

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended JUNE 30, 2000

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-28150

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

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

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

(858) 658-7600  
(Registrant's telephone number, including area code)

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

Yes  No

The number of outstanding shares of the registrant's common stock, par value  
of \$0.001, was 22,023,336 as of July 31, 2000.

NEUROCRINE BIOSCIENCES, INC.  
FORM 10-Q INDEX

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

NEUROCRINE BIOSCIENCES, INC.  
CONDENSED BALANCE SHEETS  
(in thousands)

	June 30, 2000 ----- (unaudited)	December 31, 1999 -----
ASSETS		
Current assets:		
Cash and cash equivalents .....	\$ 2,472	\$ 21,265
Short-term investments, available-for-sale .....	77,346	69,833
Receivables under collaborative agreements .....	869	1,458
Other current assets .....	2,415	2,257
	-----	-----
Total current assets .....	83,102	94,813
Property and equipment, net .....	11,371	11,181
Other assets .....	3,435	3,228
	-----	-----
Total assets .....	\$ 97,908 =====	\$ 109,222 =====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable .....	\$ 700	\$ 2,447
Accrued liabilities .....	5,315	5,069
Deferred revenues .....	53	155
Current portion of long-term debt .....	149	149
Current portion of capital lease obligations .....	857	825
	-----	-----
Total current liabilities .....	7,074	8,645
Long-term debt .....	237	312
Capital lease obligations .....	1,390	1,827
Deferred rent .....	1,338	1,005
Other liabilities .....	1,016	1,079
	-----	-----
Total liabilities .....	11,055	12,868
Stockholders' equity:		
Preferred stock, \$0.001 par value; 5,000,000 shares authorized; no shares issued and outstanding ....	--	--
Common stock, \$0.001 par value; 100,000,000 shares authorized; issued and outstanding shares were 21,927,727 in 2000 and 21,608,011 in 1999 .....	22	22
Additional paid in capital .....	140,753	138,798
Deferred compensation and shareholder notes .....	(188)	(530)
Accumulated other comprehensive loss .....	(823)	(264)
Accumulated deficit .....	(52,911)	(41,672)
	-----	-----
Total stockholders' equity .....	86,853	96,354
	-----	-----
Total liabilities and stockholders' equity .....	\$ 97,908 =====	\$ 109,222 =====

See accompanying notes to the condensed financial statements.

NEUROCRINE BIOSCIENCES, INC.  
CONDENSED STATEMENTS OF OPERATIONS  
(unaudited; in thousands except loss per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2000	1999	2000	1999
Revenues:				
Sponsored research and development	\$ 1,534	\$ 2,762	\$ 3,056	\$ 5,551
Sponsored research and development from related party	--	--	--	494
Option Fees .....	1,000	--	2,000	--
Milestones .....	--	750	--	750
Grant income and other revenues ....	408	298	664	566
	-----	-----	-----	-----
Total revenues .....	2,942	3,810	5,720	7,361
Operating expenses:				
Research and development .....	8,134	7,182	15,905	13,562
General and administrative .....	2,188	2,008	4,421	3,705
	-----	-----	-----	-----
Total operating expenses .....	10,322	9,190	20,326	17,267
Loss from operations .....	(7,380)	(5,380)	(14,606)	(9,906)
Other income and (expenses):				
Interest income .....	1,463	694	3,035	1,586
Interest expense .....	(54)	(64)	(112)	(110)
Other income and expenses, net .....	779	113	644	(296)
	-----	-----	-----	-----
Loss before income taxes .....	(5,192)	(4,637)	(11,039)	(8,726)
Income taxes .....	--	--	200	--
	-----	-----	-----	-----
Net loss .....	\$ (5,192)	\$ (4,637)	\$ (11,239)	\$ (8,726)
	=====	=====	=====	=====
Loss per common share:				
Basic and diluted	\$ (0.24)	\$ (0.24)	\$ (0.51)	\$ (0.46)
Shares used in the calculation of loss per common share:				
Basic and diluted	21,897	18,961	21,834	18,958

See accompanying notes to condensed financial statements.

NEUROCRINE BIOSCIENCES, INC.  
CONDENSED STATEMENTS OF CASH FLOWS  
(unaudited; in thousands)

	Six Months Ended June 30,	
	2000	1999
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Net loss .....	\$(11,239)	\$ (8,726)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Equity in NPI losses and other adjustments .....	--	890
Depreciation and amortization .....	1,055	959
Deferred revenues .....	(102)	43
Deferred rent .....	333	351
Non-cash stock compensation expenses .....	1,579	153
Change in operating assets and liabilities:		
Accounts receivable and other current assets .	431	(458)
Other non-current assets .....	(158)	33
Accounts payable and accrued liabilities .....	(2,668)	(1,850)
Net cash flows used in operating activities .....	(10,769)	(8,605)
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Purchases of short-term investments .....	(25,072)	(5,890)
Sales/maturities of short-term investments .....	17,000	15,504
Purchases of property and equipment .....	(1,294)	(1,050)
Net cash flows (used in) provided by investing activities	(9,366)	8,564
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Proceeds from issuance of common stock .....	1,822	261
Proceeds from capital lease financing .....	--	437
Principal payments on long-term obligations .....	(480)	(465)
Net cash flows provided by financing activities .....	1,342	233
Net (decrease) increase in cash and cash equivalents ....	(18,793)	192
Cash and cash equivalents at beginning of the period ....	21,265	11,708
Cash and cash equivalents at end of the period .....	\$ 2,472	\$ 11,900
	=====	=====

See accompanying notes to the condensed financial statements.

NEUROCRINE BIOSCIENCES, INC.  
NOTES TO THE CONDENSED FINANCIAL STATEMENTS  
(unaudited)

1. ORGANIZATION

Neurocrine Biosciences, Inc. ("Neurocrine" or the "Company") was incorporated in California on January 17, 1992 and was reincorporated in Delaware in March 1996. In May 1998, the Company acquired Northwest NeuroLogic, Inc. ("NNL"), an Oregon-based research corporation. In December 1999, the NNL corporate structure was merged with and into the Company. Between March 1996 and December 1999, the Company owned a minority interest in Neuroscience Pharma, Inc. ("NPI"), a Canadian based research and development company.

Neurocrine is a neuroscience-based company focused on the discovery and development of novel therapeutics for neuropsychiatric, neuroinflammatory and neurodegenerative diseases and disorders. The Company's neuroscience, endocrine and immunology disciplines provide a unique biological understanding of the molecular interaction between central nervous, immune and endocrine systems for the development of therapeutic interventions for anxiety, depression, insomnia, stroke, malignant brain tumors, multiple sclerosis, obesity and diabetes.

2. BASIS OF PRESENTATION

The condensed financial statements included herein are unaudited. Current year financial statements include the accounts of the Company. Prior year financial statements include the Company and its wholly owned subsidiary, NNL. All significant intercompany transactions were eliminated in consolidation. The Company's minority ownership interest in NPI was accounted for under the equity method. Certain reclassifications have been made to prior year amounts to conform to the presentation for the three and six months ended June 30, 2000.

The condensed financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions of the Securities and Exchange Commission ("SEC") on Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, these financial statements include all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the financial position, results of operations, and cash flows for the periods presented.

The results of operations for the interim periods shown in this report are not necessarily indicative of results expected for the full year. The financial statements should be read in conjunction with the audited financial statements and notes for the year ended December 31, 1999, included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission.

3. USE OF 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 at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

4. LOSS PER COMMON SHARE

Basic net loss per common share is calculated using the weighted average number of common shares outstanding during the period. Diluted net loss per common share is calculated by adding the total incremental number of common share equivalents and the weighted average number of common shares outstanding during the period. For the periods presented, incremental shares of the common share equivalents were excluded from the calculation of diluted net loss per share as their effects were antidilutive.

## 5. COMPREHENSIVE INCOME

Comprehensive loss for the Company consists of net loss and unrealized gains and losses on investments. The accumulated balances of these components are disclosed as a separate component of stockholders' equity.

## 6. NEW ACCOUNTING PRONOUNCEMENTS

In December 1999, the SEC issued Staff Accounting Bulletin No. 101 ("SAB 101"), "Revenue Recognition in Financial Statements". SAB 101 provides guidance in applying generally accepted accounting principles to revenue recognition in financial statements, including the recognition of nonrefundable up-front fees received in conjunction with a research and development arrangement. The Company is required to adopt the pronouncement during the fourth quarter of 2000. Management does not expect SAB 101 to have a material effect on its financial statements.

In March 2000, the Financial Accounting Standards Board issued Interpretation No. 44 ("FIN 44"), "Accounting for Certain Transactions Involving Stock Compensation". This interpretation clarifies the application of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, with respect to certain issues in accounting for employee stock compensation and is generally effective as of July 1, 2000. Management does not expect FIN 44 to have a material effect on its financial statements.

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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company contain forward-looking statements which involve risks and uncertainties, pertaining generally to the expected continuation of the Company's collaborative agreements, the receipt of research payments thereunder, the future achievement of various milestones in product development and the receipt of payments related thereto, the potential receipt of royalty payments, pre-clinical testing and clinical trials of potential products, the period of time the Company's existing capital resources will meet its funding requirements, and financial results and operations. Actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth below and those outlined in the Company's 1999 Annual Report on Form 10-K filed with the Securities and Exchange Commission.

### OVERVIEW

Since the founding of the Company in January 1992, Neurocrine has been engaged in the discovery and development of novel pharmaceutical products for diseases and disorders of the central nervous and immune systems. To date, Neurocrine has not generated any revenues from the sale of products, and does not expect to generate any product revenues in the foreseeable future. The Company has funded its operations primarily through public offering and payments under research and development agreements. The Company is developing a number of products with corporate collaborators and will rely on those collaborators and new collaborators to meet funding requirements. Revenues are expected to come from the Company's strategic alliances. The Company expects to generate future net losses in anticipation of significant increases in operating expenses as products are advanced through the various stages of clinical development. As of June 30, 2000, Neurocrine has incurred a cumulative deficit of \$52.9 million and expects to incur operating losses in the future, which may be greater than losses in prior years.

## RESULTS OF OPERATIONS

### THREE MONTHS ENDED JUNE 30, 2000 AND 1999

Revenues for the second quarter of 2000 were \$2.9 million compared with \$3.8 million for the same period last year. The decline in revenues resulted primarily from the completion of the sponsored research portion of the Eli Lilly and Company ("Lilly") Collaboration in October 1999 and the reacquisition of the Multiple Sclerosis compound in January 2000. This compound was previously licensed to Novartis in connection with a 1996 collaboration agreement. Absence of revenues from these collaborations during 2000 was partially off-set by option fees received from Taisho Pharmaceutical Co., LTD ("Taisho"). Taisho paid the Company \$2.0 million for an exclusive six-month option to negotiate a collaborative agreement on the Company's altered peptide ligand for diabetes. This fee was deferred and recognized as revenue over the six-month option period.

Research and development expenses increased to \$8.1 million for the second quarter 2000 compared with \$7.2 million for the respective period in 1999. The increase in expenses primarily reflects higher costs associated with expanding development activities, adding scientific personnel and non-cash charges associated with stock compensation for employees and consultants.

General and administration expenses increased to \$2.2 million for the second quarter 2000 compared with \$2.0 million for the same period last year. The increase in expenses is primarily related to non-cash charges associated with stock compensation for employees and consultants.

Interest income increased to \$1.5 million during the second quarter of 2000 compared to \$694,000 for the same period last year. The increase was primarily due to higher investment balances generated by the Company's private placement of its common stock in December 1999. This transaction generated net proceeds of \$39.3 million.

Net loss for the second quarter of 2000 was \$5.2 million or \$0.24 per share compared to \$4.6 million or \$0.24 per share for the same period in 1999. The increase in net loss resulted from a decline in revenues of \$868,000 and an increase in operating expenses of \$1.1 million, partially off-set by an increase in net interest income of \$769,000. Net losses are expected to increase this year due to higher operating costs associated with the advancement of the Company's compounds through progressive clinical development.

### SIX MONTHS ENDED JUNE 30, 2000 AND 1999

Revenues for the six-months ended June 30, 2000 were \$5.7 million compared with \$7.4 million in 1999. The decline in revenues resulted primarily from the completion of the sponsored research portion of the Lilly Collaboration in October 1999 and the reacquisition of the Multiple Sclerosis compound in January 2000. This compound was previously licensed to Novartis in connection with a 1996 collaboration agreement. Absence of revenues from these collaborations during 2000 was partially off-set by option fees received from Taisho. Taisho paid the Company \$2.0 million for an exclusive six-month option to negotiate a collaborative agreement on the Company's altered peptide ligand for diabetes. This fee was deferred and recognized as revenue over the six-month option period. Revenues for the remainder of 2000 are expected to increase slightly over the first half of the year in connection with the Taisho collaboration signed on July 21, 2000.

For the six-months ended June 30, 2000 and 1999, research and development expenses were \$15.9 million and \$13.6 million, respectively. The increase in expenses reflects higher costs associated with expanding development activities, adding scientific personnel and non-cash charges associated with stock compensation for employees and consultants. These expenses are expected to rise significantly over the balance of 2000 as clinical studies are expanded on current compounds and new compounds advance to the clinical development stages.



For the six-months ended June 30, 2000 and 1999, general and administrative expenditures totaled \$4.4 million and \$3.7 million, respectively. Business development consulting and non-cash charges associated with stock compensation for employees and consultants were primarily responsible for the increase in expenses. These expenses are expected to continue to rise over the last half of 2000.

Interest income increased to \$3.0 million during the six-months ended June 30, 2000 compared to \$1.6 million for the same period last year. The increase was primarily due to higher investment balances generated by the Company's private placement of its common stock. The private placement was completed in December 1999 and generated net proceeds of \$39.3 million. The Company anticipates interest earnings for the remainder of the 2000 to decline from quarter-to-quarter as cash reserves will be needed to fund progressive clinical trials.

Net loss for the first six months of 2000 was \$11.2 million or \$0.51 per share compared to \$8.7 million or \$0.46 per share for the same period in 1999. The increase in net loss resulted from a decline in revenues of \$1.6 million and an increase in operating expenses of \$3.0 million, partially off-set by an increase in interest income of \$1.4 million. Net losses are expected to increase this year due to higher operating costs associated with the advancement of the Company's compounds through progressive clinical development.

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

#### LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2000, the Company's cash, cash equivalents, and short-term investments totaled \$79.8 million compared with \$91.1 million at December 31, 1999. The decline in cash balances during 2000 reflects the funding of progressive clinical development programs and the addition of scientific personnel.

Net cash used in operating activities during the first six months of 2000 was \$10.8 million compared with \$8.6 million for the same period last year. The increase in net cash used resulted primarily from the funding of operating activities. The Company expects cash usage to continue during the year as clinical trial efforts are expanded.

Net cash used in investing activities during the first six months of 2000 was \$9.4 million compared with net cash provided of \$8.6 million during the same period in 1999. The increase in cash used resulted primarily from the timing differences in the investment purchases and sales/maturities and the fluctuations in the Company's portfolio mix between cash equivalents and short-term investment holdings. The Company expects similar fluctuations to continue throughout the year.

Net cash provided by financing activities during 2000 was \$1.3 million compared to \$233,000 during 1999. Proceeds from the issuance of common stock provided cash during 2000, while proceeds from capital leases and issuance of common stock provided cash during 1999. Management anticipates an increase in proceeds from capital leasing during the last half of 2000.

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

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

Neurocrine expects to incur operating losses 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.

#### INTEREST RATE RISK

The Company is exposed to interest rate risk on its short-term investments and on its long-term debt. The primary objective of the Company's investment activities is to preserve principal while at the same time maximizing yields without significantly increasing risk. To achieve this objective, the Company invests in highly liquid and high quality government and other debt securities. To minimize the exposure due to adverse shifts in interest rates, the Company invests in short-term securities with maturities of less than forty-four months. If a 10% change in interest rates were to have occurred on June 30, 2000, such a change would not have had a material effect on the fair value of the Company's investment portfolio as of that date. Due to the short holding period of the Company's investments, the Company has concluded that it does not have a material financial market risk exposure.

Interest risk exposure on long-term debt relates to the Company's note payable, which bears a floating interest rate of prime plus one quarter percent (9.75% at June 30, 2000 and 8.75% at December 31, 1999). At June 30, 2000 and December 31, 1999, the note balance was \$386,000 and \$461,000, respectively. This note is payable in equal monthly installments through January 2003. Based on the balance of its long-term debt, the Company has concluded that it does not have a material financial market risk exposure.

#### CAUTION ON FORWARD-LOOKING STATEMENTS

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

For a further discussion of the risks associated with an investment in the Company, please see the section entitled "Risk Factors" in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission for the year ended December 31, 1999.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

A discussion of the Company's exposure to, and management of, market risk appears in Part 1, Item 2 of this Quarterly Report on Form 10-Q under the heading "Interest Rate Risk".

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

(A) The Company's Annual Meeting of Stockholders was held on May 24, 2000 (the "Annual Meeting").

(B) The following Class I Directors were elected at the Annual Meeting:

Name	Position	Term Expires
-----	-----	-----
Joseph A. Mollica	Class I Director	2003
Wylie W. Vale	Class I Director	2003

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

Name	Position	Term Expires
-----	-----	-----
Stephen A. Sherwin	Class II Director	2001
Richard F. Pops	Class II Director	2001
Gary A. Lyons	Class III Director	2002

(C) At the Annual Meeting, stockholders voted on five matters: (i) the election of two Class I Directors for a term of three years expiring in 2003, (ii) the amendment of the 1992 Incentive Stock Plan to increase the number of shares of common stock reserved for issuance thereunder from 5,300,000 to 6,050,000 shares, (iii) the amendment of the 1996 Employee Stock Purchase Plan to increase the number of shares of common stock reserved for issuance from 125,000 to 425,000 shares, (iv) the amendment of the 1996 Director Option Plan to increase the number of shares of common stock reserved for issuance thereunder from 200,000 to 300,000 shares, and (v) the ratification of the appointment of Ernst & Young LLP as the Company's independent auditors. The voting results were as follows:

- (i) The election of Joseph A. Mollica and Wylie W. Vale as Class I Directors for a term of three years:  
For 16,511,938 Withhold 581,295
- (ii) Approval to amend the Company's 1992 Incentive Stock Plan, increasing the number of shares of common stock reserved for issuance from 5,300,000 to 6,050,000 Shares:  
For 10,156,319 Against 2,185,010 Abstain 5,300
- (iii) Approval to amend the Company's 1996 Employee Stock Purchase Plan, increasing the number of shares of common stock reserved for issuance from 125,000 to 425,000 Shares:  
For 11,842,244 Against 494,605 Abstain 9,780
- (iv) Approval to amend the Company's 1996 Director Option Plan, increasing the number of shares of common stock reserved for issuance from 200,000 to 300,000 Shares:  
For 11,187,898 Against 1,148,573 Abstain 10,158
- (v) Ratification of the appointment of Ernst & Young LLP as independent auditors for the fiscal year ending December 31, 2000:  
For 17,060,524 Against 22,445 Abstain 10,264

ITEM 5. OTHER INFORMATION

On July 21, 2000, Neurocrine Biosciences, Inc. signed an exclusive agreement with Taisho Pharmaceutical Co., LTD (Taisho). The agreement provides Taisho the exclusive rights to NBI-6024, Neurocrine's altered peptide ligand (APL) for diabetes in Europe and Asia. Neurocrine will retain all rights in the rest of the world, including North America. The collaboration, valued at up to \$45 million, includes licensing and option fees, payments for certain development and regulatory milestones, and significant reimbursement of the worldwide development expenses. In addition, Neurocrine will receive royalties on product sales in Europe and Japan.

Neurocrine also completed a Phase I clinical study with APL compound NBI-6024 in patients with Type I Diabetes or insulin-dependent diabetes mellitus (IDDM). The Phase I study included twenty patients in a single dose, dose escalation study. Preliminary safety data from this study indicated that NBI-6024 was safe and well tolerated. Two additional clinical studies are planned to start in Q3, 2000. These studies will assess the safety and biological activity of multiple doses of NBI-6024 in both adult and pediatric patients with Type 1 Diabetes.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(A) Exhibits. The following exhibits are filed as part of this report:

- \*10.1 License Agreement between the Registrant and Taisho Pharmaceutical Co., Ltd. dated July 21, 2000
- 10.2 Amended employment agreement between the Registrant and Gary A. Lyons, dated May 24, 2000
- 10.3 Amended employment agreement between the Registrant and Paul W. Hawran, dated May 24, 2000
- 10.4 Amended employment agreement between the Registrant and D. Bruce Campbell, dated May 24, 2000
- 10.5 Amended employment agreement between the Registrant and Margaret E. Valeur-Jensen, dated May 24, 2000

27 Financial Data Schedule

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\*Confidential treatment has been requested with regard to certain portions of this exhibit.

(B) Reports on Form 8-K. Form 8-K was filed on April 6, 2000 reporting Janssen Pharmaceutica's replacement of R121919 with a back-up compound.

SIGNATURES

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

Dated: 08/11/00

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/s/ Paul W. Hawran

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Paul W. Hawran  
Executive Vice President and  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

EXHIBIT INDEX

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- 27 Financial Data Schedule

-----  
\*Confidential treatment has been requested with regard to certain portions of this exhibit.

LICENSE AGREEMENT

DATED

July 21, 2000

BETWEEN

TAISHO PHARMACEUTICAL CO., LTD.

AND

NEUROCRINE BIOSCIENCES, INC.

LICENSE AGREEMENT

LICENSE AGREEMENT (this "Agreement") dated July 21, 2000 by and between Taisho Pharmaceutical Co., Ltd., a Corporation organized under the laws of Japan with principal offices located at 24-1, Takata 3-Chome, Toshima-ku, Tokyo 170-8633, Japan ("Taisho") and Neurocrine Biosciences, Inc., a Delaware Corporation with principal offices located at 10555 Science Center Drive, San Diego, California 92121 ("Neurocrine").

WITNESSETH:

WHEREAS, Taisho is engaged in the research, development, manufacture and commercialization of human pharmaceuticals.

WHEREAS, Neurocrine is engaged in the research and development of a proprietary altered peptide ligand product for the treatment of diabetes, and in connection therewith has filed for and obtained patent protection for such product and developed know-how, technology and other intellectual property relating thereto.

WHEREAS, Taisho would like to obtain a license to Neurocrine's technology, patents know-how and certain other intellectual property to research, develop and commercialize Neurocrine's proprietary altered peptide ligand product in the Licensed Territory (as defined below).

WHEREAS, Neurocrine has agreed to exclusively license to Taisho the Licensed Technology (as defined below) in the Licensed Territory.

NOW THEREFORE, in consideration of the foregoing and the covenants and promises contained in this Agreement, the Parties agree as follows:

## ARTICLE 1

### DEFINITIONS

- 1.1 "Affiliate" shall mean a Person or entity that, directly or indirectly through one or more intermediates, controls, is controlled by, or is under common control with the Person or entity specified. For the purposes of this definition, control shall mean with respect to an entity, the direct or indirect ownership of (i) greater than fifty percent (50%) of the stock shares entitled to vote for the election of directors of the entity or (ii) greater than fifty percent (50%) of ownership interest of the entity or (iii) the ability to direct the management and operations of the entity.
- 1.2 "Agreement" shall mean this Agreement.
- 1.3 "Commercialize" or "Commercialization" shall mean those activities relating to the promotion, marketing and sale of Products and shall include Phase IV clinical trials or equivalent clinical trials conducted following Governmental Approval to market Products.
- 1.4 "Commercially Reasonable Efforts" shall mean efforts and resources commonly used in the research-based pharmaceutical industry for a product at a similar stage in its product life of similar market potential taking into account the competitiveness of alternative products in the marketplace, the patent and other proprietary position of the product, the likelihood of regulatory approval given the regulatory structure involved, the profitability of the product and alternative products and other relevant factors. Commercially Reasonable Efforts shall be determined on a market by market basis for a particular Product, and it is anticipated that the level of effort will change over time reflecting changes in the status of the Product and the market involved.
- 1.5 "Confidential Information" shall mean information designated as confidential information belonging to either or both Parties herein and any other information Controlled by either or both Parties, which, if written, is marked confidential by the disclosing Party or, if oral, is reduced to writing and marked confidential by the disclosing Party, within thirty (30) days of the oral disclosure.
- 1.6 "Controls" or "Controlled" shall mean possession of the ability to grant licenses or sublicenses without violating the terms of any agreement or other arrangement with, or the rights of, any Third Party.
- 1.7 "CTX" shall mean the NBI-6024 CTX filed by Neurocrine with the Medicines Control Agency in the United Kingdom [XXX].
- 1.8 "Default" shall mean with respect to either Party that (i) any representation or warranty of such Party set forth in this Agreement shall have been untrue in any material respect when made or (ii) such Party shall have failed in the performance of any material obligation of such Party set forth herein.
- 1.9 "Develop" or "Development" shall mean those activities related to the pre-clinical and clinical development of Products and obtainment and preservation of Governmental Approvals for Products.
- 1.10 "Development Data" shall mean preclinical and clinical data possessed as of the Effective Date and generated after the Effective Date by or on behalf of either Party, its Affiliates or sublicensees in the Development of Products.
- 1.11 "Development Plan" shall mean [XXX] the Development of Products as approved by the JSC.
- 1.12 "Effective Date" shall mean the date first written above.
- 1.13 "Existing Royalty Obligations" shall mean the royalty obligations set forth in Section 5.3 and more detailed in Exhibit C. Existing Royalty Patent Rights shall mean the Patent Rights for which the Existing Royalty Obligations are paid.
- 1.14 "FDA" shall mean the Federal Food and Drug Administration of the United States Department of Health and Human Services, and successor agencies.



- 1.15 "Field of Use" shall mean with respect to a pharmaceutical product, all human therapeutic and prophylactic uses of that product. [XXX]
- 1.16 "Five Year Plan" shall mean the five-year plan and budget adopted by the Parties for the Development of Products in Asia, Europe and the United States as set forth on Exhibit E.
- 1.17 "Force Majeure" shall mean any occurrence beyond the reasonable control of a Party that prevents or substantially interferes with the performance by the Party of any of its obligations hereunder, if such occurs by reason of any act of God, flood, fire, explosion, breakdown of plant, earthquake, strike, lockout, labor dispute, casualty or accident, or war, revolution, civil commotion, acts of public enemies, blockage or embargo, or any injunction, law order, proclamation, regulation, ordinance, demand or requirement of any government or of any subdivision, authority or representative of any such government, inability to procure or use materials, labor, equipment, transportation, or energy sufficient to meet manufacturing needs without the necessity of allocation, or any other cause whatsoever, whether similar or dissimilar to those above enumerated, beyond the reasonable control of such Party, if and only if the Party affected shall have used reasonable efforts to avoid such occurrence and to remedy it promptly if it shall have occurred.
- 1.18 "Governmental Approvals" shall mean any approvals, licenses, registrations, authorizations, or equivalents, of any foreign or United States federal, state or local regulatory agency, department, bureau or other government entity, including the FDA, necessary for the manufacture, use, storage, transport, export, import, clinical testing and/or sale of a Product in a country.
- 1.19 "Governmental Authorities" shall mean all governmental entities, agencies and bureaus, including the FDA and comparable foreign governmental and/or regulatory agencies which control the manufacture, use, storage, transport, export, import, clinical testing and/or sale of pharmaceutical products.
- 1.20 "JSC" shall mean the Joint Steering Committee established with the authorities set forth in Article 4.
- 1.21 "Licensed Patent Rights" shall mean the patents and patent applications listed on Exhibit B and any Patent Rights based thereon.
- 1.22 "Licensed Technology" shall mean any technology, trade secrets, know-how and other intellectual property (other than Trademarks) directed to products, processes, formulations and/or methods and any biological materials owned or Controlled on the Effective Date or to be owned or Controlled thereafter by Neurocrine or its Affiliates which are necessary to research, develop, formulate, make, use or sell NBI-6024 and shall include the Licensed Patent Rights, Neurocrine Data and Manufacturing Technology.
- 1.23 "Licensed Territory" shall mean Asian and European countries listed on Exhibit D.
- 1.24 "Manufacturing Technology" shall mean technology and know-how owned or Controlled by Neurocrine or its Affiliates which relate to the manufacture of NBI-6024 as set forth in the CTX and any other technology, know-how or standard operating procedures implemented by Neurocrine or its Affiliates which are actually being used by Neurocrine or its Affiliates to manufacture Products during the term of this Agreement.
- 1.25 "Milestone Payments" shall mean the payments to be made by Taisho to Neurocrine upon occurrence of certain events as set forth in Section 5.1.
- 1.26 "NBI-6024" shall mean altered peptide ligand [XXX].
- 1.27 "Net Price Per Unit" shall mean the price per unit of Products or, in the case of multi active components Products, NBI-6024 contributed portion thereof (as determined by a method approved by both Parties), for the sale of Products by Taisho or Affiliates or sublicensees of Taisho to a Third Party other than Affiliates or sublicensees of Taisho, less the amount expected to be incurred per unit such as returns and allowances (including, but not limited to, prompt payment and volume discounts, chargebacks from wholesalers and other allowances granted to customers or wholesalers of Products, whether in cash or trade), freight, shipping, packing, insurance, rebates, and sales and other taxes based on sales price when included in gross

sales, but not including taxes when assessed on income derived from such sales.

- 1.28 "Neurocrine Data" shall mean the pre-clinical and clinical data collected by Neurocrine or its Affiliates in support of the CTX.
- 1.29 "Neurocrine Territory" shall mean worldwide excluding the Licensed Territory.
- 1.30 "Party" shall mean Neurocrine or Taisho, as the case may be, and "Parties" shall mean Neurocrine and Taisho.
- 1.31 "Patent Right" shall mean patent applications, patents issuing thereon and any extensions or restorations by existing or future extension or restoration mechanisms including Supplementary Protection Certificates or the equivalent thereof, renewals, continuations, continuations-in-part, divisions, patents-of-addition, and/or reissues of any patent, which have not lapsed, been canceled or become abandoned and have not been declared invalid or unenforceable by an unreversed and unappealable decision or judgement of a court or other appropriate body of competent jurisdiction.
- 1.32 "Person" shall mean an individual, a partnership, a joint venture, a corporation, a trust, an estate, an unincorporated organization, or any other entity, or a government or any department or agency thereof.
- 1.33 "Pediatric Phase II" shall mean a Phase II clinical trial in patients [XXX].
- 1.34 "Phase II" shall mean a clinical trial designed to provide preliminary indications of safety and efficacy of a Product in the intended patient population.
- 1.35 "Phase III" shall mean a clinical trial, which if the pre-defined end-points are met, is intended to be submitted in an application for marketing approval as statistically significant data in support of a Product's safety and efficacy for the intended indication.
- 1.36 "Product(s)" shall mean pharmaceutical products [XXX] as an active component.
- 1.37 "Regulatory Filings" shall mean, collectively, Investigational New Drug Applications, Biologics License Applications, Drug Master Files, New Drug Approvals and/or any other comparable filings as may be required by Governmental Authorities to obtain Governmental Approvals.
- 1.38 "Taisho Technology" shall mean any technology, trade secrets, know-how and other intellectual property (other than Trademarks) directed to products, processes, formulations and/or methods and any biological materials owned or Controlled on the Effective Date or to be owned or Controlled thereafter by Taisho or its Affiliates which are necessary to research, develop, formulate, make, use [XXX].
- 1.39 "Third Party (ies)" shall mean any Person other than Taisho and/or Neurocrine.
- 1.40 "Trademark" shall mean any trade name, logo or trademark (whether or not registered) together with all goodwill associated therewith.

## ARTICLE 2

### REPRESENTATIONS, WARRANTIES AND COVENANTS

#### 2.1 Representations and Warranties of Taisho.

(a) Corporate Power. Taisho is duly organized and validly existing under the laws of Japan and has full corporate power and authority to enter into this Agreement and to carry out the provisions hereof.

(b) Due Authorization. Taisho is duly authorized to execute and deliver this Agreement and to perform its obligations hereunder. The Person executing this Agreement on Taisho's behalf has been duly authorized to do so by all requisite corporate action.

(c) Binding Agreement. This Agreement is a legal and valid obligation binding upon Taisho and enforceable in accordance with its terms. The execution, delivery and performance of this Agreement by Taisho does

not conflict with any agreement, instrument or understanding, oral or written, to which it is a party or by which it may be bound, nor violate any material law or regulation of any court, governmental body or administrative or other agency having jurisdiction over it.

(d) Validity. Taisho is aware of no action, suit or inquiry or investigation instituted by any federal, state or country governmental agency which questions or threatens the validity of this Agreement.

## 2.2 Representations and Warranties of Neurocrine.

(a) Corporate Power. Neurocrine is duly organized and validly existing under the laws of Delaware and has full corporate power and authority to enter into this Agreement and carry out the provisions hereof.

(b) Due Authorization. Neurocrine is duly authorized to execute and deliver this Agreement and to perform its obligations hereunder. The Person executing this Agreement on Neurocrine's behalf has been duly authorized to do so by all requisite corporate action. (c) Binding Agreement. This Agreement is a legal and valid obligation binding upon Neurocrine, and enforceable in accordance with its terms. The execution, delivery and performance of this Agreement by Neurocrine does not conflict with any agreement, instrument or understanding, oral or written, to which it is a party or by which it may be bound, nor violate any material law or regulation of any court, governmental body or administrative or other agency having jurisdiction over it.

(d) Validity. Neurocrine is aware of no action, suit or inquiry or investigation instituted by any federal, state or country governmental agency which questions or threatens the validity of this Agreement.

## 2.3 Covenants of Taisho.

(a) Development and Commercialization. Taisho covenants to use Commercially Reasonable Efforts to Develop and Commercialize Products in the Licensed Territory.

(b) Indications. Taisho will use Commercially Reasonable Efforts to obtain Governmental Approvals to Develop and Commercialize NBI-6024 in the Licensed Territory for all indications for which Neurocrine shall have obtained Governmental Approvals to Commercialize NBI-6024 in the Neurocrine Territory to the extent regulatively and practically appropriate taking into consideration the circumstances of markets in the Licensed Territory.

(c) Compliance by Taisho. Taisho covenants to comply with all applicable statutes, regulations and guidance of any Governmental Authorities relating to the Development and/or Commercialization of Products in the Licensed Territory.

## 2.4 Covenants of Neurocrine.

(a) Development and Commercialization. Neurocrine covenants to use Commercially Reasonable Efforts to Develop and Commercialize Products in the United States.

(b) Indications. Neurocrine will use Commercially Reasonable Efforts to obtain Governmental Approvals to Develop and Commercialize NBI-6024 in the United States for all indications outlined in the Five-Year Plan.

(c) Compliance by Neurocrine. Neurocrine covenants to comply with all applicable statutes, regulations and guidance of any Governmental Authorities relating to the Development and/or Commercialization of Products in the Neurocrine Territory.

## ARTICLE 3

### LICENSE GRANT; TECHNOLOGY TRANSFER

3.1 Technology Ownership. Neurocrine shall retain sole right and title, subject only to the licenses and any other rights granted to Taisho hereunder, with respect to the Licensed Technology.

## 3.2 License Grants.

(a) Neurocrine hereby grants to Taisho an exclusive license with

sublicensing rights under Licensed Technology, to research, develop, formulate, make, have made, use, sell, offer for sale, import and export Products in the Field of Use in the Licensed Territory.

(b) Taisho hereby grants to Neurocrine an exclusive license with sublicensing rights under Taisho Technology, to research, develop, formulate, make, have made, use, sell, offer for sale, import and export Products in the Field of Use in the Neurocrine Territory

3.3 Sublicenses. Taisho and Neurocrine shall each have the right to grant sublicenses to Licensed Technology and Taisho Technology, respectively, to Third Parties in their respective territories, provided, however, that the sublicensing Party shall remain responsible for the full and complete performance of all of obligations hereunder. Each Party shall provide the other with copies of all agreements sublicensing the Licensed Technology in the case of Taisho or Taisho Technology, in the case of Neurocrine, which copies may be redacted but in any event will contain such information as shall be required to calculate payments and any other information reasonably necessary to the other Party to meet reporting or corporate obligations.

3.4 Transfer of Licensed Technology. Neurocrine agrees to use reasonable efforts to assist Taisho in the transfer of the Licensed Technology by instructing and/or assisting Taisho's supervisory employees in the use of such technology at Taisho's facilities or some other location mutually agreed between the Parties. Taisho will pay to Neurocrine per diem fees based upon [XXX] per Neurocrine person-year plus travel and related expenses devoted to the transfer of the Licensed Technology for any assistance given to Taisho by Neurocrine at Taisho's request.

3.5 Option. Following the execution of this Agreement, the Parties will discuss the terms under which Neurocrine [XXX]. In no event will Neurocrine be obligated to grant the Option to Taisho if the Parties are unable to agree on mutually acceptable terms, or if Neurocrine determines it is not in Neurocrine's business interests to grant such an Option.

#### ARTICLE 4

##### DEVELOPMENT AND COMMERCIALIZATION

4.1 Joint Steering Committee. The Parties shall form a joint steering committee (the "JSC") consisting of at least three (3) members from each of Neurocrine and Taisho (with Neurocrine and Taisho having equal representation). The JSC shall have the following responsibilities: (i) to establish policies for the Development and Commercialization of Products, (ii) to establish policies for and co-ordinate the formulation activities for Products, (iii) to review and approve and monitor annual Development Plans for each of the Parties, (iv) to co-ordinate data exchange and preparation of Regulatory Filings, (v) to monitor the Commercialization of Products in Asia, Europe and the United States and (vi) such other activities as the Parties shall agree are appropriately decided by the JSC.

4.2 Meetings and Decision of the Joint Steering Committee. The chairperson of the JSC will be designated annually by Taisho and Neurocrine on an alternating basis starting with Neurocrine. A secretary will be appointed for each meeting and shall be responsible for the minutes of the meeting. The JSC shall meet no less frequently than twice per year. Decisions of the JSC shall be made by unanimous vote. In the event the JSC is unable to reach agreement on any issue, the issue shall be referred to the Senior Vice President, Development of Neurocrine and Head of Development of Taisho for resolution. All decisions of the JSC shall be consistent with the Five Year Plan and will be reached in good faith.

4.3 Development Plan. Prior to the Effective Date the Parties worked together to coordinate the each Party's development plan for its territory to develop a global five year plan (the "Five Year Plan" as set forth on Exhibit E). The goal of the FiveYear Plan is to minimize duplicate efforts and maximize Product potential through coordinated, efficient and cost effective Development and Commercialization. The FiveYear Plan includes outline timelines for pre-clinical and clinical studies and Regulatory Filings. The Five Year Plan will be updated on an annual basis and, when necessary in consideration of the progress of the Development, from time to time additionally by mutual agreement of the Parties. On or before September 15 of each

year each Party will submit to the JSC a plan for the Development of Products for the Party's territory in the next following year (the "Development Plans"). The Development Plans will be consistent with the then valid Five Year Plan.

- 4.4 Data. On each meeting of the JSC, and upon written request at any other time, the Parties will exchange written summaries of all Development Data obtained to the date. Upon request, each Party will provide the other Party with access to Development Data in such detail as shall be reasonably necessary to allow the other Party to use the Development Data in support of its Development and Commercialization of Products in its territory. In case the cost of such a requested portion of Development Data other than Neurocrine Data has been borne by only one Party according to Section 4.8 below and requesting Party uses it as the basis for Regulatory Filing (i.e. relies upon it to demonstrate safety and/or efficacy) of New Drug Approval in its territory, requesting Party shall give written notice of such use in advance [XXX]. All Development Data shall be considered Confidential Information of the disclosing Party. The Parties shall maintain all Development Data, related records, documents and raw data in sufficient detail and in good scientific manner as will properly reflect all works done and results achieved in the performance of the Development.
- 4.5 Territories. Taisho will conduct Development of Products in the Licensed Territory and Neurocrine will conduct Development of Products in the Neurocrine Territory. In their Development of Products, each Party may collaborate or consult with researchers and investigators and contract for pre-clinical studies without regard to territory restrictions but in no event will Neurocrine or Taisho conduct clinical trials outside of the Neurocrine Territory or Licensed Territory, respectively, without the prior written approval of the other Party. Notwithstanding the foregoing, Neurocrine will have the right to complete any clinical trials in progress on the Effective Date regardless of where the clinical trials are being conducted.
- 4.6 Development Assistance. Taisho may request that Neurocrine conduct on Taisho's behalf certain research and/or pre-clinical studies on Products set forth in Taisho's Development Plan. In the event Neurocrine has adequate personnel available, Neurocrine will undertake to conduct such research and/or pre-clinical studies on Taisho's behalf. Taisho will compensate Neurocrine for per diem fees which will be calculated on the basis of the amount of [XXX] per Neurocrine personnel full time equivalent devoted to such research and/or pre-clinical studies.
- 4.7 Taisho Research and Development. If Taisho desires, Taisho may send at its expense and Neurocrine agrees to accept Taisho's employees to Neurocrine at Neurocrine's San Diego facilities for Development of Products. Neurocrine and Taisho shall discuss how best to accomplish such arrangement.
- 4.8 Development Cost. Each Party shall [XXX] be responsible for conducting any pre-clinical and/or clinical studies and any other activities required only for the Development, Regulatory Filing of New Drug Approval and/or Commercialization of Product in its territory ("Independent Studies"). The outside costs of all studies and activities and in-house study costs approved by the JSC based upon the Five Year Plan and the Development Plan other than Independent Studies [XXX] in accordance with the cost sharing methods to be agreed by the Parties. Additionally, Taisho shall reimburse Neurocrine [XXX] of all development expenses for the Licensed Territory that occurred [XXX]. Such reimbursement will be due within thirty (30) days of the execution of this Agreement.
- 4.9 Commercialization. The JSC shall monitor the Commercialization of Products in Asia, Europe and the United States. All matters relating solely to local issues of promotion, advertising, reimbursement or other issues relating solely to Commercialization of Products in the Licensed Territory shall be decided by Taisho in Taisho's sole business judgment. All matters relating solely to local issues of promotion, selling, advertising, reimbursement or other issues relating solely to Commercialization of Products in the Neurocrine Territory shall be decided by Neurocrine in Neurocrine's sole business judgment.
- 4.10 Reporting. Neurocrine and Taisho shall each promptly notify the other of any events that occurred in their respective territories which shall be reported to any Governmental Authorities in respective Parties' territories under any laws and regulations including 21 CFR

314.80, 600.12, 600.14 and 600.80 of the United States (as such requirements may be amended from time to time) and any similar or equivalent reporting requirements to other Governmental Authorities. As for the events that occur in the context of clinical trials, both Parties shall comply with provisions of Exhibit F.

## ARTICLE 5

### LICENSE FEES AND MILESTONE PAYMENTS

5.1 Data Purchase. On execution of this Agreement, Taisho shall purchase from Neurocrine rights to the Neurocrine CTX filing for NBI-6024 and all supporting data and information for use in exploitation of the Asian rights granted hereunder for a one-time payment of [XXX] and rights to the Neurocrine CTX filing for NBI-6024 and all supporting data and information for use in exploitation of the European rights granted hereunder for a one-time payment of [XXX]. The above payments shall be made within thirty (30) days of execution of this Agreement.

5.2 Milestone Payments. At the first occurrence of the events as to the Product first applicable to the events set forth below, within thirty (30) days after Taisho becomes aware of it, Taisho shall pay the corresponding amounts as the Milestone Payments for all the rights to Products granted to it as long as this Agreement is in force and effect, provided, however, as to the events which occurred before the execution of this Agreement, Taisho shall pay the corresponding amount within thirty (30) days of the execution of this Agreement:

a) for the rights in Japan/Asia total [XXX]

- o [XXX] Phase II [XXX] [XXX]
- o [XXX] Pediatric Phase II [XXX] [XXX]
- o [XXX] Phase III [XXX] [XXX]
- o Regulatory Filings of New Drug Approval or any other comparable filing [XXX] [XXX]
- o Governmental Approval for [XXX] [XXX]

b) for the rights in Europe total [XXX]

- o [XXX] Phase II [XXX] [XXX]
- o [XXX] Pediatric Phase II [XXX] [XXX]
- o [XXX] Phase III [XXX] [XXX]
- o Regulatory Filings of New Drug Approval or any other comparable filing [XXX] [XXX]
- o Governmental Approval for Commercialization [XXX] [XXX]

Each Milestone Payment shall be made only once [XXX] upon Regulatory Filing of New Drug Approval or any other comparable filing [XXX].

5.3 Third Party Royalties. [XXX] shall bear any payments (license fees, milestone payments and royalties and so on) owed or to be owed to the Third Parties with respect to Existing Royalty Obligations in the Licensed Territory and Neurocrine Territory. [XXX] any other payments (license fees, milestone payments and royalties and so on) owed or to be owed to Third Parties other than their Affiliates with respect to patents or patent applications in the Licensed Territory, that are owned or controlled by such Third Parties and that would prohibit Taisho, and/or its sublicensees from Commercializing Products on the basis of claims directed to a composition comprising NBI-6024 and/or use, making and/or sale thereof in the Licensed Territory. [XXX] bear any payments (license fees, milestone payments and royalties and so on) owed or to be owed to Third Parties other than Neurocrine's Affiliates with respect to such Third Parties' patents or patent applications in the Licensed Territory other than those described in above two cases.

5.4 Sublicense Fee. Within thirty (30) days of the date upon which [XXX] or its Affiliate shall grant a [XXX] to the [XXX] to any Third Party other than [XXX] Affiliates, [XXX] shall pay to [XXX] per each of such Third Parties as executing parties of sublicense agreement with [XXX]. In the event a sublicensee of [XXX] (other than an Affiliate of [XXX]) shall further sublicense the Licensed Technology, no additional sublicense fee will be payable for such further sublicense unless under the circumstances, it was a sublicense that would more appropriately been granted by [XXX].

## MANUFACTURING

- 6.1 Pre-clinical and Early Clinical Supply. [XXX] shall supply NBI-6024 for the pre-clinical, Phase I and Phase II clinical studies other than Independent Studies set forth in the Five-Year Plan (i.e. for both of Licensed Territory and Neurocrine Territory) in the vial sizes and quantities set forth in the Five-Year Plan. [XXX] may elect to contract with [XXX] for such manufacture and supply. [XXX] shall use reasonable best efforts to manufacture and supply reasonable quantities of NBI-6024 for any Independent Studies upon [XXX] request.
- 6.2 Phase III Clinical Supply and Commercial Supply. [XXX] shall manufacture and supply NBI-6024 for Phase III clinical studies and Commercialization unless
- (a) the Parties agree otherwise,
  - (b) [XXX] is unable to manufacture and supply NBI-6024 or
  - (c) [XXX] requests that [XXX] manufacture and supply NBI-6024, in whole or in part, for Phase III clinical studies and/or Commercialization.
- 6.3 Costs Prior to Commercialization. All costs incurred in providing supply of NBI-6024 for pre-clinical and clinical studies, other than Independent Studies, set forth in the Five-Year Plan will be [XXX] by the Parties as set forth in Section 4.8. All costs incurred in providing supply of NBI-6024 for pre-clinical and clinical studies that are Independent Studies will be costs paid by the Party conducting the Independent Study as set forth in Section 4.8.
- 6.4 Supply. Taisho and Neurocrine will agree on a mechanism whereby Taisho will submit to Neurocrine rolling forecasts of its requirements for NBI-6024 followed by firm orders at such times and frequencies as shall be reasonably necessary to enable [XXX] to plan its manufacturing activities in order to maximize efficiency and reduce costs. In the event [XXX] supplies NBI-6024 for Commercialization by [XXX] under Section 6.2 above, the price for supply shall [XXX] of the Net Price Per Unit until
- (a) for all Asian countries in the Licensed Territory, the expiration of Patent Right last to expire of the Licensed Patent Rights in Japan, and
  - (b) for all European countries in the Licensed Territory, the expiration of Patent Right last to expire of the Licensed Patent Rights in Great Britain, Germany, France or Italy.
- Net Price Per Unit for the calculation of the supply price shall be decided as follows: i) As to the supply price for Taisho's firm orders made by the end of [XXX] calendar quarters commencing with the one during which Product is launched for the first time in the Licensed Territory, Net Price Per Unit shall be [XXX]. ii) As to the supply price for Taisho's firm orders made after the period set forth in Section 6.4 i) above, Net Price Per Unit shall be [XXX].
- 6.5 Intermediary. In the event both Taisho and Neurocrine shall manufacture NBI-6024, Neurocrine and Taisho will each act at purchase of materials of NBI-6024 as intermediaries for one another to achieve quantity discounts and the lowest price on manufacturing and supplies.
- 6.6 Payments.
- (a) Payments. Taisho shall pay all payments for supply of NBI-6024 by Neurocrine to Taisho in each case within sixty (60) days from receipt of NBI-6024 and invoice.
  - (b) Currency. If Net Price Per Unit is in a currency other than United States Dollars, the Net Price Per Unit for the purpose of calculating payments hereunder shall be determined in the applicable foreign currency and then converted into its equivalent in United States Dollars at the average rate of exchange for medium of buying funds and selling funds and as published by the Wall Street Journal for the calendar quarter.
  - (c) Legal Restrictions. If at any time legal restrictions prevent the prompt remittance by Taisho of all or any part of payments for supply

of NBI-6024 in any country in the Licensed Territory, Taisho shall have the right and option to make such payment by depositing the amount thereof in local currency to an interest bearing account in the name of Neurocrine in a bank or other depository in such country. Taisho will consult with Neurocrine and promptly advise Neurocrine of any such arrangements.

6.7 Manufacturing by Taisho. To the extent of not conflicting with Sections 6.1 and 6.2 above or after the expiration of Patent Right last to expire of Licensed Patent Rights in the Licensed Territory, Taisho shall have the right to manufacture NBI-6024 for the Licensed Territory and/or have NBI-6024 manufactured on its behalf, which shall be subject to the terms and conditions [XXX]. In such cases, Taisho shall pay in consideration of the license of Manufacturing Technology

(a) the royalty not less than [XXX] of Net Sales in all Asian countries in the Licensed Territory until the time set forth in Section 6.4 (a) and

(b) the royalty not less than [XXX] of Net Sales in all European countries in the Licensed Territory until the time set forth in Section 6.4 (b), provided however that if a situation occurs in which the terms and conditions are [XXX]. In case the manufacturing cost incurred by Taisho or its subcontractor is too high to meet the above requirements, both Parties shall seek for any appropriate arrangements including a joint manufacturing agreement with one or more Third Parties.

6.8 Statements. Taisho shall deliver to Neurocrine within sixty (60) days after the end of each calendar quarter, a statement certified by Taisho as accurate to the best of its ability, setting forth the Net Sales of all Products and the number of units of such Products in each country in the Licensed Territory during the previous quarter.

#### ARTICLE 7

##### RECORDS; AUDIT

7.1 Record Retention. Each Party shall keep complete and accurate records in sufficient detail to permit the other Party to confirm the accuracy of calculations of all payments and all costs and expenses hereunder. Such records shall be retained for no less than a four-(4) year period following the year in which any such payments were made hereunder.

7.2 Audit. Once per calendar year, each Party shall have the option to engage at its own expense, an independent certified public accountant reasonably acceptable to the other Party, to examine, in confidence, the records of the other Party as may be necessary to determine, with respect to any calendar year, the correctness of any budget, calculation or payment hereunder. The report of such accountant shall be limited to a certificate verifying any report made or payment submitted by the audited Party during such period but may include, in the event the accountant shall be unable to verify the correctness of any such payment, information relating to why such payment is unverifiable. All information contained in any such certificate shall be deemed to be Confidential Information hereunder. If any audit performed under this Section 7.2 shall indicate that any payment or reported expense hereunder was in error by more than ten percent (10%), the audited Party shall pay the cost of the audit.

7.3 Survival. This Article 7 shall survive any termination of this Agreement for a period of four (4) years.

#### ARTICLE 8

##### INTELLECTUAL PROPERTY

8.1 Trademarks. Each Party will market Products under its own Trademarks.

8.2 Patent Prosecution of the Licensed Patent Rights.

(a) Direction. During the term of this Agreement, Neurocrine shall direct outside counsel reasonably acceptable to Taisho to prosecute and maintain worldwide all patents and/or patent applications included within the Licensed Patent Rights. Neurocrine will regularly



consult with Taisho and will keep Taisho and/or its designated patent officers and counsel advised of the status of patent matters in the Licensed Territory. Taisho shall have the right to comment upon all patent filings relating to the Licensed Patent Rights. Neurocrine shall furnish copies of relevant patent-related documents for the Licensed Territory to Taisho in a timely fashion to enable Taisho to review and comment.

(b) Expenses. All expenses in connection with prosecution and maintenance of the Licensed Patent Rights will be borne by Neurocrine, provided, however, Taisho shall bear all expenses incurred after the execution of this Agreement in connection with prosecution and maintenance of the Licensed Patent Rights in the Licensed Territory to the extent this Agreement is in force and effect.

8.3 Patent Enforcement of the Licensed Patent Rights. Neurocrine may, but shall not be obligated to, elect to enforce the Licensed Patent Rights against Third Parties and to defend the Licensed Patent Rights against any challenges worldwide. In the event Neurocrine shall so elect, Neurocrine shall determine the worldwide strategy and Taisho shall assist and co-operate with Neurocrine in any such enforcement or defense. Neurocrine shall bear all associated costs and expenses (including attorneys' fees) and retain any damages or recoveries with respect to the Neurocrine Territory. Taisho shall reimburse Neurocrine for all costs and expenses (including attorneys' fees) incurred by Neurocrine after the execution of this Agreement in the enforcement and/or defense of such action with respect to the Licensed Territory, and shall retain any damages or recoveries with respect to the Licensed Territory subject to the payment to Neurocrine of [XXX] of any such damages or recoveries after deduction of the amount equal to the above reimbursement. In the event Neurocrine shall not elect to undertake such enforcement and/or defense in the Licensed Territory, Taisho may, but shall not be obligated to, do so at its own expense. In such event, Taisho shall retain any damages or recoveries obtained from such action.

8.4 Third Party Actions.

(a) Neurocrine as Named Party. Neurocrine shall defend any action naming Neurocrine or Neurocrine and Taisho and claiming the infringement of any Third Party Patent Right through the making, having made, using, selling or having sold NBI-6024. The Parties shall confer with each other and cooperate during the defense of any action in which both Neurocrine and Taisho are named parties. Taisho shall assist and co-operate with Neurocrine in the defense of any such action and if Neurocrine finds it necessary or desirable to have Taisho join as a party, Taisho shall execute all papers or perform such other acts as may reasonably be required by Neurocrine. Taisho shall, at its own expense, be entitled to participate in and have counsel selected by it participate in any action in which Taisho is a named party. Neurocrine shall bear all associated costs and expenses (including attorneys' fees) and pay all damages and settlement amounts with respect to the making, having made, using, selling or having sold NBI-6024 in the Neurocrine Territory. Taisho shall bear all associated costs and expenses (including attorneys' fees) incurred after the execution of this Agreement and pay all damages and settlement amounts with respect to the making, having made, using, selling or having sold NBI-6024 in the Licensed Territory other than those with respect to Existing Royalty Obligation Patent Rights by the holders of those rights, which shall be borne by Neurocrine.

(b) Taisho as Named Party. Taisho shall defend any action which names Taisho but does not name Neurocrine and which claims the infringement of any Third Party Patent Right through the making, having made, using, selling or having sold NBI-6024 in the Licensed Territory. If necessary and at Taisho's expense, Neurocrine will assist and co-operate with Taisho in any such defense. Taisho shall bear all costs and expenses (including attorneys' fees) and all damages and settlement amounts arising out of or in connection with any such action other than those arising out of or in connection with any action with respect to Existing Royalty Obligation Patent Rights by the holders of those rights, which shall be borne by Neurocrine.

8.5 New Inventions.

(a) Intellectual property rights regarding any invention made by either Party during the term of this Agreement shall be solely owned by such Party, and the other Party shall have no rights in or to such

invention other than those rights specifically granted to such other Party hereunder. The Party who made the invention shall have the right to prosecute and maintain, in its sole discretion and at its own expenses, all patent application or patent regarding such invention in any country in the world. The other Party, its Affiliates and its sublicensees shall have a non-exclusive right to exercise such invention free of charge only for the purpose of Development and Commercialization of Products in its territory.

(b) Intellectual property rights regarding any invention made jointly by the Parties in the course of Development shall be jointly owned by the Parties. The Parties shall cooperate with the prosecution and the maintenance of patent application and patent regarding such invention and the expenses therefor shall be equally borne by the Parties. Each Party shall be free to exercise or license to Third Parties its interest of such rights for any purpose not conflicting with this Agreement in the world.

(c) Each Party may at its discretion determine not to maintain its intellectual property rights set forth in this Section 8.5, and in such case shall notify the other Party in writing of its determination not to maintain and enable the other Party to maintain such rights in the other Party's name without any consideration to discontinuing Party and at the other Party's expenses, and after such notice shall be exempted from obligations to bear any and all expenses regarding such rights. In such event and if the other Party maintains such intellectual property rights, the Party who determines not to maintain shall have no right to such intellectual property rights.

8.6 Notice. Each Party will promptly notify the other upon becoming aware of (i) any Third Party claim or action against Taisho and/or Neurocrine for infringement of Third Party Patent Rights through the making, having made, using, selling or having sold NBI-6024 or (ii) any Third Party infringement of the Licensed Patent Rights.

## ARTICLE 9

### TAXES

All figures of any payment under this Agreement, including Data Purchase Fee, Milestone Payments and payment for supplying of NBI-6024, are net of any taxes and duties, except withholding tax if levied in Japan on any of the payment. Any withholding taxes levied shall be borne by Neurocrine and deducted by Taisho from the payment for tax payment to appropriate tax authorities and Taisho shall obtain and deliver to Neurocrine the original copies of all official receipts for such withholding tax payment.

## ARTICLE 10

### CONFIDENTIALITY

10.1 Confidentiality. Except to the extent expressly authorized by this Agreement or otherwise agreed in writing by the Parties, 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 to any Third Parties other than its employees, directors, sublicensees or Affiliates who are under the confidentiality obligation equivalent to that of the receiving Party and shall not use for any purpose other than as provided for in this Agreement any Confidential Information furnished to it by the other Party pursuant to this Agreement, except to the extent that it can be established by the receiving Party by competent proof that such Confidential Information:

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

(d) was disclosed to the receiving Party, other than under an obligation of confidentiality to a Third Party, by a Third Party who had no obligation to the disclosing Party not to disclose such information to others; or

(e) was independently discovered or developed by the receiving Party without the reference to Confidential Information belonging to the disclosing Party.

10.2 This Agreement.

(a) Material Terms. The Parties agree that the material terms of this Agreement shall be considered Confidential Information of both Parties. Each Party shall have the right to disclose in confidence the material terms of this Agreement to parties retained by such Party to perform legal, accounting or similar services and who have a need to know such terms in order to provide such services.

(b) Filings. The Parties will consult with one another and agree on the provisions of this Agreement to be redacted in any filings made by either Party with the United States Securities and Exchange Commission or as otherwise required by law or regulation. Notwithstanding the foregoing, each Party may disclose the terms of this Agreement to the extent necessary to comply with the United States Securities and Exchange Commission requirements or those required by applicable laws or regulations.

10.3 Authorized Disclosure. Each Party may disclose Confidential Information belonging to the other Party to the extent such disclosure is reasonably necessary in the following:

(a) filing, prosecuting or maintaining Patent Rights included in the Licensed Patent Rights or other Patent Rights to be acquired hereunder;

(b) Regulatory Filings;

(c) prosecuting or defending litigation set forth in Article 8;

(d) complying with applicable regulations of Governmental Authorities;

(e) Product Development; and

(f) Product Commercialization.

Notwithstanding the foregoing, in the event a Party intends or is required to make a disclosure of the other Party's Confidential Information pursuant to this Section 10.3, it will, except where impracticable, give reasonable advance notice to the other Party of such disclosure and use best efforts to secure confidential treatment of such information.

10.4 Publications. Prior to oral or written presentation or submission for publication of any data or information arising out of a Party's Development of Products, each Party will provide a copy of the proposed presentation or publication to the other Party for review. The reviewing Party will have a minimum of thirty (30) days to review any proposed presentation or publication for its Confidential Information. Upon request, the presenting or publishing Party will remove any Confidential Information belonging to the other Party from any presentation or publication.

## ARTICLE 11

### INSURANCE; INDEMNIFICATION

11.1 Indemnification.

(a) Non-Patent. Each Party shall indemnify and hold the other Party harmless from and against any and all liability, damage, loss, cost (including reasonable attorneys' fees) and expense arising out of the Development and/or Commercialization of Products by the Party, its Affiliates and/or its sublicensees other than those arising out of the infringement of a Patent Right of a Third Party through the making, using or selling of Products by the Party, its Affiliates and/or its sublicensees, provided, however, in case the indemnified Party receives notice of a claim for which indemnification may be sought, the indemnified Party shall promptly inform the indemnifying Party of such notice. Notwithstanding the foregoing, the other Party shall not be entitled to indemnification under this subsection (a), against any claim of personal injury or property damage to the extent resulting from such other Party's negligence or misconduct.

(b) Patent. Subject to Section 5.3 and Article 8, each Party will indemnify the other Party and hold the other Party harmless from and against any and all liability, damage, loss, cost (including reasonable attorneys' fees) and expense arising out of any claim of infringement of a Patent Right of a Third Party through the making, having made, using, selling or having sold Products by or on behalf of the Party which is brought by a Third Party, provided, however, in case the indemnified Party receives notice of a claim for which indemnification may be sought, the indemnified Party shall promptly inform the indemnifying Party of such notice.

11.2 Indemnification Procedure. In the event the indemnified Party shall inform the indemnifying Party of the notice set forth in Section 11.1 above, the Parties shall, subject to the provisions of Article 8 with respect to patent related claims, decide how to respond to the claim and how to handle the claim in an efficient manner.

## ARTICLE 12

### TERM AND TERMINATION

12.1 Term of this Agreement. This Agreement shall become effective as of the Effective Date and, unless earlier terminated pursuant to other provisions of this Article 12, shall continue in full force and effect until the expiration date of Patent Right last to expire of Licensed Patent Rights in the Licensed Territory. After expiration of this Agreement, each Party may continue to exercise rights vested hereunder regarding Products without further payment to the other Party.

12.2 Termination of Product Development. Should Taisho completely abandon all efforts towards its Development for a period of more than [XXX] for any reason other than Force Majeure according to the reasonable judgement by the Parties or should Taisho terminate at its discretion Development of Products in the Licensed Territory by giving Neurocrine [XXX] prior written notice, rights of Taisho to Products (including all data, information, physical manifestations and Regulatory Filings) in the Licensed Territory shall revert and be delivered to Neurocrine, and Taisho shall be free from any and all monetary or developmental obligations thereafter. In addition, Neurocrine shall be granted a royalty-free worldwide non-exclusive license with sublicensing rights under the Taisho Technology to make, have made, use and sell Products.

12.3 Default by Taisho. Upon the Default by Taisho under this Agreement, Neurocrine shall notify Taisho of such Default and, in the event such Default shall be a payment Default, require that Taisho cure such Default [XXX] or in the event such Default shall be a Default other than a payment Default, require that Taisho cure such Default within [XXX]. In the event Taisho shall not have cured the Default at the end of the applicable grace period, Neurocrine may terminate this Agreement and all licenses to the Licensed Technology will revert to Neurocrine. Upon termination of this Agreement pursuant to this Section 12.3, rights of Taisho to Products (including all data, information, physical manifestations and Regulatory Filings) in the Licensed Territory shall revert and Taisho will return to Neurocrine all physical manifestations of the Licensed Technology. In addition, Neurocrine shall be granted a royalty-free worldwide non-exclusive license with sublicensing rights under the Taisho Technology to make, have made, use and sell Products.

12.4 Default by Neurocrine. Upon the Default by Neurocrine under this Agreement, Taisho shall notify Neurocrine of such Default and require that Neurocrine cure such Default within [XXX]. In the event Neurocrine shall not have cured the Default at the end of the [XXX] grace period, Taisho shall be relieved, without losing the license or any other right granted to Taisho under or pursuant to this Agreement, of any and all payment obligations other than those for supply of NBI-6024 by Neurocrine to Taisho hereunder until such time as Neurocrine shall cure such Default.

12.5 Insolvency or Bankruptcy.

(a) Insolvent Party. Either Party may, in addition to any other remedies available to it by law or in equity, terminate this Agreement, in whole or in part, by written notice to the other Party

in the event the other Party shall have become insolvent or bankrupt, or shall have made an assignment for the benefit of its creditors, or there shall have been appointed a trustee or receiver of the other Party or for all or a substantial part of its property, or any case or proceeding shall have been commenced or other action taken by or against the other Party in bankruptcy or seeking reorganization, liquidation, dissolution, winding-up arrangement, composition or readjustment of its debts or any other relief under any bankruptcy, insolvency, reorganization or other similar act or law of any jurisdiction now or hereafter in effect, or there shall have been issued a warrant of attachment, execution, distraint or similar process against any substantial part of the property of the other Party, and any such event shall have continued for [XXX] undismissed, unbonded and undischarged.

(b) Rights in Bankruptcy. All rights and licenses granted under or pursuant to this Agreement, are, and shall otherwise be deemed to be, for purposes of Section 365 (n) of the U.S. Bankruptcy Code, licenses of rights to "intellectual property" as defined under Section 101 of the U.S. Bankruptcy Code. The Parties agree that the Parties as licensees of such rights under this Agreement, shall retain and may fully exercise all of their rights and elections under the U.S. Bankruptcy Code or other applicable laws. The Parties further agree that, in the event of the commencement of a bankruptcy proceeding by or against Taisho under the U.S. Bankruptcy Code or other applicable laws, Neurocrine shall to the extent legally possible be entitled to a complete duplicate of (or complete access to, as appropriate) any such intellectual property and all embodiments of such intellectual property, and same, if not already in its possession, shall be promptly delivered to it (i) upon any such commencement of a bankruptcy proceeding upon its written request therefor, unless Taisho elects to continue to perform all of its obligations under this Agreement or (ii) if not delivered under (i) above, upon the rejection of this Agreement by or on behalf of Taisho upon written request therefor by Neurocrine.

(c) Licenses Upon Bankruptcy. Upon the termination of this Agreement by Neurocrine pursuant to this Section 12.5, all licenses to the Licensed Technology will revert to Neurocrine.

(d) In case of a commencement of bankruptcy proceeding by or against Neurocrine, Taisho shall be entitled to the rights permitted by applicable laws.

12.6 Accrued Rights, Surviving Obligations. With the exception explicitly provided otherwise herein, termination, relinquishment or expiration of this Agreement for any reason shall be without prejudice to any rights, which shall have accrued to the benefit of either Party prior to such termination, relinquishment or expiration.

12.7 Damages. In no event shall either Party be responsible for any consequential damages incurred by the other Party in connection with this Agreement, including, without limitation, lost profits or opportunities or injury to Person or property resulting from the termination of this Agreement.

## ARTICLE 13

### MISCELLANEOUS PROVISIONS

13.1 Assignment. Neither this Agreement nor any interest hereunder shall be assignable by either Party without the prior written consent of the other Party unless such assignment is accompanied by the sale of essentially all of the assigning company's assets. This Agreement shall be binding upon the successors and permitted assigns of the Parties and the name of a Party appearing herein shall be deemed to include the names of such Party's successors and permitted assigns to the extent necessary to carry out the intent of this Agreement. Any assignment not in accordance with this Section shall be void.

13.2 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.

13.3 Force Majeure. Neither Party shall be liable to the other for loss or damages or shall have any right to terminate this Agreement for any default or delay attributable to any Force Majeure, if the Party affected shall give prompt notice of any such cause to the other

Party. The Party giving such notice shall thereupon be excused from such of its obligations hereunder as it is thereby disabled from performing for so long as it is so disabled, provided, however, that such affected Party commences and continues to take reasonable and diligent actions to cure such cause.

13.4 No Trademark Rights. Except as otherwise provided herein, no right, express or implied, is granted by this Agreement to use in any manner the name "Neurocrine" or "Taisho" or any other Trademark, service mark or trade name of the other Party in connection with the performance or termination of this Agreement.

13.5 Notices. All notices and other communications hereunder shall be in writing and shall be deemed given if delivered personally or by facsimile transmission (receipt verified), telexed, mailed by registered or certified air 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, however, that notices of a change of address shall be effective only upon receipt thereof):

If to Neurocrine, addressed to:

Neurocrine Biosciences, Inc.  
10555 Science Center Drive  
San Diego, California 92121  
Attention: Chief Executive Officer  
Facsimile: 858-658-7605

With a copy to: Secretary  
Facsimile: 858-658-7605

If to Taisho, addressed to:

Taisho Pharmaceutical Co., Ltd.  
24-1, Takata 3-chome, Toshimaku,  
Tokyo 170-8633, Japan  
Attention: Group Manager, Business Development Group,  
Ethical Business Strategy Division  
Facsimile: 3-3985-0716

13.6 Amendment. No amendment, modification or supplement of any provision of this Agreement shall be valid or effective unless made in writing and signed by a duly authorized officer of each Party.

13.7 Waiver. No provision of this Agreement shall be waived by any act, omission or knowledge of any Party or its agents or employees except by an instrument in writing expressly waiving such provision and signed by a duly authorized officer of the waiving Party.

13.8 Counterparts. This Agreement shall be executed in two counterparts, each of which shall contain the signature of the Parties and all such counterparts shall constitute one and the same agreement.

13.9 Descriptive Headings. The descriptive headings of this Agreement are for convenience only, and shall be of no force or effect in construing or interpreting any of the provisions of this Agreement.

13.10 Governing Law. This Agreement shall be governed by and interpreted in accordance with the substantive laws of the State of California.

13.11 Severability. Whenever possible, each provision of this Agreement will be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement is held to be prohibited by or invalid under applicable law, such provision will be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of this Agreement.

13.12 Entire Agreement of the Parties. This Agreement will constitute and contain the complete, final and exclusive understanding and agreement of the Parties and cancels and supersedes any and all prior negotiations, correspondence, understandings and agreements, whether oral or written, between the Parties respecting the subject matter hereof.

13.13 Dispute Resolution. The Parties agree that in the event of a dispute between them arising from, concerning or in any way relating to this Agreement, the Parties shall undertake good faith efforts to resolve any such dispute in good faith. In the event the Parties shall be

unable to resolve any such dispute, the matter shall be referred to the Chief Executive Officer of Neurocrine and the President of Taisho for further review and resolution. In the event that they shall be unable to resolve the dispute, then the dispute shall be finally settled by arbitration, in San Francisco, California, under the Rules of Conciliation and Arbitration of the International Chamber of Commerce. The award of arbitration shall be final and binding upon both Parties.

13.14 Independent Contractors. The relationship between Neurocrine and Taisho created by this Agreement is one of independent contractors and neither Party shall have the power or authority to bind or obligate the other except as expressly set forth in this Agreement.

IN WITNESS WHEREOF, the Parties hereto have executed this Agreement as of the date first above written.

NEUROCRINE BIOSCIENCES, INC.

/s/Gary A. Lyons

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By: Gary Lyons

Title: Chief Executive Officer

TAISHO PHARMACEUTICAL CO., LTD.

/s/Akira Uehara

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By: Akira Uehara

Title: President



EXHIBIT A

NBI-6024

[XXX]

EXHIBIT B  
LICENSED PATENT RIGHTS

[XXX]

EXHIBIT C  
EXISTING ROYALTY OBLIGATIONS

[XXX]

EXHIBIT D

Asian countries

[XXX]

European countries

[XXX]

EXHIBIT E  
FIVE YEAR PLAN  
(see attached)

EXHIBIT F

Neurocrine and Taisho will exchange the information described in this Exhibit F in English, in the time frames specified below, for NBI-6024.

[XXX]

## EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT, dated as of May 24, 2000, supercedes the Employment Agreement dated March 1, 1997 by and between NEUROCRINE BIOSCIENCES, INC., 10555 Science Center Drive, San Diego, California 92121 (hereinafter the "Company"), and GARY A. LYONS (hereinafter "Executive").

### R E C I T A L S

WHEREAS, the Company and Executive wish to set forth in this Agreement the terms and conditions under which Executive is to be employed by the Company on and after the date hereof; and

NOW, THEREFORE, the Company and Executive, in consideration of the mutual promises set forth herein, agree as follows:

### ARTICLE 1

#### TERM OF AGREEMENT

1.1 Commencement Date. Executive's fulltime employment with the Company under this Agreement shall commence as of May 24, 2000 ("Commencement Date") and this Agreement shall expire after a period of three (3) years from the Commencement Date, unless renewed in accordance with paragraph 1.2 or terminated pursuant to Article 6.

1.2 Renewal. The term of this Agreement shall be automatically renewed for successive, additional three (3) year terms unless either party delivers written notice to the other at least ninety (90) days prior to the end of any term of an intention to terminate this Agreement or to renew it for a term of less than three (3) years but not less than (1) year. If the term of this Agreement is renewed for a term of less than three (3) years, then thereafter the term of this Agreement shall be automatically renewed for successive, additional identical terms unless either party delivers a written notice to the other of an intention to terminate this Agreement or to renew it for a different term of not less than one (1) year, such notice to be delivered at least ninety (90) days prior to the end of any term. The Company's failure to renew this Agreement at the end of any term shall be considered a termination without Cause as set forth in Section 6.4 below.

### ARTICLE 2

#### EMPLOYMENT DUTIES

2.1 Title/Responsibilities. Executive hereby accepts employment with the Company pursuant to the terms and conditions hereof. Executive agrees to serve the Company in the position of President and Chief Executive Officer reporting to the Board of Directors. Executive shall have the powers and duties commensurate with such position, including but not limited to hiring personnel necessary to carry out the responsibilities for such position as set forth in the annual business plan approved by the Board of Directors.

2.2 Full Time Attention. Executive shall devote his best efforts and his full business time and attention to the performance of the services customarily incident to such office and to such other services as the Company's Board of Directors may reasonably request, provided Executive may also serve on the Boards of Directors of one or more other companies.

2.3 Other Activities. Except upon the prior written consent of the Board of Directors, Executive shall not during the period of employment engage, directly or indirectly, in any other business activity (whether or not pursued for pecuniary advantage) that is or may be competitive with, or that might place him in a competing position to that of the Company or any other corporation or entity that directly or indirectly controls, is controlled by, or is under common control with the Company (an "Affiliated Company"), provided that Executive may own less than two percent (2%) of the outstanding securities of any such publicly traded competing corporation.

2.4 Directorship. Executive will be nominated for re-election to the Company's Board of Directors through the term of this Agreement in accordance with the applicable provisions of the Company's certificate of incorporation and By-laws. Executive agrees to serve as a Director of the Company at no additional compensation.

### ARTICLE 3

#### COMPENSATION

3.1 Base Salary. Executive shall receive a Base Salary at an annual rate of three hundred eighty-five thousand dollars (\$385,000), payable semi-monthly in equal installments in accordance with the Company's normal payroll practices. The Board of Directors shall provide Executive with annual performance reviews, and, thereafter, Executive shall be entitled to such increase in Base Salary as the Board of Directors may from time to time establish in their sole discretion.

3.2 Incentive Bonus. In addition to any other bonus Executive shall be awarded by the Company's Board of Directors, the Company shall pay Executive an annual bonus as determined by the Company's Board of Directors based upon achievement of Executive in meeting personal goals approved by the Board of Directors and achievement by the Company of corporate goals approved by the Board of Directors annually. Executive's personal goals and the Company's corporate goals will be set forth in writing by Board of Directors within ninety (90) days after the start of the Company's fiscal year. The Board of Directors shall, in their sole discretion, determine whether Executive's personal goals have been obtained. The Board of Directors shall, in its sole discretion, determine whether the corporate goals have been obtained.

3.3 Equity. Each year starting in 2000 and continuing for the term of this Agreement, the Executive will be eligible for an Incentive Stock Option award under the 1992 Stock Incentive Stock Option Plan with the number of shares and exercise price as shall be determined by the Board of Directors.

3.4 Withholdings. All compensation and benefits payable to Executive hereunder and the Agreement shall be subject to all federal, state, local and other withholdings and similar taxes and payments required by applicable law.

#### ARTICLE 4

##### EXPENSE ALLOWANCES AND FRINGE BENEFITS

4.1 Vacation. Executive shall be entitled to the greater of three (3) weeks of annual paid vacation or the amount of annual paid vacation to which Executive may become entitled under the terms of Company's vacation policy for employees during the term of this Agreement.

4.2 Benefits. During the term of this Agreement, the Company shall also provide Executive with the usual health insurance benefits it generally provides to its other senior management employees. As Executive becomes eligible in accordance with criteria to be adopted by the Company, the Company shall provide Executive with the right to participate in and to receive benefit from life, accident, disability, medical, pension, bonus, stock, profit-sharing and savings plans and similar benefits made available generally to executives of the Company as such plans and benefits may be adopted by the Company. The amount and extent of benefits to which Executive is entitled shall be governed by the specific benefit plan as it may be amended from time to time.

4.3 Stock Loans. Certain indebtedness in the aggregate amount of eighty-five thousand five hundred dollars (\$85,500), incurred by Executive in connection with the purchase of securities from the Company shall be repaid in accordance with the terms and conditions of the Promissory Note dated March 14, 1997, as amended, between Executive and the Company.

4.4 Business Expense Reimbursement. During the term of this Agreement, Executive shall be entitled to receive proper reimbursement for all reasonable out-of-pocket expenses incurred by him (in accordance with the policies and procedures established by the Company for its senior executive officers) in performing services hereunder. Executive agrees to furnish to the Company adequate records and other documentary evidence of such expense for which Executive seeks reimbursement. Such expenses shall be reimbursed and accounted for under the policies and procedure established by the Company.

#### ARTICLE 5

##### CONFIDENTIALITY

5.1 Proprietary Information. Executive represents and warrants that he has previously executed and delivered to the Company the Company's standard Proprietary Information and Inventions Agreement in form acceptable to the Company's counsel.

5.2 Return of Property. All documents, records, apparatus, equipment and other physical property which is furnished to or obtained by Executive in the course of his employment with the Company shall be and remain the sole property of the Company. Executive agrees that, upon the termination of his employment, he shall return all such property (whether or not it pertains to



Proprietary Information as defined in the Proprietary Information and Inventions Agreement), and agrees not to make or retain copies, reproductions or summaries of any such property.

5.3 No use of Prior Confidential Information. Executive will not intentionally disclose to the Company or use on its behalf any confidential information belonging to any of his former employers or any other third party.

## ARTICLE 6

### TERMINATION

6.1 By Death. The period of employment shall terminate automatically upon the death of Executive. In such event, stock options held by Executive will continue to vest for a period of six (6) months following termination. All stock options held by Executive which are vested at the time of termination or within six (6) months thereafter will be exercisable in accordance with their terms for a period of one year following termination. The Company shall pay to Executive's beneficiaries or his estate, as the case may be, any accrued Base Salary, any bonus compensation to the extent earned, any vested deferred compensation (other than pension plan or profit-sharing plan benefits which will be paid in accordance with the applicable plan), any benefits under any plans of the Company in which Executive is a participant to the full extent of Executive's rights under such plans, any accrued vacation pay and any appropriate business expenses incurred by Executive in connection with his duties hereunder, all to the date of termination (collectively Accrued Compensation), but no other compensation or reimbursement of any kind, including, without limitation, severance compensation, and thereafter, the Company's obligations hereunder shall terminate.

6.2 By Disability. If Executive is prevented from properly performing his duties hereunder by reason of any physical or mental incapacity for a period of one hundred twenty (120) consecutive days, or for one hundred eighty (180) days in the aggregate in any three hundred sixty-five (365) day period, then, to the extent permitted by law, the Company may terminate the employment of Executive at such time. In such event, all stock options held by Executive will continue to vest for a period of six (6) months following termination. All vested stock options held by Executive at the time of termination or within six (6) months thereafter will be exercisable in accordance with their terms for a period of one year following termination. In addition, the Company shall pay to Executive all Accrued Compensation, and shall continue to pay to Executive the Base Salary until such time as Executive shall become entitled to receive disability insurance payments under the disability insurance policy maintained by the Company, but no other compensation or reimbursement of any kind, including without limitation, severance compensation, and thereafter the Company's obligations hereunder shall terminate. Nothing in this Section shall affect Executive's rights under any disability plan in which he is a participant.

6.3 By Company for Cause. The Company may terminate the Executive's employment for Cause (as defined below) without liability at any time with or without advance notice to Executive. The Company shall pay Executive all Accrued Compensation, but no other compensation or reimbursement of any kind, including without limitation, severance compensation, and thereafter the Company's obligations hereunder shall terminate. Termination shall be for "Cause" in the event of the occurrence of any of the following: (a) any intentional action or intentional failure to act by Executive which was performed in bad faith and to the material detriment of the Company; (b) Executive intentionally refuses or intentionally fails to act in accordance with any lawful and proper direction or order of the Board of Directors; (c) Executive willfully and habitually neglects the duties of employment; or (d) Executive is convicted of a felony crime involving moral turpitude, provided that in the event that any of the foregoing events is capable of being cured, the Board of Directors shall provide written notice to Executive describing the nature of such event and Executive shall thereafter have ten (10) business days to cure such event.

6.4 Termination Without Cause. At any time, the Company may terminate the employment of Executive without liability other than as set forth below, for any reason not specified in Section 6.3 above, by giving thirty (30) days advance written notice to Executive. If the Company elects to terminate Executive pursuant to this Section 6.4,

- (a) the Company shall pay to Executive all Accrued Compensation,
- (b) the Company shall continue to pay to Executive as provided herein Executive's Base Salary over the period equal to twelve (12) months from the date of such termination as severance compensation,
- (c) the Company shall make a lump sum payment to Executive in an amount equal to a pro rata portion of the Executive's annual actual cash incentive bonus for Company's fiscal year preceding

- the year of termination based on the number of completed months of Executive's employment in the fiscal year plus twelve (12),
- (d) the vesting of all outstanding stock options held by Executive shall be accelerated so that the amount of shares vested under such option shall equal that number of shares which would have been vested if the Executive had continued to render services to the Company for twelve (12) continuous months after the date of his termination of employment, and
- (e) the Company shall pay all costs which the Company would otherwise have incurred to maintain all of Executive's health and welfare, and retirement benefits (either on the same or substantially equivalent terms and conditions) if the Executive had continued to render services to the Company for twelve (12) continuous months after the date of his termination of employment.

The Company shall have no further obligations to Executive other than those set forth in the preceding sentence. During the period when such severance compensation is being paid to Executive, Executive shall not (i) engage, directly or indirectly, in providing services to any other business program or project that is competitive to a program or project being conducted by the Company or any Affiliated Company at the time of such employment termination (provided that Executive may own less than two percent (2%) of the outstanding securities of any publicly traded corporation), or (ii) hire, solicit, or attempt to solicit on behalf of himself or any other party or any employee or exclusive consultant of the Company. If the Company terminates this Agreement or the employment of Executive with the Company other than pursuant to Section 6.1, 6.2 or 6.3, then this section 6.4 shall apply.

6.5 Constructive Termination A Constructive Termination shall be deemed to be a termination of employment of Executive without cause pursuant to Section 6.4. . For Purposes of this Agreement, a "Constructive Termination" means that the Executive voluntarily terminates his employment except in connection with the termination of his employment for death, disability, retirement, fraud, misappropriation, embezzlement (or any other occurrence which constitutes "Cause" under section 6.3) or any other voluntary termination of employment by Executive other than a Constructive Termination after any of the following are undertaken without Executive's express written consent:

(a) the assignment to Executive of any duties or responsibilities which result in any diminution of position as judged against the duties and responsibilities assigned to executives with Executive's position in the Company's peer group of companies and shall not include (i) duties and responsibilities assigned to Executive with the understanding that as the Company grows and management staff increases in number, such duties and responsibilities will eventually be reassigned in a manner consistent with the Company's peer group of companies, (ii) change in reporting relationship that does not change in any material way the Executive's duties and responsibilities or (iii) any change in duties or responsibilities or reporting relationships that Executive does not identify as Constructive Termination to the Chief Executive Officer in writing within 15 days following the Chief Executive Officer's proposal of such change to Executive;

(b) a reduction by the Company in Executive's annual Base Salary by greater than five percent (5%);

(c) a relocation of Executive or the Company's principal executive offices if Executive's principal office is at such offices, to a location more than forty (40) miles from the location at which Executive is then performing his duties, except for an opportunity to relocate which is accepted by Executive in writing;

(d) any material breach by the Company of any provision of this Agreement; or

(e) any failure by the Company to obtain the assumption of this Agreement by any successor or assign of the Company.

6.6 Termination Following Change in Control. In the event of a termination Without Cause or Constructive Termination within six (6) months after a Change in Control (as defined below) or Executive's voluntary termination within thirty (30) days following the six (6) month anniversary of a Change in Control, the Company shall pay to Executive a lump sum severance payment in an amount equal to one and one-half (1.5) times (Executive's then Base Salary plus annual actual cash incentive bonus for Company's fiscal year preceding the year of termination). In addition, the Executive will receive at Executive's option (i) accelerated vesting of all stock options held by Executive by reason of the assumption or substitution of successor corporation stock options for the Executive's unvested Company stock options at the time of

the Change in Control pursuant to the terms of the Company's 1992 Stock Incentive Plan, as amended, or (ii) a cash payment equal to the cash value of all unvested Company stock options held by Executive at the time of the Change in Control. In addition, the Executive will be reimbursed for the increase in federal and state income taxes payable by Executive by reason of the benefits provided under this Section 6.6.

6.7 Change in Control. For purposes of this Agreement, a "Change in Control" shall have occurred if at any time during the term of Executive's employment hereunder, any of the following events shall occur:

(a) The Company is merged, or consolidated, or reorganized into or with another corporation or other legal person, and as a result of such merger, consolidation or reorganization less than fifty percent (50%) of the combined voting power of the then-outstanding securities of such corporation or person immediately after such transaction are held in the aggregate by the holders of voting securities of the Company immediately prior to such transaction;

(b) The Company sells all or substantially all of its assets or any other corporation or other legal person and thereafter, less than fifty percent (50%) of the combined voting power of the then-outstanding voting securities of the acquiring or consolidated entity are held in the aggregate by the holders of voting securities of the Company immediately prior to such sale;

(c) There is a report filed after the date of this Agreement on Schedule 13 D or schedule 14 D-1 (or any successor schedule, form or report), each as promulgated pursuant to the Securities Exchange Act of 1934 (the "Exchange Act") disclosing that any person (as the term "person" is used in Section 13(d)(3) or Section 14(d)(2) of the exchange Act) has become the beneficial owner (as the term beneficial owner is defined under Rule 13d-3 or any successor rule or regulation promulgated under the Exchange Act) representing fifty percent (50%) or more of the combined voting power of the then-outstanding voting securities of the Company;

(d) The Company shall file a report or proxy statement with the Securities and Exchange Commission pursuant to the Exchange Act disclosing in response to item 1 of Form 8-X thereunder or Item 5(f) of Schedule 14 A thereunder (or any successor schedule, form or report or item therein) that the change in control of the Company has or may have occurred or will or may occur in the future pursuant to any then-existing contract or transaction; or

(e) During any period of two (2) consecutive years, individuals who at the beginning of any such period constitute the directors of the Company cease for any reason to constitute at least a majority thereof unless the election to the nomination for election by the Company's shareholders of each director of the Company first elected during such period was approved by a vote of at least two-thirds of the directors of the Company then still in office who were directors of the Company at the beginning of such period.

6.8 Termination by Executive. At any time, Executive may terminate his employment by giving thirty (30) days advance written notice to the Company. The Company shall pay Executive all Accrued Compensation, but no other compensation or reimbursement of any kind, including without limitation, severance compensation, and thereafter the Company's obligations hereunder shall terminate.

6.9 Mitigation. Except as otherwise specifically provided herein, Executive shall not be required to mitigate the amount of any payment provided under this Agreement by seeking other employment or self-employment, nor shall the amount of any payment provided for under this Agreement be reduced by any compensation earned by Executive as a result of employment by another employer or through self-employment or by retirement benefits after the date of Executive's termination of employment from the Company.

6.10 Coordination. If upon termination of employment, Executive becomes entitled to rights under other plans, contracts or arrangements entered into by the Company, this Agreement shall be coordinated with such other arrangements so that Executive's rights under this Agreement are not reduced, and that any payments under this Agreement offset the same types of payments otherwise provided under such other arrangements, but do not otherwise reduce any payments or benefits under such other arrangements to which Executive becomes entitled.

7.1 Governing Law. The validity, interpretation, construction and performance of this Agreement and the rights of the parties thereunder shall be interpreted and enforced under California law without reference to principles of conflicts of laws. The parties expressly agree that inasmuch as the Company's headquarters and principal place of business are located in California, it is appropriate that California law govern this Agreement.

7.2 Assignment; Successors Binding Agreement.

(a) Executive may not assign, pledge or encumber his interest in this Agreement or any part thereof.

(b) The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company, by operation of law or by agreement in form and substance reasonably satisfactory to Executive, to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place.

(c) This Agreement shall inure to the benefit of and be enforceable by Executive's personal or legal representatives, executors, administrators, successors, heirs, distributee, devisees and legatees. If Executive should die while any amount is at such time payable to his hereunder, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to Executive's devisee, legatee or other designee or, if there be no such designee, to his estate.

7.3 Certain Reduction of Payments. In the event that any payment or benefit received or to be received by Executive under this Agreement would result in all or a portion of such payment to be subject to the excise tax on "golden parachute payments" under Section 4999 of the Internal Revenue Code of 1986, as amended (the "Code"), then Executive's payment shall be either (a) the full payment or (b) such lesser amount which would result in no portion of the payment being subject to excise tax under Section 4999 of the Code, whichever of the foregoing amounts, taking into account the applicable Federal, state and local employment taxes, income taxes, and the excise tax imposed by Section 4999 of the Code, results in the receipt by Executive on an after-tax basis, of the greatest amount of the payment notwithstanding that all or some portion of the payment may be taxable under Section 4999 of the Code.

7.4 Notice. For the purposes of this Agreement, notices and all other communications provided for in this Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by certified or registered mail, return receipt requested, postage prepaid, addressed to the respective addresses set forth below or to such other address as either party may have furnished to the other in writing in accordance herewith, except that notice of change of address shall be effective only upon receipt.

To the Company:

Neurocrine Biosciences, Inc.  
10555 Science Center Drive  
San Diego, CA 92121  
Attn.: President & Chief Executive Officer

To Executive:

Gary A. Lyons

7.5 Modification; Waiver; Entire Agreement. No provisions of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing signed by Executive and such officer as may be specifically designated by the Board of the Company. No waiver by either party hereto at any time of any breach by the other party of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or any prior or subsequent time. No agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not expressly set forth in this Agreement.

7.6 Validity. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

7.7 Controlling Document. Except to the extent described in Section 6.10, in case of conflict between any of the terms and condition of this Agreement and the document herein referred to, the terms and conditions of this Agreement shall control.

7.8 Executive Acknowledgment. Executive acknowledges (a) that he has consulted with or has had the opportunity to consult with independent counsel of his own choice concerning this Agreement, and has been advised to do so by the Company, and (b) that he has read and understands the Agreement, is fully aware of its legal effect, and has entered into it freely based on his own judgment.

7.9 Remedies.

(a) Injunctive Relief. The parties agree that the services to be rendered by Executive hereunder are of a unique nature and that in the event of any breach or threatened breach of any of the covenants contained herein, the damage or imminent damage to the value and the goodwill of the Company's business will be irreparable and extremely difficult to estimate, making any remedy at law or in damages inadequate. Accordingly, the parties agree that the Company shall be entitled to injunctive relief against Executive in the event of any breach or threatened breach of any such provisions by Executive, in addition to any other relief (including damage) available to the Company under this Agreement or under law.

(b) Exclusive. Both parties agree that the remedy specified in Section 7.9(a) above is not exclusive of any other remedy for the breach by Executive of the terms hereof.

7.10 Counterparts. This Agreement may be executed in one or more counterparts, all of which taken together shall constitute one and the same Agreement.

7.11 Prevailing Party Expenses. In the event that any action or proceeding is commenced to enforce the provisions of the Agreement, the court adjudicating such action or proceeding shall award to the prevailing party all costs and expenses thereof, including, but not limited to, all reasonable attorneys' fees, court costs, and all other related expenses.

Executed by the parties as of the day and year first above written.

GARY A. LYONS

NEUROCRINE BIOSCIENCES, INC

/s/Gary A. Lyons

/s/Joseph A. Mollica

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Joseph A. Mollica, Ph.D.  
Chairman of the Board

AMENDED AND RESTATED  
EMPLOYMENT AGREEMENT

THIS AMENDED AND RESTATED EMPLOYMENT AGREEMENT, dated as of May 24, 2000, supercedes the Employment Agreement dated March 1, 1997 by and between NEUROCRINE BIOSCIENCES, INC., 10555 Science Center Drive, San Diego, California 92121 (hereinafter the "Company"), and PAUL W. HAWRAN (hereinafter "Executive").

R E C I T A L S

WHEREAS, the Company and Executive wish to set forth in this Agreement the terms and conditions under which Executive is to be employed by the Company on and after the date hereof; and

NOW, THEREFORE, the Company and Executive, in consideration of the mutual promises set forth herein, agree as follows:

ARTICLE 1

TERM OF AGREEMENT

1.1 Commencement Date. Executive's fulltime employment with the Company under this Agreement shall commence as of May 24, 2000 ("Commencement Date") and this Agreement shall expire after a period of three (3) years from the Commencement Date, unless renewed in accordance with paragraph 1.2 or terminated pursuant to Article 6.

1.2 Renewal. The term of this Agreement shall be automatically renewed for successive, additional three (3) year terms unless either party delivers written notice to the other at least ninety (90) days prior to the end of any term of an intention to terminate this Agreement or to renew it for a term of less than three (3) years but not less than (1) year. If the term of this Agreement is renewed for a term of less than three (3) years, then thereafter the term of this Agreement shall be automatically renewed for successive, additional identical terms unless either party delivers a written notice to the other of an intention to terminate this Agreement or to renew it for a different term of not less than one (1) year, such notice to be delivered at least ninety (90) days prior to the end of any term. The Company's failure to renew this Agreement at the end of any term shall be considered a termination without Cause as set forth in Section 6.4 below.

ARTICLE 2

EMPLOYMENT DUTIES

2.1 Title/Responsibilities. Executive hereby accepts employment with the Company pursuant to the terms and conditions hereof. Executive agrees to serve the Company as an Executive Officer in the position Executive Vice President reporting to the Chief Executive Officer. Executive shall have the powers and duties commensurate with such position, including but not limited to hiring personnel necessary to carry out the responsibilities for such position as set forth in the annual business plan approved by the Board of Directors.

2.2 Full Time Attention. Executive shall devote his best efforts and his full business time and attention to the performance of the services customarily incident to such office and to such other services as the President or Board may reasonably request, provided Executive may also serve on the Boards of Directors of one or more other companies with prior written consent of the Chief Executive Officer.

2.3 Other Activities. Except upon the prior written consent of the President & Chief Executive Officer, Executive shall not during the period of employment engage, directly or indirectly, in any other business activity (whether or not pursued for pecuniary advantage) that is or may be competitive with, or that might place him in a competing position to that of the Company or any other corporation or entity that directly or indirectly controls, is controlled by, or is under common control with the Company (an "Affiliated Company"), provided that Executive may own less than two percent (2%) of the outstanding securities of any such publicly traded competing corporation.

ARTICLE 3

COMPENSATION

3.1 Base Salary. Executive shall receive a Base Salary at an annual rate of two hundred sixty thousand dollars (\$260,000), payable semi-monthly in equal installments in accordance with the Company's normal payroll practices.

The Chief Executive Officer shall provide Executive with annual performance reviews, and, thereafter, Executive shall be entitled to such increase in Base Salary as the Chief Executive Officer and Board of Directors may from time to time establish in their sole discretion.

3.2 Incentive Bonus. In addition to any other bonus Executive shall be awarded by the Company's Board of Directors, the Company shall pay Executive an annual bonus as determined by the Chief Executive Officer and Company's Board of Directors based upon achievement of Executive in meeting personal goals approved by the Chief Executive Officer and Board of Directors and achievement by the Company of corporate goals approved by the Board of Directors annually. Executive's personal goals and the Company's corporate goals will be set forth in writing by Board of Directors within ninety (90) days after the start of the Company's fiscal year. The Chief Executive Officer and Board of Directors shall, in their sole discretion, determine whether Executive's personal goals have been obtained. The Board of Directors shall, in its sole discretion, determine whether the corporate goals have been obtained.

3.3 Equity. Each year starting in 2000 and continuing for the term of this Agreement, the Executive will be eligible to receive a Stock Option award under the Company's 1992 Incentive Stock Option Plan, as amended, with the number of shares and exercise price as shall be determined by the Board of Directors.

3.4 Withholdings. All compensation and benefits payable to Executive hereunder and the Agreement shall be subject to all federal, state, local and other withholdings and similar taxes and payments required by applicable law.

#### ARTICLE 4

##### EXPENSE ALLOWANCES AND FRINGE BENEFITS

4.1 Vacation. Executive shall be entitled to the greater of three (3) weeks of annual paid vacation or the amount of annual paid vacation to which Executive may become entitled under the terms of Company's vacation policy for employees during the term of this Agreement.

4.2 Benefits. During the term of this Agreement, the Company shall also provide Executive with the usual health insurance benefits it generally provides to its other senior management employees. As Executive becomes eligible in accordance with criteria to be adopted by the Company, the Company shall provide Executive with the right to participate in and to receive benefit from life, accident, disability, medical, pension, bonus, stock, profit-sharing and savings plans and similar benefits made available generally to executives of the Company as such plans and benefits may be adopted by the Company. The amount and extent of benefits to which Executive is entitled shall be governed by the specific benefit plan as it may be amended from time to time.

4.3 Stock Loans. Certain indebtedness in the aggregate amount of fifteen thousand dollars (\$15,000), incurred by Executive in connection with the purchase of securities from the Company shall be repaid in accordance with the terms and conditions of the Promissory Note dated June 2, 1994, as amended, between Executive and the Company.

4.4 Business Expense Reimbursement. During the term of this Agreement, Executive shall be entitled to receive proper reimbursement for all reasonable out-of-pocket expenses incurred by him (in accordance with the policies and procedures established by the Company for its senior executive officers) in performing services hereunder. Executive agrees to furnish to the Company adequate records and other documentary evidence of such expense for which Executive seeks reimbursement. Such expenses shall be reimbursed and accounted for under the policies and procedure established by the Company.

#### ARTICLE 5

##### CONFIDENTIALITY

5.1 Proprietary Information. Executive represents and warrants that he has previously executed and delivered to the Company the Company's standard Proprietary Information and Inventions Agreement in form acceptable to the Company's counsel.

5.2 Return of Property. All documents, records, apparatus, equipment and other physical property which is furnished to or obtained by Executive in the course of his employment with the Company shall be and remain the sole property of the Company. Executive agrees that, upon the termination of his employment, he shall return all such property (whether or not it pertains to Proprietary Information as defined in the Proprietary Information and Inventions

Agreement), and agrees not to make or retain copies, reproductions or summaries of any such property.

5.3 No use of Prior Confidential Information. Executive will not intentionally disclose to the Company or use on its behalf any confidential information belonging to any of his former employers or any other third party.

## ARTICLE 6

### TERMINATION

6.1 By Death. The period of employment shall terminate automatically upon the death of Executive. In such event, all stock options held by Executive at the time of termination will continue to vest for a period of six (6) months following termination. All stock options held by Executive that are vested at the time of termination or within six (6) months thereafter will be exercisable in accordance with their terms for a period of one year. In addition, the Company shall pay to Executive's beneficiaries or his estate, as the case may be, any accrued Base Salary, any bonus compensation to the extent earned, any vested deferred compensation (other than pension plan or profit-sharing plan benefits which will be paid in accordance with the applicable plan), any benefits under any plans of the Company in which Executive is a participant to the full extent of Executive's rights under such plans, any accrued vacation pay and any appropriate business expenses incurred by Executive in connection with his duties hereunder, all to the date of termination (collectively Accrued Compensation), but no other compensation or reimbursement of any kind, including, without limitation, severance compensation, and thereafter, the Company's obligations hereunder shall terminate.

6.2 By Disability. If Executive is prevented from properly performing his duties hereunder by reason of any physical or mental incapacity for a period of one hundred twenty (120) consecutive days, or for one hundred and eighty (180) days in the aggregate in any three hundred and sixty-five (365) day period, then, to the extent permitted by law, the Company may terminate the employment of Executive at such time. In such event, all stock options held by Executive at the time of termination will continue to vest for a period of six (6) months following termination. All stock options held by Executive that are vested at the time of termination or within six (6) months thereafter will be exercisable in accordance with their terms for a period of one year following termination. In addition, the Company shall pay to Executive all Accrued Compensation, and shall continue to pay to Executive the Base Salary until such time, as Executive shall become entitled to receive disability insurance payments under the disability insurance policy maintained by the Company, but no other compensation or reimbursement of any kind, including without limitation, severance compensation, and thereafter the Company's obligations hereunder shall terminate. Nothing in this Section shall affect Executive's rights under any disability plan in which he is a participant.

6.3 By Company for Cause. The Company may terminate the Executive's employment for Cause (as defined below) without liability at any time with or without advance notice to Executive. The Company shall pay Executive all Accrued Compensation, but no other compensation or reimbursement of any kind, including without limitation, severance compensation, and thereafter the Company's obligations hereunder shall terminate. Termination shall be for "Cause" in the event of the occurrence of any of the following: (a) any intentional action or intentional failure to act by Executive which was performed in bad faith and to the material detriment of the Company; (b) Executive intentionally refuses or intentionally fails to act in accordance with any lawful and proper direction or order of the Chief Executive Officer; (c) Executive willfully and habitually neglects the duties of employment; or (d) Executive is convicted of a felony crime involving moral turpitude, provided that in the event that any of the foregoing events is capable of being cured, the Board of Directors shall provide written notice to Executive describing the nature of such event and Executive shall thereafter have ten (10) business days to cure such event.

6.4 Termination Without Cause. At any time, the Company may terminate the employment of Executive without liability other than as set forth below, for any reason not specified in Section 6.3 above, by giving thirty (30) days advance written notice to Executive. If the Company elects to terminate Executive pursuant to this Section 6.4,

- (a) the Company shall pay to Executive all Accrued Compensation,
- (b) the Company shall continue to pay to Executive as provided herein Executive's Base Salary over the period equal to twelve (12) months from the date of such termination as severance compensation,
- (c) the Company shall make a lump sum payment to Executive in an amount equal to a pro rata portion of the Executive's annual actual cash incentive bonus for Company's fiscal year preceding



- (d) the year of termination based on the number of completed months of Executive's employment in the fiscal year plus twelve (12), the vesting of all outstanding stock options held by Executive shall be accelerated so that the amount of shares vested under such option shall equal that number of shares which would have been vested if the Executive had continued to render services to the Company for twelve (12) continuous months after the date of his termination of employment, and
- (e) the Company shall pay all costs which the Company would otherwise have incurred to maintain all of Executive's health and welfare, and retirement benefits (either on the same or substantially equivalent terms and conditions) if the Executive had continued to render services to the Company for twelve (12) continuous months after the date of his termination of employment.

The Company shall have no further obligations to Executive other than those set forth in the preceding sentence. During the period when such severance compensation is being paid to Executive, Executive shall not (i) engage, directly or indirectly, in providing services to any other business program or project that is competitive to a program or project being conducted by the Company or any Affiliated Company at the time of such employment termination (provided that Executive may own less than two percent (2%) of the outstanding securities of any publicly traded corporation), or (ii) hire, solicit, or attempt to solicit on behalf of himself or any other party or any employee or exclusive consultant of the Company. If the Company terminates this Agreement or the employment of Executive with the Company other than pursuant to Section 6.1, 6.2 or 6.3, then this section 6.4 shall apply.

6.5 Constructive Termination A Constructive Termination shall be deemed to be a termination of employment of Executive without cause pursuant to Section 6.4. For Purposes of this Agreement, a "Constructive Termination" means that the Executive voluntarily terminates his employment except in connection with the termination of his employment for death, disability, retirement, fraud, misappropriation, embezzlement (or any other occurrence which constitutes "Cause" under section 6.3) or any other voluntary termination of employment by Executive other than a Constructive Termination after any of the following are undertaken without Executive's express written consent:

(a) the assignment to Executive of any duties or responsibilities which result in any diminution of position as judged against the duties and responsibilities assigned to executives with Executive's position in the Company's peer group of companies and shall not include (i) duties and responsibilities assigned to Executive with the understanding that as the Company grows and management staff increases in number, such duties and responsibilities will eventually be reassigned in a manner consistent with the Company's peer group of companies, (ii) change in reporting relationship that does not change in any material way the Executive's duties and responsibilities or (iii) any change in duties or responsibilities or reporting relationships that Executive does not identify as Constructive Termination to the Chief Executive Officer in writing within 15 days following the Chief Executive Officer's proposal of such change to Executive;

(b) a reduction by the Company in Executive's annual Base Salary by greater than five percent (5%);

(c) a relocation of Executive or the Company's principal executive offices if Executive's principal office is at such offices, to a location more than forty (40) miles from the location at which Executive is then performing his duties, except for an opportunity to relocate which is accepted by Executive in writing;

(d) any material breach by the Company of any provision of this Agreement; or

(e) any failure by the Company to obtain the assumption of this Agreement by any successor or assign of the Company.

6.6 Termination Following Change in Control. In the event of a termination Without Cause or Constructive Termination within six (6) months after a Change in Control (as defined below) or Executive's voluntary termination within thirty (30) days following the six (6) month anniversary of a Change in Control, the Company shall pay to Executive a lump sum severance payment in an amount equal to one (1.0) times (Executive's then Base Salary plus annual actual cash incentive bonus for Company's fiscal year preceding the year of termination). In addition, the Executive will receive at Executive's option (i) accelerated vesting of all stock options held by Executive by reason of the assumption or substitution of successor corporation stock options for the Executive's unvested Company stock options at the time of the Change in Control

pursuant to the terms of the Company's 1992 Stock Incentive Plan, as amended, or (ii) a cash payment equal to the cash value of all unvested Company stock options held by Executive at the time of the Change in Control. In addition, the Executive will be reimbursed for the increase in federal and state income taxes payable by Executive by reason of the benefits provided under this Section 6.6.

6.7 Change in Control. For purposes of this Agreement, a "Change in Control" shall have occurred if at any time during the term of Executive's employment hereunder, any of the following events shall occur:

(a) The Company is merged, or consolidated, or reorganized into or with another corporation or other legal person, and as a result of such merger, consolidation or reorganization less than fifty percent (50%) of the combined voting power of the then-outstanding securities of such corporation or person immediately after such transaction are held in the aggregate by the holders of voting securities of the Company immediately prior to such transaction;

(b) The Company sells all or substantially all of its assets or any other corporation or other legal person and thereafter, less than fifty percent (50%) of the combined voting power of the then-outstanding voting securities of the acquiring or consolidated entity are held in the aggregate by the holders of voting securities of the Company immediately prior to such sale;

(c) There is a report filed after the date of this Agreement on Schedule 13 D or schedule 14 D-1 (or any successor schedule, form or report), each as promulgated pursuant to the Securities Exchange Act of 1934 (the "Exchange Act") disclosing that any person (as the term "person" is used in Section 13(d)(3) or Section 14(d)(2) of the exchange Act) has become the beneficial owner (as the term beneficial owner is defined under Rule 13d-3 or any successor rule or regulation promulgated under the Exchange Act) representing fifty percent (50%) or more of the combined voting power of the then-outstanding voting securities of the Company;

(d) The Company shall file a report or proxy statement with the Securities and Exchange Commission pursuant to the Exchange Act disclosing in response to item 1 of Form 8-X thereunder or Item 5(f) of Schedule 14 A thereunder (or any successor schedule, form or report or item therein) that the change in control of the Company has or may have occurred or will or may occur in the future pursuant to any then-existing contract or transaction; or

(e) During any period of two (2) consecutive years, individuals who at the beginning of any such period constitute the directors of the Company cease for any reason to constitute at least a majority thereof unless the election to the nomination for election by the Company's shareholders of each director of the Company first elected during such period was approved by a vote of at least two-thirds of the directors of the Company then still in office who were directors of the Company at the beginning of such period.

6.8 Termination by Executive. At any time, Executive may terminate his employment by giving thirty (30) days advance written notice to the Company. The Company shall pay Executive all Accrued Compensation, but no other compensation or reimbursement of any kind, including without limitation, severance compensation, and thereafter the Company's obligations hereunder shall terminate.

6.9 Mitigation. Except as otherwise specifically provided herein, Executive shall not be required to mitigate the amount of any payment provided under this Agreement by seeking other employment or self-employment, nor shall the amount of any payment provided for under this Agreement be reduced by any compensation earned by Executive as a result of employment by another employer or through self-employment or by retirement benefits after the date of Executive's termination of employment from the Company.

6.10 Coordination. If upon termination of employment, Executive becomes entitled to rights under other plans, contracts or arrangements entered into by the Company, this Agreement shall be coordinated with such other arrangements so that Executive's rights under this Agreement are not reduced, and that any payments under this Agreement offset the same types of payments otherwise provided under such other arrangements, but do not otherwise reduce any payments or benefits under such other arrangements to which Executive becomes entitled.

## ARTICLE 7

### GENERAL PROVISIONS

7.1 Governing Law. The validity, interpretation, construction and performance of this Agreement and the rights of the parties thereunder shall be interpreted and enforced under California law without reference to principles of conflicts of laws. The parties expressly agree that inasmuch as the Company's headquarters and principal place of business are located in California, it is appropriate that California law govern this Agreement.

7.2 Assignment; Successors Binding Agreement.

(a) Executive may not assign, pledge or encumber his interest in this Agreement or any part thereof.

(b) The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company, by operation of law or by agreement in form and substance reasonably satisfactory to Executive, to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place.

(c) This Agreement shall inure to the benefit of and be enforceable by Executive's personal or legal representatives, executors, administrators, successors, heirs, distributee, devisees and legatees. If Executive should die while any amount is at such time payable to his hereunder, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to Executive's devisee, legatee or other designee or, if there be no such designee, to his estate.

7.3 Certain Reduction of Payments. In the event that any payment or benefit received or to be received by Executive under this Agreement would result in all or a portion of such payment to be subject to the excise tax on "golden parachute payments" under Section 4999 of the Internal Revenue Code of 1986, as amended (the "Code"), then Executive's payment shall be either (a) the full payment or (b) such lesser amount which would result in no portion of the payment being subject to excise tax under Section 4999 of the Code, whichever of the foregoing amounts, taking into account the applicable Federal, state and local employment taxes, income taxes, and the excise tax imposed by Section 4999 of the Code, results in the receipt by Executive on an after-tax basis, of the greatest amount of the payment notwithstanding that all or some portion of the payment may be taxable under Section 4999 of the Code.

7.4 Notice. For the purposes of this Agreement, notices and all other communications provided for in this Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by certified or registered mail, return receipt requested, postage prepaid, addressed to the respective addresses set forth below or to such other address as either party may have furnished to the other in writing in accordance herewith, except that notice of change of address shall be effective only upon receipt.

To the Company:

Neurocrine Biosciences, Inc.  
10555 Science Center Drive  
San Diego, CA 92121  
Attn.: President & Chief Executive Officer

To Executive:

Paul W. Hawran

7.5 Modification; Waiver; Entire Agreement. No provisions of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing signed by Executive and such officer as may be specifically designated by the Board of the Company. No waiver by either party hereto at any time of any breach by the other party of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or any prior or subsequent time. No agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not expressly set forth in this Agreement.

7.6 Validity. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

7.7 Controlling Document. Except to the extent described in Section 6.10, in case of conflict between any of the terms and condition of this Agreement and the document herein referred to, the terms and conditions of this Agreement shall control.

7.8 Executive Acknowledgment. Executive acknowledges (a) that he has consulted with or has had the opportunity to consult with independent counsel of his own choice concerning this Agreement, and has been advised to do so by the

Company, and (b) that he has read and understands the Agreement, is fully aware of its legal effect, and has entered into it freely based on his own judgment.

7.9 Remedies.

(a) Injunctive Relief. The parties agree that the services to be rendered by Executive hereunder are of a unique nature and that in the event of any breach or threatened breach of any of the covenants contained herein, the damage or imminent damage to the value and the goodwill of the Company's business will be irreparable and extremely difficult to estimate, making any remedy at law or in damages inadequate. Accordingly, the parties agree that the Company shall be entitled to injunctive relief against Executive in the event of any breach or threatened breach of any such provisions by Executive, in addition to any other relief (including damage) available to the Company under this Agreement or under law.

(b) Exclusive. Both parties agree that the remedy specified in Section 7.9(a) above is not exclusive of any other remedy for the breach by Executive of the terms hereof.

7.10 Counterparts. This Agreement may be executed in one or more counterparts, all of which taken together shall constitute one and the same Agreement.

7.11 Prevailing Party Expenses. In the event that any action or proceeding is commenced to enforce the provisions of the Agreement, the court adjudicating such action or proceeding shall award to the prevailing party all costs and expenses thereof, including, but not limited to, all reasonable attorneys' fees, court costs, and all other related expenses.

Executed by the parties as of the day and year first above written.

PAUL W. HAWRAN

NEUROCRINE BIOSCIENCES, INC

/s/ Paul W. Hawran

/s/Gary A. Lyons

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Gary A. Lyons,  
President and Chief Executive Officer

## EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT, dated as of May 24, 2000, supercedes the Employment Agreement dated January 1, 1998 by and between NEUROCRINE BIOSCIENCES, INC., 10555 Science Center Drive, San Diego, California 92121 (hereinafter the "Company"), and D. BRUCE CAMPBELL, Ph.D. (hereinafter "Executive").

### R E C I T A L S

WHEREAS, the Company and Executive wish to set forth in this Agreement the terms and conditions under which Executive is to be employed by the Company on and after the date hereof; and

NOW, THEREFORE, the Company and Executive, in consideration of the mutual promises set forth herein, agree as follows:

### ARTICLE 1

#### TERM OF AGREEMENT

1.1 Commencement Date. Executive's fulltime employment with the Company under this Agreement shall commence as of May 24, 2000 ("Commencement Date") and this Agreement shall expire after a period of three (3) years from the Commencement Date, unless renewed in accordance with paragraph 1.2 or terminated pursuant to Article 6.

1.2 Renewal. The term of this Agreement shall be automatically renewed for successive, additional three (3) year terms unless either party delivers written notice to the other at least ninety (90) days prior to the end of any term of an intention to terminate this Agreement or to renew it for a term of less than three (3) years but not less than (1) year. If the term of this Agreement is renewed for a term of less than three (3) years, then thereafter the term of this Agreement shall be automatically renewed for successive, additional identical terms unless either party delivers a written notice to the other of an intention to terminate this Agreement or to renew it for a different term of not less than one (1) year, such notice to be delivered at least ninety (90) days prior to the end of any term. The Company's failure to renew this Agreement at the end of any term shall be considered a termination without Cause as set forth in Section 6.4 below.

### ARTICLE 2

#### EMPLOYMENT DUTIES

2.1 Title/Responsibilities. Executive hereby accepts employment with the Company pursuant to the terms and conditions hereof. Executive agrees to serve the Company as an Executive Officer in the position of Senior Vice President - Development reporting to the Executive Vice President - Research and Development and/or the Chief Executive Officer. Executive shall have the powers and duties commensurate with such position, including but not limited to hiring personnel necessary to carry out the responsibilities for such position as set forth in the annual business plan approved by the Board of Directors.

2.2 Full Time Attention. Executive shall devote his best efforts and his full business time and attention to the performance of the services customarily incident to such office and to such other services as the President or Board may reasonably request.

2.3 Other Activities. Except upon the prior written consent of the President & Chief Executive Officer, Executive shall not during the period of employment engage, directly or indirectly, in any other business activity (whether or not pursued for pecuniary advantage) that is or may be competitive with, or that might place him in a competing position to that of the Company or any other corporation or entity that directly or indirectly controls, is controlled by, or is under common control with the Company (an "Affiliated Company"), provided that Executive may own less than two percent (2%) of the outstanding securities of any such publicly traded competing corporation.

### ARTICLE 3

#### COMPENSATION

3.1 Base Salary. Executive shall receive a Base Salary at an annual rate of two hundred forty thousand dollars (240,000), payable semi-monthly in equal installments in accordance with the Company's normal payroll practices. The Chief Executive Officer shall provide Executive with annual performance reviews, and, thereafter, Executive shall be entitled to such increase in Base Salary as the Chief Executive Officer and Board of Directors may from time to time establish in their sole discretion.

3.2 Incentive Bonus. In addition to any other bonus Executive shall be awarded by the Company's Board of Directors, the Company shall pay Executive an annual bonus as determined by the Company's Board of Directors and Chief Executive Officer based upon achievement of Executive in meeting personal goals approved by the Chief Executive Officer/ Board of Directors and achievement by the Company of corporate goals approved by the Board of Directors annually. Executive's personal goals and the Company's corporate goals will be set forth in writing by the Chief Executive Officer and Board within ninety (90) days after the start of the Company's fiscal year. The Board of Directors and Chief Executive Officer shall, in their sole discretion, determine whether Executive's personal goals have been obtained. The Board of Directors shall, in its sole discretion, determine whether the corporate goals have been obtained.

3.3 Equity. Each year starting in 2000 and continuing through the term of this Agreement, the Executive will be eligible for an Incentive Stock Option award under the 1992 Incentive Stock Option Plan with the number of shares and exercise price as shall be determined by the Board of Directors.

3.4 Withholdings. All compensation and benefits payable to Executive hereunder and the Agreement shall be subject to all federal, state, local and other withholdings and similar taxes and payments required by applicable law.

#### ARTICLE 4

##### EXPENSE ALLOWANCES AND FRINGE BENEFITS

4.1 Vacation. Executive shall be entitled to the greater of three (3) weeks of annual paid vacation or the amount of annual paid vacation to which Executive may become entitled under the terms of Company's vacation policy for employees during the term of this Agreement.

4.2 Benefits. During the term of this Agreement, the Company shall also provide Executive with the usual health insurance benefits it generally provides to its other senior management employees. As Executive becomes eligible in accordance with criteria to be adopted by the Company, the Company shall provide Executive with the right to participate in and to receive benefit from life, accident, disability, medical, pension, bonus, stock, profit-sharing and savings plans and similar benefits made available generally to executives of the Company as such plans and benefits may be adopted by the Company. The amount and extent of benefits to which Executive is entitled shall be governed by the specific benefit plan as it may be amended from time to time.

##### 4.3 Housing and Relocation Allowances.

(a) Relocation to the United Kingdom. Upon termination of Executive's employment with the Company, the Company has agreed to reimburse Executive for costs associated with relocation back to the United Kingdom including (i) customary closing costs and fees (not to exceed six percent (6%) of the selling price) related to the sale of Executive's home in San Diego and (ii) documented reasonable and customary moving expenses of household goods and personal property not to exceed in the aggregate ten thousand dollars (\$10,000). The foregoing provision shall not apply in the event (each a "Disqualifying Event") (i) at the time of relocation, Executive has accepted employment with another company or it is Executive's intention to do so within a period of six (6) months, (ii) Executive has not completed four (4) full years of employment at the Company or (iii) termination of Executive's employment with the Company is for Cause as defined in paragraph 6.3 below. In 1999 Executive elected to sell his home in San Diego and in connection therewith incurred seventy-five thousand dollars (\$75,000) in documented closing costs. In connection therewith, the Company provided to Executive, a loan of seventy-five thousand dollars (\$75,000) (the "Relocation Loan") for the costs that will be paid by Company on behalf of Executive hereunder in the event Executive meets the requirements for such payments. The principal balance of the Relocation Loan will bear interest at a rate of one percent per annum (1.0% p.a.) and principal and interest will be due and payable in full upon the earlier of (i) an Disqualifying Event or (ii) the exercise, pledge or sale of all or part of the stock options granted by Company to Executive. Upon termination of Executive's employment with the Company at a time when no Disqualifying Event has occurred, the principal of the Relocation Loan will, together with any interest accruing on such amount, be forgiven.

(b) Travel Allowance. The Company will provide to Executive annually up to four (4) round trip Coach Class airline tickets San Diego- United Kingdom for Executive and his family. These tickets will be booked through the Company's corporate travel account and the Company will provide Business Class upgrades for such tickets on an as available

basis.

(c) Taxes. Executive will be responsible for the payment of all federal and state income taxes on all allowances, loans and loan forgiveness accruing to Executive pursuant to this Section 4.3.

4.4 Business Expense Reimbursement. During the term of this Agreement, Executive shall be entitled to receive proper reimbursement for all reasonable out-of-pocket expenses incurred by him (in accordance with the policies and procedures established by the Company for its senior executive officers) in performing services hereunder. Executive agrees to furnish to the Company adequate records and other documentary evidence of such expense for which Executive seeks reimbursement. Such expenses shall be reimbursed and accounted for under the policies and procedure established by the Company.

## ARTICLE 5

### CONFIDENTIALITY

5.1 Proprietary Information. Executive represents and warrants that he has previously executed and delivered to the Company the Company's standard Proprietary Information and Inventions Agreement in form acceptable to the Company's counsel.

5.2 Return of Property. All documents, records, apparatus, equipment and other physical property which is furnished to or obtained by Executive in the course of his employment with the Company shall be and remain the sole property of the Company. Executive agrees that, upon the termination of his employment, he shall return all such property (whether or not it pertains to Proprietary Information as defined in the Proprietary Information and Inventions Agreement), and agrees not to make or retain copies, reproductions or summaries of any such property.

5.3 No use of Prior Confidential Information. Executive will not intentionally disclose to the Company or use on its behalf any confidential information belonging to any of his former employers or any other third party.

## ARTICLE 6

### TERMINATION

6.1 By Death. The period of employment shall terminate automatically upon the death of Executive. In such event, all stock options held by Executive at the time of termination will continue to vest for a period of six (6) months following termination. All stock options held by Executive which are vested at the time of termination or within six (6) months thereafter will be exercisable in accordance with their terms for a period of one year following termination. In addition, the Company shall pay to Executive's beneficiaries or his estate, as the case may be, any accrued Base Salary, any bonus compensation to the extent earned, any vested deferred compensation (other than pension plan or profit-sharing plan benefits which will be paid in accordance with the applicable plan), any benefits under any plans of the Company in which Executive is a participant to the full extent of Executive's rights under such plans, any accrued vacation pay and any appropriate business expenses incurred by Executive in connection with his duties hereunder, all to the date of termination (collectively Accrued Compensation), but no other compensation or reimbursement of any kind, including, without limitation, severance compensation, and thereafter, the Company's obligations hereunder shall terminate.

6.2 By Disability. If Executive is prevented from properly performing his duties hereunder by reason of any physical or mental incapacity for a period of one hundred and twenty (120) consecutive days, or for one hundred and eighty (180) days in the aggregate in any three hundred and sixty-five (365) day period, then, to the extent permitted by law, the Company may terminate the employment of Executive at such time. In such event, all stock options held by Executive will continue to vest for a period of six (6) months following termination. All stock options vested at the time of termination or within six (6) months thereafter will be exercisable in accordance with their terms for a period of one year following termination. In addition, the Company shall pay to Executive all Accrued Compensation, and shall continue to pay to Executive the Base Salary until such time as Executive shall become entitled to receive disability insurance payments under the disability insurance policy

maintained by the Company, but no other compensation or reimbursement of any kind, including without limitation, severance compensation, and thereafter the Company's obligations hereunder shall terminate. Nothing in this Section shall affect Executive's rights under any disability plan in which he is a participant.

6.3 By Company for Cause. The Company may terminate the Executive's employment for Cause (as defined below) without liability at any time with or without advance notice to Executive. The Company shall pay Executive all Accrued Compensation, but no other compensation or reimbursement of any kind, including without limitation, severance compensation, and thereafter the Company's obligations hereunder shall terminate. Termination shall be for "Cause" in the event of the occurrence of any of the following: (a) any intentional action or intentional failure to act by Executive which was performed in bad faith and to the material detriment of the Company; (b) Executive intentionally refuses or intentionally fails to act in accordance with any lawful and proper direction or order of the Chief Executive Officer; (c) Executive habitually neglects the duties of employment; or (d) Executive is convicted of a felony crime involving moral turpitude, provided that in the event that any of the foregoing events is capable of being cured, the Company shall provide written notice to Executive describing the nature of such event and Executive shall thereafter have ten (10) business days to cure such event.

6.4 Termination Without Cause. At any time, the Company may terminate the employment of Executive without liability other than as set forth below, for any reason not specified in Section 6.3 above, by giving thirty (30) days advance written notice to Executive. If the Company elects to terminate Executive pursuant to this Section 6.4,

- (a) the Company shall pay to Executive all Accrued Compensation,
- (b) the Company shall continue to pay to Executive as provided herein Executive's Base Salary over the period equal to nine (9) months from the date of such termination as severance compensation,
- (c) the Company shall make a lump sum payment to Executive in an amount equal to a pro rata portion of the Executive's annual actual cash incentive bonus for Company's fiscal year preceding the year of termination based on the number of completed months of Executive's employment in the fiscal year plus nine (9),
- (d) the vesting of all outstanding stock options held by Executive shall be accelerated so that the amount of shares vested under such option shall equal that number of shares which would have been vested if the Executive had continued to render services to the Company for nine (9) continuous months after the date of his termination of employment, and
- (e) the Company shall pay all costs which the Company would otherwise have incurred to maintain all of Executive's health and welfare, and retirement benefits (either on the same or substantially equivalent terms and conditions) if the Executive had continued to render services to the Company for nine (9) continuous months after the date of his termination of employment.

The Company shall have no further obligations to Executive other than those set forth in the preceding sentence. During the period when such severance compensation is being paid to Executive, Executive shall not (i) engage, directly or indirectly, in providing services to any other business program or project that is competitive to a program or project being conducted by the Company or any Affiliated Company at the time of such employment termination (provided that Executive may own less than two percent (2%) of the outstanding securities of any publicly traded corporation), or (ii) hire, solicit, or

attempt to solicit on behalf of himself or any other party or any employee or exclusive consultant of the Company. If the Company terminates this Agreement or the employment of Executive with the Company other than pursuant to Section 6.1, 6.2 or 6.3, then this section 6.4 shall apply.

6.5 Constructive Termination A Constructive Termination shall be deemed to be a termination of employment of Executive without cause pursuant to Section 6.4. For Purposes of this Agreement, a "Constructive Termination" means that the Executive voluntarily terminates his employment except in connection with the termination of his employment for death, disability, retirement, fraud, misappropriation, embezzlement (or any other occurrence which constitutes "Cause" under section 6.3) or any other voluntary termination of employment by Executive other than a Constructive Termination after any of the following are undertaken without Executive's express written consent:

- (a) the assignment to Executive of any duties or responsibilities which result in any diminution of position as judged against the duties and responsibilities assigned to executives with Executive's position in the Company's peer group of companies and shall not include (i) duties and responsibilities assigned to Executive with the understanding that as the Company grows and management staff increases in number, such duties and responsibilities will eventually be reassigned in a manner consistent with the Company's peer group of companies, (ii) change in reporting relationship that does not change



in any material way the Executive's duties and responsibilities or (iii) any change in duties or responsibilities or reporting relationships that Executive does not identify as Constructive Termination to the Chief Executive Officer in writing within 15 days following the Chief Executive Officer's proposal of such change to Executive;

(b) a reduction by the Company in Executive's annual Base Salary by greater than five percent (5%);

(c) a relocation of Executive or the Company's principal executive offices if Executive's principal office is at such offices, to a location more than forty (40) miles from the location at which Executive is then performing his duties, except for an opportunity to relocate which is accepted by Executive in writing;

(d) any material breach by the Company of any provision of this Agreement; or

(e) any failure by the Company to obtain the assumption of this Agreement by any successor or assign of the Company.

6.6 Termination Following Change in Control. In the event of a termination Without Cause or Constructive Termination within six (6) months after a Change in Control (as defined below) or Executive's voluntary termination within thirty (30) days following the six (6) month anniversary of a Change in Control, the Company shall pay to Executive a lump sum severance payment in an amount equal to one (1.0) times (Executive's then Base Salary plus annual actual cash incentive bonus for Company's fiscal year preceding the year of termination). In addition, the Executive will receive at Executive's option (i) accelerated vesting of all stock options held by Executive by reason of the assumption or substitution of successor corporation stock options for the Executive's unvested Company stock options at the time of the Change in Control pursuant to the terms of the Company's 1992 Stock Incentive Plan, as amended, or (ii) a cash payment equal to the cash value of all unvested Company stock options held by Executive at the time of the Change in Control. In addition, the Executive will be reimbursed for the increase in federal and state income taxes payable by Executive by reason of the benefits provided under this Section 6.6.

6.7 Change in Control. For purposes of this Agreement, a "Change in Control" shall have occurred if at any time during the term of Executive's employment hereunder, any of the following events shall occur:

(a) The Company is merged, or consolidated, or reorganized into or with another corporation or other legal person, and as a result of such merger, consolidation or reorganization less than fifty percent (50%) of the combined voting power of the then-outstanding securities of such corporation or person immediately after such transaction are held in the aggregate by the holders of voting securities of the Company immediately prior to such transaction;

(b) The Company sells all or substantially all of its assets or any other corporation or other legal person and thereafter, less than fifty percent (50%) of the combined voting power of the then-outstanding voting securities of the acquiring or consolidated entity are held in the aggregate by the holders of voting securities of the Company immediately prior to such sale;

(c) There is a report filed after the date of this Agreement on Schedule 13 D or schedule 14 D-1 (or any successor schedule, form or report), each as promulgated pursuant to the Securities Exchange Act of 1934 (the "Exchange Act") disclosing that any person (as the term "person" is used in Section 13(d)(3) or Section 14(d)(2) of the exchange Act) has become the beneficial owner (as the term beneficial owner is defined under Rule 13d-3 or any successor rule or regulation promulgated under the Exchange Act) representing fifty percent (50%) or more of the combined voting power of the then-outstanding voting securities of the Company;

(d) The Company shall file a report or proxy statement with the Securities and Exchange Commission pursuant to the Exchange Act disclosing in response to item 1 of Form 8-X thereunder or Item 5(f) of Schedule 14 A thereunder (or any successor schedule, form or report or item therein) that the change in control of the Company has or may have occurred or will or may occur in the future pursuant to any then-existing contract or transaction; or

(e) During any period of two (2) consecutive years, individuals who at the beginning of any such period constitute the directors of the Company cease for any reason to constitute at least a majority thereof unless the election to the nomination for election by

the Company's shareholders of each director of the Company first elected during such period was approved by a vote of at least two-thirds of the directors of the Company then still in office who were directors of the Company at the beginning of such period.

6.8 Termination by Executive. At any time, Executive may terminate his employment by giving thirty (30) days advance written notice to the Company. The Company shall pay Executive all Accrued Compensation, but no other compensation or reimbursement of any kind, including without limitation, severance compensation, and thereafter the Company's obligations hereunder shall terminate.

6.9 Mitigation. Except as otherwise specifically provided herein, Executive shall not be required to mitigate the amount of any payment provided under this Agreement by seeking other employment or self-employment, nor shall the amount of any payment provided for under this Agreement be reduced by any compensation earned by Executive as a result of employment by another employer or through self-employment or by retirement benefits after the date of Executive's termination of employment from the Company.

6.10 Coordination. If upon termination of employment, Executive becomes entitled to rights under other plans, contracts or arrangements entered into by the Company, this Agreement shall be coordinated with such other arrangements so that Executive's rights under this Agreement are not reduced, and that any payments under this Agreement offset the same types of payments otherwise provided under such other arrangements, but do not otherwise reduce any payments or benefits under such other arrangements to which Executive becomes entitled.

## ARTICLE 7

### GENERAL PROVISIONS

7.1 Governing Law. The validity, interpretation, construction and performance of this Agreement and the rights of the parties thereunder shall be interpreted and enforced under California law without reference to principles of conflicts of laws. The parties expressly agree that inasmuch as the Company's headquarters and principal place of business are located in California, it is appropriate that California law govern this Agreement.

7.2 Assignment; Successors Binding Agreement.

(a) Executive may not assign, pledge or encumber his interest in this Agreement or any part thereof.

(b) The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company, by operation of law or by agreement in form and substance reasonably satisfactory to Executive, to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place.

(c) This Agreement shall inure to the benefit of and be enforceable by Executive's personal or legal representatives, executors, administrators, successors, heirs, distributee, devisees and legatees. If Executive should die while any amount is at such time payable to his hereunder, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to Executive's devisee, legatee or other designee or, if there be no such designee, to his estate.

7.3 Certain Reduction of Payments. In the event that any payment or benefit received or to be received by Executive under this Agreement would result in all or a portion of such payment to be subject to the excise tax on "golden parachute payments" under Section 4999 of the Internal Revenue Code of 1986, as amended (the "Code"), then Executive's payment shall be either (a) the full payment or (b) such lesser amount which would result in no portion of the payment being subject to excise tax under Section 4999 of the Code, whichever of the foregoing amounts, taking into account the applicable Federal, state and local employment taxes, income taxes, and the excise tax imposed by Section 4999 of the Code, results in the receipt by Executive on an after-tax basis, of the greatest amount of the payment notwithstanding that all or some portion of the payment may be taxable under Section 4999 of the Code.

7.4 Notice. For the purposes of this Agreement, notices and all other communications provided for in this Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by certified or registered mail, return receipt requested, postage prepaid, addressed to the

respective addresses set forth below or to such other address as either party may have furnished to the other in writing in accordance herewith, except that notice of change of address shall be effective only upon receipt.

To the Company:

Neurocrine Biosciences, Inc.  
10555 Science Center Drive  
San Diego, CA 92121  
Attn.: President & Chief Executive Officer

To Executive:

D. Bruce Campbell, Ph.D.

7.5 Modification; Waiver; Entire Agreement. No provisions of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing signed by Executive and such officer as may be specifically designated by the Board of the Company. No waiver by either party hereto at any time of any breach by the other party of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or any prior or subsequent time. No agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not expressly set forth in this Agreement.

7.6 Validity. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

7.7 Controlling Document. Except to the extent described in Section 6.10, in case of conflict between any of the terms and condition of this Agreement and the document herein referred to, the terms and conditions of this Agreement shall control.

7.8 Executive Acknowledgment. Executive acknowledges (a) that he has consulted with or has had the opportunity to consult with independent counsel of his own choice concerning this Agreement, and has been advised to do so by the Company, and (b) that he has read and understands the Agreement, is fully aware of its legal effect, and has entered into it freely based on his own judgment.

7.9 Remedies.

(a) Injunctive Relief. The parties agree that the services to be rendered by Executive hereunder are of a unique nature and that in the event of any breach or threatened breach of any of the covenants contained herein, the damage or imminent damage to the value and the goodwill of the Company's business will be irreparable and extremely difficult to estimate, making any remedy at law or in damages inadequate. Accordingly, the parties agree that the Company shall be entitled to injunctive relief against Executive in the event of any breach or threatened breach of any such provisions by Executive, in addition to any other relief (including damage) available to the Company under this Agreement or under law.

(b) Exclusive. Both parties agree that the remedy specified in Section 7.9(a) above is not exclusive of any other remedy for the breach by Executive of the terms hereof.

7.10 Counterparts. This Agreement may be executed in one or more counterparts, all of which taken together shall constitute one and the same Agreement.

7.11 Prevailing Party Expenses. In the event that any action or proceeding is commenced to enforce the provisions of the Agreement, the court adjudicating such action or proceeding shall award to the prevailing party all costs and expenses thereof, including, but not limited to, all reasonable attorneys' fees, court costs, and all other related expenses.

Executed by the parties as of the day and year first above written.

D. BRUCE CAMPBELL, PH.D.

NEUROCRINE BIOSCIENCES, INC

/s/Bruce Campbell

/s/Gary A. Lyons

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Gary A. Lyons  
President & Chief Executive Officer

## EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT, dated as of May 24, 2000 supercedes the Employment Agreement dated October 1, 1998 by and between NEUROCRINE BIOSCIENCES, INC., 10555 Science Center Drive, San Diego, California 92121 (hereinafter the "Company"), and MARGARET VALEUR-JENSEN (hereinafter "Executive").

### R E C I T A L S

WHEREAS, the Company and Executive wish to set forth in this Agreement the terms and conditions under which Executive is to be employed by the Company on and after the date hereof; and

NOW, THEREFORE, the Company and Executive, in consideration of the mutual promises set forth herein, agree as follows:

## ARTICLE 1

### TERM OF AGREEMENT

1.1 Commencement Date. Executive's fulltime employment with the Company under this Agreement shall commence as of May 24, 2000 ("Commencement Date") and this Agreement shall expire after a period of three (3) years from the Commencement Date, unless renewed in accordance with paragraph 1.2 or terminated pursuant to Article 6.

1.2 Renewal. The term of this Agreement shall be automatically renewed for successive, additional three (3) year terms unless either party delivers written notice to the other at least ninety (90) days prior to the end of any term of an intention to terminate this Agreement or to renew it for a term of less than three (3) years but not less than (1) year. If the term of this Agreement is renewed for a term of less than three (3) years, then thereafter the term of this Agreement shall be automatically renewed for successive, additional identical terms unless either party delivers a written notice to the other of an intention to terminate this Agreement or to renew it for a different term of not less than one (1) year, such notice to be delivered at least ninety (90) days prior to the end of any term. The Company's failure to renew this Agreement at the end of any term shall be considered a termination without Cause as set forth in Section 6.4 below.

## ARTICLE 2

### EMPLOYMENT DUTIES

2.1 Title/Responsibilities. Executive hereby accepts employment with the Company pursuant to the terms and conditions hereof. Executive agrees to serve the Company as an Executive Officer in the position of Senior Vice President - General Counsel and Corporate Secretary reporting to the Chief Executive Officer. Executive shall have the powers and duties commensurate with such position, including but not limited to hiring personnel necessary to carry out the responsibilities for such position as set forth in the annual business plan approved by the Chief Executive Officer and Board of Directors.

2.2 Full Time Attention. Executive shall devote her best efforts and her full business time and attention to the performance of the services customarily incident to such office and to such other services as the Chief Executive Officer or Board may reasonably request.

2.3 Other Activities. Except upon the prior written consent of the Chief Executive Officer, Executive shall not during the period of employment engage, directly or indirectly, in any other business activity (whether or not pursued for pecuniary advantage) that is or may be competitive with, or that might place her in a competing position to that of the Company or any other corporation or entity that directly or indirectly controls, is controlled by, or is under common control with the Company (an "Affiliated Company"), provided that Executive may own less than two percent (2%) of the outstanding securities of any such publicly traded competing corporation. It is understood that Executive will enter into a Consulting Agreement with Executive's prior employer Amgen Inc. Prior to execution of such agreement, Executive must receive approval from the Chief Executive Officer, which approval will not be unreasonably withheld.

## ARTICLE 3

### COMPENSATION

3.1 Base Salary. Executive shall receive a Base Salary at an annual rate two hundred and thirty-five thousand dollars (\$235,000), payable semi-monthly in equal installments in accordance with the Company's normal payroll practices. The Chief Executive Officer shall provide Executive with annual performance reviews, and, thereafter, Executive shall be entitled to such increase in Base Salary as the Chief Executive Officer and Board of Directors may from time to time establish in their sole discretion.

3.2 Incentive Bonus. In addition to any other bonus Executive shall be awarded by the Company's Board of Directors, the Company shall pay Executive an annual bonus as determined by the Company's Board of Directors and Chief Executive Officer based upon achievement of Executive in meeting personal goals approved by the Chief Executive Officer/ Board of Directors and achievement by the Company of corporate goals approved by the Board of Directors annually. Executive's personal goals and the Company's corporate goals will be set forth in writing by the Chief Executive Officer and Board within ninety (90) days after the start of the Company's fiscal year. The Board of Directors and Chief Executive Officer shall, in their sole discretion, determine whether Executive's personal goals have been obtained. The Board of Directors shall, in its sole discretion, determine whether the corporate goals have been obtained.

3.3 Equity. Each year starting in 2000 and continuing for the term of this Agreement, the Executive will be eligible to receive a Stock Option award under the Company's 1992 Incentive Stock Option Plan, as amended, with the number of shares and exercise price as shall be determined by the Board of Directors

3.4 Withholdings. All compensation and benefits payable to Executive hereunder and the Agreement shall be subject to all federal, state, local and other withholdings and similar taxes and payments required by applicable law.

#### ARTICLE 4

##### EXPENSE ALLOWANCES AND FRINGE BENEFITS

4.1 Vacation. Executive shall be entitled to the greater of three (3) weeks of annual paid vacation or the amount of annual paid vacation to which Executive may become entitled under the terms of Company's vacation policy for employees during the term of this Agreement.

4.2 Benefits. During the term of this Agreement, the Company shall also provide Executive with the usual health insurance benefits it generally provides to its other senior management employees. As Executive becomes eligible in accordance with criteria to be adopted by the Company, the Company shall provide Executive with the right to participate in and to receive benefit from life, accident, disability, medical, pension, bonus, stock, profit-sharing and savings plans and similar benefits made available generally to executives of the Company as such plans and benefits may be adopted by the Company. The amount and extent of benefits to which Executive is entitled shall be governed by the specific benefit plan as it may be amended from time to time.

4.3 Business Expense Reimbursement. During the term of this Agreement, Executive shall be entitled to receive proper reimbursement for all reasonable out-of-pocket expenses incurred by her (in accordance with the policies and procedures established by the Company for its senior executive officers) in performing services hereunder. Executive agrees to furnish to the Company adequate records and other documentary evidence of such expense for which Executive seeks reimbursement. Such expenses shall be reimbursed and accounted for under the policies and procedure established by the Company.

#### ARTICLE 5

##### CONFIDENTIALITY

5.1 Proprietary Information. Executive represents and warrants that she has previously executed and delivered to the Company the Company's standard Proprietary Information and Inventions Agreement in form acceptable to the Company's counsel.

5.2 Return of Property. All documents, records, apparatus, equipment and other physical property which is furnished to or obtained by Executive in the course of her employment with the Company shall be and remain the sole property of the Company. Executive agrees that, upon the termination of her employment, she shall return all such property (whether or not it pertains to Proprietary Information as defined in the Proprietary Information and Inventions Agreement), and agrees not to make or retain copies, reproductions or summaries of any such property.

5.3 No use of Prior Confidential Information. Executive will not

intentionally disclose to the Company or

## ARTICLE 6

### TERMINATION

6.1 By Death. The period of employment shall terminate automatically upon the death of Executive. In such event, all stock options held by Executive at the time of termination will continue to vest for a period of six (6) months following termination. All stock options held by Executive that are vested at the time of termination or within six (6) months thereafter will be exercisable in accordance with their terms for a period of one year following termination. In addition, the Company shall pay to Executive's beneficiaries or her estate, as the case may be, any accrued Base Salary, any bonus compensation to the extent earned, any vested deferred compensation (other than pension plan or profit-sharing plan benefits which will be paid in accordance with the applicable plan), any benefits under any plans of the Company in which Executive is a participant to the full extent of Executive's rights under such plans, any accrued vacation pay and any appropriate business expenses incurred by Executive in connection with her duties hereunder, all to the date of termination (collectively Accrued Compensation), but no other compensation or reimbursement of any kind, including, without limitation, severance compensation, and thereafter, the Company's obligations hereunder shall terminate.

6.2 By Disability. If Executive is prevented from properly performing her duties hereunder by reason of any physical or mental incapacity for a period of one hundred twenty (120) consecutive days, or for one hundred eighty (180) days in the aggregate in any three hundred sixty-five (365) day period, then, to the extent permitted by law, the Company may terminate the employment of Executive at such time. In such event, all stock options held by Executive at the time of termination will continue to vest for a period of six (6) months following termination. All stock options held by Executive that are vested at the time of termination or vest within six (6) months thereafter will be exercisable in accordance with their terms for a period of one year following termination. In addition, the Company shall pay to Executive all Accrued Compensation, and shall continue to pay to Executive the Base Salary until such time as Executive shall become entitled to receive disability insurance payments under the disability insurance policy maintained by the Company, but no other compensation or reimbursement of any kind, including without limitation, severance compensation, and thereafter the Company's obligations hereunder shall terminate. Nothing in this Section shall affect Executive's rights under any disability plan in which she is a participant.

6.3 By Company for Cause. The Company may terminate the Executive's employment for Cause (as defined below) without liability at any time with or without advance notice to Executive. The Company shall pay Executive all Accrued Compensation, but no other compensation or reimbursement of any kind, including without limitation, severance compensation, and thereafter the Company's obligations hereunder shall terminate. Termination shall be for "Cause" in the event of the occurrence of any of the following: (a) any intentional action or intentional failure to act by Executive which was performed in bad faith and to the material detriment of the Company; (b) Executive intentionally refuses or intentionally fails to act in accordance with any lawful and proper direction or order of the Chief Executive Officer; (c) Executive habitually neglects the duties of employment; or (d) Executive is convicted of a felony crime involving moral turpitude, provided that in the event that any of the foregoing events is capable of being cured, the Company shall provide written notice to Executive describing the nature of such event and Executive shall thereafter have ten (10) business days to cure such event.

6.4 Termination Without Cause. At any time, the Company may terminate the employment of Executive without liability other than as set forth below, for any reason not specified in Section 6.3 above, by giving thirty (30) days advance written notice to Executive. If the Company elects to terminate Executive pursuant to this Section 6.4,

- (a) the Company shall pay to Executive all Accrued Compensation,
- (b) the Company shall continue to pay to Executive as provided herein Executive's Base Salary over the period equal to nine (9) months from the date of such termination as severance compensation,
- (c) the Company shall make a lump sum payment to Executive in an amount equal to a pro rata portion of the Executive's annual actual cash incentive bonus for Company's fiscal year preceding the year of termination based on the number of completed months of Executive's employment in the fiscal year plus nine (9),
- (d) the vesting of all outstanding stock options held by Executive shall be accelerated so that the amount of shares vested under such option shall equal that number of shares which would have been vested if the Executive had continued to render services to the Company for nine (9) continuous months after the date of her termination of employment, and

(e) the Company shall pay all costs which the Company would otherwise have incurred to maintain all of Executive's health and welfare, and retirement benefits (either on the same or substantially equivalent terms and conditions) if the Executive had continued to render services to the Company for nine (9) continuous months after the date of her termination of employment.

The Company shall have no further obligations to Executive other than those set forth in the preceding sentence. During the period when such severance compensation is being paid to Executive, Executive shall not (i) engage, directly or indirectly, in providing services to any other business program or project that is competitive to a program or project being conducted by the Company or any Affiliated Company at the time of such employment termination (provided that Executive may own less than two percent (2%) of the outstanding securities of any publicly traded corporation), or (ii) hire, solicit, or attempt to solicit on behalf of himself or any other party or any employee or exclusive consultant of the Company. If the Company terminates this Agreement or the employment of Executive with the Company other than pursuant to Section 6.1, 6.2 or 6.3, then this section 6.4 shall apply.

6.5 Constructive Termination A Constructive Termination shall be deemed to be a termination of employment of Executive without cause pursuant to Section 6.4. For Purposes of this Agreement, a "Constructive Termination" means that the Executive voluntarily terminates his employment except in connection with the termination of her employment for death, disability, retirement, fraud, misappropriation, embezzlement (or any other occurrence which constitutes "Cause" under section 6.3) or any other voluntary termination of employment by Executive other than a Constructive Termination after any of the following are undertaken without Executive's express written consent:

(a) the assignment to Executive of any duties or responsibilities which result in any diminution of position as judged against the duties and responsibilities assigned to executives with Executive's position in the Company's peer group of companies and shall not include (i) duties and responsibilities assigned to Executive with the understanding that as the Company grows and management staff increases in number, such duties and responsibilities will eventually be reassigned in a manner consistent with the Company's peer group of companies, (ii) change in reporting relationship that does not change in any material way the Executive's duties and responsibilities or (iii) any change in duties or responsibilities or reporting relationships that Executive does not identify as Constructive Termination to the Chief Executive Officer in writing within 15 days following the Chief Executive Officer's proposal of such change to Executive;

(b) a reduction by the Company in Executive's annual Base Salary by greater than five percent (5%);

(c) a relocation of Executive or the Company's principal executive offices if Executive's principal office is at such offices, to a location more than forty (40) miles from the location at which Executive is then performing her duties, except for an opportunity to relocate which is accepted by Executive in writing;

(d) any material breach by the Company of any provision of this Agreement; or

(e) any failure by the Company to obtain the assumption of this Agreement by any successor or assign of the Company.

6.6 Termination Following Change in Control. In the event of a termination Without Cause or Constructive Termination within six (6) months after a Change in Control (as defined below) or Executive's voluntary termination within thirty (30) days following the six (6) month anniversary of a Change in Control, the Company shall pay to Executive a lump sum severance payment in an amount equal to one (1.0) times (Executive's then Base Salary plus annual actual cash incentive bonus for Company's fiscal year preceding the year of termination). In addition, the Executive will receive at Executive's option (i) accelerated vesting of all stock options held by Executive by reason of the assumption or substitution of successor corporation stock options for the Executive's unvested Company stock options at the time of the Change in Control pursuant to the terms of the Company's 1992 Stock Incentive Plan, as amended, or (ii) a cash payment equal to the cash value of all unvested Company stock options held by Executive at the time of the Change in Control. In addition, the Executive will be reimbursed for the increase in federal and state income taxes payable by Executive by reason of the benefits provided under this Section 6.6.

6.7 Change in Control. For purposes of this Agreement, a "Change in Control" shall have occurred if at any time during the term of Executive's employment hereunder, any of the following events shall occur:

(a) The Company is merged, or consolidated, or reorganized into or with another corporation or other legal person, and as a result

of such merger, consolidation or reorganization less than 50% of the combined voting power of the then-outstanding securities of such corporation or person immediately after such transaction are held in the aggregate by the holders of voting securities of the Company immediately prior to such transaction;

(b) The Company sells all or substantially all of its assets or any other corporation or other legal person and thereafter, less than 50% of the combined voting power of the then-outstanding voting securities of the acquiring or consolidated entity are held in the aggregate by the holders of voting securities of the Company immediately prior to such sale;

(c) There is a report filed after the date of this Agreement on Schedule 13 D or schedule 14 D-1 (or any successor schedule, form or report), each as promulgated pursuant to the Securities Exchange Act of 1934 (the "Exchange Act") disclosing that any person (as the term "person" is used in Section 13(d)(3) or Section 14(d)(2) of the exchange Act) has become the beneficial owner (as the term beneficial owner is defined under Rule 13d-3 or any successor rule or regulation promulgated under the Exchange Act) representing 50% or more of the combined voting power of the then-outstanding voting securities of the Company;

(d) The Company shall file a report or proxy statement with the Securities and Exchange Commission pursuant to the Exchange Act disclosing in response to item 1 of Form 8-X thereunder or Item 5(f) of Schedule 14 A thereunder (or any successor schedule, form or report or item therein) that the change in control of the Company has or may have occurred or will or may occur in the future pursuant to any then-existing contract or transaction; or

(e) During any period of two (2) consecutive years, individuals who at the beginning of any such period constitute the directors of the Company cease for any reason to constitute at least a majority thereof unless the election to the nomination for election by the Company's shareholders of each director of the Company first elected during such period was approved by a vote of at least two-thirds of the directors of the Company then still in office who were directors of the Company at the beginning of such period.

6.8 Termination by Executive. At any time, Executive may terminate her employment by giving thirty (30) days advance written notice to the Company. The Company shall pay Executive all Accrued Compensation, but no other compensation or reimbursement of any kind, including without limitation, severance compensation, and thereafter the Company's obligations hereunder shall terminate.

6.9 Mitigation. Except as otherwise specifically provided herein, Executive shall not be required to mitigate the amount of any payment provided under this Agreement by seeking other employment or self-employment, nor shall the amount of any payment provided for under this Agreement be reduced by any compensation earned by Executive as a result of employment by another employer or through self-employment or by retirement benefits after the date of Executive's termination of employment from the Company.

6.10 Coordination. If upon termination of employment, Executive becomes entitled to rights under other plans, contracts or arrangements entered into by the Company, this Agreement shall be coordinated with such other arrangements so that Executive's rights under this Agreement are not reduced, and that any payments under this Agreement offset the same types of payments otherwise provided under such other arrangements, but do not otherwise reduce any payments or benefits under such other arrangements to which Executive becomes entitled.

## ARTICLE 7

### GENERAL PROVISIONS

7.1 Governing Law. The validity, interpretation, construction and performance of this Agreement and the rights of the parties thereunder shall be interpreted and enforced under California law without reference to principles of conflicts of laws. The parties expressly agree that inasmuch as the Company's headquarters and principal place of business are located in California, it is appropriate that California law govern this Agreement.

7.2 Assignment; Successors Binding Agreement.

(a) Executive may not assign, pledge or encumber her interest in this Agreement or any part thereof.

(b) The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company, by operation of law or by agreement in form and substance reasonably satisfactory to Executive, to assume and agree to perform this



Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place.

(c) This Agreement shall inure to the benefit of and be enforceable by Executive's personal or legal representatives, executors, administrators, successors, heirs, distributee, devisees and legatees. If Executive should die while any amount is at such time payable to her hereunder, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to Executive's devisee, legatee or other designee or, if there be no such designee, to her estate.

7.3 Certain Reduction of Payments. In the event that any payment or benefit received or to be received by Executive under this Agreement would result in all or a portion of such payment to be subject to the excise tax on "golden parachute payments" under Section 4999 of the Internal Revenue Code of 1986, as amended (the "Code"), then Executive's payment shall be either (a) the full payment or (b) such lesser amount which would result in no portion of the payment being subject to excise tax under Section 4999 of the Code, whichever of the foregoing amounts, taking into account the applicable Federal, state and local employment taxes, income taxes, and the excise tax imposed by Section 4999 of the Code, results in the receipt by Executive on an after-tax basis, of the greatest amount of the payment notwithstanding that all or some portion of the payment may be taxable under Section 4999 of the Code.

7.4 Notice. For the purposes of this Agreement, notices and all other communications provided for in this Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by certified or registered mail, return receipt requested, postage prepaid, addressed to the respective addresses set forth below or to such other address as either party may have furnished to the other in writing in accordance herewith, except that notice of change of address shall be effective only upon receipt.

To the Company:

Neurocrine Biosciences, Inc.  
10555 Science Center Drive  
San Diego, CA 92121  
Attn.: President & Chief Executive Officer

To Executive:

Margaret Valeur-Jensen, Ph.D., J.D.

7.5 Modification; Waiver; Entire Agreement. No provisions of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing signed by Executive and such officer as may be specifically designated by the Board of the Company. No waiver by either party hereto at any time of any breach by the other party of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or any prior or subsequent time. No agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not expressly set forth in this Agreement.

7.6 Validity. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

7.7 Controlling Document. Except to the extent described in Section 6.10, in case of conflict between any of the terms and condition of this Agreement and the document herein referred to, the terms and conditions of this Agreement shall control.

7.8 Executive Acknowledgment. Executive acknowledges (a) that she has consulted with or has had the opportunity to consult with independent counsel of her own choice concerning this Agreement, and has been advised to do so by the Company, and (b) that she has read and understands the Agreement, is fully aware of its legal effect, and has entered into it freely based on her own judgment.

7.9 Remedies.

(a) Injunctive Relief. The parties agree that the services to be rendered by Executive hereunder are of a unique nature and that in the event of any breach or threatened breach of any of the covenants contained herein, the damage or imminent damage to the value and the goodwill of the Company's business will be irreparable and extremely difficult to estimate, making any remedy at law or in damages inadequate. Accordingly, the parties agree that the Company shall be entitled to injunctive relief against Executive in the event of any breach or threatened breach of any such provisions by Executive, in addition to any other relief (including damage) available to the

Company under this Agreement or under law.

(b) Exclusive. Both parties agree that the remedy specified in Section 7.9(a) above is not exclusive of any other remedy for the breach by Executive of the terms hereof.

7.10 Counterparts. This Agreement may be executed in one or more counterparts, all of which taken together shall constitute one and the same Agreement.

7.11 Prevailing Party Expenses. In the event that any action or proceeding is commenced to enforce the provisions of the Agreement, the court adjudicating such action or proceeding shall award to the prevailing party all costs and expenses thereof, including, but not limited to, all reasonable attorneys' fees, court costs, and all other related expenses.

Executed by the parties as of the day and year first above written.

MARGARET VALEUR-JENSEN, PH.D, J.D.

NEUROCRINE BIOSCIENCES, INC

/s/Margaret Valeur-Jensen

/s/Gary A. Lyons

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Gary A. Lyons  
Chief Executive Officer and  
President

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Jan-01-2000  
Jun-30-2000

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