

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

PRE-EFFECTIVE

AMENDMENT NO. 1

TO  
FORM S-1  
REGISTRATION STATEMENT  
UNDER  
THE SECURITIES ACT OF 1933

NEUROCRINE BIOSCIENCES, INC.  
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE (STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	8731 (PRIMARY STANDARD INDUSTRIAL CLASSIFICATION CODE NUMBER)	33-0525145 (I.R.S. EMPLOYER IDENTIFICATION NO.)
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3050 SCIENCE PARK ROAD  
SAN DIEGO, CALIFORNIA 92121  
(619) 658-7600  
(ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE, OF  
REGISTRANT'S PRINCIPAL EXECUTIVE OFFICES)

GARY A. LYONS  
PRESIDENT AND CHIEF EXECUTIVE OFFICER  
NEUROCRINE BIOSCIENCES, INC.  
3050 SCIENCE PARK ROAD  
SAN DIEGO, CALIFORNIA 92121  
(619) 658-7600  
(NAME, ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE,  
OF AGENT FOR SERVICE)

COPIES TO:

MICHAEL J. O'DONNELL, ESQ. WILSON SONSINI GOODRICH & ROSATI PROFESSIONAL CORPORATION 650 PAGE MILL ROAD PALO ALTO, CALIFORNIA 94304-1050 (415) 493-9300	ALAN C. MENDELSON, ESQ. FREDERICK T. MUTO, ESQ. COOLEY GODWARD CASTRO HUDDLESON & TATUM FIVE PALO ALTO SQUARE 3000 EL CAMINO REAL PALO ALTO, CALIFORNIA 94306-2155 (415) 843-5000
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APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: As soon as practicable after the effective date of this Registration Statement.  
If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box.   
If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.   
If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration number of the earlier effective registration statement for the same offering.   
If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A) MAY DETERMINE.

NEUROCRINE BIOSCIENCES, INC.

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CROSS-REFERENCE SHEET

SHOWING LOCATION IN PROSPECTUS  
OF INFORMATION REQUIRED BY ITEMS OF FORM S-1

S-1 REGISTRATION STATEMENT ITEM AND HEADING -----	LOCATION IN PROSPECTUS -----
1. Forepart of the Registration Statement and Outside Front Cover Page of Prospectus.....	Outside Front Cover Page
2. Inside Front and Outside Back Cover Pages of Prospectus.....	Inside Front and Outside Back Cover Pages
3. Summary Information and Risk Factors.....	Prospectus Summary; Risk Factors
4. Use of Proceeds.....	Use of Proceeds
5. Determination of Offering Price.....	Outside Front Cover Page; Underwriting
6. Dilution.....	Dilution
7. Selling Security Holders.....	Not Applicable
8. Plan of Distribution.....	Outside Front and Inside Front Cover Pages; Underwriting
9. Description of Securities to be Registered....	Outside Front Cover Page; Prospectus Summary; Capitalization; Description of Capital Stock
10. Interests of Named Experts and Counsel.....	Legal Matters; Experts
11. Information with Respect to the Registrant....	Outside Front and Inside Front Cover Pages; Prospectus Summary; Risk Factors; Use of Proceeds; Dividend Policy; Capitalization; Selected Financial Data; Management's Discussion and Analysis of Financial Condition and Results of Operations; Business; Management; Certain Transactions; Principal Stockholders; Description of Capital Stock; Shares Eligible for Future Sale; Financial Statements
12. Disclosure of Commission Position on Indemnification for Securities Act Liabilities.....	Not Applicable

+-----+  
 +INFORMATION CONTAINED HEREIN IS SUBJECT TO COMPLETION OR AMENDMENT. A +  
 +REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS BEEN FILED WITH THE +  
 +SECURITIES AND EXCHANGE COMMISSION. THESE SECURITIES MAY NOT BE SOLD NOR MAY +  
 +OFFERS TO BUY BE ACCEPTED PRIOR TO THE TIME THE REGISTRATION STATEMENT +  
 +BECOMES EFFECTIVE. THIS PROSPECTUS SHALL NOT CONSTITUTE AN OFFER TO SELL OR +  
 +THE SOLICITATION OF AN OFFER TO BUY NOR SHALL THERE BE ANY SALE OF THESE +  
 +SECURITIES IN ANY STATE IN WHICH SUCH OFFER, SOLICITATION OR SALE WOULD BE +  
 +UNLAWFUL PRIOR TO REGISTRATION OR QUALIFICATION UNDER THE SECURITIES LAWS OF +  
 +ANY SUCH STATE. +

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 SUBJECT TO COMPLETION, DATED MAY 10, 1996

[LOGO APPEARS HERE]

3,000,000 SHARES

COMMON STOCK

All of the 3,000,000 shares of Common Stock offered hereby are being sold by Neurocrine Biosciences, Inc. ("Neurocrine" or the "Company"). Prior to this offering, there has been no public market for the Common Stock of the Company. It is currently estimated that the initial public offering price will be between \$8.00 and \$10.00 per share. See "Underwriting" for information relating to the method of determining the initial public offering price. Application has been made to have the Company's Common Stock quoted on the Nasdaq National Market under the symbol "NBIX."

Ciba-Geigy Limited is a party to a strategic alliance with the Company. As part of the strategic alliance, Ciba-Geigy Limited has agreed to purchase \$5,000,000 of Common Stock upon completion of this offering in a separate transaction at a price per share equal to the price per share at which Common Stock is sold in this offering.

Johnson & Johnson Development Corp. ("JJDC"), a subsidiary of Johnson & Johnson, is an affiliate of Janssen Pharmaceutica, N.V., a party to a strategic alliance with the Company. As part of the strategic alliance, JJDC has agreed to purchase \$2,500,000 of Common Stock upon completion of this offering in a separate transaction at a price per share equal to the price per share at which Common Stock is sold in this offering.

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THE COMMON STOCK OFFERED HEREBY INVOLVES A HIGH DEGREE OF RISK. SEE "RISK FACTORS" BEGINNING ON PAGE 6.

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THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

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	PRICE TO PUBLIC	UNDERWRITING DISCOUNTS AND COMMISSIONS	PROCEEDS TO COMPANY (1)
Per Share.....	\$	\$	\$
Total (2).....	\$	\$	\$

- (1) Before deducting expenses payable by the Company estimated at \$500,000.  
 (2) The Company has granted the Underwriters a 30-day option to purchase up to an additional 450,000 shares of Common Stock solely to cover over-allotments, if any. See "Underwriting." If such option is exercised in full, the total Price to Public, Underwriting Discounts and Commissions and Proceeds to Company will be \$ , \$ and \$ , respectively.

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 The Common Stock is offered by the Underwriters as stated herein, subject to receipt and acceptance by them and subject to their right to reject any order in whole or in part. It is expected that delivery of such shares will be made through the offices of Robertson, Stephens & Company LLC ("Robertson, Stephens & Company"), San Francisco, California, on or about , 1996.

ALEX. BROWN & SONS  
INCORPORATED

MONTGOMERY SECURITIES

The date of this Prospectus is , 1996

INSERT COLOR GRAPHIC

[GRAPHIC APPEARS HERE]

[NARRATIVE DESCRIPTION: REPRESENTATION OF HUMAN BRAIN, CRF RECEPTOR AND CRF-BINDING PROTEIN INDICATING ADVERSE EFFECTS OF INCREASED AND DECREASED CRF LEVELS]

Overproduction of corticotropin releasing factor ("CRF") in the brain is associated with disorders such as anxiety, depression, stroke and substance abuse. Conversely, low levels of CRF are associated with Alzheimer's disease and obesity. Neurocrine has discovered antagonists of the CRF receptors and the CRF-binding protein that may represent novel therapeutic approaches to the treatment of these diseases and disorders.

THE COMPANY'S PRODUCTS HAVE NOT BEEN APPROVED BY THE UNITED STATES FOOD AND DRUG ADMINISTRATION ("FDA") FOR MARKETING IN THE UNITED STATES. FDA APPROVAL IS NOT EXPECTED TO BE FORTHCOMING FOR SEVERAL YEARS, AND MAY NOT BE RECEIVED AT ALL.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE COMMON STOCK OF THE COMPANY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH TRANSACTIONS MAY BE EFFECTED ON THE NASDAQ NATIONAL MARKET, OR OTHERWISE. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

NO DEALER, SALES REPRESENTATIVE OR ANY OTHER PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS IN CONNECTION WITH THIS OFFERING OTHER THAN THOSE CONTAINED IN THIS PROSPECTUS, AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE COMPANY OR ANY UNDERWRITER. THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER TO SELL, OR A SOLICITATION OF AN OFFER TO BUY, ANY SECURITIES OTHER THAN THE REGISTERED SECURITIES TO WHICH IT RELATES OR AN OFFER TO, OR A SOLICITATION OF, ANY PERSON IN ANY JURISDICTION IN WHICH SUCH AN OFFER OR SOLICITATION WOULD BE UNLAWFUL. NEITHER THE DELIVERY OF THIS PROSPECTUS NOR ANY SALE MADE HEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE COMPANY SINCE THE DATE HEREOF OR THAT THE INFORMATION CONTAINED HEREIN IS CORRECT AS OF ANY TIME SUBSEQUENT TO THE DATE HEREOF.

UNTIL , 1996 (25 DAYS AFTER THE DATE OF THIS PROSPECTUS), ALL DEALERS EFFECTING TRANSACTIONS IN THE REGISTERED SECURITIES, WHETHER OR NOT PARTICIPATING IN THIS DISTRIBUTION, MAY BE REQUIRED TO DELIVER A PROSPECTUS. THIS DELIVERY REQUIREMENT IS IN ADDITION TO THE OBLIGATION OF DEALERS TO DELIVER A PROSPECTUS WHEN ACTING AS UNDERWRITERS AND WITH RESPECT TO THEIR UNSOLD ALLOTMENTS OR SUBSCRIPTIONS.

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The Company intends to furnish to its stockholders annual reports containing financial statements audited by its independent accountants and quarterly reports containing unaudited financial statements for each of the first three quarters of each fiscal year.

Tradenames and trademarks appearing in this Prospectus are the property of their respective holders.

## SUMMARY

This Prospectus contains forward-looking statements which involve risks and uncertainties. The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth under "Risk Factors" and elsewhere in this Prospectus.

The following summary is qualified in its entirety by the more detailed information, including "Risk Factors" and Financial Statements and Notes thereto, appearing elsewhere in this Prospectus.

## THE COMPANY

Neurocrine Biosciences, Inc. is a leading neuroimmunology company focused on the discovery and development of novel therapeutics to treat diseases and disorders of the central nervous and immune systems. The Company's neuroscience and immunology disciplines provide a unique biological understanding of the molecular interactions between the central nervous, immune and endocrine systems leading to therapeutic opportunities for diseases and disorders such as anxiety, depression, Alzheimer's disease, obesity and multiple sclerosis. Neurocrine is leveraging its resources through strategic alliances and novel financing mechanisms to build its internal product development and commercialization capabilities. To date, Neurocrine has entered into strategic alliances with Janssen Pharmaceutica, N.V. ("Janssen"), a subsidiary of Johnson & Johnson, focused on the treatment of anxiety, depression and substance abuse, and Ciba-Geigy Limited ("Ciba-Geigy") for the treatment of multiple sclerosis. In conjunction with a number of institutional investors, the Company has also established a research and development subsidiary in Canada, Neuroscience Pharma (NPI) Inc. ("NPI"), to develop additional compounds for the treatment of Alzheimer's disease and other neurodegenerative diseases and disorders.

The Company employs advanced technologies, including high-throughput screening, combinatorial chemistry, molecular biology, gene sequencing and bioinformatics, to discover and design novel small molecule therapeutics. Neurocrine has utilized these technologies to advance its four research and development programs:

**Corticotropin Releasing Factor ("CRF").** CRF is the central regulator of the body's overall response to stress and functions as both an endocrine factor and a neurotransmitter. In conjunction with Janssen, the Company is developing compounds to block the effects of over-production of CRF, potentially offering new therapies for disorders such as anxiety, depression and substance abuse. Neurocrine is independently developing related compounds for the treatment of stroke. The Company is also developing compounds to block a protein in the brain that binds to CRF and holds it in an inactive state. These compounds may provide a novel therapeutic approach for diseases that are associated with decreased levels of CRF, such as Alzheimer's disease and obesity.

**Altered Peptide Ligands.** In autoimmune diseases, certain T-cells inappropriately recognize the body's own tissues as foreign and attack healthy cells. Peptide ligands are naturally occurring molecules which can be altered to bind to disease-causing T-cells to inhibit their destructive capabilities. In conjunction with Ciba-Geigy, the Company is conducting preclinical testing of its altered peptide ligand drug candidate for the treatment of multiple sclerosis. Neurocrine is also independently developing compounds to treat diabetes.

**Neurosteroids.** Neurosteroids are a class of steroidal compounds produced in the central nervous system that show a wide range of effects on neurons, including the potential to enhance memory. A physician-sponsored clinical trial is being conducted to test a naturally-occurring human steroid that may have memory enhancing properties in patients suffering from Alzheimer's disease.

**Neurogenomics.** The immune system of the brain plays a role in neurological diseases and disorders. Neurocrine scientists are identifying novel genes in the brain which are involved in neurodegeneration. To date, approximately 2,000 novel genes have been identified and are undergoing evaluation as drug targets or as potential diagnostics and therapeutics for diseases and disorders such as Alzheimer's disease, stroke, multiple sclerosis, Parkinson's disease, epilepsy and AIDS dementia.

The Company has retained certain marketing or co-promotion rights in North America to its products under development and plans to establish a North American sales and marketing organization focused on neurologists and certain other disease specialists. The Company intends to concentrate its resources on research and development activities by outsourcing its requirements for manufacturing, preclinical studies, and clinical research monitoring activities.

The Company's offices are located at 3050 Science Park Road, San Diego, CA 92121, and its telephone number is (619) 658-7600. The Company was originally incorporated in the State of California in January 1992 and was reincorporated in the State of Delaware in May 1996.





THE OFFERING

Common Stock Offered by the Company..... 3,000,000 shares  
 Common Stock Outstanding After the Offering..... 16,201,596 shares (1)  
 Use of Proceeds..... Research and development, capital expenditures, the acquisition of technology rights and general corporate purposes, including working capital. See "Use of Proceeds."  
 Proposed Nasdaq National Market Symbol..... NBIX

SUMMARY FINANCIAL DATA  
 (in thousands, except per share data)

	YEAR ENDED DECEMBER 31,			THREE MONTHS ENDED MARCH 31,	
	1993	1994	1995	1995	1996
STATEMENT OF OPERATIONS DATA:					
Revenues under collaborative re-research agreements:					
Sponsored research.....	\$ --	\$ --	\$ 3,750	\$ 625	\$ 1,625
License fees.....	--	--	2,000	2,000	--
Other revenues.....	--	162	356	127	534
Total revenues.....	--	162	6,106	2,752	2,159
Operating expenses:					
Research and development.....	2,804	6,231	7,740	1,848	1,794
General and administrative.....	1,550	2,223	2,728	737	571
Total operating expenses.....	4,354	8,454	10,468	2,585	2,365
Income (loss) from operations.....	(4,354)	(8,292)	(4,362)	167	(206)
Interest income, net.....	118	627	839	220	187
Other income (expense).....	--	(41)	177	27	44
Net income (loss).....	\$(4,236)	\$(7,706)	\$(3,346)	\$ 414	\$ 25
Net income (loss) per share.....	\$ (0.64)	\$ (0.67)	\$ (0.27)	\$ 0.03	\$ --
Shares used in computing net income (loss) per share (2).....	6,635	11,433	12,184	12,409	13,240

MARCH 31, 1996

ACTUAL AS ADJUSTED (3)

BALANCE SHEET DATA:

Cash, cash equivalents and short-term investments (4).....	\$ 20,562	\$ 52,372
Total assets.....	28,080	59,890
Accumulated deficit.....	(15,871)	(15,871)
Total stockholders' equity.....	24,220	56,030

- (1) Based on the number of shares outstanding at March 31, 1996. Includes the sale of 833,334 shares of Common Stock to Ciba-Geigy and JJDC at a price equal to the assumed initial public offering price per share. Excludes 3,618,638 shares of Common Stock issuable upon exercise of options and warrants outstanding as of March 31, 1996 at a weighted average exercise price of \$5.74 per share. See "Business -- Strategic Alliances," "Management -- Stock Plans" and "Description of Capital Stock -- Warrants."
- (2) See Note 1 of Notes to Financial Statements for an explanation of the determination of the number of shares used to compute net income (loss) per share.
- (3) Adjusted to reflect the sale of 3,000,000 shares of Common Stock offered hereby at an assumed initial public offering price of \$9.00 per share and 833,334 shares of Common Stock to Ciba-Geigy and JJDC at a price equal to the assumed initial public offering price per share, and the application of the estimated net proceeds therefrom. See "Use of Proceeds," "Business -- Strategic Alliances" and "Underwriting."
- (4) Excludes approximately \$9.5 million held by NPI which is available to fund certain of the Company's research and development activities. See "Business

-- Strategic Alliances."

Except as otherwise indicated, all information in this Prospectus assumes no exercise of the Underwriters' over-allotment option, and assumes the reincorporation of the Company in Delaware, which is anticipated to be completed prior to consummation of this offering.

## RISK FACTORS

This Prospectus contains forward-looking statements which involve risks and uncertainties. The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth in the following risk factors and elsewhere in this Prospectus.

The following risk factors should be considered carefully in evaluating the Company and its business before purchasing the shares of Common Stock offered hereby.

### UNCERTAINTIES RELATED TO EARLY STAGE OF DEVELOPMENT

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

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

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

### DEPENDENCE ON STRATEGIC ALLIANCES

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

The Company cannot control the amount and timing of resources which its corporate partners devote to the Company's programs or potential products. If any of the Company's corporate partners breach or terminate their agreements with the Company or otherwise fail to conduct their collaborative activities in a

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

#### INTENSE COMPETITION; UNCERTAINTY OF TECHNOLOGICAL CHANGE

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

Recently, Betaseron, a form of beta-interferon marketed by Berlex BioSciences, has been approved for the treatment of relapsing remitting multiple sclerosis ("MS"). Avonex, a similar form of beta-interferon, produced by Biogen, Inc., has been recommended for approval by an FDA advisory committee for the same indication. Tacrine, marketed by Warner Lambert Co., has recently been approved for the treatment of Alzheimer's disease. Sales of these drugs may reduce the available market for any product developed by the Company for these indications. The Company is developing products for the treatment of anxiety disorders, which will compete with well-established products in the benzodiazepene class, including Valium, marketed by Hoffman-La Roche, Inc., and depression, which will compete with well-established products in the anti-depressant class, including Prozac, marketed by Eli Lilly & Co. Certain technologies under development by other pharmaceutical companies could result in treatments for these and other diseases and disorders being pursued by the Company. For example, a number of companies are conducting research on molecules to block CRF to treat anxiety and depression. Other biotechnology and pharmaceutical companies are developing compounds to treat obesity, and one such drug, d-fenfluramine, marketed by American Home Products Corporation, has been recommended for approval by an FDA advisory committee. Several companies are engaged in the research and development of immune modulating drugs for the potential treatment of MS. In the event that one or more of these programs were successful, the market for the Company's products may be reduced or eliminated.

In addition, if Neurocrine receives regulatory approvals for its products, manufacturing efficiency and marketing capabilities are likely to be significant competitive factors. At the present time, Neurocrine has no commercial manufacturing capability, sales force or marketing experience. In addition, many of the Company's competitors and potential competitors have substantially greater capital resources, research and development resources, manufacturing and marketing experience and production facilities than does

Neurocrine. Many of these competitors also have significantly greater experience than does Neurocrine in undertaking preclinical testing and clinical trials of new pharmaceutical products and obtaining FDA and other regulatory approvals. See "Business -- Products Under Development" and " -- Competition."

#### UNCERTAINTIES RELATED TO PATENTS AND PROPRIETARY TECHNOLOGY

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

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

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

The Company may be required to obtain licenses to patents or proprietary rights of others. As the biotechnology industry expands and more patents are issued, the risk increases that the Company's potential products may give rise to claims that such products infringe the patent rights of others. At least one patent containing claims covering compositions of matter consisting of certain altered peptide ligand therapeutics for use in modulating the immune response has issued in Europe, and the Company believes that this patent has been licensed to a competitor of the Company. There can be no assurance that a patent containing corresponding claims will not issue in the United States. In addition, there can be no assurance that the claims of the European patent or any corresponding claims of any future United States patents or other foreign patents which may issue will not be infringed by the manufacture, use, or sale of any potential altered peptide ligand therapeutics developed by the Company or Ciba-Geigy. Furthermore, there can be no assurance that the Company or Ciba-Geigy would prevail in any legal action seeking damages or injunctive relief for infringement of any patent that might issue under such applications or that any license required under any

such patent would be made available or, if available, would be available on acceptable terms. Failure to obtain a required license could prevent the Company and Ciba-Geigy from commercializing any altered peptide ligand products which they may develop.

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

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

#### UNCERTAINTIES RELATED TO CLINICAL TRIALS

Before obtaining regulatory approvals for the commercial sale of any of its products under development, the Company or its corporate partners must demonstrate through preclinical testing and clinical trials that the product is safe and effective for use in each target indication. To date the Company has not commenced clinical trials with regard to any potential product. A physician-IND Phase II clinical trial was initiated in March 1996 with regard to the use of DHEA for the treatment of Alzheimer's disease. However, such clinical trial is not under the full control of the Company. In addition, a physician-IND clinical trial does not replace the need for Company-sponsored clinical trials.

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

The rate of completion of clinical trials conducted by the Company or its corporate partners may be delayed by many factors, including slower than expected patient recruitment or unforeseen safety issues. Any delays in, or termination of, the Company's clinical trials would have a material adverse effect on the Company's business, financial condition and results of operations. There can be no assurance that Neurocrine

will be permitted by regulatory authorities to undertake clinical trials for its products or, if such trials are conducted, that any of the Company's product candidates will prove to be safe and efficacious or will receive regulatory approvals. See "Business -- Products Under Development."

#### UNPREDICTABILITY OF FUTURE FINANCIAL RESULTS; UNCERTAINTY OF FUTURE PROFITABILITY

At March 31, 1996, the Company had an accumulated deficit of approximately \$15.9 million. The Company anticipates that it will incur substantial losses in the future, potentially greater than losses incurred in prior years. Neurocrine expects to incur substantial additional operating expenses over the next several years as its research, development, preclinical testing and clinical trial activities increase. To the extent that the Company is unable to obtain third-party funding for such expenses, the Company expects that increased expenses will result in increased losses from operations. There can be no assurance that the Company's products under development will be successfully developed or that its products, if successfully developed, will generate revenues sufficient to enable the Company to earn a profit. Neurocrine does not expect to generate revenues from the sale of products, if any, for the foreseeable future. The Company's ability to achieve profitability depends in part on its ability to enter into agreements for product development, obtain regulatory approval for its products and develop the capacity, or enter into agreements, for the manufacture, marketing and sale of any products. There can be no assurance that Neurocrine will obtain required regulatory approvals, or successfully develop, manufacture, commercialize and market product candidates or that the Company will ever achieve product revenues or profitability. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

#### GOVERNMENT REGULATION; NO ASSURANCE OF REGULATORY APPROVALS

The Company's research, preclinical testing and clinical trials of its product candidates are, and the manufacturing and marketing of its products will be, subject to extensive and rigorous regulation by numerous government authorities in the United States and in other countries where the Company intends to test and market its product candidates. Prior to marketing, any product developed by the Company must undergo an extensive regulatory approval process. This regulatory process, which includes preclinical testing and clinical trials of each compound to establish its safety and efficacy, can take many years and require the expenditure of substantial resources, and may include post-marketing surveillance. Data obtained from preclinical testing and clinical trials are susceptible to varying interpretations which could delay, limit or prevent regulatory approval. In addition, delays or rejections may be encountered based upon changes in FDA policy for drug approval during the period of product development and FDA regulatory review of each submitted new drug application ("NDA") or product license application ("PLA"). Similar delays may also be encountered in foreign countries. There can be no assurance that regulatory approval will be obtained for any drugs developed by the Company. Moreover, regulatory approval may entail limitations on the indicated uses of the drug. Further, even if regulatory approval is obtained, a marketed drug and its manufacturer are subject to continuing review, and discovery of previously unknown problems with a product or manufacturer can result in the withdrawal of the product from the market, which would have an adverse effect on the Company's business, financial condition and results of operations. Violations of regulatory requirements at any stage, including preclinical testing and clinical trials, the approval process or post-approval, may result in various adverse consequences including the FDA's delay in approving or its refusal to approve a product, withdrawal of an approved product from the market, and the imposition of criminal penalties against the manufacturer and NDA or PLA holder. The Company has not submitted any IND applications for any product candidate, and none has been approved for commercialization in the United States or internationally. A physician-IND Phase II clinical trial commenced in March 1996 with regard to the use of DHEA for the treatment of Alzheimer's disease. However, such clinical trial is not under the full control of the Company. In addition, a physician-IND clinical trial does not replace the need for Company-sponsored clinical trials. No assurance can be given that the Company will be able to obtain FDA approval for any products. Failure to obtain requisite regulatory approvals or failure to obtain approvals of the scope requested will delay or preclude the Company or its licensees or marketing partners from marketing the Company's products or limit the commercial use of the products and would have a material adverse effect on the Company's business, financial condition and results of operations. See "Business-- Government Regulation."

#### NEED FOR ADDITIONAL FUNDING; UNCERTAINTY OF ACCESS TO CAPITAL

Neurocrine will require substantial additional funding in order to continue its research and product development programs, including preclinical testing and clinical trials of its product candidates, for operating expenses, for the pursuit of regulatory approvals for its product candidates, and may require additional funding for establishing manufacturing and marketing capabilities in the future. The Company believes that its existing capital resources, together with the net proceeds of this offering and the sale of shares to Ciba-Geigy and JJDC, interest income and future payments due under strategic alliances, will be sufficient to satisfy its current and projected funding requirements through 1998. However, no assurance can be given that such net proceeds will be sufficient to conduct its research and development programs as planned. The Company's future capital requirements will depend on many factors, including continued scientific progress in its research and development programs, the magnitude of these programs, progress with preclinical testing and clinical trials, the time and costs involved in obtaining regulatory approvals, if any, the costs involved in filing and prosecuting patent applications and enforcing patent claims, competing technological and market developments, the establishment of additional strategic alliances, the cost of manufacturing facilities and of commercialization activities and arrangements, and the cost of product in-licensing and any possible acquisitions. There can be no assurance that the Company's cash reserves and other liquid assets, including the net proceeds of this offering, together with funding that may be received under the Company's strategic alliances, and interest income earned thereon, will be adequate to satisfy its capital and operating requirements.

Neurocrine intends to seek additional funding through strategic alliances, and may seek additional funding through public or private sales of the Company's securities, including equity securities. In addition, the Company has obtained equipment leases and may continue to pursue opportunities to obtain additional debt financing in the future. There can be no assurance, however, that additional equity or debt financing will be available on reasonable terms, if at all. Any additional equity financings would be dilutive to the Company's stockholders. If adequate funds are not available, Neurocrine may be required to curtail significantly one or more of its research and development programs and/or obtain funds through arrangements with corporate partners or others that may require Neurocrine to relinquish rights to certain of its technologies or product candidates. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

#### UNCERTAINTY OF ABILITY TO ATTRACT AND RETAIN KEY MANAGEMENT, EMPLOYEES AND CONSULTANTS

The Company is highly dependent on the principal members of its management and scientific staff. The loss of services of any of these personnel could impede the achievement of the Company's development objectives. Furthermore, recruiting and retaining qualified scientific personnel to perform research and development work in the future will also be critical to the Company's success. There can be no assurance that the Company will be able to attract and retain personnel on acceptable terms given the competition among biotechnology, pharmaceutical and health care companies, universities and non-profit research institutions for experienced scientists. In addition, the Company relies on members of its Scientific Advisory Board and a significant number of consultants to assist the Company in formulating its research and development strategy. All of Neurocrine's consultants and the members of the Company's Scientific Advisory Board are employed by employers other than the Company, and may have commitments to, or advisory or consulting agreements with, other entities that may limit their availability to the Company. See "Business -- Scientific Advisory Board" and "Management."

#### NO MANUFACTURING EXPERIENCE; RELIANCE ON THIRD-PARTY MANUFACTURING

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



manufacture of its products may adversely affect its profit margins, if any, on the sale of future products and the Company's ability to develop and deliver products on a timely and competitive basis. See "Business -- Strategic Alliances" and "-- Manufacturing."

#### LACK OF MARKETING AND SALES CAPABILITIES

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

#### UNCERTAINTY OF PHARMACEUTICAL PRICING AND REIMBURSEMENT

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

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

#### POTENTIAL PRODUCT LIABILITY EXPOSURE AND LIMITED INSURANCE COVERAGE

The use of any of the Company's potential products in clinical trials, and the sale of any approved products, may expose the Company to liability claims resulting from the use of its products. These claims might be made directly by consumers, health care providers or by pharmaceutical companies or others selling such products. Neurocrine has obtained limited product liability insurance coverage for its clinical trials in the

amount of \$1.0 million per occurrence and \$1.0 million in the aggregate. The Company intends to expand its insurance coverage to include the sale of commercial products if marketing approval is obtained for products in development. However, insurance coverage is becoming increasingly expensive, and no assurance can be given that the Company will be able to maintain insurance coverage at a reasonable cost or in sufficient amounts to protect the Company against losses due to liability. There can also be no assurance that the Company will be able to obtain commercially reasonable product liability insurance for any products approved for marketing. A successful product liability claim or series of claims brought against the Company could have a material adverse effect on its business, financial condition and results of operations.

#### NO PRIOR PUBLIC MARKET FOR COMMON STOCK

Prior to this offering, there has been no public market for the Company's Common Stock, and there can be no assurance that a regular trading market will develop and continue after this offering or that the market price of the Common Stock will not decline below the initial public offering price. The initial public offering price will be determined through negotiations between the Company and the representatives of the Underwriters and may not be indicative of the market price of the Common Stock following this offering. Among the factors considered in such negotiations are prevailing market conditions, certain financial information of the Company, market valuations of other companies that the Company and the representatives of the Underwriters believe to be comparable to the Company, estimates of the business potential of the Company, the present state of the Company's development and other factors deemed relevant. See "Underwriting."

#### VOLATILITY OF COMMON STOCK PRICE

The market prices for securities of biotechnology and pharmaceutical companies have historically been highly volatile, and the market has from time to time experienced significant price and volume fluctuations that are unrelated to the operating performance of particular companies. Factors such as fluctuations in the Company's operating results, announcements of technological innovations or new therapeutic products by the Company or others, clinical trial results, developments concerning strategic alliance agreements, government regulation, developments in patent or other proprietary rights, public concern as to the safety of drugs developed by the Company or others, future sales of substantial amounts of Common Stock by existing stockholders, comments by securities analysts and general market conditions can have an adverse effect on the market price of the Common Stock. The realization of any of the risks described in these "Risk Factors" could have a dramatic and material adverse impact on market price of the Company's Common Stock.

#### POTENTIAL ADVERSE EFFECT OF SHARES ELIGIBLE FOR FUTURE SALE

As of March 31, 1996, 3,618,638 shares of Common Stock were issuable upon the exercise of outstanding stock options, warrants and conversion rights. The issuance of Common Stock upon the exercise of stock options, warrants and conversion rights, as well as future sales of Common Stock or of shares of Common Stock by existing stockholders, or the perception that sales could occur, could adversely affect the market price of the Common Stock. In private placement transactions between October 1993 and February 1994, the Company sold a total of 6,025,892 shares of Common Stock to various institutional and individual investors. The sale of a significant number of shares by these investors could have a substantial negative impact on the market price of the Common Stock. In addition, two of the Company's corporate partners, Ciba-Geigy and JJDC, an affiliate of Janssen, are significant stockholders. As of March 31, 1996, Ciba-Geigy owned approximately 4.5%, and JJDC owned approximately 3.5% of the outstanding Common Stock. After completion of this offering, and after Ciba-Geigy's concurrent purchase of \$5.0 million of Common Stock and JJDC's concurrent purchase of \$2.5 million of Common Stock, all at an assumed price of \$9.00 per share, Ciba-Geigy will own approximately 7.4%, and JJDC will own approximately 4.4% of the outstanding Common Stock. The sale of shares by either of these partners could be viewed in the marketplace as illustrative of a lack of confidence in the Company and could have a substantial negative impact on the market price of the

Common Stock. Each officer, director and certain other stockholders of the Company that beneficially own or have dispositive power over approximately 11,960,185 shares of the Company's Common Stock have agreed with the Representatives for a period of (i) 180 days after the effective date of this Prospectus with respect to one-third of the shares held by them, (ii) 270 days after the effective date of this Prospectus with regard to an additional one-third of the shares held by them, and (iii) 360 days after the effective date of this Prospectus with regard to the remaining one-third of the shares held by them, subject to certain exceptions, not to offer to sell, contract to sell, or otherwise sell, dispose of, loan, pledge or grant any rights with respect to any shares of Common Stock, any options or warrants to purchase any shares of Common Stock, or any securities convertible into or exchangeable for shares of Common Stock owned as of the date of this Prospectus or thereafter acquired directly by such holders or with respect to which they have or hereafter acquire the power of disposition, without the prior written consent of Robertson, Stephens & Company. However, Robertson, Stephens & Company may, in its sole discretion and at any time without notice, release all or any portion of the securities subject to lock-up agreements. The holders of approximately 10,538,367 shares are also entitled to certain registration rights. See "Description of Capital Stock -- Registration Rights Agreements" and "Shares Eligible for Future Sale."

#### POTENTIAL ADVERSE EFFECT OF ANTI-TAKEOVER PROVISIONS

The Company's Certificate of Incorporation provides for staggered terms for the members of the Board of Directors and does not provide for cumulative voting in the election of directors. In addition, the Board of Directors has the authority, without further action by the stockholders, to fix the rights and preferences of, and issue shares of, Preferred Stock. Further, the Company is subject to Section 203 of the Delaware General Corporation Law which, subject to certain exceptions, restricts certain transactions and business combinations between a corporation and a stockholder owning 15% of more of the corporation's outstanding voting stock (an "interested stockholder") for a period of three years from the date the stockholder becomes an interested stockholder. The staggered board terms, lack of cumulative voting, Preferred Stock provision and other provisions of the Company's charter and Delaware corporate law may discourage certain types of transactions involving an actual or potential change in control of the Company. See "Description of Capital Stock -- Certain Change of Control Provisions."

#### DILUTION

Upon purchase of Common Stock, investors will experience an immediate and substantial dilution of \$5.60 per share in the net tangible book value of the Common Stock they acquire in this offering. Additional dilution is likely to occur upon the exercise of options, warrants and conversion rights granted by the Company. See "Dilution."

#### ABSENCE OF CASH DIVIDENDS

The Company has never paid any cash dividends and does not anticipate paying cash dividends in the foreseeable future. See "Dividend Policy."

#### USE OF PROCEEDS

The net proceeds to the Company from the sale of the 3,000,000 shares of Common Stock offered by the Company hereby and the sale of 833,334 shares of Common Stock to Ciba-Geigy and JJDC are estimated to be approximately \$31,810,000 (\$35,576,500 if the Underwriters' over-allotment option is exercised in full), assuming an initial public offering price of \$9.00 and after deducting estimated underwriting discounts and commissions, offering expenses and a financial advisory fee payable by the Company.

The Company anticipates using the net proceeds from this offering and the sales of shares to Ciba-Geigy and JJDC to fund its research and development activities, capital expenditures, the acquisition of technology rights and for general corporate purposes. The amount and timing of these expenditures will depend on numerous factors, including the progress of the Company's research and development programs. Pending application of the net proceeds of this offering and the sales of shares to Ciba-Geigy and JJDC as described above, the Company intends to invest such proceeds in United States government securities and short-term, investment-grade, interest-bearing instruments.

The Company believes that its existing capital resources, together with the net proceeds from this offering and the sales of shares to Ciba-Geigy and JJDC, interest income and future payments due under the strategic alliances, will be sufficient to satisfy its current and projected funding requirements at least through 1998. See "Management's Discussion and Analysis of Financial Condition and Results of Operations --Liquidity and Capital Resources."

#### DIVIDEND POLICY

The Company has not declared or paid any cash dividends since its inception. The Company currently intends to retain its earnings for future growth and therefore, does not anticipate paying any cash dividends in the foreseeable future. Future cash dividends, if any, will be determined by the Company's Board of Directors.

CAPITALIZATION

The following table sets forth (i) the capitalization of the Company at March 31, 1996 and (ii) as adjusted to give effect to the sale of 3,000,000 shares of Common Stock offered hereby at an assumed initial public offering price of \$9.00 per share and the sale of 833,334 shares of Common Stock to Ciba-Geigy and JJDC at a price equal to the assumed initial public offering price per share, and the application of the estimated net proceeds therefrom.

	MARCH 31, 1996	
	----- ACTUAL	AS ADJUSTED -----
	(in thousands)	
Obligations under capital leases, less current portion.....	\$ 1,406	\$ 1,406
	-----	-----
Stockholders' equity:		
Preferred Stock, \$0.001 par value, 5,000,000 shares authorized, no shares issued and outstanding.....	--	--
Common Stock, \$0.001 par value, 50,000,000 shares authorized; 12,368,262 shares issued and outstanding actual; 16,201,596 shares issued and outstanding as adjusted.....	12	16
Additional paid-in capital.....	40,639	72,445
Deferred compensation.....	(371)	(371)
Notes receivable from stockholders.....	(135)	(135)
Unrealized losses on short-term investments.....	(54)	(54)
Accumulated deficit.....	(15,871)	(15,871)
	-----	-----
Total stockholders' equity (1).....	24,220	56,030
	-----	-----
Total capitalization.....	\$ 25,626	\$ 57,436
	=====	=====

(1) Excludes 3,618,638 shares of Common Stock issuable upon exercise of options and warrants outstanding as of March 31, 1996 at a weighted average exercise price of \$5.74 per share. See "Business -- Strategic Alliances," "Management -- Stock Plans" and "Description of Capital Stock --Warrants."

DILUTION

The net tangible book value of the Company as of March 31, 1996 was \$23,220,551 or \$1.88 per share of Common Stock. Net tangible book value per share represents the amount of the Company's total tangible assets less total liabilities divided by the number of shares of Common Stock outstanding. Net tangible book value dilution per share represents the difference between the amount per share paid by purchasers of shares of Common Stock in this offering and the net tangible book value per share of the Common Stock immediately after completion of this offering. After giving effect to the sale by the Company of 3,000,000 shares of Common Stock offered hereby at an assumed initial public offering price of \$9.00 per share and after deducting the underwriting discounts and commissions and estimated offering expenses payable by the Company, and the sale of 833,334 shares of Common Stock to Ciba-Geigy and JJDC at a price equal to the assumed initial public offering price per share and after deducting the estimated financial advisory fee payable by the Company, and assuming no other changes in the net tangible book value after March 31, 1996, the Company's net tangible book value as of March 31, 1996 would have been \$55,030,551 or \$3.40 per share. This represents an immediate increase in net tangible book value of \$1.52 per share to existing stockholders and an immediate dilution in net tangible book value of \$5.60 per share to new investors in this offering and in the sale of shares of Common Stock to Ciba-Geigy and JJDC, as illustrated by the following table:

Assumed initial public offering price per share.....	\$9.00
Net tangible book value per share at March 31, 1996.....	\$1.88
Increase attributable to new investors.....	1.52
	-----
Net tangible book value per share after offering.....	3.40
	-----
Dilution to new investors.....	\$5.60
	=====

The following table sets forth, as of March 31, 1996, the difference between the number of shares of Common Stock purchased from the Company, the total consideration paid and the average price per share paid by the existing holders of Common Stock and by the new investors, before deducting the underwriting discounts and commissions and estimated offering expenses payable by the Company:

	SHARES PURCHASED		TOTAL CONSIDERATION		AVERAGE
	NUMBER	PERCENT	AMOUNT	PERCENT	PRICE PER SHARE
	-----		-----		-----
Existing shareholders.....	12,368,262	76.3%	\$42,525,349	55.2%	\$ 3.44
New investors.....	3,833,334	23.7	34,500,000	44.8	9.00
	-----		-----		-----
Total.....	16,201,596	100.0%	\$77,025,349	100.0%	
	=====	=====	=====	=====	=====

The calculation of net tangible book value and the other computations above assume no exercise of outstanding options and warrants. As of March 31, 1996, 3,618,638 shares of Common Stock were subject to outstanding options and warrants at a weighted average exercise price of \$5.74 per share. To the extent additional shares are purchased pursuant to the exercise of outstanding options and warrants, there will be further dilution to new investors. See "Management -- Stock Plans," "Description of Capital Stock -- Warrants" and Note 4 of Notes to Financial Statements.

SELECTED FINANCIAL DATA

The selected financial data set forth below with respect to the Company's statement of operations for each of the three years in the period ended December 31, 1995, and with respect to the Company's balance sheet at December 31, 1994 and 1995, are derived from the financial statements of the Company that have been audited by Ernst & Young LLP, independent auditors, which are included elsewhere herein and are qualified by reference to such Financial Statement and Notes related thereto. The statement of operations data for the year ended December 31, 1992, and the balance sheet data at December 31, 1992 and 1993, have been derived from financial statements that have been audited by Ernst & Young LLP which are not included herein. The statement of operations data for the three months ended March 31, 1995 and 1996 and the balance sheet data at March 31, 1996 have been derived from unaudited financial statements; however, management believes such financial statements include all adjustments, consisting only of normal recurring adjustments, that the Company considers necessary for a fair presentation of the financial position and results of operations for these periods. Operating results for the three months ended March 31, 1996 are not necessarily indicative of the results that may be expected for the entire year ending December 31, 1996. The selected financial data set forth below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Company's Financial Statements and Notes thereto appearing elsewhere in this Prospectus.

	YEAR ENDED DECEMBER 31,				THREE MONTHS ENDED MARCH 31,	
	1992	1993	1994	1995	1995	1996

(in thousands, except per share data)

STATEMENT OF OPERATIONS DATA:

Revenues under collaborative research agreements:						
Sponsored research.....	\$ --	\$ --	\$ --	\$ 3,750	\$ 625	\$ 1,625
License fees.....	--	--	--	2,000	2,000	--
Other revenues.....	--	--	162	356	127	534
Total revenues.....	--	--	162	6,106	2,752	2,159
Operating expenses:						
Research and development.....	406	2,804	6,231	7,740	1,848	1,794
General and administrative.....	216	1,550	2,223	2,728	737	571
Total operating expenses.....	622	4,354	8,454	10,468	2,585	2,365
Income (loss) from operations.....	(622)	(4,354)	(8,292)	(4,362)	167	(206)
Interest income, net.....	15	118	627	839	220	187
Other income (expense)....	--	--	(41)	177	27	44
Net income (loss).....	\$ (607)	\$ (4,236)	\$ (7,706)	\$ (3,346)	\$ 414	\$ 25
Net income (loss) per share.....	\$(0.49)	\$(0.64)	\$(0.67)	\$(0.27)	\$ 0.03	\$ --
Shares used in computing net income (loss) per share (1).....	1,247	6,635	11,433	12,184	12,409	13,240

	DECEMBER 31,				MARCH 31,
	1992	1993	1994	1995	1996

(in thousands)

BALANCE SHEET DATA:

Cash, cash equivalents and short-term investments.....	\$2,010	\$21,639	\$ 18,228	\$ 18,696	\$ 20,562(2)
Working capital.....	1,979	20,177	16,661	16,989	21,699
Total assets.....	2,475	24,436	22,344	24,012	28,080
Obligations under capital leases, less current portion.....	--	758	1,733	1,631	1,406
Accumulated deficit.....	(607)	(4,843)	(12,549)	(15,895)	(15,871)
Total stockholders' equity...	2,445	22,137	18,743	19,225	24,220

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- (1) See Note 1 of Notes to Financial Statements for an explanation of the determination of the number of shares used in computing net income (loss) per share.
  - (2) Excludes approximately \$9.5 million held by NPI which is available to fund certain of the Company's research and development activities. See "Business -- Strategic Alliances."



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 contains forward-looking statements which involve risks and uncertainties. The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth under "Risk Factors" and elsewhere in this Prospectus.

OVERVIEW

Since the founding of the Company in January 1992, Neurocrine has been engaged in the discovery and development of novel pharmaceutical products for diseases and disorders of the central nervous and immune systems. To date, Neurocrine has not generated any revenues from the sale of products, and does not expect to generate any product revenues for the foreseeable future. The Company's revenues, if any, are expected to come from its strategic alliances. Neurocrine has incurred a cumulative deficit of \$15.9 million as of March 31, 1996 and expects to incur substantial additional operating losses, potentially greater than losses in prior years, in the future.

Neurocrine has primarily financed its operations through the sale of Common Stock. In February 1994, the Company completed the sale of Common Stock in a private placement offering resulting in gross proceeds of \$30.0 million. In connection with the Janssen strategic alliance, JJDC purchased \$2.5 million of Common Stock in January 1995 and has agreed to purchase an additional \$2.5 million of Common Stock concurrent with this offering. In January 1996, the Company sold \$5.0 million of Common Stock to Ciba-Geigy in connection with the Ciba-Geigy strategic alliance. Ciba-Geigy has agreed to purchase an additional \$5.0 million of Common Stock concurrent with this offering.

In February 1995, the Company entered into a three to five year strategic alliance with Janssen for the development of CRF receptor antagonists for the treatment of anxiety, depression and substance abuse. Pursuant to the agreement, Janssen has paid the Company \$3.0 million and is obligated to pay the Company an additional \$6.5 million in sponsored research payments through 1997, as well as \$6.0 million for two additional years should Janssen exercise its option to extend the collaboration. The Company could also receive milestone payments of up to \$10.0 million for the indications of anxiety, depression and substance abuse, and up to \$9.0 million for other indications, if certain development and regulatory milestones are achieved. In addition, Janssen paid a \$1.0 million license fee in 1995 and is obligated to pay an additional \$1.0 million license fee in 1996. In return Janssen received worldwide manufacturing and marketing rights to the compounds developed during this collaboration, and is required to pay the Company royalties on net sales and the costs associated with establishing a North American sales force should Neurocrine exercise its option to co-promote.

In January 1996, the Company entered into an agreement with Ciba-Geigy to develop altered peptide ligands for the treatment of multiple sclerosis. Pursuant to the agreement, Ciba-Geigy is obligated to provide Neurocrine with \$12.0 million in license fees and research and development funding during the first two years of the agreement, and up to \$15.5 million in further research and development funding thereafter, unless the agreement is sooner terminated. Ciba-Geigy has the right to terminate the agreement after December 30, 1997. In addition, the Company could also receive milestone payments if certain development and regulatory milestones are achieved. In return, Ciba-Geigy received manufacturing and marketing rights outside of North America and will receive a percentage of profits on sales in North America. The Company will receive royalties for all sales outside North America and a percentage of profits on sales in North America, which the Company may at its option convert to a right to receive royalties on product sales. Neurocrine is obligated to repay a portion of the development costs for potential products developed in such collaboration unless the Company elects to convert to the right to receive royalty payments.

In March 1996, the Company completed the formation of a research and development subsidiary, NPI, with a group of Canadian investors. The investors purchased a 51% equity interest of NPI for approximately \$9.5 million. The Company licensed certain technology and transferred to NPI the Canadian marketing rights related to its Neurosteroid program and Canadian marketing rights to products developed in the Company's Neurogenomics program. Along with certain Canadian government incentives, such funds are expected to fund the early clinical trials of DHEA and research activities in the Neurogenomics program. At the option of the investors, the investors may convert and relinquish the marketing rights upon conversion of NPI Preferred Stock into the Company's Common Stock at a conversion price of \$7.45 per share. In connection with their investment in NPI, such investors also received warrants exercisable for shares of Common Stock at an exercise price equal to the per share price of this offering and are eligible to receive additional future warrants exercisable at the then prevailing market price in the event that NPI receives certain Canadian government incentives for research activities, if any. The Company may at its option, repurchase the marketing rights at a predetermined price. See "Certain Transactions -- Transaction with Canadian Subsidiary."

There can be no assurance that the Company and its corporate partners will be successful in commercializing any potential products. As a result, there can be no assurance that any product development milestone, royalties, or profit sharing payments will be made. The Company is dependent upon its corporate partners to provide adequate funding for its research and development programs. Under these arrangements, the Company's corporate partners are responsible for (i) selecting compounds for subsequent development as drug candidates, (ii) conducting preclinical testing and clinical trials and obtaining required regulatory approvals for such drug candidates, and (iii) manufacturing and commercializing any resulting drugs. Failure of these partners to select a compound discovered by the Company for subsequent development into marketable products, gain the requisite regulatory approvals or successfully commercialize products, would have a material adverse effect on the Company's business, financial condition and results of operations. The Company's strategy for development and commercialization of certain of its products is dependent upon entering into additional arrangements with research collaborators, corporate partners and others and upon the subsequent success of these third parties in performing their obligations. There can be no assurance that the Company will be able to enter into additional strategic alliances on terms favorable to the Company, or at all. Failure of the Company to enter into additional strategic alliances would have a material adverse effect on the Company's business, financial condition and results of operations. The Company's strategic alliances with Janssen and Ciba-Geigy are subject to termination by Janssen or Ciba-Geigy, respectively. There can be no assurance that Janssen or Ciba-Geigy will not elect to terminate its strategic alliance with the Company prior to its scheduled expiration.

The Company expects its research and development expenditures to increase substantially over the next several years as the Company expands its research and development efforts and undertakes preclinical testing and clinical trials with respect to certain of its programs. In addition, general and administrative expenses are expected to continue to increase as the Company expands its operations, and incurs the additional expenses associated with operating as a public company.

The Company's business is subject to significant risks, including but not limited to, the risks inherent in its research and development activities, including clinical trials, uncertainties associated both with obtaining and enforcing its patents and with patent rights of others, the lengthy, expensive and uncertain process of seeking regulatory approvals, 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 products will be ineffective or unsafe during clinical trials, will fail to receive necessary regulatory approvals, will be difficult to manufacture on large scale, will be uneconomical to market or will be precluded from commercialization by proprietary rights of third parties.

## RESULTS OF OPERATIONS

### Three Months Ended March 31, 1996 and 1995

#### Revenues

For the three months ended March 31, 1996, the Company's revenues decreased 21.5% to \$2.2 million from \$2.8 million in the comparable period in 1995. This decrease was attributable to a one-time license fee of \$2.0 million in 1995 under the Janssen collaboration, partly offset in 1996 by higher sponsored research revenues of \$1.9 million, under the Ciba-Geigy strategic alliance, as compared to \$625,000 in 1995.

#### Research and Development Expenses

For the three months ended March 31, 1996, research and development expenses were \$1.8 million. These expenses were relatively unchanged from the comparable period in 1995.

#### General and Administrative Expenses

For the three months ended March 31, 1996, general and administrative expenses decreased 22.5% to \$571,000 from \$737,000 for the comparable period in 1995. The lower expenses were largely attributable to non-recurring timing differences of certain expenses.

#### Net Interest Income

For the three months ended March 31, 1996, net interest income decreased 14.9% to \$187,000 from \$220,000 for the comparable period in 1995, as a result of lower interest rates.

### Years Ended December 31, 1995, 1994 and 1993

#### Revenues

For the year ended December 31, 1995, the Company generated revenues under the Janssen strategic alliance of \$5.8 million and other revenues from grants and miscellaneous income of \$356,000. There were no collaborative revenues recognized in 1994 and revenues from grants and miscellaneous income for this period were \$162,000. There were no revenues recognized in 1993.

#### Research and Development Expenses

For the year ended December 31, 1995, research and development expenses increased 24.2% to \$7.7 million from \$6.2 million in 1994. This increase reflects continued additions to scientific personnel and related support expenditures as the Company increased its research activities primarily in the CRF and Altered Peptide Ligand programs. For the year ended December 31, 1994, research and development expenses increased to \$6.2 million from \$2.8 million in 1993. This increase reflects the Company's first full year of research activities and its relocation to its current research and administrative facility.

#### General and Administrative Expenses

For the year ended December 31, 1995, general and administrative expenses increased 22.7% to \$2.7 million from \$2.2 million in 1994. For the year ended December 31, 1994, general and administrative expenses increased 43.4% to \$2.2 million from \$1.6 million in 1993. These increases reflect the additional administrative staff required to support increased research and development activities, increased facility expenses and expanded business development activities.

#### Net Interest Income

For the year ended December 31, 1995, net interest income increased 33.7% to \$839,000 from \$627,000 in 1994. This increase resulted from improved yields on the Company's investments and higher cash balances arising from the Janssen collaboration. For the year ended December 31, 1994, net interest income increased to \$627,000 from \$118,000 in 1993. This increase was largely due to increased cash and short-term investments arising from the completion of the Company's \$30.0 million private placement of Common Stock in February 1994. Interest income was offset by interest expense over the three-year period due to steadily increasing borrowings under the Company's equipment leasing facilities.

## Net Operating Losses

At December 31, 1995, the Company had available a net operating tax loss carryforward of approximately \$14.8 million for federal income tax purposes, which will begin to expire in 2007. In addition, the Company had federal and California research and development credit carryforwards of approximately \$680,000 and \$314,000, respectively, which will begin to expire in 2007. The Company had net operating losses of \$3.3 million in 1995, \$7.7 million in 1994 and \$4.2 million in 1993.

## LIQUIDITY AND CAPITAL RESOURCES

On March 31, 1996, the Company's cash, cash equivalents and short-term investments totalled \$20.6 million. This excludes approximately \$9.5 million held by NPI which is available to fund certain of the Company's research and development activities. See "Business -- Strategic Alliances."

Cash provided (used) by operating activities in the years ended December 31, 1993, 1994 and 1995 and the three months ended March 31, 1996 was primarily the result of the net income (loss) reported during these periods offset by working capital account fluctuations arising from timing differences in revenue recognition and cash receipts under the Janssen and Ciba-Geigy collaborations.

Cash provided (used) by investing activities in the years ended December 31 1993, 1994 and 1995 and the three months ended March 31, 1996 was primarily the result of short-term investment purchases and sales/maturities during these periods. The fluctuations from period to period were due to the timing of various investment purchases and sales/maturities and fluctuations in the Company's portfolio mix between cash equivalent and short-term investment holdings.

Cash provided by financing activities in the years ended December 31, 1993 and 1994 was primarily the result of the sale of approximately 6,026,000 shares of Common Stock in private placement transactions. Cash provided by financing activities in the year ended December 31, 1995 was primarily due to the sale of 434,783 shares of Common Stock to JJDC and the sale of 213,913 shares of Common Stock to a single investor. Cash provided by financing activities for the three month period ended March 31, 1996 was primarily due to the sale of 645,161 shares to Ciba-Geigy.

The Company believes that its existing capital resources, together with the net proceeds from this offering and the sales of shares to Ciba-Geigy and JJDC, interest income and future payments due under the strategic alliances, will be sufficient to satisfy its current and projected funding requirements at least through 1998. However, no assurance can be given that such net proceeds 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, conducting preclinical testing and clinical trials, developing regulatory submissions, the costs associated with protecting its patents and other proprietary rights, developing marketing and sales capabilities, the availability of third-party funding, technological advances, changing competitive conditions and the commercial potential of the Company's proposed products, if any.

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 such 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.

## BUSINESS

The following Business section contains forward-looking statements which involve risks and uncertainties. The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth under "Risk Factors" and elsewhere in this Prospectus.

### OVERVIEW

Neurocrine Biosciences, Inc. is a leading neuroimmunology company focused on the discovery and development of novel therapeutics to treat diseases and disorders of the central nervous and immune systems. The Company's neuroscience and immunology disciplines provide a unique biological understanding of the molecular interactions between the central nervous, immune and endocrine systems leading to therapeutic opportunities for diseases and disorders such as anxiety, depression, Alzheimer's disease, obesity and multiple sclerosis. Neurocrine is leveraging its resources through strategic alliances and novel financing mechanisms to build its internal product development and commercialization capabilities. To date, Neurocrine has entered into strategic alliances with Janssen Pharmaceutica, N.V., a subsidiary of Johnson & Johnson, focused on the treatment of anxiety, depression and substance abuse, and Ciba-Geigy Limited for the treatment of multiple sclerosis. In conjunction with a number of institutional investors, the Company has also established a research and development subsidiary in Canada, Neuroscience Pharma (NPI) Inc., to develop additional compounds for the treatment of Alzheimer's disease and other neurodegenerative diseases and disorders.

### BACKGROUND

#### Corticotropin Releasing Factor (CRF)

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

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

#### Altered Peptide Ligands

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

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

[GRAPHIC APPEARS HERE]

[NARRATIVE DESCRIPTION: Representation of how pathogenic T-cells become activated in the presence of native peptide ligands resulting in inflammatory cytokine production and how the alteration of the peptide ligand results in de-activation of the pathogenic T-cells and reduced production and release of inflammatory cytokines.]

#### Neurosteroids

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

In addition to the memory-enhancing effects of DHEA, preliminary data suggest that this steroid also increases neuronal survival. DHEA may also induce neuroprotection through inhibition of inflammatory cytokines in the brain which have recently been implicated in neurodegeneration. In view of its cognitive enhancing and neuroprotective potential, DHEA replacement therapy may be beneficial for the treatment of neurodegenerative disorders such as Alzheimer's disease.

#### Neurogenomics

The brain and spinal cord are comprised of two major cell types--glial cells and neurons. Glial cells are the most prevalent cell type in the central nervous system, comprising over 75% of all brain cells. The gene

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

## BUSINESS STRATEGY

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

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

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

**Leverage Strategic Alliances to Enhance Development and Commercialization Capabilities.** Neurocrine intends to leverage the development, regulatory and commercialization expertise of its corporate partners to accelerate the development of its products, while retaining full or co-promotion rights in North America. The Company intends to further leverage its resources by continuing to enter into strategic alliances and novel financing mechanisms to enhance its internal development and commercialization capabilities. To date, Neurocrine has entered into a strategic alliance with Janssen focusing on CRF receptor antagonists to treat anxiety, depression, and substance abuse, and a strategic alliance with Ciba-Geigy to develop altered peptide ligands for the treatment of MS. The Company has also formed NPI, a research and development subsidiary, to finance its Neurosteroid and Neurogenomics programs.

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

**Acquire Complementary Products in Clinical Development.** Neurocrine plans to acquire rights to products in various stages of clinical development in the fields of neurology and immunology to take advantage

of the development and future commercialization capabilities it is developing in cooperation with its strategic partners. For example, Neurocrine has licensed rights to DHEA for the treatment of Alzheimer's disease which is currently being evaluated in a physician-IND Phase II clinical trial.

#### TECHNOLOGY

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

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

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

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

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

**Bioinformatics.** Neurocrine's Neurogenomics program creates a significant amount of genetic sequence information. Applied genomics relies on information management systems to collect, store and rapidly analyze thousands of gene sequences. Neurocrine has developed a bioinformatics system which the Company believes will allow it to identify novel genes which are involved in neurodegeneration. Data are collected by automated instruments and stored and analyzed by Neurocrine using customized computational tools. To date, Neurocrine's molecular biologists have identified over 2,000 novel genes.



PRODUCTS UNDER DEVELOPMENT

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

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

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

Corticotropin Releasing Factor -- Receptor Antagonist Program

Anxiety

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

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

## Depression

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

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

## Stroke

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

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

## Substance Abuse

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

In view of the primary role of CRF in modulating stress responses, Neurocrine is developing orally active, small molecule drugs which block the CRF receptor. A small molecule CRF receptor antagonist may be effective not only for acute cocaine detoxification, but also for long-term prophylaxis in the context of a drug prevention or treatment program. The same compounds developed for anxiety and depression may be used for the treatment of substance abuse. In collaboration with Janssen, Neurocrine intends to develop CRF receptor antagonists for this indication. However, no assurance can be given that the Company will successfully identify suitable candidate compounds for development in a timely manner, or at all.

#### Alzheimer's Disease

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

Neurocrine scientists have found that there are significant decreases in CRF levels in the brain areas that are affected in Alzheimer's disease. In spite of reduced CRF concentrations, CRF-BP levels are not decreased in areas of the brain affected by Alzheimer's disease, thereby providing the Company with a novel target for drug intervention. Consequently, Neurocrine is developing CRF-BP antagonists to displace CRF from the binding protein and effectively increase the amount of "free CRF" available to interact with the CRF receptors. This strategy is expected to selectively raise the concentration of CRF in brain areas involved in learning and memory processes. Because the therapeutic is designed to restore normal levels of CRF only in these areas, the Company believes that the drug will not induce the side effects associated with administering CRF directly, such as anxiety. The Company has identified a number of lead compounds which show efficacy following oral administration in animal models of learning and memory. Efforts are underway to further optimize these molecules, and the Company expects to select drug candidates for development in 1996. However, no assurance can be given that the Company will successfully identify suitable candidate compounds for development in a timely manner, or at all.

#### Obesity

Obesity is the most common nutritional disorder in Western societies. As many as three in 10 adult Americans weigh at least 20% in excess of their ideal body weight, with 35 million people in the United States characterized as clinically obese. Increased body weight is a significant public health problem because it is associated with a number of serious diseases, including type II diabetes, hypertension, hyperlipidemia and several cancers. Although obesity has been commonly considered to be a behavioral problem, there is now evidence that body weight is physiologically regulated. The regulation of body weight is complex and appears to consist of both centrally and peripherally acting mechanisms. Recently, d-fenfluramine has received FDA advisory panel recommendation for approval for the treatment of morbid obesity (in excess of 30% of ideal body weight). This drug displayed statistically significant weight reducing effects in a large multicenter clinical trial. The Company believes that d-fenfluramine's actions on weight reduction may in part be due to modulation of CRF. The use of a CRF-BP antagonist may directly increase CRF levels without the inadvertent activation of other neurotransmitter systems.

Preliminary data indicate that CRF may act as a central regulator of both appetite and metabolism. Neurocrine has evaluated CRF-BP antagonists in a genetically mutant strain of obese animals as well as in animal models which were pharmacologically induced to overeat. Treatment with CRF-BP antagonists consistently normalized feeding behavior and weight in both types of models and did so without inducing excess CRF-related side effects such as anxiety. Neurocrine has developed several active series of lead molecules. Medicinal chemistry efforts have resulted in the generation of high-affinity molecules that show efficacy in elevating brain CRF levels. Neurocrine anticipates selecting a development candidate in 1996. However, no assurance can be given that the Company will successfully identify suitable candidate compounds for development in a timely manner, or at all.

## Altered Peptide Ligand Program

### Multiple Sclerosis

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

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

### Type I Diabetes

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

Neurocrine is developing altered peptide ligands which target dominant antigens on insulin producing cells to treat type I diabetes. Pre-diabetic patients can now be identified using immune markers of the disease several years before they become insulin dependent. The Company believes that an altered peptide ligand specific for autoimmune T-cells involved in diabetes may stop the destruction of the insulin secreting cells in these pre-diabetic patients, thus allowing them to delay or avoid chronic insulin therapy. The Company believes that this program can leverage the technological expertise the Company has developed in its MS program to discover and design altered peptide ligand therapy useful in treating diabetics and pre-diabetics. Neurocrine has begun collaborations with two leading diabetes centers, the Kennedy Institute in London and the Barbara Davis Center for Childhood Diabetes at the University of Colorado, to study the effects of altered

peptide ligands on human T-cells from diabetic patients. However, no assurance can be given that the Company will successfully identify suitable candidate compounds for development in a timely manner, or at all.

#### Neurosteroid Program

##### Alzheimer's Disease

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

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

#### Neurogenomics Program

##### Neurodegenerative Diseases and Disorders

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

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

Novel neurodegenerative genes that are discovered may include proteins, enzymes or receptors. Protein signaling molecules or the genes encoding such molecules may be utilized as therapeutics, while enzymes and receptors may serve as new targets for drug discovery. Neurocrine intends to place the receptors and enzymes encoded by these genes in high-throughput screens in an attempt to discover small molecule therapeutics to treat neurodegenerative disorders.

To date, the Company has identified more than 2,000 novel genes of which a number are undergoing biological evaluation in in vitro and animal models. The Company intends to identify candidate genes as drugs or drug targets for one or more neurological diseases. However, there can be no assurance that the Company will successfully identify suitable gene candidates for development in a timely manner, or at all.

#### STRATEGIC ALLIANCES

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

Janssen Pharmaceutica, N.V.

On January 1, 1995, Neurocrine entered into a research and development agreement (the "Janssen Agreement") with Janssen to collaborate in the discovery, development and commercialization of CRF receptor antagonists focusing on the treatment of anxiety, depression and substance abuse. The collaboration utilizes Neurocrine's expertise in cloning and characterizing CRF receptor subtypes, CRF pharmacology and medicinal chemistry. Pursuant to the Janssen Agreement, the Company has received \$1.0 million in license payments and will receive an additional \$1.0 million in 1996. Janssen is obligated to provide Neurocrine with \$3.0 million in sponsored research payments per year during the term of the research program. The term of the research program is three years, subject to extension by mutual agreement of the parties. Janssen has the right to terminate the Janssen Agreement without cause at any time. However, in the event of such termination, Janssen remains obligated to continue all sponsored research payments for the term of the research program and all product and technology rights become the exclusive property of Neurocrine.

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

In connection with the Janssen Agreement, JJDC purchased \$2.5 million of the Company's Common Stock and is obligated to purchase an additional \$2.5 million of the Company's Common Stock upon the completion of this offering at a price equal to the initial public offering price per share.

Ciba-Geigy Limited

On January 19, 1996, the Company entered into a binding letter agreement (the "Ciba-Geigy Agreement") with Ciba-Geigy to develop altered peptide ligand therapeutics for the treatment of MS based upon the Company's drug development candidates and expertise in immunology and protein chemistry. The Company and Ciba-Geigy are negotiating a definitive agreement incorporating the terms and conditions set forth in the Ciba-Geigy Agreement and such other terms and conditions as agreed to by the Company and Ciba-Geigy. Pursuant to the Ciba-Geigy Agreement, Ciba-Geigy is obligated to provide the Company with \$12.0 million in license fee payments and research funding over the first two years of the Ciba-Geigy Agreement and thereafter up to \$15.5 million in additional research and development funding unless the Ciba-Geigy Agreement is sooner terminated. Ciba-Geigy has the right to terminate the Ciba-Geigy Agreement

on six months' notice which may be given at any time after the earlier of (i) 18 months after the date of execution of the definitive agreement, or (ii) December 30, 1997.

Neurocrine is entitled to receive milestone payments if certain research, development and regulatory milestones are achieved. The Company has granted Ciba-Geigy an exclusive license outside of the United States and Canada to market altered peptide ligand products developed under the Ciba-Geigy Agreement for multiple sclerosis. The Company is entitled to receive royalties on product sales. At its option, Neurocrine is entitled to receive a share of the profits resulting from sales of altered peptide ligand products in North America subject to the Company's repayment of a portion of Ciba-Geigy's development costs. Neurocrine retains the right to convert its profit share to the right to receive royalty payments at its sole discretion in which case no repayment of development costs are due to Ciba-Geigy. Neurocrine is obligated to repay a portion of the development costs of any potential product developed pursuant to the collaboration unless the Company elects to convert to the right to receive royalty payments. There can be no assurance that the Company and Ciba-Geigy will be successful in developing or commercializing any potential products. As a result, there can be no assurance that any product development milestone, royalty, or profit sharing payments will be made.

In connection with the Ciba-Geigy Agreement, Ciba-Geigy purchased \$5.0 million of the Company's Common Stock and is obligated to purchase an additional \$5.0 million of the Company's Common Stock upon the completion of this offering at a price equal to the initial public offering price per share.

Neuroscience Pharma (NPI) Inc.

In March 1996, Neurocrine formed NPI, a research and development company. Neurocrine licensed to NPI certain technology and Canadian marketing rights to the Company's Neurosteroid and Neurogenomics programs. A group of Canadian institutional investors have invested approximately \$9.5 million in NPI in exchange for Preferred Stock of NPI which may be converted into shares of the Company's Common Stock at the option of the investors. NPI has committed to use these funds for clinical development of the Neurosteroid program for Alzheimer's disease and for research activities related to the Neurogenomics program. In exchange for providing funding, NPI is entitled to receive royalties on sales of products developed in these programs as well as exclusive Canadian marketing rights for such products in the event that the Company has not terminated the technology license and the marketing rights or that the investors have not converted their NPI Preferred Stock into shares of the Company's Common Stock. In connection with their investment in NPI, such investors received warrants exercisable for shares of the Company's Common Stock and are eligible to receive additional warrants in the future in the event that NPI receives certain Canadian government incentives for research activities. See "Certain Transactions -- Transaction with Canadian Subsidiary."

Hewlett-Packard Company

The Company and HP have entered into a collaboration to adapt the Company's RMS combinatorial chemistry technology to certain HP instruments. The parties will collaborate to modifying existing instrumentation to provide customers with a flexible automated method for generation of large numbers of chemical compounds. Neurocrine receives research funding and equipment from HP in exchange for technical support and consultation.

#### MANUFACTURING

The Company has in the past utilized, and intends to continue to utilize, third-party manufacturing for the production of material for use in clinical trials and for the potential commercialization of future products. The Company has no experience in manufacturing products for commercial purposes and does not have any manufacturing facilities. Consequently, the Company is dependent on contract manufacturers for the production of products for development and commercial purposes. In the event that the Company is unable

to obtain or retain third-party manufacturing, it will not be able to commercialize its products as planned. The manufacture of the Company's products for clinical trials and commercial purposes is subject to cGMP regulations promulgated by the FDA. No assurance can be given that the Company's third-party manufacturers will comply with cGMP regulations or other regulatory requirements now or in the future. The Company's current dependence upon third parties for the manufacture of its products may adversely affect its profit margin, if any, on the sale of future products and the Company's ability to develop and deliver products on a timely and competitive basis.

#### MARKETING AND SALES

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

#### COMPETITION

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

Recently, Betaseron, a form of beta-interferon marketed by Berlex BioSciences, has been approved for the treatment of relapsing remitting multiple sclerosis. Avonex, a similar form of beta-interferon, produced by Biogen, Inc., has been recommended for approval by an FDA advisory committee. Tacrine, marketed by Warner-Lambert Co., has recently been approved for the treatment of Alzheimer's dementia. Sales of these drugs may reduce the available market for any product developed by the Company for these indications. The Company is developing products for the treatment of anxiety disorders, which will compete with well-established products in the benzodiazepene class, including Valium, marketed by Hoffman-La Roche, Inc., and depression, which will compete with well-established products in the anti-depressant class, including Prozac, marketed by Eli Lilly & Co. Certain technologies under development by other pharmaceutical companies could result in treatments for these and other diseases and disorders being pursued by the Company. For example, a number of companies are conducting research on molecules to block CRF to treat anxiety and depression. Other biotechnology and pharmaceutical companies are developing compounds to treat obesity, and one such drug, d-fenfluramine, to be marketed by American Home Products Corporation, has been recommended for approval by an FDA advisory committee. Several companies are engaged in research and development of immune modulating drugs for the potential treatment of MS. In the event that one or more of these programs were successful, the market for the Company's products may be reduced or eliminated.

In addition, if Neurocrine receives regulatory approvals for its products, manufacturing efficiency and marketing capabilities are likely to be significant competitive factors. At the present time, Neurocrine has no commercial manufacturing capability, sales force or marketing experience. In addition, many of the Company's



competitors and potential competitors have substantially greater capital resources, research and development resources, manufacturing and marketing experience and production facilities than does Neurocrine. Many of these competitors also have significantly greater experience than does Neurocrine in undertaking preclinical testing and clinical trials of new pharmaceutical products and obtaining FDA and other regulatory approvals.

#### PATENTS AND PROPRIETARY RIGHTS

The Company files patent applications both in the United States and in foreign countries, as it deems appropriate, for protection of its proprietary technology and products. To date, no patents have issued to the Company; however the Company owns or has exclusively licensed six issued patents as well as 57 patent applications. The Company intends to file additional United States and foreign applications in the future as appropriate.

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

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

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

The Company may be required to obtain licenses to patents or proprietary rights of others. As the biotechnology industry expands and more patents are issued, the risk increases that the Company's potential products may give rise to claims that such products infringe the patent rights of others. At least one patent containing claims covering compositions of matter consisting of certain altered peptide ligand therapeutics for use in modulating the immune response has issued in Europe, and the Company believes that this patent has been licensed to a competitor of the Company. There can be no assurance that a patent containing corresponding claims will not issue in the United States. In addition, there can be no assurance that the claims of the European patent or any corresponding claims of any future United States patents or other foreign

patents which may issue will not be infringed by the manufacture, use or sale of any potential altered peptide ligand therapeutics developed by the Company or Ciba-Geigy. Furthermore, there can be no assurance that the Company or Ciba-Geigy would prevail in any legal action seeking damages or injunctive relief for infringement of any patent that might issue under such applications or that any license required under any such patent would be made available or, if available, would be available on acceptable terms. Failure to obtain a required license could prevent the Company and Ciba-Geigy from commercializing any altered peptide ligand products which they may develop.

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

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

#### GOVERNMENT REGULATION

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

Preclinical testing is generally conducted in laboratory animals to evaluate the potential safety and the efficacy of a product. The results of these studies are submitted to the FDA as a part of an IND, which must be approved before clinical trials in humans can begin. Typically, clinical evaluation involves a time consuming and costly three-phase process. In Phase I, clinical trials are conducted with a small number of subjects to determine the early safety profile, the pattern of drug distribution and metabolism. In Phase II, clinical trials

are conducted with groups of patients afflicted with a specific disease in order to determine preliminary efficacy, optimal dosages and expanded evidence of safety. In Phase III, large-scale, multi-center, comparative trials are conducted with patients afflicted with a target disease in order to provide enough data to demonstrate the efficacy and safety required by the FDA. The FDA closely monitors the progress of each of the three phases of clinical trials and may, at its discretion, re-evaluate, alter, suspend or terminate the testing based upon the data which have been accumulated to that point and its assessment of the risk/benefit ratio to the patient.

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

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

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

#### SCIENTIFIC ADVISORY BOARD

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

The Scientific Advisory Board presently consists of the following individuals:

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

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

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

Burton G. Christensen, Ph.D., is currently retired from his position as Senior Vice President of Chemistry at Merck Research Laboratories. In his capacity as Senior Vice President, Dr. Christensen directed over 400

scientists and groups, who, under his direction, were responsible for the synthesis of finasteride (Proscar), a 5-alpha-reductase inhibitor for the treatment of benign prostatic hypertrophy.

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

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

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

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

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

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

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

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

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

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

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

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

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

#### INSURANCE

The Company maintains product liability insurance for clinical trials in the amount of \$1.0 million per occurrence and \$1.0 million in the aggregate. The Company intends to expand its insurance coverage to include the sale of commercial products if marketing approval is obtained for products in development. However, insurance coverage is becoming increasingly expensive, and no assurance can be given that the Company will be able to maintain insurance coverage at a reasonable cost or in sufficient amounts to protect the Company against losses due to liability. There can also be no assurance that the Company will be able to obtain commercially reasonable product liability insurance for any products approved for marketing. A successful product liability claim or series of claims brought against the Company could have a material adverse effect on its business, financial condition and results of operations.

#### EMPLOYEES

As of March 31, 1996, the Company had 84 employees consisting of 64 full-time and 20 part-time employees. Of the full-time employees, 28 hold Ph.D. or M.D. degrees. None of the Company's employees are represented by a collective bargaining arrangement, and the Company believes its relationship with its employees is good.

#### FACILITIES

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

#### LEGAL PROCEEDINGS

The Company is not a party to any litigation or legal proceedings.

MANAGEMENT

EXECUTIVE OFFICERS, KEY EMPLOYEES AND DIRECTORS

The executive officers, key employees and directors of the Company are as follows:

NAME	AGE	POSITION
Harry F. Hixson, Jr., Ph.D. (1)	57	Chairman of the Board
Gary A. Lyons	45	President, Chief Executive Officer and Director
Wylie W. Vale, Ph.D. (1)(2)	54	Chief Scientist, Neuroendocrinology and Director
Lawrence J. Steinman, M.D. (2)	48	Chief Scientist, Neuroimmunology
Errol B. De Souza, Ph.D.	42	Executive Vice President, Research and Development
Paul W. Hawran	44	Senior Vice President and Chief Financial Officer
Kenneth D. Krantz, M.D., Ph.D.	49	Vice President, Medical and Regulatory Affairs
Howard C. Birndorf (3)	46	Director
David E. Robinson (3)	47	Director
David Schnell, M.D. (3)	35	Director

(1) Member of Audit Committee.

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

(3) Member of Compensation Committee.

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

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

Wylie W. Vale, Ph.D., is a Founder and Chief Scientist, Neuroendocrinology and Chairman of the Company's Founding Board of Scientific and Medical Advisors and its Executive Committee. Dr. Vale was elected a Director of the Company in September 1992. He is a Professor at The Salk Institute for Biological Studies ("The Salk Institute") and is the Senior Investigator and Head of The Clayton Foundation Laboratories for Peptide Biology at The Salk Institute, where he has been employed for 25 years. Dr. Vale is the current Chairman of the Faculty and a current Member of the Board of Trustees of The Salk Institute. Dr. Vale is recognized for his work on the identification of neuroendocrine factors such as somatostatin, growth hormone releasing factor, corticotropin releasing factor, CRF-BP, gonadotropin releasing hormone, activin and the activin receptor, the CRF/1/ receptor and urocortin, the native ligand for the CRF/2/ receptor.

These scientific advances have distinguished him as one of the 10 most cited scientific authors in the world in the past decade. Dr. Vale received a B.A. in Biology from Rice University, and a Ph.D. in Physiology and Biochemistry from the Baylor College of Medicine.

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

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

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

Kenneth D. Krantz, M.D., Ph.D., became Vice President, Medical and Regulatory Affairs of the Company in January 1996. Prior to joining the Company as a consultant in December 1994, Dr. Krantz was Vice President of Clinical and Regulatory Affairs at ImClone Systems from December 1992 to December 1994, where he successfully initiated three company-sponsored INDs and clinical research programs. From 1988 through December 1992 he was Executive Director for Clinical Research and Biostatistics for the Ortho Biotech/R.W. Johnson Pharmaceutical Research Institute unit of Johnson & Johnson, where his groups successfully implemented clinical trials in immunology and hematology, leading to three INDs and five PLA approvals. Dr. Krantz received a B.S. in Biopsychology, a Ph.D. in Pharmacology and an M.D. from the University of Chicago.

Howard C. Birndorf became a Director of the Company in September 1992. Mr. Birndorf is Chairman and Chief Executive Officer and Co-Founder of Nanogen, Inc., a biotechnology company. From November 1991 to January 1994, Mr. Birndorf was president of Birndorf Biotechnology Development, an investment and consulting company. Mr. Birndorf was Co-Founder and Chairman Emeritus of Ligand Pharmaceuticals Incorporated ("Ligand"). He held the position of President and Chief Executive Officer of Ligand from January 1988 to November 1991. In addition, Mr. Birndorf was Co-Founder of IDEC Pharmaceuticals, Inc, a biotechnology company, in 1985 and was involved in the formation of Gensia Pharmaceuticals, Inc., a biotechnology company, in 1986 and served on the boards of directors of these companies from their respective inception until 1991. He is a director of the Cancer Center of the University of California at San Diego and a Presidential Appointee to the United States Department of Commerce Biotechnology Technical Advisory Committee. Mr. Birndorf received an M.S. in Biochemistry from Wayne State University.

David E. Robinson became a Director of the Company in May 1994. Since 1991, he has served as President and Chief Executive Officer of Ligand, a biotechnology company. Prior to joining Ligand in 1991, he was Chief Operating Officer at Erbamont N.V. ("Erbamont"), a pharmaceutical company. Prior to that, Mr. Robinson was President of Adria Laboratories, Erbamont's North American subsidiary. He also was employed in various executive positions for more than 10 years by Abbott Laboratories, most recently as Regional Director of Abbott Europe. Mr. Robinson received his M.B.A. from the University of New South Wales, Australia.

David Schnell, M.D., became a Director of the Company in January 1993. Since January 1994, he has been a Partner at Kleiner Perkins Caufield & Byers specializing in life science and health care investing. From August 1987 to December 1993, he was a marketing and business development executive at Sandoz Pharmaceuticals Corporation ("Sandoz"). From January 1992 to December 1993, he managed Sandoz' venture capital activities with Avalon Medical Partners. Dr. Schnell is the founding President of HealthScape and a founder and Director of Microcide Pharmaceuticals, Inc. Dr. Schnell received a B.S. in Biological Sciences, an A.M. in Health Services Research from Stanford University and an M.D. from Harvard University.

The Company's Certificate of Incorporation provides for a Board of Directors that is divided into three classes. The Directors in Class I hold office until the first annual meeting of stockholders following this offering, the Directors in Class II hold office until the second annual meeting of stockholders following this offering, and the Directors in Class III hold office until the third annual meeting of stockholders following this offering (or, in each case, until their successors are duly elected and qualified or their earlier resignation, removal from office or death), and, after each such election, the Directors in each such case will then serve in succeeding terms of three years and until their successors are duly elected and qualified. Officers of the Company serve at the discretion of the Board of Directors. There are no family relationships among the Company's Directors and executive officers.

#### COMMITTEES OF THE BOARD OF DIRECTORS

The Board of Directors has an Audit Committee and a Compensation Committee. The Audit Committee, currently comprised of Drs. Hixson and Vale, oversees the actions taken by the Company's independent auditors and reviews the Company's internal financial and accounting controls and policies. The Compensation Committee, currently comprised of Messrs. Birndorf and Robinson and Dr. Schnell, is responsible for determining salaries, incentives and other forms of compensation for officers and other key employees of the Company and administers various incentive compensation and employee benefits.

#### DIRECTOR COMPENSATION

Except as described below, members of the Company's Board of Directors do not receive any cash compensation for their services as Directors.

The Company's 1996 Director Option Plan provides that options may be granted to non-employee directors of the Company pursuant to an automatic non-discretionary grant mechanism. At each annual meeting of the stockholders following the effective date of this offering, each of the non-employee directors, Messrs. Birndorf and Robinson and Drs. Hixson, Vale and Schnell, will each automatically be granted an option to purchase 10,000 shares of the Company's Common Stock at an exercise price equal to the fair market value on the date of grant.

The Company has entered into a consulting agreement with Dr. Vale, a founder and Director of the Company. See "Employment and Certain Scientific Consulting Contracts."



EXECUTIVE COMPENSATION

The following table shows for the fiscal year ended December 31, 1995, certain compensation paid by the Company, including salary, bonuses, stock options, and certain other compensation, to the Chief Executive Officer and other executive officers of the Company at December 31, 1995 (the "Named Executive Officers").

SUMMARY COMPENSATION TABLE

NAME AND PRINCIPAL POSITION	ANNUAL COMPENSATION		LONG-TERM COMPENSATION AWARDS		
	SALARY	BONUS	RESTRICTED STOCK AWARDS	SECURITIES UNDERLYING OPTIONS	ALL OTHER COMPENSATION
Gary A. Lyons..... President and Chief Executive Officer	\$275,000	\$25,000	--	148,000	\$17,757(1)
Errol B. De Souza, Ph.D..... Executive Vice President, Research and Development	215,700	15,000	--	92,000	12,745(2)
Paul W. Hawran..... Senior Vice President and Chief Financial Officer	180,000	15,000	--	65,000	29,379(3)

- (1) Represents reimbursement for taxes incurred by Mr. Lyons as a result of the payments by the Company in 1995 of moving, housing and other expenses incurred in connection with relocating to the Company's geographic region (\$14,636) and the premium paid for the term life insurance policies for the benefit of Mr. Lyons (\$3,121).
- (2) Represents reimbursement for taxes incurred by Dr. De Souza as a result of the payments by the Company in 1995 of moving, housing and other expenses incurred in connection with relocating to the Company's geographic region (\$10,297) and the premium paid for the term life insurance policies for the benefit of Dr. De Souza (\$2,448).
- (3) Represents reimbursement for taxes incurred by Mr. Hawran as a result of the payments by the Company in 1995 of moving, housing and other expenses incurred in connection with relocating to the Company's geographic region (\$21,645), payments relating to relocation costs (\$6,289) and the premium paid for the term life insurance policies for the benefit of Mr. Hawran (\$1,445).

The following table sets forth certain information concerning grants of options made during the year ended December 31, 1995 by the Company to the Named Executive Officers:

OPTION GRANTS IN LAST FISCAL YEAR

NAME	INDIVIDUAL GRANTS				POTENTIAL REALIZABLE VALUE MINUS EXERCISE PRICE AT ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR OPTION TERM (1)	
	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED (2)	PERCENT OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN 1995	EXERCISE OF BASE PRICE PER SHARE	EXPIRATION DATE	5%	10%
Gary A. Lyons.....	148,000	30.0%	\$4.25	4/18/05	\$ 575,894	\$ 1,289,776
Errol B. De Souza, Ph.D.....	92,000	18.6	4.25	4/18/05	357,988	801,753
Paul W. Hawran.....	65,000	13.2	4.25	4/18/05	252,926	566,456

- (1) Potential realizable value is based on the assumption that the Common Stock of the Company appreciates at the annual rate shown (compounded annually) from the date of the grant until the expiration of the ten-year option term. These numbers are calculated based on the requirements promulgated by the Securities and Exchange Commission and do not reflect the Company's estimate of future stock price growth.

(2) All options shown granted in 1995 become exercisable as to 1/60th of the option shares each month, with full vesting occurring on the fifth anniversary of the date of hire. Under the 1992 Incentive Stock Plan, the Board of Directors retains the discretion to modify the terms, including price, of outstanding options. Options were granted at an exercise price equal to 85% of the fair market value of the Company's Common Stock, as determined by the Board of Directors on the date of grant. Exercise price may be paid in cash, promissory note, by delivery of already owned shares subject to certain conditions, or pursuant to a cashless exercise procedure under which the optionee provides irrevocable instructions to a brokerage firm to sell the purchased shares and remit to the Company, out of sale proceeds, an amount equal to the exercise price plus all applicable withholding taxes.

The following table sets forth certain information regarding the stock options held at December 31, 1995 by each of the Named Executive Officers. During 1995, no such stock options were exercised by any of the Named Executive Officers. The Company has not granted any stock appreciation rights.

AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR AND  
FISCAL YEAR-END OPTION VALUES

NAME	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT DECEMBER 31, 1995		VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT DECEMBER 31, 1995(1)	
	EXERCISABLE	UNEXERCISABLE	EXERCISABLE	UNEXERCISABLE
Gary A. Lyons.....	135,136	164,364	\$ 835,217	\$ 852,533
Errol B. De Souza, Ph.D.....	83,025	109,975	534,294	559,205
Paul W. Hawran.....	27,152	68,148	163,218	342,482

(1) Based upon the assumed initial public offering price of \$9.00 per share, minus the per share exercise price, multiplied by the number of shares underlying the option.

EMPLOYMENT AND CERTAIN SCIENTIFIC CONSULTING AGREEMENTS

Gary A. Lyons has an employment contract that provides (i) Mr. Lyons serves as the Company's President and Chief Executive Officer for a term of four years commencing in February 1993 at a current annual salary of \$290,000, subject to annual adjustment by the Board of Directors; (ii) the agreement will automatically renew for two-year periods thereafter unless the Company or Mr. Lyons gives 30 days notice of termination; (iii) Mr. Lyons is eligible for a discretionary annual bonus as determined by the Board of Directors, based upon achieving certain performance criteria; (iv) the Company has agreed to forgive the loan of \$67,500 made to reimburse Mr. Lyons for 50% of the loss on sale of his former residence over a four-year period (based on continued employment); and (v) Mr. Lyons is entitled to continue to receive his salary for 12 months in the event that the Company terminates his employment without cause, or materially reduces the power and duties of his employment without cause, which will be deemed to be a termination.

Errol B. De Souza, Ph.D., has an employment contract that provides that (i) Dr. De Souza serves as the Company's Executive Vice President of Research and Development for a term of four years commencing in October 1992 at a current annual salary of \$235,000, subject to annual increase of at least eight percent over the prior year's salary; (ii) the agreement will automatically renew for two-year periods thereafter unless the Company or Dr. De Souza gives 30 days notice of termination; (iii) Dr. De Souza is eligible for a discretionary annual bonus of up to 40% of his annual salary based upon achieving certain performance criteria; (iv) the Company has agreed to forgive over a four-year period (based on continued employment) 50% of the \$70,500 loan made to reimburse Mr. De Souza for the loss on the sale of his former residence; and (v) Dr. De Souza is entitled to continue to receive his salary for up to six months or the remainder of the term of employment, whichever is less, in the event that the Company terminates his employment without cause.

Paul W. Hawran has an employment contract that provides that (i) Mr. Hawran serves as the Company's Senior Vice President and Chief Financial Officer for a term of four years commencing in May 1993 at a current annual salary of \$191,500, subject to annual adjustment by the Board of Directors; (ii) the agreement will automatically renew for two-year periods thereafter unless the Company or Mr. Hawran gives 90 days notice of termination; (iii) Mr. Hawran is eligible for a discretionary annual bonus as determined by the Board of Directors based upon achieving certain performance criteria; (iv) the Company has agreed to forgive over a four-year period (based on continued employment) the loan of \$87,500 made to reimburse Mr. Hawran for 50% of the loss on sale of his former residence; and (v) Mr. Hawran is entitled to continue to receive his salary for 12 months in the event that the Company terminates his employment without cause, or materially reduces the power and duties of his employment without cause, which will be deemed to be a termination.

The Company also has consulting agreements with Drs. Vale and Steinman pursuant to which Dr. Vale serves as Chief Scientist, Neuroendocrinology and Dr. Steinman serves as Chief Scientist, Neuroimmunology. Dr. Vale's consulting agreement requires him to spend a significant amount of time performing services for the Company and prohibits Dr. Vale from providing consulting services to or participating in the formation of any company in Neurocrine's field of interest or that may be competitive with Neurocrine. Dr. Vale's agreement is for a five-year term that commenced in February 1996 and provides for an annual consulting fee of \$42,500 in exchange for his consulting services to the Company.

Dr. Steinman's consulting agreement is for a five-year term that commenced in February 1996 and provides for an annual consulting fee of \$85,000, and is obligated to consult for a minimum of 40 days per year. The agreement prohibits Dr. Steinman from providing consulting services to or participating in the formation of any other company, except for his position as a member of the Board of Directors of Centocor, Inc.

#### STOCK PLANS

1992 Incentive Stock Plan. The Company's 1992 Incentive Stock Plan (the "Plan") was approved by the Company's Board of Directors in July 1992 and was approved by its stockholders in September 1992. A total of 3,300,000 shares of Common Stock have been reserved for issuance under the Plan, as amended, to officers, directors, employees and consultants. As of March 31, 1996, 1,343,300 shares have been issued under the Plan, options for 1,434,590 shares of Common Stock were outstanding under the Plan, and 522,110 shares of Common Stock remained available for future issuance under the Plan. The Plan allows for the grant to employees of incentive stock options, and for the grant to employees, officers, directors, and consultants of nonstatutory stock options, stock bonuses and stock purchase rights. The Plan is not qualified under Section 401(a) of the Internal Revenue Code, as amended (the "Code") and is not subject to the Employee Retirement Income Security Act of 1974. Unless sooner terminated the Plan will terminate automatically in July 2002.

The purpose of the Plan is to advance the interests of the Company and its stockholders and to promote the success of the Company's business by attracting the best available personnel for positions of substantial responsibility, and to provide an incentive to officers, directors, employees and consultants of the Company. The Plan is administered by the Board of Directors of the Company or a committee designated by the Board.

The Board of Directors or a committee of the Board selects the participants and determines the number of shares and type of grant, as well as when such shares shall become exercisable (vest), the form of consideration payable upon exercise, and the other terms and conditions of such grant. The Plan does not provide for a maximum number of shares of Common Stock which may be granted to any one participant, although there is a limit on the aggregate market value of all incentive options granted to a participant during any calendar year.

The exercise price for stock options granted under the Plan is determined by the Board of Directors of the Company or its committee and may not be less than 85% (100% in the case of an incentive stock option) of the fair market value of the Common Stock on the date the option is granted, except in the case of incentive stock options granted to 10% shareholders, the exercise price of which may not be less than

110% of such fair market value. Options are not generally transferable by the participant other than by will or the laws of descent and distribution, and are exercisable during the participant's lifetime only by him, or, in the event of death of the participant, by a person who acquires the right to exercise the options by bequest or inheritance or by reason of the death of the participant. No option may be exercised by any person after such expiration. Options granted under the Plan generally vest monthly over a four-year period and have a maximum term of 10 years from the date of grant.

The Plan also allows for the sale of stock or the grant of stock bonuses. The price to be paid for the shares to be purchased under the Plan, the form of consideration to be paid for the shares, and the terms of payment are determined by the Board or a Committee of the Board. Payment for the shares may be made in installments or at one time, as determined by the Board, and provision may be made by the Board for aiding any eligible person in paying for the shares by promissory notes or otherwise.

The Plan provides that in the event of a merger of the Company with or into another corporation, a sale of substantially all of the Company's assets or a like transaction involving the Company, each outstanding option or stock purchase right may be assumed or an equivalent option substituted by the successor corporation. If the outstanding options and stock purchase rights are not assumed or substituted as described in the preceding sentence, they shall terminate.

1996 Employee Stock Purchase Plan. The Company's 1996 Employee Stock Purchase Plan (the "Purchase Plan") was adopted by the Board of Directors in March 1996 and will be submitted to the stockholders for approval at the Company's 1996 annual stockholders' meeting. A total of 125,000 shares of Common Stock is reserved for issuance under the Purchase Plan. The Purchase Plan, which is intended to qualify under Section 423 of the Code is administered by the Board of Directors or by a committee appointed by the Board. Employees (including officers and employee directors) are eligible to participate if they are customarily employed by the Company for at least 20 hours per week and more than five months in any calendar year. The Purchase Plan permits eligible employees to purchase Common Stock through payroll deductions, which may not exceed 15% of an employee's compensation. The Purchase Plan will be implemented in a series of overlapping offering periods, each to be of approximately 24 months duration. The initial offering period under the Purchase Plan will begin on the effective date of this offering and subsequent offering periods will begin on the first trading day on or January 1 and July 1 each year. Each participant will be granted an option on the first day of this offering period and such option will be automatically exercised on the last day of each semi-annual period throughout this offering period. The purchase price of the Common Stock under the Purchase Plan will be equal to 85% of the lesser of the fair market value per share of Common Stock on the start date of an offering period or on the date on which the option is exercised. Employees may end their participation in an offering period at any time during an offering period, and participation ends automatically on termination of employment with the Company. The Purchase Plan will terminate in March 2006, unless terminated sooner by the Board of Directors.

1996 Director Option Plan. The Company's 1996 Director Option Plan (the "Director Plan") was adopted by the Board of Directors in March 1996 and will be submitted to the stockholders for approval at the Company's 1996 annual stockholders' meeting. A total of 100,000 shares of Common Stock is reserved for issuance under the Director Plan. The option grants under the Director Plan shall be automatic and non-discretionary, and the exercise price of the options shall be 100% of the fair market value of the Common Stock on the grant date. The Director Plan provides for the grant of options to purchase 10,000 shares of Common Stock to each non-employee director of the Company at each annual meeting of the stockholders commencing in 1997, providing such non-employee director has been a non-employee director of the Company for at least six months prior to the date of such annual meeting of the stockholders. Each new non-employee director shall automatically be granted an option to purchase 10,000 shares of Common Stock upon the date such person joins the Board of Directors. The term of such options is ten years. Any option granted to a non-employee director shall become exercisable over a three-year period following the date of grant. No option may be transferred by the optionee other than by will or the laws of descent or distribution. Any optionee whose relationship with the Company or any related corporation ceases for any reason (other than

by death or permanent and total disability) may exercise options only during a 90-day period following such cessation (unless such options terminate or expire sooner by their terms). Upon a merger or asset sale, all outstanding options under the Director Plan will be assumed or replaced with an equivalent option by the successor corporation. In the event that the successor corporation does not agree to assume the outstanding options or substitute an equivalent option, each outstanding option shall become fully vested and exercisable, including as to shares not otherwise exercisable. Each optionee will be given 30 days notice of the merger or asset sale and be given the opportunity to fully exercise all outstanding options. All options not exercised within the 30 day notice period will expire. The Director Plan will terminate in March 2006, unless sooner terminated by the Board of Directors.

#### LIMITATION OF LIABILITY AND INDEMNIFICATION

The Company's Certificate of Incorporation limits the liability of directors to the maximum extent permitted by Delaware law. Delaware law provides that directors of a corporation will not be personally liable for monetary damages for breach of their fiduciary duties as directors, except liability for: (i) any breach of their duty of loyalty to the corporation or its stockholders, (ii) acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) unlawful payments of dividends or unlawful stock repurchases or redemptions, or (iv) any transaction from which the director derived an improper personal benefit. Such limitation of liability does not apply to liabilities arising under the federal securities laws and does not affect the availability of equitable remedies such as injunctive relief or rescission.

The Company's Bylaws provide that the Company will indemnify its directors and executive officers and may indemnify its other officers and employees and other agents to the fullest extent permitted by law. The Company believes that indemnification under its Bylaws covers at least negligence and gross negligence on the part of indemnified parties. The Company's Bylaws also permit it to secure insurance on behalf of any officer, director, employee or other agent for any liability arising out of his or her actions in such capacity, regardless of whether the Bylaws permit such indemnification.

The Company has entered into indemnification agreements with its officers and directors containing provisions which may require the Company, among other things, to indemnify such officers and directors against certain liabilities that may arise by reason of their status or service as directors or officers (other than liabilities arising from willful misconduct of a culpable nature), to advance their expenses incurred as a result of any proceeding against them as to which they could be indemnified. The Company believes that these provisions and agreements are necessary to attract and retain qualified persons as directors and officers.

At the present time, there is no pending litigation or proceeding involving any director, officer, employee or agent of the Company in which indemnification will be required or permitted. The Company is not aware of any threatened litigation or proceeding which may result in a claim for such indemnification.

CERTAIN TRANSACTIONS

PRIVATE PLACEMENT OF SECURITIES

Between September 1993 and February 1994, the Company sold approximately 6,026,000 shares of its Common Stock at a price of \$5.00 per share in private placement transactions resulting in net proceeds to the Company of approximately \$27.6 million. The purchasers of Common Stock included, among others, the following Named Executive Officers and directors and holders of more than five percent of the Company's voting securities:

PURCHASER -----	NUMBER OF SHARES OF COMMON STOCK -----
Howard C. Birndorf.....	10,000
Paul W. Hawran.....	10,000
The Hixson Family Trust (1).....	100,000
Entities affiliated with Kleiner Perkins Caufield & Byers, L.P. (2).....	300,000
Gary A. Lyons.....	20,000
Wylie W. Vale, Ph.D.....	10,000

(1) Affiliated with Dr. Hixson, the Chairman of the Board of Directors.

(2) Includes shares held by Kleiner Perkins Caufield & Byers VI, L.P. and KPCB Founders Fund VI, L.P., a holder of more than five percent of the Company's Common Stock.

TRANSACTIONS AND RELATIONSHIPS WITH DIRECTORS AND EXECUTIVE OFFICERS

In September 1995, the Company granted Harry Hixson, Chairman of the Company's Board of Directors, an option to purchase 8,000 shares of Common Stock, at an exercise price of \$5.00 per share.

In July 1993, the Company granted Wylie Vale, Chief Scientist, Neuroendocrinology and a Director of the Company, an option to purchase 101,000 shares of Common Stock at an exercise price of \$2.50 per share. Dr. Vale is a Professor and the Senior Investigator and Head of the Clayton Foundation Laboratories for Peptide Biology at The Salk Institute. In 1995, 1994 and 1993, the Company paid \$30,162, \$145,917 and \$5,070 respectively, to The Salk Institute in connection with various license agreements.

In July 1993, the Company granted Errol De Souza, Executive Vice President of Research and Development an option to purchase 101,000 additional shares of Common Stock at an exercise price of \$2.50 per share. Such shares are subject to vesting. In April 1994, the Company loaned Dr. De Souza \$70,500 toward the loss on sale of his former residence. One half of this amount is being forgiven by the Company over a four-year period, subject to repayment by Dr. De Souza in the event of termination of employment, and the other one half is to be repaid by Dr. Souza upon the earlier of (i) 90 days after voluntary termination of employment, (ii) the completion of this offering, or (iii) receipt of proceeds from the sale of shares of Common Stock held by him. In April 1995, the Company granted an additional option to Dr. De Souza to purchase 92,000 shares of Common Stock at an exercise price of \$4.25 per share. Such shares are also subject to vesting.

In September 1995, the Company granted Howard Birndorf, a Director of the Company, an option to purchase 8,000 shares of Common Stock, at an exercise price of \$5.00 per share.

In March 1993, the Company sold 323,200 shares of Common Stock at a purchase price of \$0.15 per share to Gary Lyons, President, Chief Executive Officer and Director of the Company. The purchase price was paid by an interest-bearing promissory note having a term of three years. In July 1993, the Company granted Mr. Lyons an option to purchase 151,500 shares of Common Stock at a purchase price of \$2.50 per share. Such shares and option are subject to vesting. In December 1993, the Company loaned Mr. Lyons \$67,500 toward the loss on sale of his former residence. This loan is being forgiven by the Company over a

four-year period subject to repayment by Mr. Lyons in the event of termination of employment. In April 1995 the Company granted Mr. Lyons an option to purchase an additional 148,000 shares of Common Stock at a purchase price of \$4.25 per share. Such shares are subject to vesting.

In June 1993, the Company sold 101,000 shares of Common Stock at a purchase price of \$0.15 per share to Paul Hawran, Senior Vice President and Chief Financial Officer of the Company. The purchase price was paid by an interest-bearing promissory note having a term of three years. In July 1993, the Company granted Mr. Hawran an option to purchase an additional 30,300 shares of Common Stock at a purchase price of \$2.50 per share. Such shares and option are subject to vesting. In June 1994 the Company loaned Mr. Hawran \$175,000 toward the loss on sale of his former residence. One half of this amount is being forgiven over a four-year period, subject to repayment by Mr. Hawran in the event of termination of employment; the other one half is to be repaid by Mr. Hawran upon the earlier of (i) 90 days after voluntary termination of employment, (ii) sale of his San Diego residence, or (iii) receipt of proceeds from the sale of Common Stock held by him. In September 1994, the Company advanced Mr. Hawran \$15,000 toward relocation related expenses; such loans have since been repaid. In April 1995, the Company granted Mr. Hawran an option to purchase an additional 65,000 shares of Common Stock at a purchase price of \$4.25 per share. Such shares are subject to vesting.

In March 1994, the Company granted David E. Robinson, a Director of the Company, an option to purchase 20,000 shares of Common Stock at a purchase price of \$5.00 per share. In September 1995, the Company granted Mr. Robinson an option to purchase 8,000 shares of Common Stock at a purchase price of \$5.00 per share.

The Company believes that all of the transactions set forth above were made on terms no less favorable to the Company than could have been obtained from unaffiliated third parties. All future transactions, including loans, between the Company and its officers, directors, principal shareholders and their affiliates will be approved by the majority of the Board of Directors, including a majority of the independent and disinterested directors, and will continue to be on terms no less favorable to the Company than could be obtained from unaffiliated third parties. See "Principal Stockholders."

The Company has agreed to indemnify each of its directors and officers to the fullest extent permitted by the Delaware General Corporations Law. See "Executive Compensation -- Limitation of Liability and Indemnification."

#### TRANSACTION WITH CANADIAN SUBSIDIARY

In March 1996, Neurocrine formed NPI, a subsidiary of the Company in Canada. Neurocrine licensed to NPI certain technology and Canadian marketing rights to the Company's Neurosteroid and Neurogenomics programs. A group of Canadian institutional investors (the "Canadian Investors") invested approximately \$9.5 million in NPI in exchange for Preferred Stock of NPI which may be converted into 1,279,584 shares of the Company's Common Stock at an effective conversion price of \$7.45 at the option of the investors. NPI has committed to use these funds for clinical development of the Neurosteroid program for Alzheimer's disease and for research activities related to the Neurogenomics program. In exchange for providing funding, NPI is entitled to receive royalties on sales of products developed in these programs as well as exclusive Canadian marketing rights for such products in the event that the Company has not terminated the technology license and marketing rights or that the Canadian Investors have not converted their NPI Preferred Stock into shares of the Company's Common Stock. The Company has the right to terminate the technology license and marketing rights, provided that the Company is then obligated to purchase the shares of NPI Preferred Stock held by the Canadian Investors in exchange for cash and Common Stock (valued at the market closing price) whose aggregate value equals \$9.5 million plus a 35% annual compound rate of return from the date of the original investment (March 1996), provided that the investors have not previously converted their shares of NPI Preferred Stock. In connection with their investment in NPI, the Canadian Investors received warrants exercisable for 383,875 shares of the Company's Common Stock at an exercise price equal to the price per share at which Common Stock is sold in this offering and are eligible to receive additional warrants in the

future exercisable at an exercise price of \$7.75 per share for such warrants issued prior to June 30, 1998 and thereafter at an exercise price equal to 110% of the then current market value of the Common Stock in the event that NPI is successful in receiving certain government incentives for research activities, with the aggregate exercise price of such additional warrants equal to 25% of the dollar amount of such incentives received by NPI.



PRINCIPAL STOCKHOLDERS

The following table sets forth certain information regarding beneficial ownership of the Company's Common Stock as of March 31, 1996 and as adjusted to reflect the sale of Common Stock offered hereby (i) by each person (or group of affiliated persons) who is known by the Company to own beneficially more than five percent of the outstanding shares of Common Stock, (ii) by each director and Named Executive Officer of the Company, and (iii) by all of directors and executive officers of the Company as a group.

NAME AND ADDRESS OF BENEFICIAL OWNER	PERCENTAGE OF SHARES BENEFICIALLY OWNED (2)		
	SHARES BENEFICIALLY OWNED (1)	PRIOR TO OFFERING	AFTER OFFERING
Kleiner Perkins Caufield & Byers Entities (3)..... 2750 Sand Hill Road Menlo Park, CA 94025	1,613,030	13.0%	10.0%
Abingworth Bioventures..... Boite Postale 566 L-2015 Luxembourg	878,970	7.1%	5.4%
Ciba-Geigy Limited (4)..... 4002 Basel Switzerland	645,162	5.2%	7.4%
David Schnell, M.D. (5).....	1,618,080	13.1%	10.0%
Gary A. Lyons (6).....	566,609	4.5%	3.5%
Errol B. De Souza (7).....	502,784	4.0%	3.1%
Wylie W. Vale, Ph.D. (8).....	427,130	3.4%	2.6%
Harry F. Hixson, Jr., Ph.D. (9).....	210,364	1.7%	1.3%
Paul W. Hawran (10).....	148,356	1.2%	*
Howard C. Birndorf (11).....	83,650	*	*
David E. Robinson (12).....	28,000	*	*
All executive officers and directors as a group (8 persons) (13).....	3,584,973	29.0%	22.1%

\* Represents beneficial ownership of less than one percent (1%) of the outstanding shares of the Company's Common Stock.

- (1) Beneficial ownership is determined with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities. Shares of Common Stock subject to stock options and warrants currently exercisable or exercisable within 60 days are deemed to be outstanding for computing the percentage ownership of the person holding such options and the percentage ownership of any group of which the holder is a member, but are not deemed outstanding for computing the percentage of any other person. Except as indicated by footnote, and subject to community property laws where applicable, the persons named in the table have sole voting and investment power with respect to all shares of Common Stock shown beneficially owned by them.
- (2) Applicable percentage of ownership is based on 12,368,262 shares of Common Stock outstanding prior to this offering.
- (3) Includes 1,428,697 shares held by Kleiner Perkins Caufield & Byers VI, L.P. and 184,333 shares held by Kleiner Perkins Caufield & Byers Founders Fund VI, L.P.
- (4) Post-offering percentage includes 555,556 shares which will be purchased by Ciba-Geigy concurrent with this offering assuming a price of \$9.00 per share.

- (5) Includes (i) 1,428,697 shares held by Kleiner Perkins Caulfield & Byers VI, L.P., (ii) 184,333 shares held by Kleiner Perkins Caulfield & Byers Founders Fund VI, L.P. and (iii) 5,050 shares held by David Schnell, M.D. Dr. Schnell, a Director of the Company, is a Venture Limited Partner of Kleiner Perkins Caulfield & Byers VI Associates, which is the General Partner of Kleiner Perkins Caulfield & Byers VI, L.P. and KPCB Founders Fund VI, L.P. Dr. Schnell disclaims beneficial ownership of the shares held by KPCB VI, L.P., and by KPCB Founders Fund VI, L.P., except to the extent of his partnership interest in such shares.
- (6) Includes 166,406 shares issuable pursuant to options exercisable within 60 days of March 31, 1996.
- (7) Includes 121,717 shares issuable pursuant to options exercisable within 60 days of March 31, 1996.
- (8) Includes 101,000 shares issuable pursuant to options exercisable within 60 days of March 31, 1996.
- (9) Includes 201,000 shares of Common Stock held in the name of The Hixson Family Trust of which Dr. Hixson is Trustee, and 8,000 shares issuable pursuant to options exercisable within 60 days of March 31, 1996.
- (10) Includes 36,356 shares issuable pursuant to options exercisable within 60 days of March 31, 1996.
- (11) Includes 8,000 shares issuable pursuant to options exercisable within 60 days of March 31, 1996.
- (12) Includes 28,000 shares issuable pursuant to options exercisable within 60 days of March 31, 1996.
- (13) Includes 469,479 shares issuable pursuant to options exercisable within 60 days of March 31, 1996.

## DESCRIPTION OF CAPITAL STOCK

### COMMON STOCK

Upon completion of this offering, the Company will be authorized to issue 50,000,000 shares of Common Stock, \$0.001 par value per share. As of March 31, 1996, there were 12,368,262 shares of Common Stock outstanding held of record by approximately 408 shareholders.

The holders of Common Stock are entitled to one vote for each share held of record on all matters submitted to a vote of the stockholders, and do not have cumulative voting rights. Subject to preferences that may be applicable to any outstanding Preferred Stock, the holders of Common Stock are entitled to receive ratably the dividends, if any, that may be declared from time to time by the Board of Directors out of funds legally available for such dividends. See "Dividend Policy." In the event of a liquidation, dissolution or winding up of the Company, the holders of Common Stock would be entitled to share ratably in all assets remaining after payment of liabilities and the satisfaction of any liquidation preferences granted the holders of any outstanding shares of Preferred Stock. Holders of Common Stock have no preemptive rights and no conversion rights or other subscription rights. There are no redemption or sinking fund provisions applicable to the Common Stock. All the outstanding shares of Common Stock are, and the Common Stock offered by the Company in this offering, when issued and paid for, will be validly issued, fully paid and nonassessable.

### PREFERRED STOCK

The Company is authorized to issue 5,000,000 shares of undesignated Preferred Stock, \$0.001 par value per share. The Board of Directors shall have the authority to issue the Preferred Stock in one or more series and to fix the rights, preferences, privileges and restrictions thereof, including dividend rights, dividend rates, conversion rights, voting rights, terms of redemption, redemption prices, liquidation preferences and the number of shares constituting any series or the designation of such series, without further vote or action by the stockholders. The issuance of Preferred Stock may have the effect of delaying, deferring or preventing a change in control of the Company without further action by the stockholders and may adversely affect the voting and other rights of the holders of Common Stock. At present, the Company has no plans to issue any of the Preferred Stock.

### WARRANTS

As of March 31, 1996, there were outstanding (i) warrants to purchase 520,589 shares of Common Stock at an exercise price of \$5.00 per share (the "Private Placement Warrants") and (ii) warrants to purchase 383,875 shares of Common Stock at an exercise price equal to the price per share at which Common Stock is sold in this offering (the "NPI Warrants"). The Private Placement Warrants were issued pursuant to the terms of a sales agency agreement relating to the Company's private placement of Common Stock completed in February 1994. The Private Placement Warrants are exercisable during the period beginning 180 days after the date of closing of this offering and ending in February 1999. As a condition of exercise and upon the request of a majority of the Company's stockholders, each Private Placement Warrant holder has agreed not to sell, assign, transfer, convey or otherwise dispose of any shares of Common Stock issued upon exercise of a Private Placement Warrant, including any sale pursuant to Rule 144 under the Act, under the lock-up agreements. See "Shares Eligible for Future Sale." The NPI Warrants were issued in connection with the financing of the Company's subsidiary NPI in March 1996. The NPI Warrants are exercisable at any time prior to March 31, 2006. In addition, the Company has committed to issue additional warrants upon the occurrence of certain events. See "Certain Transactions -- Transaction with Canadian Subsidiary."

### REGISTRATION RIGHTS AGREEMENTS

The holders (or their transferees) of 2,385,224 shares of Common Stock issued upon conversion of the Series A Preferred Stock originally issued in September 1992 as well as (i) JJDC, as holder of 434,783 shares of Common Stock issued in January 1995 and an additional 277,778 shares of Common Stock to be purchased upon the effectiveness of this offering (assuming an initial public offering price of \$9.00 per share), (ii) Neuroscience Partners Limited Partnership as holder of 213,913 shares of Common Stock issued in February 1995, and (iii) Ciba-Geigy as holder of 645,161 shares of Common Stock issued in January 1996 and an

additional 555,556 shares of Common Stock to be purchased upon the effectiveness of this offering (assuming an initial public offering price of \$9.00 per share) are entitled to certain rights with respect to the registration of such shares under the Securities Act. These rights are provided under the terms of the Information and Registration Rights Agreement dated September 15, 1992, as amended to date, between the Company and the holders of such shares. Subject to certain limitations in such agreement, the holders of at least 40% of such shares may, at any time after the earlier of December 31, 1996 or three months after the Company's initial public offering, require the Company to use its best efforts to cause such shares to be registered under the Securities Act for resale on two offerings at the Company's expense. If the Company registers any of its Common Stock for its own account or for the account of others, the holders of such shares are entitled to include their shares in the registration, subject to the ability of the underwriters to limit the number of shares so included, but not to less than 20% of the total number of shares in all such offerings other than the Company's initial public offering. The holders of such shares may also require the Company to register all or a portion of such shares on Form S-3 when use of such Form becomes available to the Company, provided, among other limitations, that the proposed aggregate selling price is at least \$500,000. The Company will bear the expenses of the registration of the such shares, except any underwriting discounts and commissions.

The holders of 6,025,892 shares of Common Stock issued by the Company in a private placement offering during the period from September 1993 through February 1994 and the 520,589 shares of Common Stock issuable upon exercise of outstanding warrants are entitled to certain rights with respect to the registration of such shares under the Securities Act. In the event that the Company completes an initial public offering of any of its securities before August 1996, the Company is obligated to prepare and file a registration statement under the Securities Act with respect to such shares 360 days after the date of the offering. The Company is obligated to use its best efforts to cause such registration to become effective not later than five days after the end of such period and to keep such registration statement effective until February 1998.

The holders of 1,279,584 shares of Common Stock issuable upon the exchange of the shares of Preferred Stock of NPI and the exercise of certain warrants exercisable for 383,875 shares of Common Stock issuable to the holders of such NPI Preferred Stock, as well as any additional shares of Common Stock issuable to such holders upon the exercise of any additional warrants issuable to such holders, are entitled to certain rights with respect to the registration of such shares under the Securities Act. These rights are provided under the terms of a Registration Rights Agreement dated March 29, 1996 between the Company and the holders of such shares. Subject to certain limitation in such agreement, the holders of at least 40% of such shares may, at any time after one year from the date of this offering, require the Company to register at its expense all or a portion of such shares, provided, among other limitations, that Form S-3 is then available to the Company and that the proposed aggregate selling price of such shares is at least \$500,000.

The exercise of any of the foregoing registration rights may hinder efforts by the Company to arrange future financing of the Company and may have an adverse effect on the market price of the Common Stock.

#### CERTAIN CHANGE OF CONTROL PROVISIONS

The Company anticipates it will reincorporate in Delaware prior to this offering and will be subject to Section 203 of the Delaware General Corporation Law, an anti-takeover law. In general, Section 203 prohibits a publicly held Delaware corporation from engaging in a "business combination" with an "interested stockholder" for a period of three years following the date the person became an interested stockholder, unless (with certain exceptions) the "business combination" or the transaction in which the person became an interested stockholder is approved in a prescribed manner. Generally, a "business combination" includes a merger, asset or stock sale, or other transaction resulting in a financial benefit to the interested stockholder. Generally, an "interested stockholder" is a person who, together with affiliates and associates, owns (or within three years prior to the determination of interested stockholder status, did own) 15% or more of a corporation's voting stock. The existence of this provision would be expected to have an anti-takeover effect with respect to transactions not approved in advance by the Board of Directors, including discouraging attempts that might result in a premium over the market price for the shares of Common Stock held by stockholders.

The Certificate of Incorporation provides for a Board of Directors that is divided into three classes. The Directors in Class I hold office until the first annual meeting of stockholders following this offering, the Directors in Class II hold office until the second annual meeting of stockholders following this offering, and the Directors in Class III hold office until the third annual meeting of stockholders following this offering, (or, in each case, until their successors are duly elected and qualified or until their earlier resignation, removal from office or death), and, after each such election, the Directors in each such class will then serve in succeeding terms of three years and until their successors are duly elected and qualified. The classification system of electing Directors may tend to discourage a third party from making a tender offer or otherwise attempting to obtain control of the Company and may maintain the incumbency of the Board of Directors, as the classification of the Board of Directors generally increases the difficulty of replacing a majority of the directors.

The Certificate of Incorporation and Bylaws do not provide for cumulative voting in the election of directors. The authorization of undesignated Preferred Stock makes it possible for the Board of Directors to issue Preferred Stock with voting or other rights or preferences that could impede the success of any attempt to change control of the Company. These and other provisions may have the effect of delaying or preventing hostile takeovers or delaying changes in control or management of the Company. The amendment of any of these provisions would require approval by holders of at least 66 2/3% of the outstanding Common Stock.

#### TRANSFER AGENT AND REGISTRAR

The Transfer Agent and Registrar for the Company's Common Stock is American Stock Transfer & Trust Company.

## SHARES ELIGIBLE FOR FUTURE SALE

Upon completion of this offering, the Company will have outstanding approximately 16,201,596 shares of Common Stock (excluding (i) 1,955,179 shares of Common Stock issuable upon exercise of options and warrants outstanding as of March 31, 1996, (ii) 522,110 shares of Common Stock reserved for future issuance under the Plan, (iii) 125,000 shares of Common Stock reserved for future issuance under the Purchase Plan, (iv) 100,000 shares of Common Stock reserved for future issuance under the Director Plan, and (v) 1,279,584 shares of Common Stock reserved for future issuance upon conversion of the shares of Preferred Stock of NPI and 383,875 shares of Common Stock issuable upon the exercise of certain warrants issued to the holders of such Preferred Stock, and the shares of Common Stock which may be issued upon exercise of certain additional warrants which may be issued to such holders). The 3,000,000 shares offered hereby will be freely tradeable without restriction or further registration under the Act. The 12,368,262 shares of Common Stock held by existing stockholders are "restricted securities" as the term is defined in Rule 144 under the Act. Of this number, approximately 11,960,185 shares will be subject to lock-up agreements (as described below under "Underwriting"). In addition, the 833,334 shares to be sold to Ciba-Geigy and JJDC concurrent with this offering will also be "restricted securities" and subject to such lock-up agreements.

Beginning (i) 180 days, (ii) 270 days, and (iii) 360 days after the date of this Prospectus, approximately (i) 3,543,900, (ii) 3,543,900, and (iii) 3,543,900 shares that are subject to lock-up agreements (as described below under "Underwriting") will become eligible for sale in the public market upon expiration of such agreements, in accordance with the provisions of Rule 144 and Rule 701 of the Act. The remaining approximately 2,127,190 shares which are also subject to such lock-up agreements will have been held for less than two years upon the expiration of such lock-up agreements and will become eligible for sale under Rule 144 at various dates thereafter as the holding period provisions of Rule 144 are satisfied.

In general, under Rule 144 as currently in effect, a person (or persons whose shares are aggregated), including an affiliate, who has beneficially owned shares for at least two years (including the continuous holding period of any prior owner except an affiliate) is entitled to sell in "broker's transactions" or to market makers, within any three-month period commencing 90 days after the date of this Prospectus, a number of shares that does not exceed the greater of (i) one percent of the then outstanding shares of Common Stock (approximately 162,016 shares immediately after this offering), or (ii) the average weekly trading volume in the Common Stock during the four calendar weeks preceding the filing of a Form 144 with respect to such sale. Sales under Rule 144 are also subject to certain requirements as to manner of sale, the filing of a notice, and the availability of public information concerning the Company. In addition, a person who is not deemed to have been an affiliate of the Company at any time during the three months preceding a sale and who has beneficially owned the shares proposed to be sold for at least three years (including the contiguous holding period of any prior owner except an affiliate), would be entitled to sell such shares under Rule 144(k) without regard to the requirements described above.

Any employee, officer or director of or consultant to the Company who purchased his or her shares pursuant to a written compensatory plan or contract is entitled to rely on the resale provisions of Rule 701 under the Act, which permits nonaffiliates to sell their Rule 701 shares without having to comply with the public information, holding period, volume limitation or notice provisions of Rule 144 and permits affiliates to sell their Rule 701 shares without having to comply with the holding period restrictions set forth in Rule 144, in each case commencing 90 days after the date of this Prospectus.

Approximately 373,780 shares of Common Stock which are not subject to lock-up agreements will be eligible for immediate resale pursuant to Rule 144(k) as of the date of this Prospectus, and approximately 29,257 shares of Common Stock which are not subject to lock-up agreements will be eligible for resale pursuant to Rule 144 and Rule 701 commencing 90 days after the date of this Prospectus.

Prior to this offering, there has been no market for the Common Stock of the Company, and no predictions can be made as to the effect, if any, that market sales of shares or the availability of shares for sale will have on the market price prevailing from time to time. Nevertheless, sales of substantial amounts of the Common Stock of the Company in the public market could adversely affect prevailing market prices for the Common Stock and the ability of the Company to raise equity capital in the future.

The Company expects to file a registration statement under the Act after this offering to register an additional 3,300,000 shares of Common Stock reserved for issuance under the 1992 Stock Incentive Plan, under which options to purchase 1,434,590 shares of Common Stock had been granted as of March 31, 1996, 125,000 shares reserved for issuance under the Purchase Plan, none of which have been issued, and 100,000 shares reserved for issuance under the Director Plan, under which no options have been granted.

Shares issued under such plans after the effective date of such registration statement will be freely tradeable in the open market, upon expiration of the agreements not to sell described above. See "Management."

UNDERWRITING

The underwriters named below (the "Underwriters"), acting through their representatives, Robertson, Stephens & Company LLC, Alex. Brown & Sons Incorporated and Montgomery Securities (the "Representatives"), have severally agreed with the Company, subject to the terms and conditions of the Underwriting Agreement, to purchase the number of shares of Common Stock set forth opposite their respective names below. The Underwriters are committed to purchase and pay for all of such shares if any are purchased.

UNDERWRITER -----	NUMBER OF SHARES -----
Robertson, Stephens & Company LLC.....	
Alex. Brown & Sons Incorporated.....	
Montgomery Securities.....	
	-----
Total.....	3,000,000 =====

The Representatives have advised the Company that the Underwriters propose to offer the shares of Common Stock to the public at the initial public offering price set forth on the cover page of this Prospectus and to certain dealers at such price less a concession of not in excess of \$ per share, of which \$ may be reallocated to other dealers. After the initial public offering, the public offering price, concession and reallocation to dealers may be reduced by the Representatives. No such reduction shall change the amount of proceeds to be received by the Company as set forth on the cover page of this Prospectus.

The Company has granted to the Underwriters an option, exercisable during the 30-day period after the date of this Prospectus, to purchase up to 450,000 additional shares of Common Stock at the same price per share as the Company will receive for the 3,000,000 shares that the Underwriters have agreed to purchase. To the extent that the Underwriters exercise such option, each of the Underwriters will have a firm commitment to purchase approximately the same percentage of such additional shares that the number of shares of Common Stock to be purchased by it shown in the above table represents as a percentage of the 3,000,000 shares offered hereby. If purchased, such additional shares will be sold by the Underwriters on the same terms as those on which the 3,000,000 shares are being sold.

The Underwriting Agreement contains covenants of indemnity among the Underwriters and the Company against certain civil liabilities, including liabilities under the Securities Act and liabilities arising from breaches of representations and warranties contained in the Underwriting Agreement.

Each officer, director and certain other stockholders of the Company that beneficially own or have dispositive power over approximately 11,960,185 shares of the Company's Common Stock have agreed with the Representatives for a period of (i) 180 days after the effective date of this Prospectus with respect to one-third of the shares held by them, (ii) 270 days after the effective date of this Prospectus with regard to one-third of the shares held by them, and (iii) 360 days after the effective date of this Prospectus with regard to one-third of the shares held by them (the "Lock-Up Period"), subject to certain exceptions, not to offer to sell, contract to sell, or otherwise sell, dispose of, loan, pledge or grant any rights with respect to any shares of Common Stock, any options or warrants to purchase any shares of Common Stock, or any securities convertible into or exchangeable for shares of Common Stock owned as of the date of this Prospectus or thereafter acquired directly by such holders or with respect to which they have or hereafter acquire the power of disposition, without the prior written consent of Robertson, Stephens & Company LLC. However,



Robertson, Stephens & Company LLC may, in its sole discretion and at any time without notice, release all or any portion of the securities subject to lock-up agreements. Approximately 10,631,700 of such shares will be eligible for immediate public sale following expiration of the Lock-Up Period, subject to the provisions of Rule 144. In addition, the Company has agreed that during the 360-day period after the date of this Prospectus, the Company will not, without the prior written consent of Robertson, Stephens & Company LLC, subject to certain exceptions, issue, sell, contract to sell, or otherwise dispose of, any shares of Common Stock, any options or warrants to purchase any shares of Common Stock or any securities convertible into, exercisable for or exchangeable for shares of Common Stock other than the Company's sale of shares in this offering, the issuance of Common Stock upon the exercise of outstanding options and the Company's issuance of options and shares under existing employee stock option and stock purchase plans. See "Shares Eligible For Future Sale."

The Underwriters do not intend to confirm sales to any accounts over which they exercise discretionary authority in excess of 5% of the number of shares of Common Stock offered hereby.

Prior to this offering, there has been no public market for the Common Stock of the Company. Consequently, the initial public offering price for the Common Stock offered hereby was determined through negotiations among the Company and the Representatives. Among the factors considered in such negotiations were prevailing market conditions, certain financial information of the Company, market valuations of other companies that the Company and the Representatives believe to be comparable to the Company, estimates of the business potential of the Company, the present state of the Company's development and other factors deemed relevant.

In addition to the 3,000,000 shares of Common Stock to be sold by the Company in this offering, concurrent with this offering the Company will sell \$5,000,000 of Common Stock to Ciba-Geigy at a price equal to the initial public offering price per share (555,556 shares assuming a purchase price of \$9.00 per share) and will sell \$2,500,000 of Common Stock to JJDC at a price equal to the initial public offering price per share (277,778 shares assuming a purchase price of \$9.00 per share). Such sales will be effected in private placement transactions pursuant to separate agreements with each of Ciba-Geigy and JJDC and not pursuant to the Underwriting Agreement. The Representatives will receive from the Company a financial advisory fee for their services in connection with such transactions equal to 4% of the aggregate purchase price paid by Ciba-Geigy and JJDC. The Underwriters will not receive any other compensation in connection with such transactions.

#### LEGAL MATTERS

The validity of the Common Stock offered hereby will be passed upon for the Company by Wilson Sonsini Goodrich & Rosati, Professional Corporation, Palo Alto, California. As of the date of this Prospectus, 8,080 shares of the Company's Common Stock were held by a member of such firm. Cooley Godward Castro Huddleson & Tatum, Palo Alto and San Diego, California is acting as counsel for the Underwriters in connection with certain legal matters relating to this offering. As of the date of this Prospectus, 4,040 shares of the Company's Common Stock were held by a member of such firm.

#### EXPERTS

The financial statements of Neurocrine Biosciences, Inc. as of December 31, 1994 and 1995 and for each of the three years in the period ended December 31, 1995 included in this Prospectus have been audited by Ernst & Young LLP, independent auditors, as set forth in their report thereon included elsewhere herein and are included in reliance upon such report given upon the authority of such firm as experts in accounting and auditing.

#### ADDITIONAL INFORMATION

The Company has filed with the Securities and Exchange Commission (the "SEC"), Washington, D.C. 20549, a Registration Statement on Form S-1, including amendments thereto, under the Act, with respect to the Common Stock offered hereby. This Prospectus does not contain all of the information set forth in the Registration Statement and the exhibits and schedules filed therewith. For further information with respect to the Company and the Common Stock offered hereby, reference is made to such Registration Statement and to the exhibits and schedules filed therewith. Statements contained in this Prospectus regarding the contents of any contract or other document referred to are not necessarily complete, and in each instance, reference is made to the copy of such contract or other document filed as an exhibit to the Registration Statement, each such statement being qualified in all respects by such reference. The Registration Statement, including the exhibits and schedules thereto, may be inspected without charge at the principal office of the SEC, 450 Fifth Street, NW, Washington, D.C. 20549, and copies of all or any part thereof may be obtained from such office upon the payment of prescribed fees.

NEUROCRINE BIOSCIENCES, INC.

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REPORT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

The Board of Directors and Stockholders  
Neurocrine Biosciences, Inc.

We have audited the accompanying balance sheet of Neurocrine Biosciences, Inc. as of December 31, 1995 and 1994, and the related statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1995. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Neurocrine Biosciences, Inc. at December 31, 1995 and 1994, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1995, in conformity with generally accepted accounting principles.

Ernst & Young LLP

San Diego, California  
February 9, 1996, except for  
Note 8, as to which the  
date is March 29, 1996

## NEUROCRINE BIOSCIENCES, INC.

## BALANCE SHEET

	DECEMBER 31,		MARCH 31,
	1994	1995	1996
			(UNAUDITED)
ASSETS			
Current assets:			
Cash and cash equivalents.....	\$ 4,716,052	\$ 6,392,749	\$ 37,504
Short-term investments, available- for-sale (Note 2).....	13,511,703	12,303,460	20,524,894
Receivables under collaborative agreements (Note 6).....	--	1,000,000	2,854,344
Other current assets.....	302,131	234,334	509,490
	-----	-----	-----
Total current assets.....	18,529,886	19,930,543	23,926,232
Furniture, equipment and leasehold improvements, net (Note 3).....	2,685,079	2,772,844	2,741,823
Licensed technology and patent application costs, net (Notes 3 and 5).....	730,386	919,049	998,950
Other assets.....	399,045	389,296	412,697
	-----	-----	-----
Total assets.....	\$ 22,344,396	\$ 24,011,732	\$ 28,079,702
	=====	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Accounts payable.....	\$ 715,695	\$ 820,883	\$ 158,772
Accrued liabilities (Note 3).....	628,046	879,287	405,117
Deferred revenue.....	--	500,000	872,991
Current portion of obligations under capital leases (Note 5).....	525,068	741,294	789,966
	-----	-----	-----
Total current liabilities.....	1,868,809	2,941,464	2,226,846
Obligations under capital leases, less current portion (Note 5).....	1,732,794	1,631,404	1,405,611
Deferred rent.....	--	213,925	227,744
Commitments (Note 5).....			
Stockholders' equity (Notes 2 and 4):			
Preferred Stock, \$0.001 par value, 5,000,000 shares authorized, no shares issued and outstanding....	--	--	--
Common Stock, no par value:			
Authorized shares--100,000,000			
Issued and outstanding shares-- 11,059,426 in 1994, 11,723,101 in 1995 and 12,368,262 in 1996 .....	31,463,666	35,597,941	40,650,841
Deferred compensation.....	--	(342,679)	(370,627)
Notes receivable from stockholders...	(148,263)	(138,177)	(135,559)
Unrealized gains (losses) on short- term investments.....	(23,535)	3,319	(54,355)
Accumulated deficit.....	(12,549,075)	(15,895,465)	(15,870,799)
	-----	-----	-----
Total stockholders' equity.....	18,742,793	19,224,939	24,219,501
	-----	-----	-----
Total liabilities and stockholders' equity.....	\$ 22,344,396	\$ 24,011,732	\$ 28,079,702
	=====	=====	=====

See accompanying notes.

## NEUROCRINE BIOSCIENCES, INC.

## STATEMENT OF OPERATIONS

	YEAR ENDED DECEMBER 31,			THREE MONTHS ENDED MARCH 31,	
	1993	1994	1995	1995	1996
	(UNAUDITED)				
Revenues under collaborative research agreements (Note 6):					
Sponsored research....	\$ --	\$ --	\$ 3,750,000	\$ 625,000	\$1,625,000
License fees.....	--	--	2,000,000	2,000,000	--
Other revenues.....	--	161,533	355,750	126,781	533,978
Total revenues.....	--	161,533	6,105,750	2,751,781	2,158,978
Operating expenses:					
Research and development.....	2,803,819	6,230,483	7,740,128	1,848,391	1,794,484
General and administrative.....	1,550,676	2,222,967	2,728,342	736,822	570,797
Total operating expenses.....	4,354,495	8,453,450	10,468,470	2,585,213	2,365,281
Income (loss) from operations.....	(4,354,495)	(8,291,917)	(4,362,720)	166,568	(206,303)
Interest income.....	135,944	785,640	1,137,004	294,440	259,164
Interest expense.....	(17,742)	(157,960)	(297,675)	(74,416)	(71,822)
Other income (expense).....	--	(41,398)	177,001	27,000	43,627
Net income (loss).....	\$(4,236,293)	\$(7,705,635)	\$(3,346,390)	\$ 413,592	\$ 24,666
Net income (loss) per share.....	\$ (0.64)	\$ (0.67)	\$ (0.27)	\$ 0.03	\$ --
Shares used in computing net income (loss) per share.....	6,635,387	11,433,482	12,183,582	12,409,419	13,240,248

See accompanying notes.



Common Stock for services...	--	--	4,040	20,200	--	--	--	--
Payment on notes receivable.....	--	--	--	--	--	10,086	--	--
Deferred compensation related to grant of stock options.....	--	--	--	384,075	(384,075)	--	--	--
Amortization of deferred compensation...	--	--	--	--	41,396	--	--	--
Unrealized gains on short-term investments....	--	--	--	--	--	--	26,854	--
Net loss.....	--	--	--	--	--	--	--	(3,346,390)
-----								
Balance at December 31, 1995.....	--	--	11,723,101	35,597,941	(342,679)	(138,177)	3,319	(15,895,465)
Issuance of Common Stock for cash (unaudited)....	--	--	645,161	5,000,000	--	--	--	--
Payments on notes receivable (unaudited)....	--	--	--	--	--	2,618	--	--
Deferred compensation related to grant of stock options (unaudited)....	--	--	--	52,900	(52,900)	--	--	--
Amortization of deferred compensation (unaudited)....	--	--	--	--	24,952	--	--	--
Unrealized losses on short-term investments (unaudited)....	--	--	--	--	--	--	(57,674)	--
Net income (unaudited)....	--	--	--	--	--	--	--	24,666
-----								
Balance at March 31, 1996 (unaudited)....	--	\$ --	12,368,262	\$40,650,841	\$(370,627)	\$(135,559)	\$(54,355)	\$(15,870,799)
=====								

TOTAL STOCKHOLDERS' EQUITY

-----	
Balance at December 31, 1992.....	\$ 2,444,641
Issuance of Common Stock for notes receivable.....	--
Issuance of Series A Preferred Stock for cash.....	354,559
Issuance of Series A Preferred Stock for notes receivable.....	--
Conversion of all outstanding shares of Series A Preferred Stock into Common Stock and a 1.01 for 1 split of all outstanding Common Stock...	--
Issuance of Common Stock for cash and cancellation of debt in	



connection with the Company's private placement offering, net..	23,494,726
Issuance of Common Stock for technology.....	55,000
Payments on notes receivable.....	24,776
Net loss.....	(4,236,293)

Balance at December 31, 1993.....	22,137,409
Issuance of Common Stock for cash, net..	4,087,884
Repurchase of shares.....	(1,359)
Payment on notes receivable.....	12,661
Compensation related to grant of stock options.....	235,368
Unrealized losses on short-term investments....	(23,535)
Net loss.....	(7,705,635)

Balance at December 31, 1994.....	18,742,793
Issuance of Common Stock for cash.....	3,730,000
Issuance of Common Stock for services...	20,200
Payment on notes receivable.....	10,086
Deferred compensation related to grant of stock options.....	--
Amortization of deferred compensation...	41,396
Unrealized gains on short-term investments....	26,854
Net loss.....	(3,346,390)

Balance at December 31, 1995.....	19,224,939
Issuance of Common Stock for cash (unaudited)....	5,000,000
Payments on notes receivable (unaudited)....	2,618
Deferred compensation related to grant of stock options (unaudited)....	--
Amortization of deferred compensation (unaudited)....	24,952
Unrealized losses on short-term investments (unaudited)....	(57,674)
Net income (unaudited)....	24,666

Balance at March

31, 1996  
(unaudited).... \$24,219,501  
=====

See accompanying notes.

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## NEUROCRINE BIOSCIENCES, INC.

## STATEMENT OF CASH FLOWS

	YEAR ENDED DECEMBER 31,			THREE MONTHS ENDED MARCH 31,	
	1993	1994	1995	1995	1996
	(UNAUDITED)				
Cash flow from operating activities:					
Net income (loss).....	\$ (4,236,293)	\$ (7,705,635)	\$ (3,346,390)	\$ 413,592	\$ 24,666
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:					
Compensation expense recognized for stock options.....	--	235,368	41,396	2,250	24,952
Common Stock issued for technology.....	--	--	20,200	--	--
Write-off of licensed technology and patent application costs.....	--	190,720	--	--	--
Depreciation and amortization.....	97,208	515,294	715,398	158,889	205,305
Deferred revenue.....	--	--	500,000	1,875,000	372,991
Deferred rent.....	--	--	213,925	146,208	13,819
Change in operating assets and liabilities:					
Accounts payable and accrued liabilities.....	1,314,238	(786)	356,429	(513,313)	(1,136,281)
Receivables under collaborative research agreements.....	--	--	(1,000,000)	(1,000,000)	(1,854,344)
Other current assets.....	(78,178)	(223,953)	67,797	(500,927)	(275,156)
Other assets.....	(302,337)	(88,448)	9,516	(63,891)	(23,401)
Net cash flows provided by (used in) operating activities.....	(3,205,362)	(7,077,440)	(2,421,729)	517,808	(2,647,449)
Cash flow from investing activities:					
Purchases of short-term investments.....	--	(43,394,769)	(17,854,139)	(5,234,125)	(29,866,339)
Sales/maturities of short-term investments.....	--	29,859,531	19,098,351	1,504,713	21,587,231
Purchase of licensed technology and expenditures for patent application costs.....	(275,034)	(235,541)	(263,261)	(39,621)	(105,899)
Purchases of furniture, equipment and leasehold improvements.....	(710,015)	--	(47,657)	(162,514)	(148,286)
Net cash flows provided by (used in) investing activities.....	(985,049)	(13,770,779)	933,294	(3,931,547)	(8,533,293)
Cash flow from financing activities:					
Repurchase of Common Stock.....	--	(1,359)	--	--	--
Issuance of Common Stock, net.....	23,494,726	4,087,884	3,730,000	3,730,000	5,000,000
Issuance of Preferred Stock, net.....	354,559	--	--	--	--
Principal payments on obligations under capital leases.....	(54,655)	(222,875)	(574,954)	(126,552)	(177,121)
Advance received on capital lease.....	--	49,399	--	--	--
Payments received on notes receivable from stockholders.....	24,776	12,661	10,086	2,471	2,618
Net cash flows provided					

by financing activi- ties.....	23,819,406	3,925,710	3,165,132	3,605,919	4,825,497
	-----	-----	-----	-----	-----
Net increase (decrease) in cash and cash equiv- alents.....	19,628,995	(16,922,509)	1,676,697	192,180	(6,355,245)
Cash and cash equiva- lents at beginning of period.....	2,009,566	21,638,561	4,716,052	4,716,052	6,392,749
	-----	-----	-----	-----	-----
Cash and cash equiva- lents at end of peri- od.....	\$ 21,638,561	\$ 4,716,052	\$ 6,392,749	\$ 4,908,232	\$ 37,504
	=====	=====	=====	=====	=====
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION					
Interest paid.....	\$ 17,742	\$ 157,960	\$ 298,332	\$ 75,416	\$ 71,836
	=====	=====	=====	=====	=====
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES					
Furniture and equipment financed with obliga- tions under capital leases.....	\$ 1,008,536	\$ 1,477,457	\$ 689,791	\$ 54,890	\$ --
	=====	=====	=====	=====	=====

See accompanying notes.

NEUROCRINE BIOSCIENCES, INC.

NOTES TO FINANCIAL STATEMENTS

(Information as of March 31, 1996, and for the three months ended March 31, 1995 and 1996, is unaudited)

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Business Activity

Neurocrine Biosciences, Inc. (the "Company") was incorporated in California on January 17, 1992. The Company is engaged in the discovery and development of therapeutics for the treatment of diseases and disorders of the central nervous and immune systems including anxiety, depression, Alzheimer's disease, obesity and multiple sclerosis.

Cash Equivalents

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

Short-Term Investments Available-for-Sale

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

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

Furniture, Equipment and Leasehold Improvements

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

Licensed Technology and Patent Application Costs

Licensed technology consists of exclusive, worldwide, perpetual licenses to patents related to the Company's platform technology. Costs incurred related to licensed technology and patent applications are capitalized at cost and amortized over the shorter of the license term or estimated useful life of the license rights or patents, generally 10 to 17 years.

Asset Impairment

The Company adopted Statement of Financial Accounting Standards ("SFAS") No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," effective January 1, 1996. SFAS No. 121 requires impairment losses to be recorded on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount. SFAS No. 121 also addresses the accounting for long-lived assets that are expected to be disposed of. There was no effect on the financial statements from the adoption of SFAS No. 121.

NEUROCRINE BIOSCIENCES, INC.

NOTES TO FINANCIAL STATEMENTS--(CONTINUED)

(Information as of March 31, 1996, and for the three months ended March 31, 1995 and 1996, is unaudited)

Options and Deferred Compensation

The Company has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25) and related Interpretations in accounting for its employee stock options. As a result, deferred compensation is recorded for the excess of the fair market value of the stock on the date of the option grant, over the exercise price of the options. Such deferred compensation is amortized over the vesting period of the options.

Interim Financial Information

The financial statements as of March 31, 1996 and for the three months ended March 31, 1995 and 1996 are unaudited, but include all adjustments (consisting of normal recurring adjustments) which the Company considers necessary for a fair statement of the financial position as of such date and the operating results and cash flows for such periods. Results for interim periods are not necessarily indicative of results to be expected for the entire year.

Research and Development Revenue and Expenses

Revenue under strategic alliances is recognized over the term of the agreement. Advance payments received in excess of amounts earned are classified as deferred revenue. Revenues for cost reimbursement are recognized as costs on a project are incurred. Research and development costs are expensed as incurred.

Net Income (Loss) Per Share

Net income (loss) per share is computed using the weighted average number of shares outstanding during each period. In addition, pursuant to certain requirements of the Securities and Exchange Commission, Common Stock issued by the Company during the 12 months immediately preceding the offering described in this prospectus, plus the number of common equivalent shares which became issuable during the same period pursuant to the grant of stock options and warrants at prices below the expected initial public offering price, is included in the calculation of the shares used in computing net income (loss) per share as if these shares were outstanding for all periods presented, using the treasury stock method. For the three months ended March 31, 1995 and 1996, shares used in computing net income per share also includes common equivalent shares arising from dilutive stock options and warrants which were issued more than 12 months immediately preceding the offering described in this Prospectus, using the treasury stock method. Income per share on a fully diluted basis was unchanged.

Reliance on Estimates

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

Reclassifications

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

NEUROCRINE BIOSCIENCES, INC.

NOTES TO FINANCIAL STATEMENTS--(CONTINUED)

(Information as of March 31, 1996, and for the three months ended March 31, 1995 and 1996, is unaudited)

2. SHORT-TERM INVESTMENTS

The following is a summary of short-term investments:

AVAILABLE-FOR-SALE SECURITIES				
	COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED FAIR VALUE
MARCH 31, 1996				
U.S. Government agency securities.....	\$ 2,066,754	\$ --	\$(17,257)	\$ 2,049,497
Certificates of deposit...	222,310	--	--	222,310
Other debt securities.....	18,290,185	--	(37,098)	18,253,087
Total debt securities...	<u>\$20,579,249</u>	<u>\$ --</u>	<u>\$(54,355)</u>	<u>\$20,524,894</u>

AVAILABLE-FOR-SALE SECURITIES				
	COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED FAIR VALUE
DECEMBER 31, 1995				
U.S. Government agency securities.....	\$ 6,982,363	\$ --	\$( 6,213)	\$ 6,976,150
Certificates of deposit...	222,310	--	--	222,310
Other debt securities.....	5,095,468	9,532	--	5,105,000
Total debt securities...	<u>\$12,300,141</u>	<u>\$9,532</u>	<u>\$( 6,213)</u>	<u>\$12,303,460</u>

AVAILABLE-FOR-SALE SECURITIES				
	COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED FAIR VALUE
DECEMBER 31, 1994				
U.S. Government agency securities.....	\$11,010,429	\$ 860	\$( 9,726)	\$11,001,563
Other debt securities.....	2,524,809	--	(14,669)	2,510,140
Total debt securities...	<u>\$13,535,238</u>	<u>\$ 860</u>	<u>\$(24,395)</u>	<u>\$13,511,703</u>

Gross realized gains and losses were not material for any of the reported periods.

The amortized cost and estimated fair value of debt securities by contractual maturity, are shown below.

	COST	ESTIMATED FAIR VALUE
MARCH 31, 1996		
Due in one year or less.....	\$ 948,027	\$ 946,992
Due after one year through three years.....	19,631,222	19,577,902
	<u>\$20,579,249</u>	<u>\$20,524,894</u>

	COST	ESTIMATED FAIR VALUE
DECEMBER 31, 1995		
Due in one year or less.....	\$10,283,929	\$10,293,460

Due after one year through three years.....	2,016,212	2,010,000
	-----	-----
	\$12,300,141	\$12,303,460
	=====	=====



NEUROCRINE BIOSCIENCES, INC.

NOTES TO FINANCIAL STATEMENTS--(CONTINUED)

(Information as of March 31, 1996, and for the three months ended March 31, 1995 and 1996, is unaudited)

Excluded from the above table is \$4,984,995 of commercial paper which is classified as cash equivalents in the accompanying balance sheet at December 31, 1995.

3. BALANCE SHEET DETAILS

Furniture, equipment and leasehold improvements consist of the following:

	DECEMBER 31,		MARCH 31,
	1994	1995	1996
Machinery and equipment.....	\$2,072,443	\$ 2,705,757	\$ 2,848,481
Furniture and fixtures.....	720,397	788,958	791,520
Leasehold improvements.....	391,698	418,155	421,155
	3,184,538	3,912,870	4,061,156
Less accumulated depreciation and amortization.....	(499,459)	(1,140,026)	(1,319,333)
Net furniture, equipment and leasehold improvements.....	\$2,685,079	\$ 2,772,844	\$ 2,741,823

Licensed technology and patent application costs consist of the following:

	DECEMBER 31,		MARCH 31,
	1994	1995	1996
Licensed technology and patent application costs.....	\$ 818,329	\$ 1,081,590	\$ 1,187,489
Less accumulated amortization.....	(87,943)	(162,541)	(188,539)
Total.....	\$ 730,386	\$ 919,049	\$ 998,950

Accrued liabilities consist of the following:

	DECEMBER 31,		MARCH 31,
	1994	1995	1996
Accrued employee benefits.....	\$ 276,418	\$ 259,394	\$ 156,527
Accrued professional fees.....	114,000	335,000	177,096
Other accrued liabilities.....	237,628	284,893	71,494
	\$ 628,046	\$ 879,287	\$ 405,117

4. STOCKHOLDERS' EQUITY

Certain shares of Common Stock have been issued to founders, directors, and employees of, and consultants and advisors to, the Company. Shares issued under these agreements vest over periods up to four years. In connection with the related stock purchase agreements, the Company has the option to repurchase, at the original issue price, the unvested shares in the event of termination of employment or engagement. At March 31, 1996, 139,190 shares were subject to repurchase by the Company.

Common Stock issued for services rendered and technology acquired have been valued at the fair value of the stock issued or the technology acquired and services rendered, pursuant to APB 29.

Private Placement Offering

In September 1993, the Company commenced a private placement offering under which it sold approximately five million shares of Common Stock at \$5.00 per share in various closings through December 31, 1993, resulting in net proceeds to the Company of approximately \$23.5 million. In February 1994, the Company completed the final closing of such private placement offering. Approximately 880,000 shares of Common Stock were issued at \$5.00 per share in the final closing, resulting in net proceeds to the Company of approximately \$4.1

million.

NEUROCRINE BIOSCIENCES, INC.

NOTES TO FINANCIAL STATEMENTS--(CONTINUED)

(Information as of March 31, 1996, and for the three months ended March 31, 1995 and 1996, is unaudited)

Common Stock Issuances

Concurrent with a collaborative research and development agreement entered into in 1995 with Janssen Pharmaceutica, N.V. ("Janssen" -- Note 6), Johnson & Johnson Development Corporation (an affiliate of Janssen) purchased 434,783 shares of the Company's Common Stock for \$2.5 million and is obligated to purchase an additional \$2.5 million in Common Stock for \$7.20 per share on the earlier of July 1, 1996 or the closing of an initial public offering. The price per share in the second purchase is subject to certain anti-dilution adjustments if the Company completes an initial public offering within 10 months of the second purchase. If an initial public offering is consummated prior to the second purchase, the Company has the right to require the second purchase to be priced at the initial public offering price per share.

In February 1995, the Company sold 213,913 shares of Common Stock at \$5.75 per share to one investor for \$1,230,000.

Options

In September 1992, the Board of Directors adopted the 1992 Incentive Stock Plan ("the Plan"), under which 3,098,800 shares of Common Stock are reserved for issuance upon exercise of options or stock purchase rights granted by the Company. The Plan provides for the grant of stock options and stock purchase rights to officers, directors, and employees of, and consultants and advisors to, the Company. Options may be designated as incentive stock options or nonstatutory stock options; however, incentive stock options may be granted only to employees of the Company. Options under the Plan have a term of up to 10 years from the date of grant. The exercise prices of incentive stock options must equal at least the fair market value on the date of grant, and the exercise price of nonstatutory stock options may be no less than 85% of the fair market value on the date of grant.

As of March 31, 1996, options to purchase 696,718 shares were exercisable and 320,910 shares were available for future grant.

The following table summarizes stock option activity:

	SHARES	EXERCISE PRICE
	-----	-----
Outstanding at December 31, 1992.....	--	--
Granted.....	539,926	\$2.50
	-----	
Outstanding at December 31, 1993.....	539,926	\$2.50
Granted.....	380,334	\$2.50-\$5.00
Cancelled.....	(14,750)	\$2.50-\$5.00
	-----	
Outstanding at December 31, 1994.....	905,510	\$2.50-\$5.00
Granted.....	638,100	\$4.25-\$5.00
Cancelled.....	(128,420)	\$2.50-\$5.00
	-----	
Outstanding at December 31, 1995.....	1,415,190	\$2.50-\$5.00
Granted.....	19,400	\$4.25-\$5.00
	-----	
Outstanding at March 31, 1996.....	1,434,590	\$2.50-\$5.00
	=====	

NEUROCRINE BIOSCIENCES, INC.

NOTES TO FINANCIAL STATEMENTS--(CONTINUED)

(Information as of March 31, 1996, and for the three months ended March 31, 1995 and 1996, is unaudited)

Warrants

In connection with the private placement offering, the Company issued warrants in 1993 and 1994 to purchase 520,589 shares of Common Stock at an exercise price of \$5.00 per share to the placement agents. In general, the warrants have a five-year term and are exercisable on the earlier of 180 days after the closing date of an initial public offering of the Company's securities, the date of a change in control of the Company (as such is defined in the warrant agreement) or four years and 270 days after the date of issuance. Through March 31, 1996, none of the warrants had been exercised or were exercisable. The Company has reserved 520,589 shares of Common Stock for issuance upon exercise of the warrants.

5. COMMITMENTS

Leases

The Company leases its corporate and laboratory facilities under an operating lease which expires in January 2004. The lease requires the Company to pay all maintenance, insurance and property taxes and is subject to certain minimum escalation provisions. Rent expense was approximately \$85,000, \$667,000, \$798,000, \$348,000 and \$227,000 for the years ended December 31, 1993, 1994 and 1995, and the three months ended March 31, 1995 and 1996, respectively, and sublease rental revenue totaled approximately \$133,000, \$177,000, \$27,000 and \$44,000 for the years ended December 31, 1994 and 1995 and the three months ended March 31, 1995 and 1996, respectively.

The Company leases a significant portion of its furniture and equipment under capital leases. Furniture and equipment under capital leases were approximately \$2,737,000 and \$3,368,000 at December 31, 1994 and 1995, respectively. Accumulated amortization of furniture and equipment under capital leases totaled \$456,000 and \$1,043,000 at December 31, 1994 and 1995, respectively.

Future minimum payments at December 31, 1995 are as follows:

	OBLIGATIONS	
	UNDER	
	CAPITAL	OPERATING
	LEASES	LEASES
	-----	-----
1996.....	\$ 993,768	\$ 735,290
1997.....	920,133	757,349
1998.....	758,411	780,070
1999.....	129,190	803,472
2000.....	--	827,576
Thereafter.....	--	2,634,692
	-----	-----
Total minimum payments.....	2,801,502	\$6,538,449
		=====
Amount representing interest.....	428,804	
	-----	
Present value of net minimum payments.....	2,372,698	
Less current portion.....	741,294	
	-----	
Long-term obligations under capital leases.....	\$1,631,404	
	=====	

NEUROCRINE BIOSCIENCES, INC.

NOTES TO FINANCIAL STATEMENTS--(CONTINUED)

(Information as of March 31, 1996, and for the three months ended March 31, 1995 and 1996, is unaudited)

Future minimum rental income to be received under noncancellable subleases at December 31, 1995 are as follows:

1996.....	\$145,800
1997.....	72,900
	-----
Total.....	\$218,700
	=====

Licensing and Research Agreements

The Company has entered into licensing agreements with various universities and research organizations. Under the terms of these agreements, the Company has received licenses to technology, or technology claimed, in certain patents or patent applications. The Company is required to make payments of nonrefundable license fees and royalties on future sales of products employing the technology or falling under claims of a patent, and, under certain agreements, minimum royalty payments. Certain agreements also require the Company to make payments of up to an aggregate of approximately \$4.9 million upon the achievement of specified milestones. The Company has capitalized certain expenditures for licensed technology and patent application costs related to these agreements, totaling \$1.2 million through December 31, 1995. Management regularly monitors the status of all such licensed technology and patents. Impairment of the licensed technology and patents is determined using undiscounted cash flow projections. As of each balance sheet date there was no impairment in such assets. In 1994, the Company expensed approximately \$191,000 related to projects which are no longer being pursued.

6. COLLABORATIVE RESEARCH AND DEVELOPMENT AGREEMENT

On January 1, 1995, the Company entered into a research and development agreement (the "Janssen Agreement") with Janssen to collaborate in the discovery, development and commercialization of CRF receptor antagonists focusing on the treatment of anxiety, depression and substance abuse. Janssen agreed to pay the Company a \$2.0 million license fee of which \$1.0 million was received in 1995 and \$1.0 million will be received in 1996. Janssen is obligated to provide the Company with \$3.0 million in sponsored research payments per year during the term of the research program. The term of the research program is three years, with Janssen having the right to extend such term for two additional one-year periods.

The Company is entitled to receive up to \$10.0 million in milestone payments for the indications of anxiety, depression and substance abuse, and up to \$9.0 million in milestone payments for any other indication, if certain development milestones are achieved, of which \$750,000 was received in 1995. The Company has granted Janssen an exclusive worldwide license to manufacture and market products developed under the Janssen Agreement. The Company is entitled to receive royalties on product sales throughout the world. The Company has certain rights to co-promote such products in North America. Janssen is responsible for funding all clinical development and marketing activities, including reimbursement to Neurocrine for its promotional efforts, if any.

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

NEUROCRINE BIOSCIENCES, INC.

NOTES TO FINANCIAL STATEMENTS--(CONTINUED)

(INFORMATION AS OF MARCH 31, 1996, AND FOR THE THREE MONTHS ENDED MARCH 31, 1995 AND 1996, IS UNAUDITED)

7. INCOME TAXES

At December 31, 1995, the Company had federal and California income tax net operating loss carryforwards of approximately \$14.8 million and \$1.9 million, respectively. The difference between the federal and California tax loss carryforwards is primarily attributable to the capitalization of research and development expenses for California income tax purposes and the 50% limitation on California loss carryforwards.

The federal and California tax loss carryforwards will begin to expire in 2007 and 1997, respectively, unless previously utilized. The Company also has federal and California research tax credit carryforwards of approximately \$680,000 and \$314,000, respectively, which will begin to expire in 2007 unless previously utilized.

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

Significant components of the Company's deferred tax assets as of December 31, 1994 and 1995 are shown below. A valuation allowance, which was increased by \$1,496,000 in 1995, has been recognized to fully offset the deferred tax assets as of December 31, 1994 and 1995 as realization of such assets is uncertain.

	DECEMBER 31,	
	1994	1995
Deferred tax assets:		
Net operating loss carryforwards.....	\$ 4,214,000	\$ 5,279,000
Research and development credits.....	680,000	884,000
Capitalized research and development.....	524,000	656,000
Other, net.....	62,000	157,000
Total deferred tax assets.....	5,480,000	6,976,000
Valuation allowance for deferred tax assets.....	(5,480,000)	(6,976,000)
Net deferred tax assets.....	\$ --	\$ --
	=====	=====

8. SUBSEQUENT EVENTS

Ciba-Geigy Limited

In January 1996, the Company entered into a binding letter agreement (the "Ciba-Geigy Agreement") with Ciba-Geigy to develop altered peptide ligand therapeutics for the treatment of multiple sclerosis. The Company and Ciba-Geigy are negotiating a definitive agreement incorporating the terms and conditions set forth in the Ciba-Geigy Agreement and such other terms and conditions as agreed to by the Company and Ciba-Geigy. Pursuant to the Ciba-Geigy Agreement, Ciba-Geigy is obligated to provide the Company with \$12.0 million in license fee payments and research funding over the first two years of the Ciba-Geigy Agreement and thereafter up to \$15.5 million in additional research and development funding (unless the Ciba-Geigy Agreement is sooner terminated).

NEUROCRINE BIOSCIENCES, INC.

NOTES TO FINANCIAL STATEMENTS--(CONTINUED)

(INFORMATION AS OF MARCH 31, 1996, AND FOR THE THREE MONTHS ENDED MARCH 31, 1995 AND 1996, IS UNAUDITED)

The Company is entitled to receive milestone payments if certain research, development and regulatory milestones are achieved. The Company has granted Ciba-Geigy an exclusive license outside of the United States and Canada to market altered peptide ligand products developed under the Ciba-Geigy Agreement for multiple sclerosis. The Company is entitled to receive royalties on product sales. At its option, the Company is entitled to receive a share of the profits resulting from sales of altered peptide ligand products in North America subject to the Company's repayment of a portion of Ciba-Geigy's development costs. The Company retains the right to convert its profit share to the right to receive royalty payments at its sole discretion in which case no repayment of development costs are due to Ciba-Geigy. If the product's clinical trials are not successfully completed, the Company will be obligated to repay a portion of the development costs.

Ciba-Geigy has the right to terminate the Ciba-Geigy Agreement at any time after December 30, 1997 on six months notice. Upon such termination by Ciba-Geigy all product and technology rights become the exclusive property of the Company.

In connection with the Ciba-Geigy Agreement, Ciba-Geigy purchased \$5.0 million of the Company's Common Stock in January 1996.

NEUROSCIENCE PHARMA (NPI) INC.

In March 1996, the Company established Neuroscience Pharma (NPI) Inc. ("NPI"), a subsidiary of the Company in Canada. The Company licensed to NPI certain technology and Canadian marketing rights to the Company's Neurosteroid and Neurogenomics programs. A group of Canadian institutional investors (the "Canadian Investors") invested approximately \$9.5 million in NPI in exchange for Preferred Stock of NPI which may be converted into 1,279,584 shares of the Company's Common Stock at an effective conversion price of \$7.45 at the option of the investors. NPI has committed to use these funds for clinical development of the Neurosteroid program for Alzheimer's disease and for research activities related to the Neurogenomics program. In exchange for providing funding, NPI is entitled to receive royalties on sales of products developed in these programs as well as exclusive Canadian marketing rights for such products in the event that the Company has not terminated the technology license and marketing rights or that the Canadian Investors have not converted their NPI Preferred Stock into shares of the Company's Common Stock. The Company has the right to terminate the technology license and marketing rights, provided that the Company is then obligated to purchase the shares of NPI Preferred Stock held by the Canadian Investors in exchange for cash and Common Stock (valued at the market closing price) whose aggregate value equals \$9.5 million plus a 35% annual compound rate of return from the date of the original investment (March 1996) provided the investors have not previously converted their shares. In connection with their investment in NPI, the Canadian Investors received warrants exercisable for 383,875 shares of the Company's Common Stock at an exercise price equal to the price per share at which Common Stock is sold in this offering. These warrants will be valued upon the completion of this offering, and the related cost will be amortized over a five-year period. The amortization of such expense will not be material to future operating results. The Canadian Investors are also eligible to receive additional warrants in the future exercisable at an exercise price of \$7.75 per share for such warrants issued prior to June 30, 1998 and thereafter at an exercise price equal to 110% of the then current market value of the Common Stock in the event that NPI is successful in receiving certain government incentives for research activities, with the aggregate exercise price of such additional warrants equal to 25% of the dollar amount of such incentives received by NPI. Since the Company does not have a majority interest in NPI, NPI is not consolidated. The Company will recognize its pro rata share of the cumulative profits of NPI as they are earned. All cumulative losses of NPI will be allocated to the majority owners as the Company has not contributed any assets with an accounting basis to NPI.

REPORT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

The Board of Directors and Stockholders

Neuroscience Pharma (NPI) Inc.

We have audited the accompanying balance sheet of Neuroscience Pharma (NPI) Inc. as of March 31, 1996. This balance sheet is the responsibility of the Company's management. Our responsibility is to express an opinion on this balance sheet based on our audit.

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

In our opinion, the balance sheet referred to above presents fairly, in all material respects, the financial position of Neuroscience Pharma (NPI) Inc. at March 31, 1996, in conformity with generally accepted accounting principles.

ERNST & YOUNG LLP

San Diego, California

April 3, 1996



NEUROSCIENCE PHARMA (NPI) INC.

BALANCE SHEET

MARCH 31, 1996

ASSETS

Cash and total assets..... \$9,245,204  
=====

REDEEMABLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY

Redeemable Series A Preferred Stock, no par value; unlimited shares  
authorized, 1,300,000 shares issued and outstanding (stated at liq-  
uidation and redemption value) (Note 2) ..... \$9,545,900

Stockholders' equity:

Common Stock, no par value; unlimited shares authorized, 13,000  
shares issued and  
outstanding..... --  
Accumulated deficit (Note 2) ..... (300,696)

Total redeemable preferred stock and stockholders' equity..... \$9,245,204  
=====

See note to balance sheet.

NOTE TO BALANCE SHEET

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION AND BUSINESS ACTIVITY

Neuroscience Pharma (NPI) Inc. ("NPI") was established on March 29, 1996 as a Canadian subsidiary of Neurocrine Biosciences, Inc. ("Neurocrine"). Neurocrine licensed to NPI certain technology and Canadian marketing rights to its Neurosteroid and Neurogenomics programs. NPI's focus will be clinical development of the Neurosteroid program for Alzheimer's disease and research activities related to the Neurogenomics program.

NPI has not yet commenced operations, and its only activity to date has been the initial funding provided by a group of Canadian institutional investors, net of related offering expenses.

CASH AND CONCENTRATION OF CREDIT RISK

NPI has invested its cash in a highly liquid money market account with a Canadian bank.

2. REDEEMABLE SERIES A PREFERRED STOCK

The Series A Preferred Stock is nonvoting. The holders of the Series A Preferred Stock are entitled to receive, when and as declared by the Board of Directors, cumulative preferential dividends equal to the royalties received by NPI from sales of its products. The holders of the Series A Preferred Stock are also entitled to a liquidation preference equal to the original purchase price of such shares plus any unpaid cumulative dividends. NPI may repurchase the outstanding shares of Series A Preferred Stock at any time at the liquidation value, and the holders may demand redemption of such shares at the liquidation value at their option.

NPI paid a fee of \$300, 6% related to the sale of the Series A Preferred Stock. Since the Preferred Stock is carried on the balance sheet at its redemption value (currently the original purchase price), such costs were charged to the accumulated deficit.

[LOGO OF NEUROCRINE  
BIOSCIENCES, INC. APPEARS HERE]

NEUROCRINE  
-----  
BIOSCIENCES, INC.

PART II

INFORMATION NOT REQUIRED IN THE PROSPECTUS

ITEM 13. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION.

The following table sets forth the costs and expenses, other than the underwriting commission, payable by the Registrant in connection with the sale of Common Stock being registered. All amounts are estimates except the SEC Registration Fee, the NASD Filing Fee and the Nasdaq National Market Application Fee.

SEC Registration Fee.....	\$ 11,897
NASD Filing Fee.....	3,950
Nasdaq National Market Application Fee.....	20,000
Blue Sky Qualification Fees and Expenses.....	15,000
Printing and Engraving Expenses.....	50,000
Legal Fees and Expenses.....	225,000
Accounting Fees and Expenses.....	75,000
Transfer Agent and Registrar Fees.....	10,000
Miscellaneous Expenses.....	89,153
	-----
Total.....	\$500,000
	=====

ITEM 14. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

Section 145 of the Delaware General Corporation Law permits a corporation to indemnify its directors, officers, employees and other agents in terms sufficiently broad to permit indemnification (including reimbursement for expenses) under certain circumstances for liabilities arising under the Securities Act of 1933, as amended (the "Act"). The Registrant's Certificate of Incorporation and Bylaws contain provisions covering indemnification of corporate directors, officers and other agents against certain liabilities and expenses incurred as a result of proceedings involving such persons in their capacities as directors, officers, employees or agents, including proceedings under the Securities Act or the Securities Exchange Act of 1934, as amended.

The Registrant's Certificate of Incorporation provides for the indemnification of directors to the fullest extent permissible under Delaware law.

The Registrant's Bylaws provides for the indemnification of officers, directors and third parties acting on behalf of the corporation if such person acted in good faith and in a manner reasonably believed to be in and not opposed to the best interest of the corporation, and, with respect to any criminal action or proceeding, the indemnified party had no reason to believe his conduct was unlawful.

The Registrant has entered into indemnification agreements with its directors and executive officers, in addition to indemnification provided for in the Registrant's Bylaws, and intends to enter into indemnification agreements with any new directors and executive officers in the future.

The Underwriting Agreement filed as Exhibit 1.1 to this Registration Statement provides for indemnification by the Underwriters of the Registrant and its officers and directors for certain liabilities arising under the Securities Act, or otherwise.

At present, there is no pending litigation or proceeding involving a director, officer, employee or other agent of the Registrant in which indemnification is being sought, nor is the Registrant aware of any threatened litigation that may result in a claim for indemnification by any director, officer, employee or other agent of the Registrant.

ITEM 15. RECENT SALES OF UNREGISTERED SECURITIES.

Since December 31, 1992, the Registrant has sold and issued the following securities which were not registered under the Securities Act:

1. From December 31, 1992 to March 31, 1996 the Company sold and issued an aggregate of 3,000,694 shares of Common Stock to employees, consultants, founders and directors for consideration in the aggregate amount of \$3,656,932.

2. From September 1993 to February 1994 the Company sold and issued an aggregate of 6,025,892 shares of Common Stock in a private placement (the "Private Placement") at a price of \$5.00 per share, for cash in the aggregate amount of \$30,129,460. The principal placement agents of the Private Placement included Kidder, Peabody & Co. Incorporated, Gruntal & Co., Incorporated and D. Blech & Company, Incorporated. From September 1993 to February 1994, in connection with the Private Placement, the Company issued warrants exercisable for an aggregate of 520,589 shares of Common Stock at an exercise price of \$5.00 per share to the placement agents and their representatives.

3. In January 1996, the Company sold and issued an aggregate of 645,161 shares of Common Stock to Ciba-Geigy Limited at \$7.75 per share, for cash in the aggregate amount of \$5,000,000.

4. In January 1995, the Company sold and issued an aggregate of 434,783 shares of Common Stock to Johnson & Johnson Development Corporation (an affiliate of Janssen) at \$5.75 per share for cash in the aggregate amount of \$2,500,000.

5. In February 1995, the Company sold and issued an aggregate of 213,913 shares of Common Stock to Neuroscience Partners Limited Partnership at \$5.75 per share for cash in the aggregate amount of \$1,230,000.

6. In March 1996, in connection with the financing of the Company's subsidiary NPI, the Company issued warrants exercisable for 388,375 shares of Common Stock to certain institutional investors.

The sales and issuances of securities in the above transactions were deemed to be exempt from registration under the Securities Act, principally by virtue of Section 4(2) thereof as transactions by an issuer not involving a public offering. Additionally, certain issuances described in Item 15(1) and (2) above were exempt from registration under the Securities Act in reliance upon Rule 701 and Regulation D, respectively, promulgated thereunder.

ITEM 16. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(a) Exhibits

- 1.1 Form of Underwriting Agreement.
- 3.1+ Articles of Incorporation of Neurocrine Biosciences, Inc., a California corporation, as amended and in effect prior to the Registrant's reincorporation in Delaware.
- 3.2+ Certificate of Incorporation of Neurocrine Biosciences, Inc., a Delaware corporation, as in effect immediately following the Registrant's reincorporation in Delaware.
- 3.3+ Bylaws of the Registrant, as in effect prior to the Registrant's reincorporation in Delaware.
- 3.4+ Bylaws of the Registrant, as in effect immediately following the Registrant's reincorporation in Delaware.
- 4.1 Form of Lock-Up Agreement.
- 4.2\* Form of Common Stock Certificate.
- 4.3+ Form of warrant issued to existing warrant holders.
- 4.4 Form of Series A Warrant issued in connection with the execution by the Registrant of the Unit Purchase Agreement. (See exhibit 10.20)

- 4.5 New Registration Rights Agreement dated March 29, 1996 among the Registrant and the investors signatory thereto.
- 5.1\* Opinion of Wilson Sonsini Goodrich & Rosati, Professional Corporation.
- 10.1+ Information and Registration Rights Agreement dated September 15, 1992, as amended to date.
- 10.2\*\* 1992 Incentive Stock Plan, as amended, and form of incentive stock option agreement and nonstatutory stock option agreement.
- 10.3\*\* 1996 Employee Stock Purchase Plan.
- 10.4\*\* 1996 Director Stock Option Plan, and form of stock option agreement.
- 10.5+ Form of Director and Officer Indemnification Agreement.
- 10.6+ Employment Agreement dated March 1, 1993, between the Registrant and Gary A. Lyons, as amended.
- 10.7+ Employment Agreement dated July 1, 1993, between the Registrant and Errol B. De Souza, Ph.D.
- 10.8+ Employment Agreement dated May 8, 1993, between the Registrant and Paul W. Hawran.
- 10.9+ Consulting Agreement dated September 25, 1992, between the Registrant and Wylie A. Vale, Ph.D.
- 10.10+ Consulting Agreement dated effective as of January 1, 1992, between the Registrant and Lawrence J. Steinman, M.D.
- 10.11+ Lease Agreement dated June 1, 1993, between the Registrant and Hartford Accident and Indemnity Company, as amended.
- 10.12++ Exclusive License Agreement dated as of July 1, 1993, by and between the Beckman Research Institute of the City of Hope and the Registrant covering the treatment of nervous system degeneration and Alzheimer's Disease.
- 10.13++ Exclusive License Agreement dated as of July 1, 1993, by and between the Beckman Research Institute of the City of Hope and the Registrant covering the use of Pregnenolone for the enhancement of memory.
- 10.14++ License Agreement dated May 20, 1992, by and between The Salk Institute for Biological Studies and the Registrant.
- 10.15++ License Agreement dated July 17, 1992, by and between The Salk Institute for Biological Studies and the Registrant.
- 10.16++ License Agreement dated November 16, 1993, by and between The Salk Institute for Biological Studies and the Registrant.
- 10.17++ License Agreement dated October 19, 1992, by and between The Board of Trustees of the Leland Stanford Junior University and the Registrant.
- 10.18++ Agreement dated January 1, 1995, by and between the Registrant and Janssen Pharmaceutica, N.V.
- 10.19++ Letter Agreement dated January 19, 1996, by and between the Registrant and Ciba-Geigy Limited.
- 10.20\*\*\* Unit Purchase Agreement dated March 29, 1996, by and between Neuroscience Pharma (NPI) Inc., the Registrant and the investors signatory thereto.

- 10.21\*\*\* Exchange Agreement dated March 29, 1996, by and between Neurocrine Biosciences (Canada) Inc. and the Registrant and the investors signatory thereto.
- 10.22\*\*\* Research and Development Agreement dated March 29, 1996, by and between Neurocrine Biosciences (Canada) Inc. and Neuroscience Pharma (NPI) Inc.
- 10.23\*\*\* Intellectual Property and License Grants agreement dated March 29, 1996, by and between the Registrant and Neurocrine Biosciences (Canada) Inc.
- 11.1+ Computation of Net Loss per Share.
- 21.1 Subsidiaries of the Registrant.
- 23.1 Consent of Ernst & Young LLP, independent auditors (see page II-7).
- 23.2 Consent of Wilson Sonsini Goodrich & Rosati, Professional Corporation (included in Exhibit 5.1).
- 24.1+ Power of Attorney.

- -----  
 \* To be filed by amendment.

\*\* Amended and restated exhibit replacing previously filed exhibit.

\*\*\* Confidential treatment has been requested with respect to certain portions of this exhibit. Omitted portions have been filed separately with the Securities and Exchange Commission.

+ Previously filed by the Registrant.

++ Confidential treatment has been requested with respect to certain portions of this exhibit which was previously filed by the Registrant. Omitted portions were previously filed separately with the Securities and Exchange Commission.

(b) Financial Statements and Schedules

(1) Financial Statements

The financial statements filed as part of this Registration Statement are listed in the Index to Financial Statements of the Company on Page F-1.

(2) Schedules

All Schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission have been omitted because they are not required under the related instructions, are inapplicable or because the information required thereby has been included in the Financial Statements.

ITEM 17. UNDERTAKINGS.

The undersigned Registrant hereby undertakes that:

(a) It will provide to the Underwriters at the closing as specified in the Underwriting Agreement certificates in such denominations and registered in such names as required by the Underwriters to permit prompt delivery to each purchaser.

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

(c) For purposes of determining any liability under the Act, the information omitted from the form of prospectus filed as part of a registration statement in reliance upon Rule 430A and contained in the form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Act shall be deemed to be part of the registration statement as of the time it was declared effective.

(d) For the purpose of determining any liability under the Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and this offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.



SIGNATURES

Pursuant to the requirements of the Act, the Registrant has duly caused this Amendment No. 1 to Registrant Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of San Diego, State of California, on the 8th day of May, 1996.

NEUROCRINE BIOSCIENCES, INC.

By:

/s/ Gary A. Lyons

-----  
 Gary A. Lyons  
 President and Chief Executive  
 Officer

Pursuant to the requirements of the Act, this Amendment No. 1 to Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

SIGNATURE -----	TITLE -----	DATE ----
/s/ Gary A. Lyons ----- Gary A. Lyons	President, Chief Executive Officer and Director (Principal Executive Officer)	May 8, 1996
Paul W. Hawran* ----- Paul W. Hawran	Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	May 8, 1996
Harry F. Hixson, Jr., Ph.D.* ----- Harry F. Hixson, Jr., Ph.D.	Director	May 8, 1996
Howard Birndorf* ----- Howard Birndorf	Director	May 8, 1996
David Robinson* ----- David Robinson	Director	May 8, 1996
David Schnell, M.D.* ----- David Schnell, M.D.	Director	May 8, 1996
Wylie W. Vale, Ph.D.* ----- Wylie W. Vale, Ph.D.	Director	May 8, 1996
/s/ Gary A. Lyons -----		May 8, 1996

\*  
 By Gary A. Lyons, Attorney in  
 fact

CONSENT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

The Board of Directors and Stockholders  
Neurocrine Biosciences, Inc.

We consent to the reference to our firm under the captions "Experts" and "Selected Financial Data" and to the use of our report dated February 9, 1996, except for Note 8, as to which the date is March 29, 1996, in Amendment No. 1 to the Registration Statement (Form S-1) and related Prospectus of Neurocrine Biosciences, Inc. for the registration of 3,450,000 shares of its common stock.

ERNST & YOUNG LLP

San Diego, California

May 8, 1996

EXHIBIT INDEX

EXHIBIT NO. -----	DESCRIPTION -----	SEQUENTIALLY NUMBERED PAGE -----
1.1	Form of Underwriting Agreement.	
4.1	Form of Lock-Up Agreement.	
4.4**	Form of Series A Warrant issued in connection with the execution by the Registrant of the Unit Purchase Agreement. (See exhibit 10.20)	
4.5	New Registration Rights Agreement dated March 29, 1996 among the Registrant and the investors signatory thereto.	
10.2*	1992 Incentive Stock Plan, as amended, and form of incentive stock option agreement and nonstatutory stock option agreement.	
10.3*	1996 Employee Stock Purchase Plan.	
10.4*	1996 Director Stock Option Plan, and form of stock option agreement.	
10.20**	Unit Purchase Agreement dated March 29, 1996 among Neuroscience Pharma (NPI) Inc. and the Registrant and the investors signatory thereto.	
10.21**	Exchange Agreement dated March 29, 1996 among Neurocrine Biosciences (Canada) Inc. and the Registrant and the investors signatory thereto.	
10.22**	Research and Development Agreement dated March 29, 1996 among Neurocrine Biosciences (Canada) Inc. and Neuroscience Pharma (NPI) Inc.	
10.23**	Intellectual Property and License Grants agreement dated March 29, 1996 among the Registrant and Neurocrine Biosciences (Canada) Inc.	
21.1	Subsidiaries of the Registrant.	
23.1	Consent of Ernst & Young LLP, independent auditors (see page II-7).	

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\* Amended and Restated exhibit replacing previously filed exhibit.

\*\* Confidential treatment has been requested with respect to certain portions of this exhibit. Omitted portions have been filed separately with the Securities and Exchange Commission.

3,000,000 SHARES/1/  
NEUROCRINE BIOSCIENCES, INC.

COMMON STOCK

UNDERWRITING AGREEMENT

\_\_\_\_\_, 1996

ROBERTSON, STEPHENS & COMPANY LLC  
ALEX. BROWN & SONS INCORPORATED  
MONTGOMERY SECURITIES  
As Representatives of the several Underwriters  
c/o Robertson, Stephens & Company LLC  
555 California Street, Suite 2600  
San Francisco, California 94104

Ladies/Gentlemen:

Neurocrine Biosciences, Inc., a Delaware corporation (the "Company"), addresses you as the Representatives of each of the persons, firms and corporations listed in Schedule A hereto (herein collectively called the "Underwriters") and hereby confirms its agreement with the several Underwriters as follows:

1. DESCRIPTION OF SHARES. The Company proposes to issue and sell 3,000,000 shares of its authorized and unissued Common Stock, \$.001 par value per share (the "Firm Shares"), to the several Underwriters. The Company also proposes to grant to the Underwriters an option to purchase up to 450,000 additional shares of the Company's Common Stock, \$.001 par value per share (the "Option Shares"), as provided in Section 7 hereof. As used in this Agreement, the term "Shares" shall include the Firm Shares and the Option Shares. All shares of Common Stock, \$.001 par value per share, of the Company to be outstanding after giving effect to the sales contemplated hereby, including the Shares, are hereinafter referred to as "Common Stock."

2. REPRESENTATIONS, WARRANTIES AND AGREEMENTS OF THE COMPANY.

I. The Company represents and warrants to and agrees with each Underwriter that:

(A) A registration statement on Form S-1 (File No. 333-03172) with respect to the Shares, including a prospectus subject to completion, has been prepared by the Company in conformity with the requirements of the Securities Act of 1933, as amended (the "Act"), and the applicable rules and regulations (the "Rules and Regulations") of the Securities and Exchange Commission (the "Commission") under the Act and has been filed with the Commission; such amendments to such registration statement, such amended prospectuses subject to completion and such abbreviated registration statements pursuant to Rule 462(b) of the Rules and Regulations as may have been required prior to the date hereof have been similarly prepared and filed with the Commission; and the Company will file such additional amendments to such registration statement, such amended prospectuses subject to completion and such abbreviated registration statements as may hereafter be required. Copies of such registration statement and amendments, of each related prospectus subject to completion (the

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/1/ Plus an option to purchase up to 450,000 additional shares from the Company to cover over-allotments.

"Preliminary Prospectuses") and of any abbreviated registration statement pursuant to Rule 462(b) of the Rules and Regulations have been delivered to you.

If the registration statement relating to the Shares has been declared effective under the Act by the Commission, the Company will prepare and promptly file with the Commission the information omitted from the registration statement pursuant to Rule 430A(a) or, if Robertson, Stephens & Company LLC, on behalf of the several Underwriters, shall agree to the utilization of Rule 434 of the Rules and Regulations, the information required to be included in any term sheet filed pursuant to Rule 434(b) or (c), as applicable, of the Rules and Regulations pursuant to subparagraph (1), (4) or (7) of Rule 424(b) of the Rules and Regulations or as part of a post-effective amendment to the registration statement (including a final form of prospectus). If the registration statement relating to the Shares has not been declared effective under the Act by the Commission, the Company will prepare and promptly file an amendment to the registration statement, including a final form of prospectus, or, if Robertson, Stephens & Company LLC, on behalf of the several Underwriters, shall agree to the utilization of Rule 434 of the Rules and Regulations, the information required to be included in any term sheet filed pursuant to Rule 434(b) or (c), as applicable, of the Rules and Regulations. The term "Registration Statement" as used in this Agreement shall mean such registration statement, including financial statements, schedules and exhibits, in the form in which it became or becomes, as the case may be, effective (including, if the Company omitted information from the registration statement pursuant to Rule 430A(a) or files a term sheet pursuant to Rule 434 of the Rules and Regulations, the information deemed to be a part of the registration statement at the time it became effective pursuant to Rule 430A(b) or Rule 434(d) of the Rules and Regulations) and, in the event of any amendment thereto or the filing of any abbreviated registration statement pursuant to Rule 462(b) of the Rules and Regulations relating thereto after the effective date of such registration statement, shall also mean (from and after the effectiveness of such amendment or the filing of such abbreviated registration statement) such registration statement as so amended, together with any such abbreviated registration statement. The term "Prospectus" as used in this Agreement shall mean the prospectus relating to the Shares as included in such Registration Statement at the time it becomes effective (including, if the Company omitted information from the Registration Statement pursuant to Rule 430A(a) of the Rules and Regulations, the information deemed to be a part of the Registration Statement at the time it became effective pursuant to Rule 430A(b) of the Rules and Regulations); provided, however, that if in reliance on Rule 434 of the Rules and Regulations and with the consent of Robertson, Stephens & Company LLC, on behalf of the several Underwriters, the Company shall have provided to the Underwriters a term sheet pursuant to Rule 434(b) or (c), as applicable, prior to the time that a confirmation is sent or given for purposes of Section 2(10)(a) of the Act, the term "Prospectus" shall mean the "prospectus subject to completion" (as defined in Rule 434(g) of the Rules and Regulations) last provided to the Underwriters by the Company and circulated by the Underwriters to all prospective purchasers of the Shares (including the information deemed to be a part of the Registration Statement at the time it became effective pursuant to Rule 434(d) of the Rules and Regulations). Notwithstanding the foregoing, if any revised prospectus shall be provided to the Underwriters by the Company for use in connection with the offering of the Shares that differs from the prospectus referred to in the immediately preceding sentence (whether or not such revised prospectus is required to be filed with the Commission pursuant to Rule 424(b) of the Rules and Regulations), the term "Prospectus" shall refer to such revised prospectus from and after the time it is first provided to the Underwriters for such use. If in reliance on Rule 434 of the Rules and Regulations and with the consent of Robertson, Stephens & Company LLC, on behalf of the several Underwriters, the Company shall have provided to the Underwriters a term sheet pursuant to Rule 434(b) or (c), as applicable, prior to the time that a confirmation is sent or given for purposes of Section 2(10)(a) of the Act, the Prospectus and the term sheet, together, will not be materially different from the prospectus in the Registration Statement.

(b) The Commission has not issued any order preventing or suspending the use of any Preliminary Prospectus or instituted proceedings for that purpose, and each such Preliminary Prospectus has conformed in all material respects to the requirements of the Act and the Rules and Regulations and, as of its date, has not included any untrue statement of a material fact or omitted to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; and at the time

the Registration Statement became or becomes, as the case may be, effective and at all times subsequent thereto up to and on the Closing Date (hereinafter defined) and on any later date on which Option Shares are to be purchased, (i) the Registration Statement and the Prospectus, and any amendments or supplements thereto, contained and will contain all material information required to be included therein by the Act and the Rules and Regulations and will in all material respects conform to the requirements of the Act and the Rules and Regulations, (ii) the Registration Statement, and any amendments or supplements thereto, did not and will not include any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading, and (iii) the Prospectus, and any amendments or supplements thereto, did not and will not include any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided, however, that none of the representations and warranties contained in this subparagraph (b) shall apply to information contained in or omitted from the Registration Statement or Prospectus, or any amendment or supplement thereto, in reliance upon, and in conformity with, written information relating to any Underwriter furnished to the Company by such Underwriter specifically for use in the preparation thereof.

(c) Each of the Company and its subsidiaries has been duly incorporated and is validly existing as a corporation in good standing under the laws of the jurisdiction of its incorporation with full power and authority (corporate and other) to own, lease and operate its properties and conduct its business as described in the Prospectus; the Company owns all of the outstanding capital stock of its subsidiaries free and clear of any pledge, lien, security interest, encumbrance, claim or equitable interest; each of the Company and its subsidiaries is duly qualified to do business as a foreign corporation and is in good standing in each jurisdiction in which the ownership or leasing of its properties or the conduct of its business requires such qualification, except where the failure to be so qualified or be in good standing would not have a material adverse effect on the condition (financial or otherwise), earnings, operations, business or business prospects of the Company and its subsidiaries considered as one enterprise; no proceeding has been instituted in any such jurisdiction, revoking, limiting or curtailing, or seeking to revoke, limit or curtail, such power and authority or qualification; each of the Company and its subsidiaries is in possession of and operating in compliance with all authorizations, licenses, certificates, consents, orders and permits from state, federal and other regulatory authorities which are material to the conduct of its business, all of which are valid and in full force and effect; neither the Company nor any of its subsidiaries is in violation of its respective charter or bylaws or in default in the performance or observance of any material obligation, agreement, covenant or condition contained in any material bond, debenture, note or other evidence of indebtedness, or in any material lease, contract, indenture, mortgage, deed of trust, loan agreement, joint venture or other agreement or instrument to which the Company or any of its subsidiaries is a party or by which it or any of its subsidiaries or their respective properties may be bound; and neither the Company nor any of its subsidiaries is in material violation of any law, order, rule, regulation, writ, injunction, judgment or decree of any court, government or governmental agency or body, domestic or foreign, having jurisdiction over the Company or any of its subsidiaries or over their respective properties of which it has knowledge. Other than its subsidiaries listed in the Registration Statement, the Company does not own or control, directly or indirectly, any corporation, association or other entity.

(d) The Company has full legal right, power and authority to enter into this Agreement and perform the transactions contemplated hereby. This Agreement has been duly authorized, executed and delivered by the Company and is a valid and binding agreement on the part of the Company, enforceable in accordance with its terms, except as rights to indemnification hereunder may be limited by applicable law and except as the enforcement hereof may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws relating to or affecting creditors' rights generally or by general equitable principles; the performance of this Agreement and the consummation of the transactions herein contemplated will not result in a material breach or violation of any of the terms and provisions of, or constitute a default under, (i) any bond, debenture, note or other evidence of indebtedness, or under any lease, contract, indenture, mortgage, deed of trust, loan agreement, joint venture or other agreement or instrument to which the Company or any of its subsidiaries is a

party or by which it or any of its subsidiaries or their respective properties may be bound, (ii) the charter or bylaws of the Company or any of its subsidiaries, or (iii) any law, order, rule, regulation, writ, injunction, judgment or decree of any court, government or governmental agency or body, domestic or foreign, having jurisdiction over the Company or any of its subsidiaries or over their respective properties. No consent, approval, authorization or order of or qualification with any court, government or governmental agency or body, domestic or foreign, having jurisdiction over the Company or any of its subsidiaries or over their respective properties is required for the execution and delivery of this Agreement and the consummation by the Company or any of its subsidiaries of the transactions herein contemplated, except such as may be required under the Act or under state or other securities or Blue Sky laws, all of which requirements have been satisfied in all material respects.

(e) There is not any pending or, to the best of the Company's knowledge, threatened action, suit, claim or proceeding against the Company, any of its subsidiaries or any of their respective officers or any of their respective properties, assets or rights before any court, government or governmental agency or body, domestic or foreign, having jurisdiction over the Company or any of its subsidiaries or over their respective officers or properties or otherwise which (i) might result in any material adverse change in the condition (financial or otherwise), earnings, operations, business or business prospects of the Company and its subsidiaries considered as one enterprise or might materially and adversely affect their properties, assets or rights, (ii) might prevent consummation of the transactions contemplated hereby or (iii) is required to be disclosed in the Registration Statement or Prospectus and is not so disclosed; and there are no agreements, contracts, leases or documents of the Company or any of its subsidiaries of a character required to be described or referred to in the Registration Statement or Prospectus or to be filed as an exhibit to the Registration Statement by the Act or the Rules and Regulations which have not been accurately described in all material respects in the Registration Statement or Prospectus or filed as exhibits to the Registration Statement.

(f) All outstanding shares of capital stock of the Company have been duly authorized and validly issued and are fully paid and nonassessable, have been issued in compliance with all federal and state securities laws, were not issued in violation of or subject to any preemptive rights or other rights to subscribe for or purchase securities, and the authorized and outstanding capital stock of the Company is as set forth in the Prospectus under the caption "Capitalization" and conforms in all material respects to the statements relating thereto contained in the Registration Statement and the Prospectus (and such statements correctly state the substance of the instruments defining the capitalization of the Company); the Firm Shares and the Option Shares to be purchased from the Company hereunder have been duly authorized for issuance and sale to the Underwriters pursuant to this Agreement and, when issued and delivered by the Company against payment therefor in accordance with the terms of this Agreement, will be duly and validly issued and fully paid and nonassessable, and will be sold free and clear of any pledge, lien, security interest, encumbrance, claim or equitable interest; and no preemptive right, co-sale right, registration right, right of first refusal or other similar right of shareholders exists with respect to any of the Firm Shares or Option Shares to be purchased from the Company hereunder or the issuance and sale thereof other than those that have been expressly waived prior to the date hereof and those that will automatically expire upon the consummation of the transactions contemplated on the Closing Date. No further approval or authorization of any shareholder, the Board of Directors of the Company or others is required for the issuance and sale or transfer of the Shares except as may be required under the Act or under state or other securities or Blue Sky laws. All issued and outstanding shares of capital stock of each subsidiary of the Company have been duly authorized and validly issued and are fully paid and nonassessable, and were not issued in violation of or subject to any preemptive right, or other rights to subscribe for or purchase shares and are owned by the Company free and clear of any pledge, lien, security interest, encumbrance, claim or equitable interest. Except as disclosed in or contemplated by the Prospectus and the financial statements of the Company, and the related notes thereto, included in the Prospectus, neither the Company nor any subsidiary has outstanding any options to purchase, or any preemptive rights or other rights to subscribe for or to purchase, any securities or obligations convertible into, or any contracts or commitments to issue or sell, shares of its capital stock or any such options, rights, convertible securities or obligations. The description of the Company's stock option, stock bonus and other

stock plans or arrangements, and the options or other rights granted and exercised thereunder, set forth in the Prospectus accurately and fairly presents the information required to be shown with respect to such plans, arrangements, options and rights.

(g) Ernst & Young LLP, which has examined the consolidated financial statements of the Company, together with the related schedules and notes, as of December 31, 1994 and 1995 and for each of the years in the three (3) years ended December 31, 1993, 1994 and 1995 filed with the Commission as a part of the Registration Statement, which are included in the Prospectus, are independent accountants within the meaning of the Act and the Rules and Regulations; the audited consolidated financial statements of the Company, together with the related schedules and notes, and the unaudited consolidated financial information, forming part of the Registration Statement and Prospectus, fairly present the financial position and the results of operations of the Company and its subsidiaries at the respective dates and for the respective periods to which they apply; and all audited consolidated financial statements of the Company, together with the related schedules and notes, and the unaudited consolidated financial information, filed with the Commission as part of the Registration Statement, have been prepared in accordance with generally accepted accounting principles consistently applied throughout the periods involved except as may be otherwise stated therein. The selected and summary financial and statistical data included in the Registration Statement present fairly the information shown therein and have been compiled on a basis consistent with the audited financial statements presented therein. No other financial statements or schedules are required to be included in the Registration Statement.

(h) Subsequent to the respective dates as of which information is given in the Registration Statement and Prospectus, there has not been (i) any material adverse change in the condition (financial or otherwise), earnings, operations, business or business prospects of the Company and its subsidiaries considered as one enterprise, (ii) any transaction that is material to the Company and its subsidiaries considered as one enterprise, except transactions entered into in the ordinary course of business, (iii) any obligation, direct or contingent, that is material to the Company and its subsidiaries considered as one enterprise, incurred by the Company or its subsidiaries, except obligations incurred in the ordinary course of business, (iv) any change in the capital stock or outstanding indebtedness of the Company or any of its subsidiaries that is material to the Company and its subsidiaries considered as one enterprise, (v) any dividend or distribution of any kind declared, paid or made on the capital stock of the Company or any of its subsidiaries, or (vi) any loss or damage (whether or not insured) to the property of the Company or any of its subsidiaries which has been sustained or will have been sustained which has a material adverse effect on the condition (financial or otherwise), earnings, operations, business or business prospects of the Company and its subsidiaries considered as one enterprise.

(i) Except as set forth in the Registration Statement and Prospectus, (i) each of the Company and its subsidiaries has good and marketable title to all properties and assets described in the Registration Statement and Prospectus as owned by it, free and clear of any pledge, lien, security interest, encumbrance, claim or equitable interest, other than such as would not have a material adverse effect on the condition (financial or otherwise), earnings, operations, business or business prospects of the Company and its subsidiaries considered as one enterprise, (ii) the agreements to which the Company or any of its subsidiaries is a party described in the Registration Statement and Prospectus are valid agreements, enforceable by the Company and its subsidiaries (as applicable), except as the enforcement thereof may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws relating to or affecting creditors' rights generally or by general equitable principles and, to the best of the Company's knowledge, the other contracting party or parties thereto are not in material breach or material default under any of such agreements, and (iii) each of the Company and its subsidiaries has valid and enforceable leases for all properties described in the Registration Statement and Prospectus as leased by it, except as the enforcement thereof may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws relating to or affecting creditors' rights generally or by general



equitable principles. Except as set forth in the Registration Statement and Prospectus, the Company owns or leases all such properties as are necessary to its operations as now conducted or as proposed to be conducted.

(j) The Company and its subsidiaries have timely filed all necessary federal, state and foreign income and franchise tax returns and have paid all taxes shown thereon as due, and there is no tax deficiency that has been or, to the best of the Company's knowledge, might be asserted against the Company or any of its subsidiaries that might have a material adverse effect on the condition (financial or otherwise), earnings, operations, business or business prospects of the Company and its subsidiaries considered as one enterprise; and all tax liabilities are adequately provided for on the books of the Company and its subsidiaries.

(k) The Company and its subsidiaries maintain insurance with insurers of recognized financial responsibility of the types and in the amounts generally deemed adequate for their respective businesses and consistent with insurance coverage maintained by similar companies in similar businesses, including, but not limited to, insurance covering real and personal property owned or leased by the Company or its subsidiaries against theft, damage, destruction, acts of vandalism and all other risks customarily insured against, all of which insurance is in full force and effect; neither the Company nor any such subsidiary has been refused any insurance coverage sought or applied for; and neither the Company nor any such subsidiary has any reason to believe that it will not be able to renew its existing insurance coverage as and when such coverage expires or to obtain similar coverage from similar insurers as may be necessary to continue its business at a cost that would not materially and adversely affect the condition (financial or otherwise), earnings, operations, business or business prospects of the Company and its subsidiaries considered as one enterprise.

(l) To the best of Company's knowledge, no labor disturbance by the employees of the Company or any of its subsidiaries exists or is imminent; and the Company is not aware of any existing or imminent labor disturbance by the employees of any of its principal suppliers, subassemblers, value added resellers, subcontractors, original equipment manufacturers, authorized dealers or international distributors that might be expected to result in a material adverse change in the condition (financial or otherwise), earnings, operations, business or business prospects of the Company and its subsidiaries considered as one enterprise. No collective bargaining agreement exists with any of the Company's employees and, to the best of the Company's knowledge, no such agreement is imminent.

(m) Each of the Company and its subsidiaries owns or possesses adequate rights to use all patents, patent rights, inventions, trade secrets, know-how, trademarks, service marks, trade names, copyrights and other information (collectively, "Intellectual Property") which are necessary to conduct its businesses as described in the Registration Statement and Prospectus; the Company has not received any notice of, and has no knowledge of, any infringement of or conflict with asserted rights of the Company by others with respect to any Intellectual Property; the expiration of any patents, patent rights, trade secrets, trademarks, service marks, trade names or copyrights would not have a material adverse effect on the condition (financial or otherwise), earnings, operations, business or business prospects of the Company and its subsidiaries considered as one enterprise; and, except as set forth in the Registration Statement and Prospectus, the Company has not received any notice of, and has no knowledge of, any infringement of or conflict with asserted rights of others with respect to any Intellectual Property which, singly or in the aggregate, if the subject of an unfavorable decision, ruling or finding, would have a material adverse effect on the condition (financial or otherwise), earnings, operations, business or business prospects of the Company and its subsidiaries considered as one enterprise. To the Company's knowledge, none of the patent rights owned or licensed by the Company are unenforceable or invalid. The Company has duly and properly filed or caused to be filed with the United States Patent and Trademark Office (the "PTO") and appropriate foreign and international patent authorities all patent applications described or referred to in the Prospectus and as set forth on Schedule B, and has complied or is complying with the PTO's duty of candor and disclosure for each of the United States patent applications set forth on Schedule B; the Company is unaware of any facts which would preclude their grant of a patent from each of the patent applications set forth on Schedule B; the Company has no knowledge of any facts which would preclude it from having clear

title to its patent applications referenced in the Prospectus. The Company is not aware of the granting of any patent rights to third parties or the filing of patent applications by third parties or any other rights to any of the Company's Intellectual Property.

(n) The Common Stock has been approved for quotation on The Nasdaq National Market, subject to official notice of issuance.

(o) The Company has been advised concerning the Investment Company Act of 1940, as amended (the "1940 Act"), and the rules and regulations thereunder, and has in the past conducted, and intends in the future to conduct, its affairs in such a manner as to ensure that it will not become an "investment company" or a company "controlled" by an "investment company" within the meaning of the 1940 Act and such rules and regulations.

(p) The Company has not distributed and will not distribute prior to the later of (i) the Closing Date, or any date on which Option Shares are to be purchased, as the case may be, and (ii) completion of the distribution of the Shares, any offering material in connection with the offering and sale of the Shares other than any Preliminary Prospectuses, the Prospectus, the Registration Statement and other materials, if any, permitted by the Act.

(q) Neither the Company nor any of its subsidiaries has at any time during the last five (5) years (i) made any unlawful contribution to any candidate for foreign office or failed to disclose fully any contribution in violation of law, or (ii) made any payment to any federal or state governmental officer or official, or other person charged with similar public or quasi-public duties, other than payments required or permitted by the laws of the United States or any jurisdiction thereof.

(r) The Company has not taken and will not take, directly or indirectly, any action designed to or that might reasonably be expected to cause or result in stabilization or manipulation of the price of the Common Stock to facilitate the sale or resale of the Shares.

(s) Each officer and director of the Company and each beneficial owner of one percent (1%) or more shares of Common Stock has agreed in writing (or is otherwise contractually bound) that such person will not, for a period of (i) 180 days after the effective date of the Prospectus with respect to one third of the shares held by them, (ii) 270 days after the effective date of the Prospectus with regard to one third of the shares held by them, and (iii) 360 days after the effective date of the Prospectus with regard to one third of the shares held by them (the "Lock-up Period"), offer to sell, contract to sell, or otherwise sell, dispose of, loan, pledge or grant any rights with respect to (collectively, a "Disposition") any shares of Common Stock, any options or warrants to purchase any shares of Common Stock or any securities convertible into or exchangeable for shares of Common Stock (collectively, "Securities") now owned or hereafter acquired directly by such person or with respect to which such person has or hereafter acquires the power of disposition, otherwise than (i) as a bona fide gift or gifts, provided the donee or donees thereof agree in writing to be bound by this restriction, (ii) as a distribution to limited partners or shareholders of such person, provided that the distributees thereof agree in writing to be bound by the terms of this restriction, or (iii) with the prior written consent of Robertson, Stephens & Company LLC. The foregoing restriction is expressly agreed to preclude the holder of the Securities from engaging in any hedging or other transaction which is designed to or reasonably expected to lead to or result in a Disposition of Securities during the Lock-up Period, even if such Securities would be disposed of by someone other than such holder. Such prohibited hedging or other transactions would include, without limitation, any short sale (whether or not against the box) or any purchase, sale or grant of any right (including, without limitation, any put or call option) with respect to any Securities or with respect to any security (other than a broad-based market basket or index) that includes, relates to or derives any significant part of its value from Securities. Furthermore, such person will also agree and consent to the entry of stop transfer instructions with the Company's transfer agent against the transfer of

the Securities held by such person except in compliance with this restriction. The Company has provided to counsel for the Underwriters a complete and accurate list of all securityholders of the Company and the number and type of securities held by each securityholder. The Company has provided to counsel for the Underwriters true, accurate and complete copies of all of the agreements pursuant to which its officers, directors and shareholders have agreed to such or similar restrictions (the "Lock-up Agreements") presently in effect or effected hereby. The Company hereby represents and warrants that it will not release any of its officers, directors or other shareholders from any Lock-up Agreements currently existing or hereafter effected without the prior written consent of Robertson, Stephens & Company LLC.

(t) Except as set forth in the Registration Statement and Prospectus, (i) the Company is in compliance with all rules, laws and regulations relating to the use, treatment, storage and disposal of toxic substances and protection of health or the environment ("Environmental Laws") which are applicable to its business, (ii) the Company has received no notice from any governmental authority or third party of an asserted claim under Environmental Laws, which claim is required to be disclosed in the Registration Statement and the Prospectus, (iii) the Company will not be required to make future material capital expenditures to comply with Environmental Laws and (iv) no property which is owned, leased or occupied by the Company has been designated as a Superfund site pursuant to the Comprehensive Response, Compensation, and Liability Act of 1980, as amended (42 U.S.C. (S) 9601, et seq.), or otherwise designated as a contaminated site under applicable state or local law.

(u) The Company and each of its subsidiaries maintain a system of internal accounting controls sufficient to provide reasonable assurances that (i) transactions are executed in accordance with management's general or specific authorizations, (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles and to maintain accountability for assets, (iii) access to assets is permitted only in accordance with management's general or specific authorization, and (iv) the recorded accountability for assets is compared with existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

(v) There are no outstanding loans, advances (except normal advances for business expenses in the ordinary course of business) or guarantees of indebtedness by the Company to or for the benefit of any of the officers or directors of the Company or any of the members of the families of any of them, except as disclosed in the Registration Statement and the Prospectus.

(w) The Company has complied with all provisions of Section 517.075, Florida Statutes relating to doing business with the Government of Cuba or with any person or affiliate located in Cuba.

3. PURCHASE, SALE AND DELIVERY OF SHARES. On the basis of the representations, warranties and agreements herein contained, but subject to the terms and conditions herein set forth, the Company agrees to sell to the Underwriters, and each Underwriter agrees, severally and not jointly, to purchase from the Company at a purchase price of \$\_\_\_\_\_ per share, the respective number of Firm Shares as hereinafter set forth. The obligation of each Underwriter to the Company shall be to purchase from the Company that number of Firm Shares which is set forth opposite the name of such Underwriter in Schedule A hereto (subject to adjustment as provided in Section 10) is to the total number of Firm Shares to be purchased by all the Underwriters under this Agreement.

Delivery of definitive certificates for the Firm Shares to be purchased by the Underwriters pursuant to this Section 3 shall be made against payment of the purchase price therefor by the several Underwriters by certified or official bank check or checks drawn in next-day funds, payable to the order of the Company (and the Company agrees not to deposit any such check in the bank on which it is drawn, and not to take any other action with the purpose or effect of receiving immediately available funds, until the business day following the date of its delivery to the Company, and, in the event of any breach of the foregoing, the Company shall reimburse the

Underwriters for the interest lost and any other expenses borne by them by reason of such breach), at the offices of Wilson, Sonsini, Goodrich & Rosati, P.C., 650 Page Mill Road, Palo Alto, California 94304-1050 (or at such other place as may be agreed upon among the Representatives and the Company, at 7:00 A.M., San Francisco time (a) on the third (3rd) full business day following the first day that Shares are traded, (b) if this Agreement is executed and delivered after 1:30 P.M., San Francisco time, the fourth (4th) full business day following the day that this Agreement is executed and delivered or (c) at such other time and date not later than seven (7) full business days following the first day that Shares are traded as the Representatives and the Company may determine (or at such time and date to which payment and delivery shall have been postponed pursuant to Section 10 hereof), such time and date of payment and delivery being herein called the "Closing Date;" provided, however, that if the Company has not made available to the Representatives copies of the Prospectus within the time provided in Section 4(d) hereof, the Representatives may, in their sole discretion, postpone the Closing Date until no later than two (2) full business days following delivery of copies of the Prospectus to the Representatives. The certificates for the Firm Shares to be so delivered will be made available to you at such office or such other location including, without limitation, in New York City, as you may reasonably request for checking at least one (1) full business day prior to the Closing Date and will be in such names and denominations as you may request, such request to be made at least two (2) full business days prior to the Closing Date. If the Representatives so elect, delivery of the Firm Shares may be made by credit through full fast transfer to the accounts at The Depository Trust Company designated by the Representatives.

It is understood that you, individually, and not as the Representatives of the several Underwriters, may (but shall not be obligated to) make payment of the purchase price on behalf of any Underwriter or Underwriters whose check or checks shall not have been received by you prior to the Closing Date for the Firm Shares to be purchased by such Underwriter or Underwriters. Any such payment by you shall not relieve any such Underwriter or Underwriters of any of its or their obligations hereunder.

After the Registration Statement becomes effective, the several Underwriters intend to make an initial public offering (as such term is described in Section 11 hereof) of the Firm Shares at an initial public offering price of \$\_\_\_\_\_ per share. After the initial public offering, the several Underwriters may, in their discretion, vary the public offering price.

The information set forth in the last paragraph on the front cover page (insofar as such information relates to the Underwriters), on the inside front cover concerning stabilization and over-allotment by the Underwriters, and under the second and third paragraphs under the caption "Underwriting" in any Preliminary Prospectus and in the final form of Prospectus filed pursuant to Rule 424(b) constitutes the only information furnished by the Underwriters to the Company for inclusion in any Preliminary Prospectus, the Prospectus or the Registration Statement, and you, on behalf of the respective Underwriters, represent and warrant to the Company that the statements made therein do not include any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

4. FURTHER AGREEMENTS OF THE COMPANY. The Company agrees with the several Underwriters that:

(a) The Company will use its best efforts to cause the Registration Statement and any amendment thereof, if not effective at the time and date that this Agreement is executed and delivered by the parties hereto, to become effective as promptly as possible; the Company will use its best efforts to cause any abbreviated registration statement pursuant to Rule 462(b) of the Rules and Regulations as may be required subsequent to the date the Registration Statement is declared effective to become effective as promptly as possible; the Company will notify you, promptly after it shall receive notice thereof, of the time when the Registration Statement, any subsequent amendment to the Registration Statement or any abbreviated registration statement has become effective or any supplement to the Prospectus has been filed; if the Company omitted information from the

Registration Statement at the time it was originally declared effective in reliance upon Rule 430A(a) of the Rules and Regulations, the Company will provide evidence satisfactory to you that the Prospectus contains such information and has been filed, within the time period prescribed, with the Commission pursuant to subparagraph (1) or (4) of Rule 424(b) of the Rules and Regulations or as part of a post-effective amendment to such Registration Statement as originally declared effective which is declared effective by the Commission; if the Company files a term sheet pursuant to Rule 434 of the Rules and Regulations, the Company will provide evidence satisfactory to you that the Prospectus and term sheet meeting the requirements of Rule 434(b) or (c), as applicable, of the Rules and Regulations, have been filed, within the time period prescribed, with the Commission pursuant to subparagraph (7) of Rule 424(b) of the Rules and Regulations; if for any reason the filing of the final form of Prospectus is required under Rule 424(b)(3) of the Rules and Regulations, it will provide evidence satisfactory to you that the Prospectus contains such information and has been filed with the Commission within the time period prescribed; it will notify you promptly of any request by the Commission for the amending or supplementing of the Registration Statement or the Prospectus or for additional information; promptly upon your request, it will prepare and file with the Commission any amendments or supplements to the Registration Statement or Prospectus which, in the opinion of counsel for the several Underwriters ("Underwriters' Counsel"), may be necessary or advisable in connection with the distribution of the Shares by the Underwriters; it will promptly prepare and file with the Commission, and promptly notify you of the filing of, any amendments or supplements to the Registration Statement or Prospectus which may be necessary to correct any statements or omissions, if, at any time when a prospectus relating to the Shares is required to be delivered under the Act, any event shall have occurred as a result of which the Prospectus or any other prospectus relating to the Shares as then in effect would include any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; in case any Underwriter is required to deliver a prospectus nine (9) months or more after the effective date of the Registration Statement in connection with the sale of the Shares, it will prepare promptly upon request, but at the expense of such Underwriter, such amendment or amendments to the Registration Statement and such prospectus or prospectuses as may be necessary to permit compliance with the requirements of Section 10(a)(3) of the Act; and it will file no amendment or supplement to the Registration Statement or Prospectus which shall not previously have been submitted to you a reasonable time prior to the proposed filing thereof or to which you shall reasonably object in writing, subject, however, to compliance with the Act and the Rules and Regulations and the provisions of this Agreement.

(b) The Company will advise you, promptly after it shall receive notice or obtain knowledge, of the issuance of any stop order by the Commission suspending the effectiveness of the Registration Statement or of the initiation or threat of any proceeding for that purpose; and it will promptly use its best efforts to prevent the issuance of any stop order or to obtain its withdrawal at the earliest possible moment if such stop order should be issued.

(c) The Company will use its best efforts to qualify the Shares for offering and sale under the securities laws of such jurisdictions as you may designate and to continue such qualifications in effect for so long as may be required for purposes of the distribution of the Shares, except that the Company shall not be required in connection therewith or as a condition thereof to qualify as a foreign corporation or to execute a general consent to service of process in any jurisdiction in which it is not otherwise required to be so qualified or to so execute a general consent to service of process. In each jurisdiction in which the Shares shall have been qualified as above provided, the Company will make and file such statements and reports in each year as are or may be reasonably required by the laws of such jurisdiction.

(d) The Company will furnish to you, as soon as available, and, in the case of the Prospectus and any term sheet or abbreviated term sheet under Rule 434, in no event later than the first (1st) full business day following the first day that Shares are traded, copies of the Registration Statement (three (3) of which will be signed and which will include all exhibits), each Preliminary Prospectus, the Prospectus and any amendments or supplements to such documents, including any prospectus prepared to permit compliance with

Section 10(a)(3) of the Act, all in such quantities as you may from time to time reasonably request. Notwithstanding the foregoing, if Robertson, Stephens & Company LLC, on behalf of the several Underwriters, shall agree to the utilization of Rule 434 of the Rules and Regulations, the Company shall provide to you copies of a Preliminary Prospectus updated in all respects through the date specified by you in such quantities as you may from time to time reasonably request.

(e) The Company will make generally available to its securityholders as soon as practicable, but in any event not later than the forty-fifth (45th) day following the end of the fiscal quarter first occurring after the first anniversary of the effective date of the Registration Statement, an earnings statement (which will be in reasonable detail but need not be audited) complying with the provisions of Section 11(a) of the Act and covering a twelve (12) month period beginning after the effective date of the Registration Statement.

(f) During a period of five (5) years after the date hereof, the Company will furnish to its shareholders as soon as practicable after the end of each respective period, annual reports (including financial statements audited by independent certified public accountants) and unaudited quarterly reports of operations for each of the first three quarters of the fiscal year, and will furnish to you and the other several Underwriters hereunder, upon request (i) concurrently with furnishing such reports to its shareholders, statements of operations of the Company for each of the first three (3) quarters in the form furnished to the Company's shareholders, (ii) concurrently with furnishing to its shareholders, a balance sheet of the Company as of the end of such fiscal year, together with statements of operations, of shareholders' equity, and of cash flows of the Company for such fiscal year, accompanied by a copy of the certificate or report thereon of independent certified public accountants, (iii) as soon as they are available, copies of all reports (financial or other) mailed to shareholders, (iv) as soon as they are available, copies of all reports and financial statements furnished to or filed with the Commission, any securities exchange or the National Association of Securities Dealers, Inc. ("NASD"), (v) every material press release and every material news item or article in respect of the Company or its affairs which was generally released to shareholders or prepared by the Company or any of its subsidiaries, and (vi) any additional information of a public nature concerning the Company or its subsidiaries, or its business which you may reasonably request. During such five (5) year period, if the Company shall have active subsidiaries, the foregoing financial statements shall be on a consolidated basis to the extent that the accounts of the Company and its subsidiaries are consolidated, and shall be accompanied by similar financial statements for any significant subsidiary which is not so consolidated.

(g) The Company will apply the net proceeds from the sale of the Shares being sold by it in the manner set forth under the caption "Use of Proceeds" in the Prospectus.

(h) The Company will maintain a transfer agent and, if necessary under the jurisdiction of incorporation of the Company, a registrar (which may be the same entity as the transfer agent) for its Common Stock.

(i) The Company will file Form SR in conformity with the requirements of the Act and the Rules and Regulations.

(j) If the transactions contemplated hereby are not consummated by reason of any failure, refusal or inability on the part of the Company to perform any agreement on its part to be performed hereunder or to fulfill any condition of the Underwriters' obligations hereunder, or if the Company shall terminate this Agreement pursuant to Section 11(a) hereof, or if the Underwriters shall terminate this Agreement pursuant to Section 11(b)(i), the Company will reimburse the several Underwriters for all out-of-pocket expenses (including fees and disbursements of Underwriters' Counsel) incurred by the Underwriters in investigating or preparing to market or marketing the Shares.

(k) If at any time during the ninety (90) day period after the Registration Statement becomes effective, any rumor, publication or event relating to or affecting the Company shall occur as a result of which in your opinion the market price of the Common Stock has been or is likely to be materially affected (regardless of whether such rumor, publication or event necessitates a supplement to or amendment of the Prospectus), the Company will, after written notice from you advising the Company to the effect set forth above, forthwith prepare, consult with you concerning the substance of and disseminate a press release or other public statement, reasonably satisfactory to you, responding to or commenting on such rumor, publication or event.

(l) During the Lock-up Period, the Company will not, without the prior written consent of Robertson Stephens & Company LLC, effect the Disposition of, directly or indirectly, any Securities other than (i) the sale of the Firm Shares and the Option Shares to be sold by the Company hereunder, (ii) the Company's issuance of options or Common Stock under the Company's presently authorized Incentive Stock Plan, Director Option Plan or Employee Stock Purchase Plan, (ii) upon exercise of presently outstanding options, warrants or conversion rights (including conversion rights of stockholders of the Company's subsidiaries) as described in the Registration Statement and Prospectus, (iii) the shares of Common Stock to be sold to Ciba-Geigy Limited and Johnson & Johnson Development Corp. as described in the Registration Statement and Prospectus, and (iv) any shares of Common Stock which may be issued and sold in connection with a corporate partnership or strategic alliance of the Company; provided, however, that such entity agrees in writing not to effect any Disposition of such Common Stock during the remainder of the Lock-up Period.

(m) During a period of ninety (90) days from the effective date of the Registration Statement, the Company will not file a registration statement registering shares under any stock option plan, stock purchase plan or other employee benefit plan of the Company.

#### 5. EXPENSES.

(a) The Company agree with each Underwriter that:

(i) The Company will pay and bear all costs and expenses in connection with the preparation, printing and filing of the Registration Statement (including financial statements, schedules and exhibits), Preliminary Prospectuses and the Prospectus and any amendments or supplements thereto; the printing of this Agreement, the Agreement Among Underwriters, the Selected Dealer Agreement, the Preliminary Blue Sky Survey and any Supplemental Blue Sky Survey, the Underwriters' Questionnaire and Power of Attorney, and any instruments related to any of the foregoing; the issuance and delivery of the Shares hereunder to the several Underwriters, including transfer taxes, if any, the cost of all certificates representing the Shares and transfer agents' and registrars' fees; the fees and disbursements of counsel for the Company; all fees and other charges of the Company's independent certified public accountants; the cost of furnishing to the several Underwriters copies of the Registration Statement (including appropriate exhibits), Preliminary Prospectus and the Prospectus, and any amendments or supplements to any of the foregoing; NASD filing fees and the cost of qualifying the Shares under the laws of such jurisdictions as you may designate (including filing fees and fees and disbursements of Underwriters' Counsel in connection with such NASD filings and Blue Sky qualifications); and all other expenses directly incurred by the Company in connection with the performance of their obligations hereunder.

(ii) In addition to its other obligations under Section 8(a) hereof, the Company agrees that, as an interim measure during the pendency of any claim, action, investigation, inquiry or other proceeding described in Section 8(a) hereof, it will reimburse the Underwriters on a monthly basis for all reasonable legal or other expenses incurred in connection with investigating or defending any such claim, action, investigation, inquiry or other proceeding, notwithstanding the absence of a judicial determination as to the propriety and enforceability of the Company's obligation to reimburse the Underwriters for such expenses and the possibility that such payments might later be held to have been improper by a court of competent jurisdiction. To

the extent that any such interim reimbursement payment is so held to have been improper, the Underwriters shall promptly return such payment to the Company together with interest, compounded daily, determined on the basis of the prime rate (or other commercial lending rate for borrowers of the highest credit standing) listed from time to time in The Wall Street Journal which represents the base rate on corporate loans posted by a substantial majority of the nation's thirty (30) largest banks (the "Prime Rate"). Any such interim reimbursement payments which are not made to the Underwriters within thirty (30) days of a request for reimbursement shall bear interest at the Prime Rate from the date of such request.

(b) In addition to their other obligations under Section 8(c) hereof, the Underwriters severally and not jointly agree that, as an interim measure during the pendency of any claim, action, investigation, inquiry or other proceeding described in Section 8(c) hereof, they will reimburse the Company on a monthly basis for all reasonable legal or other expenses incurred in connection with investigating or defending any such claim, action, investigation, inquiry or other proceeding, notwithstanding the absence of a judicial determination as to the propriety and enforceability of the Underwriters' obligation to reimburse the Company for such expenses and the possibility that such payments might later be held to have been improper by a court of competent jurisdiction. To the extent that any such interim reimbursement payment is so held to have been improper, the Company shall promptly return such payment to the Underwriters together with interest, compounded daily, determined on the basis of the Prime Rate. Any such interim reimbursement payments which are not made to the Company within thirty (30) days of a request for reimbursement shall bear interest at the Prime Rate from the date of such request.

(c) It is agreed that any controversy arising out of the operation of the interim reimbursement arrangements set forth in Sections 5(a)(ii) and 5(b) hereof, including the amounts of any requested reimbursement payments, the method of determining such amounts and the basis on which such amounts shall be apportioned among the reimbursing parties, shall be settled by arbitration conducted under the provisions of the Constitution and Rules of the Board of Governors of the New York Stock Exchange, Inc. or pursuant to the Code of Arbitration Procedure of the NASD. Any such arbitration must be commenced by service of a written demand for arbitration or a written notice of intention to arbitrate, therein electing the arbitration tribunal. In the event the party demanding arbitration does not make such designation of an arbitration tribunal in such demand or notice, then the party responding to said demand or notice is authorized to do so. Any such arbitration will be limited to the operation of the interim reimbursement provisions contained in Sections 5(a)(ii) and 5(b) hereof and will not resolve the ultimate propriety or enforceability of the obligation to indemnify for expenses which is created by the provisions of Sections 8(a) and 8(b) hereof or the obligation to contribute to expenses which is created by the provisions of Section 8(e) hereof.

6. CONDITIONS OF UNDERWRITERS' OBLIGATIONS. The obligations of the several Underwriters to purchase and pay for the Shares as provided herein shall be subject to the accuracy, as of the date hereof and the Closing Date and any later date on which Option Shares are to be purchased, as the case may be, of the representations and warranties of the Company herein, to the performance by the Company of their respective obligations hereunder and to the following additional conditions:

(a) The Registration Statement shall have become effective not later than 2:00 P.M., San Francisco time, on the date following the date of this Agreement, or such later date as shall be consented to in writing by you; and no stop order suspending the effectiveness thereof shall have been issued and no proceedings for that purpose shall have been initiated or, to the knowledge of the Company or any Underwriter, threatened by the Commission, and any request of the Commission for additional information (to be included in the Registration Statement or the Prospectus or otherwise) shall have been complied with to the satisfaction of Underwriters' Counsel.

(b) All corporate proceedings and other legal matters in connection with this Agreement, the form of Registration Statement and the Prospectus, and the registration, authorization, issue, sale



and delivery of the Shares, shall have been reasonably satisfactory to Underwriters' Counsel, and such counsel shall have been furnished with such papers and information as they may reasonably have requested to enable them to pass upon the matters referred to in this Section.

(c) Subsequent to the execution and delivery of this Agreement and prior to the Closing Date, or any date on which Option Shares are to be purchased, as the case may be, there shall not have been any change in the condition (financial or otherwise), earnings, operations, business or business prospects of the Company and its subsidiaries considered as one enterprise from that set forth in the Registration Statement or Prospectus, which, in your sole judgment, is material and adverse and that makes it, in your sole judgment, impracticable or inadvisable to proceed with the public offering of the Shares as contemplated by the Prospectus.

(d) You shall have received on the Closing Date and on any later date on which Option Shares are purchased, as the case may be, the following opinion of counsel for the Company, dated the Closing Date or such later date on which Option Shares are purchased addressed to the Underwriters and with reproduced copies or signed counterparts thereof for each of the Underwriters, to the effect that:

(i) The Company and each Significant Subsidiary (as that term is defined in Regulation S-X of the Act) has been duly incorporated and is validly existing as a corporation in good standing under the laws of the jurisdiction of its incorporation;

(ii) The Company and each Significant Subsidiary has the corporate power and authority to own, lease and operate its properties and to conduct its business as described in the Prospectus;

(iii) The Company and each Significant Subsidiary is duly qualified to do business as a foreign corporation and is in good standing in each jurisdiction, if any, in which the ownership or leasing of its properties or the conduct of its business requires such qualification, except where the failure to be so qualified or be in good standing would not have a material adverse effect on the condition (financial or otherwise), earnings, operations or business of the Company and its subsidiaries considered as one enterprise. To such counsel's knowledge, the Company does not own or control, directly or indirectly, any corporation, association or other entity other than Neurocrine Biosciences (Canada), Inc. and Neuroscience Pharma (NPI) Inc.;

(iv) The authorized, issued and outstanding capital stock of the Company is as set forth in the Prospectus under the caption "Capitalization" as of the dates stated therein, the issued and outstanding shares of capital stock of the Company have been duly and validly issued and are fully paid and nonassessable, and, to such counsel's knowledge, will not have been issued in violation of or subject to any preemptive right, co-sale right, registration right, right of first refusal or other similar right;

(v) All issued and outstanding shares of capital stock of each Significant Subsidiary of the Company have been duly authorized and validly issued and are fully paid and nonassessable, and, to such counsel's knowledge, have not been issued in violation of or subject to any preemptive right, co-sale right, registration right, right of first refusal or other similar right and are owned by the Company free and clear of any pledge, lien, security interest, encumbrance, claim or equitable interest;

(vi) The Firm Shares or the Option Shares, as the case may be, to be issued by the Company pursuant to the terms of this Agreement have been duly authorized and, upon issuance and delivery against payment therefor in accordance with the terms hereof, will be duly and validly

issued and fully paid and nonassessable, and will not have been issued in violation of or subject to any preemptive right, co-sale right, registration right, right of first refusal or other similar right of shareholders;

(vii) The Company has the corporate power and authority to enter into this Agreement and to issue, sell and deliver to the Underwriters the Shares to be issued and sold by it hereunder;

(viii) This Agreement has been duly authorized by all necessary corporate action on the part of the Company and has been duly executed and delivered by the Company and, assuming due authorization, execution and delivery by you, is a valid and binding agreement of the Company, enforceable in accordance with its terms, except insofar as indemnification provisions may be limited by applicable law and except as enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting creditors' rights generally or by general equitable principles;

(ix) The Registration Statement has become effective under the Act and, to such counsel's knowledge, no stop order suspending the effectiveness of the Registration Statement has been issued and no proceedings for that purpose have been instituted or are pending or threatened under the Act;

(x) The Registration Statement and the Prospectus, and each amendment or supplement thereto (other than the financial statements (including supporting schedules) and financial data derived therefrom as to which such counsel need express no opinion), as of the effective date of the Registration Statement, complied as to form in all material respects with the requirements of the Act and the applicable Rules and Regulations;

(xi) The information in the Prospectus under the caption "Description of Capital Stock," to the extent that it constitutes matters of law or legal conclusions, has been reviewed by such counsel and is a fair summary of such matters and conclusions; and the forms of certificates evidencing the Common Stock and filed as exhibits to the Registration Statement comply with Delaware law;

(xii) The description in the Registration Statement and the Prospectus of the charter and bylaws of the Company and of statutes are accurate and fairly present the information required to be presented by the Act and the applicable Rules and Regulations;

(xiii) To such counsel's knowledge, there are no agreements, contracts, leases or documents to which the Company is a party of a character required to be described or referred to in the Registration Statement or Prospectus or to be filed as an exhibit to the Registration Statement which are not described or referred to therein or filed as required;

(xiv) The performance of this Agreement and the consummation of the transactions herein contemplated (other than performance of the Company's indemnification obligations hereunder, concerning which no opinion need be expressed) will not (a) result in any violation of the Company's charter or bylaws or (b) to such counsel's knowledge, result in a material breach or violation of any of the terms and provisions of, or constitute a default under, any bond, debenture, note or other evidence of indebtedness, or under any lease, contract, indenture, mortgage, deed of trust, loan agreement, joint venture or other agreement or instrument known to such counsel to which the Company is a party or by which its properties are bound, or any applicable statute, rule

or regulation known to such counsel or, to such counsel's knowledge, any order, writ or decree of any court, government or governmental agency or body having jurisdiction over the Company or any of its subsidiaries, or over any of their properties or operations;

(xv) No consent, approval, authorization or order of or qualification with any court, government or governmental agency or body having jurisdiction over the Company or any of its subsidiaries, or over any of their properties or operations is necessary in connection with the consummation by the Company of the transactions herein contemplated, except such as have been obtained under the Act or such as may be required under state or other securities or Blue Sky laws in connection with the purchase and the distribution of the Shares by the Underwriters;

(xvi) To such counsel's knowledge, there are no legal or governmental proceedings pending or threatened against the Company or any of its subsidiaries of a character required to be disclosed in the Registration Statement or the Prospectus by the Act or the Rules and Regulations, other than those described therein;

(xvii) To such counsel's knowledge, neither the Company nor any of its subsidiaries is presently (a) in material violation of its respective charter or bylaws, or (b) in material breach of any applicable statute, rule or regulation known to such counsel or, to such counsel's knowledge, any order, writ or decree of any court or governmental agency or body having jurisdiction over the Company or any of its subsidiaries, or over any of their properties or operations; and

(xviii) To such counsel's knowledge, except as set forth in the Registration Statement and Prospectus, no holders of Common Stock or other securities of the Company have registration rights with respect to securities of the Company and, except as set forth in the Registration Statement and Prospectus, all holders of securities of the Company having rights known to such counsel to registration of such shares of Common Stock or other securities, because of the filing of the Registration Statement by the Company have, with respect to the offering contemplated thereby, waived such rights or such rights have expired by reason of lapse of time following notification of the Company's intent to file the Registration Statement or have included securities in the Registration Statement pursuant to the exercise of and in full satisfaction of such rights.

In addition, such counsel shall state that such counsel has participated in conferences with officials and other representatives of the Company, the Representatives, Underwriters' Counsel and the independent certified public accountants of the Company, at which such conferences the contents of the Registration Statement and Prospectus and related matters were discussed, and although they have not verified the accuracy or completeness of the statements contained in the Registration Statement or the Prospectus, nothing has come to the attention of such counsel which leads them to believe that, at the time the Registration Statement became effective and at all times subsequent thereto up to and on the Closing Date and on any later date on which Option Shares are to be purchased, the Registration Statement and any amendment or supplement thereto (other than the financial statements including supporting schedules and other financial and statistical information derived therefrom, as to which such counsel need express no comment) 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 therein not misleading, or at the Closing Date or any later date on which the Option Shares are to be purchased, as the case may be, the Registration Statement, the Prospectus and any amendment or supplement thereto (except as aforesaid) contained any untrue statement of a material fact or omitted to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

Counsel rendering the foregoing opinion may rely as to questions of law not involving the laws of the United States, the State of California or the State of Delaware upon opinions of local counsel, and as to questions of fact upon representations or certificates of officers of the Company, and of government officials, in which case their opinion is to state that they are so relying and that they have no knowledge of any material misstatement or inaccuracy in any such opinion, representation or certificate. Copies of any opinion, representation or certificate so relied upon shall be delivered to you, as Representatives of the Underwriters, and to Underwriters' Counsel.

(e) You shall have received on the Closing Date and on any later date on which Option Shares are to be purchased, as the case may be, the following opinion of Seed & Berry, patent counsel for the Company, dated the Closing Date or such later date on which Option Shares are purchased, addressed to the Underwriters and in form and substance satisfactory to counsel for the underwriters with reproduced copies or signed counterparts thereof for each of the Underwriters, to the effect that:

(i) The Company is either the assignee of record of the PTO or the exclusive licensee of each of the patents listed under the heading "U.S. Patents of the Company" on Schedule B hereof (the "U.S. Patents") and each of the patent applications listed under the heading "U.S. Patent Applications of the Company" on Schedule B hereof (the "U.S. Applications"). To the best of knowledge of such counsel, the Company owns \_\_\_ issued U.S. Patents, \_\_\_ allowed U.S. Applications and \_\_\_ pending U.S. Applications. Such counsel knows of no claims by others to any ownership interest or lien with respect to any of the U.S. Patents or U.S. Applications. To such counsel's knowledge, none of the U.S. Patents are subject to an interference, reexamination, reissue examination or declaratory action. To such counsel's knowledge, none of the pending U.S. Applications has been appealed, finally rejected or subject to an interference.

(ii) The Company is the assignee of record at the appropriate foreign office or the exclusive licensee of each of the foreign patents listed under the heading "Non-U.S. Patents of the Company" on Schedule C hereof (the "Non-U.S. Patents") (collectively, the U.S. Patents and Non-U.S. Patents are referred to herein as the "Patents") and each of the foreign patent applications listed under the heading "Non-U.S. Patent Applications of the Company" on Schedule C hereof (the "Non-U.S. Applications") (collectively, the U.S. Applications and the Non-U.S. Applications are referred to herein as the "Applications"). Such counsel knows of no claims by others to any of such Non-U.S. Patents or Non-U.S. Applications. To such counsel's knowledge, none of the Non-U.S. Patents are subject to an opposition, national invalidation proceeding or national court proceeding. To such counsel's knowledge, none of the Non-U.S. Applications has been appealed or finally reviewed.

(iii) Such counsel has no knowledge of any facts that the Company lacks or will be unable to obtain rights to all Intellectual Property necessary to the conduct of its business as now or proposed to be conducted by the Company as described in the Prospectus. Such counsel is not aware of any facts that (i) would preclude the Company from having clear title to the Patents and Applications, or (ii) would lead such counsel to conclude that any of the Patents are invalid or unenforceable or that any patent issued from an Application would be invalid or unenforceable.

(iv) Such counsel is not aware of any material defects of form in the preparation, filing or prosecution of the Applications on behalf of the Company or licensors of the Applications. To the best of such counsel's knowledge, the Company, the Company's patent counsel and patent counsel of licensees have complied with the PTO duty of candor and disclosure before the

PTO for each of the U.S. Patents and U.S. Patent Applications. The Applications are being diligently pursued by the Company.

(v) Such counsel knows of no pending or threatened notification, action, suit, proceeding or claim by governmental authorities or others that the Company is infringing or otherwise violating any patents, trademarks, trade secrets or other intellectual property that is not owned or licensed by the Company.

(vi) Such counsel is not aware of any pending or threatened actions, suits, proceedings or claim by governmental authorities or others challenging the validity, enforceability or scope of the Applications or the Patents, other than the patent application proceedings themselves.

(vii) Such counsel is not aware of any infringement on the part of others of the Patents, Applications or trademarks of the Company or the misappropriation on the part of others of any trade secrets, know-how or other proprietary rights of the Company.

(viii) Such counsel has no knowledge of any patent rights of others which are or would be infringed by the Company's products or applications of the Company's products referred to in the Prospectus.

(ix) Nothing has come to the attention of such counsel which causes such counsel to believe that the information contained in the statements under the captions "Risk Factors--Uncertainties Related to Patents and Proprietary Technology," "Business--Technology" and "Business--Patents and Proprietary Rights" in (a) the Registration Statement, or any amendments thereof, contained or contains an untrue statement of a material fact or omitted or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading, or (b) the Prospectus, or any amendments thereof, contained or contains an untrue statement of a material fact or omitted or omits to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

(f) You shall have received on the Closing Date and on any later date on which Option Shares are to be purchased, as the case may be, an opinion of Cooley Godward Castro Huddleson & Tatum, in form and substance satisfactory to you, with respect to the sufficiency of all such corporate proceedings and other legal matters relating to this Agreement and the transactions contemplated hereby as you may reasonably require, and the Company shall have furnished to such counsel such documents as they may have requested for the purpose of enabling them to pass upon such matters.

(g) You shall have received on the Closing Date and on any later date on which Option Shares are to be purchased, as the case may be, a letter from Ernst & Young LLP addressed to the Company and the Underwriters, dated the Closing Date or such later date on which Option Shares are to be purchased, as the case may be, confirming that they are independent certified public accountants with respect to the Company within the meaning of the Act and the applicable published Rules and Regulations and based upon the procedures described in such letter delivered to you concurrently with the execution of this Agreement (herein called the "Original Letter"), but carried out to a date not more than five (5) business days prior to the Closing Date or such later date on which Option Shares are to be purchased, as the case may be, (i) confirming, to the extent true, that the statements and conclusions set forth in the Original Letter are accurate as of the Closing Date or such later date on which Option Shares are to be purchased, as the case may be, and (ii) setting forth any revisions and additions to the statements and conclusions set forth in the Original Letter which are necessary to reflect any changes in the facts described in the Original Letter since the date of such letter, or to reflect the availability of more recent

financial statements, data or information. The letter shall not disclose any change in the condition (financial or otherwise), earnings, operations, business or business prospects of the Company and its subsidiaries considered as one enterprise from that set forth in the Registration Statement or Prospectus, which, in your sole judgment, is material and adverse and that makes it, in your sole judgment, impracticable or inadvisable to proceed with the public offering of the Shares as contemplated by the Prospectus. The Original Letter from Ernst & Young LLP shall be addressed to or for the use of the Underwriters in form and substance satisfactory to the Underwriters and shall (i) represent, to the extent true, that they are independent certified public accountants with respect to the Company within the meaning of the Act and the applicable published Rules and Regulations, (ii) set forth their opinion with respect to their examination of the consolidated balance sheet of the Company as of December 31, 1995 and related consolidated statements of operations, shareholders' equity, and cash flows for the twelve (12) months ended December 31, 1995, (iii) state that Ernst & Young LLP has performed the procedure set out in Statement on Auditing Standards No. 71 ("SAS 71") for a review of interim financial information and providing the report of Ernst & Young LLP as described in SAS 71 on the financial statements for the quarter ended March 31, 1996, and (iv) address other matters agreed upon by Ernst & Young LLP and you. In addition, you shall have received from Ernst & Young LLP a letter addressed to the Company and made available to you for the use of the Underwriters stating that their review of the Company's system of internal accounting controls, to the extent they deemed necessary in establishing the scope of their examination of the Company's consolidated financial statements as of December 31, 1995, did not disclose any weaknesses in internal controls that they considered to be material weaknesses.

(h) You shall have received on the Closing Date and on any later date on which Option Shares are to be purchased, as the case may be, a certificate of the Company, dated the Closing Date or such later date on which Option Shares are to be purchased, as the case may be, signed by the Chief Executive Officer and Chief Financial Officer of the Company, to the effect that, and you shall be satisfied that:

(i) The representations and warranties of the Company in this Agreement are true and correct, as if made on and as of the Closing Date or any later date on which Option Shares are to be purchased, as the case may be, and the Company has complied with all the agreements and satisfied all the conditions on its part to be performed or satisfied at or prior to the Closing Date or any later date on which Option Shares are to be purchased, as the case may be;

(ii) No stop order suspending the effectiveness of the Registration Statement has been issued and no proceedings for that purpose have been instituted or are pending or threatened under the Act;

(iii) When the Registration Statement became effective and at all times subsequent thereto up to the delivery of such certificate, the Registration Statement and the Prospectus, and any amendments or supplements thereto, contained all material information required to be included therein by the Act and the Rules and Regulations and in all material respects conformed to the requirements of the Act and the Rules and Regulations, the Registration Statement, and any amendment or supplement thereto, did not and does not include any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading, the Prospectus, and any amendment or supplement thereto, did not and does not include any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, and, since the effective date of the Registration Statement, there has occurred no event required to be set forth in an amended or supplemented Prospectus which has not been so set forth; and

(iv) Subsequent to the respective dates as of which information is given in the Registration Statement and Prospectus, there has not been (a) any material adverse change in the condition (financial or otherwise), earnings, operations, business or business prospects of the Company and its subsidiaries considered as one enterprise, (b) any transaction that is material to the Company and its subsidiaries considered as one enterprise, except transactions entered into in the ordinary course of business, (c) any obligation, direct or contingent, that is material to the Company and its subsidiaries considered as one enterprise, incurred by the Company or its subsidiaries, except obligations incurred in the ordinary course of business, (d) any change in the capital stock or outstanding indebtedness of the Company or any of its subsidiaries that is material to the Company and its subsidiaries considered as one enterprise, (e) any dividend or distribution of any kind declared, paid or made on the capital stock of the Company or any of its subsidiaries, or (f) any loss or damage (whether or not insured) to the property of the Company or any of its subsidiaries which has been sustained or will have been sustained which has a material adverse effect on the condition (financial or otherwise), earnings, operations, business or business prospects of the Company and its subsidiaries considered as one enterprise.

(i) The Company shall have obtained and delivered to you an agreement from each officer and director of the Company, and each beneficial owner of one percent (1%) or more shares of Common Stock in writing prior to the date hereof (or such persons shall otherwise be contractually bound) that such person will not, during the Lock-up Period, effect the Disposition of any Securities now owned or hereafter acquired directly by such person or with respect to which such person has or hereafter acquires the power of disposition, otherwise than (i) as a bona fide gift or gifts, provided the donee or donees thereof agree in writing to be bound by this restriction, (ii) as a distribution to limited partners or shareholders of such person, provided that the distributees thereof agree in writing to be bound by the terms of this restriction, or (iii) with the prior written consent of Robertson, Stephens & Company LLC. The foregoing restriction is expressly agreed to preclude the holder of the Securities from engaging in any hedging or other transaction which is designed to or reasonably expected to lead to or result in a Disposition of Securities during the Lock-up Period, even if such Securities would be disposed of by someone other than the such holder. Such prohibited hedging or other transactions would include, without limitation, any short sale (whether or not against the box) or any purchase, sale or grant of any right (including, without limitation, any put or call option) with respect to any Securities or with respect to any security (other than a broad-based market basket or index) that includes, relates to or derives any significant part of its value from Securities. Furthermore, such person will have also agreed and consented to the entry of stop transfer instructions with the Company's transfer agent against the transfer of the Securities held by such person except in compliance with this restriction.

(j) The Company shall have furnished to you such further certificates and documents as you shall reasonably request (including certificates of officers of the Company as to the accuracy of the representations and warranties of the Company herein, as to the performance by the Company of its obligations hereunder and as to the other conditions concurrent and precedent to the obligations of the Underwriters hereunder).

All such opinions, certificates, letters and documents will be in compliance with the provisions hereof only if they are reasonably satisfactory to Underwriters' Counsel. The Company will furnish you with such number of conformed copies of such opinions, certificates, letters and documents as you shall reasonably request.

#### 7. OPTION SHARES.

(a) On the basis of the representations, warranties and agreements herein contained, but subject to the terms and conditions herein set forth, the Company hereby grants to the several Underwriters, for the

purpose of covering over-allotments in connection with the distribution and sale of the Firm Shares only, a nontransferable option to purchase up to an aggregate of 450,000 Option Shares at the purchase price per share for the Firm Shares set forth in Section 3 hereof. Such option may be exercised by the Representatives on behalf of the several Underwriters on one (1) or more occasions in whole or in part during the period of thirty (30) days after the date on which the Firm Shares are initially offered to the public, by giving written notice to the Company. The number of Option Shares to be purchased by each Underwriter upon the exercise of such option shall be the same proportion of the total number of Option Shares to be purchased by the several Underwriters pursuant to the exercise of such option as the number of Firm Shares purchased by such Underwriter (set forth in Schedule A hereto) bears to the total number of Firm Shares purchased by the several Underwriters (set forth in Schedule A hereto), adjusted by the Representatives in such manner as to avoid fractional shares.

Delivery of definitive certificates for the Option Shares to be purchased by the several Underwriters pursuant to the exercise of the option granted by this Section 7 shall be made against payment of the purchase price therefor by the several Underwriters by certified or official bank check or checks drawn in next-day funds, payable to the order of the Company (and the Company agrees not to deposit any such check in the bank on which it is drawn, and not to take any other action with the purpose or effect of receiving immediately available funds, until the business day following the date of its delivery to the Company). In the event of any breach of the foregoing, the Company shall reimburse the Underwriters for the interest lost and any other expenses borne by them by reason of such breach. Such delivery and payment shall take place at the offices of Wilson, Sonsini, Goodrich & Rosati, P.C., 650 Page Mill Road, Palo Alto, California 94304-1050 or at such other place as may be agreed upon among the Representatives and the Company (i) on the Closing Date, if written notice of the exercise of such option is received by the Company at least two (2) full business days prior to the Closing Date, or (ii) on a date which shall not be later than the third (3rd) full business day following the date the Company receives written notice of the exercise of such option, if such notice is received by the Company less than two (2) full business days prior to the Closing Date.

The certificates for the Option Shares to be so delivered will be made available to you at such office or such other location including, without limitation, in New York City, as you may reasonably request for checking at least one (1) full business day prior to the date of payment and delivery and will be in such names and denominations as you may request, such request to be made at least two (2) full business days prior to such date of payment and delivery. If the Representatives so elect, delivery of the Option Shares may be made by credit through full fast transfer to the accounts at The Depository Trust Company designated by the Representatives.

It is understood that you, individually, and not as the Representatives of the several Underwriters, may (but shall not be obligated to) make payment of the purchase price on behalf of any Underwriter or Underwriters whose check or checks shall not have been received by you prior to the date of payment and delivery for the Option Shares to be purchased by such Underwriter or Underwriters. Any such payment by you shall not relieve any such Underwriter or Underwriters of any of its or their obligations hereunder.

(b) Upon exercise of any option provided for in Section 7(a) hereof, the obligations of the several Underwriters to purchase such Option Shares will be subject (as of the date hereof and as of the date of payment and delivery for such Option Shares) to the accuracy of and compliance with the representations, warranties and agreements of the Company herein, to the accuracy of the statements of the Company and officers of the Company made pursuant to the provisions hereof, to the performance by the Company of its obligations hereunder, and to the condition that all proceedings taken at or prior to the payment date in connection with the sale and transfer of such Option Shares shall be satisfactory in form and substance to you and to Underwriters' Counsel, and you shall have been furnished with all such documents, certificates and opinions as you may request in order to evidence the accuracy and completeness of any of the representations, warranties or statements, the



performance of any of the covenants or agreements of the Company or the compliance with any of the conditions herein contained.

8. INDEMNIFICATION AND CONTRIBUTION.

(a) The Company agrees to indemnify and hold harmless each Underwriter against any losses, claims, damages or liabilities, joint or several, to which such Underwriter may become subject (including, without limitation, in its capacity as an Underwriter or as a "qualified independent underwriter" within the meaning of Schedule E of the Bylaws of the NASD), under the Act, the Exchange Act or otherwise, specifically including, but not limited to, losses, claims, damages or liabilities, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon (i) any breach of any representation, warranty, agreement or covenant of the Company herein contained, (ii) any untrue statement or alleged untrue statement of any material fact contained in the Registration Statement or any amendment or supplement thereto, or the 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 (iii) any untrue statement or alleged untrue statement of any material fact contained in any Preliminary Prospectus or the Prospectus or any amendment or supplement thereto, or the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, and agrees to reimburse each Underwriter for any legal or other expenses reasonably incurred by it in connection with investigating or defending any such loss, claim, damage, liability or action; provided, however, that the Company shall not be liable in any such case to the extent that any such loss, claim, damage, liability or action arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission made in the Registration Statement, such Preliminary Prospectus or the Prospectus, or any such amendment or supplement thereto, in reliance upon, and in conformity with, written information relating to any Underwriter furnished to the Company by such Underwriter, directly or through you, specifically for use in the preparation thereof; and, provided further, that the indemnity agreement provided in this Section 8(a) with respect to any Preliminary Prospectus shall not inure to the benefit of any Underwriter from whom the person asserting any losses, claims, damages, liabilities or actions based upon any untrue statement or alleged untrue statement of material fact or omission or alleged omission to state therein a material fact purchased Shares, if a copy of the Prospectus in which such untrue statement or alleged untrue statement or omission or alleged omission was corrected had not been sent or given to such person within the time required by the Act and the Rules and Regulations, unless such failure is the result of noncompliance by the Company with Section 4(d) hereof.

The indemnity agreement in this Section 8(a) shall extend upon the same terms and conditions to, and shall inure to the benefit of, each person, if any, who controls any Underwriter within the meaning of the Act or the Exchange Act. This indemnity agreement shall be in addition to any liabilities which the Company may otherwise have.

(b) Each Underwriter, severally and not jointly, agrees to indemnify and hold harmless the Company against any losses, claims, damages or liabilities, joint or several, to which the Company may become subject under the Act or otherwise, specifically including, but not limited to, losses, claims, damages or liabilities, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon (i) any breach of any representation, warranty, agreement or covenant of such Underwriter herein contained, (ii) any untrue statement or alleged untrue statement of any material fact contained in the Registration Statement or any amendment or supplement thereto, or the 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 (iii) any untrue statement or alleged untrue statement of any material fact contained in any Preliminary Prospectus or the Prospectus or any amendment or supplement thereto, or the omission or alleged omission to state therein a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, in the case of subparagraphs (ii) and (iii) of this Section 8(c) to the extent, but only to the extent, that

such untrue statement or alleged untrue statement or omission or alleged omission was made in reliance upon and in conformity with written information furnished to the Company by such Underwriter, directly or through you, specifically for use in the preparation thereof, and agrees to reimburse the Company for any legal or other expenses reasonably incurred by the Company in connection with investigating or defending any such loss, claim, damage, liability or action.

The indemnity agreement in this Section 8(b) shall extend upon the same terms and conditions to, and shall inure to the benefit of, each officer of the Company who signed the Registration Statement and each director of the Company, and each person, if any, who controls the Company within the meaning of the Act or the Exchange Act. This indemnity agreement shall be in addition to any liabilities which each Underwriter may otherwise have.

(c) Promptly after receipt by an indemnified party under this Section 8 of notice of the commencement of any action, such indemnified party shall, if a claim in respect thereof is to be made against any indemnifying party under this Section 8, notify the indemnifying party in writing of the commencement thereof but the omission so to notify the indemnifying party will not relieve it from any liability which it may have to any indemnified party otherwise than under this Section 8. In case any such action is brought against any indemnified party, and it notified the indemnifying party of the commencement thereof, the indemnifying party will be entitled to participate therein and, to the extent that it shall elect by written notice delivered to the indemnified party promptly after receiving the aforesaid notice from such indemnified party, to assume the defense thereof, with counsel reasonably satisfactory to such indemnified party; provided, however, that if the defendants in any such action include both the indemnified party and the indemnifying party and the indemnified party shall have reasonably concluded that there may be legal defenses available to it and/or other indemnified parties which are different from or additional to those available to the indemnifying party, the indemnified party or parties shall have the right to select separate counsel to assume such legal defenses and to otherwise participate in the defense of such action on behalf of such indemnified party or parties. Upon receipt of notice from the indemnifying party to such indemnified party of the indemnifying party's election so to assume the defense of such action and approval by the indemnified party of counsel, the indemnifying party will not be liable to such indemnified party under this Section 8 for any legal or other expenses subsequently incurred by such indemnified party in connection with the defense thereof unless (i) the indemnified party shall have employed separate counsel in accordance with the proviso to the next preceding sentence (it being understood, however, that the indemnifying party shall not be liable for the expenses of more than one separate counsel (together with appropriate local counsel) approved by the indemnifying party representing all the indemnified parties under Section 8(a) and 8(b) hereof who are parties to such action), (ii) the indemnifying party shall not have employed counsel satisfactory to the indemnified party to represent the indemnified party within a reasonable time after notice of commencement of the action or (iii) the indemnifying party has authorized the employment of counsel for the indemnified party at the expense of the indemnifying party. In no event shall any indemnifying party be liable in respect of any amounts paid in settlement of any action unless the indemnifying party shall have approved the terms of such settlement; provided that such consent shall not be unreasonably withheld. No indemnifying party shall, without the prior written consent of the indemnified party, effect any settlement of any pending or threatened proceeding in respect of which any indemnified party is or could have been a party and indemnification could have been sought hereunder by such indemnified party, unless such settlement includes an unconditional release of such indemnified party from all liability on claims that are the subject matter of such proceeding.

(d) In order to provide for just and equitable contribution in any action in which a claim for indemnification is made pursuant to this Section 8 but it is judicially determined (by the entry of a final judgment or decree by a court of competent jurisdiction and the expiration of time to appeal or the denial of the last right of appeal) that such indemnification may not be enforced in such case notwithstanding the fact that this Section 8 provides for indemnification in such case, all the parties hereto shall contribute to the aggregate losses, claims, damages or liabilities to which they may be subject (after contribution from others) in such proportion so

that the Underwriters severally and not jointly are responsible pro rata for the portion represented by the percentage that the underwriting discount bears to the initial public offering price, and the Company is responsible for the remaining portion, provided, however, that (i) no Underwriter shall be required to contribute any amount in excess of the underwriting discount applicable to the Shares purchased by such Underwriter in excess of the amount of damages which such Underwriter has otherwise required to pay and (ii) no person guilty of a fraudulent misrepresentation (within the meaning of Section 11(f) of the Act) shall be entitled to contribution from any person who is not guilty of such fraudulent misrepresentation. The contribution agreement in this Section 8(d) shall extend upon the same terms and conditions to, and shall inure to the benefit of, each person, if any, who controls the Underwriters or the Company within the meaning of the Act or the Exchange Act and each officer of the Company who signed the Registration Statement and each director of the Company.

(e) The parties to this Agreement hereby acknowledge that they are sophisticated business persons who were represented by counsel during the negotiations regarding the provisions hereof including, without limitation, the provisions of this Section 8, and are fully informed regarding said provisions. They further acknowledge that the provisions of this Section 8 fairly allocate the risks in light of the ability of the parties to investigate the Company and its business in order to assure that adequate disclosure is made in the Registration Statement and Prospectus as required by the Act and the Exchange Act.

9. REPRESENTATIONS, WARRANTIES, COVENANTS AND AGREEMENTS TO SURVIVE DELIVERY. All representations, warranties, covenants and agreements of the Company and the Underwriters herein or in certificates delivered pursuant hereto, and the indemnity and contribution agreements contained in Section 8 hereof shall remain operative and in full force and effect regardless of any investigation made by or on behalf of any Underwriter or any controlling person within the meaning of the Act or the Exchange Act, or by or on behalf of the Company or any of its officers, directors or controlling persons within the meaning of the Act or the Exchange Act, and shall survive the delivery of the Shares to the several Underwriters hereunder or termination of this Agreement.

10. SUBSTITUTION OF UNDERWRITERS. If any Underwriter or Underwriters shall fail to take up and pay for the number of Firm Shares agreed by such Underwriter or Underwriters to be purchased hereunder upon tender of such Firm Shares in accordance with the terms hereof, and if the aggregate number of Firm Shares which such defaulting Underwriter or Underwriters so agreed but failed to purchase does not exceed 10% of the Firm Shares, the remaining Underwriters shall be obligated, severally in proportion to their respective commitments hereunder, to take up and pay for the Firm Shares of such defaulting Underwriter or Underwriters.

If any Underwriter or Underwriters so defaults and the aggregate number of Firm Shares which such defaulting Underwriter or Underwriters agreed but failed to take up and pay for exceeds 10% of the Firm Shares, the remaining Underwriters shall have the right, but shall not be obligated, to take up and pay for (in such proportions as may be agreed upon among them) the Firm Shares which the defaulting Underwriter or Underwriters so agreed but failed to purchase. If such remaining Underwriters do not, at the Closing Date, take up and pay for the Firm Shares which the defaulting Underwriter or Underwriters so agreed but failed to purchase, the Closing Date shall be postponed for twenty-four (24) hours to allow the several Underwriters the privilege of substituting within twenty-four (24) hours (including non-business hours) another underwriter or underwriters (which may include any nondefaulting Underwriter) satisfactory to the Company. If no such underwriter or underwriters shall have been substituted as aforesaid by such postponed Closing Date, the Closing Date may, at the option of the Company, be postponed for a further twenty-four (24) hours, if necessary, to allow the Company the privilege of finding another underwriter or underwriters, satisfactory to you, to purchase the Firm Shares which the defaulting Underwriter or Underwriters so agreed but failed to purchase. If it shall be arranged for the remaining Underwriters or substituted underwriter or underwriters to take up the Firm Shares of the defaulting Underwriter or Underwriters as provided in this Section 10, (i) the Company shall have the right to postpone the time of delivery for a period of not more than seven (7) full business days, in order to effect whatever changes may thereby be made

necessary in the Registration Statement or the Prospectus, or in any other documents or arrangements, and the Company agrees promptly to file any amendments to the Registration Statement or supplements to the Prospectus which may thereby be made necessary, and (ii) the respective number of Firm Shares to be purchased by the remaining Underwriters and substituted underwriter or underwriters shall be taken as the basis of their underwriting obligation. If the remaining Underwriters shall not take up and pay for all such Firm Shares so agreed to be purchased by the defaulting Underwriter or Underwriters or substitute another underwriter or underwriters as aforesaid and the Company shall not find or shall not elect to seek another underwriter or underwriters for such Firm Shares as aforesaid, then this Agreement shall terminate.

In the event of any termination of this Agreement pursuant to the preceding paragraph of this Section 10, neither the Company shall be liable to any Underwriter (except as provided in Sections 5 and 8 hereof) nor shall any Underwriter (other than an Underwriter who shall have failed, otherwise than for some reason permitted under this Agreement, to purchase the number of Firm Shares agreed by such Underwriter to be purchased hereunder, which Underwriter shall remain liable to the Company, and the other Underwriters for damages, if any, resulting from such default) be liable to the Company (except to the extent provided in Sections 5 and 8 hereof).

The term "Underwriter" in this Agreement shall include any person substituted for an Underwriter under this Section 10.

11. EFFECTIVE DATE OF THIS AGREEMENT AND TERMINATION.

(a) This Agreement shall become effective at the earlier of (i) 6:30 A.M., San Francisco time, on the first full business day following the effective date of the Registration Statement, or (ii) the time of the initial public offering of any of the Shares by the Underwriters after the Registration Statement becomes effective. The time of the initial public offering shall mean the time of the release by you, for publication, of the first newspaper advertisement relating to the Shares, or the time at which the Shares are first generally offered by the Underwriters to the public by letter, telephone, telegram or teletype, whichever shall first occur. By giving notice as set forth in Section 12 before the time this Agreement becomes effective, you, as Representatives of the several Underwriters, or the Company, may prevent this Agreement from becoming effective without liability of any party to any other party, except as provided in Sections 4(j), 5 and 8 hereof.

(b) You, as Representatives of the several Underwriters, shall have the right to terminate this Agreement by giving notice as hereinafter specified at any time at or prior to the Closing Date or on or prior to any later date on which Option Shares are to be purchased, as the case may be, (i) if the Company shall have failed, refused or been unable to perform any agreement on its part to be performed, or because any other condition of the Underwriters' obligations hereunder required to be fulfilled is not fulfilled, including, without limitation, any change in the condition (financial or otherwise), earnings, operations, business or business prospects of the Company and its subsidiaries considered as one enterprise from that set forth in the Registration Statement or Prospectus, which, in your sole judgment, is material and adverse, or (ii) if additional material governmental restrictions, not in force and effect on the date hereof, shall have been imposed upon trading in securities generally or minimum or maximum prices shall have been generally established on the New York Stock Exchange or on the American Stock Exchange or in the over the counter market by the NASD, or trading in securities generally shall have been suspended on either such exchange or in the over the counter market by the NASD, or if a banking moratorium shall have been declared by federal, New York or California authorities, or (iii) if the Company shall have sustained a loss by strike, fire, flood, earthquake, accident or other calamity of such character as to interfere materially with the conduct of the business and operations of the Company regardless of whether or not such loss shall have been insured, or (iv) if there shall have been a material adverse change in the general political or economic conditions or financial markets as in your reasonable judgment makes it inadvisable or impracticable to proceed with the offering, sale and delivery of the Shares, or (v) if there shall have been an outbreak or escalation

of hostilities or of any other insurrection or armed conflict or the declaration by the United States of a national emergency which, in the reasonable opinion of the Representatives, makes it impracticable or inadvisable to proceed with the public offering of the Shares as contemplated by the Prospectus. In the event of termination pursuant to subparagraph (i) above, the Company shall remain obligated to pay costs and expenses pursuant to Sections 4(j), 5 and 8 hereof. Any termination pursuant to any of subparagraphs (ii) through (v) above shall be without liability of any party to any other party except as provided in Sections 5 and 8 hereof.

If you elect to prevent this Agreement from becoming effective or to terminate this Agreement as provided in this Section 11, you shall promptly notify the Company by telephone, telecopy or telegram, in each case confirmed by letter. If the Company shall elect to prevent this Agreement from becoming effective, the Company shall promptly notify you by telephone, telecopy or telegram, in each case, confirmed by letter.

12. NOTICES. All notices or communications hereunder, except as herein otherwise specifically provided, shall be in writing and if sent to you shall be mailed, delivered, telegraphed (and confirmed by letter) or telecopied (and confirmed by letter) to you c/o Robertson, Stephens & Company LLC, 555 California Street, Suite 2600, San Francisco, California 94104, telecopier number (415) 781-0278, Attention: General Counsel; if sent to the Company, such notice shall be mailed, delivered, telegraphed (and confirmed by letter) or telecopied (and confirmed by letter) to 3050 Science Park Road, San Diego, California 92121, telecopier number (619) 658-7602, Attention: Gary A. Lyons, President and Chief Executive Officer.

13. PARTIES. This Agreement shall inure to the benefit of and be binding upon the several Underwriters and the Company and their respective executors, administrators, successors and assigns. Nothing expressed or mentioned in this Agreement is intended or shall be construed to give any person or corporation, other than the parties hereto and their respective executors, administrators, successors and assigns, and the controlling persons within the meaning of the Act or the Exchange Act, officers and directors referred to in Section 8 hereof, any legal or equitable right, remedy or claim in respect of this Agreement or any provisions herein contained, this Agreement and all conditions and provisions hereof being intended to be and being for the sole and exclusive benefit of the parties hereto and their respective executors, administrators, successors and assigns and said controlling persons and said officers and directors, and for the benefit of no other person or corporation. No purchaser of any of the Shares from any Underwriter shall be construed a successor or assign by reason merely of such purchase.

In all dealings with the Company under this Agreement, you shall act on behalf of each of the several Underwriters, and the Company shall be entitled to act and rely upon any statement, request, notice or agreement made or given by you jointly or by Robertson, Stephens & Company LLC on behalf of you.

14. APPLICABLE LAW. This Agreement shall be governed by, and construed in accordance with, the laws of the State of California.

15. COUNTERPARTS. This Agreement may be signed in several counterparts, each of which will constitute an original.

ROBERTSON, STEPHENS & COMPANY LLC  
ALEX. BROWN & SONS INCORPORATED  
MONTGOMERY SECURITIES

\_\_\_\_\_, 1996

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If the foregoing correctly sets forth the understanding among the Company and the several Underwriters, please so indicate in the space provided below for that purpose, whereupon this letter shall constitute a binding agreement among the Company and the several Underwriters.

Very truly yours,

NEUROCRINE BIOSCIENCES, INC.

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

Accepted as of the date first above written:

ROBERTSON, STEPHENS & COMPANY LLC  
ALEX. BROWN & SONS INCORPORATED  
MONTGOMERY SECURITIES

On their behalf and on behalf of each of the several Underwriters named in Schedule A hereto.

ROBERTSON, STEPHENS & COMPANY LLC

By: ROBERTSON, STEPHENS & COMPANY, INC.

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

Authorized Signatory

SCHEDULE A

NUMBER OF  
FIRM SHARES  
TO BE  
PURCHASED

UNDERWRITERS

Robertson, Stephens & Company LLC.....  
Alex. Brown & Sons Incorporated.....  
Montgomery Securities.....

Total.....

3,000,000  
=====

NEUROCRINE BIOSCIENCES, INC.

LOCK-UP AGREEMENT

March 29, 1996

Robertson, Stephens & Company, L.P.  
Alex. Brown & Sons Incorporated  
Montgomery Securities

As Representatives of the Several Underwriters  
c/o Robertson, Stephens & Company, L.P.  
555 California Street, Suite 2600  
San Francisco, CA 94104

Ladies and Gentlemen:

The undersigned understands that you, as Representatives of the several underwriters (the "Underwriters"), propose to enter into an Underwriting Agreement with Neurocrine Biosciences, Inc. (the "Company") providing for the public offering (the "Public Offering") by the Underwriters, including yourselves, of Common Stock of the Company (the "Common Stock") pursuant to the Company's Registration Statement on Form S-1 to be filed with the Securities and Exchange Commission on or about April 3, 1996 (the "Registration Statement").

In consideration of the Underwriter's agreement to purchase and make the Public Offering of the Common Stock, and for other good and valuable consideration, receipt of which is hereby acknowledged, the undersigned hereby agrees, for a period beginning on the date hereof and ending (i) with respect to one-third (1/3) of the Securities (as defined below) held by the undersigned, 180 days from the effectiveness of the Registration Statement (the "Effective Date"), (ii) with respect to one-third (1/3) of the Securities held by the undersigned, 270 days from the Effective Date, and (iii) with respect to one-third (1/3) of the Securities held by the undersigned, 360 days from the Effective Date (the "Lock-Up Period"), not to offer to sell, contract to sell or otherwise sell, dispose of, loan, pledge or grant any rights with respect to (collectively a "Disposition") any shares of Common Stock, any options or warrants to purchase any shares of Common Stock or any securities convertible into or exchangeable for shares of Common Stock (collectively, "Securities") now owned or hereafter acquired directly by the undersigned or with respect to which the undersigned has or hereafter acquires the power of disposition, otherwise than (i) as a bona fide gift or gifts, provided the donee or donees thereof agree to be bound by this Lock-Up Agreement, (ii) as a distribution to limited partners or shareholders of the undersigned, provided that the distributees thereof agree in writing to be bound by the terms of this Lock-Up Agreement or (iii) with the prior written consent of Robertson, Stephens & Company, L.P. The foregoing restriction is expressly agreed to preclude the holder of the Securities from engaging in any hedging or other transaction which is designed to or reasonably expected to lead to or result in a Disposition of Securities during the Lock-Up Period even if such Securities would be disposed of by someone other than the undersigned. Such prohibited



hedging or other transactions would include without limitation any short sale (whether or not against the box) or any purchase, sale or grant of any right (including without limitation any put or call option) with respect to any Securities or with respect to any security (other than a broad based market basket or index) that includes, relates to or derives any significant part of its value from Securities.

Furthermore, the undersigned hereby agrees and consents to the entry of stop transfer instructions with the Company's transfer agent against the transfer of the Securities held by the undersigned except in compliance with this Lock-Up Agreement.

Very truly yours,

\_\_\_\_\_  
(Signature)

\_\_\_\_\_  
(Print Name)

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Accepted as of the date first set forth above:

Robertson, Stephens & Company, L.P.  
Alex. Brown & Sons Incorporated  
Montgomery Securities  
As Representatives of the Several Underwriters

By: Robertson, Stephens & Company, L.P.

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

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

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.

SERIES A WARRANT

To Purchase Shares of Common Stock of

NEUROCRINE BIOSCIENCES, INC.

THIS CERTIFIES that, for value received, \_\_\_\_\_

The Health Care and Biotechnology Venture Fund is entitled, upon the terms and subject to the conditions hereinafter set forth, at any time after the earlier of an IPO and March 31, 1997 but prior to March 26, 2006 (the "Exercise Period"), to subscribe for the purchase from Neurocrine Biosciences, Inc., a California corporation (the "Company"), at the Exercise Price, of that number of shares of the Company's Common Stock which is equal to [\*] of the Amount Invested divided by [\*], subject to adjustment as set forth below. For the purposes hereof:

"Amount Invested" means the amount of funds invested in Neuroscience Pharma (NPI) Inc. by the first Investor to hold this Warrant pursuant to and as reflected in Exhibit C to the Unit Purchase Agreement entered into on March 29, 1996 among the Company, Neuroscience Pharma (NPI) Inc. and the Investors;

"Exercise Price" means the price per share of Common Stock in US\$ determined as follows: (A) in the event an IPO occurs prior to March 31, 1997, the IPO Price, (B) between April 1, 1997 and December 31, 1998, US [\*] or, in the event there has been an IPO, the lesser of [\*] and the IPO Price, or (C) between January 1, 1999 and March 26, 2006, [\*] or, in the event there has been an IPO, the lesser of [\*] and the IPO Price;

"Investors" shall have the meaning ascribed thereto in the Unit Purchase Agreement;

"IPO" means the initial public offering of the Company's Common Stock;

"IPO Price" means the offering price for the Company's Common Stock referred to in the registration statement filed by the Company with the Securities and Exchange Commission (prior to deduction of underwriters' discounts and other offering expenses);

[\* CONFIDENTIAL TREATMENT REQUESTED]

and the Amount Invested shall be converted from C\$ to US\$, for the purpose of determining the number of shares of the Company's Common Stock to which the holder is entitled, by using the rate of exchange published in the Wall Street Journal on the last day the newspaper is published preceding the date of issuance hereof.

Notwithstanding the foregoing, the Company shall have, at anytime during the Exercise Period, upon the exercise by the holder hereof, the right to "cash out" this Warrant by paying to the holder hereof the net cash value of the Warrant (being, if and only if the Common Stock is then publicly traded, the average closing price for the five trading days which precede by two trading days the date of the Notice of Exercise Form annexed hereto minus the Exercise Price, multiplied by the number of shares of Common Stock then represented by this Warrant), provided such cash value is less than US \$100,000.

1. Title of Warrant. Prior to the expiration hereof and subject to  
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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 rights to acquire shares of Common Stock  
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represented by this Warrant are exercisable by the registered holder hereof, in whole or in part, at any time during the Exercise Period, 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 San Diego, 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 (a) by cash or check or bank draft payable to the order of the Company, (b) by cancellation of indebtedness of the Company payable to the holder hereof at the time of the exercise, or (c) if and only if the Common Stock is publicly traded, 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 issued upon such exercise) less that number of shares of Common Stock having a market value as of such date equal to the aggregate Exercise Price of the Warrant (or such portion thereof which is being exercised), 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 and purchase 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, but not later than ten (10) days, 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 less that number of shares (if any) cancelled in payment of the Exercise Price of the Warrant as set forth in clause 2.(c) hereof.

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  
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representing fractional shares shall be issued upon the exercise of this Warrant.

4. Charges, Taxes and Expenses. Issuance of certificates for shares of  
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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  
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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  
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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  
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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  
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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. Upon receipt by  
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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 or mutilation of this Warrant, and in case of loss, theft or destruction, of indemnity or security reasonably satisfactory to it, 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

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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.

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(a) Shares. The number of shares and the type of stock for which

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this Warrant is exercisable and the Exercise Price are subject to adjustment from time to time as follows:

(i) In the event of any subdivision or change 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 had the right of purchase been exercised before such subdivision or change without the holder making any additional payment or giving any other consideration therefor.

(ii) In the event of any consolidation 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 had the right of purchase been exercised before such consolidation.

(iii) In the event of any reclassification 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 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.

(iv) 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 had 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.

(v) If the Company, at any time while this Warrant is outstanding, shall pay any stock dividend 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.

(vi) If the Company, at any time while this Warrant is outstanding, shall be a party to any transaction (including, without limitation, a merger, consolidation, sale of all or substantially all of the Company's assets or outstanding stock, or a recapitalization of the Common Stock) in which the previously outstanding Common Stock shall be changed into or exchanged for different securities of the Company or common stock or other securities of another corporation or interests in a noncorporate entity or other property (including cash) or any combination of any of the foregoing (each such transaction being herein called the "Transaction" and the date of consummation of the Transaction being herein called the "Consummation Date"), then, as a condition of the consummation of the Transaction, lawful and adequate provisions shall be made so that the holder hereof, upon the exercise hereof at any time on or after the Consummation Date, shall be entitled to receive, and this Warrant shall thereafter represent the right to receive, in lieu of the Common Stock issuable upon such exercise prior to the Consummation Date, the amount of securities or other property to which such holder would actually have been entitled as a shareholder upon the consummation of the Transaction if the holder had exercised this Warrant immediately prior thereto.

(b) Automatic Amendment. On the happening of each and every event  
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set forth in this (S)9, the applicable provisions of this Warrant shall, ipso  
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facto, be deemed to be amended accordingly and the Company shall take all  
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necessary action so as to comply with such provisions as so amended.

10. Miscellaneous.  
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(a) Issue Date. The provisions of this Warrant shall be construed  
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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 be binding upon any successors or assigns of the Company. 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

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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

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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

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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 action 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

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(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: \_\_\_\_\_, 1996.

NEUROCRINE BIOSCIENCES, INC.

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

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



ASSIGNMENT FORM

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(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

\_\_\_\_\_  
(Please Print)

whose address is \_\_\_\_\_

(Please Print)

Dated: \_\_\_\_\_, \_\_\_\_.

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

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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 or certificates representing said shares of Common Stock in the name of the undersigned or in such other name as is 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)

NEW REGISTRATION RIGHTS AGREEMENT

This REGISTRATION RIGHTS AGREEMENT (the "Agreement") is made as of March 29, 1996, by and among Neurocrine Biosciences, Inc., a California corporation (the "Company") and the persons listed on the attached Schedule 1 who become signatories to this Agreement (collectively, the "Investors and individually an "Investor").

R E C I T A L S

WHEREAS, in connection with the purchase and sale of shares of Series A Preferred Stock of Neuroscience Pharma (NPI) Inc. ("NPI") an affiliate of the Company (the "NPI Shares") and certain warrants exercisable for shares of the Company's Common Stock (the "Warrants"), the Company and the Investors desire to provide for the rights of the Investors with respect to registration of the Common Stock issued upon exchange of the NPI Shares or exercise of the Warrants held by the Investors according to the terms of this Agreement.

WHEREAS, it is a condition of the closing of the sale of the NPI Shares to the Investors that the Company 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) "Convertible Securities" shall mean securities of NPI or the Company purchased by or issued to the Investors by NPI or the Company which are convertible into or exchangeable or exercisable for Common Stock of the Company, including the NPI Shares and the Warrants.

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

(d) "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 11.

(e) "Initiating Holders" shall mean Holders who in the aggregate hold  
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at least forty percent (40%) of the Registrable Securities.

(f) "Material Adverse Event" shall mean an occurrence having a  
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consequence that either (a) is materially adverse as to the business, properties, prospects or financial condition of the Company 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 Company.

(g) The terms "Register", "Registered" and "Registration" refer to a  
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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.

(h) "Registrable Securities" shall mean all shares of Common Stock of  
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the Company issued or issuable upon exchange or exercise of the Convertible Securities, 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 Company 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.

(i) "Registration Expenses" shall mean all expenses incurred in  
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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 Company, blue sky fees and expenses, and the expense of any special audits incident to or required by any such registration, other than Selling Expenses.

(j) "Securities Act" shall mean the Securities Act of 1933, as  
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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.

(k) "Selling Expenses" shall mean all underwriting discounts and  
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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  
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this Agreement, in the event that the Company receives from Initiating Holders at any time after one year after the effective date of the Company's initial Registered public offering of shares of its Common Stock (the "IPO"), a written request that the Company effect any Registration on Form S-3 (or any successor form to Form S-3 regardless of its designation) at a time when the Company 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 \$500,000 (provided that such Registration is not with respect to all other outstanding Registrable Securities, in which case such \$500,000 minimum shall not apply), the Company 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 Company within 20 days after written notice from the Company of the proposed Registration. The Company shall not be obligated to take any action to effect any such registration pursuant to this Section 2.1 after the Company has effected two such Registrations pursuant to this Section 2.1 within the calendar year of such request and such Registrations have been declared effective and, if underwritten, have closed.

2.2 Right of Deferral of Registration. If (i) the Company shall

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furnish to all such Holders who joined in the request a certificate signed by the President of the Company stating that, in the good faith judgment of the Board of Directors of the Company, it would be seriously detrimental to the Company for any Registration to be effected as requested under Section 2.1, or (ii) the Company shall have effected a Registration (whether or not pursuant to Section 2.1) within ninety (90) days preceding the date of such request, the Company 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 the Company may not utilize this right more than twice in any 12-month period.

2.3 Registration of Other Securities. Any Registration Statement

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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 the Company other than Registrable Securities.

2.4 Underwriting in Demand Registration.

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2.4.1 Notice of Underwriting. If the Initiating Holders intend

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to distribute the Registrable Securities covered by their request by means of an underwriting, they shall so advise the Company as a part of their request made pursuant to this Section 2, and the Company 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 the

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Company, officers or directors of the Company holding Common Stock other than Registrable Securities or holders of securities other than Registrable Securities, request inclusion in such Registration, the Initiating Holders, to the extent they deem advisable and consistent with the goals of such Registration and subject to the allocation provisions of Section 2.4.4 below, shall, on behalf of all Holders, offer to any or all of the Company, such officers or directors and such holders of securities other than Registrable Securities that such securities other than Registrable Securities be

included in the underwriting and may condition such offer on the acceptance by such persons of the terms of this Section 2.

2.4.3 Selection of Underwriter in Demand Registration. The

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Company 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 the Company (which consent shall not be unreasonably withheld).

2.4.4 Marketing Limitation in Demand Registration. In the event

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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 the number of shares of Registrable Securities that may be included in the Registration and underwriting shall be allocated among all Holders in proportion, as nearly as practicable, to the number of shares proposed to be included in such Registration by such Holder; provided, however, that the number of shares of Registrable Securities to be included in such underwriting shall not be reduced unless all other securities (including those proposed to be included by the Company and the officers and directors of the Company) are first entirely excluded from the underwriting. 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

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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 the Company, 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

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Registration pursuant to Section 2, the Company will exercise its best 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 the Company 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. Piggyback Registration.

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3.1 Notice of Piggyback Registration and Inclusion of Registrable

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Securities. Subject to the terms of this Agreement, in the event the Company  
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decides to Register any of its Common Stock for its own account on a form that would be suitable for a registration involving Registrable Securities, the Company will: (i) promptly give each Holder written notice thereof (which

shall include a list of the jurisdictions in which the Company intends to attempt to qualify such securities under the applicable Blue Sky or other state securities laws) and (ii) include in such Registration (and any related qualification under Blue Sky laws or other compliance), and in any underwriting involved therein, all the Registrable Securities specified in a written request delivered to the Company by any Holder within twenty (20) days after delivery of such written notice from the Company.

### 3.2 Underwriting in Piggyback Registration.

#### 3.2.1 Notice of Underwriting in Piggyback Registration. If the

Registration of which the Company gives notice is for a Registered public offering involving an underwriting, the Company shall so advise the Holders as a part of the written notice given pursuant to Section 3.1. In such event the right of any Holder to Registration shall be conditioned upon such underwriting and the inclusion of such Holder's Registrable Securities in such underwriting to the extent provided in this Section 3. All Holders proposing to distribute their securities through such underwriting shall (together with the Company and the other holders distributing their securities through such underwriting) enter into an underwriting agreement with the Underwriter's Representative for such offering. The Holders shall have no right to participate in the selection of the underwriters for an offering pursuant to this Section 3.

#### 3.2.2 Marketing Limitation in Piggyback Registration. In the

event the Underwriter's Representative advises the Holders seeking registration of Registrable Securities pursuant to Section 3 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, the Underwriter's Representative may exclude some or all Registrable Securities from such registration and underwriting, notwithstanding the fact that other securities (other than those to be sold by the Company) may be included in the underwriting. In the event that the Underwriters shall determine that Registrable Securities may be included in such Registration and underwriting, the Underwriter's Representative shall so advise all Holders and the number of shares of Registrable Securities that may be included in the Registration and underwriting (if any) shall be allocated, among all Holders of Registrable Securities held by such Holders at the time of filing of the registration statement. No Registrable Securities or other securities excluded from the underwriting by reason of this Section 3.2.2 shall be included in such Registration Statement.

#### 3.2.3 Withdrawal in Piggyback Registration. If any Holder, r a

holder of other securities entitled (upon request) to be included in such Registration, disapproves of the terms of any such underwriting, such Holder may elect to withdraw therefrom by written notice to the Company and the underwriter delivered at least seven (7) days prior to the effective date of the Registration Statement. Any Registrable Securities or other securities excluded or withdrawn from such underwriting shall be withdrawn from such Registration.

### 3.3 Blue Sky in Piggyback Registration. In the event of any

Registration of Registrable Securities pursuant to Section 7, the Company will exercise its best 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 the Company 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.

4. Expenses of Registration. All Registration Expenses incurred in  
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connection with all Registrations pursuant to Sections 2.1 and 3.2 shall be borne by the Company. Notwithstanding the above, the Company 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), unless the Holders of a majority of the Registrable Securities agree to forfeit their right to one demand registration pursuant to Section 2.1; provided further, 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 the Company 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.

5. Registration Procedures. The Company will keep each Holder whose  
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Registrable Securities are included in any registration pursuant to this Agreement advised as to the initiation and completion of such Registration. At its expense the Company will: (a) use its best efforts to keep such Registration effective for a period of sixty (60) days or until the Holder or Holders have completed the distribution described in the Registration Statement relating thereto, 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.

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



7. Indemnification.

7.1 Company's Indemnification of Holders. To the extent permitted by

law, the Company 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 the Company 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 the Company and relating to action or inaction required of the Company in connection with any such Registration, qualification or compliance; and the Company 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 the Company (which consent shall not unreasonably be withheld); and provided, further, that the Company 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 the Company 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 the Company.

7.2 Holder's Indemnification of Company. 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 the Company, each of its directors and officers, each legal counsel and independent accountant of the Company, each underwriter, if any, of the Company's securities covered by such a Registration Statement, each person who controls the Company 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 the Company, 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 the Company by such Holder and stated to be specifically for use in connection with the offering of securities of the Company, 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).

7.3 Indemnification Procedure. Promptly after receipt by an

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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 notified; 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 the Company 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 other than under this Section 6.

8. Reports Under Securities Exchange Act of 1934. With a view to making

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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 the Company to the public without Registration or pursuant to a Registration on Form S-3, the Company agrees to:

(a) make and keep public information available, as those terms are defined in Rule 144, at all times after ninety (90) days after the effective date of the first registration statement filed by the Company for the offering of its securities to the general public;

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

(c) furnish to any Investor, so long as such Investor owns any Convertible Securities or Registrable Securities, forthwith upon request (i) a written statement by the Company that it has complied with the reporting requirements of Rule 144 (at any time after ninety (90) days after the effective date of the first registration statement filed by the Company), the Securities Act and the 1934 Act (at any time after it has become subject to such reporting requirements), or that it qualifies as a registrant whose securities may be resold pursuant to Form S-3 (at any time after it so qualifies), (ii) a copy of the most recent annual or quarterly report of the Company and such other reports and documents so filed by the Company, 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.

9. Market Stand-off. Each Holder hereby agrees that, if so requested by

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the Company and the Underwriter's Representative (if any), such Holder shall not sell or otherwise transfer (other than to donees who agree to be similarly bound) any Registrable Securities or other securities of the Company during the 360-day period following the effective date of a Registration Statement of the Company filed under the Securities Act; provided that such restriction shall only apply to the first Registration Statement of the Company to become effective which include securities to be sold on behalf of the Company to the public in an underwritten offering; and provided, further, that all officers and directors of the Company enter into similar agreements.

10. Conversion or Exercise. The Registration rights of the Holders set

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forth in this Agreement are conditioned upon the conversion or exercise of the NPI Shares or Warrants with respect to which registration is sought into Common Stock of the Company prior to the effective date of the Registration Statement.

11. Transfer of Rights. The Registration rights of the Investors set

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forth in Section 2 may be assigned by any Holder to a transferee or assignee of any Convertible Securities or Registrable Securities not sold to the public acquiring at least 100,000 shares of such Holder's Convertible Securities or Registrable Securities (equitably adjusted for any recapitalizations, stock splits, combinations, and the like) or acquiring all of the Convertible Securities and Registrable Securities held by such Holder if transferred to a single entity; provided, however, that (i) the Company 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 the Company to be a competitor or potential competitor of the Company. 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).

12. Miscellaneous.

12.1 Entire Agreement; Successors and Assigns. This Agreement

constitutes the entire contract between The Company 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.

12.2 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.

12.3 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.

12.4 Headings. The headings of the Sections of this Agreement are

for convenience and shall not by themselves determine the interpretation of this Agreement.

12.5 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 the Company, as set forth below the Company'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 attached Schedule 1, or at such other address as the Company or such Investor may designate by ten (10) days' advance written notice to the Investors or to the Company, respectively.

12.6 Amendment of Agreement. Except as otherwise specifically

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

12.7 Aggregation of Stock. All Convertible Securities and

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.

12.8 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 Company: NEUROCRINE BIOSCIENCES, INC.

By: /s/ GARY A. LYONS

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Title: CEO  
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Address: 3050 Science Park Rd.  
San Diego, CA 92121

The INVESTORS: SOFINOV SOCIETE FINANCIERE D'INNOVATION INC.

By: /s/ CARMEN CREPIN

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

Address: 1981 McGill College Avenue  
9th floor  
Montreal, Quebec, Canada  
H3A 3C7

NEUROSCIENCE PARTNERS LIMITED PARTNERSHIP

By: /s/ MICHAEL J. CALLAGHAN

\_\_\_\_\_  
Title: Vice President  
\_\_\_\_\_

Address: \_\_\_\_\_  
\_\_\_\_\_

NEUROSCIENCE PARTNERS LIMITED PARTNERSHIP

By: /s/ MICHAEL J. CALLAGHAN

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Title: Vice President

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By:

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Title:

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Address: 100 International Blvd.

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Etobicoke, Ontario

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Canada M9W 6J6

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BUSINESS DEVELOPMENT BANK OF CANADA

By: /s/ MARK VANDZURA

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Title: Investment Manager

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By:

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Title:

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Address: 5 Place Ville Marie

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Suite 1210

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MONTREAL, QUE. H3B 5E7

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CANADIAN MEDICAL DISCOVERIES FUND, INC.

By: /s/ EDWARD K. RYGIEL

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Title: Edward K. Rygiel, Director

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By: /s/ FRANK GLEESON

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Title: Frank Gleeson, Vice-President

---

Address: 100 International Blvd.

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Etobicoke, Ontario

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Canada M9W 6J6

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THE HEALTH CARE AND BIOTECHNOLOGY  
VENTURE FUND BY ITS MANAGER MDS HEALTH  
VENTURES CAPITAL CORP.

By: /s/ MICHAEL J. CALLAGHAN

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Title: Michael J. Callaghan, Vice-President

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By: /s/ KEITH J. DORRINGTON

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Title: Keith J. Dorrington, Vice-President

---

Address: 100 International Blvd.

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Etobicoke, Ontario

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Canada M9W 6J6

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NEUROCRINE BIOSCIENCES, INC.

1992 INCENTIVE STOCK PLAN

1. Purpose of the Plan. The purposes of this Incentive Stock Plan are to

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attract and retain the best available personnel, to provide additional incentive to the employees of Neurocrine Biosciences, Inc. (the "Company") and to promote the success of the Company's business.

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

2. Definitions.

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(a) "Board" shall mean the Committee, if one has been appointed, or

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the Board of Directors of the Company, if no Committee is appointed.

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

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(c) "Committee" shall mean the Committee appointed by the Board of

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Directors in accordance with Section 4(a) of the Plan, if one is appointed.

(d) "Common Stock" shall mean the Common Stock of the Company.

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(e) "Company" shall mean Neurocrine Biosciences, Inc.

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(f) "Consultant" shall mean any person who is engaged by the Company

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or any Parent or Subsidiary to render consulting services and is compensated for such consulting services, and any director of the Company whether compensated for such services or not; provided that if and in the event the Company registers any class of any equity security pursuant to Section 12 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), the term Consultant shall thereafter not include directors who are not compensated for their services or are paid only a director's fee by the Company.

(g) "Continuous Status as an Employee or Consultant" shall mean the

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

(h) "Employee" shall mean any persons, including officers and

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directors, employed by the Company or any Parent or Subsidiary of the Company. The payment of a director's fee by the Company shall not be sufficient to constitute "employment" by the Company.



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

(j) "Nonstatutory Stock Option" shall mean an Option not intended to  
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qualify as an Incentive Stock Option.

(k) "Option" shall mean a stock option granted pursuant to the Plan.  
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(l) "Optioned Stock" shall mean the Common Stock subject to an Option  
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or Stock Purchase Right.

(m) "Optionee" shall mean an Employee or Consultant who receives an  
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Option.

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

(o) "Plan" shall mean this 1992 Incentive Stock Plan.  
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(p) "Purchaser" shall mean an Employee or Consultant who exercises a  
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Stock Purchase Right.

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

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

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

3. Stock Subject to the Plan. Subject to the provisions of Section 11 of  
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the Plan, the maximum aggregate number of shares under the Plan is 3,300,000  
shares of Common Stock. The Shares may be authorized but unissued, or  
reacquired Common Stock.

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

4. Administration of the Plan.

(a) Initial Plan Procedure. Prior to the date, if any, upon which

the Company becomes subject to the Exchange Act, the Plan shall be administered by the Board or a Committee appointed by the Board.

(b) Plan Procedure After the Date, if any, upon Which the Company

becomes Subject to the Exchange Act.

(i) Multiple Administrative Bodies. If permitted by Rule 16b-3,

the Plan may be administered by different bodies with respect to Directors, Officers and Employees who are neither Directors nor Officers.

(ii) Administration With Respect to Directors and Officers. With

respect to grants of Options and Stock Purchase Rights to Employees who are also Officers or Directors of the Company, the Plan shall be administered by (A) the Board if the Board may administer the Plan in compliance with the rules under Rule 16b-3 promulgated under the Exchange Act or any successor thereto ("Rule 16b-3") and any other Applicable Law relating to the disinterested administration of employee benefit plans under which Section 16(b) exempt discretionary grants and awards of equity securities are to be made, or (B) a Committee designated by the Board to administer the Plan, which Committee shall be constituted to comply with the rules under Rule 16b-3 and any other Applicable Law relating to the disinterested administration of employee benefit plans under which Section 16(b) exempt discretionary grants and awards of equity securities are to be made. Once appointed, such Committee shall continue to serve in its designated capacity until otherwise directed by the Board. From time to time the Board may increase the size of the Committee and appoint additional members thereof, remove members (with or without cause) and appoint new members in substitution therefor, fill vacancies, however caused, and remove all members of the Committee and thereafter directly administer the Plan, all to the extent permitted by the rules under Rule 16b-3 relating to the disinterested administration of employee benefit plans under which Section 16(b) exempt discretionary grants and awards of equity securities are to be made.

(iii) Administration With Respect to Other Employees and

Consultants. With respect to grants of Options and Stock Purchase Rights to

Employees or Consultants who are neither Directors nor Officers of the Company, the Plan shall be administered by (A) the Board or (B) a Committee designated by the Board, which committee shall be constituted in such a manner as to satisfy the legal requirements relating to the administration of incentive stock option plans, if any Applicable Laws or requirements of any applicable stock exchange. Once appointed, such Committee shall continue to serve in its designated capacity until otherwise directed by the Board. From time to time the Board may increase the size of the Committee and appoint additional members thereof, remove members (with or without cause) and appoint new members in substitution therefor, fill vacancies, however caused, and remove all members of the Committee and thereafter directly administer the Plan, all to the extent permitted by the Applicable Laws.

(c) Powers of the Board. Subject to the provisions of the Plan, the

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Board shall have the authority, in its discretion: (i) to grant Incentive Stock Options, Nonstatutory Stock Options or Stock Purchase Rights; (ii) to determine, upon review of relevant information and in accordance with Section 7 of the Plan, the fair market value of the Common Stock; (iii) to determine the exercise price per share of Options or Stock Purchase Rights, to be granted, which exercise price shall be determined in accordance with Section 7 of the Plan; (iv) to determine the Employees or Consultants to whom, and the time or times at which, Options or Stock Purchase Rights shall be granted and the number of shares to be represented by each Option or Stock Purchase Right; (v) to interpret the Plan; (vi) to prescribe, amend and rescind rules and regulations relating to the Plan; (vii) to determine the terms and provisions of each Option and Stock Purchase Right granted (which need not be identical) and, with the consent of the holder thereof, modify or amend any provisions (including provisions relating to exercise price) of any Option or Stock Purchase Right; (viii) to accelerate or defer (with the consent of the Optionee) the exercise date of any Option, consistent with the provisions of Section 5 of the Plan; (ix) to authorize any person to execute on behalf of the Company any instrument required to effectuate the grant of an Option or Stock Purchase Right previously granted by the Board; and (x) to make all other determinations deemed necessary or advisable for the administration of the Plan.

(d) Effect of Board's Decision. All decisions, determinations and

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interpretations of the Board shall be final and binding on all Optionees, Purchasers and any other holders of any Options or Stock Purchase Rights granted under the Plan.

#### 5. Eligibility.

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

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

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

(d) The Plan shall not confer upon any Optionee or holder of a Stock Purchase Right any right with respect to continuation of employment by or the rendition of consulting services

to the Company, nor shall it interfere in any way with his or her right or the Company's right to terminate his or her employment or services at any time, with or without cause.

(e) The following limitations shall apply to grants of Options to Employees:

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

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

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

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

6. Term of Plan. The Plan shall become effective upon the earlier to

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

7. Exercise Price and Consideration.

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

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

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

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

(ii) In the case of a Nonstatutory Stock Option or a Stock Purchase Right;

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

(B) granted to any other person, the per Share exercise price shall be no less than 85% of the fair market value per Share on the date of grant.

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

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

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

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

years from the date of grant thereof or such shorter term as may be provided in the Option Agreement.

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

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

An Option shall be deemed to be exercised when written notice of such exercise has been given to the Company in accordance with the terms of the Option by the person entitled to exercise the Option and full payment for the Shares with respect to which the Option is exercised has been received by the Company. Full payment may, as authorized by the Board, consist of any consideration and method of payment allowable under Section 7 of, the Plan. Until the issuance (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company) of the stock certificate evidencing such Shares no right to vote or receive dividends or any other rights as a shareholder shall exist with respect to the Optioned Stock, notwithstanding the exercise of the Option. The Company shall issue (or cause to be issued) such stock certificate promptly upon exercise of the Option. In the event that the exercise of a Nonstatutory Stock Option pursuant to Section 5(b), the Company shall issue a separate stock certificate evidencing the Shares treated as acquired upon exercise of an Incentive Stock Option and a separate stock certificate evidencing the Shares treated as acquired upon exercise of a Nonstatutory Stock Option and shall identify each such certificate accordingly in its stock transfer records. No adjustment will be made for a dividend or other right for which the record date is prior to the date the stock certificate is issued, except as provided in Section 11 of the Plan.

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

(ii) Termination of Status as an Employee or Consultant. In the event  
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of termination of an Optionee's Continuous Status as an Employee or Consultant (as the case may be), such Optionee may, but only within thirty (30) days (or such other period of time not exceeding three (3) months in the case of an Incentive Stock Option or six (6) months in the case of a Nonstatutory Stock Option, as is determined by the Board, with such determination in the case of an Incentive Stock Option being made at the time of grant of the Option) after the date of such termination (but in no event later than the date of expiration of the term of such Option as set forth in the Option Agreement, exercise the Option to the extent that such Employee or Consultant was entitled to exercise it at the date of such termination. To the extent that such Employee or Consultant

was not entitled to exercise the Option at the date of such termination, or if such Employee or Consultant does not exercise such Option (which such Employee or Consultant was entitled to exercise) within the time specified herein, the Option shall terminate.

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

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

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

9. Stock Purchase Rights.  
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(a) Rights to Purchase. After the Board of Directors determines that  
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it will offer an Employee or Consultant a Stock Purchase Right, it shall deliver to the offeree a stock purchase

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

(b) Issuance of Shares. Forthwith after payment therefor, the Shares

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

(c) Repurchase Option. Unless the Board determines otherwise, the

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

(d) Other Provisions. The stock purchase agreement or stock bonus

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agreement shall contain such other terms, provisions and conditions not inconsistent with the Plan as may be determined by the Board of Directors.

10. Non-Transferability of Options and Stock Purchase Rights. The Options

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and Stock Purchase Rights may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or by the laws of descent or distribution and may be exercised, during the lifetime of the Optionee or Purchaser, only by the Optionee or Purchaser.

11. Adjustments upon Changes in Capitalization or Merger.

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(a) Changes in Capitalization. Subject to any required action by the

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



Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares of Common Stock subject to an Option or Stock Purchase Right.

(b) Dissolution or Liquidation. In the event of the proposed

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

(c) Merger. In the event of a merger of the Company with or into

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another corporation, each outstanding Option or Stock Purchase Right may be assumed or an equivalent option or right may be substituted by such successor corporation or a parent or subsidiary of such successor corporation. If, in such event, an Option or Stock Purchase Right is not assumed or substituted, the Option or Stock Purchase Right shall terminate as of the date of the closing of the merger. For the purposes of this paragraph, the Option or Stock Purchase Right shall be considered assumed if, following the merger, the Option or Stock Purchase Right confers the right to purchase or receive, for each Share of Optioned Stock subject to the Option or Stock Purchase Right immediately prior to the merger, the consideration (whether stock, cash, or other securities or property) received in the merger by holders of Common Stock for each Share held on the effective date of the transaction (and if the holders are offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding Shares). If such consideration received in the merger is not solely common stock of the successor corporation or its Parent, the Administrator may, with the consent of the successor corporation, provide for the consideration to be received upon the exercise of the Option or Stock Purchase Right, for each Share of Optioned Stock subject to the Option or Stock Purchase Right, to be solely common stock of the successor corporation or its Parent equal in fair market value to the per share consideration received by holders of Common Stock in the merger.

12. Date of Granting Options. The date of grant of an Option or Stock

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

13. Amendment and Termination of the Plan.

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(a) Amendment and Termination. The Administrator may at any time

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amend, alter, suspend or discontinue the Plan, but no amendment, alteration, suspension or discontinuation shall be made which would impair the rights of any Optionee under any grant theretofore made, without his or her consent. In addition, to the extent necessary and desirable to comply with Rule 16b-3 under the Exchange Act or with Section 422 of the Code (or any other Applicable Laws or regulation, the requirements of the NASD or an established stock exchange), the Company shall obtain shareholder approval of any Plan amendment in such a manner and to such a degree as required.

(b) Effect of Amendment or Termination. Any such amendment or termination

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

14. Conditions Upon Issuance of Shares. Shares shall not be issued

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pursuant to the exercise of an Option or Stock Purchase Rights unless the exercise of such Option or Stock Purchase Rights and the issuance and delivery of such Shares pursuant thereto shall comply with all relevant provisions of law, including, without limitation, the Securities Act of 1933, as amended, the Exchange Act, the rules and regulations promulgated thereunder, and the requirements of any stock exchange upon which the Shares may then be listed, and shall be further subject to the approval of counsel for the Company with respect to such compliance.

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

15. Reservation of Shares. The Company, during the term of this Plan,

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will at all times reserve and keep available such number of Shares as shall be sufficient to satisfy the requirements of the Plan.

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

16. Option, Stock Purchase and Stock Bonus Agreements. Options shall be

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

17. Shareholder Approval. Continuance of the Plan shall be subject to

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

18. Information to Optionees and Purchasers. The Company shall provide to

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each Optionee and Purchaser, during the period for which such Optionee or Purchaser has one or more Options to Stock Purchase Rights outstanding, a balance sheet and an income statement at least

annually. The Company shall not be required to provide such information to key employees whose duties in connection with the Company assure there access to equivalent information.

## NEUROCRINE BIOSCIENCES, INC.

## 1996 EMPLOYEE STOCK PURCHASE PLAN

The following constitute the provisions of the 1996 Employee Stock Purchase Plan of Neurocrine Biosciences, Inc.

1. Purpose. The purpose of the Plan is to provide employees of the

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Company and its Designated Subsidiaries with an opportunity to purchase Common Stock of the Company through accumulated payroll deductions. It is the intention of the Company to have the Plan qualify as an "Employee Stock Purchase Plan" under Section 423 of the Internal Revenue Code of 1986, as amended. The provisions of the Plan, accordingly, shall be construed so as to extend and limit participation in a manner consistent with the requirements of that section of the Code.

2. Definitions.

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(a) "Board" shall mean the Board of Directors of the Company.

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

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(c) "Common Stock" shall mean the Common Stock of the Company.

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(d) "Company" shall mean Neurocrine Biosciences, Inc. and any

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Designated Subsidiary of the Company.

(e) "Compensation" shall mean all regular straight time gross

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earnings but shall exclude variable compensation for field sales personnel, incentive bonuses, overtime, shift premium, lead pay and automobile allowances and other compensation.

(f) "Designated Subsidiaries" shall mean the Subsidiaries which have

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been designated by the Board from time to time in its sole discretion as eligible to participate in the Plan.

(g) "Employee" shall mean any individual who is an Employee of the

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Company for tax purposes whose customary employment with the Company is at least twenty (20) hours per week and more than five (5) consecutive months in any calendar year. For purposes of the Plan, the employment relationship shall be treated as continuing intact while the individual is on sick leave or other leave of absence approved by the Company. Where the period of leave exceeds 90 days and the individual's right to reemployment is not guaranteed either by statute or by contract, the employment relationship will be deemed to have terminated on the 91st day of such leave.

(h) "Enrollment Date" shall mean the first day of each Offering

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Period.

(i) "Exercise Date" shall mean the last Trading Day of each Purchase

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Period. The first Exercise Date shall be the last Trading Day on or before June 31, 1996.

(j) "Fair Market Value" shall mean, as of any date, the value of

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Common Stock determined as follows:

(1) If the Common Stock is listed on any established stock exchange or a national market system, including without limitation the Nasdaq National Market of the National Association of Securities Dealers, Inc. Automated Quotation ("NASDAQ") System, its Fair Market Value shall be the closing sale price for the Common Stock (or the mean of the closing bid and asked prices, if no sales were reported), as quoted on such exchange (or the exchange with the greatest volume of trading in Common Stock) or system on the date of such determination, as reported in The Wall Street Journal or such other source as the Board deems reliable, or;

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

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

(4) For purposes of the Enrollment Date of the first Offering Period, the Fair Market Value of the Common Stock shall be the Price to Public as set forth in the final prospectus filed with the Securities and Exchange Commission pursuant to Rule 424 under the Securities Act of 1933, as amended.

(k) "Offering Period" shall mean the period of approximately twenty-

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four (24) months during which an option granted pursuant to the Plan may be exercised, commencing on the first Trading Day on or after January 1 and July 1 of each year and terminating on the last Trading Day in the periods ending approximately twenty-four months later. The first day of the first Offering Period shall be the effective date of the Company's initial public offering of its Common Stock that is registered with the Securities and Exchange Commission. The duration and timing of Offering Periods may be changed pursuant to Section 4 of this Plan.

(l) "Plan" shall mean this Neurocrine Biosciences, Inc. 1996 Employee

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Stock Purchase Plan.

(m) "Purchase Price" shall mean an amount equal to 85% of the Fair

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Market Value of a share of Common Stock on the Enrollment Date or on the Exercise Date, whichever is lower.

(n) "Purchase Period" shall mean the approximately six-month period

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commencing after one Exercise Date and ending with the next Exercise Date, except that the first Purchase Period of any Offering Period shall begin on the Enrollment Date and end with the next Exercise Date. The

first Purchase Period of the first Offering Period shall begin on the first day of the first Offering Period and shall end on the first Exercise Date.

(o) "Reserves" shall mean the number of shares of Common Stock

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covered by each option under the Plan which have not yet been exercised and the number of shares of Common Stock which have been authorized for issuance under the Plan but not yet placed under option.

(p) "Subsidiary" shall mean a corporation, domestic or foreign, of

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which not less than 50% of the voting shares are held by the Company or a Subsidiary, whether or not such corporation now exists or is hereafter organized or acquired by the Company or a Subsidiary.

(q) "Trading Day" shall mean a day on which national stock exchanges

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and the National Association of Securities Dealers Automated Quotation (NASDAQ) System are open for trading.

### 3. Eligibility.

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(a) Any Employee (as defined in Section 2(g)), who shall be employed by the Company on a given Enrollment Date shall be eligible to participate in the Plan.

(b) Any provisions of the Plan to the contrary notwithstanding, no Employee shall be granted an option under the Plan (i) if, immediately after the grant, such Employee (or any other person whose stock would be attributed to such Employee pursuant to Section 424(d) of the Code) would own capital stock of the Company and/or hold outstanding options to purchase such stock possessing five percent (5%) or more of the total combined voting power or value of all classes of the capital stock of the Company or of any Subsidiary, or (ii) if such option permits his or her rights to purchase stock under all employee stock purchase plans of the Company and its subsidiaries to accrue at a rate which exceeds twenty-five thousand dollars (\$25,000) worth of stock (determined at the fair market value of the shares at the time such option is granted) for each calendar year in which such option is outstanding at any time.

### 4. Offering Periods. The Plan shall be implemented by consecutive,

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overlapping Offering Periods with a new Offering Period beginning on the first Trading Day on or after July 1 and January 1 each year, or on such other date as the Board shall determine, and continuing thereafter until terminated in accordance with Section 19 hereof. The first day of the first Offering Period shall be the effective date of the Company's initial public offering of its Common Stock that is registered with the Securities and Exchange Commission. The Board shall have the power to change the duration of Offering Periods (including the commencement dates thereof) with respect to future offerings without stockholder approval if such change is announced at least five (5) days prior to the scheduled beginning of the first Offering Period to be affected thereafter.

5. Participation.

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(a) An eligible Employee may become a participant in the Plan by completing a subscription agreement authorizing payroll deductions in the form of Exhibit A to this Plan and filing it with the Company's payroll office prior to the applicable Enrollment Date.

(b) Payroll deductions for a participant shall commence on the first payroll date following the Enrollment Date and shall end on the last payroll date in the Offering Period to which such authorization is applicable, unless sooner terminated by the participant as provided in Section 10 hereof.

6. Payroll Deductions.

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(a) At the time a participant files his or her subscription agreement, he or she shall elect to have payroll deductions made on each pay day during the Offering Period in an amount not exceeding fifteen percent (15%) of the Compensation which he or she receives on each pay day during the Offering Period, and the aggregate of such payroll deductions during the Offering Period shall not exceed fifteen percent (15%) of the participant's Compensation during said Offering Period.

(b) All payroll deductions made for a participant shall be credited to his or her account under the Plan and will be withheld in whole percentages only. A participant may not make any additional payments into such account.

(c) A participant may discontinue his or her participation in the Plan as provided in Section 10 hereof, or may increase or decrease the rate of his or her payroll deductions during the Offering Period by completing or filing with the Company a new subscription agreement authorizing a change in payroll deduction rate. The Board may, in its discretion, limit the number of participation rate changes during any Offering Period. The change in rate shall be effective with the first full payroll period following five (5) business days after the Company's receipt of the new subscription agreement unless the Company elects to process a given change in participation more quickly. A participant's subscription agreement shall remain in effect for successive Offering Periods unless terminated as provided in Section 10 hereof.

(d) Notwithstanding the foregoing, to the extent necessary to comply with Section 423(b)(8) of the Code and Section 3(b) hereof, a participant's payroll deductions may be decreased to 0% at such time during any Purchase Period which is scheduled to end during the current calendar year (the "Current Purchase Period") that the aggregate of all payroll deductions which were previously used to purchase stock under the Plan in a prior Purchase Period which ended during that calendar year plus all payroll deductions accumulated with respect to the Current Purchase Period equal \$21,250. Payroll deductions shall recommence at the rate provided in such participant's subscription agreement at the beginning of the first Purchase Period which is scheduled to end in the following calendar year, unless terminated by the participant as provided in Section 10 hereof.

(e) At the time the option is exercised, in whole or in part, or at the time some or all of the Company's Common Stock issued under the Plan is disposed of, the participant must make adequate provision for the Company's federal, state, or other tax withholding obligations, if any, which arise upon the exercise of the option or the disposition of the Common Stock. At any time, the Company may, but will not be obligated to, withhold from the participant's compensation the amount necessary for the Company to meet applicable withholding obligations, including any withholding required to make available to the Company any tax deductions or benefits attributable to sale or early disposition of Common Stock by the Employee.

7. Grant of Option. On the Enrollment Date of each Offering Period, each

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eligible Employee participating in such Offering Period shall be granted an option to purchase on each Exercise Date during such Offering Period (at the applicable Purchase Price) up to a number of shares of the Company's Common Stock determined by dividing such Employee's payroll deductions accumulated prior to such Exercise Date and retained in the Participant's account as of the Exercise Date by the applicable Purchase Price; provided that in no event shall an Employee be permitted to purchase during each Purchase Period more than a number of Shares determined by dividing \$12,500 by the Fair Market Value of a share of the Company's Common Stock on the Enrollment Date, and provided further that such purchase shall be subject to the limitations set forth in Sections 3(b) and 12 hereof. Exercise of the option shall occur as provided in Section 8 hereof, unless the participant has withdrawn pursuant to Section 10 hereof, and shall expire on the last day of the Offering Period.

8. Exercise of Option. Unless a participant withdraws from the Plan as

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provided in Section 10 hereof, his or her option for the purchase of shares will be exercised automatically on the Exercise Date, and the maximum number of full shares subject to option shall be purchased for such participant at the applicable Purchase Price with the accumulated payroll deductions in his or her account. No fractional shares will be purchased; any payroll deductions accumulated in a participant's account which are not sufficient to purchase a full share shall be retained in the participant's account for the subsequent Purchase Period or Offering Period, subject to earlier withdrawal by the participant as provided in Section 10 hereof. Any other monies left over in a participant's account after the Exercise Date shall be returned to the participant. During a participant's lifetime, a participant's option to purchase shares hereunder is exercisable only by him or her.

9. Delivery. As promptly as practicable after each Exercise Date on

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which a purchase of shares occurs, the Company shall arrange the delivery to each participant, as appropriate, of a certificate representing the shares purchased upon exercise of his or her option.

10. Withdrawal; Termination of Employment.

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(a) A participant may withdraw all but not less than all the payroll deductions credited to his or her account and not yet used to exercise his or her option under the Plan at any time by giving written notice to the Company in the form of Exhibit B to this Plan. All of the participant's payroll deductions credited to his or her account will be paid to such participant promptly after receipt of notice of withdrawal and such participant's option for the Offering Period will be



automatically terminated, and no further payroll deductions for the purchase of shares will be made for such Offering Period. If a participant withdraws from an Offering Period, payroll deductions will not resume at the beginning of the succeeding Offering Period unless the participant delivers to the Company a new subscription agreement.

(b) Upon a participant's ceasing to be an Employee (as defined in Section 2(g) hereof), for any reason, he or she will be deemed to have elected to withdraw from the Plan and the payroll deductions credited to such participant's account during the Offering Period but not yet used to exercise the option will be returned to such participant or, in the case of his or her death, to the person or persons entitled thereto under Section 14 hereof, and such participant's option will be automatically terminated. The preceding sentence notwithstanding, a participant who receives payment in lieu of notice of termination of employment shall be treated as continuing to be an Employee for the participant's customary number of hours per week of employment during the period in which the participant is subject to such payment in lieu of notice.

11. Interest. No interest shall accrue on the payroll deductions of a  
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participant in the Plan.

12. Stock.  
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(a) The maximum number of shares of the Company's Common Stock which shall be made available for sale under the Plan shall be one hundred twenty-five thousand (125,000), subject to adjustment upon changes in capitalization of the Company as provided in Section 18 hereof. If, on a given Exercise Date, the number of shares with respect to which options are to be exercised exceeds the number of shares then available under the Plan, the Company shall make a pro rata allocation of the shares remaining available for purchase in as uniform a manner as shall be practicable and as it shall determine to be equitable.

(b) The participant will have no interest or voting right in shares covered by his option until such option has been exercised.

(c) Shares to be delivered to a participant under the Plan will be registered in the name of the participant or in the name of the participant and his or her spouse.

13. Administration.  
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(a) Administrative Body. The Plan shall be administered by the Board  
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or a committee of members of the Board appointed by the Board. The Board or its committee shall have full and exclusive discretionary authority to construe, interpret and apply the terms of the Plan, to determine eligibility and to adjudicate all disputed claims filed under the Plan. Every finding, decision and determination made by the Board or its committee shall, to the full extent permitted by law, be final and binding upon all parties.

(b) Rule 16b-3 Limitations. Notwithstanding the provisions of

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Subsection (a) of this Section 13, in the event that Rule 16b-3 promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or any successor provision ("Rule 16b-3") provides specific requirements for the administrators of plans of this type, the Plan shall be only administered by such a body and in such a manner as shall comply with the applicable requirements of Rule 16b-3. Unless permitted by Rule 16b-3, no discretion concerning decisions regarding the Plan shall be afforded to any committee or person that is not "disinterested" as that term is used in Rule 16b-3.

14. Designation of Beneficiary.

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(a) A participant may file a written designation of a beneficiary who is to receive any shares and cash, if any, from the participant's account under the Plan in the event of such participant's death subsequent to an Exercise Date on which the option is exercised but prior to delivery to such participant of such shares and cash. In addition, a participant may file a written designation of a beneficiary who is to receive any cash from the participant's account under the Plan in the event of such participant's death prior to exercise of the option. If a participant is married and the designated beneficiary is not the spouse, spousal consent shall be required for such designation to be effective.

(b) Such designation of beneficiary may be changed by the participant at any time by written notice. In the event of the death of a participant and in the absence of a beneficiary validly designated under the Plan who is living at the time of such participant's death, the Company shall deliver such shares and/or cash to the executor or administrator of the estate of the participant, or if no such executor or administrator has been appointed (to the knowledge of the Company), the Company, in its discretion, may deliver such shares and/or cash to the spouse or to any one or more dependents or relatives of the participant, or if no spouse, dependent or relative is known to the Company, then to such other person as the Company may designate.

15. Transferability. Neither payroll deductions credited to a

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participant's account nor any rights with regard to the exercise of an option or to receive shares under the Plan may be assigned, transferred, pledged or otherwise disposed of in any way (other than by will, the laws of descent and distribution or as provided in Section 14 hereof) by the participant. Any such attempt at assignment, transfer, pledge or other disposition shall be without effect, except that the Company may treat such act as an election to withdraw funds from an Offering Period in accordance with Section 10 hereof.

16. Use of Funds. All payroll deductions received or held by the Company

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under the Plan may be used by the Company for any corporate purpose, and the Company shall not be obligated to segregate such payroll deductions.

17. Reports. Individual accounts will be maintained for each participant

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in the Plan. Statements of account will be given to participating Employees at least annually, which statements will set forth the amounts of payroll deductions, the Purchase Price, the number of shares purchased and the remaining cash balance, if any.

18. Adjustments Upon Changes in Capitalization, Dissolution, Liquidation,

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Merger or Asset Sale.  
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(a) Changes in Capitalization. Subject to any required action by the

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stockholders of the Company, the Reserves as well as the price per share of Common Stock covered by each option under the Plan which has not yet been exercised shall be proportionately adjusted for any increase or decrease in the number of issued shares of Common Stock resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Common Stock, or any other increase or decrease in the number of shares of Common Stock effected without receipt of consideration by the Company; provided, however, that conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration". Such adjustment shall be made by the Board, whose determination in that respect shall be final, binding and conclusive. Except as expressly provided herein, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares of Common Stock subject to an option.

(b) Dissolution or Liquidation. In the event of the proposed

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dissolution or liquidation of the Company, the Offering Periods will terminate immediately prior to the consummation of such proposed action, unless otherwise provided by the Board.

(c) Merger or Asset Sale. In the event of a proposed sale of all or

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substantially all of the assets of the Company, or the merger of the Company with or into another corporation, each option under the Plan shall be assumed or an equivalent option shall be substituted by such successor corporation or a parent or subsidiary of such successor corporation, unless the Board determines, in the exercise of its sole discretion and in lieu of such assumption or substitution, to shorten the Offering Periods then in progress by setting a new Exercise Date (the "New Exercise Date"). If the Board shortens the Offering Periods then in progress in lieu of assumption or substitution in the event of a merger or sale of assets, the Board shall notify each participant in writing, at least ten (10) business days prior to the New Exercise Date, that the Exercise Date for his option has been changed to the New Exercise Date and that his option will be exercised automatically on the New Exercise Date, unless prior to such date he has withdrawn from the Offering Period as provided in Section 10 hereof. For purposes of this paragraph, an option granted under the Plan shall be deemed to be assumed if, following the sale of assets or merger, the option confers the right to purchase, for each share of option stock subject to the option immediately prior to the sale of assets or merger, the consideration (whether stock, cash or other securities or property) received in the sale of assets or merger by holders of Common Stock for each share of Common Stock held on the effective date of the transaction (and if such holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding shares of Common Stock); provided, however, that if such consideration received in the sale of assets or merger was not solely common stock of the successor corporation or its parent (as defined in Section 424(e) of the Code), the Board may, with the consent of the successor corporation, provide for the consideration to be received upon exercise of the option to be solely common stock of the successor corporation or its parent equal in fair

market value to the per share consideration received by holders of Common Stock and the sale of assets or merger.

19. Amendment or Termination.

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(a) The Board of Directors of the Company may at any time and for any reason terminate or amend the Plan. Except as provided in Section 18 hereof, no such termination can affect options previously granted, provided that an Offering Period may be terminated by the Board of Directors on any Exercise Date if the Board determines that the termination of the Plan is in the best interests of the Company and its stockholders. Except as provided in Section 18 hereof, no amendment may make any change in any option theretofore granted which adversely affects the rights of any participant. To the extent necessary to comply with Rule 16b-3 or under Section 423 of the Code (or any successor rule or provision or any other applicable law or regulation), the Company shall obtain stockholder approval in such a manner and to such a degree as required.

(b) Without stockholder consent and without regard to whether any participant rights may be considered to have been "adversely affected," the Board (or its committee) shall be entitled to change the Offering Periods, limit the frequency and/or number of changes in the amount withheld during an Offering Period, establish the exchange ratio applicable to amounts withheld in a currency other than U.S. dollars, permit payroll withholding in excess of the amount designated by a participant in order to adjust for delays or mistakes in the Company's processing of properly completed withholding elections, establish reasonable waiting and adjustment periods and/or accounting and crediting procedures to ensure that amounts applied toward the purchase of Common Stock for each participant properly correspond with amounts withheld from the participant's Compensation, and establish such other limitations or procedures as the Board (or its committee) determines in its sole discretion advisable which are consistent with the Plan.

20. Notices. All notices or other communications by a participant to the

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Company under or in connection with the Plan shall be deemed to have been duly given when received in the form specified by the Company at the location, or by the person, designated by the Company for the receipt thereof.

21. Conditions Upon Issuance of Shares. Shares shall not be issued with

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respect to an option unless the exercise of such option and the issuance and delivery of such shares pursuant thereto shall comply with all applicable provisions of law, domestic or foreign, including, without limitation, the Securities Act of 1933, as amended, the Securities Exchange Act of 1934, as amended, the rules and regulations promulgated thereunder, and the requirements of any stock exchange upon which the shares may then be listed, and shall be further subject to the approval of counsel for the Company with respect to such compliance.

As a condition to the exercise of an option, the Company may require the person exercising such option to represent and warrant at the time of any such exercise that the shares are being purchased only for investment and without any present intention to sell or distribute such shares

if, in the opinion of counsel for the Company, such a representation is required by any of the aforementioned applicable provisions of law.

22. Term of Plan. The Plan shall become effective upon the earlier to

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occur of its adoption by the Board of Directors or its approval by the stockholders of the Company. It shall continue in effect for a term of ten (10) years unless sooner terminated under Section 19 hereof.

23. Automatic Transfer to Low Price Offering Period. To the extent

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permitted by Rule 16b-3 of the Exchange Act, if the Fair Market Value of the Common Stock on any Exercise Date in an Offering Period is lower than the Fair Market Value of the Common Stock on the Enrollment Date of such Offering Period, then all participants in such Offering Period shall be automatically withdrawn from such Offering Period immediately after the exercise of their option on such Exercise Date and automatically re-enrolled in the immediately following Offering Period as of the first day thereof.

24. Stockholder Approval. Continuance of the Plan shall be subject to

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approval by the stockholders of the Company within twelve (12) months before or after the date the Plan is adopted. Such stockholder approval shall be obtained in the degree and manner required under applicable state and federal law.

25. Financial Reports. The Company shall provide to each Optionee, not

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less frequently than annually during the period such Optionee has one or more Options outstanding, copies of annual financial statements. The Company shall not be required to provide such statements to key employees whose duties in connection with the Company assure their access to equivalent information.

EXHIBIT A

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NEUROCRINE BIOSCIENCES, INC.

1996 EMPLOYEE STOCK PURCHASE PLAN

SUBSCRIPTION AGREEMENT

\_\_\_\_ Original Application Enrollment Date: \_\_\_\_\_  
\_\_\_\_ Change in Payroll Deduction Rate  
\_\_\_\_ Change of Beneficiary(ies)

1. \_\_\_\_\_ hereby elects to participate in the Neurocrine Biosciences, Inc. 1996 Employee Stock Purchase Plan (the "Employee Stock Purchase Plan") and subscribes to purchase shares of the Company's Common Stock in accordance with this Subscription Agreement and the Employee Stock Purchase Plan.
2. I hereby authorize payroll deductions from each paycheck in the amount of \_\_\_\_% of my Compensation on each payday (1-15%) during the Offering Period in accordance with the Employee Stock Purchase Plan. (Please note that no fractional percentages are permitted.)
3. I understand that said payroll deductions shall be accumulated for the purchase of shares of Common Stock at the applicable Purchase Price determined in accordance with the Employee Stock Purchase Plan. I understand that if I do not withdraw from an Offering Period, any accumulated payroll deductions will be used to automatically exercise my option.
4. I have received a copy of the complete "Neurocrine Biosciences, Inc. 1996 Employee Stock Purchase Plan." I understand that my participation in the Employee Stock Purchase Plan is in all respects subject to the terms of the Plan. I understand that my ability to exercise the option under this Subscription Agreement is subject to obtaining stockholder approval of the Employee Stock Purchase Plan.
5. Shares purchased for me under the Employee Stock Purchase Plan should be issued in the name(s) of (Employee or Employee and spouse only):  
\_\_\_\_\_.
6. I understand that if I dispose of any shares received by me pursuant to the Plan within 2 years after the Enrollment Date (the first day of the Offering Period during which I purchased such shares) or one year after the Exercise Date, I will be treated for federal income tax purposes as having received ordinary income at the time of such disposition in an amount equal to the excess of the fair market value of the shares at the time such shares were purchased over the price which I paid for the shares. I HEREBY

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AGREE TO NOTIFY THE COMPANY IN WRITING WITHIN

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30 DAYS AFTER THE DATE OF ANY DISPOSITION OF MY SHARES AND I WILL MAKE  
ADEQUATE PROVISION FOR FEDERAL, STATE OR OTHER TAX WITHHOLDING OBLIGATIONS,  
IF ANY, WHICH ARISE UPON THE DISPOSITION OF THE COMMON STOCK. The Company

may, but will not be obligated to, withhold from my compensation the amount necessary to meet any applicable withholding obligation including any withholding necessary to make available to the Company any tax deductions or benefits attributable to sale or early disposition of Common Stock by me. If I dispose of such shares at any time after the expiration of the 2-year and 1-year holding periods, I understand that I will be treated for federal income tax purposes as having received income only at the time of such disposition, and that such income will be taxed as ordinary income only to the extent of an amount equal to the lesser of (1) the excess of the fair market value of the shares at the time of such disposition over the purchase price which I paid for the shares, or (2) 15% of the fair market value of the shares on the first day of the Offering Period. The remainder of the gain, if any, recognized on such disposition will be taxed as capital gain.

- 7. I hereby agree to be bound by the terms of the Employee Stock Purchase Plan. The effectiveness of this Subscription Agreement is dependent upon my eligibility to participate in the Employee Stock Purchase Plan.
- 8. In the event of my death, I hereby designate the following as my beneficiary(ies) to receive all payments and shares due me under the Employee Stock Purchase Plan:

NAME: (Please print) \_\_\_\_\_  
(First) (Middle) (Last)

\_\_\_\_\_  
Relationship

\_\_\_\_\_  
(Address)

Employee's Social Security Number: \_\_\_\_\_

Employee's Address: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

I UNDERSTAND THAT THIS SUBSCRIPTION AGREEMENT SHALL REMAIN IN EFFECT THROUGHOUT SUCCESSIVE OFFERING PERIODS UNLESS TERMINATED BY ME.

Dated: \_\_\_\_\_  
\_\_\_\_\_  
Signature of Employee

\_\_\_\_\_  
Spouse's Signature (If beneficiary other than spouse)



EXHIBIT B

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NEUROCRINE BIOSCIENCES, INC.

1996 EMPLOYEE STOCK PURCHASE PLAN

NOTICE OF WITHDRAWAL

The undersigned participant in the Offering Period of the Neurocrine Biosciences, Inc. 1996 Employee Stock Purchase Plan which began on \_\_\_\_\_, 19\_\_\_\_ (the "Enrollment Date") hereby notifies the Company that he or she hereby withdraws from the Offering Period. He or she hereby directs the Company to pay to the undersigned as promptly as practicable all the payroll deductions credited to his or her account with respect to such Offering Period. The undersigned understands and agrees that his or her option for such Offering Period will be automatically terminated. The undersigned understands further that no further payroll deductions will be made for the purchase of shares in the current Offering Period and the undersigned shall be eligible to participate in succeeding Offering Periods only by delivering to the Company a new Subscription Agreement.

Name and Address of Participant:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Signature:

\_\_\_\_\_

Date: \_\_\_\_\_

## NEUROCRINE BIOSCIENCES, INC.

## 1996 DIRECTOR OPTION PLAN

## 1. Purposes of the Plan. The purposes of this 1996 Director Option Plan

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 are to attract and retain the best available personnel for service as Outside Directors (as defined herein) of the Company, to provide additional incentive to the Outside Directors of the Company to serve as Directors, and to encourage their continued service on the Board.

All options granted hereunder shall be nonstatutory stock options.

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

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 (a) "Board" means the Board of Directors of the Company.  
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(b) "Code" means the Internal Revenue Code of 1986, as amended.  
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(c) "Common Stock" means the Common Stock of the Company.  
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(d) "Company" means Neurocrine Biosciences, Inc.  
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(e) "Continuous Status as a Director" means the absence of any  
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interruption or termination of service as a Director.

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

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

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

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

(ii) If the Common Stock is quoted on the NASDAQ System (but not on the National Market thereof) or regularly quoted by a recognized securities dealer but selling prices

are not reported, the Fair Market Value of a Share of Common Stock shall be the mean between the high bid and low asked prices for the Common Stock on the day of determination, as reported in The Wall Street Journal or such other source as the Board deems reliable, or;

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

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

(k) "Option" means a stock option granted pursuant to the Plan.  
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(l) "Optioned Stock" means the Common Stock subject to an Option.  
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(m) "Optionee" means an Outside Director who receives an Option.  
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(n) "Outside Director" means a Director who is not an Employee.  
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(o) "Parent" means a "parent corporation", whether now or hereafter  
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existing, as defined in Section 424(e) of the Code.

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

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

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

3. Stock Subject to the Plan. Subject to the provisions of Section 10 of  
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the Plan, the maximum aggregate number of Shares which may be optioned and sold under the Plan is one hundred thousand (100,000) Shares (the "Pool") of Common Stock. The Shares may be authorized but unissued, or reacquired Common Stock.

If an Option should expire or become unexercisable for any reason without having been exercised in full, the unpurchased Shares which were subject thereto shall, unless the Plan shall have been terminated, become available for future grant under the Plan; provided, however, that Shares that have actually been issued under the Plan shall not be returned to the Plan and shall not become available for future distribution under the Plan.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

7. Form of Consideration. The consideration to be paid for the Shares to ----- be issued upon exercise of an Option, including the method of payment, shall consist of (i) cash, (ii) check, (iii) other shares which (x) in the case of Shares acquired upon exercise of an Option, have been owned by the Optionee for more than six (6) months on the date of surrender, and (y) have a Fair Market Value on

the date of surrender equal to the aggregate exercise price of the Shares as to which said Option shall be exercised, (iv) delivery of a properly executed exercise notice together with such other documentation as the Company and the broker, if applicable, shall require to effect an exercise of the Option and delivery to the Company of the sale or loan proceeds required to pay the exercise price, or (v) any combination of the foregoing methods of payment.

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

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

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

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

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

(c) Termination of Continuous Status as a Director. In the event an  
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Optionee's Continuous Status as a Director terminates (other than upon the Optionee's death or disability), the Optionee may exercise his or her Option, but only within three (3) months from the date of such termination, and only to the extent that the Optionee was entitled to exercise it on the date of such termination (but in no event later than the expiration of its ten (10) year term). To the extent that the

Optionee was not entitled to exercise an Option on the date of such termination, and to the extent that the Optionee does not exercise such Option (to the extent otherwise so entitled) within the time specified herein, the Option shall terminate.

(d) Disability of Optionee. In the event Optionee's Continuous

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

(e) Death of Optionee. In the event of an Optionee's death, the

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

9. Non-Transferability of Options. The Option may not be sold, pledged,

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assigned, hypothecated, transferred, or disposed of in any manner other than by will or by the laws of descent or distribution and may be exercised, during the lifetime of the Optionee, only by the Optionee.

10. Adjustments Upon Changes in Capitalization, Dissolution, Merger, Asset

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Sale or Change of Control.  
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(a) Changes in Capitalization. Subject to any required action by the

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

(b) Dissolution or Liquidation. In the event of the proposed

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dissolution or liquidation of the Company, to the extent that an Option has not been previously exercised, it will terminate immediately prior to the consummation of such proposed action.

(c) Merger or Asset Sale. In the event of a merger of the Company

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

11. Amendment and Termination of the Plan.

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(a) Amendment and Termination. Except as set forth in Section 4, the

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

(b) Effect of Amendment or Termination. Any such amendment or

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termination of the Plan shall not affect Options already granted and such Options shall remain in full force and effect as if this Plan had not been amended or terminated.

12. Time of Granting Options. The date of grant of an Option shall, for

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all purposes, be the date determined in accordance with Section 4 hereof.

13. Conditions Upon Issuance of Shares. Shares shall not be issued

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pursuant to the exercise of an Option unless the exercise of such Option and the issuance and delivery of such Shares pursuant thereto shall comply with all relevant provisions of law, including, without limitation, the Securities Act of 1933, as amended, the Exchange Act, the rules and regulations promulgated there under, state securities laws, and the requirements of any stock exchange upon which the Shares may



then be listed, and shall be further subject to the approval of counsel for the Company with respect to such compliance.

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

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

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

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

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

UNIT PURCHASE AGREEMENT

AMONG

NEUROSCIENCE PHARMA (NPI) INC.

AND

NEUROCRINE BIOSCIENCES, INC.

AND

THE INVESTORS

MARCH 29, 1996

[CONFIDENTIAL TREATMENT REQUESTED]

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NEUROSCIENCE PHARMA (NPI) INC.

UNIT PURCHASE AGREEMENT

This Unit Purchase Agreement (the "AGREEMENT") is entered into and made effective as of March 29, 1996, among Neuroscience Pharma (NPI) Inc., a Canadian corporation (the "COMPANY"), Neurocrine Biosciences, Inc., a California corporation ("NBI"), and the undersigned investors (collectively the "INVESTORS" and individually an "INVESTOR").

R E C I T A L S

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A. The Investors have agreed to enter into this Agreement and to acquire 51% of the common shares and 100% of the Series A Non-Voting Cumulative Preferred Shares in the capital of the Company (the "COMMON SHARES" or the "SERIES A PREFERRED SHARES", as the case may be, and collectively the "SHARES") together with warrants (the "WARRANTS") held by the Company to purchase shares of NBI's common stock (the "COMMON STOCK") on the terms and conditions contained herein.

B. The Company has agreed to issue and sell to the Investors the Shares and to sell and assign to the Investors the Warrants on the terms and conditions set forth herein.

C. The Shares and Warrants are to be sold in investment units as described in subsection 1.4 below (the "UNITS" and individually a "UNIT") at a purchase price of [\*] per Unit.

NOW, THEREFORE, in consideration of the premises and mutual covenants contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby stipulate and agree as follows:

1. Authorization and Sale of Investment Units.

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1.1 Share Authorization. The Company has authorized the issuance and sale pursuant to this Agreement of the Shares to the Investors upon the terms and conditions set forth herein. The Shares shall have the rights, preferences, and privileges set forth in EXHIBIT A attached hereto.

1.2 Warrant Authorization. The Company has authorized the sale and assignment pursuant to this Agreement of the Warrants upon the terms and conditions set forth herein. The Warrants were issued initially by NBI to Neurocrine Biosciences (Canada) Inc. ("NBCI"), a wholly-owned subsidiary of NBI, as partial payment for common shares in the capital of NBCI. As provided in subsection 6.3 hereof, NBCI must, as a condition to the closing under this Agreement, subscribe for 49% of the Common Shares. Prior to its subscription for

[\* CONFIDENTIAL TREATMENT REQUESTED ]

such Common Shares, NBCI sold and assigned the Warrants to the Company. NBI has authorized the initial issuance and sale as well as the subsequent sale and assignment of the Warrants upon the terms and conditions set forth herein and in other documents delivered in connection with this Agreement.

1.3 Sale of Units. Subject to the terms and conditions hereof, the

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Company will issue and sell to the Investors, and the Investors will purchase from the Company, Units in consideration of the purchase price of [\*] per Unit (the "PURCHASE PRICE") to be delivered in accordance with the provisions of section 2 hereof for a total investment of [\*]. The minimum purchase by each Investor will be [\*] Units.

1.4 Units Defined. Subject to the terms and conditions hereof,

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each Unit sold in connection herewith will consist of the following:

(a) 51 Common Shares;

(b) 10,000 Series A Preferred Shares; and

(c) one Warrant designated as a "Series A Warrant" to purchase,

at the Exercise Price (as defined below), that number of shares of Common Stock which is equal to [\*] of the amount invested by each Investor hereunder (converted into US\$ by using the rate of exchange published in the Wall Street Journal on the last day the newspaper is published preceding the Closing Date) divided by US [\*] (subject to adjustment as set forth in such Warrant), substantially in the form of the attached EXHIBIT B.

The expression "EXERCISE PRICE" means the price per share of Common Stock in US\$ determined as follows: (i) in the event an initial public offering for Common Stock (an "IPO") occurs prior to March 31, 1997, the offering price for Common Stock referred to in the registration statement filed by NBI with the Securities and Exchange Commission (the "IPO PRICE"), (ii) between April 1, 1997 and December 31, 1998, US [\*] or, in the event there has been an IPO, the lesser of US [\*] and the IPO Price, or (iii) between January 1, 1999 and March 26, 2006, US [\*] or, in the event there has been an IPO, the lesser of US [\*] and the IPO Price. The Investors shall not be entitled to exercise the right to purchase Common Stock pursuant to the Series A Warrant prior to March 31, 1997 unless there has been an IPO.

1.5 Allocation of Purchase Price. The Purchase Price shall be

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allocated to the components of a Unit in the following manner:

(a) [\*] for the Common Shares;

(b) [\*] for the Series A Preferred Shares; and

[\* CONFIDENTIAL TREATMENT REQUESTED]

(c) [\*] for the Series A Warrant.

2. Closing; Delivery.  
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2.1 Closing. Subject to the terms and conditions set forth herein,  
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the closing of the sale and purchase of the Units under this Agreement (the "CLOSING") shall be held on March 31, 1996 or such other date mutually agreed to by the parties hereto (the "CLOSING DATE"). The Closing shall take place at such location as the Company and the Investors may agree.

(a) Delivery of Shares and Warrants. At the Closing, the  
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Company shall deliver to each Investor certificates representing the total number of Common Shares and Series A Preferred Shares indicated next to each such Investor's name on the Schedule of Investors attached hereto as EXHIBIT C (the "SCHEDULE OF INVESTORS") as well as a Series A Warrant. The amount to be invested in the Company, by Investor, as of the Closing Date, is reflected in Exhibit C attached hereto.

(b) Payment of Purchase Price. At the Closing, each Investor  
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shall deliver payment of the total Purchase Price due as indicated next to each such Investor's name on the Schedule of Investors, by cheque payable to the Company or wire transfer of immediately available funds to the Company.

(c) Research and Development Agreement. At the Closing, NBCI  
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and the Company will have entered into a research and development agreement dated as of the Closing Date substantially in the form attached hereto as EXHIBIT D (the "RESEARCH AND DEVELOPMENT AGREEMENT").

(d) Payment of Commitment Fee. At the Closing, the Company  
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shall pay to each Investor, by cheque or wire transfer of immediately available funds, a commitment fee equal to 3.15% of the Purchase Price paid by each Investor to purchase Units hereunder.

3. Representations and Warranties of the Company. The Company represents  
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and warrants as follows.

3.1 Organization and Standing; Certificate and By-laws. The Company  
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is a corporation duly incorporated, validly existing and in good standing under the laws of Canada and is in good standing under the laws of the Province of Quebec. The Company has all requisite corporate power and authority to own and operate its properties and assets and to carry on its business as presently conducted and as proposed to be conducted. The Company is not qualified to do business as a foreign corporation in any jurisdiction and the failure to be so qualified is not having and will not have a Material Adverse Effect on the Company. For

[\* CONFIDENTIAL TREATMENT REQUESTED]



purposes of this Agreement, "MATERIAL ADVERSE EFFECT" shall mean any adverse effect or change in the condition (financial or otherwise), business, results of operations, prospects, assets, liabilities or operations of the referenced entity or on its ability to consummate the transactions contemplated hereby or any event or condition which may, with the passage of time, have such an effect or result in such a change. The Company has made available to each Investor copies of its Articles of Incorporation and By-laws. Such copies are true, correct and complete.

3.2 Corporate Power. The Company has all requisite legal and

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corporate power to execute and deliver this Agreement, to issue and sell the Shares, to sell and assign the Warrants hereunder, and to carry out and perform its obligations under the terms of this Agreement.

3.3 Capitalization. The authorized capital of the Company consists

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of an unlimited number of common shares without nominal or par value and an unlimited number of preferred shares without nominal or par value. Immediately prior to the Closing, the Company will have no issued or outstanding capital, nor, except as provided herein or in the other documents delivered in connection with this Agreement, any outstanding options, warrants or other rights to acquire securities of the Company but will have created the Shares for immediate issue and sale.

3.4 Subsidiaries. The Company has no subsidiaries and does not

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otherwise own or control, directly or indirectly, any equity interest in any corporation, association or business entity.

3.5 Authorization. All corporate action on the part of the Company,

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its officers, directors and shareholders necessary for the authorization, execution, delivery and performance by the Company of this Agreement, the authorization, issuance, sale and delivery of the Shares, the sale, assignment and delivery of the Warrants and the performance of all of the Company's obligations under this Agreement has been taken or will be taken prior to the Closing. This Agreement, when executed and delivered by the Company, shall constitute valid and legally binding obligations of the Company enforceable in accordance with their respective terms, subject to laws of general application relating to bankruptcy, insolvency and the relief of debtors and rules of law governing specific performance, injunctive relief or other equitable remedies. The Shares, when issued in compliance with the provisions of this Agreement, will be validly issued, fully paid and non-assessable and will be free of any liens or encumbrances created by the Company, provided, however, that the Shares may be subject to restrictions on transfer under applicable securities laws as well as under the constating documents of the Company, other agreements entered into by the Investors and as set forth herein. The Shares are not subject to any preemptive rights.

3.6 Title to Properties and Assets. The Company has good and

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marketable title to its tangible properties and assets, including the Warrants, in each case subject to no hypothec, mortgage, pledge, lien, lease, loan, encumbrance or charge, except (a) the lien of current taxes not yet due and payable and (b) possible minor liens and encumbrances which do not in any case materially detract from the value of the property subject thereto or materially impair the Company's operations, and which have not arisen otherwise than in the ordinary course of business. With respect to property it leases, the Company is in compliance with such leases in all material respects.

3.7 Patents, Trademarks. The Company has title to and ownership of,

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or is licensed under, all patents, patent applications, trademarks, service marks, trade names, inventions, franchises, copyrights, trade secrets, information and other proprietary rights material to the operation of its business as now conducted and as proposed to be conducted (collectively, the "COMPANY INTELLECTUAL PROPERTY"). The Company has not received any communications alleging that the Company has violated, or by conducting its business as proposed would violate, any proprietary rights of any other person or entity. The Company has no knowledge of, and has no reason to believe there is, any infringement or violation by it of the intellectual property rights of any third party and has no knowledge of, and has no reason to believe there is, any violation or infringement by a third party of any of the Company Intellectual Property. To the best of the Company's knowledge, all of its rights in the Company Intellectual Property are valid and enforceable. The Company does not know of, and has no reason to believe that there is, any challenge to the validity of any of the Company Intellectual Property.

3.8 Compliance with Other Instruments. The Company is not in

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violation of any term of its Articles of Incorporation or By-laws. The Company is not in violation of, nor in default under, the terms of any hypothec, mortgage, indenture, contract, agreement, instrument, judgment or decree applicable to it or to which it is a party, the violation of or default under which would have a Material Adverse Effect on the Company, and the Company is not in violation of any order, statute, rule or regulation applicable to the Company, the violation of which would have a Material Adverse Effect on the Company. The execution, delivery and performance of this Agreement and the transactions contemplated hereby, and compliance with the provisions hereof by the Company, do not and will not, with the passage of time or the giving of notice or both, (a) violate, in any material respect, any provision of any law, statute, rule or regulation or any ruling, writ, injunction, order, judgment or decree of any court, administrative agency or other governmental body or (b) conflict with or result in any breach of any of the terms, conditions or provisions of, or constitute a default (or give rise to any right of termination, cancellation or acceleration) under, or result in the creation of any lien, security interest, charge or encumbrance upon any of the properties or assets of the Company under, the Articles of Incorporation or By-laws of the Company or any material note, indenture, mortgage, lease, agreement, contract, purchase order or other instrument, document or

agreement to which the Company is a party or by which it or any of its properties or assets is bound or affected.

3.9 Litigation. There is no claim, arbitration, action, suit,  
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proceeding or investigation pending, or to the knowledge of the Company, threatened against the Company, which questions the validity of this Agreement or any other agreement entered into by the Company in connection with this Agreement or the right of the Company to enter into any such agreements or to consummate the transactions contemplated hereby or thereby, or which might have, either individually or in the aggregate, a Material Adverse Effect on the Company, or which might result in any material change in the current equity ownership of the Company, nor is the Company aware that there is any basis for the foregoing. The Company is not a party to, nor subject to the provisions of, any order, writ, injunction, judgment or decree of any court or governmental agency or instrumentality which would have a Material Adverse Effect on the Company.

3.10 No Governmental Consent or Approval Required. No authorization,  
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consent, approval or other order of, declaration to, or registration, qualification, designation or filing with, any federal, provincial or local governmental agency or body is required for or in connection with the valid and lawful authorization, execution and delivery by the Company of this Agreement or any other agreement entered into by the Company in connection with this Agreement, and consummation of the transactions contemplated hereby or thereby, or for or in connection with the valid and lawful authorization, issuance, sale and delivery of the Shares and the sale, assignment and delivery of the Warrants other than the qualification (or taking of such action as may be necessary to secure an exemption from qualification if available) of the offer and sale of the Units under the applicable securities laws, which filings and qualifications, if required, will be accomplished in a timely manner so as to comply with such qualification or exemption from qualification requirements.

3.11 Securities Law Exemption. Subject to the accuracy of the  
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Investors' representations in section 5 of this Agreement, the offer and sale of the Units have been registered or qualified (or are exempt from registration and qualification) under the registration, permit or qualification requirements of all applicable securities laws.

3.12 Brokers or Finders. The Company has not incurred, and will not  
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incur, directly or indirectly, as a result of any action taken by or on behalf of the Company, any liability for brokerage or finders' fees or agents' commissions or any similar charges in connection with this Agreement.

3.13 Compliance with Particular Canadian Laws. The Company is a  
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taxable Canadian corporation within the meaning of the Income Tax Act (Canada). The Company carries on no business other than scientific research and experimental development, and the

exploitation and commercialization of such research and development. All or substantially all of the fair market value of the property of the Company is attributable to property used in the Company's business. The Company and all companies related to it have not more than 500 employees. The carrying value of the assets of the Company together with the assets of all related companies (determined in accordance with generally accepted accounting principles on a consolidated or combined basis, where applicable) does not exceed C \$50,000,000. For the purpose of the foregoing, the term "related" shall have the meaning ascribed thereto in the Income Tax Act (Canada).

3.14 Tax Matters. All taxes, including, without limitation, income,  
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excise, property, sales, transfer, use, franchise, payroll, employees' income withholding and social security taxes imposed or assessed by Canada or by any foreign country or by any province, municipality, subdivision or instrumentality of Canada or of any foreign country, or by any other taxing authority, which are due or payable by the Company, and all interest, penalties and additions thereon, whether disputed or not, have been paid in full, and all tax returns or other documents required to be filed in connection therewith have been accurately prepared and duly and timely filed. The Company has not been delinquent in the payment of any foreign or domestic tax, assessment or governmental charge or deposit and has no tax deficiency or claim outstanding, assessed or, to its knowledge, proposed to be assessed against it, and there is no basis for any such deficiency or claim.

3.15 Business. The Company has all necessary franchises, permits,  
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governmental licenses and other governmental rights and privileges necessary to permit it to own its property and to conduct its present business, except where the failure to do so would not have a Material Adverse Effect on the Company. The Company is not in violation of any law, regulation, authorization or order of any public authority relevant to the ownership of its properties or the carrying on of its present business, except where such violation would not have a Material Adverse Effect on the Company.

3.16 Environmental and Safety Laws. To its knowledge, the Company is  
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in compliance with every applicable statute, law or regulation relating to the environment or occupational health and safety, except where the failure to so comply would not have a Material Adverse Effect on the Company and, to the Company's knowledge, no expenditures are required in order to comply with any such existing statute, law or regulation. In addition, the Company has received no notices of non-compliance in respect of any such statute, law or regulation.

3.17 Transactions with Affiliates. Other than as set forth in this  
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Agreement, the Research and Development Agreement and the other documents delivered in connection with this Agreement, no shareholder, officer or director of the Company, nor any affiliate of such persons (a "RELATED PARTY") is a party to any material transaction with the Company except

employment and consulting agreements, including, without limitation, any contract, agreement or other arrangement providing for the rental of immovable (real) or movable (personal) property from, or otherwise requiring payments to, any Related Party.

3.18 Disclosure. This Agreement, and the other written information

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furnished by the Company to the Investors, when read together, do not contain any untrue statements of a material fact or omit to state any material fact necessary to make the statements contained herein or therein not misleading in view of the circumstances under which they were made.

4. Representations and Warranties of NBI. Except as otherwise set forth

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on NBI's Schedule of Exceptions attached as EXHIBIT E, NBI represents and warrants as follows.

4.1 Organization and Standing; Certificate and By-laws. NBI is a

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corporation duly incorporated, validly existing and in good standing under the laws of the State of California. NBI has all requisite corporate power and authority to own and operate its properties and assets and to carry on its business as presently conducted and as proposed to be conducted. NBI is not qualified to do business as a foreign corporation in any jurisdiction and the failure to be so qualified is not having and will not have a Material Adverse Effect on NBI. NBI has made available to the Investors copies of its Articles of Incorporation and By-laws. Such copies are true, correct and complete.

4.2 Corporate Power. NBI has all requisite legal and corporate power

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to execute and deliver this Agreement and the Investors Rights Agreement (as defined in subsection 4.10 hereof), to sell and issue the Warrants in connection herewith and to carry out and perform its obligations under the terms of this Agreement and the Investors Rights Agreement.

4.3 Capitalization. The authorized capital stock of NBI consists of

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100,000,000 shares of Common Stock, US \$0.001 par value, and 10,000,000 shares of undesignated Preferred Stock, US \$0.001 par value. The outstanding capital stock of NBI and the outstanding options, warrants and other rights to acquire capital stock of NBI as of the Closing Date, other than as contemplated by the transactions in connection herewith, are as set forth in subsection 4.3 of the NBI Schedule of Exceptions. All issued and outstanding shares of NBI's capital stock have been duly authorized and validly issued, are fully paid and non-assessable, and were issued in compliance with applicable United States federal and state securities laws. There are no other outstanding shares of capital stock or outstanding rights of first refusal, preemptive rights or, except as provided herein or in the other documents delivered in connection with this Agreement, other rights, options, warrants, conversion rights, or other agreements either directly or indirectly for the purchase or acquisition of any shares of its capital stock from NBI or, to the best of NBI's knowledge, any third party. Except for its 1992 Incentive Stock Plan, NBI has no employee stock option, stock purchase or other similar incentive stock plans.

4.4 Subsidiaries. Other than the Company and NBCI, NBI has no

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subsidiaries or affiliated companies and does not otherwise own or control, directly or indirectly, any equity interest in any corporation, association or business entity.

4.5 Authorization. All corporate action on the part of NBI, its

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officers, directors and shareholders necessary for the authorization, execution, delivery and performance by NBI of this Agreement, the authorization, initial issuance, sale and delivery as well as the subsequent sale, assignment and delivery of the Warrants, and the performance of all of NBI's obligations under this Agreement has been taken or will be taken prior to the Closing. This Agreement, when executed and delivered by NBI, shall constitute valid and legally binding obligations of NBI enforceable in accordance with their respective terms, subject to laws of general application relating to bankruptcy, insolvency and the relief of debtors and rules of law governing specific performance, injunctive relief or other equitable remedies. A sufficient number of shares of Common Stock has been reserved for issuance upon exercise of the Warrants and the shares issuable upon exercise of the Warrants, when issued in compliance with the provisions of this Agreement and the Warrants, will be validly issued, fully paid and non-assessable, and such shares will be free of any liens or encumbrances created by NBI, provided, however, that such shares may be subject to restrictions on transfer under applicable securities laws as set forth herein.

4.6 Title to Properties and Assets. NBI has good and marketable

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title to its tangible properties and assets, and has good title to all its leasehold interests, in each case subject to no hypothec, mortgage, pledge, lien, lease, loan, encumbrance or charge, except (a) the lien of current taxes not yet due and payable, and (b) possible minor liens and encumbrances which do not in any case materially detract from the value of the property subject thereto or materially impair NBI's operations, and which have not arisen otherwise than in the ordinary course of business. With respect to property it leases, NBI is in compliance with such leases in all material respects.

4.7 Financial Statements. NBI has delivered to the Investors its

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audited balance sheet as of December 31, 1995 and its audited statements of operations, cash flows and stockholder's equity for the year then ended (the "AUDITED FINANCIAL STATEMENTS"). The Audited Financial Statements are true, correct and complete in all material respects, are in accordance with the books and records of NBI, have been prepared in accordance with generally accepted accounting principles consistently applied and fairly and accurately present the financial position of NBI as of the dates stated therein. The Audited Financial Statements have been audited by Ernst & Young, NBI's independent auditors. Except as and to the extent reflected or stated in the Audited Financial Statements, and except for liabilities arising in the ordinary course of its business and consistent with past practice, NBI has no debts, liabilities or obligations of any nature, whether accrued, absolute or contingent, assigned or otherwise, whether due or to become due. Since December 31, 1995, there has been no (a) Material Adverse Effect on NBI,

(b) declaration, setting aside or payment of any dividend or other distribution with respect to the capital stock of NBI, or (c) loss, destruction or damage to any property of NBI, whether or not insured, which has had or may have a Material Adverse Effect on NBI.

4.8 Compliance with Other Instruments. NBI is not in violation of

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any term of its Articles of Incorporation or By-laws, as amended to date. NBI is not in violation of, nor in default under, the terms of any mortgage, indenture, contract, agreement, instrument, judgment or decree applicable to it or to which it is a party, the violation of or default under which would have a Material Adverse Effect on NBI, and NBI is not in violation of any order, statute, rule or regulation applicable to NBI, the violation of which would have a Material Adverse Effect on NBI. The execution, delivery and performance of this Agreement and the Investors Rights Agreement, and the transactions contemplated hereby and thereby, and compliance with the provisions hereof and thereof by NBI, do not and will not, with the passage of time or the giving of notice or both, (a) violate, in any material respect, any provision of any law, statute, rule or regulation or any ruling, writ, injunction, order, judgment or decree of any court, administrative agency or other governmental body or (b) conflict with or result in any breach of any of the terms, conditions or provisions of, or constitute a default (or give rise to any right of termination, cancellation or acceleration) under, or result in the creation of any lien, security interest, charge or encumbrance upon any of the properties or assets of NBI, under the Articles of Incorporation or By-laws, as amended to date, of NBI or any material note, indenture, mortgage, lease, agreement, contract, purchase order or other instrument, document or agreement to which NBI is a party or by which it or any of its properties or assets is bound or affected.

4.9 Patents, Trademarks. NBI has title to and ownership of, or is

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licensed under, all patents, patent applications, trademarks, service marks, trade names, inventions, franchises, copyrights, trade secrets, information and other proprietary rights material to the operation of its business as now conducted and as proposed to be conducted (collectively, the "NBI INTELLECTUAL PROPERTY"). NBI has not received any communications alleging that NBI has violated, or by conducting its business as proposed would violate, any proprietary rights of any other person or entity. NBI has no knowledge of, and has no reason to believe there is, any infringement or violation by it of the intellectual property rights of any third party and has no knowledge of, and has no reason to believe there is, any violation or infringement by a third party of any of the NBI Intellectual Property. To the best of NBI's knowledge, all of its rights in the NBI Intellectual Property are valid and enforceable. NBI does not know of, and has no reason to believe that there is, any challenge to the validity of any of the NBI Intellectual Property.

4.10 Registration Rights. Except as provided in the existing

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Information and Registration Rights Agreement made as of September 25, 1992 (a copy of which has been provided to the Investors) and a New Registration Rights Agreement (a copy of which is

attached hereto as EXHIBIT F) (the "INVESTORS RIGHTS AGREEMENT"), NBI is not under any contractual obligation to register any of its presently outstanding securities or any of its securities which may hereafter be issued.

4.11 Litigation. There is no claim, arbitration, action, suit,

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proceeding or investigation pending, or to the knowledge of NBI, threatened against NBI, which questions the validity of this Agreement or any other agreement entered into by NBI in connection with this Agreement or the right of NBI to enter into any such agreements or to consummate the transactions contemplated hereby or thereby, or which might have, either individually or in the aggregate, a Material Adverse Effect on NBI, or which might result in any material change in the current equity ownership of NBI, nor is NBI aware that there is any basis for the foregoing. NBI is not a party to, nor subject to the provisions of, any order, writ, injunction, judgment or decree of any court or governmental agency or instrumentality which would have a Material Adverse Effect on NBI.

4.12 No Governmental Consent or Approval Required. No authorization,

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consent, approval or other order of, declaration to, or registration, qualification, designation or filing with, any federal, state or local governmental agency or body is required for or in connection with the valid and lawful authorization, execution and delivery by NBI of this Agreement, the Investors Rights Agreement or any other agreement entered into by NBI in connection with this Agreement, and consummation of the transactions contemplated hereby or thereby, or for or in connection with the valid and lawful authorization, initial issuance, sale and delivery and subsequent sale, assignment and delivery of the Warrants other than the qualification (or taking of such action as may be necessary to secure an exemption from qualification if available) of the offer, sale and assignment of the Warrants under the applicable state securities laws, which filings and qualifications, if required, will be accomplished in a timely manner so as to comply with such qualification or exemption from qualification requirements.

4.13 Securities Law Exemption. Subject to the accuracy of the

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Investors' representations in section 5 of this Agreement, the initial issuance and sale as well as the subsequent sale and assignment and the offer, sale and assignment contemplated herein of the Warrants constitute transactions exempt from the registration and prospectus delivery requirements of the Securities Act of 1933, as amended (the "1933 ACT"), and have been registered or qualified (or are exempt from registration and qualification) under the registration, permit or qualification requirements of all applicable state securities laws.

4.14 Brokers or Finders. NBI has not incurred, and will not incur,

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directly or indirectly, as a result of any action taken by or on behalf of NBI, any liability for brokerage or finders' fees or agents' commissions or any similar charges in connection with this Agreement.



4.15 Employees. Each of NBI's employees has executed NBI's form of

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Employee Proprietary Information Agreement. To the best of NBI's knowledge, no employee of NBI is in violation of any term of any employment agreement, propriety information agreement or any other contract or agreement relating to the relationship of such employee with NBI or any other party because of the nature of the business conducted or to be conducted by NBI.

4.16 Tax Matters. All taxes, including, without limitation, income,

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excise, property, sales, transfer, use, franchise, payroll, employees' income withholding and social security taxes imposed or assessed by the United States or by any foreign country or by any state, municipality, subdivision or instrumentality of the United States or of any foreign country, or by any other taxing authority, which are due or payable by NBI, and all interest, penalties and additions thereon, whether disputed or not, have been paid in full, and all tax returns or other documents required to be filed in connection therewith have been accurately prepared and duly and timely filed. NBI has not been delinquent in the payment of any foreign or domestic tax, assessment or governmental charge or deposit and has no tax deficiency or claim outstanding, assessed or, to its knowledge, proposed to be assessed against it, and there is no basis for any such deficiency or claim. The provisions for taxes in the Audited Financial Statements are sufficient for the payment of all accrued and unpaid federal, state, county and local taxes of NBI.

4.17 Business. NBI has all necessary franchises, permits,

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governmental licenses and other governmental rights and privileges necessary to permit it to own its property and to conduct its present business, except where the failure to do so would not have a Material Adverse Effect on NBI. NBI is not in violation of any law, regulation, authorization or order of any public authority relevant to the ownership of its properties or the carrying on of its present business, except where such violation would not have a Material Adverse Effect on NBI.

4.18 Environmental and Safety Laws. To its knowledge, NBI is in

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compliance with every applicable statute, law or regulation relating to the environment or occupational health and safety, except where the failure to so comply would not have a Material Adverse Effect on NBI and, to NBI's knowledge, no expenditures are required in order to comply with any such existing statute, law or regulation.

4.19 Transactions with Affiliates. Other than as set forth in this

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Agreement, the Research and Development Agreement and the other documents delivered in connection with this Agreement, no shareholder, officer or director of NBI, nor a Related Party is a party to any material transaction with NBI except employment and consulting agreements, including, without limitation, any contract, agreement or other arrangement providing for the rental of real or personal property from, or otherwise requiring payments to, any Related Party.

4.20 Investment Company. NBI is not an "investment company" within

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the meaning of the Investment Company Act of 1940, as amended, and will not, as a result of the transactions contemplated hereby, become an "investment company".

4.21 Disclosure. This Agreement, the Investors Rights Agreement and

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the other written information furnished by NBI to the Investors, when read together, do not contain any untrue statements of a material fact or omit to state any material fact necessary to make the statements contained herein or therein not misleading in view of the circumstances under which they were made.

5. Representations and Warranties of the Investors; Restrictions on

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Transferability of Securities.  
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5.1 Authorization. Each Investor represents and warrants that this

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Agreement, when executed and delivered by the Investors, will constitute a valid and legally binding obligation of the Investors, enforceable in accordance with its terms, subject to laws of general application relating to bankruptcy, insolvency and the relief of debtors and rules of law governing specific performance, injunctive relief or other equitable remedies.

5.2 Accredited Investor. Each Investor represents and warrants that,

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for Canadian income tax purposes, it is not a public corporation (other than a "prescribed venture capital corporation", as such expression is defined pursuant to section 6700 of the Income Tax Regulations), and it is not a non-resident of Canada. Where an Investor is a partnership, such Investor represents and warrants that 90% or more of the interests in the partnership are owned by (i) trusts that are not non-residents of Canada for Canadian income tax purposes, (ii) persons that, for Canadian income tax purposes, are not public corporations (other than "prescribed venture capital corporations", as such expression is defined pursuant to section 6700 of the Income Tax Regulations) and are not non-residents of Canada, or (iii) a combination of the foregoing. Each Investor represents and warrants that, for the purposes of the Income Tax Act (Canada), it does not, alone or, to the best of its knowledge after due inquiry, in concert with any other Investor, control directly or indirectly in any manner whatever, the Company, and is not related to (as defined in the Income Tax Act (Canada)) the Company. Each of Canadian Medical Discoveries Fund, Inc. and the Health Care and Biotechnology Venture Fund represents and warrants that it is liable to income tax under Part I of the Income Tax Act (Canada). Insofar as NBI is concerned, it is an "Accredited Investor" as defined under Regulation D promulgated under the 1933 Act and has substantial experience in evaluating and investing in private placement transactions of securities in companies similar to the Company and NBI so that it is capable of evaluating the merits and risks of its investment in the Company and NBI and has the capacity to protect its own interests.

5.3 Investment. Each Investor represents and warrants that it is

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acquiring the Units for investment for its own account, not as a nominee or agent, and not with the view to, or for resale in connection with, any "distribution" thereof for purposes of the 1933 Act or otherwise and that it was not created or established solely to acquire securities under a prospectus exemption pursuant to applicable securities laws. Each Investor understands that the shares of the Common Stock issuable in respect of the Units have not been, and will not be, registered under the 1933 Act by reason of a specific exemption from the registration provisions of the 1933 Act, the availability of which depends upon, among other things, the bona fide nature of the investment intent and the accuracy of each Investor's representations as expressed herein. Furthermore, each Investor undertakes to execute and deliver all documents as may be required under applicable securities laws to permit the purchase of the Units on the terms herein set forth.

5.4 Rule 144 and Regulation S. Each Investor acknowledges that the

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shares of Common Stock issuable in respect of the Warrants must be held indefinitely unless subsequently registered under the 1933 Act, unless an exemption from such registration is available. Each Investor is aware of the provisions of Rule 144 promulgated under the 1933 Act ("RULE 144") which permit limited resale of shares purchased in a private placement subject to the satisfaction of certain conditions, including, among other things, the existence of a public market for the shares, the availability of certain current public information about NBI, the resale occurring not less than two years after a party has purchased and paid for the security to be sold, the sale being effected through a "broker's transaction" or in transactions directly with a "market maker" and the number of shares being sold during any three (3) month period not exceeding specified limitations. If Regulation S is available for use as an applicable exemption under the 1933 Act, each party hereto agrees to use its best efforts to have the issuance of the shares of Common Stock upon the exercise of the Warrants qualify under Regulation S.

5.5 No Public Market. Each Investor understands that no public

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market now exists for any of the securities issued by the Company or NBI and that the Company and NBI have made no assurances that a public market will ever exist for the such securities. Furthermore, each Investor understands that restrictions on the resale of such securities exist and that any resale may only take place in compliance with applicable securities laws, the provisions of subsection 5.9 and the Unanimous Shareholders Agreement substantially in the form attached hereto as EXHIBIT G, to be entered into by the Company, the Investors and NBCI at the Closing.

5.6 Access to Data. Each Investor represents and warrants that it

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has had sufficient opportunity to discuss the Company's and NBI's business, management and financial affairs with the their management and has also had sufficient opportunity to ask questions of their officers, which questions were answered to its satisfaction.

5.7 Brokers or Finders. Each Investor represents and warrants that

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it has not engaged any brokers, finders, or agents and has not incurred, and will not incur, directly or indirectly, any liability for brokerage or finder's fee or agents, commissions or any similar charges in connection with this Agreement and the transactions contemplated hereby.

5.8 California Corporate Securities Laws. THE SALE OF THE SECURITIES

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WHICH ARE THE SUBJECT OF THIS AGREEMENT HAS NOT BEEN QUALIFIED WITH THE COMMISSIONER OF CORPORATIONS OF THE STATE OF CALIFORNIA AND THE ISSUANCE OF SUCH SECURITIES OR THE PAYMENT OR RECEIPT OF ANY PART OF THE CONSIDERATION THEREFOR PRIOR TO SUCH QUALIFICATION IS UNLAWFUL UNLESS THE SALE OF SECURITIES IS EXEMPT FROM QUALIFICATION BY SECTION 25100, 25102 OR 25105 OF THE CALIFORNIA CORPORATIONS CODE. THE RIGHTS OF ALL PARTIES TO THIS AGREEMENT ARE EXPRESSLY CONDITIONED UPON SUCH QUALIFICATION BEING OBTAINED, UNLESS THE SALE IS SO EXEMPT.

5.9 Transfer of Restricted Securities. Each Investor covenants that

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in no event will it dispose of any of the Warrants (other than if a Registration Statement is in effect with respect to such Warrants or in a disposition pursuant to Rule 144 or Regulation S or any similar or analogous rule) unless and until (a) such Investor shall have notified NBI of the proposed disposition and shall have furnished NBI with a statement of the circumstances surrounding the proposed disposition that are necessary to the availability of an exemption under the 1933 Act other than Rule 144 or Regulation S, and (b), if requested by NBI, each such Investor shall have furnished NBI with an opinion of counsel satisfactory in form and substance to NBI to the effect that: (i) such disposition will not require registration under the 1933 Act and (ii) appropriate action necessary for compliance with the 1933 Act and any applicable state, local or foreign law has been taken.

5.10 Legends. The certificates representing the Warrants shall

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bear the following legends:

(a) "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."; and

(b) any additional legend(s) required by the Commissioner of Corporations of the State of California or pursuant to any state, local or foreign law governing such securities.

The legend set forth in paragraph 5.10(a) above shall be removed if the shares represented by such certificate (a) may be transferred in compliance with Rule 144(k) or Regulation S under the Act, (b) are effectively registered under the Act or otherwise lawfully sold in a public transaction, or (c) may be publicly sold without registration under the Act in the opinion of counsel for the Investor as set forth in subsection 5.9 above. The legend set forth in paragraph 5.10(b) above shall be removed at such time as NBI receives an order from the appropriate state or other governmental authority authorizing such removal.

6. Conditions to Closing  
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6.1 Conditions to Closing of Investors. The Investors' obligations  
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to purchase the Units at the Closing are subject to the fulfilment on or prior to the Closing Date of the following conditions, any of which may be waived in whole or in part by the Investors.

(a) The representations and warranties made by the Company and NBI in sections 3 and 4 hereof shall be true and correct in all material respects on the Closing Date with the same force and effect as if they had been made on and as of that date.

(b) All covenants, agreements and conditions contained in this Agreement to be performed, complied with or satisfied by the Company and NBI on or prior to the Closing Date shall have been performed, complied with or satisfied.

(c) The Company and NBI shall have obtained all consents, permits and waivers necessary to consummate the transactions contemplated by this Agreement.

(d) The Company and NBI shall have delivered to each Investor certificates, executed by the President or a Vice President of each and dated as of the Closing Date, certifying the fulfilment of the conditions specified in paragraphs 6.1(a), (b) and (c) above and shall have delivered to each Investor a certificate of the Secretary or an Assistant Secretary certifying the receipt of all necessary board and shareholder approvals in connection with the transactions contemplated by this Agreement.

(e) The purchase of the Units by the Investors hereunder shall be legally permitted by all laws and regulations to which the Investors, the Company and NBI are subject.

(f) The Investors shall have received from Byers Casgrain, a General Partnership, counsel to the Company, and Wilson Sonsini Goodrich & Rosati, counsel to NBI,

opinions addressed to the Investors dated the Closing Date, in forms satisfactory to the Investors.

(g) All corporate and other proceedings in connection with the transactions contemplated at the Closing and all documents incident thereto shall be reasonably satisfactory in form and substance to the Investors and special counsel to the Investors, and they shall have received all such counterpart original and certified or other copies of such documents as they may reasonably request.

6.2 Conditions to Closing of Company and NBI. The Company's

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obligation to issue and sell the Units at the Closing are subject to the fulfillment to the Company's and NBI's satisfaction on or prior to the Closing Date of the following conditions, any of which may be waived in whole or in part.

(a) The representations and warranties made by the Investors shall be true and correct in all material respects on the Closing Date with that force and effect as if they had been made on and as of that date; and each Investor shall have performed or satisfied all obligations and conditions required to be performed or satisfied by it on or prior to each closing date.

(b) The Company and NBI shall have obtained all consents, permits and waivers necessary to consummate the transactions contemplated by this Agreement.

(c) At the Closing, the purchase by the Investors of the Units shall be legally permitted by all laws and regulations to which the Investors, the Company and NBI are subject.

6.3 Conditions to Closing of all Parties. The Investors' obligations

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to purchase and the Company's obligations to issue and sell the Units at the Closing are subject to the simultaneous issue and sale by the Company and the purchase by NBCI of 49% of the common shares without par value in the capital of the Company on the Closing Date.

7. Covenants of the Company. The Company hereby covenants and agrees as

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follows.

7.1 Financial Information. The Company will provide each Investor

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with the following reports for so long as the Investor is a holder of any Shares:

(a) as soon as practicable after the end of each fiscal year, and in any event within 120 days thereafter, consolidated balance sheets of the Company and of NBI as of the end of such fiscal year, and consolidated statements of income, stockholders' equity and cash flows of the Company and its subsidiaries, if any, for such year, prepared in accordance

with generally accepted accounting principles and setting forth in each case in comparative form the figures for the previous fiscal year, all in reasonable detail and audited by independent auditors of national standing selected by the Company or NBI; and

(b) as soon as practicable after the end of each fiscal quarter and in any event within 45 days thereafter, a consolidated balance sheet of the Company and its subsidiaries, if any, as of the end of each such quarter, and consolidated statements of income and cash flows of the Company and its subsidiaries for such quarter (set forth on a monthly basis) and for the current fiscal year to date, and setting forth in comparative form the budgeted figures for such quarter and for the current fiscal year to date then reported, prepared in accordance with generally accepted accounting principles (other than for accompanying notes and subject to changes resulting from normal year-end audit adjustments).

7.2 CMDF Related Covenant. For as long as Canadian Medical  
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Discoveries Fund, Inc. owns Shares, the representations and warranties made by the Company pursuant to subsection 3.13 hereof shall remain true.

8. Registration Rights. NBI hereby grants to the Investors, as holders  
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of the shares of Common Stock issuable upon exercise of the Warrants, the registration rights set forth in the Investors Rights Agreement. The Investors agree to be bound by the provisions of the Investors Rights Agreement.

9. Miscellaneous.  
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9.1 Governing Law. This Agreement and all documents relating to it  
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shall be governed by and construed under the laws applicable in the Province of Quebec.

9.2 Survival. The representations, warranties, covenants and  
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agreements made herein shall survive any investigation made by the Investors and the closing of the transactions contemplated hereby. All statements as to factual matters contained in any certificate or other instrument delivered pursuant hereto or in connection with the transactions contemplated hereby shall be deemed to be representations and warranties hereunder as of the date of such certificate or instrument.

9.3 Finder's Fee. Each party represents that it neither is nor will  
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be obligated for any finder's fee or commission in connection with this transaction. The Investors, the Company and NBI each agree to indemnify and hold harmless the other parties hereto from any liability for any commission or compensation in the nature of a finder's fee (and the costs and expenses of defending against such liability or asserted liability) for which the Investors, the Company or NBI respectively is responsible.

9.4 Successors and Assigns. Except as otherwise expressly provided,  
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the provisions of this Agreement shall inure to the benefit of, and be binding upon, the successors, assigns, heirs, executors, and administrators of the parties, provided that the Investors shall not have the right to transfer their obligations to purchase the Shares or Warrants hereunder.

9.5 Entire Agreement. This Agreement, the Exhibits and the other  
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documents delivered in connection with this Agreement constitute the full and entire understanding and agreement among the parties with regard to the subjects hereof and no party shall be liable or bound to any other party in any manner by any representations, warranties, covenants or agreements except as specifically set forth herein or therein. Nothing in this Agreement, express or implied, is intended to confer upon any third party any rights, remedies, obligations, or liabilities under or by reason of this Agreement, except as expressly provided herein.

9.6 Severability. In case any provision of this Agreement becomes or  
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is declared by a court of competent jurisdiction to be unenforceable, this Agreement shall continue in full force and effect without said provision; provided, however, that no such severability shall be effective if it materially changes the economic benefit of this Agreement to any party.

9.7 Delays or Omissions. No delay or omission to exercise any right,  
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power, or remedy accruing to the Investors or any subsequent holder of any Shares or Warrants upon any breach, default or non-compliance of the Company or NBI under this Agreement or under their respective Articles of Incorporation, shall impair any such right, power, or remedy, nor shall it be construed to be a waiver of any such breach, default or non-compliance, or any acquiescence therein, or of any similar breach, default or non-compliance thereafter occurring. It is further agreed that any waiver, permit, consent, or approval of any kind or character on the Investors' part of any breach, default or non-compliance under this Agreement or under such Articles of Incorporation or any waiver on the Investors' part of any provisions or conditions of this Agreement must be in writing and shall be effective only to the extent specifically set forth in such writing, and that all remedies, either under this Agreement or otherwise afforded to the Investors, shall be cumulative and not alternative.

9.8 Notices. All notices and other communications required or  
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permitted hereunder shall be in writing and shall be deemed effectively given upon personal delivery or upon deposit with the applicable postal service, by first class mail, postage prepaid, addressed: (a) if to an Investor, at such Investor's address as set forth at the end of this Agreement, or at such other address as the Investors shall have furnished to the Company in writing, (b) if to the Company, at its addresses as set forth at the end of this Agreement, or at such other address as the Company shall have furnished to the Investors in writing or (c) if to NBI, at its address as set forth at the end of this Agreement, or at such other address as NBI shall have furnished to the Investors in writing.



9.9 Expenses. The Company shall be responsible for the payment of

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all reasonable costs and expenses incurred by the Investors with respect to the negotiation, execution, delivery and performance of this Agreement, including legal fees, up to a total amount of C \$70,000.

9.10 Titles and Subtitles. The titles of the sections and

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subsections of this Agreement are for convenience of reference only and are not to be considered in construing this Agreement.

9.11 Counterparts. This Agreement may be executed in any number of

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counterparts, each of which is an original, and all of which together shall constitute one instrument.

9.12 Language. This Agreement is executed by the parties in French

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and English. The parties expressly agree that in the event of any misunderstanding, dispute or controversy (collectively, a "DISPUTE") amongst them with respect to the interpretation of any of the provisions of this Agreement, the French version of this Agreement will have precedence and be the only version to apply and be used for the resolution of such Dispute. As an exception only, and recognizing the principle that the French version shall have precedence, if a Dispute arises between any parties in connection with the interpretation to be given to any provision of this Agreement, any court before which such Dispute is referred for resolution will be permitted to refer to the English version of this Agreement in order to determine the intention of the parties at the time this Agreement was entered into.

IN WITNESS WHEREOF, the foregoing Agreement is executed as of the date first above written.

COMPANY:

NEUROSCIENCE PHARMA (NPI) INC.

By: /s/ Paul W. Hewran

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

Addresses: 770 Sherbrooke Street West  
Suite 1300  
Montreal, Quebec  
H3A 1G1

Attention: Luc LaRochelle

1 Place Ville Marie  
Suite 3900  
Montreal, Quebec, Canada  
H3B 4M7

Attention: Paul F. Dingle

NBI:

NEUROCRINE BIOSCIENCES, INC.

By: /s/ Paul W. Hawran

-----  
Title: S.V.P & CEO  
-----

Address: 3050 Science Park Road  
San Diego CA 92121-1102  
USA

Attention: Paul W. Hawran

INVESTORS:

SOFINOV SOCIETE FINANCIERE  
D'INNOVATION INC.

By: /s/ Carmen Crepin  
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Title:  
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By:  
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Title:  
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Address: 1981 McGill College Avenue  
Suite 725  
Montreal, Quebec, Canada  
H3A 3C7

Attention:  
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NEUROSCIENCE PARTNERS LIMITED  
PARTNERSHIP BY ITS GENERAL PARTNER MDS ASSOCIATES  
NEUROSCIENCE INC.

By: /s/ Michael J. Callagan  
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Title: Michael J. Callagan, Vice President  
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By: /s/ Keith J. Dorrington  
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Title: Keith J. Dorrington, Vice President  
-----

Address: 100 International Blvd.  
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Etobicoke, Ontario  
-----

Canada M9W 6J6  
-----

Attention: Secretary  
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BUSINESS DEVELOPMENT BANK OF CANADA

By: /s/ Mark Vandzura

Title: Investment Manager

By:

Title:

Address: 5 Place Ville Marie

Suite R10

Montreal, Quebec H3B SE1

Attention:

CANADIAN MEDICAL DISCOVERIES FUND, INC.

By: /s/ E. Rygiel

Title: Edward K. Rygiel, Director

By: /s/ Frank Gleeson,

Title: Frank Gleeson, Vice-President

Address: 100 International Blvd.

Etobicoke, Ontario

Canada M9W 6J6

Attention: Secretary

THE HEALTH CARE AND BIOTECHNOLOGY VENTURE FUND  
BY ITS MANAGER MDS HEALTH VENTURES CAPITAL CORP.

By: /s/ Michael J. Callagnan

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Title: Michael J. Callagnan, Vice President

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By: /s/ Keith J. Dorrington

-----  
Title: Keith J. Dorrington, Vice President

-----  
Address: 100 International Blvd.

-----  
Etobicoke, Ontario

-----  
Canada M9W 6J6

-----  
Attention: Secretary

EXHIBIT A  
TO UNIT PURCHASE AGREEMENT

NEUROSCIENCE PHARMA (NPI) INC.  
-----  
(the "Corporation")

SCHEDULE A  
ARTICLES OF INCORPORATION

3 - The classes and any maximum number of shares that the Corporation is authorized to issue:

The Corporation is authorized to issue the following shares:

- (a) an unlimited number of common shares without par value to be issued for an unlimited consideration; and
- (b) an unlimited number of Series A Preferred Shares without par value to be issued for an unlimited consideration.

The said common shares and Series A Preferred Shares shall carry and be subject to the following rights, privileges, restrictions and conditions:

SERIES A PREFERRED SHARES  
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DIVIDENDS  
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1. The holders of the Series A Preferred Shares shall be entitled to receive, when and as declared by resolution of the Board of Directors and in the discretion of the Board of Directors, subject to the provisions of the Canada Business Corporations Act (the "Act"), cumulative preferential dividends equal to the royalties received by the Corporation per annum from Neurocrine Biosciences (Canada) Inc. ("NBCI"), an affiliate thereof or a third party under contract with NBCI or under contract with an affiliate thereof, as revenue from the commercialization and sale outside of and in Canada of certain products developed by the Corporation, net of any income, sales or other taxes payable thereon by the Corporation, such dividends to be payable at such times and in such amounts and at such place or places in Canada as the Board of Directors may from time to time determine. As such dividends shall be cumulative, they shall accrue from the respective dates of issue of the said Series A Preferred Shares.

No dividends shall at any time be declared, paid or set apart for payment for any financial year of the Corporation upon the common shares of the Corporation unless all accrued dividends on the Series A Preferred Shares then issued and outstanding shall have been declared and paid or set apart for payment at the date of such declaration and payment or setting apart for payment.

RETURN OF CAPITAL

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2. In the event of the liquidation, dissolution or bankruptcy of the Corporation, whether voluntary or otherwise, or on any distribution of assets among the shareholders in order to liquidate the affairs of the Corporation, the holders of the Series A Preferred Shares shall be entitled to receive, for each Series A Preferred Share issued and outstanding, an amount equal to the Redemption Price in priority to any distribution to the holders of the common shares of the Corporation. The holders of the Series A Preferred Shares shall not be entitled to share any further in the distribution of the assets of the Corporation.

VOTING

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3. Except as otherwise provided herein or by law, as the case may be, the holders of the Series A Preferred Shares shall not be entitled to receive notice of and to attend and to vote at any meeting of shareholders of the Corporation.

REDEMPTION AT THE OPTION OF THE HOLDER

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4. (a) Subject to the provisions of the Act, a holder of Series A Preferred Shares shall be entitled to require the Corporation to redeem at any time, upon giving notice as hereinafter provided, all or any number of the Series A Preferred Shares registered in the name of such holder on the books of the Corporation at a price per share equal to the Redemption Price.

(b) If a holder of Series A Preferred Shares wishes to exercise his/her option to have the Corporation redeem his/her Series A Preferred Shares, said holder shall give written notice to the Secretary of the Corporation of the redemption date of his/her shares (the "Optional Redemption Date"), which date shall not be less than 10 days nor more than 30 days from the date of the notice and if the holder desires to have less than all of his/her Series A Preferred Shares redeemed, the number of the holder's shares to be redeemed. The holder of any Series A Preferred Shares may, with the consent of the Corporation, revoke such notice prior to the Optional Redemption Date.

(c) Upon delivery to the Corporation of a share certificate or certificates representing the Series A Preferred Shares which the holder desires to have the Corporation redeem, the Corporation shall on the Optional Redemption Date, redeem such Series A Preferred Shares by paying to the holder the Redemption Price therefor.

(d) Upon payment of the said Redemption Price, the holders of the Series A Preferred Shares shall not be entitled to any rights in respect of such shares.

(e) For the purposes hereof, the Redemption Price of each Series A Preferred Share shall be equal to the capital amount paid up thereon plus an amount equal to all unpaid cumulative dividends, whether or not declared, which shall have accrued thereon and which, for such purpose, shall be treated as accruing up to the date of such redemption, plus a premium equal to the difference, if any, between (i) the purchase price or the fair value of any other consideration paid for such share by the holder thereof and (ii) the capital amount paid up thereon. Such premium shall not exceed \$250 for each Series A Preferred Share.

PURCHASE

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5. Subject to the provisions of the Act, the Corporation may at any time upon resolution of the Board of Directors, purchase, at a price not exceeding the Redemption Price for each Series A Preferred Share, the whole or any part of the Series A Preferred Shares outstanding from time to time by invitation for tenders addressed to all the holders of record of the Series A Preferred Shares outstanding at the last address of each such holder as it appears upon the books of the Corporation, or in the event no such address appears, at the last known address of such holder(s).

COMMON SHARES

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DIVIDENDS

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6. Subject to the rights of the holders of Series A Preferred Shares, the holders of the common shares shall be entitled to receive, when and as declared by resolution of the Board of Directors and in the discretion of the Board of Directors, subject to the provisions of the Act, dividends in such amounts and payable at such times and at such place or places in Canada as the Board of Directors may from time to time determine.

Notwithstanding the foregoing, no dividends shall be paid with respect to the common shares if such payment would result in a reduction of the realizable value of the net assets of the Corporation below that of the aggregate Redemption Price for all outstanding Series A Preferred Shares.



RETURN OF CAPITAL

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7. In the event of the liquidation, dissolution or bankruptcy of the Corporation, whether voluntary or otherwise or on any distribution of assets among the shareholders in order to liquidate the affairs of the Corporation, the holders of the common shares shall be entitled to receive the balance of the assets of the Corporation, which balance shall be distributed pro rata to the holders of the common shares after prepayment is made to the holders of the Series A Preferred Shares in accordance with paragraph 2 hereof.

VOTING

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8. The holders of the common shares shall be entitled to receive notice of and to attend and to vote at all meetings of shareholders of the Corporation except those meetings at which only holders of another class of shares of the Corporation are entitled to vote separately as a class, and they shall have 1 vote in respect of each common share held by them.

EXHIBIT B  
to  
UNIT PURCHASE AGREEMENT

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.

SERIES A WARRANT

To Purchase Shares of Common Stock of  
NEUROCRINE BIOSCIENCES, INC.

THIS CERTIFIES that, for value received,

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The Health Care and Biotechnology Venture Fund is entitled, upon the terms and subject to the conditions hereinafter set forth, at any time after the earlier of an IPO and March 31, 1997 but prior to March 26, 2006 (the "Exercise Period"), to subscribe for the purchase from Neurocrine Biosciences, Inc., a California corporation (the "Company"), at the Exercise Price, of that number of shares of the Company's Common Stock which is equal to [\*] of the Amount Invested divided by US [\*], subject to adjustment as set forth below. For the purposes hereof:

"Amount Invested" means the amount of funds invested in Neuroscience Pharma (NPI) Inc. by the first Investor to hold this Warrant pursuant to and as reflected in Exhibit C to the Unit Purchase Agreement entered into on March 29, 1996 among the Company, Neuroscience Pharma (NPI) Inc. and the Investors;

"Exercise Price" means the price per share of Common Stock in US\$ determined as follows: (A) in the event an IPO occurs prior to March 31, 1997, the IPO Price, (B) between April 1, 1997 and December 31, 1998, US [\*] or, in the event there has been an IPO, the lesser of US [\*] and the IPO Price, or (C) between January 1, 1999 and March 26, 2006, US [\*] or, in the event there has been an IPO, the lesser of US [\*] and the IPO Price;

"Investors" shall have the meaning ascribed thereto in the Unit Purchase Agreement;

"IPO" means the initial public offering of the Company's Common Stock;

"IPO Price" means the offering price for the Company's Common Stock referred to in the registration statement filed by the Company with the Securities and Exchange Commission (prior to deduction of underwriters' discounts and other offering expenses);

[\* CONFIDENTIAL TREATMENT REQUIRED ]

and the Amount Invested shall be converted from C\$ to US\$, for the purpose of determining the number of shares of the Company's Common Stock to which the holder is entitled, by using the rate of exchange published in the Wall Street Journal on the last day the newspaper is published preceding the date of issuance hereof.

Notwithstanding the foregoing, the Company shall have, at anytime during the Exercise Period, upon the exercise by the holder hereof, the right to "cash out" this Warrant by paying to the holder hereof the net cash value of the Warrant (being, if and only if the Common Stock is then publicly traded, the average closing price for the five trading days which precede by two trading days the date of the Notice of Exercise Form annexed hereto minus the Exercise Price, multiplied by the number of shares of Common Stock then represented by this Warrant), provided such cash value is less than US \$100,000.

1. Title of Warrant. Prior to the expiration hereof and subject to  
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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 rights to acquire shares of Common Stock  
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represented by this Warrant are exercisable by the registered holder hereof, in whole or in part, at any time during the Exercise Period, 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 San Diego, 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 (a) by cash or check or bank draft payable to the order of the Company, (b) by cancellation of indebtedness of the Company payable to the holder hereof at the time of the exercise, or (c) if and only if the Common Stock is publicly traded, 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 issued upon such exercise) less that number of shares of Common Stock having a market value as of such date equal to the aggregate Exercise Price of the Warrant (or such portion thereof which is being exercised), 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 and purchase 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, but not later than ten (10) days, 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 less that number of shares (if any) cancelled in payment of the Exercise Price of the Warrant as set forth in clause 2.(c) hereof.

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  
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representing fractional shares shall be issued upon the exercise of this Warrant.

4. Charges, Taxes and Expenses. Issuance of certificates for shares of  
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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  
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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  
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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  
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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  
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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. Upon receipt by  
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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 or mutilation of this Warrant, and in case of loss, theft or destruction, of indemnity or security reasonably satisfactory to it, 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

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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.

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(a) Shares. The number of shares and the type of stock for which

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this Warrant is exercisable and the Exercise Price are subject to adjustment from time to time as follows:

(i) In the event of any subdivision or change 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 had the right of purchase been exercised before such subdivision or change without the holder making any additional payment or giving any other consideration therefor.

(ii) In the event of any consolidation 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 had the right of purchase been exercised before such consolidation.

(iii) In the event of any reclassification 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 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.

(iv) 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 had 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.

(v) If the Company, at any time while this Warrant is outstanding, shall pay any stock dividend 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.

(vi) If the Company, at any time while this Warrant is outstanding, shall be a party to any transaction (including, without limitation, a merger, consolidation, sale of all or substantially all of the Company's assets or outstanding stock, or a recapitalization of the Common Stock) in which the previously outstanding Common Stock shall be changed into or exchanged for different securities of the Company or common stock or other securities of another corporation or interests in a noncorporate entity or other property (including cash) or any combination of any of the foregoing (each such transaction being herein called the "Transaction" and the date of consummation of the Transaction being herein called the "Consummation Date"), then, as a condition of the consummation of the Transaction, lawful and adequate provisions shall be made so that the holder hereof, upon the exercise hereof at any time on or after the Consummation Date, shall be entitled to receive, and this Warrant shall thereafter represent the right to receive, in lieu of the Common Stock issuable upon such exercise prior to the Consummation Date, the amount of securities or other property to which such holder would actually have been entitled as a shareholder upon the consummation of the Transaction if the holder had exercised this Warrant immediately prior thereto.

(b) Automatic Amendment. On the happening of each and every event  
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set forth in this (S)9, the applicable provisions of this Warrant shall, ipso  
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facto, be deemed to be amended accordingly and the Company shall take all  
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necessary action so as to comply with such provisions as so amended.

10. Miscellaneous.  
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(a) Issue Date. The provisions of this Warrant shall be construed  
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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 be binding upon any successors or assigns of the Company. 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

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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

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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

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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 action 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

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(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: \_\_\_\_\_, 1996.  
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NEUROCRINE BIOSCIENCES, INC.

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

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



ASSIGNMENT FORM

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(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

-----  
(Please Print)

whose address is

-----  
(Please Print)

Dated: \_\_\_\_\_, \_\_\_\_\_.

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

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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 or certificates representing said shares of Common Stock in the name of the undersigned or in such other name as is specified below:

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(Name)

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(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 C  
TO  
UNIT PURCHASE AGREEMENT

SCHEDULE OF INVESTORS

[CAPTION]

INVESTOR  
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Sofinov Societe Financiere  
d'Innovation Inc.

Neuroscience Partners  
Limited Partnership

Business Development Bank of Canada

[\*]

Canadian Medical Discoveries Fund,  
Inc.

The Health Care and Biotechnology  
Venture Fund

TOTAL  
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[\* CONFIDENTIAL TREATMENT REQUESTED ]

EXHIBIT D

to

UNIT PURCHASE AGREEMENT

RESEARCH AND DEVELOPMENT AGREEMENT  
BETWEEN  
NEUROCRINE BIOSCIENCES (CANADA) INC.  
AND  
NEUROSCIENCE PHARMA (NPI) INC.

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## RESEARCH AND DEVELOPMENT AGREEMENT

THIS AGREEMENT is made effective as of the 29th day of March, 1996 between NEUROCRINE BIOSCIENCES (CANADA) INC., a Canadian corporation having its principal place of business at Montreal, Quebec ("NBCI") and NEUROSCIENCE PHARMA (NPI) INC., a Canadian corporation having its principal place of business at Montreal, Quebec ("NPI"). NBCI and NPI are each referred to herein by name or as a "PARTY" or, together, as "PARTIES".

### RECITALS

1. Neurocrine Biosciences, Inc. ("NBI") has on-going research programs in various fields, including neurosteroid and neurocytokine programs, and has developed certain technology in such fields, certain rights in respect of which have been transferred, assigned or licensed to NBCI.

2. NPI possesses the ability to conduct or have conducted discovery research, clinical trials and other development activities in the Field and to market the approved pharmaceuticals within Canada.

3. NBCI desires to grant to NPI certain rights and licenses to carry out, in Canada, Research and Development in the Field, and to market in Canada the Products, the whole as more fully set forth below.

4. NPI desires to carry out and fund the operations associated with the preclinical, clinical and other development activities in the Field.

NOW, THEREFORE, in consideration of the premises and mutual covenants herein contained, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

### ARTICLE 1 - DEFINITION

The following terms shall have the following meanings as used in this Agreement:

1.1 "AFFILIATE" means an individual, trust, business trust, joint venture, partnership, corporation, association or any other entity which (directly or indirectly) is controlled by, controls or is under common control with a Party. For the purposes of this definition, the term "control" (including, with correlative meanings, the term "controlled by" and "under common control with") as used with respect to any Party, shall mean ownership of more than 50% of the voting interest.



1.2 "COMPOUND" means, except as provided below, any composition of matter that (or, in the case of prodrugs, an active metabolite of which):

(A) demonstrates suitable levels of activity in vitro within the Field to warrant further Research or Development as determined by NBCI, after consultation with NPI;

(B) is discovered, identified, synthesized or acquired by or on behalf of NBCI or an Affiliate thereof, and is recognized by NBCI, after consultation with NPI, to meet the conditions of paragraph 1.2(a) hereof, prior to or during the term of this Agreement; and

(C) is designated by NBCI, after consultation with NPI, as a "Compound" hereunder by giving written notice thereof to NPI.

1.3 "CONTROL" means possession of the ability to grant a license or sublicense as provided for herein without violating the terms of any agreement or other arrangements with any Third Party.

1.4 "DEVELOPMENT" means all work performed by or on behalf of NPI or NBCI, or an Affiliate thereof, involving pre-Phase I, Phase I, Phase II or Phase III clinical trials of Compounds, in relation to a Field.

1.5 "DATE OF FIRST SALE" means the date on which NBCI (or an Affiliate or a Sublicensee) first ships a Product to an unaffiliated Third Party in an arms length commercial transaction.

1.6 "DRUG APPROVAL APPLICATION" means an application for Regulatory Approval required before commercial sale or use of a Product as a drug in a regulatory jurisdiction.

1.7 "EFFECTIVE DATE" means the date first written above.

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

1.9 "FIELD" means [\*], (C) such other fields as may be mutually agreed to by the Parties.

1.10 "HPB" means the Canadian Health Protection Bureau.

1.11 "IND" means an investigational new drug application filed with the FDA as more fully defined in 21 C.F.R. (S) 312.3 or with the HPB or its equivalent in any country.

[\* CONFIDENTIAL TREATMENT REQUESTED ]

1.12 "INVESTOR" shall have the meaning ascribed thereto in the Unit Purchase Agreement.

1.13 "INFORMATION" means information, generally not known to the public, relating to the Field and including (A) techniques and data, including, but not limited to, screens, models, inventions, practices, methods, knowledge, know-how, skill, experience, test data, including but not limited to, pharmacological, toxicological and clinical test data, analytical and quality control data, marketing, pricing, distribution, costs, sales and manufacturing data, and patent and legal data or descriptions (to the extent that disclosure thereof would not result in loss or waiver of privilege or similar protection) and (B) compositions of matter, including but not limited to compounds and biological materials and assays.

1.14 "NET SALES" means the amount billed to a Third Party by NPI, NBCI or an Affiliate or Sublicensee of either for sales of a Product with respect to which a royalty is due hereunder, less: (A) discounts, including cash discounts or rebates, retroactive price reductions or allowances actually allowed or granted from the billed amount with respect to the Product in question (provided that any discounts, rebates, etc. based on overall purchases by the customer of the selling party may be applied to reduce Net Sales only to the extent of the pro rata amount of such discounts or rebates attributable to the Products included in such overall purchases), (B) credits or allowances actually granted upon claims, rejections or returns of Products, including recalls, regardless of the party requesting such, (C) freight, postage, shipping and insurance charges, to the extent billed separately on the invoice and paid by the buyer, (D) taxes, duties or other governmental charges levied on or measured by the billing, to the extent billed separately on the invoice and paid by the buyer, as adjusted for rebates and refunds and (E) provisions for actual uncollectible accounts determined in accordance with U.S. generally accepted accounting practices, consistently applied to all Products of the selling party. Where Product is sold in the form of a combination Product containing one or more active ingredients in addition to a Compound, Net Sales for such combination Product will be calculated by multiplying actual Net Sales of such combination Product by the fraction  $A/(A+B)$  where A is the invoice price of any of the Product sold separately, and B is the total invoice price of any other active component or components, or devices, in the combination, if sold separately. If, on a country-by-country basis, the other active component or components in the combination are not sold separately in said country, Net Sales for the purpose of determining royalties of the combination Product shall be calculated by multiplying actual Net Sales of such combination Product by the fraction  $A/C$  where A is the invoice price of any of the Product if sold separately, and C is the invoice price of the combination Product. If, on a country-by-country basis, neither the Product nor the other active component or components of the combination Product is sold separately in said country, Net Sales for the purposes of determining royalties of the combination Product shall be reasonably allocated between the Product and the other active components based upon their relative value.

1.15 "NBCI KNOW-HOW" means Information which (A) NBCI discloses to NPI under this Agreement or specifically in anticipation of this Agreement and (B) is within the Control

of NBCI. Notwithstanding anything herein to the contrary, NBCI Know-How excludes published NBCI Patents, Program Patents, and Program Know-How.

1.16 "NBCI PATENT" means the rights granted by any governmental authority under a Patent which covers a method, apparatus, material or manufacture in the Field, which Patent is owned or Controlled by NBCI during the term of this Agreement.

1.17 "PATENT" means (A) valid and enforceable Letters Patent, including any extension, registration, confirmation, reissue, continuation, divisional, continuation-in-part, re-examination or renewal thereof and (B) pending applications for Letters Patents.

1.18 "PATENT COSTS" means the reasonable fees and expenses paid to outside legal counsel and other Third Parties, and filing and maintenance expenses, incurred in connection with the establishment and maintenance of rights under Patents.

1.19 "PHASE I" shall mean that portion of the FDA or HPB submission and approval process which provides for the first introduction into humans of a Product with the purpose of determining human toxicity, metabolism, absorption, elimination and other pharmacological action as more fully defined in respect of the FDA in 21 C.F.R. (S)213.2(a).

1.20 "PHASE II" means that portion of the FDA or HPB submission and approval process which provides for the initial trials of 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 in respect of the FDA in 21 C.F.R. (S)213.21(b).

1.21 "PHASE III" means that portion of the FDA or HPB submission and approval process which provides for continued trials of a Product on sufficient numbers of patients to establish the safety and efficacy of a Product and generate pharmacoeconomics data to support regulatory approval in the proposed therapeutic indication as more fully defined in respect of the FDA in 21 C.F.R. (S)312.21(c).

1.22 "PRE-PHASE I" means that portion of the development program which starts with the selection of a compound for development by NBCI into a Product or the beginning of toxicological studies relating to such compound. Pre-Phase I includes, but is not limited to, toxicological, pharmacological and any other studies, the results of which are required for filing with an IND, as well as Product formulation and manufacturing development necessary to obtain the permission of regulatory authorities to begin and continue subsequent human clinical testing.

1.23 "PRODUCT" means any form or dosage of a composition of matter comprised of a Compound for pharmaceutical use in humans in the Field.

1.24 "PROGRAM KNOW-HOW" means Information which pertains to the Field and is in the possession of or developed by either NBCI or NPI, or jointly developed by NBCI and NPI, under this Agreement or specifically in anticipation of this Agreement.

1.25 "PROGRAM PATENT" means any Patent, the subject of which is an invention that came into the possession of NBCI, was conceived or reduced to practice by NPI, NBCI or a Third Party under a contract with NPI or NBCI, or was conceived or reduced to practice jointly by NBCI and NPI (or such Third Party) in the course of the Research or the Development.

1.26 "REGULATORY APPROVAL" means any approvals (including pricing and reimbursement approvals), licenses, registrations or authorizations of any federal, provincial, state or local regulatory agency, department, bureau or other governmental entity, necessary for the manufacturing, use, storage, import, transport or sale of Products in a regulatory jurisdiction.

1.27 "RESEARCH" means all work performed by or on behalf of NPI or NBCI, or an Affiliate thereof, directed towards or in connection with the discovery, identification and synthesis of Compounds.

1.28 "SELLING PARTY" shall have the meaning ascribed thereto at Section 5.5, 6.1(a), 6.1(b), 6.1(b) hereof.

1.29 "SUBLICENSEE" shall mean, with respect to a particular Product, a Third Party to whom NPI or NBCI has granted a license or sublicense under any NBCI Patents or Program Patents to make and sell such Product. As used in this Agreement, "Sublicensee" shall also include a Third Party to whom NPI or NBCI has granted the right to distribute a Product, provided that such Third party is responsible for marketing and promotion of such Product within its distribution territory.

1.30 "TANGIBLE RESEARCH PRODUCT" means any composition of matter or other tangible asset, including but not limited to compounds, natural products or fermentation broths and/or extracts or fractions thereof, immunoglobulin molecules, including active fragments thereof and monoclonal antibodies, cells and cell lines, DNA and RNA molecules, plasmids, proteins, peptides, receptors, receptor fragments, research tools, materials for use in screening methods and techniques, made or synthesized by either Party in the course of Research or the Development.

1.31 "THIRD PARTY" means any entity other than NBCI, NPI and Affiliates of either.

1.32 "UNIT PURCHASE AGREEMENT" means the Unit Purchase Agreement dated March 29, 1996 among NPI, NBI and certain Investors.

ARTICLE 2 - INTELLECTUAL PROPERTY AND LICENSE GRANTS

2.1 OWNERSHIP OF INTELLECTUAL PROPERTY. NBCI shall be the sole and exclusive owner of or shall Control all NBCI Patents, Program Patents, NBCI Know-How, Program Know-How and Tangible Research Products, including but not limited to Compounds. NPI shall have no rights to NBCI Patents, NBCI Know-How, Program Patents, Program Know-How, Tangible Research Products or Compounds except as set forth in Sections 2.2 and 2.3 below.

2.2 PATENT LICENSES. NBCI grants NPI an exclusive paid-up license, with no right to grant sublicenses, under NBCI Patents, Program Patents, NBCI Know-How and Program Know-How to carry out only in Canada Research and Development, and only in the Field, as set forth in Section 4.1 hereof, during the term of this Agreement.

2.3 PATENT LICENSES TO NPI FOR PRODUCTS. NBCI grants to NPI an exclusive license, in relation to Canada only, including with respect to NBCI's trademarks under which the Products are to be marketed in Canada, with a right to grant sublicenses, to market, sell and have sold in Canada Products which are developed in the Field, either by NPI or by a Selling Party. No right or license is granted to NPI to make or have made the Products in Canada or elsewhere.

ARTICLE 3 - RESEARCH

3.1 RESEARCH PROGRAM. NPI and NBCI shall be responsible for conducting the Research, with a goal of discovering, identifying and synthesizing Compounds that are suitable for development into Products for commercialization. NBCI shall be responsible for establishing the directives for conducting the Research, after consultation with NPI, and NPI shall give effect to such directives.

3.2 NBCI RESEARCH EFFORTS. NBCI agrees to commit to the Research such efforts and resources as it determines in its sole discretion are necessary to accomplish the goal set forth in Section 31.

3.3 NPI COMMITMENT TO RESEARCH AND DEVELOPMENT. NPI agrees to use its best reasonable efforts to ensure that it expends an aggregate amount of at least [\*] on Research and Development in the Field.

ARTICLE 4 - PRODUCT DEVELOPMENT

4.1 COMPOUND SELECTION AND PRODUCT DEVELOPMENT. NBCI, after consultation with NPI, shall be responsible for authorizing and coordinating with NPI the selection of Compounds to enter Pre-Phase I and the development of Products through Pre-Phase I.

[\* CONFIDENTIAL TREATMENT REQUESTED ]

Once a Compound is selected to enter Pre-Phase I, NPI shall be responsible, to the extent it has funds available, to develop the Products through Phases I, II and III, including but not limited to, preparing and filing all Drug Approval Applications in Canada and obtaining all Regulatory Approvals in Canada, subject to the approval of NBCI. NPI agrees to use its best reasonable efforts, consistent with prudent business judgment, to ensure that it expends an aggregate amount on Research and Development of at least [\*] in the Province of Quebec, and an additional amount of [\*] in the rest of Canada. NBCI shall be solely responsible for and have the sole right to develop Products through Phases I, II and III as set forth above throughout the world other than in Canada.

4.2 NPI'S RESPONSIBILITIES. NPI shall, under the supervision and direction of NBCI, develop and prepare an annual plan for Research and Development of Products. NBCI will assist NPI in NPI's Research and Development activities as determined appropriate by NBCI by providing NPI such NBCI Know-How developed or acquired during the Research relating to Products as determined appropriate by NBCI for the Research and Development. If any specific developmental work is agreed by NPI and NBCI to be performed by or on behalf of NBCI, the Parties will negotiate compensation to NBCI for carrying out the agreed developmental work. NPI agrees to use best reasonable efforts to continue the Research and Development and provide NBCI with all data discovered in the course of the Research and Development. In the event adverse data is discovered in the course of the Research and Development of a Product, NBCI shall be entitled to immediately terminate the Research and Development in respect of such Product by giving written notice to NPI. In such event, the corresponding licenses granted to NPI pursuant to Sections 2.2 and 2.3 hereof shall terminate and be of no further force or effect.

4.3 RESEARCH AND DEVELOPMENT OUTSIDE THE FIELD. In addition to the Research and Development to be carried out as contemplated above, NPI agrees, at the request of NBCI, to carry out sponsored scientific research and development, outside the Field, on commercially reasonable terms and conditions negotiated in good faith by the Parties.

#### ARTICLE 5 - COMMERCIALIZATION AND MANUFACTURING

5.1 NBCI'S MARKETING OBLIGATIONS FOR PRODUCTS. Subject to Sections 23 and 52 hereof, with regard to Canada, all business decisions, including, without limitation, the design, sale, price and promotion of Products under this Agreement and the marketing decisions relating to any particular Product shall be within the sole discretion of NBCI. Any marketing of a Product in one market or country shall not obligate NBCI to market such Product in any other market or country.

5.2 NPI'S MARKETING OBLIGATIONS FOR PRODUCTS. Subject to and in accordance with the provisions set forth herein, and in particular Section 2.3 above, all business decisions, including, without limitation, the design, sale, price and promotion of Products under this

[\* CONFIDENTIAL TREATMENT REQUESTED ]

Agreement, in Canada, and the decisions whether to market any particular Product in Canada, shall be within the sole discretion of NPI.

5.3 TRADEMARKS. NBCI shall select its own trademarks under which it will market Products and no right or license is granted to NPI hereunder with respect to such trademarks, except to the extent required for NPI to be able to exercise its rights in accordance with Sections 2.3 and 5.2 hereof.

5.4 MANUFACTURING. NBCI shall be solely responsible for making Products or having Products made. At the request of NPI and unless Section 5.5, 6.1(a), 6.1(b), 6.1(b) hereof applies, NBCI shall make or have made Products for sale in Canada, in accordance with Section 5.2 above, and the price to be paid by NPI for purchasing such Products shall be as agreed upon by NBCI and NPI negotiating in good faith and in this regard, NBCI shall accord NPI with preferred purchaser status.

5.5 ALTERNATIVE MARKETING OPTION FOR PRODUCTS. At the request of NPI and in accordance with the rights and obligations of NPI under this Agreement, NBCI agrees that it, an Affiliate thereof or a Third Party under contract with it or under contract with an Affiliate thereof (collectively, the "Selling Party") shall use its best efforts, as an exclusive agent of NPI, to market the Products in Canada. In the event of such a request by NPI:

(A) the Selling Party shall be solely responsible for all costs and expenses related to marketing and selling the Products in Canada, including, without limitation, manufacturing, distributing and promoting the Products;

(B) the Selling Party shall be solely entitled to the revenues generated by marketing and selling the Products in Canada, subject to paragraph 5.5, 6.1(a), 6.1(b), 6.1(b) hereof; and

(C) NBCI shall cause the Selling Party to apply the same standards of competence for the purpose of marketing and selling the Products in Canada as applied in marketing and selling the Products in other countries. Furthermore, NBCI shall cause the Selling Party to apply proportionate efforts for the purpose of marketing and selling the Products in Canada, in relation to the size of the market, as applied in marketing and selling the Products in other countries.

#### ARTICLE 6 - PAYMENTS

In consideration of the foregoing, NBCI agrees to pay NPI, subject to the provisions of this Article and Article 7 hereof, as follows.

6.1 EARNED ROYALTIES FOR PRODUCTS. NBCI shall pay or cause a Selling Party to pay to NPI:

(A) [\*] royalty based on Net Sales of Products sold outside Canada;  
and

(B) [\*] royalty based on Net Sales of Products sold in Canada, if NPI requests that a Selling Party market and sell the Products in Canada, in accordance with Section 5.5, 6.1(a), 6.1(b), 6.1(b) above.

The obligation of NBCI to pay or to cause the Selling Party to pay to NPI the royalties provided for in this Section shall not terminate upon termination of this Agreement, however the rates of such royalties shall be reduced from [\*] and [\*] respectively, to rates mutually agreed upon by the Parties at the time of such termination. In the event the Parties are unable to agree upon the rates of such royalties at the time of such termination, the rate pursuant to paragraph 5.5, 6.1(a), 6.1(b), 6.1(b) hereof shall be reduced to [\*] and the rate pursuant to paragraph 5.5, 6.1(a), 6.1(b), 6.1(b) hereof shall be reduced to [\*].

6.2 TERM FOR ROYALTY PAYMENT. Royalties payable under Section 6.1 shall be paid on a country-by-country basis from the Date of First Sale of each Product with respect to which royalty payments are due, for the shorter of the following periods:

(A) the last to expire of any Patent in such country covering the sale or use of the Product; and

(B) ten (10) years following the Date of First Sale of such Product in such country.

6.3 FOREIGN EXCHANGE. The remittance of royalties payable on Net Sales will be payable in Canadian dollars to NPI, at a bank and to an account designated by NPI, using a rate of exchange of the currency of the country from which the royalties are payable as published in the Wall Street Journal on the last day of the month for which such payment was due.

6.4 TAXES. All payments under this Agreement will be made without any deduction or withholding for or on account of any tax unless such deduction or withholding is required by any applicable law. If the Selling Party is so required to deduct or withhold, the Selling Party will:

(A) promptly notify NPI of such requirement;

[\* CONFIDENTIAL TREATMENT REQUESTED]



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

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

6.5 ROYALTY PAYMENT REPORTS. Royalty payments under this Agreement shall be made to NPI quarterly within sixty (60) days following the end of each calendar quarter for which royalties are due from the Selling Party. Each royalty payment shall be accompanied by a report summarizing the Net Sales during the relevant three (3) month period and shall be subject to an annual audit by NPI, at its expense.

#### ARTICLE 7 - TERMINATION OF NPI LICENSE

NBCI shall have the option, at any time after the earlier of:

(A) four (4) years from the date hereof but not later than December 31, 2000;

(B) the date hereof, if for the purpose to collaborate with another pharmaceutical or biotechnological company that calls for the joint Research or Development of a Product in the Field in consideration of up-front payments, license fees, royalties or other rights;

(C) the date on which NBCI terminates the Development in relation to the last remaining Product being developed by NPI; and

(D) the date on which NPI's entitlement to receive refundable Canadian and Quebec government tax credits in respect of its activities hereunder ceases or changes in a material way;

to terminate with respect to one or more Products the license granted to NPI pursuant to Section 2.3 hereof to market and sell Products in Canada, by giving thirty (30) days prior written notice of NBCI's election to so terminate (the "TERMINATION NOTICE") to NPI and the Investors.

#### ARTICLE 8 - CONFIDENTIALITY

8.1 CONFIDENTIALITY; EXCEPTIONS. Except to the extent expressly authorized by this Agreement or otherwise agreed in writing, the Parties agree that, for the term of this Agreement and for five (5) years thereafter, the receiving Party shall keep confidential and

shall not publish or otherwise disclose or use for any purpose other than as provided for in this Agreement any Information or other confidential or proprietary information or materials furnished to it pursuant to this Agreement by the other Party or any Information developed during the term of this Agreement (collectively "CONFIDENTIAL INFORMATION"), except to the extent that it can be established by the receiving Party that such Confidential Information:

(A) was in the lawful knowledge and possession of the receiving party prior to the time it was disclosed to or learned by the receiving Party, or was otherwise developed independently by the receiving Party, as evidenced by written records kept in the ordinary course of business, or other documentary proof of actual use by the receiving Party;

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

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

(D) was disclosed to the receiving Party, other than under an obligation of confidentiality, by a Third Party who had no obligation to the disclosing Party not to disclose such information to others.

8.2 AUTHORIZED DISCLOSURE. Except as expressly provided otherwise in this Agreement, each Party may disclose Confidential Information of the other Party as follows: (A) to Third Parties (and in the case of NBCI, to Affiliates) under appropriate terms and conditions including confidentiality provisions substantially equivalent to those in this Agreement for consulting, manufacturing, development, external testing and marketing trials with respect to the Products covered by this Agreement, or otherwise as is reasonably necessary to exercise the rights and licenses granted or reserved herein (including the right to grant sublicenses); (B) to the extent such disclosure is reasonably necessary in filing or prosecuting patent, copyright and trademark applications, prosecuting or defending litigation, complying with applicable governmental regulations, obtaining regulatory approval, conducting preclinical or clinical trials, marketing Products or otherwise required by law, provided, however, that if a Party is required by law or regulation to make any such disclosure of the other Party's Confidential Information it will, except where impracticable for necessary disclosures, give reasonable advance notice to the other Party of such disclosure requirement and, except to the extent inappropriate in the case of patent applications, will use its reasonable efforts to secure confidential treatment of such Confidential Information required to be disclosed or (C) to the extent mutually agreed to by the Parties.

8.3 DISCLOSURE OF FINANCIAL INFORMATION. Notwithstanding anything to the contrary contained in this Agreement, the Parties may disclose to their respective shareholders and

Affiliates thereof Confidential Information, provided such information is of a financial nature only and therefore does not constitute Information.

8.4 SURVIVAL. This Article 8 shall survive the termination or expiration of this Agreement for a period of five (5) years.

#### ARTICLE 9 - PATENT PROSECUTION AND INFRINGEMENT

9.1 PATENT FILINGS. The filing, prosecution and maintenance of NBCI Patents and Program Patents shall be done solely by NBCI, and all Patent Costs shall be borne by NBCI.

#### 9.2 ENFORCEMENT RIGHTS.

(A) DEFENCE AND SETTLEMENT OF THIRD PARTY CLAIMS. If a Third Party asserts that a Patent or other right owned by it is infringed by the manufacture, use or sale of any Product, NBCI shall in its sole discretion decide whether or not to defend against any such assertions, and if it decides to assume the defence, NBCI will do so at its cost and expense. In the event NBCI fails to assume such defence, NPI shall in its sole discretion decide whether or not to so defend, and if it decides to so defend, the defence shall be at NPI's cost and expense. Further, NBCI agrees to indemnify and hold NPI harmless from Third Party demands, claims and actions (i) that a Patent or other right owned by NBCI has been infringed by the manufacture, use or sale of Products in Canada and (ii) for product liability in relation to Products sold in Canada, whether sold by or on behalf of NPI.

(B) INFRINGEMENT BY THIRD PARTIES OF PROGRAM PATENTS. If any NBCI Patent or Program Patent is infringed by a Third Party in any country in connection with the manufacture, use or sale of a Product in such country, the Party to this Agreement first having knowledge of such infringement shall promptly notify the other in writing. The notice shall set forth the known facts of that infringement in reasonable detail. NBCI shall have the right, but not the obligation, to institute, prosecute and control any action or proceeding with respect to such infringement of the NBCI Patent or Program Patent, by counsel of its own choice, and to retain any damages or other monetary awards recovered from such action or proceeding.

#### ARTICLE 10 - REPRESENTATIONS AND WARRANTIES

10.1 REPRESENTATIONS AND WARRANTIES. Each of the Parties hereby represents and warrants and covenants as follows.

(A) This Agreement is a legal and valid obligation binding upon such Party and enforceable in accordance with its terms. The execution, delivery and performance of the Agreement by such Party does not conflict with any agreement, instrument or

understanding, oral or written, to which it is a Party or by which it is bound, nor violate any law or regulation of any court, governmental body or administrative or other agency having jurisdiction over it.

(B) Each Party has not, and during the term of the Agreement will not, grant any right to any Third Party relating to its respective technology in the Field which would conflict with the rights granted to the other Party hereunder.

#### ARTICLE 11 - TERM AND TERMINATION

11.1 TERM. This Agreement shall commence as of the Effective Date and shall continue in effect until the date on which it is terminated in accordance with the following provisions.

11.2 TERMINATION FOR BREACH. Either Party may terminate this Agreement in the event the other Party shall have materially breached or defaulted in the performance of any of its material obligations hereunder, and such default shall have continued for ninety (90) days after written notice thereof was provided to the breaching Party by the non-breaching Party. Any termination shall become effective at the end of such ninety (90) day period unless the breaching Party (or any other party on its behalf) has cured any such breach or default prior to the expiration of the ninety (90) day period.

11.3 TERMINATION BY NBCI. In addition to the rights afforded to it pursuant to the provisions of this Article, NBCI shall have the right to terminate this Agreement upon notice to the Investors and NPI as set forth in Article 7 above.

11.4 TERMINATION FOR BANKRUPTCY. In addition to the rights afforded to it pursuant to the provisions of this Article, either Party shall have the right to terminate this Agreement forthwith by written notice to the other Party (A) if such other Party is declared insolvent or bankrupt by a court of competent jurisdiction, (B) if a voluntary or involuntary petition in bankruptcy is filed in any court of competent jurisdiction against the other Party and such petition is not dismissed within ninety (90) days after filing, or (C) if the other Party shall make or execute an assignment of substantially all of its assets for the benefit of creditors.

11.5 SURVIVING RIGHTS. Section 2.1 (but not Sections 2.2 or 2.3),  
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Section 6.1 and Articles 1, 8, 11, 12, 13 and 14 shall survive the expiration and any termination of this Agreement for any reason.

11.6 ACCRUED RIGHTS, SURVIVING OBLIGATIONS. Termination, relinquishment or expiration of the Agreement for any reason shall be without prejudice to any obligations which shall have accrued prior to such termination, relinquishment or expiration, including, without limitation, the payment obligations under Article 6 hereof and any and all damages arising from any breach hereunder. Such termination, relinquishment or expiration shall not

relieve either Party from obligations which are expressly indicated to survive termination or expiration of the Agreement.

11.7 TERMINATION NOT SOLE REMEDY. Termination is not the sole remedy under this Agreement and, whether or not termination is effected, all other remedies will remain available except as otherwise agreed to herein.

#### ARTICLE 12 - INDEMNIFICATION

Each Party (the "INDEMNIFYING PARTY") shall indemnify, defend and hold the other Party (the "INDEMNIFIED PARTY") harmless from and against any and all liabilities, claims, damages, costs, expenses or money judgments incurred by or rendered against the Indemnified Party and its Affiliates and Sublicensees incurred in the defence or settlement of a Third Party lawsuit or in satisfaction of a Third Party judgment arising out of any injuries to person and/or damage to property resulting from (A) negligent acts of the Indemnifying Party performed in carrying out Research or Development hereunder, including failure by the Indemnifying Party to provide the Indemnified Party with any information of the Indemnifying Party's which, if timely received, would have avoided injury, death or damage, provided such failure to provide such information is due to negligence of the part of the Indemnifying Party, and (B) personal injury to the Indemnified Party employees or agents or damage to the Indemnified Party's property resulting from acts performed by, under the direction of, or at the request of the Indemnifying Party in carrying out activities contemplated by this Agreement.

#### ARTICLE 13 - DISPUTE RESOLUTION

13.1 ALTERNATIVE DISPUTE RESOLUTION. Any dispute controversy or claim arising out of or relating to the validity, construction, enforceability or performance of this Agreement, including disputes relating to alleged breach or to termination of this Agreement, shall be settled by binding Alternative Dispute Resolution ("ADR") in the manner described below.

(A) If a Party intends to begin an ADR to resolve a dispute, such Party shall provide written notice (the "ADR REQUEST") to the other Party informing such other Party of such intention and the issues to be resolved. From the date of the ADR Request and until such time as any matter has been finally settled by ADR, the running of the time periods contained in Section 11.2 as to which party must cure a breach of this Agreement shall be suspended as to the subject matter of the dispute.

(B) Within thirty (30) days after the receipt of the ADR Request, the other Party may, by written notice to the counsel for the party initiating ADR, add additional issues to be resolved.

13.2 ARBITRATION PROCEDURE. The ADR shall be conducted in English pursuant to the International Commercial Arbitration Rules of the American Arbitration Association for Large, Complex Cases then in effect. The Arbitrator shall, in rendering its decision, apply the substantive law of the State of California, without regard to its conflict of laws provisions. The proceeding shall take place in the City of San Francisco, California. The fees of the arbitration shall be split equally between the Parties. Each Party shall bear its own legal fees.

#### ARTICLE 14 - MISCELLANEOUS

14.1 ASSIGNMENT. Either Party may assign this Agreement or its rights hereunder (A) to a party that succeeds to substantially all of the business or assets of such Party by reason of a merger or similar reorganization or the sale of substantially all of its business or assets, or (B) otherwise with the prior written consent of the other Party. This Agreement shall be binding upon and inure to the benefit of the successors and permitted assigns of the Parties. Any assignment not in accordance with this Agreement shall be void.

14.2 CONSENTS NOT UNREASONABLY WITHHELD. Whenever provision is made in this Agreement for either Party to secure the consent or approval of the other, that consent or approval shall not unreasonably be withheld, and whenever in this Agreement provision is made for one Party to object to or disapprove a matter, such objection or disapproval shall not unreasonably be exercised.

14.3 RETAINED RIGHTS. Nothing in this Agreement shall limit in any respect the right of NBCI or its Affiliates to conduct Research and Development with respect to and market Products outside the Field.

14.4 FORCE MAJEURE. Neither Party shall lose any rights hereunder or be liable to the other Party for damages or losses on account of failure of performance by the defaulting Party if the failure is occasioned by government action, war, fire, explosion, flood, strike, lockout, embargo, act of God, or any other similar cause beyond the control of the defaulting Party, provided that the Party claiming force majeure has exerted all reasonable efforts to avoid or remedy such force majeure; provided, however, that in no event shall a Party be required to settle any labour dispute or disturbance.

14.5 FURTHER ACTIONS. Each Party agrees to execute, acknowledge and deliver such further instruments, and to do all such other acts, as may be necessary or appropriate in order to carry out the purposes and intent of this Agreement.

14.6 NO TRADEMARK RIGHTS. Except as otherwise provided herein, no right, express or implied, is granted under this Agreement to use in any manner the name "Neurocrine" or "NPI", or any other trade name or trademark of the other Party or its Affiliates in connection with the performance of the Agreement.

14.7 NOTICES. All notices hereunder shall be in writing and shall be deemed given if delivered personally or by facsimile transmission (receipt verified), mailed by registered or certified mail (return receipt requested), postage prepaid, or sent by express courier service, to the Parties at the following addresses (or at such other address for a Party as shall be specified by like notice; provided, that notices of a change of address shall be effective only upon receipt thereof.

IF TO NBCI,

ADDRESSED TO: NEUROCRINE BIOSCIENCES (CANADA) INC.  
Byers Casgrain  
1 Place Ville Marie  
Suite 3900  
Montreal, Quebec  
H3B 4M7  
Attention: Paul F. Dingle  
Telephone: 514-878-8800  
Telecopy: 514-866-2241

WITH COPY TO: WILSON SONSINI GOODRICH & ROSATI  
PROFESSIONAL CORPORATION  
650 Page Mill Road  
Palo Alto, CA 94304-1050  
Attention: Michael O'Donnell, Esq.  
Telephone: 415-493-9300  
Telecopy: 415-493-6811

WITH COPY TO: NEUROCRINE BIOSCIENCES, INC.  
3050 Science Park Road  
San Diego, CA 92121-1102  
Attention: President & CEO  
Telephone: 619-658-7600  
Telecopy: 619-658-7602

IF TO NPI,

ADDRESSED TO: NEUROSCIENCE PHARMA (NPI) INC.  
Byers Casgrain  
1 Place Ville Marie  
Suite 3900  
Montreal, Quebec  
H3B 4M7  
Attention: Paul F. Dingle  
Telephone: (514) 878-8800  
Telecopy: (514) 866-2241

WITH COPY TO: MACKENZIE GERVAIS  
770 Sherbrooke Street West  
Suite 1300  
Montreal, Quebec  
H3A 1G1  
Attention: Luc LaRoche  
Telephone: (514) 847-3540  
Telecopy: (514) 288-7389

Each of the Parties consent to the personal jurisdiction of the U.S. Federal Courts and agree to accept any legal process served upon such Party at the addresses specified above for such Party.

14.8 WAIVER. Except as specifically provided for herein, the waiver from time to time by either of the Parties of any of their rights or their failure to exercise any remedy shall not operate or be construed as a continuing waiver of same or of any other of such Party's rights or remedies provided in this Agreement.

14.9 SEVERABILITY. If any term, covenant or condition of this Agreement or the application thereof to any Party or circumstance shall, to any extent, be held to be invalid or unenforceable, then (A) the remainder of this Agreement, or the application of such term, covenant or condition to Parties or circumstances other than those as to which it is held invalid or unenforceable, shall not be affected thereby and each term, covenant or condition of this Agreement shall be valid and be enforced to the fullest extent permitted by law; and (B) the Parties covenant and agree to renegotiate any such term, covenant or application thereof in good faith in order to provide a reasonably acceptable alternative to the term, covenant or condition of this Agreement or the application thereof that is invalid or unenforceable, it being the intent of the Parties that the basic purposes of this Agreement are to be effectuated.



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

14.11 ENTIRE AGREEMENT. This Agreement, the Unit Purchase Agreement and the Exhibits thereto and the other documents delivered in connection herewith set forth all the covenants, promises, agreements, warranties, representations, conditions and understandings between the Parties and supersede and terminate all prior agreements and understandings between the Parties in respect of the subject matter hereof and thereof. There are no covenants, promises, agreements, warranties, representations, conditions or understandings, either oral or written, between the Parties other than as set forth herein and therein. No subsequent alteration, amendment, change or addition to this Agreement shall be binding upon the Parties unless reduced to writing and signed by the respective authorized officers of the Parties.

14.12 RELATIONSHIP OF PARTIES. Nothing herein shall be construed to create any relationship of employer and employee, agent and principal, partnership or joint venture between the Parties. Each Party is an independent contractor. Neither Party shall assume, either directly or indirectly, any liability of or for the other Party. Neither Party shall have the authority to bind or obligate the other Party and neither Party shall represent that it has such authority.

14.13 LIMITED LIABILITY. Neither Party shall be liable to the other Party under any contract, negligence, strict liability or other legal or equitable theory for any incidental or consequential damages for failure to perform hereunder.

IN WITNESS WHEREOF, the Parties have executed this Agreement by their proper officers as of the date and year first above written.

NEUROCRINE BIOSCIENCES (CANADA) INC.

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

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

NEUROSCIENCE PHARMA (NPI) INC.

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

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

EXHIBIT E

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SCHEDULE OF EXCEPTIONIONS

This Schedule of Exceptions, dated as of \_\_\_\_\_, 1996, is made and given pursuant to Section 4 of the Unit Purchase Agreement among Neuroscience Pharma (NPI) Inc., Neurocrine Biosciences, Inc. ("NBI") and the Investors, dated \_\_\_\_\_, 1996 (the "Agreement").

The section numbers in this Schedule of Exceptions correspond to the section numbers in the Agreement; however, any information disclosed herein under any section number shall be deemed to be disclosed and incorporated into any other section number under the Agreement where such disclosure would be appropriate. Any terms defined in the Agreement shall have the same meaning when used in this Schedule of Exceptions as when used in the Agreement unless the context otherwise requires.

4.3 Capitalization. The outstanding capital stock of NBI, as of

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immediately prior to the Closing, consists of 12,377,717 shares of Common Stock. In addition NBI has adopted an Employee Stock Purchase Plan and has reserved an aggregate of 125,000 shares of Common Stock for issuance thereunder. Further, NBI has adopted a Director Option Plan and reserved an aggregate of 100,000 shares of Common Stock for issuance thereunder. NBI has also reserved 3,300,000 shares of Common Stock for issuance pursuant to its Incentive Stock Plan (the "Plan"), of which 1,343,300 shares have been issued upon exercise of options or stock purchase rights granted under the Plan (such shares are reflected in the issued and outstanding shares of Common Stock amount set forth above) and options exercisable for 1,412,190 shares are outstanding as of the Closing. These options have exercise prices ranging from \$2.50 to \$5.00 per share and will vest on various dates between July 20, 1997 and December 5, 1999. NBI also has outstanding warrants exercisable for 520,589 shares of Common Stock. These warrants have an exercise price of \$5.00 per share and have five year terms, which expire on various dates between October 25, 1998 and February 28, 1999.

4.6 Title to Properties and Assets. NBI leases certain equipment used in

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its business and located at its facilities in San Diego pursuant to its equipment lease line; such leased equipment is owned by the equipment lessor. Certain other items of such equipment are owned by NBI, the purchase price of which has been financed by the equipment lessor; such equipment is subject to a security interest (lien) in favor of the lessor to secure repayment of such financing.

4.19 Transactions with Affiliates. Certain officers, directors, and

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employees of NBI have paid the purchase price for shares of Common Stock issued to them by execution of promissory notes payable to NBI.

EXHIBIT F  
to  
UNIT PURCHASE AGREEMENT

NEW REGISTRATION RIGHTS AGREEMENT

This REGISTRATION RIGHTS AGREEMENT (the "Agreement") is made as of March 29, 1996, by and among Neurocrine Biosciences, Inc., a California

corporation (the "Company") and the persons listed on the attached Schedule 1 who become signatories to this Agreement (collectively, the "Investors and individually an "Investor").

R E C I T A L S

WHEREAS, in connection with the purchase and sale of shares of Series A Preferred Stock of Neuroscience Pharma (NPI) Inc. ("NPI") an affiliate of the Company (the "NPI Shares") and certain warrants exercisable for shares of the Company's Common Stock (the "Warrants"), the Company and the Investors desire to provide for the rights of the Investors with respect to registration of the Common Stock issued upon exchange of the NPI Shares or exercise of the Warrants held by the Investors according to the terms of this Agreement.

WHEREAS, it is a condition of the closing of the sale of the NPI Shares to the Investors that the Company 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) "Convertible Securities" shall mean securities of NPI or the Company purchased by or issued to the Investors by NPI or the Company which are convertible into or exchangeable or exercisable for Common Stock of the Company, including the NPI Shares and the Warrants.

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

(d) "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 11.

(e) "Initiating Holders" shall mean Holders who in the aggregate hold  
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at least forty percent (40%) of the Registrable Securities.

(f) "Material Adverse Event" shall mean an occurrence having a  
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consequence that either (a) is materially adverse as to the business, properties, prospects or financial condition of the Company 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 Company.

(g) The terms "Register", "Registered" and "Registration" refer to a  
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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.

(h) "Registrable Securities" shall mean all shares of Common Stock of  
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the Company issued or issuable upon exchange or exercise of the Convertible Securities, 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 Company 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.

(i) "Registration Expenses" shall mean all expenses incurred in  
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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 Company, blue sky fees and expenses, and the expense of any special audits incident to or required by any such registration, other than Selling Expenses.

(j) "Securities Act" shall mean the Securities Act of 1933, as  
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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.

(k) "Selling Expenses" shall mean all underwriting discounts and  
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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  
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this Agreement, in the event that the Company receives from Initiating Holders at any time after one year after the effective date of the Company's initial Registered public offering of shares of its Common Stock (the "IPO"), a written request that the Company effect any Registration on Form S-3 (or any successor form to Form S-3 regardless of its designation) at a time when the Company 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 \$500,000 (provided that such Registration is not with respect to all other outstanding Registrable Securities, in which case such \$500,000 minimum shall not apply), the Company 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 Company within 20 days after written notice from the Company of the proposed Registration. The Company shall not be obligated to take any action to effect any such registration pursuant to this Section 2.1 after the Company has effected two such Registrations pursuant to this Section 2.1 within the calendar year of such request and such Registrations have been declared effective and, if underwritten, have closed.

2.2 Right of Deferral of Registration. If (i) the Company shall

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furnish to all such Holders who joined in the request a certificate signed by the President of the Company stating that, in the good faith judgment of the Board of Directors of the Company, it would be seriously detrimental to the Company for any Registration to be effected as requested under Section 2.1, or (ii) the Company shall have effected a Registration (whether or not pursuant to Section 2.1) within ninety (90) days preceding the date of such request, the Company 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 the Company may not utilize this right more than twice in any 12-month period.

2.3 Registration of Other Securities. Any Registration Statement

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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 the Company other than Registrable Securities.

2.4 Underwriting in Demand Registration.

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2.4.1 Notice of Underwriting. If the Initiating Holders intend  
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to distribute the Registrable Securities covered by their request by means of an underwriting, they shall so advise the Company as a part of their request made pursuant to this Section 2, and the Company 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 the

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Company, officers or directors of the Company holding Common Stock other than Registrable Securities or holders of securities other than Registrable Securities, request inclusion in such Registration, the Initiating Holders, to the extent they deem advisable and consistent with the goals of such Registration and subject to the allocation provisions of Section 2.4.4 below, shall, on behalf of all Holders, offer to any or all of the Company, such officers or directors and such holders of securities other than Registrable Securities that such securities other than Registrable Securities be

included in the underwriting and may condition such offer on the acceptance by such persons of the terms of this Section 2.

2.4.3 Selection of Underwriter in Demand Registration. The

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Company 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 the Company (which consent shall not be unreasonably withheld).

2.4.4 Marketing Limitation in Demand Registration. In the event

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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 the number of shares of Registrable Securities that may be included in the Registration and underwriting shall be allocated among all Holders in proportion, as nearly as practicable, to the number of shares proposed to be included in such Registration by such Holder; provided, however, that the number of shares of Registrable Securities to be included in such underwriting shall not be reduced unless all other securities (including those proposed to be included by the Company and the officers and directors of the Company) are first entirely excluded from the underwriting. 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

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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 the Company, 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

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Registration pursuant to Section 2, the Company will exercise its best 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 the Company 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. Piggyback Registration.

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3.1 Notice of Piggyback Registration and Inclusion of Registrable

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Securities. Subject to the terms of this Agreement, in the event the Company  
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decides to Register any of its Common Stock for its own account on a form that would be suitable for a registration involving Registrable Securities, the Company will: (i) promptly give each Holder written notice thereof (which

shall include a list of the jurisdictions in which the Company intends to attempt to qualify such securities under the applicable Blue Sky or other state securities laws) and (ii) include in such Registration (and any related qualification under Blue Sky laws or other compliance), and in any underwriting involved therein, all the Registrable Securities specified in a written request delivered to the Company by any Holder within twenty (20) days after delivery of such written notice from the Company.

### 3.2 Underwriting in Piggyback Registration.

#### 3.2.1 Notice of Underwriting in Piggyback Registration. If the

Registration of which the Company gives notice is for a Registered public offering involving an underwriting, the Company shall so advise the Holders as a part of the written notice given pursuant to Section 3.1. In such event the right of any Holder to Registration shall be conditioned upon such underwriting and the inclusion of such Holder's Registrable Securities in such underwriting to the extent provided in this Section 3. All Holders proposing to distribute their securities through such underwriting shall (together with the Company and the other holders distributing their securities through such underwriting) enter into an underwriting agreement with the Underwriter's Representative for such offering. The Holders shall have no right to participate in the selection of the underwriters for an offering pursuant to this Section 3.

#### 3.2.2 Marketing Limitation in Piggyback Registration. In the

event the Underwriter's Representative advises the Holders seeking registration of Registrable Securities pursuant to Section 3 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, the Underwriter's Representative may exclude some or all Registrable Securities from such registration and underwriting, notwithstanding the fact that other securities (other than those to be sold by the Company) may be included in the underwriting. In the event that the Underwriters shall determine that Registrable Securities may be included in such Registration and underwriting, the Underwriter's Representative shall so advise all Holders and the number of shares of Registrable Securities that may be included in the Registration and underwriting (if any) shall be allocated, among all Holders of Registrable Securities held by such Holders at the time of filing of the registration statement. No Registrable Securities or other securities excluded from the underwriting by reason of this Section 3.2.2 shall be included in such Registration Statement.

#### 3.2.3 Withdrawal in Piggyback Registration. If any Holder, r a

holder of other securities entitled (upon request) to be included in such Registration, disapproves of the terms of any such underwriting, such Holder may elect to withdraw therefrom by written notice to the Company and the underwriter delivered at least seven (7) days prior to the effective date of the Registration Statement. Any Registrable Securities or other securities excluded or withdrawn from such underwriting shall be withdrawn from such Registration.

### 3.3 Blue Sky in Piggyback Registration. In the event of any

Registration of Registrable Securities pursuant to Section 7, the Company will exercise its best 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 the Company 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.

4. Expenses of Registration. All Registration Expenses incurred in  
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connection with all Registrations pursuant to Sections 2.1 and 3.2 shall be borne by the Company. Notwithstanding the above, the Company 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), unless the Holders of a majority of the Registrable Securities agree to forfeit their right to one demand registration pursuant to Section 2.1; provided further, 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 the Company 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.

5. Registration Procedures. The Company will keep each Holder whose  
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Registrable Securities are included in any registration pursuant to this Agreement advised as to the initiation and completion of such Registration. At its expense the Company will: (a) use its best efforts to keep such Registration effective for a period of sixty (60) days or until the Holder or Holders have completed the distribution described in the Registration Statement relating thereto, 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.

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

7. Indemnification.

7.1 Company's Indemnification of Holders. To the extent permitted by

law, the Company 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 the Company 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 the Company and relating to action or inaction required of the Company in connection with any such Registration, qualification or compliance; and the Company 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 the Company (which consent shall not unreasonably be withheld); and provided, further, that the Company 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 the Company 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 the Company.

7.2 Holder's Indemnification of Company. 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 the Company, each of its directors and officers, each legal counsel and independent accountant of the Company, each underwriter, if any, of the Company's securities covered by such a Registration Statement, each person who controls the Company 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 the Company, 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 the Company by such Holder and stated to be specifically for use in connection with the offering of securities of the Company, 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).

7.3 Indemnification Procedure. Promptly after receipt by an

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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 notified; 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 the Company 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 other than under this Section 6.

8. Reports Under Securities Exchange Act of 1934. With a view to making

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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 the Company to the public without Registration or pursuant to a Registration on Form S-3, the Company agrees to:

(a) make and keep public information available, as those terms are defined in Rule 144, at all times after ninety (90) days after the effective date of the first registration statement filed by the Company for the offering of its securities to the general public;

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

(c) furnish to any Investor, so long as such Investor owns any Convertible Securities or Registrable Securities, forthwith upon request (i) a written statement by the Company that it has complied with the reporting requirements of Rule 144 (at any time after ninety (90) days after the effective date of the first registration statement filed by the Company), the Securities Act and the 1934 Act (at any time after it has become subject to such reporting requirements), or that it qualifies as a registrant whose securities may be resold pursuant to Form S-3 (at any time after it so qualifies), (ii) a copy of the most recent annual or quarterly report of the Company and such other reports and documents so filed by the Company, 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.

9. Market Stand-off. Each Holder hereby agrees that, if so requested by

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the Company and the Underwriter's Representative (if any), such Holder shall not sell or otherwise transfer (other than to donees who agree to be similarly bound) any Registrable Securities or other securities of the Company during the 360-day period following the effective date of a Registration Statement of the Company filed under the Securities Act; provided that such restriction shall only apply to the first Registration Statement of the Company to become effective which include securities to be sold on behalf of the Company to the public in an underwritten offering; and provided, further, that all officers and directors of the Company enter into similar agreements.

10. Conversion or Exercise. The Registration rights of the Holders set

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forth in this Agreement are conditioned upon the conversion or exercise of the NPI Shares or Warrants with respect to which registration is sought into Common Stock of the Company prior to the effective date of the Registration Statement.

11. Transfer of Rights. The Registration rights of the Investors set

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forth in Section 2 may be assigned by any Holder to a transferee or assignee of any Convertible Securities or Registrable Securities not sold to the public acquiring at least 100,000 shares of such Holder's Convertible Securities or Registrable Securities (equitably adjusted for any recapitalizations, stock splits, combinations, and the like) or acquiring all of the Convertible Securities and Registrable Securities held by such Holder if transferred to a single entity; provided, however, that (i) the Company 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 the Company to be a competitor or potential competitor of the Company. 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).

12. Miscellaneous.

12.1 Entire Agreement; Successors and Assigns. This Agreement

constitutes the entire contract between The Company 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.

12.2 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.

12.3 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.

12.4 Headings. The headings of the Sections of this Agreement are

for convenience and shall not by themselves determine the interpretation of this Agreement.

12.5 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 the Company, as set forth below the Company'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 attached Schedule 1, or at such other address as the Company or such Investor may designate by ten (10) days' advance written notice to the Investors or to the Company, respectively.

12.6 Amendment of Agreement. Except as otherwise specifically

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

12.7 Aggregation of Stock. All Convertible Securities and

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.

12.8 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 Company: NEUROCRINE BIOSCIENCES, INC.

By: /s/ GARY A. LYONS

-----  
Title: CEO

-----  
Address: 3050 Science Park Rd.  
San Diego, CA 92121

The INVESTORS: SOFINOV SOCIETE FINANCIERE D'INNOVATION INC.

By: /s/ CARMEN CREPIN

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

\_\_\_\_\_  
Address: 1981 McGill College Avenue  
9th floor  
Montreal, Quebec, Canada  
H3A 3C7

NEUROSCIENCE PARTNERS LIMITED PARTNERSHIP

By: /s/ MICHAEL J. CALLAGHAN

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

\_\_\_\_\_  
Address:  
\_\_\_\_\_  
\_\_\_\_\_

CANADIAN MEDICAL DISCOVERIES FUND, INC.

By: /s/ Edward K. Rygiel  
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Title: Edward K. Rygiel, Director  
-----

By: /s/ Frank Gleeson  
-----

Title: Frank Gleeson, Vice-President  
-----

Address: 100 International Blvd.  
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Etobicoke, Ontario  
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Canada M9W 6J6  
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THE HEALTH CARE AND BIOTECHNOLOGY  
VENTURE FUND BY ITS MANAGER MDS HEALTH  
VENTURES CAPITAL CORP.

By: /s/ Michael J. Callaghan  
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Title: Michael J. Callaghan, Vice-President  
-----

By: /s/ Keith J. Dorrington  
-----

Title: Keith J. Dorrington, Vice-President  
-----

Address: 100 International Blvd.  
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Etobicoke, Ontario  
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Canada M9W 6J6  
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AND: NEUROSCIENCE PHARMA (NPI) INC., a company  
incorporated under the Canada Business  
Corporations Act  
  
(hereinafter referred to as the "Corporation")

WHEREAS each of the Shareholders hold the following numbers and classes of  
Shares as of the date hereof:

[\*]

WHEREAS the Shareholders wish to set forth herein the terms and conditions  
which will govern their relationship as shareholders in the Corporation.

THIS AGREEMENT WITNESSETH THAT, in consideration of the mutual covenants  
herein contained, it is agreed by and among the Parties as follows:

ARTICLE 1  
INTERPRETATION  
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1.1 DEFINITIONS. For the purposes of this Agreement or any offer, acceptance,  
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rejection, notice, consent, request, authorization, permission, direction or  
other instrument required or permitted to be given hereunder, the following  
words and phrases shall have the following meanings, respectively, unless the  
context otherwise requires:

[\* CONFIDENTIAL TREATMENT REQUESTED]

- (a) "ACT" shall mean the Canada Business Corporations Act;
- (b) "ADDITIONAL OFFER" shall mean the Second Offer referred to and defined in Section 4.5;
- (c) "AGREEMENT" shall mean this Unanimous Shareholders Agreement and all instruments supplemental hereto or in amendment or confirmation hereof; "HEREIN", "HEREOF", "HERETO", "HEREUNDER" and similar expressions mean and refer to this Agreement and not to any particular Article, Section, Subsection or other subdivision; "ARTICLE", "SECTION", "SUBSECTION" or other subdivision of this Agreement means and refers to the specified Article, Section, Subsection or other subdivision of this Agreement;
- (d) "ARM'S LENGTH" shall mean, in respect of any Shareholder, a relationship between such Shareholder and any particular Person which would be an arm's length relationship between such Shareholder and the particular Person within the meaning of the Income Tax Act (Canada);
- (e) "BOARD" shall mean the Board of Directors of the Corporation;
- (f) "BUSINESS DAY" shall mean any day, other than a Saturday, Sunday, or other day on which the principal commercial banks in Montreal are not open for business during normal banking hours;
- (g) "CLOSING" shall mean, in respect of any Shareholder, the sale of Shares by one or more Shareholders to such Shareholder pursuant to Section 4.5;
- (h) "CLOSING DATE" shall, in respect of any Shareholder, mean in the case of a Closing pursuant to Section 4.5, the date which is thirty (30) days after the expiry of the Offer Period or of the last Additional Offer;

provided, however, that if on any Closing Date all Governmental Body and

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third party approvals, consents, notifications and assurances (including, without limitation, approvals under the Investment Canada Act) necessary to permit the consummation of the transactions contemplated by the Closing have been applied for, but not yet received, by the purchaser, then the Closing Date shall be postponed to the thirtieth (30th) day after the receipt by the purchaser of the last of the aforesaid approvals, consents, notifications and assurances; notwithstanding the foregoing, the Closing shall not be extended more than one hundred and eighty (180) days after the date which was supposed to have been the original Closing Date herein;

- (i) "COMPETITOR" shall mean any entity which employs technology substantially the same as the technology being practised by the Corporation or which markets products which are

competitive with products which are under active research and development by the Corporation, NBCI or Neurocrine Biosciences, Inc.;

- (j) "CONFIDENTIAL INFORMATION" shall mean, in respect of any Shareholder, all information howsoever received by the Shareholder from or through the Corporation which the Corporation identifies as being confidential; provided, however, that the phrase "Confidential Information" shall not ----- include information which:
- (i) is public knowledge through no fault of the Shareholder or any of its former or current directors, officers or employees,
  - (ii) is properly within the legitimate possession of the Shareholder prior to its disclosure hereunder and without any obligation of confidence,
  - (iii) after disclosure, is lawfully received by the Shareholder from another Person who is lawfully in possession of such Confidential Information and such other Person was not restricted from disclosing the information to the Shareholder,
  - (iv) is independently developed by the Shareholder through Persons who have not had access to, or knowledge of, the Confidential Information, or
  - (v) is approved by the Corporation in writing for disclosure prior to its disclosure;
- (k) "DISPUTE" shall have the meaning ascribed thereto at Section 1.9;
- (l) "DOLLAR", "DOLLARS" and the sign "\$" shall each mean lawful money of Canada;
- (m) "GOVERNMENTAL BODY" shall mean (i) any domestic or foreign national, federal, provincial, state, municipal or other government or body, (ii) any multinational, multilateral or international body, (iii) any subdivision, agent, commission, board, institution or authority of any of the foregoing governments or bodies, (iv) any quasi-governmental or private body exercising any regulatory, expropriation or taxing authority under or for the account of any of the foregoing governments or bodies, or (v) any domestic, foreign, international, multilateral or multinational judicial, quasi-judicial, arbitration or administrative court, tribunal, commission, board or panel;
- (n) "INVESTORS" shall mean SFI, Neuroscience, BDC, CMDF and HBVF;
- (o) "PARTIES" shall mean the Shareholders and the Corporation;
- (p) "PERMITTED TRANSFEREE" shall, in respect of a Shareholder, mean a Person, which is not a Competitor, and which is an Affiliate (as defined in the Research and Development

Agreement) of the Shareholder; for greater certainty, references to any Shareholder hereunder shall include such Shareholder's Permitted Transferees;

- (q) "PERSON" shall mean an individual, corporation, company, cooperative, partnership, trust, unincorporated association, entity with judicial personality, Governmental Body; and pronouns when they refer to a Person have a similarly extended meaning;
- (r) "PRIME RATE" shall mean, on any particular day, the rate of interest per annum reported, quoted, published and commonly known as the prime rate of interest of Royal Bank of Canada for loans in dollars made in Canada to substantial and responsible customers at the close of business on such day;
- (s) "RESEARCH AND DEVELOPMENT AGREEMENT" shall mean the Memorandum of Agreement of even date among NBCI and the Corporation;
- (t) "SHARES" shall mean (i) any share of any class, series or category of the capital of the Corporation, including the Common Shares and the Series A Preferred Shares authorized in the Articles of the Corporation, or (ii) any security in the capital of the Corporation including, without limitation, purchase warrants, options or securities in whole or in part convertible or exchangeable for or into shares of any class, series or category of the capital of the Corporation;
- (u) "SHAREHOLDERS" shall initially mean NBCI, SFI, Neuroscience, BDC, CMDF and HBVF and the definition shall be deemed to be modified from time to time to (i) delete Persons who cease to hold Shares in accordance with the terms of this Agreement, and (ii) add all Persons who from time to time become holders of Shares and who execute a counterpart of this Agreement in accordance with Section 8.7;
- (v) "THIRD PARTY" shall have the meaning ascribed thereto at Section 4.5;
- (w) "TRANSFER" and any derivative thereof shall, when used as a verb or a noun in this Agreement, mean to sell, assign, surrender, exchange, give, donate, transfer, pledge, mortgage, charge, create a security interest in, hypothecate, grant an option in, escrow, or otherwise dispose, alienate, encumber or deal with any of the Shares;
- (x) "UNIT PURCHASE AGREEMENT" shall mean the Memorandum of Agreement of even date among the Corporation, Neurocrine Biosciences, Inc. and the Investors;
- (y) "VOTING SHARES" shall mean Shares of the Corporation to which are attached votes that may be cast to elect directors of the Corporation;

1.2 GENDER. Any reference in this Agreement to any gender shall include both  
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genders and the neutral, and words used herein importing the singular number  
only shall include the plural and vice versa.

1.3 HEADINGS. The division of this Agreement into Articles, Sections,  
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Subsections and other subdivisions, and the insertion of headings are for  
convenience of reference only and shall not affect or be used in the  
construction or interpretation of this Agreement.

1.4 SEVERABILITY. Any Article, Section, Subsection or other subdivision of  
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this Agreement or any other provision of this Agreement which is, or becomes,  
illegal, invalid or unenforceable shall be severed herefrom and shall be  
ineffective to the extent of such illegality, invalidity or unenforceability and  
shall not affect or impair the remaining provisions hereof, which provisions  
shall be severed from an illegal or unenforceable Article, Section, Subsection  
or other subdivision of this Agreement or any other provisions of this  
Agreement.

1.5 ENTIRE AGREEMENT. This Agreement together with any other instruments to be  
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delivered pursuant hereto, constitute the entire agreement among the Parties  
pertaining to the subject matter hereof and supersede all prior agreements,  
understandings, negotiations, and discussions, whether oral or written, among  
any or all of the Parties.

1.6 AMENDMENTS. No amendment of this Agreement shall be binding unless  
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otherwise expressly provided in an instrument duly executed by the Parties.

1.7 WAIVER. Except as otherwise provided in this Agreement, no waiver of any  
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of the provisions of this Agreement shall be deemed to constitute a waiver of  
any other provisions (whether or not similar) nor shall such waiver constitute a  
continuing waiver unless otherwise expressly provided in an instrument duly  
executed by the Parties.

1.8 GOVERNING LAW. This Agreement shall be governed, interpreted and construed  
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by and in accordance with the laws of the Province of Quebec and the laws of  
Canada applicable therein and shall be treated in all respects as a Quebec  
contract.

1.9 LANGUAGE. This Agreement is executed by the Parties hereto in French and  
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English. The Parties hereto expressly agree that in the event of any  
misunderstanding, dispute or controversy (collectively, a "DISPUTE") amongst  
them with respect to the interpretation of any of the provisions of this  
Agreement, the French version of this Agreement will have precedence and be the  
only version to apply and be used for the resolution of such Dispute.

As an exception only, and recognizing the principle that the French version  
shall have precedence, if a Dispute arises between any Parties hereto in  
connection with the interpretation given to any provision of this Agreement, any  
court before which any such Dispute is referred for resolution will be permitted  
to refer to the English version of this Agreement in order to determine the  
intention of the Parties at the time the provisions of this Agreement were  
drafted.

1.10 DELAYS. When calculating the period of time within which or following  
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which any act is to be done or step taken pursuant to this Agreement, the day  
which is the reference day in calculating such period shall be excluded. If the  
day on which such delay expires is not a Business Day, then the delay shall be  
extended to the next succeeding Business Day.

1.11 SCHEDULES. The following are the Schedules annexed to and incorporated in  
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this Agreement by reference and deemed to be a part hereof:

Schedule 3.1 - Special Matters  
Schedule 8.7 - Form of Counterpart

1.12 CONFLICT. This Agreement shall override the Schedules annexed hereto to  
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the extent of any inconsistency. If any conflict should appear between this  
Agreement and the Articles, by-laws or resolutions of the Corporation, then the  
provisions of this Agreement shall prevail.

1.13 PREAMBLE. The preamble hereof shall form an integral part of this  
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Agreement.

ARTICLE 2  
MANAGEMENT  
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2.1 BUSINESS OF THE CORPORATION. The Corporation shall not carry on any  
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business other than that of scientific research and development, and the  
exploitation and commercialization of such research and development as  
contemplated in the Research and Development Agreement, including all matters  
necessary or ancillary thereto.

2.2 BOARD. The Board shall be composed of such number of individuals as shall  
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be designated and appointed from time to time in accordance with the following  
provisions.

The Board shall be composed of seven (7) individuals, of which three (3)  
shall be designated by NBCI, one (1) shall be designated by SFI, one (1) shall  
be designated by BDC, one (1) shall be designated jointly by CMDF, HBVF and  
Neuroscience and one (1) shall be designated jointly by the Shareholders.

Each of the Shareholders shall advise the Corporation in writing of the  
names of the individuals such Shareholder has designated to be appointed to the  
Board as soon as practicable before each annual meeting of the Shareholders.  
Each Shareholder shall vote, or cause to be voted, its Voting Shares to elect  
the individuals designated as directors by each of the other Shareholders in  
accordance with this Section 2.2.

A quorum at meetings of the Board shall be a simple majority of the members  
then in office.

2.3 AUDITORS. The auditors of the Corporation shall be Caron, Belanger, Ernst

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& Young, or such auditors as the Shareholders shall appoint from time to time and such auditors shall, at the fiscal year end of the Corporation and at such other times as they may be reasonably requested by any of the Shareholders, make an audit of the books and records of the Corporation and for such purposes they shall have access to all books and records of the Corporation.

2.4 FINANCIAL YEAR. The financial year of the Corporation shall be

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December 31.

2.5 BOOK AND RECORDS. The Corporation shall maintain and keep at its principal

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office in the province of Quebec all books and records required by law or necessary, useful or appropriate for the business and affairs of the Corporation.

2.6 ACCESS TO BOOKS, RECORDS AND OTHER DOCUMENTS. The Shareholders and their

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auditors shall have the absolute right to examine, during normal business hours and after giving reasonable notice thereof, personally or through their legal counsel and auditors, all books and records held by the Corporation and to obtain at their expense a copy thereof. The Shareholders shall not create any unreasonable interference in the business of the Corporation during the course of such examinations.

2.7 BANKERS AND BANKING ARRANGEMENTS. The bankers of the Corporation shall be

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such bank(s) or financial institution(s) as may be agreed upon from time to time by the Board. Initially, the Royal Bank of Canada shall be appointed as the bankers of the Corporation.

2.8 VOTE. Each Shareholder shall at all times carry out and cause the

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Corporation and its nominees on the Board to carry out the provisions of this Agreement. Each Shareholder shall duly and punctually do, or cause to be done, all such things, including, without limitation, voting or causing to be voted all the Shares held by the Shareholder as shall be necessary or desirable to give effect to this Agreement. In the event that any of the directors do not vote at meetings of the Board in a manner consistent with this Agreement, all of the Shareholders shall sign written resolutions approving the relevant matter in a manner consistent with this Agreement, such resolutions restricting and removing the powers of the directors to vote on such matter shall be in accordance with the relevant Sections of the Act and shall replace any previous outstanding resolutions of the directors on such matter.

The Corporation shall carry out and be bound by this Agreement to the full extent that it has the capacity and power to do so.

2.9 UNANIMOUS SHAREHOLDERS AGREEMENT. To the extent that any of the powers

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vested in the directors by the provisions of the Act have been allocated in whole or in part to the Shareholders by this Agreement:

(a) such powers of the directors are hereby restricted to the extent allocated to the Shareholders hereunder, and

- (b) the Shareholders shall manage the business and affairs of the Corporation with respect to such powers as if they were the directors of the Corporation, and the directors shall thereby be released from their duties and liabilities to the same extent.

This Agreement shall, to the extent necessary to give effect to this Section 2.9, be deemed to be a unanimous shareholders agreement within the meaning of the Act.

ARTICLE 3  
SPECIAL MATTERS  
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3.1 SPECIAL MATTERS. No act, decision, by-law or resolution of the directors  
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of the Corporation which relates to any of the matters enumerated in Schedule 3.1 annexed hereto may be acted upon by the Corporation without the prior written consent of the Shareholders expressed in writing.

ARTICLE 4  
RESTRICTIONS ON TRANSFER  
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4.1 NO TRANSFER. Except as permitted in this Agreement or in any other  
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agreement entered into in connection with this Agreement, the Shareholders may not transfer in whole or in part any Shares or any right, title or interest therein without the prior written consent of the other Shareholders.

4.2 ASSIGNMENT TO PERMITTED TRANSFEREE. A Shareholder may transfer all (but  
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not less than all) of the Shares held by such Shareholder to a Permitted Transferee, provided that:

- (a) the Permitted Transferee has executed prior to such assignment a counterpart of this Agreement in accordance with Section 8.7,
- (b) the Permitted Transferee has agreed, in form and terms satisfactory to the legal counsel of the Corporation, acting reasonably, that as long as it shall hold such Shares it shall, unless waived in writing by the other Shareholders, be bound by the terms and conditions of the Unit Purchase Agreement and any other agreement executed in connection with this Agreement, if the transferor was a party thereto, as if the Permitted Transferee had been an original party to such agreements in place of the transferor, and
- (c) the transferor has agreed prior to such assignment, in form and terms satisfactory to the legal counsel of the Corporation, acting reasonably, that as long as the Permitted Transferee holds such Shares the transferor shall, unless waived in writing by the other



Shareholders, (i) not transfer to any Person the legal and/or beneficial ownership of any issued and outstanding share, equity security or ownership, participatory or profit interest in the Permitted Transferee or otherwise transfer the control of the Permitted Transferee by any mechanism whatsoever, (ii) not be relieved of its obligations hereunder and continue to be bound by this Agreement, the Unit Purchase Agreement and any other agreement executed in connection with this Agreement, if a party thereto, as if it continued to be a Shareholder, (iii) represent the Permitted Transferee in all of the Permitted Transferee's dealings with the Corporation and the other Shareholders, and (iv) solidarily with the Permitted Transferee (each waiving the benefit of division and discussion) be liable to the other Parties for the obligations of the Permitted Transferee under this Agreement.

If the Permitted Transferee fails to perform or fulfil any of its obligations hereunder, then any Party may require by notice to the transferor that the Permitted Transferee be forthwith liquidated and its assets (including, without limitation, the Shares held by the Permitted Transferee) distributed to the transferor.

4.3 TRANSFERS BY SFI. Notwithstanding anything to the contrary herein, SFI may

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transfer all or part of its Shares to any Governmental Body of or controlled by the Government of Quebec which is not a Competitor, at any time and from time to time without being subject to the provisions of Section 4.5; provided however,

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that SFI shall not be permitted to transfer its Shares to any Governmental Body of or controlled by the Government of Quebec unless such Governmental Body shall have first (i) executed a counterpart of this Agreement in accordance with Section 8.7, and (ii) have agreed, in form and terms satisfactory to the legal counsel of the Corporation, acting reasonably, that as long as it shall hold such Shares it shall be bound by the terms and conditions of the Unit Purchase Agreement and any other agreement executed by the parties in connection with this Agreement, if the transferor was a party thereto, as if the Governmental Body had been an original party to such agreements in place of the transferor.

4.4 TRANSFERS BY BDC. In the event that BDC is required by law to sell,

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transfer or otherwise dispose of all or substantially all of its assets, BDC may transfer or otherwise dispose of all of its Shares to any person (the "BDC Transferee") provided that i) the BDC Transferee has executed a counterpart of this Agreement in accordance with Section 8.7 and ii) neither the BDC Transferee nor any of its associates or affiliates is a Competitor.

4.5 RIGHT OF FIRST REFUSAL: SALE BY INVESTORS. If at any time, any of the

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Investors (the "OFFERING PARTY") receives an irrevocable offer which it is prepared to accept from a Person, including NBCI, who is not a Competitor, acting at Arm's Length to the Offering Party (in this Section the "THIRD PARTY") to purchase for cash (all of which is payable at Closing) all or a portion of the Shares held by the Offering Party, it shall first offer to sell (in this Section the "OFFER") such Shares (in this Section the "OFFERED SECURITIES") to the other Investors, as the case may be, (in this Section each a "NOTIFIED PARTY", collectively the "NOTIFIED PARTIES") in

accordance with the procedure set forth in this Section 4.5 and on the same terms as the Offering Party received from the Third Party.

The Offer shall be sent to each Notified Party and shall be open for acceptance by each Notified Party for thirty (30) days (in this Section the "OFFER PERIOD") from the receipt of the Offer by such Notified Party.

Each Notified Party shall be obliged by notice to the Offering Party received within, but not after, the expiration of the Offer Period at its sole option to either:

- (a) accept the Offer, or
- (b) reject the Offer, in which case the Offer Period with respect to such Notified Party shall expire on the date the Offer is rejected.

If a Notified Party does not accept the Offer by the expiry of the Offer Period, then such Notified Party shall be deemed to have rejected the Offer on such date.

If all of the Notified Parties have accepted the Offer, then the Offering Party shall sell to each Notified Party, and each Notified Party shall purchase from the Offering Party, such proportion of the Offered Securities as is equal to the proportion that the number of Voting Shares of such Notified Party is to the aggregate of all Voting Shares held by all Notified Parties, the whole in accordance with this Agreement and the terms and conditions of the Offer.

If not all of the Notified Parties shall have accepted the Offer (in which case at least one (1) of the Notified Parties shall have rejected or be deemed to have rejected the Offer), then the Offering Party shall be required forthwith to offer to sell (in this Section the "SECOND OFFER") all of the Offered Securities which were not accepted by a Notified Party (in this Section the "UNACCEPTED OFFERED SECURITIES") to the Notified Parties who accepted the Offer in accordance with the procedure set forth in this Section 4.5 and on the same terms as the Offering Party received from the Third Party.

The Second Offer shall be sent to the Notified Parties who accepted the Offer (in this Section the "RE-NOTIFIED PARTIES") and shall be open for acceptance by the Re-Notified Parties for fourteen (14) days from receipt of the Second Offer (in this Section the "SECOND OFFER PERIOD") by the Re-Notified Parties.

Each of the Re-Notified Parties shall be obliged by notice to the Offering Party received within, but not after, the expiration of the Second Offer Period at its option to either:

- (a) accept the Second Offer, or

(b) reject the Second Offer, in which case the Second Offer Period shall expire on the date the Second Offer is rejected.

If a Re-Notified Party does not accept the Second Offer by the expiry of the Second Offer Period, then it shall be deemed to have rejected the Second Offer on such date.

If all of the Re-Notified Parties have accepted the Second Offer, then they shall purchase from the Offering Party, and the Offering Party shall sell to each of the Re-Notified Parties, such proportion of the Offered Securities (including the Unaccepted Offered Securities) as is equal to the proportion that the number of Voting Shares of such Re-Notified Party is to the aggregate of all Voting Shares held by all Re-Notified Parties, the whole in accordance with this Agreement and the terms and conditions of the Offer and the Second Offer.

If not all of the Re-Notified Parties shall have accepted the Second Offer, then the Offering Party shall be required to offer all of the Offered Securities which were not accepted by a Re-Notified Party to the Re-Notified Parties who accepted the Second Offer and the terms and conditions of the Second Offer will apply mutatis mutandis to this additional offer or any subsequent additional offer which may be required.

If at the end of the last applicable period the Investors have not agreed to purchase all (but not less than all) of the Offered Securities in accordance with the above-mentioned procedure, the Offering Party shall be required forthwith to offer to sell (in this Section the "NBCI Offer") all of the Offered Securities to NBCI on the same terms as the Offering Party received from the Third Party.

The NBCI Offer shall be open for acceptance for thirty (30) days from receipt thereof by NBCI (the "NBCI Offer Period").

NBCI shall be obliged by notice to the Offering Party received within, but not after the expiration of the NBCI Offer Period at its option to either:

- (a) accept the NBCI Offer, or
- (b) reject the NBCI Offer, in which case the NBCI Offer shall expire on the date it is rejected.

If NBCI does not accept the NBCI Offer by the expiry of the NBCI Offer Period, then NBCI shall be deemed to have rejected the NBCI Offer on such date.

If at the end of the NBCI Offer Period NBCI has not agreed to purchase all (but not less than all) of the Offered Securities in accordance with the above-mentioned procedure, the Offering Party shall be free for a period of ninety (90) days from the end of the last applicable offer period to sell all (but not less than all) of the Offered Securities to the Third Party on terms

not more favourable than those provided in the Offer, provided, however, that it shall be a condition precedent to the right of the Offering Party to sell the Offered Securities that the Third Party has executed a counterpart of this Agreement in accordance with Section 8.7 and that any required shareholder approval has been obtained.

If no sale takes place within the said ninety (90) day period, then the Offering Party shall not transfer the Offered Securities without again following and being subject to this Article 4.

4.6 MODALITIES. Each Closing shall be made in accordance with Article 5.  
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4.7 REFUSAL OF CORPORATION. The Corporation shall record each transfer of  
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Shares provided, however, that the Corporation shall refuse to record a transfer  
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of Shares made in contravention of this Agreement.

4.8 OFFER; ADDITIONAL OFFER. Each Offer and each Additional Offer shall be in  
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a writing signed by the Offering Party and addressed to each Notified Party, Re-  
Notified Party and/or NBCI, as the case may be, and shall:

- (a) identify the Section pursuant to which it is delivered,
- (b) identify and provide particulars of the Offered Securities,
- (c) state the purchase price per Offered Security, which purchase price shall be payable in full, in cash, in Canadian dollars at Closing, and
- (d) state the name and address of the Third Party to whom it proposes to sell the Offered Securities, along with a copy of the offer received from such Third Party.

4.9 IRREVOCABILITY. All Offers and Additional Offers and their acceptance,  
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rejection, deemed acceptance and deemed rejection are irrevocable.

4.10 TAX STATUS. Notwithstanding any provision contained herein, the Investors  
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will not take any action and in particular will not permit or consent to any transfer, sale or assignment of Shares in the event that such action, transfer, sale or assignment adversely affects in any manner the tax status of the Corporation under any applicable Canadian or provincial tax legislation and without limiting the foregoing, its status as a "Canadian-controlled private corporation" and as a "qualifying corporation", and its non-qualification as an "excluded corporation" and as a "tax-exempt corporation" under such legislation.

4.11 INSCRIPTION. The Corporation shall cause, and the Shareholders shall vote  
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their Shares

Ownership, alienation and encumbrance of the Shares represented by this certificate are subject to the terms of the Unanimous Shareholders' Agreement dated March 29, 1996, a copy of which is on file at the head office of the Corporation.

ARTICLE 5  
CLOSING  
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5.1 TIME, PLACE, TERMS AND CONDITIONS. Each Closing shall be held at the  
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principal offices of the Corporation at 10:00 a.m. on the Closing Date, or at such other place, at such other time or on such other date as the Parties thereto may agree, in accordance with the following terms and conditions:

- (a) At Closing, the vendor shall deliver to the purchaser certificates representing the Shares being transferred, which certificates shall be accompanied by a duly executed assignment of the Shares to the purchaser.
- (b) Payment for the Shares being transferred shall be made in full at Closing. All payments shall be made by way of bank draft or electronic fund transfer to the vendor's account in Canada.
- (c) At Closing, the vendor shall deliver to the purchaser a written warranty that:
  - (i) there are no contractual or other restrictions on the transfer of the Shares being transferred (other than the restrictions set out in the Articles of the Corporation and in this Agreement), and
  - (ii) the vendor is the legal and beneficial owner of the Shares being transferred with full right, title and authority to transfer such Shares to the purchaser, free and clear of all claims, liens and other encumbrances whatsoever.
- (d) If there are two purchasers, then the obligations of each purchaser in connection with the purchase of Shares shall be independent of the obligations of the other purchaser in that regard, and the failure of any purchaser to pay for such purchaser's Shares shall not affect the right of any other purchaser to receive a transfer of the Shares purchased by that other purchaser.
- (e) At Closing, all necessary and proper corporate proceedings required by counsel for the purchaser, acting reasonably, shall be taken for the transfer of the Shares being transferred.

- (f) If the purchaser fails for any reason whatsoever to proceed with Closing or to pay to the vendor any amount due hereunder, then all amounts due hereunder but not paid shall bear interest from the date of Closing until paid in full at a rate of interest per annum equal to the Prime Rate plus three percent (3%). Such interest shall be payable on demand.
- (g) At Closing, the vendor shall deliver to the Corporation signed resignations of its nominees as directors, officers and employees of the Corporation which are required to resign in accordance with this Agreement or any Offer or Additional Offer. If the vendor is selling all of its Shares, it shall deliver to the Corporation signed resignations of all of its nominees as directors, officers and employees of the Corporation unless waived by the Corporation.
- (h) If the vendor is bound by a guarantee whereby such vendor has guaranteed the payment of any debt or liability of the Corporation, then the purchaser shall use all reasonable efforts to cause such guarantee to be released and cancelled at Closing, failing which the purchaser shall agree to indemnify and hold the vendor harmless from all claims, costs, demands and actions suffered or incurred after the Closing resulting from, arising out of, or relating to such guarantee.

If any of the conditions set forth in this Section 5.1 made for the exclusive benefit of the purchaser are not satisfied at Closing, then the purchaser may, at its option, either:

- (i) refuse to proceed with the Closing, or
- (ii) proceed with the Closing,

in either case without prejudice to its remedies and recourses against the vendor as a result of such condition not being satisfied.

However, if at Closing the Shares being transferred are not free and clear of all claims, liens and other encumbrances whatsoever, the purchaser may, without prejudice to any other rights which it may have, purchase such Shares subject to such claims, liens and other encumbrances. In that event, the purchaser shall at the Closing assume all obligations and liabilities with respect to such claims, liens and encumbrances and the purchase price payable by the purchaser for such Shares shall be satisfied, in whole or in part, as the case may be, by such assumption. The amount so assumed shall reduce the purchase price payable at Closing.

5.2 TRUST ACCOUNT. If a Shareholder is obliged to sell Shares to another

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Shareholder pursuant to any provisions of this Agreement and if the vendor fails to complete the transaction, then the amount which the purchaser would otherwise be required to pay to the vendor at Closing may be deposited by the purchaser into an interest-bearing trust account in the name of the vendor at the bank branch used by the Corporation. Upon making such deposit and giving the vendor notice thereof, the purchase of the vendor's Shares by that purchaser shall be deemed

to have been fully completed and all right, title, benefit and interest in and to the Shares to which the purchaser is entitled, shall be deemed to have been transferred and assigned to and vested in the purchaser. The vendor shall be entitled to receive the amount deposited in the trust account upon satisfying the vendor's obligations pursuant to Section 5.1.

5.3 SPECIFIC PERFORMANCE. It is recognized that serious and irreparable damage

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for which monetary damages would not be an adequate remedy would result to the purchaser from the violation of this Article 5. Each Party agrees that, in addition to any and all remedies available to any Shareholder in the event of a violation of such covenants, such Shareholder shall have the immediate remedy of injunction or such other relief as may be decreed or issued by any court of competent jurisdiction to enforce this Article 5.

ARTICLE 6  
CONFIDENTIALITY

-----  
6.1 CONFIDENTIALITY. Subject to the provisions of the Research and Development

-----  
Agreement, each of the Investors agree to use, and to use its best efforts to ensure that its authorized representatives use, the same degree of care as such Investor uses to protect its own confidential information, to keep confidential any Confidential Information in its possession. Such Investor may disclose Confidential Information to any partner, shareholder, subsidiary, parent, director, officer, employee or agent of such Investor for the purpose of evaluating its investment in the Corporation as long as such partner, shareholder, subsidiary, parent, director, officer, employee or agent is advised of the confidentiality provisions of this Section 6.1.

With respect to each Investor, the obligation of confidentiality shall survive, in the case of Confidential Information which concerns the technology of the Corporation, for a period of three (3) years from the date such Shareholder (or its Permitted Transferee), as the case may be, ceases to be a Shareholder.

Anything to the contrary herein notwithstanding, disclosure of Confidential Information shall not be precluded if such disclosure is in response to a valid order of a Governmental Body or is otherwise required by law; provided, however,

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that the said Investors shall, if reasonably possible, first have given notice thereof to the Corporation and shall have, as appropriate:

- (a) fully cooperated in the Corporation's attempt, if any, to obtain a "protective order" from the appropriate Governmental Body, or
- (b) attempted to classify such documents to prevent access by the public, in accordance with the provisions of any law pertaining to freedom of information.

6.2 REASONABLENESS. The covenants set forth in Section 6.1 are reasonable and  
-----  
valid in all respects and each Investor hereby irrevocably agrees to waive (and  
irrevocably agrees not to raise) as a defense any issue of reasonableness  
(including, without limitation, as to the duration and scope of the covenants)  
in any proceeding to enforce any such covenant; the intention of the aforesaid  
Persons being to provide for the legitimate and reasonable protection of the  
interests of the Corporation by providing, among other things, for the broadest  
scope, the longest duration and the widest territory permitted by applicable  
law.

6.3 ACKNOWLEDGEMENT. Without limitation to the generality of the foregoing,  
-----  
NBCI acknowledges and will not object to the fact that each of the Investors has  
investments in, and will invest in, entities which may be in competition with  
the Corporation.

ARTICLE 7  
FINANCIAL INFORMATION AND COVENANTS OF THE CORPORATION  
-----

7.1 FINANCIAL INFORMATION. The Corporation undertakes toward the Shareholders  
-----  
to remit to the latter the following documents with respect to itself and with  
respect to any subsidiaries of the Corporation acquired on or after the date  
hereof:

- (a) within one hundred and twenty (120) days after the end of each fiscal year,  
a copy of the balance sheet of the Corporation as at the end of such year,  
together with statements of earnings, shareholders' equity, statement of  
changes in financial position and cash flow of the Corporation for such  
year, setting forth in each case in comparative form the corresponding  
figures for the preceding fiscal year, all in reasonable detail and duly  
certified by the auditor of the Corporation. These financial statements  
shall be prepared in accordance with Canadian generally accepted accounting  
principles applied on a consistent basis;
- (b) within forty-five (45) days after the end of each of the first three (3)  
fiscal quarters during each fiscal year, a balance sheet of the Corporation  
as of the end of such fiscal quarter and statements of earnings,  
shareholders' equity, statement of changes in financial position and cash  
flow for such quarter and for the period from the beginning of the then  
current fiscal year to the end of such quarter, setting forth in each case  
in comparative form the corresponding figures for the corresponding period  
of the preceding fiscal year, all in reasonable detail. The financial  
statements delivered pursuant to this paragraph need not be audited, but  
shall be certified by the President or the Chief Operating Officer of the  
Corporation as presenting fairly the financial condition of the Corporation  
in conformity with Canadian generally accepted accounting principles  
applied on a consistent basis with the preceding years, subject to changes  
resulting from year-end adjustments;



- (c) at least thirty (30) days prior to the commencement of a fiscal year, an annual operating budget, pro-forma cash flow and pro-forma income statement for the Corporation;
- (d) promptly following the receipt thereof, any written report, "management letter" and any other communication submitted to the Corporation by its independent chartered accountants relating to the business, prospects or financial condition of the Corporation; and
- (e) within one hundred and twenty (120) days of the end of each fiscal year of the Corporation, a report prepared by the auditors of the Corporation describing all transactions between the Corporation and Persons not dealing at Arm's Length with the Corporation during the preceding fiscal year.

7.2 ACCESS TO PROPERTIES. The Corporation shall permit each Shareholder, at -----  
such Shareholder's expense, to visit and inspect the Corporation's properties, to examine its books of accounts and records and to discuss the Corporation's affairs, finances and accounts with its officers, all at such reasonable times as may be requested by the Shareholder. Furthermore, the Corporation will provide CMDF, from time to time upon request, all information necessary to determine whether the Shares remain an eligible investment for CMDF.

7.3 COMPLIANCE WITH LAWS. The Corporation hereby agrees not to violate any -----  
applicable statute, rule, regulation, order or restriction of any Canadian or foreign government or any institution or agency thereof with respect to the conduct of its business or the ownership of its properties which violation could materially and adversely affect the business, assets, liabilities, financial condition, operations or prospects of the Corporation.

ARTICLE 8  
GENERAL PROVISIONS  
-----

8.1 PRESS RELEASE. Any press release or any public announcement, statement or -----  
publicity with respect to the transaction contemplated in this Agreement shall be made only with the prior consent of the Parties unless such release, announcement, statement or publicity is required by law, in which case the Party required to make such release, announcement, statement or publicity shall use its best efforts to obtain the approval of the other Parties as to the form, nature and extent of such disclosure, which approval shall not be unreasonably withheld. Notwithstanding anything contained in this Agreement, the Investors shall be entitled at any time to identify the Corporation as one of their investment clients and to describe the general business and activities of the Corporation in any promotional literature and other materials.

8.2 FURTHER ASSURANCES. Each Party upon the request of the others, shall do, -----  
execute, acknowledge and deliver or cause to be done, executed, acknowledged or delivered all such

further acts, deeds, documents, assignments, transfers, conveyances, powers of attorney and assurances as may be reasonably necessary or desirable to effect complete consummation of the transactions contemplated by this Agreement.

8.3 SUCCESSORS IN INTEREST. This Agreement and the provisions hereof shall

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enure to the benefit of and be binding upon the Parties and their respective successors and permitted assigns.

8.4 NOTICE. Any offer, acceptance, rejection, notice, consent, request,

-----  
authorization, permission, direction or other instrument required or permitted to be given hereunder shall be in writing and given by delivery or sent by telecopier or similar telecommunication devices and addressed:

(a) in the case of the Corporation:

NEUROSCIENCE PHARMA (NPI) INC.  
Mackenzie Gervais  
770 Sherbrooke Street West  
Suite 1300  
Montreal, Quebec  
H3A 1G1

Attention: Luc LaRoche  
Telecopier: (514) 288-7389

Copy to: Byers Casgrain  
1 Place Ville Marie  
Suite 3900  
Montreal, Quebec  
H3B 4M7

Attention: Paul F. Dingle  
Telecopier: (514) 866-2241

(b) in the case of NBCI:

NEUROCRINE BIOSCIENCES (CANADA) INC.  
Byers Casgrain  
1 Place Ville Marie  
Suite 3900  
Montreal, Quebec  
H3B 4M7  
Attention: Paul F. Dingle  
Telecopier: (514) 866-2241

Copy to: Wilson Sonsini Goodrich & Rosati  
Professional Corporation  
650 Page Mill Road  
Palo Alto, CA 94304-1050

Attention: Michael O'Donnell, Esq.  
Telecopier: (415) 493-6811

Copy to: Neurocrine Biosciences, Inc.  
3050 Science Park Road  
San Diego, CA 92121-1102

Attention: President & CEO  
Telecopier: (619) 658-7602

(c) in the case of SFI:

SOFINOV SOCIETE FINANCIERE D'INNOVATION INC.  
1981 McGill College Avenue  
Montreal, Quebec  
H3A 3C7

Attention: Luc Villeneuve  
Telecopier: (514) 847-2628

(d) in the case of Neuroscience:

NEUROSCIENCE PARTNERS LIMITED PARTNERSHIP  
100 International Boulevard  
Etobicoke, Ontario  
M9W 6J6

Attention: Secretary  
Telecopier: (416) 675-4095

(e) in the case of BDC:

BUSINESS DEVELOPMENT BANK OF CANADA  
5 Place Ville-Marie  
12th Floor  
Montreal, Quebec  
H3B 5E7

Attention: Mark Vandzura  
Telecopier: (514) 283-7675

(f) in the case of CMDF:

CANADIAN MEDICAL DISCOVERIES FUND INC.  
100 International Boulevard  
Etobicoke, Ontario  
M9W 6J6

Attention: Secretary  
Telecopier: (416) 675-4095

(g) in the case of HBVF:

THE HEALTH CARE AND BIOTECHNOLOGY  
VENTURE FUND  
100 International Boulevard  
Etobicoke, Ontario  
M9W 6J6

Attention: Secretary  
Telecopier: (416) 675-4095

Any offer, acceptance, rejection, notice, consent, request, authorization, permission, direction or other communications delivered as aforesaid shall be deemed to have been received, if sent by telex, telecopier or similar telecommunication devices on the Business Day next following such transmission or, if delivered, to have been delivered and received on the date of such delivery provided, however, that if such date is not a Business Day then it

-----  
shall be deemed to have been delivered and received on the Business Day next following such delivery. Any Party may change its address by written notice delivered as aforesaid.

8.5 PURPORTED TRANSFERS. Any purported transfer of Shares contrary to the  
-----  
terms of this Agreement shall be null and void and have no legal effect.

8.7 EXECUTION OF COUNTERPART. No Person shall become a holder of Shares of the Corporation without first having executed a counterpart of this Agreement in accordance with Schedule 8.7 annexed hereto.

Each such counterpart so executed shall be deemed to be an original and such counterparts together shall constitute one and the same instrument.

8.8 COUNTERPARTS. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one and the same document.

8.9 TERMINATION. This Agreement shall terminate automatically upon the occurrence of any of the following eventualities:

- (a) the bankruptcy or dissolution (whether voluntary or involuntary) of the Corporation;
- (b) all issued and outstanding Shares of the Corporation are held by one Person only; or
- (c) by written agreement of all of the Parties.

IN WITNESS WHEREOF this Agreement was executed on the date and at the place first mentioned above.

NEUROCRINE BIOSCIENCES (CANADA) INC.

Per: /s/ Paul W. Hanson  
-----

SOFINOV SOCIETE FINANCIERE  
D'INNOVATION INC.

Per: /s/ Carmen Crepin  
-----

NEUROSCIENCE PARTNESS LIMITED  
PARTNERSHIP

Per: /s/ Michael J. Callaghan  
-----

8.6 TIME. Time shall be of the essence in this Agreement.

----

8.7 EXECUTION OF COUNTERPART. No Person shall become a holder of Shares of the Corporation without first having executed a counterpart of this Agreement in accordance with Schedule 8.7 annexed hereto.

Each such counterpart so executed shall be deemed to be an original and such counterparts together shall constitute one and the same instrument.

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- (a) the bankruptcy or dissolution (whether voluntary or involuntary) of the Corporation;
- (b) all issued and outstanding Shares of the Corporation are held by one Person only; or
- (c) by written agreement of all of the Parties.

IN WITNESS WHEREOF this Agreement was executed on the date and at the place first mentioned above.

NEUROCRINE BIOSCIENCES (CANADA) INC.

Per: /s/ Paul W. Hawran  
-----

SOFINOV SOCIETE FINANCIERE  
D'INNOVATION INC.

Per: /s/ CARMEN CREPIN  
-----

NEUROSCIENCE PARTNERS LIMITED  
PARTNERSHIP, represented by MDS  
ASSOCIES-NEUROSCIENCE INC., its  
general partner

Per: /s/ Michael J. Callaghan  
-----  
Michael J. Callaghan,  
Vice-President

Per: /s/ Keith J. Dorrington  
-----  
Keith J. Dorrington,  
Vice-President

BUSINESS DEVELOPMENT BANK OF CANADA

Per: /s/ Mark Vandzura  
-----

Per: \_\_\_\_\_

CANADIAN MEDICAL DISCOVERIES FUND,  
INC.

Per: /s/ Edward K. Rygiel  
-----  
Edward K. Rygiel, Director

Per: /s/ Frank Gleeson  
-----  
Frank Gleeson, Vice-President

THE HEALTH CARE AND BIOTECHNOLOGY  
VENTURE FUND, represented by MDS  
HEALTH VENTURES CAPITAL CORP. its  
manager

Per: /s/ Michael J. Callaghan  
-----  
Michael J. Callaghan,  
Vice-President

Per: /s/ Keith J. Dorrington  
-----  
Keith J. Dorrington,  
Vice-President

NEUROSCIENCE PHARMA (NPI) INC.

Per: /s/ Paul W. Hanson  
-----

Per: /s/ Gary A. Lyons  
-----



SCHEDULE 3.1  
SPECIAL MATTERS

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- (a) To issue Shares other than as set out in the Unit Purchase Agreement, the Unanimous Shareholders Agreement or any agreement entered into by the Parties in connection with the transactions contemplated thereby.
- (b) To transfer Shares of the Corporation owned by NBCI or any Affiliate thereof as defined in the Research and Development Agreement prior to the completion of the Research and of the Development to be carried out under the Research and Development Agreement.
- (c) To pay any dividends or to distribute any capital or profit of the Corporation, except pursuant to the terms and conditions attaching to the Series A Preferred Shares.
- (d) To pass any by-law or to amend the articles of the Corporation.
- (e) To dissolve or liquidate the Corporation.
- (f) To enter into any business other than as envisaged in Section 2.1 and to acquire any of the shares or assets of another corporation or business enterprise.
- (g) To enter into any amalgamation, merger, consolidation or other reorganization of the Corporation.
- (h) To change or transfer the principal office of the Corporation outside the Montreal region or transfer all or substantially all of the business of the Corporation outside of the Montreal region.
- (i) To change the financial year end of the Corporation.
- (j) To take advantage of any bankruptcy or insolvency legislation from time to time in force, or to appoint a receiver or a trustee over any property.
- (k) To sell and enter into agreements, options, rights of first refusal and other commitments to dispose of all or substantially all of the assets of the Corporation.
- (l) To grant any loan, guarantee or security or any advance of funds by the Corporation to any Person not at Arm's Length with the Corporation.

- (m) The payment of any bonus, remuneration or other benefit, and any advance to, a shareholder, director, or officer of the Corporation or to any Person not at Arm's Length with the Corporation.
- (n) Any contract binding the Corporation with a Person not dealing on an Arm's Length basis with the Corporation.
- (o) Any long-term borrowing of money upon the general credit of the Corporation, other than that which is set forth in the approved annual budget.
- (p) The issuing of bonds and debentures and the creation of a hypothec or any type of charge upon the property of the Corporation; or any capital expenditure greater than five percent (5%) of the approved capital budget in one instance or in the aggregate in any fiscal year.
- (q) Any decision or resolution dealing with the public issue of securities of the Corporation in Quebec or any other securities market in Canada or the United States.
- (r) The approval of the annual operating budget of the Corporation and the annual capital budget of the Corporation, and any amendments thereto. Should the Shareholders refuse to approve the operating budget or the capital budget for a given fiscal year, the Corporation must conduct its business in conformity with the budgets of the preceding fiscal year and the Corporation may not incur capital expenses for the fiscal year then in progress unless the abovementioned budgets have been approved in accordance with the present provisions.
- (s) The investment of any funds available in the Corporation pending their use to carry out Research and Development carried out under the Research and Development Agreement.
- (t) To appoint officers of the Corporation.
- (u) The entering into by the Corporation of contracts out of the ordinary course of business.

SCHEDULE 8.7

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AGREEMENT

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THIS INSTRUMENT forms part of the Unanimous Shareholders Agreement (the "Agreement") made as of the 29th day of March 1996, by and among Neurocrine Holdings Inc., Societe Financiere d'Innovation Inc., Neuroscience Partners Limited Partnership, Business Development Bank of Canada, CMDF, and Neurocrine Biosciences (Canada) Ltd., which Agreement permits execution by counterpart. The undersigned hereby acknowledges having received a copy of the said Agreement (which is annexed hereto as Schedule "1") and, having read the said Agreement in its entirety, hereby agrees that the terms and conditions of the said Agreement shall be binding upon the undersigned (including, without limitation, the obligations of confidentiality) as if the undersigned had been an original party to the Agreement as a Shareholder (as such term is defined in the Agreement) and such terms and conditions shall enure to the benefit of and be binding upon the undersigned, its successors and assigns.

IN WITNESS WHEREOF the undersigned has executed this instrument this \* day of ~, [year].

[Shareholder]

Per: \_\_\_\_\_

EXCHANGE AGREEMENT

AMONG

NEUROCRINE BIOSCIENCES (CANADA) INC.

AND

NEUROCRINE BIOSCIENCES, INC.

AND

THE INVESTORS

MARCH 29, 1996

[CONFIDENTIAL TREATMENT REQUESTED]

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## EXCHANGE AGREEMENT

This Exchange Agreement is entered into and made effective as of March 29, 1996, among Neurocrine Biosciences (Canada) Inc., a Canadian corporation ("NBCI"), Neurocrine Biosciences, Inc., a California corporation ("NBI"), and the undersigned investors (collectively the "INVESTORS" and individually an "INVESTOR").

### R E C I T A L S

-----

A. The Investors have subscribed for and are the holders of the Series A Preferred Shares of NPI;

B. The Investors and NBCI wish to grant one another certain call and put rights with respect to the Series A Preferred Shares, and to create certain other rights and obligations among them.

NOW, THEREFORE, in consideration of the premises and mutual covenants contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby stipulate and agree as follows:

### ARTICLE 1 - DEFINITIONS

The following terms shall have the following meanings as used in this Agreement:

1.1 "Acquiror" shall have the meaning ascribed thereto at section 3.1 hereof.

1.2 "Acquisition" shall have the meaning ascribed thereto at section 3.1 hereof.

1.3 "Affiliate" means an individual, trust, business trust, joint venture, partnership, corporation, association or any other entity which (directly or indirectly) is controlled by, controls or is under common control with a party hereto. For the purposes of this definition, the term "control" (including, with correlative meanings, the term "controlled by" and "under common control with") as used with respect to any party hereto, shall mean ownership of more than 50% of the voting interest.

1.4 "Agreement" means this Exchange Agreement and any instrument supplemental or ancillary hereto, including the Exhibits, and the expression "Article", "section", "paragraph" and "clause" followed by a number or a letter means and refers to the specific Article, section, paragraph or clause of this Exchange Agreement.

1.5 "Amount Invested" shall have the meaning ascribed thereto at section 3.1 hereof.

1.6 "Closing Date" means the date on which the Closing occurs.

1.7 "Closing" means the closing of the sale and purchase of the Units under the Unit Purchase Agreement.

1.8 "Common Shares" means the common shares in the capital of NPI.

1.9 "Common Stock" means the common stock in the capital of NBI.

1.10 "Corporate Collaboration" shall have the meaning ascribed thereto at section 3.2 hereof.

1.11 "Corporate Collaborator" shall have the meaning ascribed thereto at section 3.2 hereof.

1.12 "Credits" shall have the meaning ascribed thereto at section 2.1 hereof.

1.13 "Development" shall have the meaning ascribed thereto in the Research and Development Agreement.

1.14 "Fair Market Value" means the value per share of the Common Stock determined as of the date of issuance of the Series B-2 Warrants or the Series D Warrants, as the case may be, by an investment banker, agreed upon by shareholders of NPI which together own more than 50% of the Common Shares, in comparison with other scientific research and development companies at a similar stage of maturity.

1.15 "Field" means [\*] (c) such other fields as may be mutually agreed to by NBCI and NPI.

1.16 "First Credit Period" shall have the meaning ascribed thereto at paragraph 2.1(b) hereof.

1.17 "Investors Rights Agreement" shall have the meaning ascribed thereto at section 5.7 hereof.

1.18 "IPO" shall have the meaning ascribed thereto at paragraph 2.1(b) hereof.

[\* CONFIDENTIAL TREATMENT REQUESTED]



1.19 "IPO Price" means the offering price per share for shares of Common Stock referred to in the registration statement filed by NBI with the Securities and Exchange Commission (prior to deduction of underwriters' discounts and other offering expenses).

1.20 "Market Price" means the average closing price of the Common Stock on the stock exchange on which such Common Stock is listed for trading, for the five trading days preceding each date of issuance of the Series B-2 Warrants.

1.21 "Material Adverse Effect" means any adverse effect or change in the condition (financial or otherwise), business, results of operations, prospects, assets, liabilities or operations of the referenced entity or on its ability to consummate the transactions contemplated hereby or any event or condition which may, with the passage of time, have such an effect or result in such a change.

1.22 "NPI" means Neuroscience Pharma (NPI) Inc., a Canadian corporation.

1.23 "Person" means an individual, corporation, company, cooperative, partnership, trust, unincorporated association, entity with judicial personality or governmental body.

1.24 "Product" shall have the meaning ascribed thereto in the Research and Development Agreement.

1.25 "Put Notice" shall have the meaning ascribed thereto at section 3.3 hereof.

1.26 "Research" shall have the meaning ascribed thereto in the Research and Development Agreement.

1.27 "Research and Development Agreement" means the Research and Development Agreement entered into today between NBI and NPI.

1.28 "Rule 144" shall have the meaning ascribed thereto at section 6.4 hereof.

1.29 "Second Credit Period" shall have the meaning ascribed thereto at paragraph 2.1(b) hereof.

1.30 "Series A Preferred Shares" means the Series A Preferred Shares in the capital of NPI.

1.31 "Series B-1 Warrants" shall have the meaning ascribed thereto at paragraph 2.1(b) hereof.

1.32 "Series B-2 Warrants" shall have the meaning ascribed thereto at paragraph 2.1(b) hereof.

1.33 "Series C Warrants" shall have the meaning ascribed thereto at section 3.1 hereof.

1.34 "Series D Warrants" shall have the meaning ascribed thereto at section 3.4 hereof.

1.35 "Stock Call Price" shall have the meaning ascribed thereto at section 3.1 hereof.

1.36 "Stock Put Price" shall have the meaning ascribed thereto at section 3.3 hereof.

1.37 "Termination Notice" means the written notice given by NBCI to terminate the Research and Development Agreement, as defined at Article 7 thereof.

1.38 "Third Party" means any entity other than NBCI, NPI, the Investors and Affiliates thereof.

1.39 "Unit Purchase Agreement" means the Unit Purchase Agreement entered into today among NBI, NPI and the Investors.

1.40 "Warrants" means the Series B-1, B-2, C and D Warrants or any of them, as the case may be.

## ARTICLE 2 - TAX CREDIT WARRANTS

2.1 Tax Credit Warrants. In the event that NPI shall be entitled to  
-----  
receive and actually receives refundable Canadian and provincial government tax credits (the "Credits") for Research and Development, during the First Credit Period and the Second Credit Period, NBCI shall deliver warrants to each Investor exercisable for the number of shares of Common Stock and at an exercise price determined as set forth below:

(a) for Credits received, which are earned during the period commencing on the Closing Date and ending on June 30, 1998 (the "First Credit Period"), the warrants shall be in the form of EXHIBIT A-1 attached hereto (the "Series B-1 Warrants") and shall be exercisable on or before the tenth anniversary of the date of issuance thereof, at an exercise price of US [\*] per share, for the registered holder's pro rata portion of that number of shares of Common Stock which is equal to [\*] of the Credits received in relation to each year or part thereof for the First Credit Period divided by US [\*]; and

[\* CONFIDENTIAL TREATMENT REQUESTED]

(b) for Credits received, which are earned during the period commencing on July 1, 1998 and ending on the date Credits are no longer earned (the "Second Credit Period"), the warrants shall be in the form of EXHIBIT A-2 attached hereto (the "Series B-2 Warrants") and shall be exercisable on or before the tenth anniversary of the date of issuance thereof, at an exercise price in US\$ equal to either 110% of the Market Price or, in the event there has not been an initial public offering for Common Stock (an "IPO"), the Fair Market Value, for the registered holder's pro rata portion of that number of shares of Common Stock which is equal to 25% of the Credits received in relation to each year or part thereof for the Second Credit Period divided by either the Market Price or, in the event there has not been an IPO, the Fair Market Value.

The pro rata portion of that number of shares of Common Stock which each Investor shall be entitled to receive on the exercise of each Series B-1 and B-2 Warrant is reflected in EXHIBIT B attached hereto.

2.2 Issuance of Tax Credit Warrants. All Series B-1 and B-2 Warrants  
-----

shall be issued promptly after the end of each fiscal year of NPI, after final assessment by the appropriate tax authorities, based upon the amount of Credits received for such year or part thereof as shown by NPI's audited financial statements prepared in accordance with generally accepted accounting principles. For greater certainty, no Credits shall be deemed to be earned, received or refundable unless payment in respect thereof is actually received by NPI from the appropriate tax authority.

ARTICLE 3 - EXERCISE OF CERTAIN RIGHTS

3.1 NBCI's Option to Purchase Series A Preferred Shares. It is understood  
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by the parties hereto that NBCI may, at its option, exercise its right to terminate the license granted to NPI, as provided in Article 7 of the Research and Development Agreement. In the event such license is terminated by NBCI with respect to all Products, NBCI shall, upon the expiry of the period of 30 days following the Termination Notice, unless the right to cause NBCI to purchase the Series A Preferred Shares of the Investors pursuant to either section 3.3 or 3.4 below has been exercised, purchase the Series A Preferred Shares held by the Investors for a price, as more fully described below, which will provide the Investors with a [\*] return, compounded annually, on the total investment made by the Investors at Closing for each year or part thereof during the period commencing on the Closing Date and ending on the date NBCI purchases the Series A Preferred Shares pursuant to this provision. The price to be paid by NBCI to each Investor for its Series A Preferred Shares shall be an amount of cash or, at the option of NBCI, warrants in the form of EXHIBIT C attached hereto (the "Series C Warrants") to purchase Common Stock if at the time of such payment the Common Stock is

[\* CONFIDENTIAL TREATMENT REQUESTED]

then publicly traded, with such Common Stock valued at the average closing price for the five trading days which precede by two trading days the date NBCI purchases the Series A Preferred Shares pursuant to this provision (the "Stock Call Price") or, at the option of NBCI, a combination of cash or Series C Warrants, the aggregate value of which shall equal the amount of funds invested in NPI at Closing by such Investor (the "Amount Invested"), plus a [\*] return, compounded annually, with such calculation to be performed with respect to each investment in NPI made by the Investors on a different date. Notwithstanding anything to the contrary contained herein, to the extent an Investor causes NBCI to purchase Series A Preferred Shares pursuant to either section 3.3 or 3.4 below, the said 35% return to such Investor shall be calculated on the basis of the difference between (a) the Amount Invested and (b) the Amount Invested multiplied by a fraction, the numerator of which is the number of Series A Preferred Shares purchased by NBCI pursuant to either section 3.3 or 3.4 below and the denominator of which is the number of Series A Preferred Shares issued at Closing to such Investor. Following the date of closing of an acquisition of NBI (an "Acquisition") by a Third Party (the "Acquiror"), whether by way of merger or sale of assets or outstanding stock, immediately after which transaction the shareholders of NBI own 50% or less of the outstanding voting securities of the surviving entity, NBCI at its option may substitute shares or warrants to purchase shares of common stock of the Acquiror in lieu of the Series C Warrants to make the payment referred to above, provided that the common stock of the Acquiror is then publicly traded, with such common stock of the Acquiror to be valued at the Stock Call Price of the Acquiror's common stock.

3.2 Corporate Collaboration. NBCI and the Investors agree that NPI may

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collaborate (the "Corporate Collaboration") with another pharmaceutical or biotechnological company (the "Corporate Collaborator") that calls for the joint Research or Development of a Product in the Field in consideration of up-front payments, license fees, royalties or other rights. If, as a result of the Corporate Collaboration, the license granted to NPI pursuant to section 2.3 of the Research and Development Agreement is terminated, with respect to one or more Products, and transferred to the Corporate Collaborator, each Investor shall be entitled to receive payment in cash equivalent to the lesser of (a) the Investor's pro rata portion, as set forth in Exhibit B attached hereto, of 10% of the cash actually paid to NBCI by the Corporate Collaborator as up-front payments, license fees and milestone payments, but specifically excluding amounts paid as sponsored research and development, royalties and equity investment and (b) the Amount Invested. Payments to Investors pursuant to this provision shall be made within 15 days of the end of each calendar quarter in which amounts are received by NBCI from a Corporate Collaborator. An Investor shall no longer be entitled to receive any payment pursuant to this section 3.2 if NBCI exercises its right to terminate the license granted to NPI pursuant to section 2.3 of the Research and Development Agreement, with respect to all Products, and acquires the Investor's Series A Preferred Shares pursuant to section 3.1 above, or if the Investor causes NBCI to purchase its Series A Preferred Shares pursuant to section 3.3 below.

[\* CONFIDENTIAL TREATMENT REQUESTED]

3.3 Investors' Option to Put Series A Preferred Shares Due to Corporate

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Collaboration. In the event the license granted to NPI pursuant to section 2.3  
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of the Research and Development Agreement is terminated, with respect to all programs for Research and Development, due to Corporate Collaboration, and NBCI has not substituted in replacement thereof any rights acceptable to shareholders of NPI which together own more than 75% of the Common Shares, each Investor shall have the right to elect, within 30 days of such termination due to Corporate Collaboration, by giving written notice to NBCI (the "Put Notice"), to have NBCI purchase all, but not less than all, of its Series A Preferred Shares 30 days subsequent to the Put Notice, for a price, as more fully described below, which will provide the Investor with a [\*] return, compounded annually, on the Amount Invested by the Investor for each year or part thereof during the period commencing on the Closing Date and ending on the date NBCI purchases the Series A Preferred Shares pursuant to this provision. The price to be paid by NBCI to each Investor for its Series A Preferred Shares shall be an amount of cash or, at the option of NBCI, Series C Warrants if at the time of such payment the Common Stock is then publicly traded, with the Common Stock in exchange therefor valued at the average closing price for the five trading days which precede by two trading days the date NBCI purchases the Series A Preferred Shares pursuant to this provision (the "Stock Put Price") or, at the option of NBCI, a combination of cash or Series C Warrants, the aggregate value of which shall equal the amount of funds invested in NPI by such Investor, plus a [\*] return, compounded annually, with such calculation to be performed with respect to each Amount Invested by the Investors on a different date. Following an Acquisition, NBCI at its option may substitute shares of common stock of the Acquiror in lieu of Series C Warrants to make the payment referred to above, provided that the common stock of the Acquiror is then publicly traded, with such common stock of the Acquiror to be valued at the Stock Put Price of the Acquiror's common stock.

3.4 Investors' Unconditional Option to Put Series A Preferred Shares. The

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Investors shall have the right to elect, at any time following the earlier of the first anniversary of the date of the IPO and the second anniversary of the date of this Agreement, by issuing a Put Notice, to have NBCI purchase the Series A Preferred Shares 30 days subsequent to the Put Notice, in exchange for warrants in the form of EXHIBIT D attached hereto (the "Series D Warrants"), as set forth below. Each Investor shall be entitled to Series D Warrants equal in number to the Amount Invested by such Investor divided by a price per share of Common Stock determined as follows: (a) US [\*] or, in the event there has been an IPO by the date of the Put Notice and such date is prior to January 1, 1999, the lesser of US [\*] and the IPO Price; or (b) if there has been neither an IPO nor a Put Notice prior to January 1, 1999, the lesser of US [\*] and the Fair Market Value.

The Credits and the Amount Invested shall be converted from C\$ to US\$, for the purpose of determining the number of shares of entitlement to Common Stock, by using the rate of exchange published in the Wall Street Journal (a) in respect of the Credits, on the

[\* CONFIDENTIAL TREATMENT REQUESTED]

last day the newspaper is published preceding the date of issuance of the Series B-1 or B-2 Warrants, as the case may be, and (b) in respect of the Amount Invested, on the last day the newspaper is published preceding the Closing Date.

The right of an Investor to cause NBCI to purchase its Series A Preferred Shares provided for in this section 3.4 is exercisable by each Investor for all or part of the Series A Preferred Shares owned by the Investor, however an Investor shall not be entitled to exercise such right on more than two occasions.

3.5 Waiver of Right of Redemption. Notwithstanding the right of -----  
redemption attributable to the Series A Preferred Shares provided in the Articles of Incorporation of NPI, whereby the holders of such class of shares are entitled to exercise a right to have NPI redeem such shares, each Investor, for itself and on behalf of its successors, assigns and transferees other than NBCI or an Affiliate thereof, agrees that it will not exercise such right of redemption under any circumstances, at any time. NBCI agrees, for itself and on behalf of its successors, assigns and transferees, that it will not exercise such right of redemption with respect to any Series A Preferred Shares of which it may become the holder prior to the license granted to NPI pursuant to section 2.3 of the Research and Development Agreement being terminated with respect to all Products.

#### ARTICLE 4 - REPRESENTATIONS AND WARRANTIES IN RELATION TO NBCI

4.1 Representations and Warranties in relation to NBCI. NBI and NBCI -----  
represent and warrant in relation to NBCI, as follows.

4.2 Organization and Standing; Certificate and By-laws. NBCI is a -----  
corporation duly incorporated, validly existing and in good standing under the laws of Canada and is in good standing under the laws of the Province of Quebec. NBCI has all requisite corporate power and authority to own and operate its properties and assets and to carry on its business as presently conducted and as proposed to be conducted. NBCI is not qualified to do business as a foreign corporation in any jurisdiction and the failure to be so qualified is not having and will not have a Material Adverse Effect on NBCI. NBCI has made available to each Investor copies of its Articles of Incorporation and By-laws. Such copies are true, correct and complete.

4.3 Corporate Power. NBCI has all requisite legal and corporate power to -----  
execute and deliver this Agreement and to carry out and perform its obligations under the terms of this Agreement.

4.4 Authorization. All corporate action on the part of NBCI, its -----  
officers, directors and shareholders necessary for the authorization, execution, delivery and performance

by NBCI of this Agreement and the performance of all of NBCI's obligations under this Agreement has been taken. This Agreement, when executed and delivered by NBCI, shall constitute valid and legally binding obligations of NBCI enforceable in accordance with their respective terms, subject to laws of general application relating to bankruptcy, insolvency and the relief of debtors and rules of law governing specific performance, injunctive relief or other equitable remedies.

4.5 Title to Properties and Assets. NBCI has good and marketable title to

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its tangible properties and assets, in each case subject to no hypothec, mortgage, pledge, lien, lease, loan, encumbrance or charge, except (a) the lien of current taxes not yet due and payable and (b) possible minor liens and encumbrances which do not in any case materially detract from the value of the property subject thereto or materially impair NBCI's operations, and which have not arisen otherwise than in the ordinary course of business. With respect to property it leases, NBCI is in compliance with such leases in all material respects.

4.6 Patents, Trademarks. NBCI has title to and ownership of, or is

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licensed under, all patents, patent applications, trademarks, service marks, trade names, inventions, franchises, copyrights, trade secrets, information and other proprietary rights material to the operation of its business as now conducted and as proposed to be conducted (collectively, "NBCI Intellectual Property"). NBCI has not received any communications alleging that NBCI has violated, or by conducting its business as proposed would violate, any proprietary rights of any other person or entity. NBCI has no knowledge of, and has no reason to believe there is, any infringement or violation by it of the intellectual property rights of any third party and has no knowledge of, and has no reason to believe there is, any violation or infringement by a third party of any of NBCI Intellectual Property. To the best of NBCI's knowledge, all of its rights in NBCI Intellectual Property are valid and enforceable. NBCI does not know of, and has no reason to believe that there is, any challenge to the validity of any of NBCI Intellectual Property.

4.7 Compliance with Other Instruments. NBCI is not in violation of any

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term of its Articles of Incorporation or By-laws. NBCI is not in violation of, nor in default under, the terms of any hypothec, mortgage, indenture, contract, agreement, instrument, judgment or decree applicable to it or to which it is a party, the violation of or default under which would have a Material Adverse Effect on NBCI, and NBCI is not in violation of any order, statute, rule or regulation applicable to NBCI, the violation of which would have a Material Adverse Effect on NBCI. The execution, delivery and performance of this Agreement and the transactions contemplated hereby, and compliance with the provisions hereof by NBCI, do not and will not, with the passage of time or the giving of notice or both, (a) violate, in any material respect, any provision of any law, statute, rule or regulation or any ruling, writ, injunction, order, judgment or decree of any court, administrative agency or other governmental body or (b) conflict with or result in any breach of any of the terms, conditions or provisions of, or

constitute a default (or give rise to any right of termination, cancellation or acceleration) under, or result in the creation of any lien, security interest, charge or encumbrance upon any of the properties or assets of NBCI under, the Articles of Incorporation or By-laws of NBCI or any material note, indenture, mortgage, lease, agreement, contract, purchase order or other instrument, document or agreement to which NBCI is a party or by which it or any of its properties or assets is bound or affected.

4.8 Litigation. There is no claim, arbitration, action, suit, proceeding

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or investigation pending, or to the knowledge of NBCI, threatened against NBCI, which questions the validity of this Agreement or any other agreement entered into by NBCI in connection with this Agreement or the right of NBCI to enter into any such agreements or to consummate the transactions contemplated hereby or thereby, or which might have, either individually or in the aggregate, a Material Adverse Effect on NBCI, or which might result in any material change in the current equity ownership of NBCI, nor is NBCI aware that there is any basis for the foregoing. NBCI is not a party to, nor subject to the provisions of, any order, writ, injunction, judgment or decree of any court or governmental agency or instrumentality which would have a Material Adverse Effect on NBCI.

4.9 No Governmental Consent or Approval Required. No authorization,

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consent, approval or other order of, declaration to, or registration, qualification, designation or filing with, any federal, provincial or local governmental agency or body is required for or in connection with the valid and lawful authorization, execution and delivery by NBCI of this Agreement or any other agreement entered into by NBCI in connection with this Agreement, and consummation of the transactions contemplated hereby or thereby, or for or in connection with the valid and lawful authorization, issuance, sale, assignment and delivery of the Warrants other than the qualification (or taking of such action as may be necessary to secure an exemption from qualification if available) of the offer and sale of the Warrants under the applicable securities laws, which filings and qualifications, if required, will be accomplished in a timely manner so as to comply with such qualification or exemption from qualification requirements.

4.10 Securities Law Exemption. Subject to the accuracy of the Investors'

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representations in Article 6 of this Agreement, the offer and sale of the Warrants have been registered or qualified (or are exempt from registration and qualification) under the registration, permit or qualification requirements of all applicable securities laws.

4.11 Brokers or Finders. NBCI has not incurred, and will not incur,

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directly or indirectly, as a result of any action taken by or on behalf of NBCI, any liability for brokerage or finders' fees or agents' commissions or any similar charges in connection with this Agreement.



4.12 Business. NBCI has all necessary franchises, permits, governmental

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licenses and other governmental rights and privileges necessary to permit it to own its property and to conduct its present business, except where the failure to do so would not have a Material Adverse Effect on NBCI. NBCI is not in violation of any law, regulation, authorization or order of any public authority relevant to the ownership of its properties or the carrying on of its present business, except where such violation would not have a Material Adverse Effect on NBCI.

4.13 Disclosure. This Agreement and the other written information

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furnished by NBCI to the Investors, when read together, do not contain any untrue statements of a material fact or omit to state any material fact necessary to make the statements contained herein or therein not misleading in view of the circumstances under which they were made.

#### ARTICLE 5 - REPRESENTATIONS AND WARRANTIES OF NBI

5.1 Representations and Warranties of NBI. Except as otherwise set forth

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on NBCI's Schedule of Exceptions attached as Exhibit E to the Unit Purchase Agreement, NBI represents and warrants as follows.

5.2 Organization and Standing; Certificate and By-laws. NBI is a

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corporation duly incorporated and organized, validly existing and in good standing under the laws of the State of California. NBI has all requisite corporate power and authority to own and operate its properties and assets and to carry on its business as presently conducted and as proposed to be conducted. NBI is not qualified to do business as a foreign corporation in any jurisdiction and the failure to be so qualified is not having and will not have a Material Adverse Effect on NBI. NBI has made available to the Investors copies of its Articles of Incorporation and By-laws. Such copies are true, correct and complete.

5.3 Corporate Power. NBI has all requisite legal and corporate power to

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execute and deliver this Agreement, to sell and issue the Warrants in connection herewith and to carry out and perform its obligations under the terms of this Agreement.

5.4 Capitalization. The authorized capital stock of NBI consists of

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100,000,000 shares of Common Stock, US \$0.001 par value, and 10,000,000 shares of undesignated Preferred Stock, US \$0.001 par value. The outstanding capital stock of NBI and the outstanding options, warrants and other rights to acquire capital stock of NBI as of the Closing Date, other than as contemplated by this Agreement and the Unit Purchase Agreement, are as set forth in subsection 4.3 of the NBI Schedule of Exceptions. All issued and outstanding shares of NBI's capital stock have been duly authorized and validly issued, are fully paid and non-assessable, and were issued in compliance with applicable United States federal and state securities laws. There are no other outstanding shares of capital stock or outstanding rights of first refusal, preemptive

rights or, except as provided herein or in the other documents delivered in connection with this Agreement, other rights, options, warrants, conversion rights, or other agreements either directly or indirectly for the purchase or acquisition of any shares of its capital stock from NBI or, to the best of NBI's knowledge, any third party. Except for its 1992 Incentive Stock Plan, NBI has no employee stock option, stock purchase or other similar incentive stock plans.

5.5 Authorization. All corporate action on the part of NBI, its officers,

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directors and shareholders necessary for the authorization, execution, delivery and performance by NBI of this Agreement, the authorization and subsequent sale, assignment and delivery of the Warrants, and the performance of all of NBI's obligations under this Agreement has been taken. This Agreement, when executed and delivered by NBI, shall constitute valid and legally binding obligations of NBI enforceable in accordance with their respective terms, subject to laws of general application relating to bankruptcy, insolvency and the relief of debtors and rules of law governing specific performance, injunctive relief or other equitable remedies. A sufficient number of shares of Common Stock has been reserved for issuance upon exercise of the Warrants and the shares issuable upon exercise of the Warrants, when issued in compliance with the provisions of this Agreement and the Warrants, will be validly issued, fully paid and non-assessable, and such shares will be free of any liens or encumbrances created by NBI, provided, however, that such shares may be subject to restrictions on transfer under applicable securities laws as set forth herein.

5.6 Compliance with Other Instruments. NBI is not in violation of any

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term of its Articles of Incorporation or By-laws, as amended to date. NBI is not in violation of, nor in default under, the terms of any mortgage, indenture, contract, agreement, instrument, judgment or decree applicable to it or to which it is a party, the violation of or default under which would have a Material Adverse Effect on NBI, and NBI is not in violation of any order, statute, rule or regulation applicable to NBI, the violation of which would have a Material Adverse Effect on NBI. The execution, delivery and performance of this Agreement and the transactions contemplated hereby, and compliance with the provisions hereof by NBI, do not and will not, with the passage of time or the giving of notice or both, (a) violate, in any material respect, any provision of any law, statute, rule or regulation or any ruling, writ, injunction, order, judgment or decree of any court, administrative agency or other governmental body or (b) conflict with or result in any breach of any of the terms, conditions or provisions of, or constitute a default (or give rise to any right of termination, cancellation or acceleration) under, or result in the creation of any lien, security interest, charge or encumbrance upon any of the properties or assets of NBI, under the Articles of Incorporation or By-laws, as amended to date, of NBI or any material note, indenture, mortgage, lease, agreement, contract, purchase order or other instrument, document or agreement to which NBI is a party or by which it or any of its properties or assets is bound or affected.

5.7 Registration Rights. Except as provided in the existing Information

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and Registration Rights Agreement (a copy of which has been provided to the Investors) and a New Registration Rights Agreement (a copy of which is attached to the Unit Purchase Agreement as Exhibit F) (the "Investors Rights Agreement"), NBI is not under any contractual obligation to register any of its presently outstanding securities or any of its securities which may hereafter be issued.

5.8 Litigation. There is no claim, arbitration, action, suit, proceeding

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or investigation pending, or to the knowledge of NBI, threatened against NBI, which questions the validity of this Agreement or any other agreement entered into by NBI in connection with this Agreement or the right of NBI to enter into any such agreements or to consummate the transactions contemplated hereby or thereby, or which might have, either individually or in the aggregate, a Material Adverse Effect on NBI, or which might result in any material change in the current equity ownership of NBI, nor is NBI aware that there is any basis for the foregoing. NBI is not a party to, nor subject to the provisions of, any order, writ, injunction, judgment or decree of any court or governmental agency or instrumentality which would have a Material Adverse Effect on NBI.

5.9 No Governmental Consent or Approval Required. No authorization,

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consent, approval or other order of, declaration to, or registration, qualification, designation or filing with, any federal, state or local governmental agency or body is required for or in connection with the valid and lawful authorization, execution and delivery by NBI of this Agreement, or any other agreement entered into by NBI in connection with this Agreement, and consummation of the transactions contemplated hereby or thereby, or for or in connection with the valid and lawful authorization and subsequent sale, assignment and delivery of the Warrants other than the qualification (or taking of such action as may be necessary to secure an exemption from qualification if available) of the offer, sale and assignment of the Warrants under the applicable state securities laws, which filings and qualifications, if required, will be accomplished in a timely manner so as to comply with such qualification or exemption from qualification requirements.

5.10 Securities Law Exemption. Subject to the accuracy of the Investors'

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representations in Article 6 of this Agreement, the subsequent sale and assignment and the offer, sale and assignment contemplated herein of the Warrants constitute transactions exempt from the registration and prospectus delivery requirements of the Securities Act of 1933, as amended (the "1933 Act"), and have been registered or qualified (or are exempt from registration and qualification) under the registration, permit or qualification requirements of all applicable state securities laws.

5.11 Brokers or Finders. NBI has not incurred, and will not incur,

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directly or indirectly, as a result of any action taken by or on behalf of NBI, any liability for brokerage or finders' fees or agents' commissions or any similar charges in connection with this Agreement.

5.12 Investment Company. NBI is not an "investment company" within the

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meaning of the Investment Company Act of 1940, as amended, and will not, as a result of the transactions contemplated hereby, become an "investment company".

5.13 Disclosure. This Agreement and the other written information

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furnished by NBI to the Investors, when read together, do not contain any untrue statements of a material fact or omit to state any material fact necessary to make the statements contained herein or therein not misleading in view of the circumstances under which they were made.

ARTICLE 6 - REPRESENTATIONS AND WARRANTIES  
OF THE INVESTORS

6.1 Representations and Warranties of the Investors; Restrictions on

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Transferability of Securities.

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6.2 Authorization. Each Investor represents and warrants that this

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Agreement, when executed and delivered by the Investors, will constitute a valid and legally binding obligation of the Investors, enforceable in accordance with its terms, subject to laws of general application relating to bankruptcy, insolvency and the relief of debtors and rules of law governing specific performance, injunctive relief or other equitable remedies.

6.3 Investment. Each Investor represents and warrants that it is

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acquiring the Warrants for investment for its own account, not as a nominee or agent, and not with the view to, or for resale in connection with, any "distribution" thereof for purposes of the 1933 Act or otherwise and that it was not created or established solely to acquire securities under a prospectus exemption pursuant to applicable securities laws. Each Investor understands that the shares of the Common Stock issuable in respect of the Warrants have not been, and will not be, registered under the 1933 Act by reason of a specific exemption from the registration provisions of the 1933 Act, the availability of which depends upon, among other things, the bona fide nature of the investment intent and the accuracy of each Investor's representations as expressed herein. Furthermore, each Investor undertakes to execute and deliver all documents as may be required under applicable securities laws to permit the purchase of the Warrants on the terms herein set forth.

6.4 Rule 144 and Regulation S. Each Investor acknowledges that the shares

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of Common Stock issuable in respect of the Warrants must be held indefinitely unless

subsequently registered under the 1933 Act, unless an exemption from such registration is available. Each Investor is aware of the provisions of Rule 144 promulgated under the 1933 Act ("Rule 144") which permit limited resale of shares purchased in a private placement subject to the satisfaction of certain conditions, including, among other things, the existence of a public market for the shares, the availability of certain current public information about NBI, the resale occurring not less than two years after a party has purchased and paid for the security to be sold, the sale being effected through a "broker's transaction" or in transactions directly with a "market maker" and the number of shares being sold during any three (3) month period not exceeding specified limitations. If Regulation S is available for use as an applicable exemption under the 1933 Act, each party hereto agrees to use its best efforts to have the issuance of the shares of Common Stock upon the exercise of the Warrants qualify under Regulation S.

6.5 No Public Market. Each Investor understands that no public market

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now exists for any of the securities issued by NBI and that NBI has made no assurances that a public market will ever exist for the such securities. Furthermore, each Investor understands that restrictions on the resale of such securities exist and that any resale may only take place in compliance with applicable securities laws and the provisions of this Agreement.

6.6 Access to Data. Each Investor represents and warrants that it has

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had sufficient opportunity to discuss NBI's and NBI's business, management and financial affairs with the their management and has also had sufficient opportunity to ask questions of their officers, which questions were answered to its satisfaction.

6.7 Brokers or Finders. Each Investor represents and warrants that it

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has not engaged any brokers, finders, or agents and has not incurred, and will not incur, directly or indirectly, any liability for brokerage or finder's fee or agents, commissions or any similar charges in connection with this Agreement and the transactions contemplated hereby.

6.8 California Corporate Securities Laws. THE SALE OF THE SECURITIES

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WHICH ARE THE SUBJECT OF THIS AGREEMENT HAS NOT BEEN QUALIFIED WITH THE COMMISSIONER OF CORPORATIONS OF THE STATE OF CALIFORNIA AND THE ISSUANCE OF SUCH SECURITIES OR THE PAYMENT OR RECEIPT OF ANY PART OF THE CONSIDERATION THEREFOR PRIOR TO SUCH QUALIFICATION IS UNLAWFUL UNLESS THE SALE OF SECURITIES IS EXEMPT FROM QUALIFICATION BY SECTION 25100, 25102 OR 25105 OF THE CALIFORNIA CORPORATIONS CODE. THE RIGHTS OF ALL PARTIES TO THIS AGREEMENT ARE EXPRESSLY CONDITIONED UPON SUCH QUALIFICATION BEING OBTAINED, UNLESS THE SALE IS SO EXEMPT.

6.9 Transfer of Restricted Securities. Each Investor covenants that

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in no event will it dispose of any of the Warrants (other than if a Registration Statement is in effect with

respect to such Warrants or in a disposition pursuant to Rule 144 or Regulation S or any similar or analogous rule) unless and until (a) such Investor shall have notified NBI of the proposed disposition and shall have furnished NBI with a statement of the circumstances surrounding the proposed disposition that are necessary to the availability of an exemption under the 1933 Act other than Rule 144 or Regulation S, and (b), if requested by NBI, each such Investor shall have furnished NBI with an opinion of counsel satisfactory in form and substance to NBI to the effect that: (i) such disposition will not require registration under the 1933 Act and (ii) appropriate action necessary for compliance with the 1933 Act and any applicable state, local or foreign law has been taken.

6.10 Legends. The certificates representing the Warrants shall bear  
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the following legends:

(a) "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."; and

(b) any additional legend(s) required by the Commissioner of Corporations of the State of California or pursuant to any state, local or foreign law governing such securities.

The legend set forth in paragraph 6.10 above shall be removed if the shares represented by such certificate (a) may be transferred in compliance with Rule 144(k) or Regulation S under the Act, (b) are effectively registered under the Act or otherwise lawfully sold in a public transaction, or (c) may be publicly sold without registration under the Act in the opinion of counsel for the Investor as set forth in subsection 6.9 above. The legend set forth in paragraph 6.10 above shall be removed at such time as NBI receives an order from the appropriate state or other governmental authority authorizing such removal.

#### ARTICLE 7 - UNDERTAKINGS

7.1 Delivery of Warrants and availability of shares of Common Stock. NBI  
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hereby undertakes to deliver, as required hereunder, Series B-1, B-2, C and D Warrants and to set aside a sufficient number of shares of Common Stock to cover the exercise of the Series B-1, B-2, C and D Warrants.

7.2 Registration of Warrants. Because on the Closing Date it may not, in

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certain instances, and it will not, in other instances, be possible to determine how many shares of Common Stock may be issuable on the exercise of Series A Warrants, Series B-1 Warrants, Series B-2 Warrants, Series C Warrants and Series D Warrants, and because such Warrants may be exercised in part from time to time, as set forth in such Warrants, the parties hereto undertake to cause a Third Party chosen unanimously by them, to keep a register for the Warrants of all Series, indicating the number of Warrants of each Series outstanding at any given time, the number of shares of Common Stock issuable on the exercise of each such Warrant, the number of shares of Common Stock issued as a result of the exercise of any such Warrants and the Warrant exercise prices in effect from time to time.

NBI agrees to cooperate in the maintenance of the aforesaid register by providing all information reasonably available to it in respect of the Warrants. Should the parties hereto not agree unanimously as to which Third Party will keep such register, such register shall be kept by the law firm of Wilson Sonsini Goodrich & Rosati.

#### ARTICLE 8 - REGISTRATION RIGHTS

8.1 Registration Rights. NBI hereby grants to the Investors, as holders

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of the shares of Common Stock (the "Registrable Shares") issuable upon exercise of the Warrants, the registration rights set forth in the Investors Rights Agreement. The Investors agree to be bound by all provisions of the Investors Rights Agreement.

#### ARTICLE 9 - MISCELLANEOUS

9.1 Execution of Counterpart. No Person shall become a holder of Series A

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Preferred Shares without first having executed a counterpart of this Agreement in the form of EXHIBIT E attached hereto. Each such counterpart so executed shall be deemed to be an original and such counterparts together shall constitute one and the same instrument.

9.2 Governing Law. This Agreement and all documents relating to it shall

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be governed by and construed under the laws applicable in the Province of Quebec.

9.3 Survival. The representations, warranties, covenants and agreements

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made herein shall survive any investigation made by the Investors and the closing of the transactions contemplated hereby.

9.4 Entire Agreement. This Agreement, the Exhibits and the other

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documents delivered in connection with this Agreement constitute the full and entire understanding and

agreement among the parties with regard to the subjects hereof and no party shall be liable or bound to any other party in any manner by any representations, warranties, covenants or agreements except as specifically set forth herein or therein. Nothing in this Agreement, express or implied, is intended to confer upon any third party any rights, remedies, obligations, or liabilities under or by reason of this Agreement, except as expressly provided herein.

9.5 Severability. In case any provision of this Agreement becomes or is

declared by a court of competent jurisdiction to be unenforceable, this Agreement shall continue in full force and effect without said provision; provided, however, that no such severability shall be effective if it materially changes the economic benefit of this Agreement to any party.

9.6 Delays or Omissions. No delay or omission to exercise any right,

power, or remedy accruing to the Investors or any subsequent holder of any Shares or Warrants upon any breach, default or non-compliance of NBCI or NBI under this Agreement or under their respective Articles of Incorporation, shall impair any such right, power, or remedy, nor shall it be construed to be a waiver of any such breach, default or non-compliance, or any acquiescence therein, or of any similar breach, default or non-compliance thereafter occurring. It is further agreed that any waiver, permit, consent, or approval of any kind or character on the Investors' part of any breach, default or non-compliance under this Agreement or under such Articles of Incorporation or any waiver on the Investors' part of any provisions or conditions of this Agreement must be in writing and shall be effective only to the extent specifically set forth in such writing, and that all remedies, either under this Agreement or otherwise afforded to the Investors, shall be cumulative and not alternative.

9.7 Notices. All notices and other communications required or permitted

hereunder shall be in writing and shall be deemed effectively given upon personal delivery or upon deposit with the applicable postal service, by first class mail, postage prepaid, addressed: (a) if to an Investor, at such Investor's address as set forth at the end of this Agreement, or at such other address as the Investors shall have furnished to NBCI in writing, (b) if to NBCI, at its addresses as set forth at the end of this Agreement, or at such other address as NBCI shall have furnished to the Investors in writing or (c) if to NBI, at its address as set forth at the end of this Agreement, or at such other address as NBI shall have furnished to the Investors in writing.

9.8 Titles and Subtitles. The titles of the Articles and sections of this

Agreement are for convenience of reference only and are not to be considered in construing this Agreement.

9.9 Language. The parties hereto have required that this Agreement and

all documents, instruments and notices in relation herewith be in the English language.



IN WITNESS WHEREOF, the foregoing Agreement is executed as of the date first above written.

NBCI:

NEUROCRINE BIOSCIENCES (CANADA) INC.

By: /s/ Paul W. Hawran  
-----

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

Address: 1 Place Ville Marie  
Suite 3900  
Montreal, Quebec, Canada  
H3B 4M7

Attention: Paul F. Dingle

NBI:

NEUROCRINE BIOSCIENCES, INC.

By: /s/ Paul W. Hawran  
-----

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

Address: 3050 Science Park Road  
San Diego CA 92121-1102  
USA

Attention: Paul W. Hawran

INVESTORS:

SOFINOV SOCIETE FINANCIERE  
D'INNOVATION INC.

By: /s/ Carmen Crepin  
-----

Title: -----

By: -----

Title: -----

Address: 1981 McGill College Avenue  
9th floor  
Montreal, Quebec, Canada  
H3A 3C7

Attention: -----

NEUROSCIENCE PARTNERS LIMITED PARTNERSHIP

By: -----

Title: -----

By: -----

Title: -----

Address: -----  
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Attention: -----

INVESTORS:

SOFINOV SOCIETE FINANCIERE  
D'INNOVATION INC.

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

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

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

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

Address: 1981 McGill College Avenue  
9th floor  
Montreal, Quebec, Canada  
H3A 3C7

Attention: \_\_\_\_\_

NEUROSCIENCE PARTNERS LIMITED PARTNERSHIP

By: /s/ M. Callaghan  
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Title: Michael J. Callaghan, Vice-President  
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By: /s/ Keith J. Dorrington  
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Title: Keith J. Dorrington, Vice President  
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Address: 100 International Blvd  
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Etobicoke, Ontario, Canada M9W 6J6  
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Attention: Secretary  
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BUSINESS DEVELOPMENT BANK OF CANADA

BY: /s/ Mark Vanduzura  
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Title: Investment Manager  
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By: \_\_\_\_\_

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

Address: 5 Place Ville Marine  
-----

Suite 1200, Montreal, Quebec  
-----  
H5B SE7

Attention: \_\_\_\_\_

CANADIAN MEDICAL DISCOVERIES FUND, INC.

By: /s/ Edward K. Rygiel  
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Title: Edward K. Rygiel, Director  
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By: /s/ Frank Gleeson  
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Title: Frank Gleeson, Vice-President  
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Address: 100 International Blvd.  
-----

Etobicoke, Ontario, Canada M9W 6J6  
-----

Attention: Secretary  
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THE HEALTH CARE AND BIOTECHNOLOGY  
VENTURE FUND, BY ITS MANAGER MDS HEALTH  
VENTURES CAPITAL CORP.

By: /s/ Michael J. Callaghan  
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Title: Michael J. Callaghan, Vice-President  
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By: /s/ Keith J. Dorrington  
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Title: Keith J. Dorrington, Vice President  
-----

Address: 100 International Blvd.  
-----

Etobicoke, Ontario, Canada M9W 6J6  
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Attention: Secretary  
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EXHIBIT A-1  
TO  
EXCHANGE AGREEMENT

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.

SERIES B-1 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 between the date hereof and the tenth anniversary of the date of issuance hereof (the "Exercise Period") to subscribe for the purchase from Neurocrine Biosciences, Inc., a California corporation (the "Company"), at an exercise price of US \$7.75 per share (the "Exercise Price"), of the pro rata portion of the first Investor to hold this Warrant (as set forth in Exhibit B to the Exchange Agreement entered into on March 29, 1996 among the Company, Neurocrine Biosciences (Canada) Inc. and the Investors) of that number of shares of the Company's Common Stock which is equal to 25% of the Credits in relation to each year or part thereof commencing on the date hereof and ending on June 30, 1998 (the "First Credit Period") divided by the Exercise Price, subject to adjustment as set forth below. For the purposes hereof:

"Credits" means the refundable Canadian and provincial government tax credits for Research and Development (as such terms are defined in the Research and Development Agreement entered into on March 29, 1996 between Neurocrine Biosciences (Canada) Inc. and Neuroscience Pharma (NPI) Inc.), earned and received after the end of each fiscal year by Neuroscience Pharma (NPI) Inc., after final assessment by the appropriate tax authorities. For greater certainty, no Credits shall be deemed to be earned, received or refundable unless payment in respect thereof is actually received by Neuroscience Pharma (NPI) Inc. from the appropriate tax authority;

"Investors" shall have the meaning ascribed thereto in the Exchange Agreement;

and the Credits shall be converted from C\$ to US\$, for the purpose of determining the number of shares of entitlement to the Company's Common Stock, by using the rate of exchange published in the Wall Street Journal on the last day the newspaper is published preceding the date of issuance hereof.

Notwithstanding the foregoing, the Company shall have, at any time during the Exercise Period, upon the exercise by the holder hereof, the right to "cash out" this Warrant by paying to the holder hereof the net cash value of the Warrant (being, if and only if the Common Stock is then publicly traded, the average closing price for the five trading days which precede by two trading days the date of the Notice of Exercise Form annexed hereto minus the Exercise Price, multiplied by the number of shares of Common Stock then represented by this Warrant), provided such cash value is less than US \$100,000.

1. Title of Warrant. Prior to the expiration hereof and subject to

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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 rights to acquire shares of Common Stock

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represented by this Warrant are exercisable by the registered holder hereof, in whole or in part, at any time during the Exercise Period, 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 San Diego, 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 (a) by cash or check or bank draft payable to the order of the Company, (b) by cancellation of indebtedness of the Company payable to the holder hereof at the time of the exercise, or (c) if and only if the Common Stock is publicly traded, 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 issued upon such exercise) less that number of shares of Common Stock having a market value as of such date equal to the aggregate Exercise Price of the Warrant (or such portion thereof which is being exercised), 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 and purchase 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, but not later than ten (10) days, 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 less that number of shares (if any) cancelled in payment of the Exercise Price of the Warrant as set forth in clause 2.(c) hereof.

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

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representing fractional shares shall be issued upon the exercise of this Warrant.

4. Charges, Taxes and Expenses. Issuance of certificates for shares of

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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

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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

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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

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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

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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. Upon receipt by the

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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 or mutilation of this Warrant, and in case of loss, theft or destruction, of indemnity or security reasonably satisfactory to it, 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

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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.

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(a) Shares. The number of shares and the type of stock for which

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this Warrant is exercisable and the Exercise Price are subject to adjustment from time to time as follows:

(i) In the event of any subdivision or change 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 had the right of purchase been exercised before such subdivision or change without the holder making any additional payment or giving any other consideration therefor.

(ii) In the event of any consolidation 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 had the right of purchase been exercised before such consolidation.

(iii) In the event of any reclassification 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 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.

(iv) 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 had 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.

(v) If the Company, at any time while this Warrant is outstanding, shall pay any stock dividend 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.

(vi) If the Company, at any time while this Warrant is outstanding, shall be a party to any transaction (including, without limitation, a merger, consolidation, sale of all or substantially all of the Company's assets or outstanding stock or a recapitalization of the Common Stock) in which the previously outstanding Common Stock shall be changed into or exchanged for different securities of the Company or common stock or other securities of another corporation or interests in a noncorporate entity or other property (including cash) or any combination of any of the foregoing (each such transaction being herein called the "Transaction" and the date of consummation of the Transaction being herein called the "Consummation Date"), then, as a condition of the consummation of the Transaction, lawful and adequate provisions shall be made so that the holder hereof, upon the exercise hereof at any time on or after the Consummation Date, shall be entitled to receive, and this Warrant shall thereafter represent the right to receive, in lieu of the Common Stock issuable upon such exercise prior to the Consummation Date, the amount of securities or other property to which such holder would actually have been entitled as a shareholder upon the consummation of the Transaction if the holder had exercised this Warrant immediately prior thereto.

(b) Automatic Amendment. On the happening of each and every event  
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set forth in this (S)9, the applicable provisions of this Warrant shall, ipso  
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facto, be deemed to be amended accordingly and the Company shall take all  
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necessary action so as to comply with such provisions as so amended.

10. Miscellaneous.  
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(a) Issue Date. The provisions of this Warrant shall be construed  
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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 be binding upon any successors or assigns of the Company. 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

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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

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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

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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 action 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

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(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

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(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

\_\_\_\_\_  
(Please Print)

whose address is \_\_\_\_\_

(Please Print)

Dated: \_\_\_\_\_, \_\_\_\_\_.

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

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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 or certificates representing said shares of Common Stock in the name of the undersigned or in such other name as is 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 A-2  
TO  
EXCHANGE AGREEMENT

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.

SERIES B-2 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 between the date hereof and the tenth anniversary of the date of issuance hereof (the "Exercise Period") to subscribe for the purchase from Neurocrine Biosciences, Inc., a California corporation (the "Company"), at an exercise price in US\$ equal to either 110% of the Market Price or, in the event there has not been an IPO, the Fair Market Value (the "Exercise Price"), of the pro rata portion of the first Investor to hold this Warrant (as set forth in Exhibit B to the Exchange Agreement entered into on March 29, 1996 among the Company, Neurocrine Biosciences (Canada) Inc. and the Investors) of that number of shares of the Company's Common Stock which is equal to 25% of the Credits received in relation to each year or part thereof commencing on July 1, 1998 and ending on the date Credits are no longer earned (the "Second Credit Period"), divided by an amount which is equal to either the Market Price or, in the event there has not been an IPO, the Fair Market Value, subject to adjustment as set forth below. For the purposes hereof:

"Credits" means the refundable Canadian and provincial government tax credits for Research and Development (as such terms are defined in the Research and Development Agreement entered into on March 29, 1996 between Neurocrine Biosciences (Canada) Inc. and Neuroscience Pharma (NPI) Inc.), earned and received after the end of each fiscal year by Neuroscience Pharma (NPI) Inc., after final assessment by the appropriate tax authorities. For greater certainty, no Credits shall be deemed to be earned, received or refundable unless payment in respect thereof is actually received by Neuroscience Pharma (NPI) Inc. from the appropriate tax authority;

"Fair Market Value" means the value per share of the Company's Common Stock determined as of the date on which this Warrant shall have been issued, by an investment banker, agreed upon in accordance with the Exchange Agreement, in comparison with other scientific research and development companies at a similar stage of maturity;

"Investor" shall have the meaning ascribed thereto in the Exchange Agreement;

"IPO" means the initial public offering of the Company's Common Stock;

"IPO Price" means the offering price per share for shares of the Company's Common Stock referred to in the registration statement filed by the Company with the Securities and Exchange Commission (prior to deduction of underwriters' discounts and other offering expenses);

"Market Price" means the average closing price of the company's Common Stock on the stock exchange on which the Company's Common Stock is listed for trading, for the five trading days preceding the date on which this Warrant shall have been issued;

and the Credits shall be converted from C\$ to US\$, for the purpose of determining the number of shares of entitlement to the Company's Common Stock, by using the rate of exchange published in the Wall Street Journal on the last day the newspaper is published preceding the date of issuance hereof.

Notwithstanding the foregoing, the Company shall have, at any time during the Exercise Period, upon the exercise by the holder hereof, the right to "cash out" this Warrant by paying to the holder hereof the net cash value of the Warrant (being, if and only if the Common Stock is then publicly traded, the average closing price for the five trading days which precede by two trading days the date of the Notice of Exercise Form annexed hereto minus the Exercise Price, multiplied by the number of shares of Common Stock then represented by this Warrant), provided such cash value is less than US \$100,000.

1. Title of Warrant. Prior to the expiration hereof and subject to  
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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 rights to acquire shares of Common Stock  
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represented by this Warrant are exercisable by the registered holder hereof, in whole or in part, at any time during the Exercise Period, 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 San Diego, 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 (a) by cash or check or bank draft payable to the order of the



Company, (b) by cancellation of indebtedness of the Company payable to the holder hereof at the time of the exercise, or (c) if and only if the Common Stock is publicly traded, 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 issued upon such exercise) less that number of shares of Common Stock having a market value as of such date equal to the aggregate Exercise Price of the Warrant (or such portion thereof which is being exercised), 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 and purchase 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, but not later than ten (10) days, 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 less that number of shares (if any) cancelled in payment of the Exercise Price of the Warrant as set forth in clause 2.(c) hereof.

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

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representing fractional shares shall be issued upon the exercise of this Warrant.

4. Charges, Taxes and Expenses. Issuance of certificates for shares of

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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

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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

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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

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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

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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. Upon receipt by

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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 or mutilation of this Warrant, and in case of loss, theft or destruction, of indemnity or security reasonably satisfactory to it, 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

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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.

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(a) Shares. The number of shares and the type of stock for which  
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this Warrant is exercisable and the Exercise Price are subject to adjustment from time to time as follows:

(i) In the event of any subdivision or change 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 had the right of purchase been exercised before such subdivision or change without the holder making any additional payment or giving any other consideration therefor.

(ii) In the event of any consolidation 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 had the right of purchase been exercised before such consolidation.

(iii) In the event of any reclassification 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 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.

(iv) 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 had 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.

(v) If the Company, at any time while this Warrant is outstanding, shall pay any stock dividend 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.

(vi) If the Company, at any time while this Warrant is outstanding, shall be a party to any transaction (including, without limitation, a merger, consolidation, sale of all or substantially all of the Company's assets or outstanding stock or a recapitalization of the Common Stock) in which the previously outstanding Common Stock shall be changed into or exchanged for different securities of the Company or common stock or other securities of another corporation or interests in a noncorporate entity or other property (including cash) or any combination of any of the foregoing (each such transaction being herein called the "Transaction" and the date of consummation of the Transaction being herein called the "Consummation Date"), then, as a condition of the consummation of the Transaction, lawful and adequate provisions shall be made so that the holder hereof, upon the exercise hereof at any time on or after the Consummation Date, shall be entitled to receive, and this Warrant shall thereafter represent the right to receive, in lieu of the Common Stock issuable upon such exercise prior to the Consummation Date, the amount of securities or other property to which

such holder would actually have been entitled as a shareholder upon the consummation of the Transaction if the holder had exercised this Warrant immediately prior thereto.

(b) Automatic Amendment. On the happening of each and every event

set forth in this (S)9, 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. 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 be binding upon any successors or assigns of the Company. 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 action 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: \_\_\_\_\_, 1996.

NEUROCRINE BIOSCIENCES, INC.

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

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

ASSIGNMENT FORM

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(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

\_\_\_\_\_  
(Please Print)

whose address is \_\_\_\_\_

(Please Print)

Dated: \_\_\_\_\_, \_\_\_\_\_.

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

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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 or certificates representing said shares of Common Stock in the name of the undersigned or in such other name as is 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 B  
TO  
EXCHANGE AGREEMENT  
PRO RATA PORTIONS

[CAPTION]

INVESTOR

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Sofinov Societe Financiere  
d'Innovation Inc.

Neuroscience Partners  
Limited Partnership

[\*]

Business Development Bank of  
Canada

Canadian Medical Discoveries  
Fund, Inc.

The Health Care and  
Biotechnology Venture Fund

[\* CONFIDENTIAL TREATMENT REQUESTED ]

EXHIBIT C  
TO  
EXCHANGE AGREEMENT

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.

SERIES C WARRANT

To Acquire 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 between the date of issuance hereof and the tenth anniversary of the date of issuance hereof (the "Exercise Period"), at an exercise price of US \$.001 per share, to \_\_\_\_\_ shares of Common Stock of Neurocrine Biosciences, Inc., a California corporation (the "Company"), subject to adjustment as set forth below.

Notwithstanding the foregoing, the Company shall have, at any time during the Exercise Period, upon the exercise by the holder hereof, the right to "cash out" this Warrant by paying to the holder hereof the net cash value of the Warrant (being, if and only if the Common Stock is then publicly traded, the average closing price for the five trading days which precede by two trading days the date of the Notice of Exercise Form annexed hereto minus the Exercise Price, multiplied by the number of shares of Common Stock then represented by this Warrant), provided such cash value is less than US \$100,000.

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 rights to acquire shares of Common Stock

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represented by this Warrant are exercisable by the registered holder hereof, in whole or in part, at any time during the Exercise Period, 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 San Diego, 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 (a) by cash or check or bank draft payable to the order of the Company, (b) by cancellation of indebtedness of the Company payable to the holder hereof at the time of the exercise, or (c) if and only if the Common Stock is publicly traded, 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 issued upon such exercise) less that number of shares of Common Stock having a market value as of such date equal to the aggregate Exercise Price of the Warrant (or such portion thereof which is being exercised), 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 and purchase 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, but not later than ten (10) days, 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 less that number of shares (if any) cancelled in payment of the Exercise Price of the Warrant as set forth in clause 2 hereof.

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

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representing fractional shares shall be issued upon the exercise of this Warrant.

4. Charges, Taxes and Expenses. Issuance of certificates for shares of

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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. 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 or mutilation of this Warrant, and in case of loss, theft or destruction, of indemnity or security reasonably satisfactory to it, 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.

(a) Shares. The number of shares and the type of stock for which

this is exercisable is subject to adjustment from time to time as follows:

(i) In the event of any subdivision or change 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 acquisition of shares of Common Stock under this Warrant, in lieu of the number of shares of Common Stock in respect of which the right of acquisition hereunder is then being exercised, such greater number of shares of Common Stock of the Company as would result from said subdivision or change had the right of acquisition hereunder been exercised before such subdivision or change without the holder giving any other consideration therefor.

(ii) In the event of any consolidation 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 acquisition of shares of Common Stock under this Warrant, in lieu of the number of shares of Common Stock in respect of which the right of acquisition hereunder is then being exercised, such lesser number of shares of Common Stock of the Company as would result from such consolidation had the right of acquisition hereunder been exercised before such consolidation.

(iii) In the event of any reclassification 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 acquisition 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 as the holder would have been entitled to receive in respect of shares of Common Stock in respect of which the right of acquisition hereunder is then being exercised had the right of acquisition hereunder been exercised before such reclassification.

(iv) 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 acquisition of shares of Common Stock under this Warrant, be appropriately adjusted and the holder shall receive, in lieu of the number of shares in respect of which the right of acquisition hereunder 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 had 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.

(v) If the Company, at any time while this Warrant is outstanding, shall pay any stock dividend upon shares of stock of the Company of the class or classes in respect of which the right of acquisition hereunder is then given under this Warrant, then the Company shall thereafter deliver at the time of acquisition of shares under this Warrant, in addition to the number of shares of stock of the Company in respect of which the right of acquisition 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 acquired if the shares so acquired had been outstanding on the record date for the payment of the said stock dividend or stock dividends.

(vi) If the Company, at any time while this Warrant is outstanding, shall be a party to any transaction (including, without limitation, a merger, consolidation, sale of all or substantially all of the Company's assets or outstanding stock or a recapitalization of the Common Stock) in which the previously outstanding Common Stock shall be changed into or exchanged for different securities of the Company or common stock or other securities of another corporation or interests in a noncorporate entity or other property (including cash) or any combination of any of the foregoing (each such transaction being herein called the "Transaction" and the date of consummation of the Transaction being herein called the "Consummation Date"), then, as a condition of the consummation of the Transaction, lawful and adequate provisions shall be made so that the holder hereof, upon the exercise hereof at any time on or after the Consummation Date, shall be entitled to receive, and this Warrant shall thereafter represent the right to receive, in lieu of the Common Stock issuable upon such exercise prior to the Consummation Date, the amount of securities or other property to which such holder would actually have been entitled as a shareholder upon the consummation of the Transaction if the holder had exercised this Warrant immediately prior thereto.

(b) Automatic Amendment. On the happening of each and every event  
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set forth in this (S)9, the applicable provisions of this Warrant shall, ipso  
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facto, be deemed to be amended accordingly and the Company shall take all  
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necessary action so as to comply with such provisions as so amended.

10. Miscellaneous.  
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(a) Issue Date. The provisions of this Warrant shall be construed  
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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 be binding upon any successors or assigns of the Company. 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  
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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  
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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 acquisition 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 acquisition rights under this Warrant.

(d) No Impairment. The Company will not, by amendment of its

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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 action 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

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(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

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

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

\_\_\_\_\_  
(Please Print)

whose address is \_\_\_\_\_

(Please Print)

Dated: \_\_\_\_\_, \_\_\_\_\_.

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

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TO: NEUROCRINE BIOSCIENCES, INC.

(1) The undersigned hereby elects to acquire \_\_\_\_\_ 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 or certificates representing said shares of Common Stock in the name of the undersigned or in such other name as is 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 D  
TO  
EXCHANGE AGREEMENT

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.

SERIES D WARRANT

To Acquire 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 between the date of issuance hereof and the tenth anniversary of the date of issuance hereof (the "Exercise Period") to that number of shares of Neurocrine Biosciences, Inc., a California corporation (the "Company") which is equal to the Amount Invested divided by a price per share of Common Stock determined as follows: (A) US \$7.45 or, in the event there has been an IPO by the date of the Put Notice and such date is prior to January 1, 1999, the lesser of US \$7.45 and the IPO Price; or (B) if there has been neither an IPO nor a Put Notice prior to January 1, 1999, the lesser of US \$5.75 and the Fair Market Value, subject to adjustment as set forth below. For the purposes hereof:

"Amount Invested" means the amount of funds invested in Neuroscience Pharma (NPI) Inc. by the first Investor to hold this Warrant pursuant to and as reflected in Exhibit C to the Unit Purchase Agreement entered into on March 29, 1996 among the Company, Neuroscience Pharma (NPI) Inc. and the Investors;

"Fair Market Value" means the value per share of the Company's Common Stock determined as of the date on which this Warrant shall have been issued, by an investment banker, agreed upon in accordance with the Exchange Agreement entered into on March 29, 1996 among the Company, Neurocrine Biosciences (Canada) Inc. and the Investors, in comparison with other scientific research and development companies at a similar stage of maturity;

"Investors" shall have the meaning ascribed thereto in the Exchange Agreement;

"IPO" means the initial public offering of the Company's Common Stock;

"IPO Price" means the offering price per share for shares of the Company's Common Stock referred to in the registration statement filed by the Company with the Securities and Exchange Commission (prior to deduction of underwriters' discounts and other offering expenses);

"Put Notice" means the notice given by the registered holder hereof which gave rise to the issuance of this Warrant, as defined in the Exchange Agreement;

and the Amount Invested shall be converted from C\$ to US\$, for the purpose of determining the number of shares of entitlement to the Company's Common Stock, by using the rate of exchange published in the Wall Street Journal on the last day the newspaper is published preceding the Closing Date (as defined in the Unit Purchase Agreement).

Notwithstanding the foregoing, the Company shall have, at any time during the Exercise Period, upon the exercise by the holder hereof, the right to "cash out" this Warrant by paying to the holder hereof the net cash value of the Warrant (being, if and only if the Common Stock is then publicly traded, the average closing price for the five trading days which precede by two trading days the date of the Notice of Exercise Form annexed hereto minus the Exercise Price, multiplied by the number of shares of Common Stock then represented by this Warrant), provided such cash value is less than US \$100,000.

1. Title of Warrant. Prior to the expiration hereof and subject to  
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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 rights to acquire shares of Common Stock  
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represented by this Warrant are exercisable by the registered holder hereof, in whole or in part, at any time during the Exercise Period, 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 San Diego, 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 (a) by cash or check or bank draft payable to the order of the Company, (b) by cancellation of indebtedness of the Company payable to the holder hereof at the time of the exercise, or (c) if and only if the Common Stock is publicly traded, 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 issued upon such exercise) less that number of shares of Common Stock having a market value as of such date equal to the aggregate Exercise Price of the Warrant (or such portion thereof which is being exercised), 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 and purchase 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, but not later than ten (10) days, 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 less that number of shares (if any) cancelled in payment of the Exercise Price of the Warrant as set forth in clause 2.(c) hereof.

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

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representing fractional shares shall be issued upon the exercise of this Warrant.

4. Charges, Taxes and Expenses. Issuance of certificates for shares of

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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

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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

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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

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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

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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. Upon receipt by  
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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 or mutilation of this Warrant, and in case of loss, theft or destruction, of indemnity or security reasonably satisfactory to it, 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  
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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.  
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(a) Shares. The number of shares and the type of stock for which  
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this Warrant is exercisable is subject to adjustment from time to time as follows:

(i) In the event of any subdivision or change 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 acquisition of shares of Common Stock under this Warrant, in lieu of the number of shares of Common Stock in respect of which the right of acquisition hereunder is then being exercised, such greater number of shares of Common Stock of the Company as would result from said subdivision or change had the right of acquisition hereunder been exercised before such subdivision or change without the holder giving any other consideration therefor.

(ii) In the event of any consolidation 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 acquisition of shares of Common Stock under of this Warrant, in lieu of the number of shares of Common Stock in respect of which the right of acquisition hereunder is then being exercised, such lesser number of shares of Common Stock of the Company as would result from such consolidation had the right of acquisition hereunder been exercised before such consolidation.

(iii) In the event of any reclassification 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 acquisition 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 as the holder would have been entitled to receive in respect of shares of Common Stock in respect of which the right of acquisition hereunder

is then being exercised had the right of acquisition hereunder been exercised before such reclassification.

(iv) 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 acquisition of shares of Common Stock under this Warrant, be appropriately adjusted and the holder shall receive, in lieu of the number of shares in respect of which the right of acquisition hereunder 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 had 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.

(v) If the Company, at any time while this Warrant is outstanding, shall pay any stock dividend upon shares of stock of the Company of the class or classes in respect of which the right of acquisition hereunder is then given under this Warrant, then the Company shall thereafter deliver at the time of acquisition of shares under this Warrant, in addition to the number of shares of stock of the Company in respect of which the right of acquisition 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 acquired if the shares so acquired had been outstanding on the record date for the payment of the said stock dividend or stock dividends.

(vi) If the Company, at any time while this Warrant is outstanding, shall be a party to any transaction (including, without limitation, a merger, consolidation, sale of all or substantially all of the Company's assets or outstanding stock or a recapitalization of the Common Stock) in which the previously outstanding Common Stock shall be changed into or exchanged for different securities of the Company or common stock or other securities of another corporation or interests in a noncorporate entity or other property (including cash) or any combination of any of the foregoing (each such transaction being herein called the "Transaction" and the date of consummation of the Transaction being herein called the "Consummation Date"), then, as a condition of the consummation of the Transaction, lawful and adequate provisions shall be made so that the holder hereof, upon the exercise hereof at any time on or after the Consummation Date, shall be entitled to receive, and this Warrant shall thereafter represent the right to receive, in lieu of the Common Stock issuable upon such exercise prior to the Consummation Date, the amount of securities or other property to which such holder would actually have been entitled as a shareholder upon the consummation of the Transaction if the holder had exercised this Warrant immediately prior thereto.

(b) Automatic Amendment. On the happening of each and every event  
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set forth in this (S)9, the applicable provisions of this Warrant shall, ipso  
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facto, be deemed to be amended accordingly and the Company shall take all  
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necessary action so as to comply with such provisions as so amended.

10. Miscellaneous.  
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(a) Issue Date. The provisions of this Warrant shall be construed  
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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 be binding upon any  
successors or assigns of the Company. 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  
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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  
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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 acquisition 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 acquisition rights under this  
Warrant.

(d) No Impairment. The Company will not, by amendment of its  
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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 action 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  
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(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

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

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

\_\_\_\_\_  
(Please Print)

whose address is \_\_\_\_\_

\_\_\_\_\_  
(Please Print)

Dated: \_\_\_\_\_, \_\_\_\_\_.

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

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TO: NEUROCRINE BIOSCIENCES, INC.

(1) The undersigned hereby elects to acquire \_\_\_\_\_ 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 or certificates representing said shares of Common Stock in the name of the undersigned or in such other name as is 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 E  
TO  
EXCHANGE AGREEMENT

THIS INSTRUMENT forms part of the Exchange Agreement (the "Agreement") entered into on the 29th day of March, 1996, by and among Neurocrine Biosciences, Inc., Neurocrine Biosciences (Canada) Inc., Societe Financiere d'Innovation Inc., Neuroscience Partners Limited Partnership, The Health Care and Biotechnology Venture Fund, Business Development Bank of Canada and Canadian Medical Discoveries Fund, Inc., which Agreement permits execution by counterpart. The undersigned hereby acknowledges having received a copy of the said Agreement (which is annexed hereto as Schedule "1") and, having read the said Agreement in its entirety, hereby agrees that all of the provisions of the said Agreement shall be binding upon the undersigned as if the undersigned had been an original party to the Agreement as an Investor (as such term is defined in the Agreement) and such provisions shall enure to the benefit of and be binding upon the undersigned, its successors and assigns.

IN WITNESS WHEREOF the undersigned has executed this instrument on this \_\_\_ day of \_\_\_.

[Investor]

Per: \_\_\_\_\_

RESEARCH AND DEVELOPMENT AGREEMENT  
BETWEEN  
NEUROCRINE BIOSCIENCES (CANADA) INC.  
AND  
NEUROSCIENCE PHARMA (NPI) INC.

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## RESEARCH AND DEVELOPMENT AGREEMENT

THIS AGREEMENT is made effective as of the 29th day of March, 1996 between NEUROCRINE BIOSCIENCES (CANADA) INC., a Canadian corporation having its principal place of business at Montreal, Quebec ("NBCI") and NEUROSCIENCE PHARMA (NPI) INC., a Canadian corporation having its principal place of business at Montreal, Quebec ("NPI"). NBCI and NPI are each referred to herein by name or as a "PARTY" or, together, as "PARTIES".

### RECITALS

1. Neurocrine Biosciences, Inc. ("NBI") has on-going research programs in various fields, including neurosteroid and neurocytokine programs, and has developed certain technology in such fields, certain rights in respect of which have been transferred, assigned or licensed to NBCI.

2. NPI possesses the ability to conduct or have conducted discovery research, clinical trials and other development activities in the Field and to market the approved pharmaceuticals within Canada.

3. NBCI desires to grant to NPI certain rights and licenses to carry out, in Canada, Research and Development in the Field, and to market in Canada the Products, the whole as more fully set forth below.

4. NPI desires to carry out and fund the operations associated with the preclinical, clinical and other development activities in the Field.

NOW, THEREFORE, in consideration of the premises and mutual covenants herein contained, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

### ARTICLE 1 - DEFINITION

The following terms shall have the following meanings as used in this Agreement:

1.1 "AFFILIATE" means an individual, trust, business trust, joint venture, partnership, corporation, association or any other entity which (directly or indirectly) is controlled by, controls or is under common control with a Party. For the purposes of this definition, the term "control" (including, with correlative meanings, the term "controlled by" and "under common control with") as used with respect to any Party, shall mean ownership of more than 50% of the voting interest.

1.2 "COMPOUND" means, except as provided below, any composition of matter that (or, in the case of prodrugs, an active metabolite of which):

(A) demonstrates suitable levels of activity in vitro within the Field to warrant further Research or Development as determined by NBCI, after consultation with NPI;

(B) is discovered, identified, synthesized or acquired by or on behalf of NBCI or an Affiliate thereof, and is recognized by NBCI, after consultation with NPI, to meet the conditions of paragraph 1.2(a) hereof, prior to or during the term of this Agreement; and

(C) is designated by NBCI, after consultation with NPI, as a "Compound" hereunder by giving written notice thereof to NPI.

1.3 "CONTROL" means possession of the ability to grant a license or sublicense as provided for herein without violating the terms of any agreement or other arrangements with any Third Party.

1.4 "DEVELOPMENT" means all work performed by or on behalf of NPI or NBCI, or an Affiliate thereof, involving pre-Phase I, Phase I, Phase II or Phase III clinical trials of Compounds, in relation to a Field.

1.5 "DATE OF FIRST SALE" means the date on which NBCI (or an Affiliate or a Sublicensee) first ships a Product to an unaffiliated Third Party in an arms length commercial transaction.

1.6 "DRUG APPROVAL APPLICATION" means an application for Regulatory Approval required before commercial sale or use of a Product as a drug in a regulatory jurisdiction.

1.7 "EFFECTIVE DATE" means the date first written above.

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

1.9 "FIELD" means [\*] and (C) such other fields as may be mutually agreed to by the Parties.

1.10 "HPB" means the Canadian Health Protection Bureau.

1.11 "IND" means an investigational new drug application filed with the FDA as more fully defined in 21 C.F.R. (S) 312.3 or with the HPB or its equivalent in any country.

[\* CONFIDENTIAL TREATMENT REQUESTED ]

1.12 "INVESTOR" shall have the meaning ascribed thereto in the Unit Purchase Agreement.

1.13 "INFORMATION" means information, generally not known to the public, relating to the Field and including (A) techniques and data, including, but not limited to, screens, models, inventions, practices, methods, knowledge, know-how, skill, experience, test data, including but not limited to, pharmacological, toxicological and clinical test data, analytical and quality control data, marketing, pricing, distribution, costs, sales and manufacturing data, and patent and legal data or descriptions (to the extent that disclosure thereof would not result in loss or waiver of privilege or similar protection) and (B) compositions of matter, including but not limited to compounds and biological materials and assays.

1.14 "NET SALES" means the amount billed to a Third Party by NPI, NBCI or an Affiliate or Sublicensee of either for sales of a Product with respect to which a royalty is due hereunder, less: (A) discounts, including cash discounts or rebates, retroactive price reductions or allowances actually allowed or granted from the billed amount with respect to the Product in question (provided that any discounts, rebates, etc. based on overall purchases by the customer of the selling party may be applied to reduce Net Sales only to the extent of the pro rata amount of such discounts or rebates attributable to the Products included in such overall purchases), (B) credits or allowances actually granted upon claims, rejections or returns of Products, including recalls, regardless of the party requesting such, (C) freight, postage, shipping and insurance charges, to the extent billed separately on the invoice and paid by the buyer, (D) taxes, duties or other governmental charges levied on or measured by the billing, to the extent billed separately on the invoice and paid by the buyer, as adjusted for rebates and refunds and (E) provisions for actual uncollectible accounts determined in accordance with U.S. generally accepted accounting practices, consistently applied to all Products of the selling party. Where Product is sold in the form of a combination Product containing one or more active ingredients in addition to a Compound, Net Sales for such combination Product will be calculated by multiplying actual Net Sales of such combination Product by the fraction  $A/(A+B)$  where A is the invoice price of any of the Product sold separately, and B is the total invoice price of any other active component or components, or devices, in the combination, if sold separately. If, on a country-by-country basis, the other active component or components in the combination are not sold separately in said country, Net Sales for the purpose of determining royalties of the combination Product shall be calculated by multiplying actual Net Sales of such combination Product by the fraction  $A/C$  where A is the invoice price of any of the Product if sold separately, and C is the invoice price of the combination Product. If, on a country-by-country basis, neither the Product nor the other active component or components of the combination Product is sold separately in said country, Net Sales for the purposes of determining royalties of the combination Product shall be reasonably allocated between the Product and the other active components based upon their relative value.

1.15 "NBCI KNOW-HOW" means Information which (A) NBCI discloses to NPI under this Agreement or specifically in anticipation of this Agreement and (B) is within the Control

of NBCI. Notwithstanding anything herein to the contrary, NBCI Know-How excludes published NBCI Patents, Program Patents, and Program Know-How.

1.16 "NBCI PATENT" means the rights granted by any governmental authority under a Patent which covers a method, apparatus, material or manufacture in the Field, which Patent is owned or Controlled by NBCI during the term of this Agreement.

1.17 "PATENT" means (A) valid and enforceable Letters Patent, including any extension, registration, confirmation, reissue, continuation, divisional, continuation-in-part, re-examination or renewal thereof and (B) pending applications for Letters Patents.

1.18 "PATENT COSTS" means the reasonable fees and expenses paid to outside legal counsel and other Third Parties, and filing and maintenance expenses, incurred in connection with the establishment and maintenance of rights under Patents.

1.19 "PHASE I" shall mean that portion of the FDA or HPB submission and approval process which provides for the first introduction into humans of a Product with the purpose of determining human toxicity, metabolism, absorption, elimination and other pharmacological action as more fully defined in respect of the FDA in 21 C.F.R. (S)213.2(a).

1.20 "PHASE II" means that portion of the FDA or HPB submission and approval process which provides for the initial trials of 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 in respect of the FDA in 21 C.F.R. (S)213.21(b).

1.21 "PHASE III" means that portion of the FDA or HPB submission and approval process which provides for continued trials of a Product on sufficient numbers of patients to establish the safety and efficacy of a Product and generate pharmacoeconomics data to support regulatory approval in the proposed therapeutic indication as more fully defined in respect of the FDA in 21 C.F.R. (S)312.21(c).

1.22 "PRE-PHASE I" means that portion of the development program which starts with the selection of a compound for development by NBCI into a Product or the beginning of toxicological studies relating to such compound. Pre-Phase I includes, but is not limited to, toxicological, pharmacological and any other studies, the results of which are required for filing with an IND, as well as Product formulation and manufacturing development necessary to obtain the permission of regulatory authorities to begin and continue subsequent human clinical testing.

1.23 "PRODUCT" means any form or dosage of a composition of matter comprised of a Compound for pharmaceutical use in humans in the Field.

1.24 "PROGRAM KNOW-HOW" means Information which pertains to the Field and is in the possession of or developed by either NBCI or NPI, or jointly developed by NBCI and NPI, under this Agreement or specifically in anticipation of this Agreement.

1.25 "PROGRAM PATENT" means any Patent, the subject of which is an invention that came into the possession of NBCI, was conceived or reduced to practice by NPI, NBCI or a Third Party under a contract with NPI or NBCI, or was conceived or reduced to practice jointly by NBCI and NPI (or such Third Party) in the course of the Research or the Development.

1.26 "REGULATORY APPROVAL" means any approvals (including pricing and reimbursement approvals), licenses, registrations or authorizations of any federal, provincial, state or local regulatory agency, department, bureau or other governmental entity, necessary for the manufacturing, use, storage, import, transport or sale of Products in a regulatory jurisdiction.

1.27 "RESEARCH" means all work performed by or on behalf of NPI or NBCI, or an Affiliate thereof, directed towards or in connection with the discovery, identification and synthesis of Compounds.

1.28 "SELLING PARTY" shall have the meaning ascribed thereto at Section 5.5, 6.1(a), 6.1(b), 6.1(b) hereof.

1.29 "SUBLICENSEE" shall mean, with respect to a particular Product, a Third Party to whom NPI or NBCI has granted a license or sublicense under any NBCI Patents or Program Patents to make and sell such Product. As used in this Agreement, "Sublicensee" shall also include a Third Party to whom NPI or NBCI has granted the right to distribute a Product, provided that such Third party is responsible for marketing and promotion of such Product within its distribution territory.

1.30 "TANGIBLE RESEARCH PRODUCT" means any composition of matter or other tangible asset, including but not limited to compounds, natural products or fermentation broths and/or extracts or fractions thereof, immunoglobulin molecules, including active fragments thereof and monoclonal antibodies, cells and cell lines, DNA and RNA molecules, plasmids, proteins, peptides, receptors, receptor fragments, research tools, materials for use in screening methods and techniques, made or synthesized by either Party in the course of Research or the Development.

1.31 "THIRD PARTY" means any entity other than NBCI, NPI and Affiliates of either.

1.32 "UNIT PURCHASE AGREEMENT" means the Unit Purchase Agreement dated March 29, 1996 among NPI, NBI and certain Investors.

ARTICLE 2 - INTELLECTUAL PROPERTY AND LICENSE GRANTS

2.1 OWNERSHIP OF INTELLECTUAL PROPERTY. NBCI shall be the sole and exclusive owner of or shall Control all NBCI Patents, Program Patents, NBCI Know-How, Program Know-How and Tangible Research Products, including but not limited to Compounds. NPI shall have no rights to NBCI Patents, NBCI Know-How, Program Patents, Program Know-How, Tangible Research Products or Compounds except as set forth in Sections 2.2 and 2.3 below.

2.2 PATENT LICENSES. NBCI grants NPI an exclusive paid-up license, with no right to grant sublicenses, under NBCI Patents, Program Patents, NBCI Know-How and Program Know-How to carry out only in Canada Research and Development, and only in the Field, as set forth in Section 4.1 hereof, during the term of this Agreement.

2.3 PATENT LICENSES TO NPI FOR PRODUCTS. NBCI grants to NPI an exclusive license, in relation to Canada only, including with respect to NBCI's trademarks under which the Products are to be marketed in Canada, with a right to grant sublicenses, to market, sell and have sold in Canada Products which are developed in the Field, either by NPI or by a Selling Party. No right or license is granted to NPI to make or have made the Products in Canada or elsewhere.

ARTICLE 3 - RESEARCH

3.1 RESEARCH PROGRAM. NPI and NBCI shall be responsible for conducting the Research, with a goal of discovering, identifying and synthesizing Compounds that are suitable for development into Products for commercialization. NBCI shall be responsible for establishing the directives for conducting the Research, after consultation with NPI, and NPI shall give effect to such directives.

3.2 NBCI RESEARCH EFFORTS. NBCI agrees to commit to the Research such efforts and resources as it determines in its sole discretion are necessary to accomplish the goal set forth in Section 31.

3.3 NPI COMMITMENT TO RESEARCH AND DEVELOPMENT. NPI agrees to use its best reasonable efforts to ensure that it expends an aggregate amount of at least [\*] on Research and Development in the Field.

ARTICLE 4 - PRODUCT DEVELOPMENT

4.1 COMPOUND SELECTION AND PRODUCT DEVELOPMENT. NBCI, after consultation with NPI, shall be responsible for authorizing and coordinating with NPI the selection of Compounds to enter Pre-Phase I and the development of Products through Pre-Phase I.

[\* CONFIDENTIAL TREATMENT REQUESTED ]

Once a Compound is selected to enter Pre-Phase I, NPI shall be responsible, to the extent it has funds available, to develop the Products through Phases I, II and III, including but not limited to, preparing and filing all Drug Approval Applications in Canada and obtaining all Regulatory Approvals in Canada, subject to the approval of NBCI. NPI agrees to use its best reasonable efforts, consistent with prudent business judgment, to ensure that it expends an aggregate amount on Research and Development of at least [\*] in the Province of Quebec, and an additional amount of [\*] in the rest of Canada. NBCI shall be solely responsible for and have the sole right to develop Products through Phases I, II and III as set forth above throughout the world other than in Canada.

4.2 NPI'S RESPONSIBILITIES. NPI shall, under the supervision and direction of NBCI, develop and prepare an annual plan for Research and Development of Products. NBCI will assist NPI in NPI's Research and Development activities as determined appropriate by NBCI by providing NPI such NBCI Know-How developed or acquired during the Research relating to Products as determined appropriate by NBCI for the Research and Development. If any specific developmental work is agreed by NPI and NBCI to be performed by or on behalf of NBCI, the Parties will negotiate compensation to NBCI for carrying out the agreed developmental work. NPI agrees to use best reasonable efforts to continue the Research and Development and provide NBCI with all data discovered in the course of the Research and Development. In the event adverse data is discovered in the course of the Research and Development of a Product, NBCI shall be entitled to immediately terminate the Research and Development in respect of such Product by giving written notice to NPI. In such event, the corresponding licenses granted to NPI pursuant to Sections 2.2 and 2.3 hereof shall terminate and be of no further force or effect.

4.3 RESEARCH AND DEVELOPMENT OUTSIDE THE FIELD. In addition to the Research and Development to be carried out as contemplated above, NPI agrees, at the request of NBCI, to carry out sponsored scientific research and development, outside the Field, on commercially reasonable terms and conditions negotiated in good faith by the Parties.

#### ARTICLE 5 - COMMERCIALIZATION AND MANUFACTURING

5.1 NBCI'S MARKETING OBLIGATIONS FOR PRODUCTS. Subject to Sections 23 and 52 hereof, with regard to Canada, all business decisions, including, without limitation, the design, sale, price and promotion of Products under this Agreement and the marketing decisions relating to any particular Product shall be within the sole discretion of NBCI. Any marketing of a Product in one market or country shall not obligate NBCI to market such Product in any other market or country.

5.2 NPI'S MARKETING OBLIGATIONS FOR PRODUCTS. Subject to and in accordance with the provisions set forth herein, and in particular Section 2.3 above, all business decisions, including, without limitation, the design, sale, price and promotion of Products under this

[\* CONFIDENTIAL TREATMENT REQUESTED ]



Agreement, in Canada, and the decisions whether to market any particular Product in Canada, shall be within the sole discretion of NPI.

5.3 TRADEMARKS. NBCI shall select its own trademarks under which it will market Products and no right or license is granted to NPI hereunder with respect to such trademarks, except to the extent required for NPI to be able to exercise its rights in accordance with Sections 2.3 and 5.2 hereof.

5.4 MANUFACTURING. NBCI shall be solely responsible for making Products or having Products made. At the request of NPI and unless Section 5.5, 6.1(a), 6.1(b), 6.1(b) hereof applies, NBCI shall make or have made Products for sale in Canada, in accordance with Section 5.2 above, and the price to be paid by NPI for purchasing such Products shall be as agreed upon by NBCI and NPI negotiating in good faith and in this regard, NBCI shall accord NPI with preferred purchaser status.

5.5 ALTERNATIVE MARKETING OPTION FOR PRODUCTS. At the request of NPI and in accordance with the rights and obligations of NPI under this Agreement, NBCI agrees that it, an Affiliate thereof or a Third Party under contract with it or under contract with an Affiliate thereof (collectively, the "Selling Party") shall use its best efforts, as an exclusive agent of NPI, to market the Products in Canada. In the event of such a request by NPI:

(A) the Selling Party shall be solely responsible for all costs and expenses related to marketing and selling the Products in Canada, including, without limitation, manufacturing, distributing and promoting the Products;

(B) the Selling Party shall be solely entitled to the revenues generated by marketing and selling the Products in Canada, subject to paragraph 5.5, 6.1(a), 6.1(b), 6.1(b) hereof; and

(C) NBCI shall cause the Selling Party to apply the same standards of competence for the purpose of marketing and selling the Products in Canada as applied in marketing and selling the Products in other countries. Furthermore, NBCI shall cause the Selling Party to apply proportionate efforts for the purpose of marketing and selling the Products in Canada, in relation to the size of the market, as applied in marketing and selling the Products in other countries.

#### ARTICLE 6 - PAYMENTS

In consideration of the foregoing, NBCI agrees to pay NPI, subject to the provisions of this Article and Article 7 hereof, as follows.

6.1 EARNED ROYALTIES FOR PRODUCTS. NBCI shall pay or cause a Selling Party to pay to NPI:

(A) [\*] royalty based on Net Sales of Products sold outside Canada;  
and

(B) [\*] royalty based on Net Sales of Products sold in Canada, if NPI requests that a Selling Party market and sell the Products in Canada, in accordance with Section 5.5, 6.1(a), 6.1(b), 6.1(b) above.

The obligation of NBCI to pay or to cause the Selling Party to pay to NPI the royalties provided for in this Section shall not terminate upon termination of this Agreement, however the rates of such royalties shall be reduced from [\*] and [\*] respectively, to rates mutually agreed upon by the Parties at the time of such termination. In the event the Parties are unable to agree upon the rates of such royalties at the time of such termination, the rate pursuant to paragraph 5.5, 6.1(a), 6.1(b), 6.1(b) hereof shall be reduced to [\*] and the rate pursuant to paragraph 5.5, 6.1(a), 6.1(b), 6.1(b) hereof shall be reduced to [\*].

6.2 TERM FOR ROYALTY PAYMENT. Royalties payable under Section 6.1 shall be paid on a country-by-country basis from the Date of First Sale of each Product with respect to which royalty payments are due, for the shorter of the following periods:

(A) the last to expire of any Patent in such country covering the sale or use of the Product; and

(B) ten (10) years following the Date of First Sale of such Product in such country.

6.3 FOREIGN EXCHANGE. The remittance of royalties payable on Net Sales will be payable in Canadian dollars to NPI, at a bank and to an account designated by NPI, using a rate of exchange of the currency of the country from which the royalties are payable as published in the Wall Street Journal on the last day of the month for which such payment was due.

6.4 TAXES. All payments under this Agreement will be made without any deduction or withholding for or on account of any tax unless such deduction or withholding is required by any applicable law. If the Selling Party is so required to deduct or withhold, the Selling Party will:

(A) promptly notify NPI of such requirement;

[\* CONFIDENTIAL TREATMENT REQUESTED]

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

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

6.5 ROYALTY PAYMENT REPORTS. Royalty payments under this Agreement shall be made to NPI quarterly within sixty (60) days following the end of each calendar quarter for which royalties are due from the Selling Party. Each royalty payment shall be accompanied by a report summarizing the Net Sales during the relevant three (3) month period and shall be subject to an annual audit by NPI, at its expense.

#### ARTICLE 7 - TERMINATION OF NPI LICENSE

NBCI shall have the option, at any time after the earlier of:

(A) four (4) years from the date hereof but not later than December 31, 2000;

(B) the date hereof, if for the purpose to collaborate with another pharmaceutical or biotechnological company that calls for the joint Research or Development of a Product in the Field in consideration of up-front payments, license fees, royalties or other rights;

(C) the date on which NBCI terminates the Development in relation to the last remaining Product being developed by NPI; and

(D) the date on which NPI's entitlement to receive refundable Canadian and Quebec government tax credits in respect of its activities hereunder ceases or changes in a material way;

to terminate with respect to one or more Products the license granted to NPI pursuant to Section 2.3 hereof to market and sell Products in Canada, by giving thirty (30) days prior written notice of NBCI's election to so terminate (the "TERMINATION NOTICE") to NPI and the Investors.

#### ARTICLE 8 - CONFIDENTIALITY

8.1 CONFIDENTIALITY; EXCEPTIONS. Except to the extent expressly authorized by this Agreement or otherwise agreed in writing, the Parties agree that, for the term of this Agreement and for five (5) years thereafter, the receiving Party shall keep confidential and

shall not publish or otherwise disclose or use for any purpose other than as provided for in this Agreement any Information or other confidential or proprietary information or materials furnished to it pursuant to this Agreement by the other Party or any Information developed during the term of this Agreement (collectively "CONFIDENTIAL INFORMATION"), except to the extent that it can be established by the receiving Party that such Confidential Information:

(A) was in the lawful knowledge and possession of the receiving party prior to the time it was disclosed to or learned by the receiving Party, or was otherwise developed independently by the receiving Party, as evidenced by written records kept in the ordinary course of business, or other documentary proof of actual use by the receiving Party;

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

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

(D) was disclosed to the receiving Party, other than under an obligation of confidentiality, by a Third Party who had no obligation to the disclosing Party not to disclose such information to others.

8.2 AUTHORIZED DISCLOSURE. Except as expressly provided otherwise in this Agreement, each Party may disclose Confidential Information of the other Party as follows: (A) to Third Parties (and in the case of NBCI, to Affiliates) under appropriate terms and conditions including confidentiality provisions substantially equivalent to those in this Agreement for consulting, manufacturing, development, external testing and marketing trials with respect to the Products covered by this Agreement, or otherwise as is reasonably necessary to exercise the rights and licenses granted or reserved herein (including the right to grant sublicenses); (B) to the extent such disclosure is reasonably necessary in filing or prosecuting patent, copyright and trademark applications, prosecuting or defending litigation, complying with applicable governmental regulations, obtaining regulatory approval, conducting preclinical or clinical trials, marketing Products or otherwise required by law, provided, however, that if a Party is required by law or regulation to make any such disclosure of the other Party's Confidential Information it will, except where impracticable for necessary disclosures, give reasonable advance notice to the other Party of such disclosure requirement and, except to the extent inappropriate in the case of patent applications, will use its reasonable efforts to secure confidential treatment of such Confidential Information required to be disclosed or (C) to the extent mutually agreed to by the Parties.

8.3 DISCLOSURE OF FINANCIAL INFORMATION. Notwithstanding anything to the contrary contained in this Agreement, the Parties may disclose to their respective shareholders and

Affiliates thereof Confidential Information, provided such information is of a financial nature only and therefore does not constitute Information.

8.4 SURVIVAL. This Article 8 shall survive the termination or expiration of this Agreement for a period of five (5) years.

#### ARTICLE 9 - PATENT PROSECUTION AND INFRINGEMENT

9.1 PATENT FILINGS. The filing, prosecution and maintenance of NBCI Patents and Program Patents shall be done solely by NBCI, and all Patent Costs shall be borne by NBCI.

#### 9.2 ENFORCEMENT RIGHTS.

(A) DEFENCE AND SETTLEMENT OF THIRD PARTY CLAIMS. If a Third Party asserts that a Patent or other right owned by it is infringed by the manufacture, use or sale of any Product, NBCI shall in its sole discretion decide whether or not to defend against any such assertions, and if it decides to assume the defence, NBCI will do so at its cost and expense. In the event NBCI fails to assume such defence, NPI shall in its sole discretion decide whether or not to so defend, and if it decides to so defend, the defence shall be at NPI's cost and expense. Further, NBCI agrees to indemnify and hold NPI harmless from Third Party demands, claims and actions (i) that a Patent or other right owned by NBCI has been infringed by the manufacture, use or sale of Products in Canada and (ii) for product liability in relation to Products sold in Canada, whether sold by or on behalf of NPI.

(B) INFRINGEMENT BY THIRD PARTIES OF PROGRAM PATENTS. If any NBCI Patent or Program Patent is infringed by a Third Party in any country in connection with the manufacture, use or sale of a Product in such country, the Party to this Agreement first having knowledge of such infringement shall promptly notify the other in writing. The notice shall set forth the known facts of that infringement in reasonable detail. NBCI shall have the right, but not the obligation, to institute, prosecute and control any action or proceeding with respect to such infringement of the NBCI Patent or Program Patent, by counsel of its own choice, and to retain any damages or other monetary awards recovered from such action or proceeding.

#### ARTICLE 10 - REPRESENTATIONS AND WARRANTIES

10.1 REPRESENTATIONS AND WARRANTIES. Each of the Parties hereby represents and warrants and covenants as follows.

(A) This Agreement is a legal and valid obligation binding upon such Party and enforceable in accordance with its terms. The execution, delivery and performance of the Agreement by such Party does not conflict with any agreement, instrument or

understanding, oral or written, to which it is a Party or by which it is bound, nor violate any law or regulation of any court, governmental body or administrative or other agency having jurisdiction over it.

(B) Each Party has not, and during the term of the Agreement will not, grant any right to any Third Party relating to its respective technology in the Field which would conflict with the rights granted to the other Party hereunder.

#### ARTICLE 11 - TERM AND TERMINATION

11.1 TERM. This Agreement shall commence as of the Effective Date and shall continue in effect until the date on which it is terminated in accordance with the following provisions.

11.2 TERMINATION FOR BREACH. Either Party may terminate this Agreement in the event the other Party shall have materially breached or defaulted in the performance of any of its material obligations hereunder, and such default shall have continued for ninety (90) days after written notice thereof was provided to the breaching Party by the non-breaching Party. Any termination shall become effective at the end of such ninety (90) day period unless the breaching Party (or any other party on its behalf) has cured any such breach or default prior to the expiration of the ninety (90) day period.

11.3 TERMINATION BY NBCI. In addition to the rights afforded to it pursuant to the provisions of this Article, NBCI shall have the right to terminate this Agreement upon notice to the Investors and NPI as set forth in Article 7 above.

11.4 TERMINATION FOR BANKRUPTCY. In addition to the rights afforded to it pursuant to the provisions of this Article, either Party shall have the right to terminate this Agreement forthwith by written notice to the other Party (A) if such other Party is declared insolvent or bankrupt by a court of competent jurisdiction, (B) if a voluntary or involuntary petition in bankruptcy is filed in any court of competent jurisdiction against the other Party and such petition is not dismissed within ninety (90) days after filing, or (C) if the other Party shall make or execute an assignment of substantially all of its assets for the benefit of creditors.

11.5 SURVIVING RIGHTS. Section 2.1 (but not Sections 2.2 or 2.3),  
---  
Section 6.1 and Articles 1, 8, 11, 12, 13 and 14 shall survive the expiration and any termination of this Agreement for any reason.

11.6 ACCRUED RIGHTS, SURVIVING OBLIGATIONS. Termination, relinquishment or expiration of the Agreement for any reason shall be without prejudice to any obligations which shall have accrued prior to such termination, relinquishment or expiration, including, without limitation, the payment obligations under Article 6 hereof and any and all damages arising from any breach hereunder. Such termination, relinquishment or expiration shall not

relieve either Party from obligations which are expressly indicated to survive termination or expiration of the Agreement.

11.7 TERMINATION NOT SOLE REMEDY. Termination is not the sole remedy under this Agreement and, whether or not termination is effected, all other remedies will remain available except as otherwise agreed to herein.

#### ARTICLE 12 - INDEMNIFICATION

Each Party (the "INDEMNIFYING PARTY") shall indemnify, defend and hold the other Party (the "INDEMNIFIED PARTY") harmless from and against any and all liabilities, claims, damages, costs, expenses or money judgments incurred by or rendered against the Indemnified Party and its Affiliates and Sublicensees incurred in the defence or settlement of a Third Party lawsuit or in satisfaction of a Third Party judgment arising out of any injuries to person and/or damage to property resulting from (A) negligent acts of the Indemnifying Party performed in carrying out Research or Development hereunder, including failure by the Indemnifying Party to provide the Indemnified Party with any information of the Indemnifying Party's which, if timely received, would have avoided injury, death or damage, provided such failure to provide such information is due to negligence of the part of the Indemnifying Party, and (B) personal injury to the Indemnified Party employees or agents or damage to the Indemnified Party's property resulting from acts performed by, under the direction of, or at the request of the Indemnifying Party in carrying out activities contemplated by this Agreement.

#### ARTICLE 13 - DISPUTE RESOLUTION

13.1 ALTERNATIVE DISPUTE RESOLUTION. Any dispute controversy or claim arising out of or relating to the validity, construction, enforceability or performance of this Agreement, including disputes relating to alleged breach or to termination of this Agreement, shall be settled by binding Alternative Dispute Resolution ("ADR") in the manner described below.

(A) If a Party intends to begin an ADR to resolve a dispute, such Party shall provide written notice (the "ADR REQUEST") to the other Party informing such other Party of such intention and the issues to be resolved. From the date of the ADR Request and until such time as any matter has been finally settled by ADR, the running of the time periods contained in Section 11.2 as to which party must cure a breach of this Agreement shall be suspended as to the subject matter of the dispute.

(B) Within thirty (30) days after the receipt of the ADR Request, the other Party may, by written notice to the counsel for the party initiating ADR, add additional issues to be resolved.

13.2 ARBITRATION PROCEDURE. The ADR shall be conducted in English pursuant to the International Commercial Arbitration Rules of the American Arbitration Association for Large, Complex Cases then in effect. The Arbitrator shall, in rendering its decision, apply the substantive law of the State of California, without regard to its conflict of laws provisions. The proceeding shall take place in the City of San Francisco, California. The fees of the arbitration shall be split equally between the Parties. Each Party shall bear its own legal fees.

#### ARTICLE 14 - MISCELLANEOUS

14.1 ASSIGNMENT. Either Party may assign this Agreement or its rights hereunder (A) to a party that succeeds to substantially all of the business or assets of such Party by reason of a merger or similar reorganization or the sale of substantially all of its business or assets, or (B) otherwise with the prior written consent of the other Party. This Agreement shall be binding upon and inure to the benefit of the successors and permitted assigns of the Parties. Any assignment not in accordance with this Agreement shall be void.

14.2 CONSENTS NOT UNREASONABLY WITHHELD. Whenever provision is made in this Agreement for either Party to secure the consent or approval of the other, that consent or approval shall not unreasonably be withheld, and whenever in this Agreement provision is made for one Party to object to or disapprove a matter, such objection or disapproval shall not unreasonably be exercised.

14.3 RETAINED RIGHTS. Nothing in this Agreement shall limit in any respect the right of NBCI or its Affiliates to conduct Research and Development with respect to and market Products outside the Field.

14.4 FORCE MAJEURE. Neither Party shall lose any rights hereunder or be liable to the other Party for damages or losses on account of failure of performance by the defaulting Party if the failure is occasioned by government action, war, fire, explosion, flood, strike, lockout, embargo, act of God, or any other similar cause beyond the control of the defaulting Party, provided that the Party claiming force majeure has exerted all reasonable efforts to avoid or remedy such force majeure; provided, however, that in no event shall a Party be required to settle any labour dispute or disturbance.

14.5 FURTHER ACTIONS. Each Party agrees to execute, acknowledge and deliver such further instruments, and to do all such other acts, as may be necessary or appropriate in order to carry out the purposes and intent of this Agreement.

14.6 NO TRADEMARK RIGHTS. Except as otherwise provided herein, no right, express or implied, is granted under this Agreement to use in any manner the name "Neurocrine" or "NPI", or any other trade name or trademark of the other Party or its Affiliates in connection with the performance of the Agreement.



14.7 NOTICES. All notices hereunder shall be in writing and shall be deemed given if delivered personally or by facsimile transmission (receipt verified), mailed by registered or certified mail (return receipt requested), postage prepaid, or sent by express courier service, to the Parties at the following addresses (or at such other address for a Party as shall be specified by like notice; provided, that notices of a change of address shall be effective only upon receipt thereof.

IF TO NBCI,

ADDRESSED TO: NEUROCRINE BIOSCIENCES (CANADA) INC.  
Byers Casgrain  
1 Place Ville Marie  
Suite 3900  
Montreal, Quebec  
H3B 4M7  
Attention: Paul F. Dingle  
Telephone: 514-878-8800  
Telecopy: 514-866-2241

WITH COPY TO: WILSON SONSINI GOODRICH & ROSATI  
PROFESSIONAL CORPORATION  
650 Page Mill Road  
Palo Alto, CA 94304-1050  
Attention: Michael O'Donnell, Esq.  
Telephone: 415-493-9300  
Telecopy: 415-493-6811

WITH COPY TO: NEUROCRINE BIOSCIENCES, INC.  
3050 Science Park Road  
San Diego, CA 92121-1102  
Attention: President & CEO  
Telephone: 619-658-7600  
Telecopy: 619-658-7602

IF TO NPI,

ADDRESSED TO: NEUROSCIENCE PHARMA (NPI) INC.  
Byers Casgrain  
1 Place Ville Marie  
Suite 3900  
Montreal, Quebec  
H3B 4M7  
Attention: Paul F. Dingle  
Telephone: (514) 878-8800  
Telecopy: (514) 866-2241

WITH COPY TO: MACKENZIE GERVAIS  
770 Sherbrooke Street West  
Suite 1300  
Montreal, Quebec  
H3A 1G1  
Attention: Luc LaRochelle  
Telephone: (514) 847-3540  
Telecopy: (514) 288-7389

Each of the Parties consent to the personal jurisdiction of the U.S. Federal Courts and agree to accept any legal process served upon such Party at the addresses specified above for such Party.

14.8 WAIVER. Except as specifically provided for herein, the waiver from time to time by either of the Parties of any of their rights or their failure to exercise any remedy shall not operate or be construed as a continuing waiver of same or of any other of such Party's rights or remedies provided in this Agreement.

14.9 SEVERABILITY. If any term, covenant or condition of this Agreement or the application thereof to any Party or circumstance shall, to any extent, be held to be invalid or unenforceable, then (A) the remainder of this Agreement, or the application of such term, covenant or condition to Parties or circumstances other than those as to which it is held invalid or unenforceable, shall not be affected thereby and each term, covenant or condition of this Agreement shall be valid and be enforced to the fullest extent permitted by law; and (B) the Parties covenant and agree to renegotiate any such term, covenant or application thereof in good faith in order to provide a reasonably acceptable alternative to the term, covenant or condition of this Agreement or the application thereof that is invalid or unenforceable, it being the intent of the Parties that the basic purposes of this Agreement are to be effectuated.

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

14.11 ENTIRE AGREEMENT. This Agreement, the Unit Purchase Agreement and the Exhibits thereto and the other documents delivered in connection herewith set forth all the covenants, promises, agreements, warranties, representations, conditions and understandings between the Parties and supersede and terminate all prior agreements and understandings between the Parties in respect of the subject matter hereof and thereof. There are no covenants, promises, agreements, warranties, representations, conditions or understandings, either oral or written, between the Parties other than as set forth herein and therein. No subsequent alteration, amendment, change or addition to this Agreement shall be binding upon the Parties unless reduced to writing and signed by the respective authorized officers of the Parties.

14.12 RELATIONSHIP OF PARTIES. Nothing herein shall be construed to create any relationship of employer and employee, agent and principal, partnership or joint venture between the Parties. Each Party is an independent contractor. Neither Party shall assume, either directly or indirectly, any liability of or for the other Party. Neither Party shall have the authority to bind or obligate the other Party and neither Party shall represent that it has such authority.

14.13 LIMITED LIABILITY. Neither Party shall be liable to the other Party under any contract, negligence, strict liability or other legal or equitable theory for any incidental or consequential damages for failure to perform hereunder.

IN WITNESS WHEREOF, the Parties have executed this Agreement by their proper officers as of the date and year first above written.

NEUROCRINE BIOSCIENCES (CANADA) INC.

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

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

NEUROSCIENCE PHARMA (NPI) INC.

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

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

## INTELLECTUAL PROPERTY AND LICENSE GRANTS

THIS AGREEMENT is made effective as of March 29, 1996 between NEUROCRINE BIOSCIENCES, INC., a California corporation ("NBI"), and (NEUROCRINE BIOSCIENCES (CANADA) INC. ("NBCI"), a Canadian corporation and wholly-owned subsidiary of NBI. NBI and NBCI are each referred to herein by name or as "Party" or, together, as "Parties."

### RECITALS

1. NBI has on-going research programs in various fields, including neurosteroid and neurocytokine programs, and has developed certain technology in such fields, certain rights in respect of which have been transferred, assigned or licensed to NBCI, its wholly-owned subsidiary..

2. NBI desires to grant NBCI certain license rights to utilize such technology in Canada for purposes of commercial exploitation in Canada as set forth herein.

### ARTICLE 1 - DEFINITION

1.1 "AFFILIATE" means an individual, trust, business trust, joint venture, partnership, corporation, association or any other entity which (directly or indirectly) is controlled by, controls or is under common control with a Party. For the purpose of this definition, the term "control" (including, with correlative meanings, the term "controlled by" and "under common control with") as used with respect to any Party, shall mean ownership of more than 50% of the voting interest.

1.2 "COMPOUND" means, except as provided below, any composition of matter that (or, in the case of prodrugs, an active metabolite of which):

(A) demonstrates suitable levels of activity in vitro within the Field to warrant further Research or Development as determined by NBI, in consultation with NBCI;

(B) is discovered, identified, synthesized or acquired by or on behalf of NBI, and is recognized by NBI, in consultation with NBCI, to meet the conditions of paragraph 1.2(a) hereof, prior to or during the term of this Agreement; and

(C) is designated by NBI, in consultation with NBCI, as a "Compound" hereunder by giving written notice thereof to NBCI.

1.3 "CONTROL" means possession of the ability to grant a license of sublicense as provided herein without violating the terms of any agreement or other arrangements with any third party.

1.4 "DEVELOPMENT" means all work performed by or on behalf of NBCI or NBI, or an Affiliate thereof, involving pre-Phase I, Phase II or Phase III clinical trials of Compounds, in relation to a Field.

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

1.6 "FIELD" means [\*] and (C) such other fields as may be mutually agreed to by the Parties

1.7 "HPB" means the Canadian Health Protection Bureau.

1.8 "IND" means an investigational new drug application filed with the FDA as more fully defined in 21 C.F.R. (S) 312.3 or with the HPB or its equivalent in any country.

1.9 "NBI PATENT" means the rights granted by any governmental authority under a Patent with covers a method, apparatus, material or manufacture in the Field, which Patent is owned or Controlled by NBI during the term of this Agreement.

1.10 "PATENT" means (A) valid and enforceable Letters Patent, including any extension, registration, confirmation, reissue, continuation, divisional, continuation in part, re-examination or renewal thereof and (B) pending applications for Letters Patents

1.11 "PRODUCT" means any form or dosage of a composition of matter comprised of a Compound for pharmaceutical use in humans in the Field.

1.12 "PHASE I" shall mean that portion of the FDA or HPB submission and approval process which provides for the first introduction into humans of a Product with the purchase of determining human toxicity, metabolism, absorption, elimination and other pharmacological action as more fully defined in respect of the FDA in 21 C.F.R. (S) 213.2(a).

1.13 "PHASE II" means that portion of the FDA or HPB submission and approval process which provides for the initial trials of 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 in respect of the FDA in 21 C.F.R. (S) 213.21(b).

1.14 "PHASE III" means that portion of the FDA or HPB submission and approval process which provides for continued trials of a Product on sufficient numbers of patients to establish the safety and efficacy of a Product and generate pharmacoeconomics data to support regulatory approval in the proposed therapeutic indication as more fully defined in respect of the FDA in 21 C.F.R. (S) 213.21(c).

[\* CONFIDENTIAL TREATMENT REQUESTED]

1.15 "PRE-PHASE I" means that portion of the development program which starts with the selection of a compound for development by NBCI into a Product or the beginning of toxicological studies relating to such compound. Pre-Phase I includes, but is not limited to, toxicological, pharmacological and any other studies, the results of which are required for filing with an IND, as well as Product formulation and manufacturing development necessary to obtain the permission of regulatory authorities to begin and continue subsequent human clinical testing.

1.16 "RESEARCH" means all work performed by or on behalf of NBCI or NBI, or an Affiliate thereof, directed towards or in connection with the discovery, identification and synthesis of Compounds.

#### ARTICLE 2 - INTELLECTUAL PROPERTY AND LICENSE GRANTS

2.1 OWNERSHIP OF INTELLECTUAL PROPERTY. As with respect to NBCI, NBI shall be the sole and exclusive owner, or exclusive licensee, as the case may be, of all rights to NBI Patents, NBI Know-How, and Compounds. NBCI shall have no rights to NBI Patents, NBI Know-How, Compounds or any other technology or intellectual property of NBI except as set forth in Sections 2.2 and 2.3 below.

2.2 PATENT LICENSES. NBI grants to NBCI an exclusive paid-up license including the right to grant sublicenses, under NBI Patents and NBI Know-How, to carry out Research and Development in Canada only in the Field.

2.3 PATENT LICENSES TO NBCI FOR PRODUCTS. NBI grants to NBCI an exclusive license under NBI Patents and NBI Know-How, with a right to grant sublicenses, to market, sell and have sold in Canada Products which are developed during the term of this Agreement by NBI or an Affiliate thereof or by a third party under contract with NBI or an Affiliate thereof and which are under the Control of NBI. The foregoing license shall extend only to marketing rights to such Products in Canada. No right or license is granted to NBCI to make or have made the Products in Canada or elsewhere.

#### ARTICLE 3 - COMMERCIALIZATION OBLIGATION

In exchange for the license rights granted herein, NBCI agrees to use all reasonable commercial diligence to develop and commercialize or cause to be developed and commercialized, the Products for sale in Canada.

#### ARTICLE 4 - TERM

This Agreement shall continue until terminated by mutual agreement of the parties.

#### ARTICLE 5 - MISCELLANEOUS

5.1 ASSIGNMENT. Either Party may assign this Agreement or its rights hereunder to a party that succeeds to substantially all of the business or assets of such Party by reason of a merger or similar reorganization or the sale of substantially all of its business or assets. This Agreement shall be binding upon and inure to the benefit of the successors and permitted assigns of the Parties. Any assignment not in accordance with this Agreement shall be void.

5.2 CONSENTS NOT UNREASONABLY WITHHOLD. Whenever provision is made in this Agreement for either Party to secure the consent or approval of the other, that consent or approval shall not unreasonably be withheld, and whenever in this Agreement provision is made for one Party to object to or disapprove a matter, such objection or disapproval shall not unreasonably be exercised.

5.3 FORCE MAJEURE. Neither Party shall lose any rights hereunder or be liable to the other Party for damages or losses on account of failure of performance by the defaulting Party if the failure is occasioned by government action, war, fire, explosion, flood, strike, lockout, embargo, act of God, or any other similar cause beyond the control of the defaulting Party, provided that the Party claiming force majeure has exerted all reasonable efforts to avoid or remedy such force majeure; provided, however, that in no event shall a Party be required to settle any labor dispute or disturbance.

5.4 FURTHER ACTIONS. Each Party agrees to execute, acknowledge and deliver such further instruments, and to do all such other acts, as may be necessary or appropriate in order to carry out the purposes and intent of this Agreement.

5.5 NO TRADEMARK RIGHTS. Except as otherwise provided herein, no right, express or implied, is granted under this Agreement to use in any manner the name "Neurocrine" or "NBI", or any other trade name or trademark of the other Party or its Affiliates in connection with the performance of the Agreement.

5.6 NOTICES. All notices hereunder shall be in writing and shall be deemed given if delivered personally or by facsimile transmission (receipt verified), mailed by registered or certified mail (Return receipt requested), postage prepaid, or sent by express courier service, to the Parties at the following addresses (or at such other address for a Party as shall be specified by like notice; provided, that notices of a change of address shall be effective only upon receipt thereof.

If to NBCI,

Addressed to: Neurocrine Biosciences (Canada) Inc.  
Byers Casgrain  
1 Place Ville Marie  
Suite 3900  
Montreal, Quebec  
H3B 4M7  
Attention: Paul F. Dingle  
Telephone: 514-878-8800  
Telecopy: 514-866-2241



With copy to: Wilson Sonsini Goodrich & Rosati  
Professional Corporation  
650 Page Mill Road  
Palo Alto, California 94304-1050  
Attention: Michael O'Donnell, Esq.  
Telephone: 415-493-9300  
Telecopy: 415-493-6811

If to NBI: Neurocrine Biosciences, Inc.  
3050 Science Park Road  
San Diego, California 92121-1102  
Attention: President & CEO  
Telephone: 619-658-7600  
Telecopy: 619-658-7602

Each of the Parties consent to the personal jurisdiction of the U.S. Federal Courts and agree to accept any legal process served upon such Party at the addresses specified above for such Party.

5.7 WAIVER. Except as specifically provided for herein, the waiver from time to time by either of the Parties of any of their rights or their failure to exercise any remedy shall not operate or be construed as a continuing waiver of same or of any other of such Party's rights or remedies provided in this Agreement.

5.8 SEVERABILITY. If any term, covenant or condition of this Agreement or the application thereof to any Party or circumstance shall, to any extent, be held to be invalid or unenforceable, then (a) the remainder of this Agreement, or the application of such term, covenant or condition to Parties or circumstances other than those as to which it is held invalid or unenforceable, shall not be affected thereby and each term, covenant or condition of this Agreement shall be valid and be enforced to the fullest extent permitted by law; and (b) the Parties covenant and agree to renegotiate any such term, covenant or application thereof in good faith in order to provide a reasonably acceptable alternative to the term, covenant or condition of this Agreement or the application thereof that is invalid or unenforceable, it being the intent of the Parties that the basic purposes of this Agreement are to be effectuated.

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

5.10 ENTIRE AGREEMENT. This Agreement, sets forth all the covenants, promises, agreements, warranties, representations, conditions and understandings between the Parties and supersede and terminate all prior agreements and understandings between the Parties in respect of the subject matter hereof and thereof. There are no covenants, promises, agreements, warranties, representations,

conditions or understandings, either oral or written, between the Parties other than as set forth herein and therein. No subsequent alteration, amendment, change of addition to this Agreement shall be binding upon the Parties unless reduced to writing and signed by the respective authorized officers of the Parties.

5.11 RELATIONSHIP OF PARTIES. Nothing herein shall be construed to create any relationship of employer and employee, agent and principal, partnership or joint venture between the Parties. Each Party is an independent contractor. Neither party shall assume, either directly or indirectly, any liability of or for the other Party. Neither Party shall have the authority to bind or obligate the other Party and neither Party shall represent that it has such authority.

5.12 LIMITED LIABILITY. Neither Party shall be liable to the other Party under any contract, negligence, strict liability or other legal or equitable theory for any incidental or consequential damages for failure to perform hereunder.

IN WITNESS WHEREOF, the Parties have executed this Agreement by their proper officers as of the date and year first above written

NEUROCRINE BIOSCIENCES INC.

By: /s/ Paul W. Hawran  
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Title Senior V.P. & C.F.O.  
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NEUROCRINE BIOSCIENCES (CANADA) INC.

By: /s/ Paul W. Hawran  
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Title V.P. & C.F.O.  
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## Subsidiaries of Registrant

Name	Jurisdiction
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Neurocrine Biosciences (Canada) Inc.	Quebec, Canada
Neuroscience Pharma (NPI) Inc.	Quebec, Canada