11(b) and 2.12(a).

4. The Company has been awarded an NIH grant which will require specified projects be undertaken. The Company has not received the documentation on the grant yet.

Schedule 2.7
No Changes

1. [***].

2. Options have been granted since December 31, 1997, as reflected in the Stock Option Ledger attached to Schedule 2.2(b).

3. The vesting of certain options has been accelerated in connection with this transaction, as shown on the Stock Option ledger attached to Schedule 2.2(b).

4. Kimberlee Stafford and Elizabeth Fiddler received salary increases of $5,000 per year, effective January 1, 1998.

5. [***].

Schedule 2.8
Tax Returns and Audits

None

Schedule 2.10(a)
Leased Real Property

1. Leases, between the Company and Oregon Biotechnology Innovation Center, dated October 1, 1995, April 1, 1997, August 27, 1997 and January 1, 1998. The aggregate annual rental payable with respect to each lease is [***], respectively, with increases of [***] to go into effect on July 1, 1998.

Schedule 2.10(b)
Liens on Property

None

Schedule 2.11(a)
Intellectual Property

1. Attached as Appendix C hereto is a listing of all patents issued and applied for as part of the Company's license with Oregon Health Sciences University. (The patent on MC-1 (MSH receptor) issued in 1996, a second patent on MC-2(ACTH) issued in 1996, and a patent on EAAT-2 issued in 1997.)

2. The registered owners of each of the patent applications and patents specified in Appendix A are the inventors of the respective patents. All such patents and patent applications have been assigned to Oregon Health Sciences University.

Schedule 2.11(b)
Intellectual Property Licenses

1. License agreement between Oregon Health Sciences University and the Company, dated February 1, 1997.

2. Collaboration Agreement between American Home Products Corporation (referred to in the Agreement as Wyeth-Ayerst) and the Company, dated August 15, 1996.

3. License Agreement between the Company and American Home Products Corporation (Wyeth-Ayerst), dated August 15, 1996.

4. Research and License Agreement between the Company and Trega Biosciences, Inc., dated May 30, 1997, as amended by a letter dated January 27, 1998.

5. License Agreement between the Company and The Proctor & Gamble Pharmaceutical Company, dated May 7, 1997.

6. Sponsored Research and Cooperation Agreement between the Company and Millennium Pharmaceuticals, Inc., dated February 22, 1996, as modified by letter dated March 13, 1997 [expired].

7. License Agreement between the Company and ABS Global, Inc., dated March 29, 1996 [expired].

8. Research and License Agreement between the Company and Houghten (Trega), dated April 27, 1994 [expired].

9. Sponsored Research between the Company and Proctor & Gamble, dated October 15, 1996 [expired].

Schedule 2.11(c)
Confidentiality Agreements

1. Two technicians formerly employed by the Company did not sign the Company's form of proprietary information and confidentiality agreement. The technology that they were working on has either become obsolete or has been publicly disclosed.

Schedule 2.12(a)
Agreements, Contracts and Commitments

1. Consulting Agreement between Roger Cone and the Company has not been documented.

2. Consulting Agreement between Susan Amara and the Company, dated November 1, 1996.

3. Consulting Agreement between the Company and Troy Fiddler, dated January 12, 1998.

4. Employment Agreement between the Company and Paul Woloshin, dated March 11, 1996, as amended on March 11, 1997.

5. Consulting Agreement between the Company and Mike Kavanaugh, dated September 10, 1996, renewed February 1, 1998.

6. Employment Agreement between the Company and Stephen Kurtz, dated May 12, 1997.

7. The Company is obligated to indemnify its officers and directors pursuant to its Articles of Incorporation and its Bylaws.

8. All agreements listed in Schedules 2.10(a) and 2.11(b) are incorporated herein by reference.

9. Consulting Agreement between the Company and Jeffrey Arriza, dated September 10, 1996 [expired].

10. Consulting Agreement between the Company and Richard Simerly, dated January 20, 1996 [expired].

Schedule 2.12(b)
Breaches

None

Schedule 2.13

Interested Party Transactions

1. Certain officers, directors and stockholders of the Company are parties to the agreements set forth in Schedule 2.11(b) and Schedule 2.12(a), as indicated thereon.

Schedule 2.15
Litigation

None

Schedule 2.19
Brokers/Finders Fees; Third Party Expenses

1. The Company has not incurred, nor will it incur, any liability for brokerage or finders' fees or agents' commissions or similar charges in connection with the Agreement or any transaction contemplated thereby.

2. The Company estimates its Third Party Expenses as follows:

   a. Legal fees payable to Tonkon Torp LLP for the transaction: [***].

   b. Legal fees payable to Steve Lieberman in connection with effecting certain conditions to the Agreement: [***]; and

   c. Fees payable to NNL's accountants: [***].

Schedule 2.20(b)

Employee Benefit Plans and Employee Agreements

1. The Company has Employment and Consulting Agreements as indicated on Schedule 2.12(a).

2. The Company offers health insurance through PacifiCare.

3. One of the Company's part-time employees (a lab technician) comes from Latvia and is working under a work permit.

4. The Company has an Option Agreement with each optionee listed on Appendix A.

5. 1997 Stock Incentive Plan, as amended.

Schedule 2.20(d)
Employee Plan Compliance

None

Schedule 2.20(g)
Post Employment Obligations

None

Schedule 2.20(h)(i)
Effect of Transaction

None

Schedule 2.20(h)(ii)
Excess Parachute Payments

None

Schedule 2.20(j)
Labor

None

Schedule 5.10
Company Affiliate List

1. The Company believes that the following persons are or may be "affiliates" of NNL within the meaning of SEC Rule 145:

[***]

Schedule 5.14

Milestone Warrant Holder List

1. With respect to Milestone Warrant One, warrants for an aggregate of 50,000 shares of Parent Common Stock (subject to adjustment as specified in the Agreement) shall be issued for [***]:

Shareholder	No. of NNL Shares Owned
[***]	[***]
Total	750,000

[***].

2. With respect to Milestone Warrant Two, warrants for an aggregate of 50,000 shares of Parent Common Stock (subject to adjustment as specified in the Agreement) will be distributed pro rata pursuant to the NNL ownership table shown in the preceding paragraph (without the [***] described in the last sentence of that paragraph).

Exhibit 2.2

REGISTRATION RIGHTS AGREEMENT

This REGISTRATION RIGHTS AGREEMENT (the "Agreement") is made as of May 28, 1998, by and among Neurocrine Biosciences, Inc., a Delaware corporation (the "Parent") and the persons listed on the signature page who become signatories to this Agreement (collectively, the "Investors and individually an "Investor"). Capitalized terms not defined herein shall have the meanings ascribed to them in the Agreement and Plan of Reorganization dated May 1, 1998.

R E C I T A L S

WHEREAS, in connection with the merger (the "Merger") of a wholly owned subsidiary of Parent with and into Northwest NeuroLogic, Inc., an Oregon corporation ("NNL") pursuant to the Agreement and Plan of Reorganization dated of even date herewith, Parent and the Investors desire to provide for certain rights of the Investors with respect to registration of the Parent Common Stock issued by Parent to the Investors upon exchange of the NNL Common Stock in the Merger.

WHEREAS, it is a condition of the closing of the Merger that Parent enter into this Agreement.

NOW THEREFORE, in consideration of the promises set forth above and for other good and valuable consideration, receipt of which is hereby acknowledged, the parties agree as follows:

1. Certain Definitions. As used in this Agreement, the following terms shall have the following respective meanings:

(a) "Commission" shall mean the Securities and Exchange Commission or any other federal agency at the time administering the Securities Act.

(b) "Form S-3" shall mean Form S-3 issued by the Commission or any substantially similar form then in effect.

(c) "Holder" shall mean any holder of outstanding Registrable Securities which have not been sold to the public, but only if such holder is an Investor or an assignee or transferee of Registration rights as permitted by Section 8.

(d) "Initiating Holders" shall mean Holders who in the aggregate hold and propose to register at least [***] shares of Registrable Securities.

(e) "Material Adverse Event" shall mean an occurrence having a consequence that either (a) is materially adverse as to the business, properties, prospects or financial condition of the Parent or (b) is reasonably foreseeable, has a reasonable likelihood of occurring, and if it were to occur would materially adversely affect the business, properties, prospects or financial condition of the Parent.

(f) The terms "Register", "Registered" and "Registration" refer to a registration effected by preparing and filing a registration statement in compliance with the Securities Act ("Registration Statement"), and the declaration or ordering of the effectiveness of such Registration Statement.

(g) "Registrable Securities" shall mean all shares of Parent Common Stock issued or issuable to the Investors upon closing of the Merger, including Common Stock issued pursuant to stock splits, stock dividends and similar distributions with respect to such shares, provided that such shares (i) are not available for immediate sale in the opinion of counsel to the Parent in a transaction exempt from the registration and prospectus delivery requirements of the Securities Act so that all transfer restrictions and restrictive legends with respect thereto are removed upon consummation of such sale pursuant to Regulation S, Rule 144, or otherwise under applicable federal securities laws, or (ii) have not previously been sold to the public.

(h) "Registration Expenses" shall mean all expenses incurred in complying with Section 2 of this Agreement, including, without limitation, all federal and state registration, qualification and filing fees, printing expenses, fees and disbursements of counsel for the Parent, blue sky fees and expenses, and the expense of any special audits incident to or required by any such registration, other than Selling Expenses.

(i) "Securities Act" shall mean the Securities Act of 1933, as amended, or any similar federal statute, and the rules and regulations of the Commission thereunder, all as the same shall be in effect at the time.

(j) "Selling Expenses" shall mean all underwriting discounts and selling commissions applicable to the sale of Registrable Securities pursuant to this Agreement, as well as fees and disbursements of legal counsel for the selling Holders.

2. Demand Registration.

2.1 Request for Registration on Form S-3. Subject to the terms of this Agreement, in the event that Parent receives from Initiating Holders at any time after the Effective Time and prior to the first anniversary of the Effective Time, a written request that Parent effect any Registration on Form S-3 (or any successor form to Form S-3 regardless of its designation) at a time when Parent is eligible to register securities on Form S-3 (or any successor form to Form S-3 regardless of its designation) for an offering of Registrable Securities, the reasonably anticipated aggregate offering price to the public of which would exceed [***], Parent will promptly give written notice of the proposed Registration to all the Holders and will, as soon as practicable, effect Registration of the Registrable Securities specified in such request, together with all or such portion of the Registrable Securities of any Holder joining in such request as are specified in a written request delivered to the Parent within 20 days after written notice from the Parent of the proposed Registration. Parent shall not be obligated to take any action to effect any such registration pursuant to this Section 2.1: (i) prior to 90 days after the Effective Time, (ii) subsequent to 365 days after the Effective Time, or (iii) after Parent has effected one such Registration pursuant to this Section 2.1 and such Registration has been declared effective and, if underwritten, has closed.

2.2 Right of Deferral of Registration. If (i) Parent shall furnish to all such Holders who joined in the request a certificate signed by the President of Parent stating that, in the good faith judgment of the Board of Directors of Parent, it would be seriously detrimental to Parent for any Registration to be effected as requested under Section 2.1, or (ii) Parent shall have effected a Registration other than a Registration of securities issued or issuable pursuant to an employee benefit plan (whether or not pursuant to Section 2.1) within ninety (90) days preceding the date of such request, Parent shall have the right to defer the filing of a Registration Statement with respect to such offering for a period of not more than (i) sixty (60) days from delivery of the request of the Initiating Holders, or (ii) ninety (90) days of the date of filing of such prior Registration respectively; provided, however, that Parent may not utilize this right more than twice in any 12-month period.

2.3 Registration of Other Securities. Any Registration Statement filed pursuant to the request of the Initiating Holders under this Section 2 may, subject to the provisions of Section 2.4, include securities of Parent other than Registrable Securities.

2.4 Underwriting in Demand Registration.

2.4.1 Notice of Underwriting. If the Initiating Holders intend to distribute the Registrable Securities covered by their request by means of an underwriting, they shall so advise Parent as a part of their request made pursuant to this Section 2, and Parent shall include such information in the written notice referred to in Section 2.1. The right of any Holder to Registration pursuant to Section 2.1 shall be conditioned upon such Holder's agreement to participate in such underwriting and the inclusion of such Holder's Registrable Securities in the underwriting (unless otherwise mutually agreed by a majority in interest of the Initiating Holders and such Holder with respect to such participation and inclusion).

2.4.2 Inclusion of Other Holders in Demand Registration. If Parent, officers or directors of Parent holding Common Stock other than Registrable Securities, or holders of securities other than Registrable Securities (who are collectively referred to as "Other Holders"), request inclusion in such Registration, the Initiating Holders shall, subject to the allocation provisions of Section 2.4.4 below, on behalf of all Holders, offer to such Other Holders that such securities other than Registrable Securities be included in the underwriting, conditioned upon the acceptance by such Other Holders of the terms of this Section 2. In event of the inclusion in the Registration of securities held by Other Holders, such Other Holders shall be deemed to be Holders for all purposes under this Agreement, other than the allocation provisions of Section 2.4.4 below.

2.4.3 Selection of Underwriter in Demand Registration. Parent shall (together with all Holders proposing to distribute their securities through such underwriting) enter into and perform its obligations under an underwriting agreement in usual and customary form with the representative ("Underwriter's Representative") of the underwriter or underwriters selected for such underwriting by the Holders of a majority of the Registrable Securities being registered by the Initiating Holders and consented to by Parent (which consent shall not be unreasonably withheld).

2.4.4 Marketing Limitation in Demand Registration. In the event the Underwriter's Representative advises the Initiating Holders in writing that market factors (including, without limitation, the aggregate number of shares of Common Stock requested to be Registered, the general condition of the market, and the status of the persons proposing to sell securities pursuant to the Registration) require a limitation of the number of shares to be underwritten, then the Initiating Holders shall so advise all Holders and Other Holders, and the number of shares of Registrable Securities and other securities that may be included in the Registration and underwriting shall be allocated first among all Holders of Registrable Securities and Other Holders of securities subject to contractual registration rights and second among all Other Holders of securities not subject to contractual registration rights, in proportion, as nearly as practicable, to the number of shares proposed to be included in such Registration by such Holder or Other Holder. No Registrable Securities or other securities excluded from the underwriting by reason of this Section 2.4.4 shall be included in such Registration Statement.

2.4.5 Right of Withdrawal in Demand Registration. If any Holder of Registrable Securities, or a holder of other securities entitled (upon request) to be included in such Registration, disapproves of the terms of the underwriting, such person may elect to withdraw therefrom by written notice to Parent, the underwriter and the Initiating Holders delivered at least seven days prior to the effective date of the Registration Statement. The securities so withdrawn shall also be withdrawn from the Registration Statement.

2.5 Blue Sky in Demand Registration. In the event of any Registration pursuant to Section 2, Parent will exercise reasonable efforts to Register and qualify the securities covered by the Registration Statement under such other securities or Blue Sky laws of such jurisdictions as the Holders shall reasonably request and as shall be reasonably appropriate for the distribution of such securities; provided, however, that Parent shall not be required to qualify to do business or to file a general consent to service of process in any such states or jurisdictions.

3. Expenses of Registration. All Registration Expenses incurred in connection with one Registration pursuant to Section 2.1 shall be borne by Parent. However, Parent shall not be required to pay for any expenses of Holders in connection with any registration proceeding begun pursuant to Section 2.1 if the registration request is subsequently withdrawn at the request of the Holders of a majority of the Registrable Securities to be registered (which Holders shall bear such expenses); provided, however, that (i) if at the time of such withdrawal, the Holders have learned of a Material Adverse Event not known to the Holders at the time of their request or (ii) such withdrawal is made after a deferral of such registration by Parent pursuant to Section 2.2, then the Holders shall not be required to pay any of such expenses and shall retain their rights pursuant to Section 2.1. All Selling Expenses shall be borne by the Holders of the securities registered pro rata on the basis of the number of shares registered.

4. Registration Procedures. Parent will keep each Holder whose Registrable Securities are included in any registration pursuant to this Agreement advised as to the initiation and completion of such Registration. At its expense Parent will: (a) use reasonable efforts to keep such Registration effective for a period ending on the first anniversary of the Effective Time or until the Holder or Holders have completed the distribution described in the Registration Statement relating thereto (including Registrable Securities that will be released from lockup agreements after the effective date of the Registration), whichever first occurs; (b) furnish such number of prospectuses (including preliminary prospectuses) and other documents as a Holder from time to time may reasonably request; (c) prepare and file with the SEC such amendments and supplements to such registration statement and the prospectus used in connection with such registration statement as may be necessary to comply with the provisions of the Securities Act with respect to the disposition of all securities covered by such registration statement; and (d) notify each Holder of Registrable Securities covered by such Registration Statement at any time when a prospectus relating thereto is required to be delivered under the Securities Act of the happening of any event as a result of which the prospectus included in such Registration Statement, as then in effect, includes an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances then existing.

5. Information Furnished by Holder. It shall be a condition precedent of Parent's obligations under this Agreement that each Holder of Registrable Securities included in any Registration furnish to Parent such information regarding such Holder and the distribution proposed by such Holder or Holders as Parent may reasonably request.

6. Indemnification.

6.1 Parent's Indemnification of Holders. To the extent permitted by law, Parent will indemnify each Holder, each of its officers, directors and constituent partners, legal counsel and accountants for the Holders, and each person controlling such Holder, with respect to which Registration, qualification or compliance of Registrable Securities has been effected pursuant to this Agreement, and each underwriter, if any, and each person who controls any underwriter against all claims, losses, damages or liabilities (or actions in respect thereof) to the extent such claims, losses, damages or liabilities arise out of or are based upon any untrue statement (or alleged untrue statement) of a material fact contained in any prospectus or other document (including any related Registration Statement) incident to any such Registration, qualification or compliance, or are based on any omission (or alleged omission) to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, or any violation by Parent of the Securities Act, the Securities Exchange Act of 1934, as amended (the "1934 Act"), or any state securities law, or any rule or regulation promulgated under the Securities Act, the 1934 Act or any state securities law, applicable to Parent and relating to action or inaction required of Parent in connection with any such Registration, qualification or compliance; and Parent will reimburse each such Holder, each of its officers, directors and constituent partners, legal counsel and accountants, each such underwriter, and each person who controls any such Holder or underwriter, for any legal and any other expenses reasonably incurred, as incurred, in connection with investigating or defending any such claim, loss, damage, liability or action; provided, however, that the indemnity contained in this Section 6.1 shall not apply to amounts paid in settlement of any such claim, loss, damage, liability or action if settlement is effected without the consent of Parent (which consent shall not unreasonably be withheld); and provided, further, that Parent will not be liable in any such case to the extent that any such claim, loss, damage, liability or expense arises out of or is based upon any untrue statement or omission based upon written information furnished to Parent by such Holder, its officers, directors, constituent partners, legal counsel, accountants, underwriter or controlling person and stated to be for use in connection with the offering of securities of Parent.

6.2 Holder's Indemnification of Parent. To the extent permitted by law, each Holder will, if Registrable Securities held by such Holder are included in the securities as to which such Registration, qualification or compliance is being effected pursuant to this Agreement, indemnify Parent, each of its directors and officers, each legal counsel and independent accountant of the Parent, each underwriter, if any, of Parent's securities covered by such a Registration Statement, each person who controls Parent or such underwriter within the meaning of the Securities Act, and each other such Holder, each of its officers, directors, constituent partners, legal counsel and accountants and each person controlling such other Holder, against all claims, losses, damages and liabilities (or actions in respect thereof) arising out of or based upon any untrue statement (or alleged untrue statement) by such Holder, of a material fact contained in any such Registration Statement, prospectus, offering circular or other document (including any related Registration Statement) incident to any such Registration, qualification or compliance, or any omission (or alleged omission) by such Holder, to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, or any violation by such Holder of the Securities Act, the 1934 Act or any state securities law, or any rule or regulation promulgated under the Securities Act, the 1934 Act or any state securities law, applicable to such Holder and relating to action or inaction required of such Holder in connection with any such Registration, qualification or compliance; and will reimburse Parent, such Holders, such directors, officers, partners, persons, law and accounting firms, underwriters or control persons for any legal and any other expenses reasonably incurred, as incurred, in connection with investigating or defending any such claim, loss, damage, liability or action, in each case to the extent, but only to the extent, that such untrue statement (or alleged untrue statement), omission (or alleged omission) or violation (or alleged violation) is made in such Registration Statement, prospectus, offering circular or other document in reliance upon and in conformity with written information furnished to Parent by such Holder and stated to be specifically for use in connection with the offering of securities of Parent, provided, however, that each Holder's liability under this Section 6.2 shall not exceed such Holder's net proceeds from the offering of securities made in connection with such Registration; and provided, further, that the indemnity contained in this Section 6.2 shall not apply to amounts paid in settlement of any such claim, loss, damage, liability or action if settlement is effected without the consent of the Holder (which consent shall not unreasonably be withheld).

6.3 Indemnification Procedure. Promptly after receipt by an indemnified party under this Section 6 of notice of the commencement of any action, such indemnified party will, if a claim in respect thereof is to be made against an indemnifying party under this Section 6, notify the indemnifying party in writing of the commencement thereof and generally summarize such action. The indemnifying party shall have the right to participate in and to assume the defense of such claim, jointly with any other indemnifying party similarly noticed; provided, however, that the indemnifying party shall be entitled to select counsel for the defense of such claim with the approval of any parties entitled to indemnification, which approval shall not be unreasonably withheld; provided further, however, that if either party reasonably determines that there may be a conflict between the position of Parent and the Investors in conducting the defense of such action, suit or proceeding by reason of recognized claims for indemnity under this Section 6, then counsel for such party shall be entitled to conduct the defense to the extent reasonably determined by such counsel to be necessary to protect the interest of such party. The failure to notify an indemnifying party promptly of the commencement of any such action, if prejudicial to the ability of the indemnifying party to defend such action, shall relieve such indemnifying party, to the extent so prejudiced, of any liability to the indemnified party under this Section 6, but the omission so to notify the indemnifying party will not relieve such party of any liability that such party may have to any indemnified party otherwise than under this Section 6.

7. Reports Under Securities Exchange Act of 1934. With a view to making available to the Investors the benefits of Rule 144 and any other rule or regulation of the Commission that may at any time permit an Investor to sell securities of Parent to the public without Registration or pursuant to a Registration on Form S-3, Parent agrees to use reasonable efforts to:

(a) make and keep public information available, as those terms are defined in Rule 144;

(b) file with the Commission in a timely manner all reports and other documents required of Parent under the Securities Act and the 1934 Act; and

(c) furnish to any Investor, so long as such Investor owns any Registrable Securities, forthwith upon request (i) a written statement by Parent that it has complied with the reporting requirements of Rule 144, the Securities Act and the 1934 Act, or that it qualifies as a registrant whose securities may be resold pursuant to Form S-3, (ii) a copy of the most recent annual or quarterly report of Parent and such other reports and documents so filed by Parent, and (iii) such other information as may be reasonably requested in availing any Investor of any rule or regulation of the Commission which permits the selling of any such securities without registration.

8. Transfer of Rights. The Registration rights of the Investors set forth in Section 2 may be assigned by any Holder to a transferee or assignee of any Registrable Securities not sold to the public acquiring at least [***] shares of such Holder's Registrable Securities (equitably adjusted for any recapitalizations, stock splits, combinations, and the like) or acquiring all of the Registrable Securities held by such Holder if transferred to a single entity; provided, however, that (i) Parent must receive written notice prior to the time of said transfer, stating the name and address of said transferee or assignee and identifying the securities with respect to which such information and Registration rights are being assigned, and (ii) the transferee or assignee of such rights must not be a person deemed in good faith by the Board of Directors of Parent to be a competitor or potential competitor of Parent. Notwithstanding the limitation set forth in the foregoing sentence respecting the minimum number of shares which must be transferred, any Holder which is a partnership may transfer such Holder's Registration rights to such Holder's constituent partners (or may transfer to their heirs in the case of individuals) without restriction as to the number or percentage of shares acquired by any such constituent partner (or heirs).

9. Miscellaneous.

9.1 Entire Agreement; Successors and Assigns. This Agreement constitutes the entire contract between Parent and the Investors relative to the subject matter hereof. Subject to the exceptions specifically set forth in this Agreement, the terms and conditions of this Agreement shall inure to the benefit of and be binding upon the respective executors, administrators, heirs, successors and assigns of the parties.

9.2 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of California applicable to contracts entered into and wholly to be performed within the State of California by California residents.

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

9.4 Notices. Any notice required or permitted hereunder shall be given in writing and shall be conclusively deemed effectively given upon personal delivery, or five (5) days after deposit in the United States mail, by first class mail, postage prepaid, or upon sending if sent by commercial overnight delivery service addressed (i) if to Parent, as set forth below Parent's name on the signature page of this Agreement, and (ii) if to an Investor, at such Investor's address as set forth on the signature page of this Agreement, or at such other address as Parent or such Investor may designate by ten (10) days' advance written notice to the Investors or to Parent, respectively.

9.5 Amendment of Agreement. Except as otherwise specifically provided herein, any provision of this Agreement may be amended by a written instrument signed by Parent and by persons holding more than fifty-five percent (55%) of the then outstanding Registrable Securities (calculated on an as converted basis).

9.6 Aggregation of Stock. All Registrable Securities held or acquired by affiliated entities or persons shall be aggregated together for the purpose of determining the availability of any rights under this Agreement.

9.7 Severability. If any provision of this Agreement is held to be unenforceable for any reason, it shall be adjusted rather than voided, if possible, in order to achieve the intent of the parties to the extent possible. In any event, all other provisions of this Agreement shall be deemed valid and enforceable to the full extent possible.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

The PARENT: NEUROCRINE BIOSCIENCES, INC.

/s/ Paul W. Hawran
Senior Vice President and
Chief Financial Officer

The INVESTORS: /s/ Susan G. Amara

/s/ John A. Beaulieu
Manager
Cascadia Pacific Management

/s/ Roger Cone

/s/ Richard Sessions

/s/ Sandra L. Shotwell
Director, Technology Management
Oregon Health Sciences University

Exhibit 2.3

THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 (THE "ACT") AND MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED, PLEDGED OR HYPOTHECATED UNLESS AND UNTIL REGISTERED UNDER THE ACT OR AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE ACT IS AVAILABLE FOR SUCH OFFER, SALE, OR TRANSFER, PLEDGE OR HYPOTHECATION IN THE OPINION OF LEGAL COUNSEL REASONABLY SATISFACTORY TO THE COMPANY.

MILESTONE WARRANT

To Purchase Shares of Common Stock of

NEUROCRINE BIOSCIENCES, INC.

THIS CERTIFIES that, for value received, _____________________, is entitled, upon the terms and subject to the conditions hereinafter set forth, at any time after ____________, (the "Effective Date") and prior to _________________, 2008 (or earlier as set forth in Section 10), to subscribe for the purchase from Neurocrine Biosciences, Inc., a Delaware corporation (the "Company"), __________ shares of the Company's Common Stock at an exercise price ("Exercise Price") equal to the average of the closing prices of the Company's Common Stock as reported in the Wall Street Journal for the 15 trading days preceding the completion of the Milestone (as such term is defined in Section 5.14 of the Agreement and Plan of Reorganization dated _____________________, 1998 (the "Merger Agreement")), subject to adjustment as set forth below. The shares of Common Stock issuable upon exercise hereof are subject to repurchase in certain events as set forth in the Merger Agreement and the Stock Restriction Agreement appended thereto.

1. Title of Warrant. Prior to the expiration hereof and subject to compliance with applicable laws, this Warrant and all rights hereunder are transferable, in whole or in part, at the office or agency of the Company, referred to in Section 2 hereof, by the holder hereof in person or by duly authorized attorney, upon surrender of this Warrant together with the Assignment Form annexed hereto properly endorsed.

2. Exercise of Warrant. The purchase rights represented by this Warrant are exercisable by the registered holder hereof, in whole or in part, at any time after the date hereof and prior to 4:00 p.m., La Jolla, California time, on the date of termination hereof (as set forth in Section 10), subject to adjustment as hereinafter provided, by the surrender of this Warrant and the Notice of Exercise Form annexed hereto duly executed at the office of the Company, in La Jolla, California (or such other office or agency of the Company as it may designate by notice in writing to the registered holder hereof at the address of such holder appearing on the books of the Company), and upon payment of the Exercise Price for the shares thereby purchased (i) by cash or check or bank draft payable to the order of the Company, (ii) by cancellation of indebtedness of the Company payable to the holder hereof at the time of exercise, or (iii) by delivery of an election in writing to receive a number of shares of Common Stock equal to the aggregate number of shares of Common Stock subject to this Warrant (or the portion thereof being canceled upon such exercise), less that number of shares of Common Stock having a fair market value as of such date equal to the aggregate Exercise Price of the Warrant (or such portion thereof) whereupon the holder of this Warrant shall be entitled to receive a certificate for the number of shares so purchased. The Company agrees that if, at the time of the surrender of this Warrant (or portion thereof) and exercise and purchase as aforesaid, the holder hereof shall be entitled to exercise this Warrant, the shares so purchased shall be and be deemed to be issued to such holder as the record owner of such shares as of the close of business on the date on which this Warrant shall have been exercised as aforesaid.

Certificates for shares purchased hereunder shall be delivered to the holder hereof within a reasonable time after the date on which this Warrant shall have been exercised as aforesaid.

If this Warrant is exercised with respect to less than all of the shares covered hereby, the holder hereof shall be entitled to receive a new Warrant, in this form, covering the number of shares with respect to which this Warrant shall not have been exercised.

The Company covenants that all shares of stock which may be issued upon the exercise of rights represented by this Warrant will, upon exercise of the rights represented by this Warrant, be duly authorized, validly issued, fully paid and nonassessable and free from all taxes, liens and charges in respect of the issue thereof (other than taxes in respect of any transfer occurring contemporaneously with such issue).

3. No Fractional Shares or Scrip. No fractional shares or scrip representing fractional shares shall be issued upon the exercise of this Warrant.

4. Charges, Taxes and Expenses. Issuance of certificates for shares of Common Stock upon the exercise of this Warrant shall be made without charge to the holder hereof for any issue or transfer tax or other incidental expense in respect of the issuance of such certificate, all of which taxes and expenses shall be paid by the Company, and such certificates shall be issued in the name of the holder of this Warrant or in such name or names as may be directed by the holder of this Warrant; provided, however, that in the event certificates for shares of Common Stock are to be issued in a name other than the name of the holder of this Warrant, this Warrant when surrendered for exercise shall be accompanied by the Assignment Form attached hereto duly executed by the holder hereof; and provided further, that upon any transfer involved in the issuance or delivery of any certificates for shares of Common Stock, the Company may require, as a condition thereto, the payment of a sum sufficient to reimburse it for any transfer tax incidental thereto.

5. No Rights as Shareholders. This Warrant does not entitle the holder hereof to any voting rights or other rights as a shareholder of the Company prior to the exercise hereof.

6. Exchange and Registry of Warrant. This Warrant is exchangeable, upon the surrender hereof by the registered holder at the above-mentioned office or agency of the Company, for a new Warrant of like tenor and dated as of such exchange.

7. Loss, Theft, Destruction or Mutilation of Warrant. In case of loss, theft or destruction or mutilation of this Warrant, upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of this Warrant, and in case of loss, theft or destruction, of indemnity or security reasonably satisfactory to the Company, and upon reimbursement to the Company of all reasonable expenses incidental thereto, and upon surrender and cancellation of this Warrant, if mutilated, the Company will make and deliver a new Warrant of like tenor and dated as of such cancellation, in lieu of this Warrant.

8. Saturdays, Sundays, Holidays, etc. If the last or appointed day for the taking of any action or the expiration of any right required or granted herein shall be a Saturday or a Sunday or shall be a legal holiday, then such action may be taken or such right may be exercised on the next succeeding day not a legal holiday.

9. Adjustment. In the event of any subdivision or change or subdivisions or changes of the shares of Common Stock of the Company at any time while this Warrant is outstanding into a greater number of shares of Common Stock, the Company shall thereafter deliver at the time of purchase of shares of Common Stock under this Warrant, in lieu of the number of shares of Common Stock in respect of which the right to purchase is then being exercised, such greater number of shares of Common Stock of the Company as would result from said subdivision or change or subdivisions or changes had the right of purchase been exercised before such subdivision or change or subdivisions or changes without the holder making any additional payment or giving any other consideration therefor. The number of shares for which this Warrant is exercisable and the time period for exercise are subject to adjustment from time to time as follows:

In the event of any consolidation or consolidations of the shares of Common Stock of the Company at any time while this Warrant is outstanding into a lesser number of shares of Common Stock, the Company shall thereafter deliver, and the holder of this Warrant shall accept, at the time of purchase of shares of Common Stock under this Warrant, in lieu of the number of shares of Common Stock in respect of which the right to purchase is then being exercised, such lesser number of shares of Common Stock of the Company as would result from such consolidation or consolidations had the right of purchase been exercised before such consolidation or consolidations.

In the event of any reclassification or reclassifications of the shares of Common Stock of the Company at any time while this Warrant is outstanding, the Company shall thereafter deliver at the time of purchase of shares of Common Stock under this Warrant the number of shares of the Company of the appropriate class or classes resulting from said reclassification or reclassifications as the holder would have been entitled to receive in respect of purchase of shares of Common Stock in respect of which the right of purchase is then being exercised had the right of purchase been exercised before such reclassification or reclassifications.

If the Company, at any time while this Warrant is outstanding, shall distribute any class of shares or rights, options or warrants (other than those referred to above) or evidence of indebtedness or property (excluding cash dividends paid in the ordinary course) to holders of shares of Common Stock of the Company, the number of shares to be issued by the Company under this Warrant shall, at the time of purchase, be appropriately adjusted and the holder shall receive, in lieu of the number of shares in respect of which the right to purchase is then being exercised, the aggregate number of shares or other securities or property that the holder would have been entitled to receive as a result of such event if, on the record date thereof, the holder has been the registered holder of the number of shares of Common Stock to which the holder was theretofore entitled upon exercise of the rights of the holder hereunder.

If the Company, at any time while this Warrant is outstanding, shall pay any stock dividend or stock dividends upon shares of stock of the Company of the class or classes in respect of which the right to purchase is then given under this Warrant, then the Company shall thereafter deliver at the time of purchase of shares under this Warrant, in addition to the number of shares of stock of the Company in respect of which the right of purchase is then being exercised, the additional number of shares of the appropriate class or classes as would have been payable on the shares of stock of the Company so purchased if the shares so purchased had been outstanding on the record date for the payment of the said stock dividend or stock dividends.

On the happening of each and every such event, the applicable provisions of this Warrant shall, ipso facto, be deemed to be amended accordingly and the Company shall take all necessary action so as to comply with such provisions as so amended.

10. Termination. This Warrant shall terminate on the earlier of: (a) _________________, 2008, or (b) the voluntary or involuntary dissolution, liquidation, winding up of the Company, sale of all or substantially all of the assets of the Company, or a merger, consolidation or acquisition of the Company in which the stockholders of the Company prior to such merger, consolidation or acquisition receive cash or securities of another corporation which results in the Company's stockholders not holding (by virtue of such shares or securities issued solely with respect thereto) at least 50% of the voting power of the surviving, continuing or purchasing entity, provided, however, that in the event any such event or transaction described in Section 10(b) hereof is proposed, the Company shall give at least 20 days prior written notice thereof to the holder hereof, stating the approximate date on which such event is to take place and the approximate date (which shall be at least 20 days after the giving of such notice) as of which the owners of the Common Stock of record shall be entitled to exchange their Common Stock for securities or other property deliverable upon such event. Such notice shall provide for the release of the Company's repurchase right with respect to shares issuable upon exercise of this Warrant so that such shares shall no longer be subject to repurchase as of the closing of such transaction. If any such event or transaction shall occur, this Warrant and all rights with respect hereto shall terminate on the date such event or transaction is closed. Notices pursuant to this paragraph shall be given by certified mail, return receipt requested, addressed to the holder hereof at the holder's address in the Company's records, or such other address as the holder hereof shall advise the Company in writing.

11. Registration Rights. The shares issuable upon exercise of this Warrant shall be included in the Company's existing piggyback registration rights, provided that the requisite consent of the other holders of registrable securities of the Company can be obtained. The Company agrees to use its reasonable efforts to obtain such consent.

12. Miscellaneous.

(a) Issue Date. The provisions of this Warrant shall be construed and shall be given effect in all respects as if it had been issued and delivered by the Company on the date hereof. This Warrant shall constitute a contract under the laws of the State of California and for all purposes shall be construed in accordance with and governed by the laws of said state.

(b) Restrictions. The holder hereof acknowledges that the Common Stock acquired upon the exercise of this Warrant shall have restrictions upon its resale imposed by state and federal securities laws.

(c) Authorized Shares. The Company covenants that during the period the Warrant is exercisable, it will reserve from its authorized and unissued Common Stock a sufficient number of shares to provide for the issuance of Common Stock upon the exercise of any purchase rights under this Warrant. The Company further covenants that its issuance of this Warrant shall constitute full authority to its officers who are charged with the duty of executing stock certificates to execute and issue the necessary certificates for shares of the Company's Common Stock upon the exercise of the purchase rights under this Warrant.

(d) No Impairment. The Company will not, by amendment of its Articles of Incorporation or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms of this Warrant, but will at all times in good faith assist in the carrying out of all such terms and in the taking of all such actions as may be necessary or appropriate in order to protect the rights of the holder hereof against impairment.

(e) Notices of Record Date. In case

(i) the Company shall take a record of the holders of its Common Stock for the purposes of entitling them to receive any dividend (other than a cash dividend in the ordinary course) or other distribution, or any right to subscribe for, purchase or otherwise acquire any shares or stock of any class or any other securities or property, or to receive any other right; or

(ii) of any capital reorganization of the Company, any reclassification of the capital stock of the Company, any consolidation or merger of the Company with or into another corporation, or any conveyance of all or substantially all of the assets of the Company to another corporation; or

(iii) of the voluntary or involuntary dissolution, liquidation or winding-up of the Company;

then, and in each such case, the Company will mail or cause to be mailed to the holder of this Warrant a notice specifying, as the case may be, (i) the date on which a record is to be taken for the purpose of such dividend, distribution or right, and stating the amount and character of such dividend, distribution or right, or (ii) the date on which such reorganization, reclassification, consolidation, merger, conveyance, dissolution, liquidation or winding-up is to take place, and the time, if any is to be fixed, as of which the holders of record of Common Stock shall be entitled to exchange their shares of Common Stock for securities or other property deliverable upon such reorganization, reclassification, consolidation, merger, conveyance, dissolution, liquidation or winding-up. Such notice shall be mailed at least thirty (30) days prior to the date therein specified.

IN WITNESS WHEREOF, Neurocrine Biosciences, Inc. has caused this Warrant to be executed by its officers thereunto duly authorized.

Dated: ______________

NEUROCRINE BIOSCIENCES, INC.

By:
Title:

ASSIGNMENT FORM

(To assign the foregoing warrant, execute this form and supply required information. Do not use this form to purchase shares.)

FOR VALUE RECEIVED, the foregoing Warrant and all rights evidenced thereby are hereby assigned to:
whose address is:

Dated: , 19 .

Holder's Signature:
Holder's Address:

Note: The signature to this Assignment Form must correspond with the name as it appears on the face of the Warrant, without alteration or enlargement or any change whatever, and must be guaranteed by a bank or trust company. Officers of corporations and those acting in a fiduciary or other representative capacity should file proper evidence of authority to assign the foregoing Warrant.

NOTICE OF EXERCISE

TO: NEUROCRINE BIOSCIENCES, INC.

(1) The undersigned hereby elects to purchase ____________ shares of Common Stock of Neurocrine Biosciences, Inc. pursuant to the terms of the attached Warrant, and tenders herewith payment of the purchase price in full, together with all applicable transfer taxes, if any.

(2) Please issue a certificate of certificates representing said shares of Common Stock in the name of the undersigned as specified below:

(Name)
(Address)

(3) The undersigned represents that the aforesaid shares of Common Stock are being acquired for the account of the undersigned for investment and not with a view to, or for resale in connection with, the distribution thereof and that the undersigned has no present intention of distributing or reselling such shares.

___________________ ______________________________
(Date) (Signature)

Exhibit 10.1

PUBLIC HEALTH SERVICE

PATENT LICENSE AGREEMENT--EXCLUSIVE
COVER PAGE

For PHS internal use only:

Patent License Number: L-259-97/0

Serial Numbers of Licensed Patents: A.) USPN 5,635,599 (=USSN 08/225,224); B.) USSN 08/722,258 (CIPofUSSN 08/225,224); C.) USPN 4,892,827(=USSN 06/911,227) and D.) USPN5,720,720 [= USSN 08/616,785 (FWC of 08/112,370)].

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

CRADA Number (if applicable): N/A

Additional Remarks: Foreign Patent rights to the '827 Patent reside with the inventors.

This Patent License Agreement, hereinafter referred to as the "Agreement," consists of this Cover Page, an attached Agreement, a Signature Page, Appendix A (List of Patent(s) or Patent Application(s), Appendix B (Fields of Use and Territory), Appendix C (Royalties), Appendix D (Modifications), Appendix E (Benchmarks), Appendix F (Commercial Development Plan) and Appendix G (PHS Incurred Patent Prosecution Costs). The Parties to this Agreement are:

1) The National Institutes of Health ("NIH"), the Centers for Disease Control and Prevention ("CDC"), or the Food and Drug Administration ("FDA"), agencies of the United States Public Health Service ("PHS"), hereinafter singly or collectively referred to as "PHS", within the Department of Health and Human Services ("DHHS"); and

2) The person, corporation, or institution identified above and/or on the Signature Page, having offices at the address indicated on the Signature Page, hereinafter referred to as "Licensee".

PHS PATENT LICENSE AGREEMENT--EXCLUSIVE

PHS and Licensee agree as follows:

1. BACKGROUND

1.01 In the course of conducting biomedical and behavioral research, PHS investigators made inventions that may have commercial applicability.

1.02 By assignment of rights from PHS employees and other inventors, DHHS, on behalf of the United States Government, owns intellectual property rights claimed in any United States and foreign Patent Applications or Patents corresponding to the assigned inventions. DHHS also owns any tangible embodiments of these inventions actually reduced to practice by PHS.

1.03 The Assistant Secretary for Health of DHHS has delegated to PHS the authority to enter into this Agreement for the licensing of rights to these inventions under 35 U.S.C. 200-212, the Federal Technology Transfer Act of 1986, 15 U.S.C. 3710a, and/or the regulations governing the licensing of Government-owned inventions, 37 CFR Part 404.

1.04 PHS desires to transfer these inventions to the private sector through commercialization licenses to facilitate the commercial development of products and processes for public use and benefit.

1.05 Licensee desires to acquire commercialization rights to certain of these inventions in order to develop processes, methods, or marketable products for public use and benefit.

2. DEFINITIONS

2.01 "Benchmarks" mean the performance milestones set forth in Appendix E.

2.02 "Commercial Development Plan" means the written commercialization plan is attached as Appendix F and/or is attached to this Agreement and/or is incorporated by reference into this Agreement.

2.03 "Corporate Collaborator" means a non-affiliate third party to whom Licensee has granted exclusive or non-exclusive commercialization rights, to one or more Licensed Product(s) or Licensed Process(es), but not including exclusive or non-exclusive commercialization rights to manufacture either Licensed Products and/or Licensed Process(es).

2.04 "First Commercial Sale" means, subsequent to the regulatory approval in the respective country, the initial transfer by or on behalf of Licensee or its sublicensees of Licensed Products or the initial practice of a Licensed Process by or on behalf of Licensee or its sublicensees in exchange for cash or some equivalent to which value can be assigned for the purpose of determining Net Sales.

2.05 "Government" means the Government of the United States of America.

"Licensed Fields of Use" means the fields of use identif~ed in Appendix B.

"Licensed Patent Rights" shall mean:

a) U.S. Patent Applications and Patents listed in Appendix A, all divisions and continuations of these Applications, all Patents issuing from such Applications, divisions, and continuations, and any reissues, reexaminations, and extensions of all such Patents;

b) to the extent that the following contain one or more claims directed to the invention or inventions disclosed in a) above: i) continuations-in-part of a) above; ii) all divisions and continuations of these continuations-in-part; iii) all Patents issuing from such continuations-in-part, divisions, and continuations; and iv) any reissues, reexaminations, and extensions of all such Patents;

c) to the extent that the following contain one or more claims directed to the invention or inventions disclosed in a) above: all counterpart foreign Applications and Patents to a) and b) above, excluding those corresponding to United States Patent Number 4,892,827, entitled, "Recombinant Pseudomonas Exotoxin: Construction of An Immunotoxin With Low Side Effects", Inventors; Drs. Ira H. Pastan, Sankar Adhya and David Fitzgerald, as listed in Appendix A.

Licensed Patent Rights shall not include subject matter within b) or c) above to the extent that such subject matter is covered by one or more claims directed to new matter which is not the subject matter disclosed in a) above.

2.08 "Licensed Process(es)" means processes which, in the course of being practiced would, in the absence of this Agreement, infringe one or more claims of the Licensed Patent Rights that have not been held invalid or unenforceable by an unappealed or unappealable judgment of a court of competent jurisdiction.

2.09 "Licensed Product(s)" means tangible materials which, in the course of manufacture, use, or sale would, in the absence of this Agreement, infringe one or more claims of the Licensed Patent Rights that have not been held invalid or unenforceable by an unappealed or unappealable judgment of a court of competent jurisdiction.

2.10 "Licensed Territory" means the geographical area identified in Appendix B.

2.11 "Net Sales" shall mean the total of all amounts invoiced by Licensee and its authorized Affiliates and sublicensees, for sales of Licensed Product(s), net of all separately invoiced and actually incurred charges, including (a) credits, allowances, discounts and rebates to, and charge-backs from the account of, such independent third parties; (b) actual freight and insurance costs incurred in transporting Licensed Product(s) to such independent third parties; (c) reasonable and customary cash, quantity and trade discounts and other price reduction programs; (d) sales, use, value-added and other direct taxes incurred; and (e) customs duties, surcharges and other government charges incurred in connection with the exportation or importation of Licensed Product(s).

"Practical Application" means to manufacture in the case of a composition or product, to practice in the case of a process or method, or to operate in the case of a machine or system; and in each case, under such conditions as to establish that the invention is being utilized and that its benefits are to the extent permitted by law or Government regulations available to the public on reasonable terms.

2.13 "Research License" means a nontransferable, nonexclusive license to make and to use the Licensed Products or Licensed Processes as defined by the Licensed Patent Rights for purposes of research and not for purposes of commercial manufacture or distribution or in lieu of purchase.

2.14 "Affiliate" means a corporation or other business entity which, directly or indirectly, is controlled by, controls, or is under common control with Licensee. For this purpose, the term "control" shall mean ownership of more than forty-eight percent (48%) of the voting stock or other ownership interest of the corporation or other business entity, or the power to elect or appoint more than forty-eight percent (48%) of the members of the governing body of the corporation or other business entity.

2.15 "Optioned Field(s) of Use" means the fields of use identified in Appendix B.

3. GRANT OF RIGHTS

3.01 PHS hereby grants and Licensee accepts, subject to the terms and conditions of this Agreement, an exclusive license under the Licensed Patent Rights, in the

Licensed Territory to make and have made, to use and have used, and to sell and have sold any Licensed Products in the Licensed Fields of Use and to practice and have practiced any Licensed Processes in the Licensed Fields of Use.

3.02 Subject to Article 5, Paragraphs 5.01-5.05, PHS hereby grants and Licensee accepts an exclusive option under the Licensed Patent Rights in the Licensed Territory for any therapeutic application not within the Licensed Field of Use (hereinafter defined as "Optioned Field(s) Use").

3.03 This Agreement confers no license or rights by implication, estoppel, or otherwise under any Patent Applications or Patents of PHS other than Licensed Patent Rights regardless of whether such Patents are dominant or subordinate to Licensed Patent Rights.

4. SUBLICENSING

4.01 Licensee will provide PHS written notice of its intent to sublicense the Licensed Patent Rights and a copy of the term sheet and/or pertinent sublicensing terms within thirty (30) days [***]. However, PHS has the right to require deletion or mod)fication of any provision(s) of such sublicensing agreement(s) which PHS determines to be contrary to Law or Federal Statutes.

4.02 Licensee agrees that any sublicenses granted by it shall provide that the obligations to PHS of paragraphs 6.01-6.04, 9.01-9.02, 11.01-11.02, 13.05 and 14.07-14.09 of this Agreement shall be binding upon the sublicensee as if it were a party to this Agreement. Licensee further agrees to attach copies of these Paragraphs to all sublicense agreements.

4.03 Any sublicenses granted by Licensee shall provide for the termination of the sublicense, or the conversion to a license directly between such sublicensees and PHS, at the option of the sublicensee, upon termination of this Agreement under Article 14. Such conversion is subject to PHS approval and contingent upon acceptance by the sublicensee of the remaining provisions of this Agreement.

4.04 Licensee agrees to forward to PHS a copy of each fully executed sublicense agreement postmarked within sixty (60) days of the execution of such agreement. To the extent permitted by law, PHS agrees to maintain each such sublicense agreement in confidence.

5. OPTION

5.01 The option period shall extend for five (5) years from the effective date of this Agreement. Subject to the provisions of this Article 5, PHS will not offer an exclusive or non-exclusive license or an exclusive or non-exclusive option to any third party until the end of the option period, [***].

5.02 Licensee may exercise its option by providing a written notice to PHS prior to expiration of the option period [***], said notice shall include a Commercial Development Plan and Benchmarks for each therapeutic application within the Optioned Field(s) of Use for which Licensee will undertake development.

5.03 [***], PHS will be free to license Licensed Patent Rights within the Optioned Field(s) of Use to a third party [***] upon any terms PHS deems to be commercially reasonable.

The Commercial Development Plan(s) and Benchmarks set forth in Paragraph 5.02 shall be subject to PHS ~ review and approval.

5.05 Upon PHS's receipt, review and approval of the Commercial Development Plan(s) and Benchmarks, the parties to this Agreement shall meet and negotiate in good faith the term of license for the use of the License Patent Rights for each of the therapeutic applications be: requested by Licensee within the Optioned Field(s) of Use. If the parties cannot agree upon terms of a license for the Optioned Field(s) of Use within sixty (60) days after entering into negotiations, PHS shall be free to license the Licensed Patent Rights for such Optioned Fields of Use to a third party (a) at any time within two (2) months from the termination of such negotiations at terms no more favorable than those last offered to Licensee, or (b) at any time subsequent to the expiration of three (3) months from the termination of such negotiations any terms PHS deems to be commercially reasonable.

6. STATUTORY AND PHS REQUIREMENTS AND RESERVED GOVERNMENT RIGHTS

6.01 PHS reserves on behalf of the Government an irrevocable, nonexclusive, nontransferable, royalty-free license for the practice of all inventions licensed under the Licensed Patent Rights throughout the world by or on behalf of the Government and on behalf of any foreign government or international organization pursuant to any existing or future treaty or agreement which the Government is a signatory. Prior to the First Commercial Sale, Licensee agrees to provide PHS mutually acceptable quantities of Licensed Products or materials made through Licensed Processes for research use. PHS shall supply Licensee with a research plan outlining its intended use of the Licensed Products or materials made through the Licensed Processes supplied by Licensee to PHS. PHS will allow Licensee to provide its input regarding the PHS research plan and PHS will provide Licensee with a summary of its results of research under research plan.

6.02 Licensee agrees that products used or sold in the United States embodying Licensed Products or produced through use of Licensed Processes shall be manufactured substantially in the United States, unless a written waiver is obtained in advance from PHS.

6.03 Licensee acknowledges that PHS may enter into future Cooperative Research and Development Agreements (CRADAs) under the Federal Technology Transfer Act of 1986 that relate to the subject matter of this Agreement. Licensee agrees not to unreasonably deny requests for a Research License from such future collaborators with PHS when acquiring such rights is necessary in order to make a CRADA project feasible. Licensee may request an opportunity to join as a party to the proposed CRADA.

6.04 In addition to the reserved license of Paragraph 5.01 above, PHS reserves the right to grant such nonexclusive Research Licenses directly or to require Licensee to grant nonexclusive Research Licenses on reasonable terms. The purpose of this Research License is to encourage basic research, whether conducted at an academic or corporate facility. In order to safeguard the Licensed Patent Rights, however, PHS shall obtain the prior written consent of Licensee, which consent shall not be unreasonably withheld, before granting an commercial entities a Research License. If PHS desires to provide research samples of biological materials claimed under the Licensed Patent Rights to a commercial entity, PHS shall only do so under an appropriate Research License or Material Transfer Agreement.

7. ROYALTIES AND REIMBURSEMENT

7.01 Licensee agrees to pay to PHS a noncreditable, nonrefundable license issue royalty as set forth in Appendix C within thirty (30) days from the date that this Agreement becomes effective.

7.02 Licensee agrees to pay to PHS a [***] royalty payment as set forth in Appendix C. The [***] royalty payment is due and payable on [***]. The [***] royalty payment due for the first [***] of this Agreement may be prorated according to the fraction of the calendar year remaining between the effective date of the Agreement and the [***].

7.03 Licensee agrees to pay PHS earned royalties as set forth in Appendix C.

7.04 Licensee agrees to pay PHS benchmark royalties as set forth in Appendix C.

7.05 Licensee agrees to pay [***] as set forth in Appendix C.

7.06 A claim of a Patent or Patent Application licensed under this Agreement shall cease to fall within the Licensed Patent Rights for the purpose of computing the minimum annual royalty and earned royalty payments in any given country on the earliest of the dates that a) the claim has been abandoned but not continued, b) the Patent expires or irrevocably lapses, or c) the claim has been held to be invalid or unenforceable by an unappealed or unappealable decision of a court of competent jurisdiction or administrative agency.

7.07 No multiple royalties shall be payable because any Licensed Products or Licensed Processes are covered by more than one of the Licensed Patent Rights.

7.08 On sales of Licensed Products by Licensee to sublicensees or aff~liated parties or on sales made in other than an arm's-length transaction, the value of the Net Sales attributed under this Article 6 to such a transaction shall be that which would have been received in an arm's-length transaction, based on sales of like quantity and quality products on or about the time of such transaction. Sales of Licensed Products for use in preclinical and clinical testing and sales of Licensed Products, on a non-commercial basis, for research purposes are excluded from this provision, as are limited interim transfers of Licensed Products to Affiliates, sublicensees or incidental to a partnership or joint venture collaboration between Licensee and a third party.

7.09 With regard to expenses associated with the preparation, filing, prosecution, and maintenance of all Patent Applications and Patents, except for USPN 4,892,827 (= USSN 06/911,227), included within the Licensed Patent Rights incurred by PHS prior to the effective date of this Agreement, Licensee shall pay to PHS, as an additional royalty, within sixty (60) days of PHS's submission of a statement and request for payment to Licensee, the amount [***] to cover Patent expenses previously incurred by PHS and detailed in Appendix G.

With regard to expenses associated with the preparation, filing, prosecution, and maintenance of all Patent Applications and Patents included within the Licensed Patent Rights incurred by PHS on or after the effective date of this Agreement, PHS, at its sole option, may require Licensee:

(a) to pay PHS on an annual basis, within sixty (60) days of PHS's submission of a statement and request for payment, a royalty amount equivalent to all such Patent expenses incurred during the previous calendar year(s); or

(b) to pay such expenses directly to the law firm employed by PHS to handle such functions. However, in such event, PHS and not Licensee shall be the client of such law firm.

Under exceptional circumstances, Licensee may be given the right to assume responsibility for the preparation, filing, prosecution, or maintenance of any Patent Application or Patent included with the Licensed Patent Rights. In that event, Licensee shall directly pay the attorneys or agents engaged to prepare, file, prosecute or maintain such Patent Applications or Patents and shall provide to PHS copies of each invoice associated with such services as well as documentation that such invoices have been paid.

Licensee may elect to surrender its rights in any country of the Licensed Territory under any Licensed Patent Rights upon sixty (60) days written notice to PHS and owe no further obligation for Patent-related expenses incurred in that country after the effective date of such written notice.

8. PATENT FILING, PROSECUTION, AND MAINTENANCE

8.01 Except as otherwise provided in this Article 8, PHS agrees to take responsibility for, but to consult with, the Licensee in the preparation, filing, prosecution, and maintenance of any Patent Applications or Patents included in the Licensed Patent Rights and shall furnish cof relevant Patent-related documents to Licensee.

8.02 Upon execution of this Agreement, Licensee shall assume the responsibility for the preparation, filing, prosecution, and maintenance of United States Patent Number 5,635,599 and United States Patent Application Serial Numbers 08/722,258 and 08/616,785 of Licensed Patent Rights, including all relevant continuations-in-part, all divisions and continuations of these continuation in-part; all Patents issuing from such continuation-in-part, divisions, and continuations, and any reissues, reexaminations and extensions of all such Patents, and shall on an ongoing basis promptly furnish copies of all Patent-related documents to PHS. In such event, Licensee shall, subject to the prior approval of PHS, select registered Patent attorneys or Patent agents to provide such services on behalf of Licensee and PHS.PHS shall provide appropriate powers of attorney and other documents necessary to undertake such actions to the Patent attorneys or Patent agents providing such services. Licensee and its attorneys or agents shall consult with PHS in all aspects of the preparation, filing, prosecution and maintenance of Patent Applications and Patents included within the Licensed Patent Rights and shall provide PHS sufficient opportunity to comment on any document that Licensee intends to file or to cause to be filed with the relevant intellectual property or Patent office.

8.03 If Licensee has assumed control of the Licensed Patent Rights in accordance with Paragraphs 7.10 and 8.02, at any time, PHS may provide Licensee with written notice that PHS wishes to assume control of the preparation, filing, prosecution, and maintenance of any and all Patent Applications or Patents included in the Licensed Patent Rights. If PHS elects to assume such responsibilities, Licensee agrees to cooperate fully with PHS, its attorneys and agents in the preparation, filing, prosecution, and maintenance of any and all Patent Applications or Patents included in the Licensed Patent Rights and to provide PHS with complete copies of any and all documents or other materials that PHS deems necessary to undertake such responsibilities. Licensee shall be responsible for all costs associated with transferring Patent prosecution responsibilities to an attorney or agent of PHS's choice.

8.04 Each party shall promptly inform the other as to all matters that come to its attention that may affect the preparation, filing, prosecution, or maintenance of the Licensed Patent Rights and permit each other to provide comments and suggestions with respect to the preparation, filing, and prosecution of Licensed Patent Rights, which comments and suggestions shall be considered by the other party.

9. RECORD KEEPING

9.01 Licensee agrees to keep accurate and correct records of Licensed Products made, used, or sold and Licensed Processes practiced under this Agreement appropriate to determine the amount of royalties due PHS. Such records shall be retained for at least [***] years following a given reporting period. Upon the written request of PHS, and not more than once per calendar year, unless PHS determines there is reason(s) for more frequent inspections, Licensee shall permit an accountant or other designated auditor selected by PHS to inspect such records for the sole purpose of verifying reports and payments hereunder at the expense of PHS. The accountant or auditor shall only disclose to PHS infonnation relating to the accuracy of reports and payments made under this Agreement. If an inspection shows an underreporting or underpayment in excess of [***] for any twelve (12) month period, then Licensee shall reimburse PHS for the cost of the inspection at the time Licensee pays the unreported royalties, including any late charges as required by Paragraph 10.08 of this Agreement. All payments required under this Paragraph shall be due within thirty (30) days of the date PHS provides Licensee notice of the payment due.

9.02 Licensee agrees to conduct an independent audit of sales and royalties at least every two years if annual sales of the Licensed Product or Licensed Processes are over [***] dollars. The audit shall address, at a minimum, the amount of gross sales by or on behalf of Licensee during the audit period, the amount of funds owed to the Government under this Agreement, and whether the amount owed has been paid to the Government and is reflected in the records of the Licensee. A report by the auditor shall be submitted promptly to PHS on completion. Licensee shall pay for the entire cost of the audit, however, Licensee may credit [***] of such costs for the audit against any future royalties due to PHS under this Agreement.

10. REPORTS ON PROGRESS. BENCHMARKS. SALES. AND PAYMENTS

10.01 Prior to signing this Agreement, Licensee has provided to PHS the Commercial Development Plan attached and/or as Appendix F, under which Licensee intends to bring the subject matter of the Licensed Patent Rights to the point of Practical Application. This Commercial Development Plan is attached and/or hereby incorporated by reference into this Agreement. Based on this plan, performance Benchmarks are determined as specified in Appendix E.

10.02 Licensee shall provide written annual reports on its product development progress or efforts to commercialize under the Commercial Development Plan for each of the Licensed Fields of Use within sixty (60) days after December 31 of each calendar year. These progress reports shall include, but not be limited to: progress on research and development, status of applications for regulatory approvals, manufacturing, sublicensing, marketing, and sales during the preceding calendar year, as well as plans for the present calendar year. PHS also encourages these reports to include information on any of Licensee's public service activities that relate to the Licensed Patent Rights. If reported progress differs from that projected in the Commercial Development Plan and Benchmarks, Licensee shall explain the reasons for such differences. Licensee agrees to provide any additional information reasonably required by PHS to evaluate Licensee's performance under this Agreement. PHS shall not unreasonably withhold approval of any request of Licensee to extend the time periods of this schedule if such request is supported by a reasonable showing by Licensee of diligence in its performance under the Commercial Development Plan and toward bringing the Licensed Products to the point of Practical

10.03 Licensee shall report to PHS the date of the First Commercial Sale in each country in the Licensed Territory within thirty (30) days of such occurrence.

10.04 Licensee shall submit to PHS within sixty (60) days after each [***] a royalty report setting forth for the preceding half-year period the amount of the Licensed Products sold or Licensed Processes practiced by or on behalf of Licensee in each country within the Licensed Territory, the Net Sales, and the amount of royalty accordingly due. With each such royalty report, Licensee shall submit payment of the earned royalties due. If no earned royalties are due to PHS for any reporting period, the written report shall so state. The royalty report shall be certified as correct by an authorized of ficer of Licensee and shall include a detailed listing of all deductions made under Paragraph 2.10 to determine Net Sales made under Article 7 to determine royalties due.

10.05 Licensee agrees to forward [***] to PHS a copy of such reports received by Licensee from its sublicensees during the preceding [***] period as shall be pertinent to a royalty accounting to PHS by Licensee for activities under the sublicense.

10.06 Royalties due under Article 6 shall be paid in U.S. dollars. For conversion of foreign currency to U.S. dollars, the conversion rate shall be the New York foreign exchange rate quoted in The Wall Street Journal on the day that the payment is due. All checks and bank drafts shall be drawn on United States banks and shall be payable, as appropriate, for FDA or NIH licenses to the National Institutes of Health, P.O. Box 360120, Pittsburgh, Pennsylvania 15251-6120. Any loss of exchange, value, taxes, or other expenses incurred in the transfer or conversion to U.S. dollars shall be paid entirely by Licensee. The royalty report required by Paragraph 9.04 of this Agreement shall accompany each such payment and a copy of such report shall also be mailed to PHS at its address for notices indicated on the Signature Page of this Agreement.

10.07 The parties acknowledge that Licensee and its sublicensees may be obligated to pay taxes, fees, assessments or other charges imposed by government authorities (the "Charges") up on royalty payments payable in connection with the sale of Licensed Products. Licensee and its sublicensees shall provide PHS with documentation regarding the Charges and the payment of such Charges to the appropriate governmental authorities. Licensee and its sublicensees shall deduct all such Charges from the royalty payments due in Paragraph 7.03 and shall provide a listing of all such Charges in the royalty report due in Paragraph 10.04. Licensee shall pay the Charges to the appropriate governmental authorities. Licensee shall promptly provide PHS with any documents which may reasonably be necessary for PHS to obtain any credit to which it may be entitled with respect to the Charges.

10.08 Late charges will be assessed by PHS as additional royalties on any overdue payments at a rate of [***] percent per month compounded monthly. The payment of such late charges shall not prevent PHS from exercising any other rights it may have as a consequence of the lateness of any payment.

10.09 All plans and reports required by this Article 10 and marked confidential" by Licensee shall, to the extent permitted by law, be treated by PHS as commercial and financial information obtained from a person and as privileged and confidential and any proposed disclosure of such records by the PHS under the Freedom of Information Act, 5 U.S.C. 552 shall be subject to the predisclosure notification requirements of 45 CFR 5.65(d).

11. PERFORMANCE

11.01 Licensee shall use its reasonable best efforts to bring the License Products and Licensed Processes to Practical Application. "Reasonable best efforts" for the purposes of this provision shall include Licensee's good faith attempts to adhere to the Commercial Development Plan at Appendix F and perform the Benchmarks at Appendix E.
The efforts of a sublicensee shall be considered the efforts of Licensee.

11.02 Upon the First Commercial Sale, until the expiration of this Agreement, Licensee shall use its reasonable best efforts to make Licensed Products and Licensed Processes reasonably accessible to the United States public.

12. INFRINGEMENT AND PATENT ENFORCEMENT

12.01 PHS and Licensee agree to notify each other promptly of each infringement or possible infringement of the Licensed Patent Rights, as well as any facts which may affect the validity, scope, or enforceability of the Licensed Patent Rights of which either Party becomes aware.

12.02 Pursuant to this Agreement and the provisions of Chapter 29 of title 35, United States Code, Licensee may a) bring suit in its own name, at its own expense, and on its own behalf for infringement of presumably valid claims in the Licensed Patent Rights; b) in any such suit, enjoin infringement and collect for its use, damages, profits, and awards of whatever nature recoverable for such infringement; and c) settle any claim or suit for infringement of the Licensed Patent Rights provided, however, that [***]. If Licensee desires to initiate a suit for Patent infringement Licensee shall notify PHS in writing. If PHS does not [***]. PHS shall have a continuing right to intervene in such suit. Licensee shall take no action to compel the Government either to initiate or to join in any such suit for Patent infringement. Licensee may request the Government to initiate or join in any such suit if necessary to avoid dismissal of the suit. Should the Government be made a party to any such suit, Licensee shall reimburse the Government for any costs, expenses, or fees which the Government incurs as a result of such motion or other action, including any and all costs incurred by the Government in opposing a such motion or other action. In all cases, Licensee agrees to keep PHS reasonably apprised of status and progress of any litigation. Before Licensee commences an infringement action, Licensee shall notify PHS and give careful consideration to the views of PHS and to any potential effects of the litigation on the public health in deciding whether to bring suit.

12.03 In the event that a declaratory judgment action alleging invalidity or non-infringement of any of the Licensed Patent Rights shall be brought against Licensee or raised by way of counterclaim or affirmative defense in an infringement suit brought by Licensee under Paragraph 12.02, pursuant to this Agreement and the provisions of Chapter 29 of Title 35, United States Code or other statutes, Licensee may a) defend the suit in its own name, at its own expense, and on its own behalf for presumably valid claims in the Licensed Patent Rights; b) in any such suit, ultimately to enjoin infringement and to collect for its use, damages, profits, and awards of whatever nature recoverable for such infringement; and c) settle any claim or suit for declaratory judgment involving the Licensed Patent Rights-provided, however, that PHS and appropriate Government Patent License Agreement authorities shall have the first right to take such actions and shall have a continuing right to intervene in such suit. If PHS does not notify Licensee of its intent to respond to the legal action within sixty (60) days, Licensee will be free to do so. Licensee shall take no action to compel the Government either to initiate or to join in any such declaratory judgment action. Licensee may request the Government to initiate or to join any such suit if necessary to avoid dismissal of the suit. Should the Government be made a party to any such suit by motion or any other action of Licensee, Licensee shall reimburse the Government for any costs, expenses, or fees which the Government incurs as a result of such motion or other action. If Licensee elects not to defend against such declaratory judgment action, PHS, at its option, may do so at its own expense. In all cases, Licensee agrees to keep PHS reasonably apprised of the status and progress of any litigation. Before Licensee commences an infringement action, Licensee shall notify PHS and give careful consideration to the views of PHS and to any potential effects of the litigation on the public health in deciding whether to bring suit.

12.04 In any action under Paragraphs 12.02 or 12.03 initiated by Licensee, the expenses including costs, fees, attorney fees, and disbursements, shall be paid by Licensee. [***].

12.05 PHS shall cooperate fully with Licensee in connection with any action under Paragraphs 12.02 or 12.03. PHS agrees promptly to provide access to all necessary documents and to render reasonable assistance in response to a request by Licensee.

13. NEGATION OF WARRANTIES AND INDEMNIFICATION

13.01 PHS offers no warranties other than those specified in Article 1.

13.02 PHS represents to the best of knowledge and belief of PHS, as of the execution date hereof, there are no Patents or Patent Applications of PHS, other than those within the Licensed Patent Rights, which would dominate the manufacture, use or sale of Licensed Product(s) or the use of Licensed Process(es).

13.03 PHS does not warrant the validity of the Licensed Patent Rights and makes no representations whatsoever with regard to the scope of the Licensed Patent Rights, or that the Licensed Patent Rights may be exploited without infringing other Patents or other intellectual property rights of third parties.

13.04 PHS MAKES NO WARRANTIES, EXPRESSED OR IMPLIED, OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OF ANY SUBJECT MATTER DEFINED BY THE CLAIMS OF THE LICENSED PATENT RIGHTS.

13.05 PHS does not represent that it will commence legal actions against third parties infringing the Licensed Patent Rights.

13.06 Licensee shall indemnify and hold PHS, its employees, students, fellows, agents, and consultants harmless from and against all liability, demands, damages, expenses, and losses, including but not limited to death, personal injury, illness, or property damage in connection with or arising out of activities performed subsequent to the execution of the Agreement of a) the use by or on behalf of Licensee, its Affiliates, sublicensees, and contractors and their respective directors and employees of any Licensed Patent Rights, or b) the design, manufacture, distribution, or use of any Licensed Products, Licensed Processes or materials by Licensee, or other products or processes developed by Licensee, its Affiliates, sublicensees, and contractors in connection with or arising out of the Licensed Patent Rights. Licensee agrees to maintain a liability insurance program consistent with sound business practice.

14. TERM. TERMINATION. AND MODIFICATION OF RIGHTS

14.01 This Agreement is effective when signed by all parties and shall extend to the expiration of the last to expire of the Licensed Patent Rights on a country-by-country basis, unless sooner terminated as provided in this Article 14.

14.02 In the event that Licensee is in default in the performance of any material obligations under this Agreement, including but not limited to the obligations listed in Article 14.05, and if the default has not been remedied within ninety (90) days after the date of notice in writing of such default, PHS may terminate this Agreement by written notice.

14.03 In the event that Licensee becomes insolvent, files a petition in bankruptcy, has such a petition filed against it, determines to file a petition in bankruptcy, or receives notice of a third party's intention to file an involuntary petition in bankruptcy, Licensee shall immediately notify PHS in writing.

14.04 Licensee shall have a unilateral right to terminate this Agreement and/or any licenses in any country by giving PHS sixty (60) days written notice to that effect.

14.05 PHS shall specifically have the right to terminate or modify, at its option, this Agreement, if PHS determines that the Licensee: 1) is not executing the Commercial Development Plan submiKed with its request for a license and the Licensee carmot otherwise demonstrate to PHS's satisfaction that the Licensee has taken, or can be expected to take within a reasonable time, effective steps to achieve practical application of the Licensed Products or Licensed Processes; 2) has not achieved the Benchmarks as may be mod)fied under Paragraph 10.02; 3) has willfully made a false statement of, or willfully omitted, a material fact in the license application or in any report required by the license agreement; 4) has committed a material breach of a covenant or agreement contained in the license; 5) is not keeping Licensed Products or Licensed Processes reasonably available to the public after commercial use commences; 6) cannot reasonably satisfy uninet health and safety needs; or 7) cannot reasonably justify a failure to comply with the domestic production requirement of Paragraph 6.02 unless waived. In making this determination, PHS will talce into account the normal course of such commercial development programs conducted with sound and reasonable business practices and judgment and the ar~nual reports submitted by Licensee under Paragraph 10.02. Prior to invoking this right, PHS shall give written notice to Licensee providing Licensee specific notice of, and a ninety (90) day opportunity to respond to, PHS's concerns as to the previous items 1) to 7). If Licensee fails to alleviate PHS's concerns as to the previous items 1) to 7) or fails to initiate corrective action to PHS's satisfaction, PHS may terminate this Agreement.

14.06 When the public health and safety so require, and after written notice to Licensee providing Licensee a sixty (60) day opportunity to respond, PHS'shall have the right to require Licensee to grant sublicenses to responsible applicants, on reasonable terms, in any Licensed Fields of Use under the Licensed Patent Rights, unless Licensee can'reasonably demonstrate that the granting of the sublicense would not materially increase the availability to the public of the subject matter of the Licensed Patent Rights. PHS will not require the granting of a sublicense unless the responsible applicant has first negotiated in good faith with Licensee.

14.07 PHS reserves the right according to 35 U.S.C. * 209(f)(4) to terminate or modify this Agreement if it is determined that such action is necessary to meet requirements for public use specified by federal regulations issued after the date of the license and such requirements are not reasonably satisfied by Licensee.

14.08 Within thirty (30) days of receipt of written notice of PHS's unilateral decision to modify or terminate this Agreement, Licensee may, consistent with the provisions of 37 CFR 404.11, appeal the decision by written submission to the designated PHS official. The decision of the designed PHS official shall be the final agency decision. Licensee may thereafter exercise any and all administrative or judicial remedies that may be available.

14.09 Within ninety (90) days of expiration or termination of this Agreement under this Article 14, a final report shall be submitted by Licensee. Any royalty payments, including those related to Patent expense, due to PHS shall become immediately due and payable upon termination or expiration. If terminated under this Article 14, sublicensees may elect to convert their sublicenses to direct licenses with PHS pursuant to Paragraph 4.03.

15. GENERAL PROVISIONS

15.01 Neither Party may waive or release any of its rights or interests in this Agreement except in writing. The failure of the Government to assert a right hereunder or to insist upon compliance with any term or condition of this Agreement shall not constitute a waiver of that right by the Government or excuse a similar subsequent failure to perform any such term or condition by Licensee.

15.02 This Agreement constitutes the entire agreement between the Parties relating to the subject matter of the Licensed Patent Rights, and all prior negotiations, representations, agreements, and understandings are merged into, extinguished by, and completely expressed by this Agreement.

15.03 The provisions of this Agreement are severable, and in the event that any provision of this Agreement shall be determined to be invalid or unenforceable under any controlling body c such determination shall not in any way affect the validity or enforceability of the remainin~ provisions of this Agreement.

15.04 If either Party desires a mod)fication to this Agreement, the Parties shall, upon reasonable notice of the proposed mod)fication by the Party desiring the change, confer in good faith to determine the desirability of such mod)fication. No mod)fication will be effective until a written amendment is signed by the signatories to this Agreement or their designees.

15.05 The construction, validity, performance, and effect of this Agreement shall be governed by Federal law as applied by the Federal courts in the District of Columbia.

15.06 All notices required or permitted by this Agreement shall be given by prepaid, first class, registered or certified mail properly addressed to the other Party at the address designated on the following Signature Page, or to such other address as may be designated in writing by such other Party, and shall be effective as of the date of the postmark of such notice.

15.07 This Agreement shall not be assigned by Licensee except a) with the prior written consent of PHS, such consent not to be withheld unreasonably; or b) as part of a sale or transfer of substantially the entire business of Licensee relating to operations which concern this Agreement. Licensee shall notify PHS within ten (10) days of any assignment of this Agreement by Licensee.

15.08 Licensee agrees in its use of any PHS-supplied materials to comply with all applicable statutes, regulations, and guidelines, including Public Health Service and National Institutes of Health regulations and guidelines. Licensee agrees not to use the materials for research involving human subjects or clinical trials in the United States without complying with 21 CFR Part 50 and 45 CFR Part 46. Licensee agrees not to use the materials for research involving human subjects or clinical trials outside of the United States without notifying PHS, in writing, of such research or trials and complying with the applicable regulations of the appropriate national control authorities. Written not)fication to PHS of research involving human subjects or clinical trials outside of the United States shall be given no later than sixty (60) days prior to commencement of such research or trials.

15.09 Licensee acknowledges that it is subject to and agrees to abide by the United States laws and regulations (including the Export Administration Act of 1979 and Arms Export Control Act) controlling the export of technical data, computer software, laboratory prototypes, biological material, and other commodities. The transfer of such items may require a license from the cognizant Agency of the U.S. Government or written assurances by Licensee that it shall not export such items to certain foreign countries without prior approval of such agency. PHS neither represents that a license is or is not required or that, if required, it shall be issued.

15.10 Licensee agrees to mark the Licensed Products or their packaging sold in the United States with all applicable U.S. Patent numbers and similarly to indicate "Patent Pending" status. All Licensed Products manufactured in, shipped to, or sold in other countries shall be marked in such a manner as to preserve PHS Patent rights in such countries.

15.11 By entering into this Agreement, PHS does not directly or indirectly endorse any product or service provided, or to be provided, by Licensee whether directly or indirectly related to this Agreement. Licensee shall not state or imply that this Agreement is an endorsement by the Government, PHS, any other Government organizational unit, or any Government employee. Additionally, Licensee shall not use the names of NIH, CDC, PHS, or DHHS or the Government or their employees in any advertising, promotional, or sales literature without the prior written consent of PHS.

15.12 The Parties agree to attempt to settle amicably any controversy or claim arising under this Agreement or a breach of this Agreement, except for appeals of modifications or termination decisions provided for in Article 13. Licensee agrees first to appeal any such unsettled clad or controversies to the designated PHS official, or designee, whose decision shall be considered the final agency decision. Thereafter, Licensee may exercise any administrative or judicial remedies that may be available.

15.13 Nothing relating to the grant of a license, nor the grant itself, shall be construed to confer upon any person any immunity from or defenses under the antitrust laws or from a charge of Patent misuse, and the acquisition and use of rights pursuant to 37 CFR PaTt 404 shall not be immuniz~ from the operation of state or Federal law by reason of the source of the grant.

15.14 Paragraphs 4.03, 9.01-9.02, 10.06-10.08, 13.01-13.05, 14.08, 14.09, and l5.12 of this Agreement shall survive termination of this Agreement.

PHS PATENT LICENSE AGREEMENT--EXCLUSIVE
SIGNATURE PAGE

IN WITNESS WHEREOF, the parties have executed this agreement on the dates set forth below. The Effective Date of this Agreement shall mean the date on which the last party to this Agreement signs. Any communication or notice to be given shall be forwarded to the respective addresses listed below.

FOR PHS

/s/ Jack Spiegle, Ph.D May 7, 1998
Director, Division of Technology Development and Transfer
Office of Technology Transfer
National Institutes of Health

Mailing Address for Notices:
Office of Technology Transfer
National Institutes of Health
6011 Executive Boulevard, Suite 325
Rockville, Maryland 20852

FOR LICENSEE (The undersigned expressly certifies or affirms that the contents of any statements of LICENSEE, made or referred to in this document are truthful and accurate.)

/s/ Gary Lyons May 7, 1998
President and C.E.O.
Neurocrine Biosciences, Inc.

Mailing Address for Notices:
Neurocrine Biosciences, Inc.
Attn.: Gary A. Lyons
President and C.E.O.
3050 Science Park Road
San Diego, California 92121

APPENDIX A--Patent(s) or Patent Application(s)

Licensed Patent Rights

USPN 5,635,599 (= USSN 08/225,224), Entitled, "Circularly Permuted Ligands And Circularly Permuted Fusion Proteins", Inventors: Drs. Ira H. Pastan, Robert Kreitman, and Raj K. Puri.

USSN 08/722,258 (= CIP of USSN 08/225,224), Entitled, "Circularly Permuted Ligands and Circularly Permuted Chimeric Molecules", Drs. Ira H. Pastan and Robert Kreitman.

USPN 4,892,827 (= USSN 06/911,227), Entitled, "Recombinant Pseudomonas Exotoxin: Construction of an Active Immunotoxin with Low Side Effects", Inventors: Drs. Ira H. Pastan, Sankar Adhya, and David Fitzgerald, - excluding any foreign equivalents corresponding to 4,892,827 (= USSN 06/911,227).

USSN 08/616,785, Entitled "Convention-enhanced Drug Delivery", Inventors: Drs. Douglas W. Laske, Edward H. Oldfield, Richard H. Bobo, Robert L. Denrick, and Paul F. Morrison.

Licensed Fields of Use:

The use of Interleukin-4/Cytotoxin Fusion Proteins for the Therapeutic Treatment of Cancer.

Licensed Territory:

Worldwide

Optioned Field(s) of Use:

The use of the Licensed Patent Rights for a therapeutic application(s) of Interleukin4/Cytotoxin Fusion Proteins outside of the Licensed Fields of Use.

APPENDIX C--Royalties

Licensee agrees to pay to PHS a noncreditable, nonrefundable license issue royalty in the amount of [***] housand dollars [***].

Licensee agrees to pay to PHS a nonrefundable minimum annual royalty in the amount of ten thousand dollars ($10,000.00) for each year this Agreement is in [***].

Licensee agrees to pay PHS earned royalties on Net Sales as follows:

A. [***] on Net Sales of Licensed Products made, have made, used, or sold by Licensee or its sublicensees in the United States and Licensee or its sublicensees shall be entitled to a [***] credit against the earned royalty rate for each [***] of royalty which Licensee must pay to other unaffiliated licensors for all therapeutically active ingredients required for the manufacture or sale of Licensed Products except for royalty which Licensee must pay to other unaffiliated licensors for all counterpart foreign Applications and Patents corresponding to United States Patent Number 4,892,827, entitled, "Recombinant Pseudomonas Exotoxin: Construction Of An Immunotoxin With Low Side Effects", inventors; Pastan, A&ya and Fitzgerald, as listed in Appendix A. However, in no event shall the earned royalty due to PHS for the sale of Licensed Products fall below [***].

B. [***] on Net Sales of Licensed Products made, have made, used, or sold by Licensee or its sublicensees in the Licensed Territory outside of the United States.

Licensee agrees to pay PHS benchmark royalties as follows:

[***]

PHS and Licensee agree to the following modifications to the Articles and Paragraphs of this Agreement:

NONE DOES NOT APPLY/ NO MODIFICATIONS OR AMENDMENTS ARE HEREBY MADE TO THIS AGREEMENT.

APPENDIX E - Benchmarks and Performance

Licensee agrees to the following Benchmarks for its performance under this Agreement and, within ten (10) days of Licensee achieving a Benchmark, shall notify PHS in writing that a given Benchmark has been achieved.

[***]

APPENDIX F--Commercial Development Plan

See Neurocrine Biosciences, Inc.'s License Application for L-259-97/0.

The Neurocrine Bioscience, Inc. "Commercial Development Plan" is attached to this Agreement and/or hereby incorporated by reference into this Agreement.

APPENDIX G--PHS Reimbursable Patent Prosecution Costs

As set forth in Section 7.09 of this Agreement.

1. USPN 5,635,599 (= USSN 08/225,224), Entitled, "Circularly Permuted Ligands And Circularly Permuted Fusion Proteins", Inventors: Drs. Ira H. Pastan, Robert Kreit~nan, and Raj K. Puri.
[***]

2. USSN 08/722,258 (= CIP of USSN 08/225,224), Entitled, "Circularly Permuted Ligands and Circularly Permuted Chimeric Molecules", Drs. Ira H. Pastan and Robert Kreitman.
[***]

3. USSN 08/616,785, Entitled "Convention-enhanced Drug Delivery", Inventors: Drs. Douglas W. Laske, Edward H. Oldfield, Richard H. Bobo, Robert L. Denrick, and Paul F. Morrison.
[***]

TOTAL AMOUNT: [***]

Exhibit 10.2

PASTAN/FITZGERALD AND NEUROCRINE BIOSCIENCES, INC.
PATENT LICENSE AGREEMENT

PATENT LICENSE AGREEMENT dated as of April 28, 1998, between Ira Pastan and David J. FitzGerald (collectively, "Licensor") and Neurocrine Biosciences, Inc., a California corporation having an office at 3050 Science Park Road, San Diego, California 92121 ("Licensee").

Licensor and Licensee agree as follows:

1. DEFINITIONS

1.01 "Affiliate" of either party to this Agreement means any person, firm, or corporation which controls, is controlled by or is under common control with such party. Control means either the direct or indirect ownership of forty eight percent (48%) or more of the voting stock of the subject entity.

1.02 "Licensed Patent Rights" means patent applications and patents listed in Appendix A (together with all counterpart applications and patents in other countries, if any), all divisions and continuations of these applications, all patents issuing from such applications, divisions, and continuations, and any reissues, reexaminations, and extensions of all such patents.

For the avoidance of doubt, counterpart patent applications and patents in the United States are not owned by Licensor and therefore are not included in Licensed Patent Rights.

1.03 "Licensed Product(s)" means tangible materials which, in the course of manufacture, use or sale would, in the absence of this Agreement, infringe one or more claims of the Licensed Patent Rights that have not been held invalid or unenforceable by an unappealed or unappealable judgment of a court of competent jurisdiction.

1.04 "Licensed Territory" means all countries in the world, excluding the United States.

1.05 "Licensor Representative" means Dr. David FitzGerald, who is authorized to act on behalf of Licensor in connection with this Agreement.

1.06 "Net Sales" means the total gross receipts for sales of Licensed Products by or on behalf of Licensee or its sublicensee and from leasing, renting, or otherwise making Licensed Products available to others without sale or other dispositions, whether invoiced or not, less returns and allowances actually granted, packing costs, insurance costs, freight out, taxes or excise duties imposed on the transaction (if separately invoiced), wholesaler and cash discounts in amounts customary in the trade, credits, chargebacks, rebates or refunds incurred or granted pursuant to legal or contractual requirements. No deductions shall be made for commissions paid to individuals, whether they be with independent sales agencies or regularly employed by Licensee and on its payroll, or for the cost of collections. For the avoidance of doubt, sales of Licensed Products, whether or not manufactured in the Licensed Territory pursuant to the license hereunder, in the United States (which is not part of the Licensed Territory) shall not give rise to Net Sales for all purposes of the Agreement.

1.07 "First Commercial Sale" means the initial transfer by or on behalf of Licensee of Licensed Products in exchange for cash or some equivalent to which value can be assigned for the purpose of determining Net Sales.

1.08 "Licensed Fields of Use" means IL-4 conjugated with pseudomonas exotoxin for the therapeutic treatment of cancer.

2. GRANT OF RIGHTS

2.01 Licensor hereby grants and Licensee accepts, subject to the terms and conditions of this Agreement, an exclusive license to Licensee under the Licensed Patent Rights in the Licensed Territory to make and have made, to use and have used, and to sell and have sold any Licensed Products in the Licensed Fields of Use.

2.02 Licensee shall have the right to grant sublicenses. Any sublicenses granted by Licensee shall provide for the termination of the sublicense, or the conversion to a license directly between such sublicensee and Licensor, at the option of the sublicensee, upon termination of this Agreement. Such conversion is subject to the approval of Licensor and contingent upon acceptance by the sublicensee of the remaining provisions of this Agreement.

2.03 Licensor hereby grants Licensee the exclusive option, for a period of two (2) years from the completion of Phase II clinical trials, to obtain an exclusive license to the use of the Licensed Patent Rights for IL-4 conjugated with pseudomonas exotoxin in all therapeutic applications outside of the Licensed Fields of Use. In the event that Licensee provides written notice to Licensor of its desire to exercise such an option, the parties shall meet and negotiate in good faith the terms of such a license. If the parties cannot agree upon the terms of the license within ninety (90) days after entering such negotiations, Licensor shall be free to license such Licensed Patent Rights to a third party upon terms no more favorable than those last offered to Licensee.

2.04 This Agreement confers no license or rights by implication, estoppel, or otherwise under any patent applications or patents of Licensor other than the Licensed Patent Rights regardless of whether such patents are dominant or subordinate to Licensed Patent Rights.

3. ROYALTIES AND REIMBURSEMENT

3.01 Licensee agrees to pay to Licensor a license issue royalty and certain milestone payments as set forth in Appendix B within thirty (30) days from the date that this Agreement becomes effective or the applicable milestone is achieved, as the case may be.

3.02 Licensee agrees to pay to Licensor a nonrefundable minimum annual royalty as set forth in Appendix B. The minimum annual royalty is due and payable on each anniversary of the date hereof for a period not to exceed three (3) years.

3.03 Licensee agrees to pay to Licensor earned royalties as set forth in Appendix B.

3.04 Licensee agrees to pay to Licensor an option fee as set forth in Appendix B for the second year of the exclusive option outlined in Section 2.03. Licensee will notify Licensor of its intention to maintain the option for the second year and will pay the fee within thirty (30) days of completion of the first year of the exclusive option.

3.05 A claim of a patent licensed under this Agreement shall cease to fall within the Licensed Patent Rights for the purpose of computing the minimum annual royalty and earned royalty payments in any given country on the earliest of the dates that a) the claim has been abandoned but not continued, b) the patent expires, c) the patent is no longer maintained by the Licensor, d) all claims of the Licensed Patent Rights have been held to be invalid or unenforceable by an unappealed or unappealable decision of a court of competent jurisdiction or administrative agency, or e) it has been pending longer than the later of: (i) seven (7) years from the date of filing of the earliest asserted priority patent application; or (ii) seven (7) years from the date of the request for examination in a country in which such a request is necessary.

3.06 No multiple royalties shall be payable because any Licensed Products or Licensed Processes are covered by more than one of the Licensed Patent Rights.

3.07 In the event that Licensee elects to take a license under one or more patent rights of a third party in order to make, have made, use, or sell a Licensed Product within the Licensed Field of Use, then Licensee shall be entitled to reduce earned royalty payments to Licensor under Paragraph 3.03 by one half of the actual amount paid to such third parties, provided that the royalty payable to Licensor shall not be reduced to less than one half of the amount which would otherwise be due in that calendar year.

3.08 On sales of Licensed Products by Licensee in other than an arm's- length transaction, the value of the Net Sales attributed under this Article 3 to such a transaction shall be that which would have been received in an arm's-length transaction, based on sales of like quantity and quality products on or about the time of such transaction. The exclusive license hereunder is granted to Licensee and its Affiliates. Accordingly, inter-company sales among them will not be subject to the imputed sales provision of this Paragraph.

4. RECORD KEEPING

4.01 Licensee agrees to keep accurate and correct records of Licensed

Products made, used, or sold under this Agreement appropriate to determine the amount of royalties due Licensor. Such records shall be retained for at least [***] following a given reporting period. They shall be available during normal business hours for inspection at the expense of Licensor by an accountant or other designated auditor selected by Licensor for the sole purpose of verifying reports and payments hereunder. The accountant or auditor shall only disclose to Licensor information relating to the accuracy of reports and payments made under this Agreement. If an inspection shows an underreporting or underpayment in excess of five percent (5%) for any twelve (12) month period, then Licensee shall reimburse Licensor for the cost of the inspection at the time Licensee pays the unreported royalties, including any late charges as required by Paragraph 5.06 of this Agreement. All payments required under this Paragraph shall be due within thirty (30) days of the date Licensor provides Licensee notice of the payment due.

5. REPORTS ON SALES AND PAYMENTS

5.01 From the date of first commercial sale, Licensee shall submit to Licensor within sixty (60) days after [***] a royalty report setting forth for the preceding [***] period the amount of the Licensed Products sold by or on behalf of Licensee in each country within the Licensed Territory, the Net Sales, and the amount of royalty accordingly due. With each such royalty report, Licensee shall submit payment of the earned royalties due. If no earned royalties are due to Licensor for any reporting period, the written report shall be certified as correct by an authorized officer of Licensee and shall include a detailed listing of all deductions made under Paragraph 1.06 to determine Net Sales made under Article 3 to determine royalties due.

5.02 Royalties and all other payments due under Article 3 shall be paid in U.S. dollars, by wire transfer of funds to an account at a commercial bank in New York City or Washington, D.C. as designated by the Licensor Representative. For conversion of a foreign currency to U.S. Dollars, the conversion rate shall be the rate quoted in the Wall Street Journal on the day that the payment is due (i.e., the last business day of the related [***] period). Any loss of exchange, value, taxes, or other expenses incurred in the transfer of conversion to U.S. dollars shall be paid entirely by Licensee. The royalty report required by Paragraph 5.01 of this Agreement shall be sent to the Licensor Representative, at the address for notices indicated on the signature page hereof, concurrently with each such payment.

6. PERFORMANCE

6.01 Licensee shall use its reasonable best efforts to introduce the Licensed Products into the commercial market as soon as practicable.

7. INFRINGEMENT AND PATENT ENFORCEMENT

7.01 Licensor and Licensee agree to notify each other promptly of each infringement or possible infringement, as well as any facts which may affect the validity, scope, or enforceability of the Licensed Patent Rights of which either Party becomes aware.

7.02 If Licensor does not initiate legal action or otherwise abate an infringement of the Licensed Patent Rights within sixty (60) days of written notification to the Licensor Representative from Licensee of the existence of a substantial infringement, Licensee shall have the right (but not the obligation) to institute infringement litigation against the infringer. If Licensee institutes such infringement litigation within six (6) months, Licensee shall be entitled, if applicable, to a reduction in royalty rate as provided in Appendix B.

7.03 In the event that a declaratory judgment action alleging invalidity of any of the Licensed Patent Rights shall be brought against Licensor, Licensor agrees to notify Licensee that an action alleging invalidity has been brought. Licensor represents that it will either commence legal action to defend against such a declaratory action alleging invalidity, or will allow Licensee to undertake such defense, at its expense. Licensee shall take no action to compel Licensor either to initiate or to join in any such declaratory judgment action. Should Licensor be made a party to any such suit by motion or any other action of Licensee, Licensee shall reimburse Licensor for any costs, expenses, or fees which Licensor incurs as a result of its defending against such motion or other action taken in response to the motion.

8. NEGATION OF WARRANTIES AND INDEMNIFICATION

8.01 Licensor does not warrant the validity of the Licensed Patent Rights and makes no representations whatsoever with regard to the scope of the Licensed Patent Rights, or that the Licensed Patent Rights may be exploited without infringing other patents or other intellectual property rights of third parties. However, Licensor warrants that, as of the execution date hereof, there are no patents or patent applications owned or controlled by Licensor, other than those within the Licensed Patent Rights, which would dominate the manufacture, use or sale of Licensed Products.

8.02 LICENSOR MAKE NO WARRANTIES, EXPRESSED OR IMPLIED, OR MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OF ANY SUBJECT MATTER DEFINED BY THE CLAIMS OF THE LICENSED PATENT RIGHTS.

8.03 Licensor does not represent that it will commence legal actions against third parties infringing the Licensed Patent Rights.

8.04 Licensee shall indemnify and hold Licensor, its employees, students, fellows, agents and consultants harmless from and against all liability, demands, damages, expenses, and losses, including but not limited to death, personal injury, illness, or property damage in connection with or arising out of activities performed subsequent to the execution of the Agreement directly related to a) the use by or on behalf of Licensee, its sublicensee, directors, or employees of any Licensed Patent Rights, or b) the design, manufacture, distribution, or use of any Licensed Products or other products or processes developed in connection with or arising out of the Licensed Patent Rights. For the avoidance of doubt, Licensee shall be required to indemnify Licensor and the other specified parties, under either clause (a) or clause (b) above, only with respect to Licensed Products made or sold, or Licensed Patent Rights otherwise used, in each case by or on behalf of Licensee or its Affiliates. Licensee agrees to maintain a liability insurance program consistent with sound business practice.

9. TERMINATION AND MODIFICATION OF RIGHTS

9.01 This Agreement is effective when signed by all parties and shall extend on a country-by-country basis to the expiration of the last to expire of the Licensed Patent Rights unless sooner terminated as provided in this Article 9.

9.02 In the event that Licensee is in default in the performance of any material obligations under this Agreement, and if the default has not been remedied within ninety (90) days after the date of notice in writing of such default, Licensor may terminate this Agreement by written notice.

9.03 At least thirty (30) days prior to filing a petition in bankruptcy, Licensee must inform Licensor in writing of its intention to file the petition in bankruptcy or of a third party's intention to file an involuntary petition in bankruptcy.

9.04 In the event that Licensee becomes insolvent, files a petition in bankruptcy, has such a petition filed against it, determines to file a petition in bankruptcy, or receives notice of a third party's intention to file an involuntary petition in bankruptcy, Licensee shall immediately notify Licensor in writing. Thereafter, Licensor shall have the right to terminate this Agreement by giving Licensee sixty (60) days written notice.

9.05 Licensee shall have a unilateral right to terminate this Agreement and/or its rights in any country by giving Licensor sixty (60) day's written notice to that effect.

9.06 Within ninety (90) days of termination of this Agreement under this Article 9 or expiration under Paragraph 9.01, a final report shall be submitted by Licensee. Any royalty payments due to Licensor become immediately due and payable upon termination or expiration of this Agreement. If this Agreement is terminated prior to expiration as contemplated in Paragraph 9.01, Licensee shall return all Licensed Products or other materials included within the Licensed Patent Rights to Licensor or provide Licensor with certification of their destruction.

9.07 Paragraphs 4.01, 5.02, 8.02 and 8.04 of this Agreement shall survive termination of this Agreement.

10. GENERAL PROVISIONS

10.01 Neither Party may waive or release any of its rights or interests in this Agreement except in writing. The failure of either party to assert a right hereunder or to insist upon compliance with any term or condition of this Agreement shall not constitute a waiver of that right by such party or excuse a similar subsequent failure to perform any such term or condition by the other party.

10.02 This Agreement constitutes the entire agreement between the parties relating to the subject matter of the Licensed Patent Rights, and all prior negotiations, representations, agreements, and understandings are merged into, extinguished by, and completely expressed by this Agreement.

10.03 The provisions of this Agreement are severable, and in the event that any provision of this Agreement shall be determined to be invalid or unenforceable under any controlling body of law, such determination shall not in any way affect the validity of enforceability of the remaining provisions of this Agreement.

10.04 If either party desires a modification to this Agreement, the parties shall, upon reasonable notice of the proposed modification by the party desiring the change, confer in good faith to determine the desirability of such modification. No modification will be effective until a written amendment is signed by the signatories to this Agreement or their designees.

10.05 The construction, validity, performance, and effect of this Agreement shall be governed by Federal law as applied by the Federal courts in the District of Columbia.

10.06 All notices required or permitted by this Agreement shall be given by prepaid, first class, registered or certified mail properly addressed to the other party (to the Licensor Representative, in the case of notices to Licensor) at the address designated on the following signature page, or to such other address as may be designated in writing by such other party, and shall be effective as of the date of the postmark of such notice.

10.07 This Agreement shall not be assigned by Licensee except a) with the prior written consent of Licensor; or b) as part of a sale or transfer of substantially the entire business of Licensee relating to operations which concern this Agreement. Licensee shall notify Licensor within ten (10) days of any assignment of this Agreement by Licensee.

10.08 All Licensed Products manufactured in, shipped to, or sold in the Licensed Territory shall be marked in such a manner as to preserve Licensor patent rights therein.

10.09 By entering into this Agreement, Licensor does not directly or indirectly endorse any product or service provided, or to be provided, by Licensee whether directly or indirectly related to this Agreement. Licensee shall not state or imply that this Agreement is an endorsement by Licensor. Additionally, Licensee shall not use the names of Licensor in any advertising, promotional, or sales literature without the prior written consent of Licensor.

10.10 The parties agree to attempt to settle amicably any controversy or claim arising under this Agreement or a breach of this Agreement. In this regard, if a dispute arises between the parties relating to the interpretation or performance of this Agreement or the grounds for the termination thereof, the parties agree to hold a meeting, attended by individuals with decision-making authority regarding the dispute, to attempt in good faith to negotiate a resolution of the dispute prior to pursuing other available remedies. If, within 30 days after such meeting, the parties have not succeeded in negotiating a resolution of the dispute, such dispute shall be submitted to non-binding arbitration under the then current Licensing Agreement Arbitration Rules of the American Arbitration Association ("AAA"), with a panel of three arbitrators in Chicago, IL. Such arbitrators shall be selected by mutual agreement of the parties or, failing such agreement, shall be selected according to the aforesaid AAA rules. The parties shall bear the costs of arbitration equally unless the arbitrators, pursuant to their right, but not their obligation, require the non-prevailing party to bear all or any unequal portion of the prevailing party's costs. The arbitrators will be instructed to prepare and deliver a written, reasoned opinion conferring their decision. The rights and obligations of the parties to arbitrate any dispute relating to the interpretation or performance of this Agreement or the grounds for the termination thereof shall survive the expiration or termination of this Agreement for any reason.

10.11 [***].

This Paragraph 10.11 does not apply to any license agreements executed by Licensor prior to the effective date of this Agreement.

IN WITNESS WHEREOF, the parties have executed this Agreement of the date first above written.

Licensor:	Licensee:
Address of the Licensor Representative for notices:	
/s/ David FitzGerald 1202 Azalea Drive Rockville, MD 20850	/s/ Gary Lyons President and CEO Neurocrine Biosciences, Inc. 3050 Science Park Road San Diego, CA 92121
/s/ Ira Pastan	

APPENDIX A - PATENTS AND PATENT APPLICATIONS
(as of April 7, 1995)

Country	Application No.	Filing Date	Status
Australia	80211/87	09/22/87	Patent No. 618722 issued
Canada	547,614	09/23/87	Allowed
Denmark	2764/88	09/22/87	Pending
Europe	97113929.1	09/23/87	Patent No. 0261671 issued
Europe	93113917.4	08/31/93	Divisional pending
Finland	891321	09/22/87	Pending
Ireland	2552/87	09/22/87	Pending; div. to be filed
Israel	83971	09/22/87	Patent No. 83971 issued
Israel	105160	03/24/93	Divisional pending
Japan	505905/87	09/22/87	Pending
Korea	88-700570	09/22/87	Pending
Norway	882269	09/22/87	Pending
New Zealand	221923	09/23/87	Patent No. 221923 issued
Portugal	85777	09/23/87	Patent No. 85777 issued
Taiwan	76105894	10/02/87	Patent No. 54275 issued
South Africa	87/7153	09/23/87	Patent 87/7153 issued

APPENDIX B - PAYMENTS

Signing Fee
Licensee agrees to pay to Licensor a noncreditable, nonrefundable license issue fee in the amount of [***].

[***] Royalty
Licensee agrees to pay Licensor a yearly [***] Royalty in the amount of [***] the first year, [***] the second year, and [***] the third year subsequent to execution of the Agreement. [***].

Royalties on Net Sales
Licensee agrees to pay Licensor earned royalties on Net Sales as follows: [***] of Net Sales outside of the United States.

Milestone Payments
Licensee agrees to pay Licensor milestone payments as follows:

[***]

Option Fee
In the event that Licensee elects to exercise its right to maintain the second year of the exclusive option outlined in Section 2.03, Licensee shall notify Licensor within thirty (30) days of completion of the first year of the option. Licensee agrees to pay Licensor [***] for the second year of the option.

Sublicensing Fee
Upon the first sublicensing of the Licensed Patent Rights in the Licensed Territory, Licensee shall pay to Licensor the sum of [***].

Share of Patent Prosecution Costs
[***] incurred subsequent to the date of this Agreement for the prosecution and/or maintenance of the Licensed Patent Rights, which expenses are not otherwise reimbursed by a third party, [***].

Reduction of Royalty Rate During Infringement Litigation
If the Licensee has instituted an infringement litigation as provided in Section 7.02, Licensee shall be entitled reduction in royalty rate of [***] for the period of the infringement litigation.

Exhibit 10.3

SUB-LICENSE AND DEVELOPMENT AGREEMENT

THIS AGREEMENT is effective this 30th day of June 1998, by and between DOV Pharmaceutical, Inc., a New Jersey corporation, with offices at 1 Parker Plaza, Suite 1500 Fort Lee, New Jersey 07024 ("DOV") and Neurocrine Biosciences, Inc., a Delaware corporation with offices at 3050 Science Park Road, Suite 405, San Diego, California 92121 ("Neurocrine").

WITNESSETH:

WHEREAS, DOV possesses rights to a certain chemical compound and to pharmaceutical products to be processed from the Compound, such rights arising from the License Agreement (defined below); and

WHEREAS, Neurocrine desires to acquire, and DOV is willing to grant to Neurocrine, an exclusive sublicense to the patent rights and know-how, relating to that certain chemical compound.

NOW THEREFORE, in consideration of the promises and of the mutual covenants and obligations set forth herein, the parties hereto agree as follows:

ARTICLE 1
Definitions

1.1 "Affiliate" means with respect to a party, any other entity which directly or indirectly controls, is controlled by, or is under common control with, such party. An entity or party shall be regarded as in control of another entity if it owns, or directly or indirectly controls, at least fifty percent (50%) of the voting stock or other ownership interest of such entity, or if it directly or indirectly possesses the power to direct or cause the direction of the management and policies of the other entity by any means whatsoever.

1.2 "Compound" means the chemical compound described in Exhibit 1.

1.3 "DOV's Corporate Office" means 1 Parker Plaza, Suite 1500, Fort Lee, New Jersey.

1.4 "FDA" means the United States Food and Drug Administration.

1.5 "IND" means an investigational new drug as defined in 21 CFR Part 312.

1.6 "Know-How" means all ideas, inventions, data, instructions, processes, formulas, expert opinions and information, including, without limitation, biological, chemical, pharmacological, toxicological, pharmaceutical, physical and analytical, clinical, safety, manufacturing and quality control data and information, in each case, which are necessary or useful for and are specific to the research, design, development, testing, use, manufacture or sale of the Compound or a Licensed Product.

1.7 "License Agreement" means the license agreement between DOV and American Cyanamid Company ("ACY") dated May 29, 1998 attached as Exhibit 2.

1.8 "Licensed Product"means any product based upon or derived from the Compound and approved for sale by the USFDA or its foreign equivalent.

1.9 "NDA" means a new drug application submitted to the United States Food and Drug Administration in accordance with Section 505 of the Federal Food, Drug and Cosmetic Act and its implementing regulations, or a comparable filing in Japan or within the EU.

1.10 "Net Sales" means the gross amount invoiced for the Licensed Product sold by Neurocrine or its Affiliate or its sublicensee, less:

(1) transportation charges or allowances, if any;

(2) trade, quantity or cash discounts, service allowances and broker's or agent's commissions, but not salaries, commissions, bonuses or other incentive pay to in-house sales or other personnel, if any, allowed or paid;

(3) credits or allowances, if any, given or made on account of price adjustments, returns, bad debts, off-invoice promotional discounts, rebates, and any or all federal, state or local government rebates whether in existence now or enacted at any time during the term of the Agreement, recalls, or destruction requested or made by an appropriate government agency; and

(4) Any tax, excise or governmental charge upon or measured by the sale, transportation, delivery or use of the Licensed Product; provided that, other than pursuant to Section 1.5(e) below, Net Sales shall in no event be less than 80% of Gross Sales.

(5) In the case of discounts on "bundles" of products or services which include Licensed Products or the Compound, the selling Party may, with notice to the other Party, calculate Net Sales by discounting the bona fide list price of such product by the average percentage discount of all products of the selling party and/or its Affiliates or sublicensees in a particular "bundle", calculated as follows:

Average percentage discount on a particular "bundle" = (1-A/B) x 100

where A equals the total discounted price of a particular "bundle" of products, and B equals the sum of the undiscounted bona fide list prices of each unit of every product in such "bundle". The selling party shall provide the other party documentation, reasonably acceptable to the other party, establishing such average discount with respect to each "bundle", Net Sales shall be based on the undiscounted list price of the Licensed Products or the Compound in the "bundle". If a Licensed Product or the Compound in a "bundle" is not sold separately and no bona fide list price exists for such Licensed Product or the Compound, the Parties shall negotiate in good faith an imputed list price for such Licensed Product or the Compound, and Net Sales with respect thereto shall be based on such imputed list price.

1.11 "Phase I" means that portion of the FDA submission and approval process that provides for the first introduction into humans of the Licensed Product with the purpose of determining human toxicity, metabolism, absorption, elimination and other pharmacological action as more fully defined in 21 C.F.R. ss.213.2(a).

1.12 "Phase II" means that portion of the FDA submission and approval process that provides for the initial trials of the Licensed Product on a limited number of patients for the purposes of determining dose and evaluating safety and efficacy in the proposed therapeutic indication as more fully defined as 21 C.F.R. ss.213.21(b).

1.13 "Phase III" means that portion of the FDA submission and approval process that provides for continued trials of the Licensed Product on sufficient numbers of patients to establish the safety and efficacy of the Licensed Product and generate pharmacoeconomics date to support regulatory approval in the proposed therapeutic indication as more fully defined in 21 C.F.R. ss.312.21(c).

1.14 "Pre-Phase I" means that portion of the development program that starts with the selection of a compound for development into the Licensed Product or the beginning of toxicological studies relating to such compound. Pre-Phase I includes, without limitation, toxicological, pharmacological and any other studies, the results of which are required for filing with an IND, as well as Licensed Product formulation and manufacturing development necessary to obtain the permission of regulatory authorities to begin and continue subsequent human clinical testing. Toxicology, as used in this definition, means full scale toxicology using "Good Laboratory Practices" for obtaining approval from a regulatory authority to administer the Licensed Product to humans. This toxicology is distinguished from initial dose range finding toxicology, which usually includes a single and repeated dose ranging study in two species with less than half of the animals required by the FDA, an Ames test and a related chromosome test.

1.15 "Patent Rights" means all United States and foreign patents (including all reissues, extensions, substitutions, confirmations, re-registrations, re-examinations, revalidations and patents of addition) and patent applications (including, without limitation, all continuations, continuations-in-part and divisions thereof) in each case, claiming an invention which is necessary or useful for the design, development, testing, use, manufacture or sale of the Compound or a Licensed Product.

1.16 "Pivotal Trial" means the ***] study which is one of two Phase III registerable trials and which is comparable to and of the same magnitude as the trial described in Exhibit 3 hereto.

1.17 "Territory" means all countries of the world.

1.18 "Valid Claim" means a claim of a pending patent application within the Patent Rights (provided such application has not been pending for more than [***] from the date it was first filed with the governmental agency with jurisdiction over patent applications) or an issued and unexpired patent included within the Patent Rights that has not been held unenforceable or invalid by a court or other governmental agency of competent jurisdiction, and that has not been disclaimed or admitted to be invalid or unenforceable through reissue or otherwise.

ARTICLE 2
License Grant

As of the effective date of this Agreement, DOV hereby grants Neurocrine an exclusive sublicense to DOV's interest under the License Agreement in the Patent Rights and Know-How to make, have made, use, import, offer for sale and sell the Compound and the Licensed Product in the Territory, with the right to grant sublicenses.

ARTICLE 3
Development Activities

3.1 As soon as practicable after the effective date of this Agreement, Neurocrine shall commence, adequately fund, and pursue a worldwide research and development program for the development of the Licensed Product ("R & D Program") using commercially reasonable and diligent efforts in its conduct of the R & D Program in accordance with Neurocrine's usual and customary practices for products of similar commercial potential and value.

3.2 Management of the R & D Program will be provided by Neurocrine. Arnold Lippa and Bernard Beer, upon Neurocrine's request, will provide reasonable consultative services pursuant to consulting agreements substantially in the form set forth on Exhibit 4.

3.3 Neurocrine shall provide to DOV, on a [***] basis throughout the term of this Agreement a written report setting forth the efforts (and results of such efforts) taken by Neurocrine pertaining to the R & D Program, including [***]. Neurocrine shall provide such reports until the R & D Program is terminated, or upon the first sale of the Licensed Product in the United States, Japan or within the EU.

3.4 If Neurocrine terminates the R&D Program or halts all R&D Program activities for a period of [***] or longer within the United States (for reasons other than regulatory constraints), DOV shall have the right to terminate this Agreement within the entire Territory, or any country within the Territory, effective upon Neurocrine's receipt of written notice of termination from DOV. If Neurocrine terminates the R&D Program or halts all R&D activities for a period of [***] or longer within any other country of the Territory (for reasons other than regulatory constraints) DOV shall have the right to terminate this Agreement within such country, effective upon Neurocrine's receipt of written notification from DOV. In either such event DOV will be entitled to any payments previously paid to, or which have accrued to DOV.

ARTICLE 4
Development Payments

4.1 In consideration of the rights granted to Neurocrine in Article 2, herein, Neurocrine shall pay to DOV a licensing fee of $5,000 upon the execution of this Agreement.

4.2 Neurocrine shall make scheduled payments and issue warrants for the purchase of shares of Neurocrine's capital stock to DOV in the amounts, and at the times, stated below:

US [***] plus warrants to purchase 75,000 shares of Neurocrine common stock, upon [***] for the Licensed Product. A warrant to purchase 15,000 shares of Neurocrine common stock shall have an exercise price equal to the Market Price, as defined herein, as of the effective date of this Agreement. Such warrant shall be exercisable, at any time, in whole or in part, from the grant date through the fifth anniversary of the grant date. A warrant to purchase 60,000 shares of Neurocrine common stock shall have an exercise price equal to the Market Price, as defined herein, as of the date that the first Pivotal Trial commences. Such warrant shall be exercisable, at any time, in whole or in part, from the grant date through the fifth anniversary of the grant date. Upon approval by a majority of the signatories thereto, Neurocrine's New Registration Rights Agreement dated March 29, 1996 shall be amended to include such warrant in the definition of "Registrable Securities" thereunder, those shares of Neurocrine common stock issuable upon exercise of such warrants. The terms of the warrants shall be substantially as set forth as the Form of Warrant attached to this Agreement as Exhibit 5. For purposes of this Article 4.2, "market price" shall mean the mean of the closing price of Neurocrine's common stock as quoted on the National Association of Security Dealers, Inc. Automated Quotation System or such other national securities exchange or over-the-counter market on which such common stock is quoted for the twenty business days prior to the date of this Agreement, and at the date that the first Pivotal Trial is commenced, respectively.

[***].

[***].

ARTICLE 5
Royalties

5.1 In consideration of the rights granted in Article 2 hereof, and in addition to the payments and issuance of warrants set forth in Article 4 herein, Neurocrine shall pay to DOV during the term of this Agreement, on a country-by-country basis, royalties consisting of [***] of Net Sales of Licensed Product.

5.2 If within any country of the Territory (I) marketing exclusivity is lost to Neurocrine or its sublicensee prior to the expiration of this Agreement and (ii) the manufacture, use or sale of a Licensed Product would not infringe a Valid Claim of a patent within the Patent Rights, then the royalty rate on the Net Sales of such Licensed Product which would otherwise be payable to DOV by Neurocrine will be reduced to a rate which is equal to the [***].

5.3 All royalty payments shall be made in U.S. dollars, Net Sales shall be converted on a country-by-country basis from the currency used in each such country to United States Dollars. The applicable exchange rate shall be the rate quoted in the Wall Street Journal on the last business day of the period for which royalties are being calculated. All royalty payments shall be made in United States Dollars and remitted to DOV's Corporate Office.

5.4 Within thirty (30) days after the end of [***] during the term of this Agreement, Neurocrine shall pay to DOV the royalty payment due for those three months.

Together with [***] royalty payment, Neurocrine shall submit to DOV a written accounting showing its computation of royalties due under this Agreement for such three months, which shall set forth gross sales, Net Sales, the specific deductions used in arriving at Net Sales, and the total royalties due for the [***] in question. Such accounting shall be on a country-by-country basis within the Territory.

5.5 Neurocrine shall keep full and accurate books and records setting forth gross sales, Net Sales, the specific deductions used in arriving at Net Sales and the amount of royalties payable to DOV hereunder for no less than [***] after the end of each year during the term of this Agreement. Neurocrine shall permit DOV, to have such books and records examined by an independent certified public accountant retained by DOV and acceptable to Neurocrine, during regular business hours upon reasonable advance notice. Such accountant shall keep confidential any information obtained during such examination and shall report to DOV, only the amounts of royalties which he or she believes to be due and payable hereunder. In the event of a difference of opinion between such accountant and Neurocrine as to the amount of royalties which are due and payable, the parties hereto shall use their best efforts to resolve such differences. If they cannot do so, each party will appoint one additional independent certified public accountant, and those two individuals will jointly appoint an additional independent certified public accountant. A majority decision of those three accountants will be conclusive as to the amount of royalties which are due and payable. The expenses of this dispute resolution procedure will be borne equally by Neurocrine and DOV.

ARTICLE 6
Confidentiality

If, during the performance of this Agreement, one party hereto discloses information to the other which it considers confidential, such information may not be subsequently disclosed by the receiving party to a third party, without the written permission of the disclosing party. The parties to this Agreement agree to hold in confidence all information; including, but not limited to, all information that is the subject of this Agreement, Know-How, marketing and manufacturing practices, processes, product information, or financial information disclosed or submitted in writing or in other tangible form which is considered to be confidential for a period of five (5) years from the date of such disclosure, except:

(1) information, which at the time of disclosure, is in the public domain;

(2) information, which after disclosure, is published or otherwise becomes part of the public domain through no fault of the receiving party;

(3) information which was in the possession of the receiving party at the time of disclosure;

(4) information which is developed by or on behalf of the receiving party independently of any disclosure to them by the disclosing party hereunder; or

(5) information which is provided to the receiving party by a third party with the right to so provide.

ARTICLE 7
Adverse Experiences

7.1 During the term of this Agreement, Neurocrine shall keep, and shall cause its sublicensees to keep DOV promptly and fully informed of all pharmaceutical, toxicological, clinical, and all other findings, including clinical use, studies, investigations, tests and prescription, relating to any adverse experiences with the Licensed Product.

7.2 Neurocrine undertakes to notify DOV, as soon as possible, of any serious adverse event as such event is defined by the responsible regulatory agency in the United States, Japan, or within the EU, thought to be associated with clinical studies of, or the use or application of, the Licensed Product. Such notification shall be made promptly but in no event later than five (5) working days after Neurocrine first learns of, or is advised of, any adverse event described above.

7.3 Neurocrine shall inform DOV without delay, of any governmental action, correspondence or reports to or from governmental authorities which may affect the continued distribution and sale of the Licensed Product and furnish DOV with copies of any relevant documents relating thereto.

ARTICLE 8
Patent Infringement

8.1 In case any actions, claims, demands, suits or other legal proceedings are brought or threatened to be brought against Neurocrine, its Affiliates or sublicensees, by a third party for infringement of such third party's patent(s), by virtue of Neurocrine's manufacture, use, sale or offer for sale of the Licensed Product, Neurocrine shall notify DOV forthwith of the threat or existence of such actions with sufficient evidence thereof, to enable the parties to prepare an appropriate defense strategy. The parties shall consult together as to the action to be taken and as to how the defense will be handled. [***].

Neurocrine undertakes not to make any admission of liability to a claimant or plaintiff or his, her or its legal representative or insurer and not to sign any agreement in respect of such proceedings adversely affecting the rights of DOV [***], which will not be unreasonably withheld.

If Neurocrine, because of any settlement of the claimed infringement or a final unappealable or non-appealed judgment of a court of competent jurisdiction, is required to make payments to one or more third parties to obtain a license without which the marketing of the Licensed Product could not be made in a given country, Neurocrine may deduct such payments from the royalty payments due to DOV hereunder, provided however that in no event shall the royalty rate be reduced by more than [***] of that which would otherwise be due to DOV.

8.2 Neurocrine shall promptly inform DOV of any suspected patent infringement by a third party and provide DOV with any available evidence of such suspected infringement.

DOV shall have the right but not the obligation to institute any claim, suit or proceeding against an infringer or a presumed infringer. DOV shall control the prosecution of any such suit, claim or proceeding, including, without limitation, the choice of counsel and any settlement of any such suit or claim. Neurocrine shall provide DOV with all reasonable assistance (other than financial) required to institute and maintain such proceedings.

Neurocrine shall only have the right to institute any claim, suit or proceeding against an infringer or a presumed infringer in the event that DOV elects not to do so. In such event, Neurocrine shall control the prosecution of any such suit, claim or proceeding, including, without limitation, the choice of counsel and any settlement of any such suit or claim. DOV shall provide Neurocrine with all reasonable assistance (other than financial) required to institute and maintain such proceedings. During such proceedings, Neurocrine's royalty obligations to DOV shall be reduced to the greater of [***] of the royalty payable hereunder and the royalty rate that DOV owes to ACY at that time. Any proceeds from such proceedings shall first be allocated to reimburse Neurocrine for its costs in such proceedings, second to reimburse DOV for its lost royalty revenue during such period and the remainder to Neurocrine. In the event that Neurocrine is not successful in its suit, DOV shall not be reimbursed for any lost royalty revenue.

ARTICLE 9
Indemnification, Liability and Insurance

9.1 Neurocrine, in the absence of negligence or willful misconduct on the part of DOV, its Affiliates and sublicensees and their respective employees, agents, officers, directors and permitted assigns, shall at all times during the term of this Agreement and thereafter, indemnify, defend and hold DOV and its respective directors, officers, partners, employees, and agents harmless from and against any and all claims and expenses, including, without limitation, legal expenses, court costs, and reasonable attorney's fees, arising out of or relating to the death of or actual or alleged injury to any person(s) or damage to third party property, and from and against any other third party claim, proceeding, demand, expense, cost and liability of any kind whatsoever (collectively "liabilities") resulting from, arising out of or related to product liability claims involving the Licensed Product.

9.2 DOV, in the absence of negligence or willful misconduct on the part of Neurocrine, its Affiliates and sublicensees and their respective employees, agents, officers, directors and permitted assigns shall at all times during the term of this Agreement and thereafter, indemnify, defend and hold Neurocrine and its respective directors, officers, partners, employees, and agents harmless from and against any and all claims and expenses including, without limitation, legal expenses, court costs and reasonable attorney's fees arising out of, or relating to, the death of or actual or alleged injury to any person(s) or damage to third party property, and from and against any other third-party claim, proceeding, demand, expense, cost and liability of any kind whatsoever resulting from, arising out of, or related to DOV's breach of Article 10.9 herein, and any actions taken by DOV pertaining to the Compound or Licensed Product prior to the effective date of this Agreement.

9.3 Neurocrine shall maintain, and cause any sublicense to maintain, a product liability insurance program which may include funded self-insurance reserves, with additional coverage by a nationally-recognized insurance carrier, with respect to the development, manufacture and sale of the Licensed Product. Coverage shall be in such amounts as are customary within the industry. Neurocrine and any sublicensee shall maintain such insurance program for so long as it, or any sublicensee, continues to develop, manufacture or sell the Licensed Product and thereafter for so long as required to cover manufacture or sales of distributed Licensed Product.

9.4 Neurocrine (and its sublicensee) will name DOV and ACY as additional insureds on its product liability insurance policies. Upon execution of this Agreement, Neurocrine will supply DOV with evidence of such coverage, and Neurocrine will inform DOV, during the term of this Agreement, of any modifications to such coverages.

ARTICLE 10
Warranties and Representations

10.1 Neurocrine represents and warrants that it is a corporation duly organized, validly existing and in good standing under the laws of Delaware.

10.2 Neurocrine represents and warrants that it has full corporate authority to enter into, and to perform this Agreement.

10.3 Neurocrine represents and warrants that it is fully cognizant of Good Laboratory Practices ("GLP") and Good Manufacturing Practices ("GMP") as set forth by the FDA, and that it, and any sublicensee, shall manufacture, or have manufactured, Licensed Product in full compliance with GLP and GMP.

10.4 Neurocrine represents and warrants that the terms of any sublicense it grants in accordance with Article 2 herein, will not be inconsistent with the terms of this Agreement or the License Agreement between DOV and ACY attached hereto as Exhibit I.

10.5 Neurocrine represents and warrants that it has full corporate authority to issue the warrants referred to in Article 4.2, herein and that it shall have a sufficient amount of authorized shares of capital stock to which the warrants apply.

10.6 DOV represents and warrants that it is a corporation duly organized, validly existing and in good standing under the laws of New Jersey.

10.7 DOV represents and warrants that it has full corporate authority to enter into, and to perform this Agreement.

10.8 DOV represents and warrants that it has the right to grant the sub-license to Neurocrine set forth in Article 2 herein.

10.9 DOV represents and warrants that all representations made by it to Neurocrine pertaining to Licensed Product are true to the best of DOV's knowledge.

ARTICLE 11
Assignment

This Agreement shall be binding upon and inure to the benefit of the parties hereto and the successors to substantially the entire business and assets of the respective parties hereto. Notwithstanding the foregoing, any party may void this Agreement if the Agreement is assigned for the benefit of a creditor. This Agreement shall not be assignable by either party, except to an Affiliate, without the prior consent of the other party; any other attempted assignment is void.

ARTICLE 12
Payments to ACY

DOV shall be responsible for all payments due to ACY pursuant to the License Agreement, a true copy of which is attached hereto as Exhibit 1.

ARTICLE 13
Applicable Law

This Agreement shall be governed by and construed according to the laws of the State of Delaware.

ARTICLE 14
Force Majeure

None of the parties shall be responsible for failure or delay in the performance of any of its obligations hereunder due to Force Majeure. Force Majeure shall mean any circumstances which, due to an event or a legal position beyond the party's reasonable control, shall render impossible the fulfillment of any of the party's obligations hereunder, such as, but not limited to, acts of God, acts, regulations, or laws of any government, war, civil commotion, destruction of facilities or materials by fires, earthquakes, or storms, labor disturbances, shortages of public utilities, common carriers, or raw materials, or any other cause, or causes of similar effects, except, however, any economic occurrence. During any such case of Force Majeure, this License Agreement shall not be terminated, but only suspended and the party so affected shall continue to perform its obligations as soon as such case of Force Majeure is removed or alleviated.

ARTICLE 15
Term and Termination

15.1 This Agreement shall continue in full force and effect in each country of the Territory until the later of the final expiration of a patent covering the Compound or the Licensed Product in such country, or a period of ten (10) years following the first sale of Licensed Product by Neurocrine or its sublicensee in such country.

15.2 Upon expiration of this Agreement, with respect to each country of the Territory, Neurocrine shall be deemed to have a full-paid, royalty-free license with the right to make or have made, use or sell the Compound and the Licensed Product as well as to freely utilize all data generated hereunder or received from DOV by Neurocrine, without further obligation to DOV, except for maintaining confidentiality as required by Article 6 of this Agreement.

15.3 In the event that a party hereto shall be presumed by the other to have breached any material condition herein contained, the complaining party shall provide a written notice of such presumed breach, requesting rectification within a thirty (30) day period from the date of receipt of such notice. The party presumed to be in breach of the Agreement shall either submit a commercially reasonable plan for rectification within 15 (fifteen) days of receipt of notice (if the breach cannot be rectified within the thirty (30) day period), or take appropriate steps to remedy the breach within such period. If, within such thirty-day period, neither the aforesaid plan shall have been submitted, nor the breach cured, the party claiming breach shall be entitled to [***]written notice to the other party, [***].

15.4 This Agreement may be terminated immediately by either party by giving notice to the other party if such other party becomes insolvent or has committed an act of bankruptcy or if an order or resolution is made for the winding up of such other party.

15.5 In the event that this Agreement is terminated by DOV prior to is full term pursuant to Article 15.3, or Article 15.4, herein, Neurocrine shall, as soon as reasonably possible, transfer, or authorize the transfer of, [***] to DOV. Any such transfers or transfer authorizations shall be in writing and acceptable, in form, to DOV.

15.6 Article 6 and Section 16.9 shall survive termination of this agreement.

ARTICLE 16
Miscellaneous

16.1 This Agreement constitutes the full understanding between the parties and supersedes any and all prior oral or written understandings and agreements with respect to the subject matter hereof. No terms, conditions, understandings or Agreements purporting to modify, amend or vary this Agreement shall be binding unless made in writing and signed by the parties hereto.

16.2 The invalidity or unenforceability of an Article or any part of an Article of this Agreement in any jurisdiction shall not cause the invalidity of the entire Agreement as to such jurisdiction, and shall not affect the validity or enforceability of such Article or such part of an Article in any other jurisdiction. The parties shall replace any Article or part of an Article found invalid or unenforceable by alternative provisions which shall be as similar as possible in their conditions with regard to their spirit and commercial effect. If this Agreement in any jurisdiction is found to be invalid or unenforceable, the parties shall replace it by an alternative agreement which shall be as similar as possible in its conditions with regard to its spirit and commercial effect.

16.3 No actual waiver of breach or default by either party hereto of any provision of this Agreement shall be deemed or construed to be a waiver of any succeeding breach or default of the same or any other provision of this Agreement.

16.4 This Agreement shall not constitute either party as the joint venturer, legal representative or agent of the other party for any purpose, whatsoever. Neither party shall have any right or authority to assume or create any obligation or responsibility for, or on behalf of, the other party, or to otherwise bind the other party.

16.5 The parties recognize that this is a master agreement covering a number of countries. If, for any country in the Territory it becomes necessary to execute a separate instrument in order to satisfy local requirements, the parties agree to execute such further instrument, which shall, to the extent permitted by the laws of the particular country, conform to the terms and conditions of this Agreement.

16.6 This Agreement has been originally written and signed in the English language. If any translation into any other language is required for purposes of governmental filings, the parties shall arrange for such translation, and the costs thereof shall be borne by the party legally required to make such filing. In the event of any question or dispute as to the meaning or interpretation of any term, condition or provision of this Agreement, the English language version shall in all events govern for all purposes, whatsoever.

16.7 Termination of this Agreement for any reason, or expiration of this Agreement, will not affect obligations, including the payment of any Scheduled Payments or royalties which have accrued as of the date of termination or expiration, and rights and obligations which, are intended to survive termination or expiration of this Agreement.

16.8 This Agreement is executed simultaneously in counterparts, each of which shall be deemed an original, but all of which shall constitute but one and the same instrument.

16.9 Neither party shall issue any press release or other publicity materials, or make any oral or written presentation concerning the Compound or Licensed Product without the 15 day prior consent of the other party, which will not be unreasonably withheld. This restriction shall not apply to disclosures required by law or regulation within any country within the Territory. However, the parties shall coordinate, to every extent possible, as to the wording of any such disclosure.

ARTICLE 17
Notices

All notices pursuant to this Agreement will be in writing and sent by telecopy, facsimile or other electronic means or sent by pre-paid regular, registered or certified mail. All such notices will be delivered personally to, or addressed as follows:

TO: Neurocrine

Neurocrine Biosciences, Inc.
3050-Science Park Road, Suite 405
San Diego, California 92121
Attn: Gary Lyons

TO: DOV

DOV Pharmaceutical, Incorporated
1-Parker Plaza, Suite 1500
Fort Lee, New Jersey 07024
Attn: Dr. Arnold Lippa

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

DOV Pharmaceutical, Inc.

By: /s/Arnold Lippa
Chief Executive Officer

Neurocrine Biosciences, Inc.

By: /s/Gary Lyons
President and
Chief Executive Officer

EXHIBIT 1

CHEMICAL COMPOUND DESCRIPTION

EXHIBIT 2

LICENSE AGREEMENT

EXHIBIT 3

[***]

EXHIBIT 4

FORM OF CONSULTING AGREEMENT

EXHBIT 5

WARRANT AGREEMENT

Exhibit 10.4

Warrant Agreement dated June 30, 1998 between Neurocrine Biosciences, Inc., a Delaware corporation (the "Company"), and DOV Pharmaceutical, Inc., a New Jersey corporation ("Holder").

Whereas Holder and the Company are parties to a certain Sublicense and Development Agreement dated June 30, 1998 (the "Sublicense Agreement"); and

Whereas pursuant to the terms of the Sublicense Agreement, the Company has agreed to issue Holder certain warrants to purchase shares of the Company's Common Stock (as defined in section 8.5), with no par value; and

Now therefore for good and valuable consideration, the receipt of which is hereby acknowledged, the parties agree as follows:

1 Grant. The Company grants Holder warrants ("Warrants") to purchase up to [***] shares of Common Stock ("Warrants") at the Exercise Price (as defined in section 2.1), subject to adjustment as provided in Section 8, during the period commencing on the start date of the [***] (as defined in the Sublicense Agreement) and ending five years thereafter (the "Exercise Period").

2. Exercise Price.

2.1 The Exercise Price for (a) [***] warrants shall be $8.040625 per share of Common Stock representing the Market Price (as defined in section 2.2) per share of the Common Stock on the date hereof, and for (b) [***] warrants shall be the Market Price of the Common Stock on the start date of the [***].

2.2 "Market Price" shall be the mean of the closing price of the Common Stock as quoted on the National Association of Securities Dealers, Inc. Automated Quotation System or such other national securities exchange or over-the-counter market on which the Common Stock is quoted; in the case of the aforementioned [***] warrants for the 20-day period prior to the date hereof and in the case of the aforementioned [***] warrants for the 20-day period prior to start of the [***].

3. Warrant Certificates. The warrant certificates delivered pursuant to this Warrant Agreement shall be in the form set forth in Exhibit A with such appropriate changes required or permitted by this Warrant Agreement (the "Warrant Certificates").

4. Exercise of Warrant.

4.1 Manner of Exercise. The Warrants are exercisable during the Exercise Period (but not thereafter) at the Exercise Price and payable to the Company at its executive offices located at 3050 Science Park Road, San Diego, California 42121, attn: Chief Financial Officer (or such other officer as designated to Holder by the Company by notice), by certified or official bank check in New York Clearing House funds or wire transfer. Upon surrender of a Warrant Certificate, submission of an executed election to purchase in the form set forth in Exhibit B and payment of the Exercise Price, Holder shall be entitled to receive a certificate for the shares of Common Stock so purchased. The purchase rights represented by each Warrant Certificate are exercisable at the option of Holder in whole or in part, but not as to fractional shares of Common Stock.

4.2 Non-Cash Exercise. In addition to the method of payment set forth in section 4.1 and in lieu of cash payment, Holder shall have the right to exercise the Warrants in full or in part by surrendering the Warrant Certificate in the manner specified in section 4.1 in exchange for the number of shares of Common Stock equal to the product of (x) the number of shares covered by the Warrants are being exercised multiplied by (y) a fraction, the numerator of which is the closing price of the Company's Common Stock on the date of exercise less the Exercise Price, and the denominator of which is such closing price.

5. Issuance of Certificates.

5.1 Prompt Issuance. Upon exercise of the Warrants, the certificates for the shares of Common Stock underlying such Warrants shall be issued within ten business days without charge to the Holder including, without limitation, any tax that may be payable in connection with the issuance, and such certificates shall be issued in the name of, or in such name as may be directed by, Holder, provided that the Company shall not be required to pay any tax payable solely due to the issuance of a certificates in a name other than Holder. The Company shall not be required to issue or deliver such certificates until Holder pays the amount of such tax to the Company or establishes to the satisfaction of the Company that such tax has been paid.

5.2 Execution of Certificates. Stock certificates issued upon exercise of the Warrants shall be executed by authorized officers of the Company. The person in whose name any such stock certificate is issued shall, for all purposes, be deemed to have become the holder of record of such shares on the date of exercise of the Warrant.

5.3 New Warrant Certificate. If Holder purchases less than all the shares of Common Stock purchasable under any Warrant Certificate, the Company shall cancel the Warrant Certificate upon the surrender thereof and shall execute and deliver a new Warrant Certificate of like tenor for the balance of the shares of Common Stock not so purchased.

6. Transfer of Warrants. Subject to the restrictions set forth in section 7, Holder may sell, assign, pledge, hypothecate or otherwise transfer any rights under this Warrant Agreement, following notice to the Company in the form of Exhibit C.

7. Registration.

7.1 Registration Under the Securities Act of 1933. Neither the Warrants nor the shares of Common Stock issuable upon exercise of the Warrants have been registered under the Securities Act of 1933, as amended (the "Securities Act"), or any applicable state securities or blue sky laws. Upon exercise of the Warrants, the Company may cause a legend in substantially the form set forth below to be placed on each certificate representing the shares of Common Stock issued.

> The securities represented by this certificate have not been registered for public resale under the Securities Act of 1933, as amended ("Securities Act"), and may not be offered, transferred or sold except pursuant to (i) an effective registration statement under the Securities Act and any applicable state securities or blue sky laws, (ii) Rule 144 under the Securities Act (or any similar rule under the Securities Act relating to the disposition of securities), to the extent applicable, together with an opinion of counsel if such opinion, reasonably satisfactory to issuer's counsel, is that such transfer is permitted or (iii) an opinion of counsel, if such opinion, reasonably satisfactory to issuer's counsel, is that an exemption from registration under the Securities Act and any applicable state securities or blue sky laws is available.

7.2 Registration Rights. Holder shall have such registration rights set forth in that certain New Registration Rights Agreement dated March 29, 1996.

8. Adjustments to Exercise and Number of Securities.

8.1 Recapitalization and Reclassifications. If upon a recapitalization or reclassification the shares of Common Stock shall be changed into or become exchangeable for a larger or smaller number of shares, then upon the effective date thereof the number of shares of Common Stock that Holder shall be entitled to purchase upon exercise of the Warrant shall be increased or decreased, as the case may be, in direct proportion to the increase or decrease in the number of shares of Common Stock by reason of such recapitalization or reclassification, and the Exercise Price shall be, in the case of an increase in the number of shares, proportionately decreased and, in the case of a decrease in the number of shares, proportionately increased.

8.2 Sale; Merger; Consolidation. Subject to the prior notification requirements of section 13, upon a transfer or sale of all or substantially all the assets of the Company or in the case of any consolidation or merger of the Company with another entity (other than a consolidation or merger that does not result in any reclassification or change of the outstanding Common Stock), the transferee, purchaser or entity formed by or surviving a consolidation or merger, as the case may be, shall execute and deliver to Holder a supplemental warrant agreement giving Holder the right during the Exercise Period to receive, upon exercise of a Warrant, the kind and amount of shares of stock and/or other securities receivable upon such transfer, sale, consolidation or merger, as the case may be, by a holder of the number of shares of Common Stock for which such Warrant might have been exercised immediately prior to such transfer, sale, consolidation or merger; provided that if such transfer, sale, consolidation or merger shall result in the shareholders of the Company receiving cash or publicly traded securities having a value per share in excess of the Exercise Price, this Warrant Agreement shall terminate if not exercised prior to the closing date of such transaction. Such supplemental warrant agreement shall provide for adjustments that shall be identical to the adjustments provided in this section 8.

8.3 Dividends and Other Distributions. If the Company declares a dividend payable in shares of Common Stock, Holder shall be entitled to receive upon exercise of the Warrant, in addition to the number of shares of Common Stock as to which the Warrant is exercised, such additional shares of Common Stock as Holder would have received had the Warrant been exercised immediately prior to such record date for the dividend. If the Company declares a dividend of securities other than a dividend of Common Stock, Holder shall thereafter be entitled to receive, in addition to the shares of Common Stock receivable upon the exercise of such Warrants, such non-Common Stock dividend as Holder would have received had the Warrant been exercised immediately prior to such record date for the dividend. At the time of any such dividend or distribution, the Company shall make appropriate reserves to ensure the timely performance of the provisions of this section 8.3. If the Company declares a cash dividend the Holder shall not be entitled to receive any such dividend.

8.4 Definition of Common Stock. For the purpose of this Agreement, the term Common Stock shall mean the following:

(a) the class of stock designated as Common Stock in the Articles of Incorporation of the Company as may be amended, or any other class of stock resulting from successive changes or reclassifications of such Common Stock; and

(b) if, as a result of an adjustment made pursuant to section 8, Holder shall upon exercise of the Warrants become entitled to receive securities other than Common Stock, wherever appropriate, all references herein to shares of Common Stock shall be deemed to refer to and include such other securities and thereafter the number of such other securities shall be subject to adjustment from time to time in a manner and upon terms as nearly equivalent as practicable to the provisions of this section 8.

9. Issuance of New Warrant Certificate. Upon receipt by the Company of evidence reasonably satisfactory to it of a loss, theft, destruction or mutilation of a Warrant Certificate, reimbursement by Holder to the Company of all incidental expenses and, in the case of loss, theft or destruction, receipt of indemnity or security from Holder reasonably satisfactory to it, or, in the case of a mutilated Warrant Certificate, upon surrender and cancellation thereof the Company shall make and deliver a replacement Warrant Certificate to Holder.

10. Elimination of Fractional Interests. The Company shall not be required to issue certificates representing fractions of shares of Common Stock upon the exercise of the Warrants. The Company shall have the option to make payment in cash in respect of any fractional shares or to round any fraction up to the nearest whole number of shares of Common Stock.

11. Reservation and Listing of Securities. The Company shall at all times reserve and keep available out of its authorized shares of Common Stock, solely for the purpose of issuance upon the exercise of the Warrants, such number of shares of Common Stock as shall be issuable upon the exercise thereof. The Company covenants and agrees that, upon exercise of the Warrants and payment of the Exercise Price by Holder, all shares of Common Stock issuable upon such exercise shall be duly and validly issued, fully paid, non-assessable and not subject to the preemptive rights of any stockholder. The Company shall use its best efforts to cause all shares of Common Stock issuable upon the exercise of the Warrants to be listed (subject to official notice of issuance) on all securities exchanges, if any, on which the Common Stock may then be listed and/or quoted.

12. Representations and Warranties of Holder. Holder represents and warrants to the Company that the Warrants are being acquired solely for Holder's own account, for investment, and not with a view to resale, distribution, assignment, subdivision or fractionalization thereof, and Holder has no present plans to enter into any contract, undertaking, agreement or arrangement for such purpose.

13. Notice to Warrant Holder. Nothing contained in this Warrant Agreement shall be construed as conferring upon Holder, by virtue of holding the Warrants, the right to vote, consent or receive notice as a stockholder in respect of any meetings of stockholders for the election of directors or any other matter, or as having any rights as a stockholder of the Company. If, however, at any time prior to the expiration of the Warrants and their exercise, any of the following events shall occur:

(a) the Company shall take a record of the holders of its shares of Common Stock for the purpose of entitling them to receive a dividend or distribution payable otherwise than in cash, or a cash dividend or distribution payable otherwise than out of current or retained earnings, as indicated by the accounting treatment (which treatment shall be in accordance with generally accepted accounting principles) of such dividend or distribution on the books of the Company; or

(b) the Company shall offer to all the holders of its Common Stock any additional shares of capital stock of the Company or securities convertible into or exchange for shares of capital stock of the Company, or any option, right or warrant to subscribe therefor; or

(c) a dissolution, liquidation, winding up, transfer, consolidation, merger or a sale of all or substantially all its property, assets and business as an entirety shall be proposed;

the Company shall give notice of such event at least 15 days prior to the date fixed as a record date or the date of the closing the transfer books for the determination of the stockholders entitled to such dividend, distribution, convertible or exchangeable securities or subscription rights, or entitled to vote on such proposed dissolution, liquidation, winding up or sale. Such notice shall specify such record date or the date of closing the transfer books, as the case may be. Failure to give such notice or any defect therein shall not affect the validity of any action taken in connection with the declaration or payment of any such dividend, or the issuance of any convertible or exchangeable securities, or subscription rights, options or warrants, or any proposed dissolution, liquidation, winding up or sale.

14. Notices. Any notice or demand pursuant to this Warrant Agreement shall be in writing and shall be deemed sufficiently given or made (a) upon personal delivery; (b) the day following delivery to a reputable overnight courier or (c) three days following mailing by certified or registered mail, return receipt requested, postage prepaid, and addressed, until the other party is notified of another address, as follows:

If to the Company:
Neurocrine Biosciences, Inc.
3050 Science Park
San Diego, California 42121

with a copy to:
Wilson Sonsini Goodrich & Rosati
650 Page Mill Road
Palo Alto, California 94304
Attn: Michael O' Donnell, Esq.

If to Holder:
DOV Pharmaceutical, Inc.
1 Parker Plaza, Suite 1500
Fort Lee, New Jersey
Attn: Dr. Arnold Lippa

with a copy to:
Friedman Siegelbaum LLP
399 Park Avenue
20th Floor
New York, New York 10022
Attn: Joseph R. Siegelbaum, Esq.

15. Supplements and Amendments. This Warrant Agreement may be amended or waived at any time but only by written agreement of the parties.

16. Successors. All the covenants and provisions of this Warrant Agreement shall be binding upon and inure to the benefit of the Company, Holder and their respective successors and assigns hereunder.

17. Governing Law; Submission to Jurisdiction. (a) This Warrant Agreement and each Warrant Certificate issued hereunder shall be deemed to be a contract made under the laws of Delaware without giving effect to rules governing conflicts of law.

(b) Any process or summons to be served upon either the Company or Holder (at the option of the party bringing such action, proceeding or claim) may be served in accordance with section 14. The prevailing party in any such action or proceeding shall be entitled to recover from the other party all its reasonable legal costs and expenses incurred in connection with such action or proceeding

18. Entire Agreement; Modification. This Warrant Agreement contains the entire understanding between the parties with respect to the subject matter hereof and may not be modified or amended except by both parties.

19. Severability. If any provision of this Warrant Agreement is held to be invalid or unenforceable, such invalidity or unenforceability shall not affect any other provision hereof.

20. Captions. The caption headings of the sections of this Warrant Agreement are for convenience of reference only, are not a part of this Warrant Agreement and shall be given no substantive effect.

21. Benefits of this Warrant Agreement. Nothing in this Warrant Agreement shall be construed to give to any person or entity other than the Company and Holder any legal or equitable right, remedy or claim hereunder; and this Warrant Agreement shall be for the sole and exclusive benefit of the Company and Holder.

22. Counterparts. This Warrant Agreement may be executed in any number of counterparts and each of such counterparts shall be deemed to be an original, and such counterparts shall together constitute one instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Warrant Agreement to be duly executed, as of the date first set forth above.

DOV Pharmaceutical, Inc.
By: /s/Arnold Lippa
Chief Executive Officer

Neurocrine Biosciences, Inc.
By: /s/ Gary Lyons
President and
Chief Executive Officer

Exhibit 10.5

Warrant Agreement dated June 30, 1998 between Neurocrine Biosciences, Inc., a Delaware corporation (the "Company"), and Jeff Eliot Margolis ("Holder").

Whereas Holder and the Company are parties to a certain Sublicense and Development Agreement dated June 30, 1998 (the "Sublicense Agreement"); and

Whereas pursuant to the terms of the Sublicense Agreement, the Company has agreed to issue Holder certain warrants to purchase shares of the Company's Common Stock (as defined in section 8.5), with no par value; and

Now therefore for good and valuable consideration, the receipt of which is hereby acknowledged, the parties agree as follows:

1 Grant. The Company grants Holder warrants ("Warrants") to purchase up to [***] shares of Common Stock ("Warrants") at the Exercise Price (as defined in section 2.1), subject to adjustment as provided in Section 8, during the period commencing on the start date of the [***] (as defined in the Sublicense Agreement) and ending five years thereafter (the "Exercise Period").

2. Exercise Price.

2.1 The Exercise Price for (a) [***] warrants shall be $8.040625 per share of Common Stock representing the Market Price (as defined in section 2.2) per share of the Common Stock on the date hereof, and for (b) [***] warrants shall be the Market Price of the Common Stock on the start date of the [***].

2.2 "Market Price" shall be the mean of the closing price of the Common Stock as quoted on the National Association of Securities Dealers, Inc. Automated Quotation System or such other national securities exchange or over-the-counter market on which the Common Stock is quoted; in the case of the aforementioned [***] warrants for the 20-day period prior to the date hereof and in the case of the aforementioned [***] warrants for the 20-day period prior to start of the [***].

3. Warrant Certificates. The warrant certificates delivered pursuant to this Warrant Agreement shall be in the form set forth in Exhibit A with such appropriate changes required or permitted by this Warrant Agreement (the "Warrant Certificates").

4. Exercise of Warrant.

4.1 Manner of Exercise. The Warrants are exercisable during the Exercise Period (but not thereafter) at the Exercise Price and payable to the Company at its executive offices located at 3050 Science Park Road, San Diego, California 42121, attn: Chief Financial Officer (or such other officer as designated to Holder by the Company by notice), by certified or official bank check in New York Clearing House funds or wire transfer. Upon surrender of a Warrant Certificate, submission of an executed election to purchase in the form set forth in Exhibit B and payment of the Exercise Price, Holder shall be entitled to receive a certificate for the shares of Common Stock so purchased. The purchase rights represented by each Warrant Certificate are exercisable at the option of Holder in whole or in part, but not as to fractional shares of Common Stock.

4.2 Non-Cash Exercise. In addition to the method of payment set forth in section 4.1 and in lieu of cash payment, Holder shall have the right to exercise the Warrants in full or in part by surrendering the Warrant Certificate in the manner specified in section 4.1 in exchange for the number of shares of Common Stock equal to the product of (x) the number of shares covered by the Warrants are being exercised multiplied by (y) a fraction, the numerator of which is the closing price of the Company's Common Stock on the date of exercise less the Exercise Price, and the denominator of which is such closing price.

5. Issuance of Certificates.

5.1 Prompt Issuance. Upon exercise of the Warrants, the certificates for the shares of Common Stock underlying such Warrants shall be issued within ten business days without charge to the Holder including, without limitation, any tax that may be payable in connection with the issuance, and such certificates shall be issued in the name of, or in such name as may be directed by, Holder, provided that the Company shall not be required to pay any tax payable solely due to the issuance of a certificates in a name other than Holder. The Company shall not be required to issue or deliver such certificates until Holder pays the amount of such tax to the Company or establishes to the satisfaction of the Company that such tax has been paid.

5.2 Execution of Certificates. Stock certificates issued upon exercise of the Warrants shall be executed by authorized officers of the Company. The person in whose name any such stock certificate is issued shall, for all purposes, be deemed to have become the holder of record of such shares on the date of exercise of the Warrant.

5.3 New Warrant Certificate. If Holder purchases less than all the shares of Common Stock purchasable under any Warrant Certificate, the Company shall cancel the Warrant Certificate upon the surrender thereof and shall execute and deliver a new Warrant Certificate of like tenor for the balance of the shares of Common Stock not so purchased.

6. Transfer of Warrants. Subject to the restrictions set forth in section 7, Holder may sell, assign, pledge, hypothecate or otherwise transfer any rights under this Warrant Agreement, following notice to the Company in the form of Exhibit C.

7. Registration Under the Securities Act of 1933 .

7.1 Neither the Warrants nor the shares of Common Stock issuable upon exercise of the Warrants have been registered under the Securities Act of 1933, as amended (the "Securities Act"), or any applicable state securities or blue sky laws. Upon exercise of the Warrants, the Company may cause a legend in substantially the form set forth below to be placed on each certificate representing the shares of Common Stock issued.

> The securities represented by this certificate have not been registered for public resale under the Securities Act of 1933, as amended ("Securities Act"), and may not be offered, transferred or sold except pursuant to (i) an effective registration statement under the Securities Act and any applicable state securities or blue sky laws, (ii) Rule 144 under the Securities Act (or any similar rule under the Securities Act relating to the disposition of securities), to the extent applicable, together with an opinion of counsel if such opinion, reasonably satisfactory to issuer's counsel, is that such transfer is permitted or (iii) an opinion of counsel, if such opinion, reasonably satisfactory to issuer's counsel, is that an exemption from registration under the Securities Act and any applicable state securities or blue sky laws is available.

7.2 Holder shall have such registration rights set forth in that certain New Registration Rights Agreement dated March 29, 1996.

8. Adjustments to Exercise and Number of Securities.

8.1 Recapitalization and Reclassifications. If upon a recapitalization or reclassification the shares of Common Stock shall be changed into or become exchangeable for a larger or smaller number of shares, then upon the effective date thereof the number of shares of Common Stock that Holder shall be entitled to purchase upon exercise of the Warrant shall be increased or decreased, as the case may be, in direct proportion to the increase or decrease in the number of shares of Common Stock by reason of such recapitalization or reclassification, and the Exercise Price shall be, in the case of an increase in the number of shares, proportionately decreased and, in the case of a decrease in the number of shares, proportionately increased.

8.2 Sale; Merger; Consolidation. Subject to the prior notification requirements of section 13, upon a transfer or sale of all or substantially all the assets of the Company or in the case of any consolidation or merger of the Company with another entity (other than a consolidation or merger that does not result in any reclassification or change of the outstanding Common Stock), the transferee, purchaser or entity formed by or surviving a consolidation or merger, as the case may be, shall execute and deliver to Holder a supplemental warrant agreement giving Holder the right during the Exercise Period to receive, upon exercise of a Warrant, the kind and amount of shares of stock and/or other securities receivable upon such transfer, sale, consolidation or merger, as the case may be, by a holder of the number of shares of Common Stock for which such Warrant might have been exercised immediately prior to such transfer, sale, consolidation or merger, provided that if such transfer, sale, consolidation or merger shall result in the shareholders of the Company receiving cash or publicly traded securities having a value per share in excess of the Exercise Price, this Warrant Agreement shall terminate if not exercised prior to the closing date of such transaction. Such supplemental warrant agreement shall provide for adjustments that shall be identical to the adjustments provided in this section 8.

8.3 Dividends and Other Distributions. If the Company declares a dividend payable in shares of Common Stock, Holder shall be entitled to receive upon exercise of the Warrant, in addition to the number of shares of Common Stock as to which the Warrant is exercised, such additional shares of Common Stock as Holder would have received had the Warrant been exercised immediately prior to such record date for the dividend. If the Company declares a dividend of securities other than a dividend of Common Stock, Holder shall thereafter be entitled to receive, in addition to the shares of Common Stock receivable upon the exercise of such Warrants, such non-Common Stock dividend as Holder would have received had the Warrant been exercised immediately prior to such record date for the dividend. At the time of any such dividend or distribution, the Company shall make appropriate reserves to ensure the timely performance of the provisions of this section 8.3. If the Company declares a cash dividend the Holder shall not be entitled to receive any such dividend.

8.4 Definition of Common Stock. For the purpose of this Agreement, the term Common Stock shall mean the following:

(a) the class of stock designated as Common Stock in the Articles of Incorporation of the Company as may be amended, or any other class of stock resulting from successive changes or reclassifications of such Common Stock; and

(b) if, as a result of an adjustment made pursuant to section 8, Holder shall upon exercise of the Warrants become entitled to receive securities other than Common Stock, wherever appropriate, all references herein to shares of Common Stock shall be deemed to refer to and include such other securities and thereafter the number of such other securities shall be subject to adjustment from time to time in a manner and upon terms as nearly equivalent as practicable to the provisions of this section 8.

9. Issuance of New Warrant Certificate. Upon receipt by the Company of evidence reasonably satisfactory to it of a loss, theft, destruction or mutilation of a Warrant Certificate, reimbursement by Holder to the Company of all incidental expenses and, in the case of loss, theft or destruction, receipt of indemnity or security from Holder reasonably satisfactory to it, or, in the case of a mutilated Warrant Certificate, upon surrender and cancellation thereof the Company shall make and deliver a replacement Warrant Certificate to Holder.

10. Elimination of Fractional Interests. The Company shall not be required to issue certificates representing fractions of shares of Common Stock upon the exercise of the Warrants. The Company shall have the option to make payment in cash in respect of any fractional shares or to round any fraction up to the nearest whole number of shares of Common Stock.

11. Reservation and Listing of Securities. The Company shall at all times reserve and keep available out of its authorized shares of Common Stock, solely for the purpose of issuance upon the exercise of the Warrants, such number of shares of Common Stock as shall be issuable upon the exercise thereof. The Company covenants and agrees that, upon exercise of the Warrants and payment of the Exercise Price by Holder, all shares of Common Stock issuable upon such exercise shall be duly and validly issued, fully paid, non-assessable and not subject to the preemptive rights of any stockholder. The Company shall use its best efforts to cause all shares of Common Stock issuable upon the exercise of the Warrants to be listed (subject to official notice of issuance) on all securities exchanges, if any, on which the Common Stock may then be listed and/or quoted.

12. Representations and Warranties of Holder. Holder represents and warrants to the Company that it is an accredited investor, as defined in Section 501 of Regulations under the Securities Act, the Warrants are being acquired solely for Holder's own account, for investment, and not with a view to resale, distribution, assignment, subdivision or fractionalization thereof, and Holder has no present plans to enter into any contract, undertaking, agreement or arrangement for such purpose.

13. Notice to Warrant Holder. Nothing contained in this Warrant Agreement shall be construed as conferring upon Holder, by virtue of holding the Warrants, the right to vote, consent or receive notice as a stockholder in respect of any meetings of stockholders for the election of directors or any other matter, or as having any rights as a stockholder of the Company. If, however, at any time prior to the expiration of the Warrants and their exercise, any of the following events shall occur:

(a) the Company shall take a record of the holders of its shares of Common Stock for the purpose of entitling them to receive a dividend or distribution payable otherwise than in cash, or a cash dividend or distribution payable otherwise than out of current or retained earnings, as indicated by the accounting treatment (which treatment shall be in accordance with generally accepted accounting principles) of such dividend or distribution on the books of the Company; or

(b) the Company shall offer to all the holders of its Common Stock any additional shares of capital stock of the Company or securities convertible into or exchange for shares of capital stock of the Company, or any option, right or warrant to subscribe therefor; or

(c) a dissolution, liquidation, winding up, transfer, consolidation, or merger) or a sale of all or substantially all its property, assets and business as an entirety shall be proposed;

the Company shall give notice of such event at least 15 days prior to the date fixed as a record date or the date of the closing the transfer books for the determination of the stockholders entitled to such dividend, distribution, convertible or exchangeable securities or subscription rights, or entitled to vote on such proposed dissolution, liquidation, winding up or sale. Such notice shall specify such record date or the date of closing the transfer books, as the case may be. Failure to give such notice or any defect therein shall not affect the validity of any action taken in connection with the declaration or payment of any such dividend, or the issuance of any convertible or exchangeable securities, or subscription rights, options or warrants, or any proposed dissolution, liquidation, winding up or sale.

14. Notices. Any notice or demand pursuant to this Warrant Agreement shall be in writing and shall be deemed sufficiently given or made (a) upon personal delivery; (b) the day following delivery to a reputable overnight courier or (c) three days following mailing by certified or registered mail, return receipt requested, postage prepaid, and addressed, until the other party is notified of another address, as follows:

If to the Company:
Neurocrine Biosciences, Inc.
3050 Science Park
San Diego, California 42121

with a copy to:
Wilson Sonsini Goodrich & Rosati
650 Page Mill Road
Palo Alto, California 94304
Attn: Michael O'Donnell, Esq.

If to Holder:
Jeff Eliot Margolis
c/o Aurora Capital Corp.
425 Park Avenue
New York, New York 10022-3506

15. Supplements and Amendments. This Warrant Agreement may be amended or waived at any time but only by written agreement of the parties.

16. Successors. All the covenants and provisions of this Warrant Agreement shall be binding upon and inure to the benefit of the Company, Holder and their respective successors and assigns hereunder.

17. Governing Law; Submission to Jurisdiction. (a) This Warrant Agreement and each Warrant Certificate issued hereunder shall be deemed to be a contract made under the laws of Delaware without giving effect to rules governing conflicts of law.

(b) Any process or summons to be served upon either the Company or Holder (at the option of the party bringing such action, proceeding or claim) may be served in accordance with section 14. The prevailing party in any such action or proceeding shall be entitled to recover from the other party all its reasonable legal costs and expenses incurred in connection with such action or proceeding

18. Entire Agreement; Modification. This Warrant Agreement contains the entire understanding between the parties with respect to the subject matter hereof and may not be modified or amended except by both parties.

19. Severability. If any provision of this Warrant Agreement is held to be invalid or unenforceable, such invalidity or unenforceability shall not affect any other provision hereof.

20. Captions. The caption headings of the sections of this Warrant Agreement are for convenience of reference only, are not a part of this Warrant Agreement and shall be given no substantive effect.

21. Benefits of this Warrant Agreement. Nothing in this Warrant Agreement shall be construed to give to any person or entity other than the Company and Holder any legal or equitable right, remedy or claim hereunder; and this Warrant Agreement shall be for the sole and exclusive benefit of the Company and Holder.

22. Counterparts. This Warrant Agreement may be executed in any number of counterparts and each of such counterparts shall be deemed to be an original, and such counterparts shall together constitute one instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Warrant Agreement to be duly executed, as of the date first set forth above.

/s/Jeff Eliot Margolis

Neurocrine Biosciences, Inc.
/s/ Gary Lyons
President and
Chief Executive Officer

Exhibit 10.6

Warrant Agreement dated June 30, 1998 between Neurocrine Biosciences, Inc., a Delaware corporation (the "Company"), and Stephen L. Ross ("Holder").

Whereas Holder and the Company are parties to a certain Sublicense and Development Agreement dated June 30, 1998 (the "Sublicense Agreement"); and

Whereas pursuant to the terms of the Sublicense Agreement, the Company has agreed to issue Holder certain warrants to purchase shares of the Company's Common Stock (as defined in section 8.5), with no par value; and

Now therefore for good and valuable consideration, the receipt of which is hereby acknowledged, the parties agree as follows:

1 Grant. The Company grants Holder warrants ("Warrants") to purchase up to [***] shares of Common Stock ("Warrants") at the Exercise Price (as defined in section 2.1), subject to adjustment as provided in Section 8, during the period commencing on the start date of the [***] (as defined in the Sublicense Agreement) and ending five years thereafter (the "Exercise Period").

2. Exercise Price.

2.1 The Exercise Price for (a) [***] warrants shall be $8.040625 per share of Common Stock representing the Market Price (as defined in section 2.2) per share of the Common Stock on the date hereof, and for (b) [***] warrants shall be the Market Price of the Common Stock on the start date of the [***].

2.2 "Market Price" shall be the mean of the closing price of the Common Stock as quoted on the National Association of Securities Dealers, Inc. Automated Quotation System or such other national securities exchange or over-the-counter market on which the Common Stock is quoted; in the case of the aforementioned [***] warrants for the 20-day period prior to the date hereof and in the case of the aforementioned [***] warrants for the 20-day period prior to start of the [***].

3. Warrant Certificates. The warrant certificates delivered pursuant to this Warrant Agreement shall be in the form set forth in Exhibit A with such appropriate changes required or permitted by this Warrant Agreement (the "Warrant Certificates").

4. Exercise of Warrant.

4.1 Manner of Exercise. The Warrants are exercisable during the Exercise Period (but not thereafter) at the Exercise Price and payable to the Company at its executive offices located at 3050 Science Park Road, San Diego, California 42121, attn: Chief Financial Officer (or such other officer as designated to Holder by the Company by notice), by certified or official bank check in New York Clearing House funds or wire transfer. Upon surrender of a Warrant Certificate, submission of an executed election to purchase in the form set forth in Exhibit B and payment of the Exercise Price, Holder shall be entitled to receive a certificate for the shares of Common Stock so purchased. The purchase rights represented by each Warrant Certificate are exercisable at the option of Holder in whole or in part, but not as to fractional shares of Common Stock.

4.2 Non-Cash Exercise. In addition to the method of payment set forth in section 4.1 and in lieu of cash payment, Holder shall have the right to exercise the Warrants in full or in part by surrendering the Warrant Certificate in the manner specified in section 4.1 in exchange for the number of shares of Common Stock equal to the product of (x) the number of shares covered by the Warrants are being exercised multiplied by (y) a fraction, the numerator of which is the closing price of the Company's Common Stock on the date of exercise less the Exercise Price, and the denominator of which is such closing price.

5. Issuance of Certificates.

5.1 Prompt Issuance. Upon exercise of the Warrants, the certificates for the shares of Common Stock underlying such Warrants shall be issued within ten business days without charge to the Holder including, without limitation, any tax that may be payable in connection with the issuance, and such certificates shall be issued in the name of, or in such name as may be directed by, Holder, provided that the Company shall not be required to pay any tax payable solely due to the issuance of a certificates in a name other than Holder. The Company shall not be required to issue or deliver such certificates until Holder pays the amount of such tax to the Company or establishes to the satisfaction of the Company that such tax has been paid.

5.2 Execution of Certificates. Stock certificates issued upon exercise of the Warrants shall be executed by authorized officers of the Company. The person in whose name any such stock certificate is issued shall, for all purposes, be deemed to have become the holder of record of such shares on the date of exercise of the Warrant.

5.3 New Warrant Certificate. If Holder purchases less than all the shares of Common Stock purchasable under any Warrant Certificate, the Company shall cancel the Warrant Certificate upon the surrender thereof and shall execute and deliver a new Warrant Certificate of like tenor for the balance of the shares of Common Stock not so purchased.

6. Transfer of Warrants. Subject to the restrictions set forth in section 7, Holder may sell, assign, pledge, hypothecate or otherwise transfer any rights under this Warrant Agreement, following notice to the Company in the form of Exhibit C.

7. Registration Under the Securities Act of 1933 .

7.1 Neither the Warrants nor the shares of Common Stock issuable upon exercise of the Warrants have been registered under the Securities Act of 1933, as amended (the "Securities Act"), or any applicable state securities or blue sky laws. Upon exercise of the Warrants, the Company may cause a legend in substantially the form set forth below to be placed on each certificate representing the shares of Common Stock issued.

> The securities represented by this certificate have not been registered for public resale under the Securities Act of 1933, as amended ("Securities Act"), and may not be offered, transferred or sold except pursuant to (i) an effective registration statement under the Securities Act and any applicable state securities or blue sky laws, (ii) Rule 144 under the Securities Act (or any similar rule under the Securities Act relating to the disposition of securities), to the extent applicable, together with an opinion of counsel if such opinion, reasonably satisfactory to issuer's counsel, is that such transfer is permitted or (iii) an opinion of counsel, if such opinion, reasonably satisfactory to issuer's counsel, is that an exemption from registration under the Securities Act and any applicable state securities or blue sky laws is available.

7.2 Holder shall have such registration rights set forth in that certain New Registration Rights Agreement dated March 29, 1996.

8. Adjustments to Exercise and Number of Securities.

8.1 Recapitalization and Reclassifications. If upon a recapitalization or reclassification the shares of Common Stock shall be changed into or become exchangeable for a larger or smaller number of shares, then upon the effective date thereof the number of shares of Common Stock that Holder shall be entitled to purchase upon exercise of the Warrant shall be increased or decreased, as the case may be, in direct proportion to the increase or decrease in the number of shares of Common Stock by reason of such recapitalization or reclassification, and the Exercise Price shall be, in the case of an increase in the number of shares, proportionately decreased and, in the case of a decrease in the number of shares, proportionately increased.

8.2 Sale; Merger; Consolidation. Subject to the prior notification requirements of section 13, upon a transfer or sale of all or substantially all the assets of the Company or in the case of any consolidation or merger of the Company with another entity (other than a consolidation or merger that does not result in any reclassification or change of the outstanding Common Stock), the transferee, purchaser or entity formed by or surviving a consolidation or merger, as the case may be, shall execute and deliver to Holder a supplemental warrant agreement giving Holder the right during the Exercise Period to receive, upon exercise of a Warrant, the kind and amount of shares of stock and/or other securities receivable upon such transfer, sale, consolidation or merger, as the case may be, by a holder of the number of shares of Common Stock for which such Warrant might have been exercised immediately prior to such transfer, sale, consolidation or merger, provided that if such transfer, sale, consolidation or merger shall result in the shareholders of the Company receiving cash or publicly traded securities having a value per share in excess of the Exercise Price, this Warrant Agreement shall terminate if not exercised prior to the closing date of such transaction. Such supplemental warrant agreement shall provide for adjustments that shall be identical to the adjustments provided in this section 8.

8.3 Dividends and Other Distributions. If the Company declares a dividend payable in shares of Common Stock, Holder shall be entitled to receive upon exercise of the Warrant, in addition to the number of shares of Common Stock as to which the Warrant is exercised, such additional shares of Common Stock as Holder would have received had the Warrant been exercised immediately prior to such record date for the dividend. If the Company declares a dividend of securities other than a dividend of Common Stock, Holder shall thereafter be entitled to receive, in addition to the shares of Common Stock receivable upon the exercise of such Warrants, such non-Common Stock dividend as Holder would have received had the Warrant been exercised immediately prior to such record date for the dividend. At the time of any such dividend or distribution, the Company shall make appropriate reserves to ensure the timely performance of the provisions of this section 8.3. If the Company declares a cash dividend the Holder shall not be entitled to receive any such dividend.

8.4 Definition of Common Stock. For the purpose of this Agreement, the term Common Stock shall mean the following:

(a) the class of stock designated as Common Stock in the Articles of Incorporation of the Company as may be amended, or any other class of stock resulting from successive changes or reclassifications of such Common Stock; and

(b) if, as a result of an adjustment made pursuant to section 8, Holder shall upon exercise of the Warrants become entitled to receive securities other than Common Stock, wherever appropriate, all references herein to shares of Common Stock shall be deemed to refer to and include such other securities and thereafter the number of such other securities shall be subject to adjustment from time to time in a manner and upon terms as nearly equivalent as practicable to the provisions of this section 8.

9. Issuance of New Warrant Certificate. Upon receipt by the Company of evidence reasonably satisfactory to it of a loss, theft, destruction or mutilation of a Warrant Certificate, reimbursement by Holder to the Company of all incidental expenses and, in the case of loss, theft or destruction, receipt of indemnity or security from Holder reasonably satisfactory to it, or, in the case of a mutilated Warrant Certificate, upon surrender and cancellation thereof the Company shall make and deliver a replacement Warrant Certificate to Holder.

10. Elimination of Fractional Interests. The Company shall not be required to issue certificates representing fractions of shares of Common Stock upon the exercise of the Warrants. The Company shall have the option to make payment in cash in respect of any fractional shares or to round any fraction up to the nearest whole number of shares of Common Stock.

11. Reservation and Listing of Securities. The Company shall at all times reserve and keep available out of its authorized shares of Common Stock, solely for the purpose of issuance upon the exercise of the Warrants, such number of shares of Common Stock as shall be issuable upon the exercise thereof. The Company covenants and agrees that, upon exercise of the Warrants and payment of the Exercise Price by Holder, all shares of Common Stock issuable upon such exercise shall be duly and validly issued, fully paid, non-assessable and not subject to the preemptive rights of any stockholder. The Company shall use its best efforts to cause all shares of Common Stock issuable upon the exercise of the Warrants to be listed (subject to official notice of issuance) on all securities exchanges, if any, on which the Common Stock may then be listed and/or quoted.

12. Representations and Warranties of Holder. Holder represents and warrants to the Company that it is an accredited investor, as defined in Section 501 of Regulations under the Securities Act, the Warrants are being acquired solely for Holder's own account, for investment, and not with a view to resale, distribution, assignment, subdivision or fractionalization thereof, and Holder has no present plans to enter into any contract, undertaking, agreement or arrangement for such purpose.

13. Notice to Warrant Holder. Nothing contained in this Warrant Agreement shall be construed as conferring upon Holder, by virtue of holding the Warrants, the right to vote, consent or receive notice as a stockholder in respect of any meetings of stockholders for the election of directors or any other matter, or as having any rights as a stockholder of the Company. If, however, at any time prior to the expiration of the Warrants and their exercise, any of the following events shall occur:

(a) the Company shall take a record of the holders of its shares of Common Stock for the purpose of entitling them to receive a dividend or distribution payable otherwise than in cash, or a cash dividend or distribution payable otherwise than out of current or retained earnings, as indicated by the accounting treatment (which treatment shall be in accordance with generally accepted accounting principles) of such dividend or distribution on the books of the Company; or

(b) the Company shall offer to all the holders of its Common Stock any additional shares of capital stock of the Company or securities convertible into or exchange for shares of capital stock of the Company, or any option, right or warrant to subscribe therefor; or

(c) a dissolution, liquidation, winding up, transfer, consolidation, or merger) or a sale of all or substantially all its property, assets and business as an entirety shall be proposed;

the Company shall give notice of such event at least 15 days prior to the date fixed as a record date or the date of the closing the transfer books for the determination of the stockholders entitled to such dividend, distribution, convertible or exchangeable securities or subscription rights, or entitled to vote on such proposed dissolution, liquidation, winding up or sale. Such notice shall specify such record date or the date of closing the transfer books, as the case may be. Failure to give such notice or any defect therein shall not affect the validity of any action taken in connection with the declaration or payment of any such dividend, or the issuance of any convertible or exchangeable securities, or subscription rights, options or warrants, or any proposed dissolution, liquidation, winding up or sale.

14. Notices. Any notice or demand pursuant to this Warrant Agreement shall be in writing and shall be deemed sufficiently given or made (a) upon personal delivery; (b) the day following delivery to a reputable overnight courier or (c) three days following mailing by certified or registered mail, return receipt requested, postage prepaid, and addressed, until the other party is notified of another address, as follows:

If to the Company:
Neurocrine Biosciences, Inc.
3050 Science Park
San Diego, California 42121

with a copy to:
Wilson Sonsini Goodrich & Rosati
650 Page Mill Road
Palo Alto, California 94304
Attn: Michael O'Donnell, Esq.

If to Holder:
Stephen L. Ross
c/o Aurora Capital Corp.
425 Park Avenue
New York, New York 10022-3506

15. Supplements and Amendments. This Warrant Agreement may be amended or waived at any time but only by written agreement of the parties.

16. Successors. All the covenants and provisions of this Warrant Agreement shall be binding upon and inure to the benefit of the Company, Holder and their respective successors and assigns hereunder.

17. Governing Law; Submission to Jurisdiction. (a) This Warrant Agreement and each Warrant Certificate issued hereunder shall be deemed to be a contract made under the laws of Delaware without giving effect to rules governing conflicts of law.

(b) Any process or summons to be served upon either the Company or Holder (at the option of the party bringing such action, proceeding or claim) may be served in accordance with section 14. The prevailing party in any such action or proceeding shall be entitled to recover from the other party all its reasonable legal costs and expenses incurred in connection with such action or proceeding

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IN WITNESS WHEREOF, the parties hereto have caused this Warrant Agreement to be duly executed, as of the date first set forth above.

/s/ Stephen L. Ross

Neurocrine Biosciences, Inc.
/s/ Gary Lyons
President and
Chief Executive Officer

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