



**Neurocrine**  
BIOSCIENCES

2014 ANNUAL REPORT



Working as a team, Neurocrine’s R&D and clinical development groups possess the skills and experience to identify, select and optimize new compounds, to screen for therapeutic development, and to advance these compounds efficiently through clinical trials.

Neurocrine’s research and development efforts are focused on neurological and endocrine-related diseases and disorders.

PRODUCTS	INDICATION	PRECLINICAL	PHASE 1	PHASE 2	PHASE 3
<b>Elagolix</b>	Endometriosis				
<b>VMAT2 (NBI-98854)</b>	Tardive Dyskinesia				
<b>Elagolix</b>	Uterine Fibroids				
<b>CRF<sub>1</sub> Antagonist (NBI-77860)</b>	Classic Congenital Adrenal Hyperplasia				
<b>VMAT2 (NBI-98854)</b>	Tourette Syndrome				
<b>VMAT2</b>	Movement Disorders, Bipolar Disorder and Schizophrenia				
<b>GnRH Antagonists</b>	Men’s and Women’s Health, Oncology				
<b>AED’s</b>	Epilepsy, Essential Tremor, Pain				
<b>G Protein-Coupled Receptors</b>	Other Conditions				

We discover and develop innovative and life-changing pharmaceuticals, in diseases with high unmet medical needs, through our novel R&D platform, focused on neurological and endocrine based diseases and disorders. Our two lead late-stage clinical programs are elagolix, a gonadotropin-releasing hormone (GnRH) antagonist for women’s health that is partnered with AbbVie Inc., and a wholly owned vesicular monoamine transporter 2 (VMAT2) inhibitor for the treatment of movement disorders. We intend to maintain certain commercial rights to our VMAT2 inhibitor and evolve into a fully-integrated pharmaceutical company.

Dear Fellow Shareholders,

During 2014 we made exceptional progress across all of our clinical programs and 2015 is setting up to be another significant year with data read out from seven clinical trials in six indications from four novel compounds.

In our lead program, elagolix, AbbVie reported the topline results from the first of two large Phase III clinical trials for endometriosis on January 8, 2015. The results were very positive, with p-values of less than 0.001 for both doses of elagolix at both endpoints and all time points. This trial was a six-month, placebo-controlled study evaluating two doses of elagolix with the co-primary endpoints of dysmenorrhea and non-menstrual pelvic pain measured at month three and again at month six to show durability of response. Elagolix was found to be well tolerated and, importantly, the impact on bone mineral density was similar to that previously seen in the extensive Phase II program conducted by Neurocrine prior to partnering with AbbVie. This first Phase III trial is now in the six month safety extension phase with all patients receiving elagolix. AbbVie anticipates releasing top-line results from the second Phase III trial of elagolix in endometriosis patients in the fourth quarter of 2015. They are also conducting a 520 subject Phase IIb clinical trial of elagolix in patients with uterine fibroids; data from this trial is expected in the second half of 2015.

Our wholly owned VMAT-2 program for tardive dyskinesia saw a number of important events in 2014. Following the successful results from the Kinect 2 trial in early 2014, we held a very productive End of Phase II meeting with FDA. The Division of Psychiatry Products was supportive of the design of our single Phase III clinical trial, Kinect 3, the dose selection for the study, and the use of central video rating of the primary endpoint. NBI-98854 was also granted Breakthrough Therapy Designation for the treatment of tardive dyskinesia. To receive breakthrough designation a therapy has to be intended to treat a serious condition and show clinical evidence indicating that the drug may demonstrate substantial improvement over available therapies. Breakthrough Therapy Designation offers Neurocrine several regulatory advantages including enhanced communication with the FDA and a commitment from the Agency to expedite the development and review of the drug. The Kinect 3 trial is enrolling well and we anticipate top-line data in the second half of 2015.

In addition to tardive dyskinesia we have also begun evaluating NBI-98854 in children with Tourette syndrome. The initial trial is a pharmacokinetic study to determine the dose exposure relationship for our drug in both the adolescent and pediatric populations. The data from this trial will be available by year-end 2015 and we anticipate that this will enable us to begin Phase II studies.

In 2014 we launched a new clinical program in classic congenital adrenal hyperplasia (CAH). CAH is an orphan disease affecting approximately 30,000 patients in the United States. In its most common form, the hallmark of this disease is a deficiency in 21-hydroxylase, an enzyme that is necessary to produce cortisol. Cortisol is vital to maintain homeostasis, blood sugar levels, immunological and anti-inflammatory responses, blood pressure, and cardiovascular health. Without normal cortisol, the adrenal glands produce excessive androgens and other hormones driven by ACTH from the pituitary. Additionally, over 75 percent of all individuals with CAH also lack another adrenal hormone called

aldosterone, necessary for maintaining normal fluid volume of the body, sodium and potassium levels, and cardiovascular function. Females in particular are severely affected by classic CAH requiring daily administration of supra-therapeutic levels of synthetic glucocorticoids to regulate ACTH and androgen excess. The standard treatment with glucocorticoids causes a number of serious side effects such as obesity, metabolic syndrome, diabetes, bone abnormalities and stunted growth.

Our CAH program is investigating a proprietary Corticotropin Releasing Factor (CRF) inhibitor, NBI-77860. The goal of the program is to ameliorate or eliminate the side effects of glucocorticoid treatment in female CAH patients. During 2014 we completed an exploratory study in eight women with classic CAH and found profound responses in half of these subjects after only a single dose of NBI-77860. We have initiated two additional studies of our CRF inhibitor in CAH patients: a Phase Ib in adolescents and a Phase II in adults. Both studies will be completed by year-end 2015.

In addition to these programs we expect to file an IND on another compound discovered by our research group in the first half of 2015. This IND is in a neurological condition and is distinct from our current programs.

From a financial perspective, we are very well capitalized, and we continue to maintain a well-controlled burn. In February 2015, we completed a secondary offering, netting approximately \$270 million and anticipate ending 2015 with well over \$400 million in cash and investments and no outstanding debt.

2015 will be an unprecedented year of clinical trial data for Neurocrine with data from seven clinical trials in six indications from four novel compounds. If our programs progress as planned, this time next year we will have four programs in Phase III clinical trials.

I thank you for your trust and support as we continue to grow and become a fully developed biopharmaceutical company.

Best regards,

A handwritten signature in black ink that reads "Kevin Gorman". The signature is written in a cursive, flowing style.

Kevin C. Gorman  
President and Chief Executive Officer

**NEUROCRINE BIOSCIENCES, INC.**  
**12780 El Camino Real**  
**San Diego, CA 92130**

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**Notice of Annual Meeting of Stockholders**

**To Be Held on May 28, 2015**

TO THE STOCKHOLDERS:

NOTICE IS HEREBY GIVEN that the 2015 Annual Meeting of Stockholders of Neurocrine Biosciences, Inc., a Delaware corporation (the "Company"), will be held on May 28, 2015, at 10:30 a.m., local time, at the Company's corporate headquarters located at 12780 El Camino Real, San Diego, California 92130, for the following purposes as more fully described in the Proxy Statement accompanying this Notice:

1. The election of the three nominees for Class I Director named herein to the Board of Directors to serve for a term of three years;
2. An advisory vote on the compensation paid to the Company's named executive officers;
3. To approve an amendment to the Company's 2011 Equity Incentive Plan to increase the number of shares of common stock reserved for issuance thereunder from 8,500,000 to 13,500,000;
4. The ratification of the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2015; and
5. To transact such other business as may properly come before the Annual Meeting of Stockholders or any continuation, adjournment or postponement thereof.

Only stockholders of record at the close of business on April 1, 2015 are entitled to receive notice of and to vote at the Annual Meeting of Stockholders.

All stockholders are cordially invited to attend the Annual Meeting of Stockholders in person. However, to assure your representation at the Annual Meeting of Stockholders, you are urged to mark, sign, date and return the enclosed proxy card as promptly as possible in the postage prepaid envelope, or vote by telephone or internet (instructions have been provided on your proxy card). Stockholders attending the Annual Meeting may vote in person even if they have returned a proxy.

By Order of the Board of Directors,



*Darin Lippoldt*  
Chief Legal Officer and Corporate Secretary

San Diego, California  
April 30, 2015

**Important Notice Regarding the Availability of Proxy Materials for the Stockholders'  
Meeting to be Held on May 28, 2015 at 10:30 a.m. Local Time at  
12780 El Camino Real, San Diego, California 92130.**

**The proxy statement and annual report to stockholders are available at  
[www.proxyvote.com](http://www.proxyvote.com). Please have the control number on your proxy card available.**

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**NEUROCRINE BIOSCIENCES, INC.**

**12780 El Camino Real  
San Diego, California 92130**

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**PROXY STATEMENT**

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The enclosed Proxy is solicited on behalf of Neurocrine Biosciences, Inc., a Delaware corporation (the “Company” or “Neurocrine”), for use at its 2015 Annual Meeting of Stockholders (the “Annual Meeting”) to be held on May 28, 2015 beginning at 10:30 a.m., local time, or at any continuations, postponements or adjournments thereof for the purposes set forth in this proxy statement and the accompanying Notice of Annual Meeting of Stockholders. The Annual Meeting will be held at the Company’s corporate headquarters, located at 12780 El Camino Real, San Diego, California 92130. The Company’s phone number is (858) 617-7600.

This proxy statement is being first mailed on or about April 30, 2015 to all stockholders entitled to vote at the Annual Meeting.

**ABOUT THE ANNUAL MEETING**

***What is the purpose of the Annual Meeting?***

At the Annual Meeting, stockholders will act upon the matters outlined in the Notice of Annual Meeting of Stockholders on the cover page of this proxy statement, including the election of the three nominees for Class I Director named herein, an advisory vote on the compensation paid to the Company’s named executive officers, approval of an amendment increasing the number of shares of common stock reserved for issuance under the Company’s 2011 Equity Incentive Plan from 8,500,000 to 13,500,000, and ratification of the appointment of Ernst & Young LLP as the Company’s independent registered public accounting firm for the fiscal year ending December 31, 2015. In addition, management will report on the performance of the Company and respond to questions from stockholders.

***Who can attend the Annual Meeting?***

All stockholders of record at the close of business on April 1, 2015 (the “Record Date”), or their duly appointed proxies, may attend the Annual Meeting. If you attend, please note that you may be asked to present valid picture identification, such as a driver’s license or passport. Cameras, recording devices and other electronic devices will not be permitted at the Annual Meeting.

Please also note that if you hold your shares in “street name” (that is, through a broker or other nominee), you will need to bring a copy of a brokerage statement reflecting your stock ownership as of the record date and check in at the registration desk at the Annual Meeting.

***Who is entitled to vote at the Annual Meeting?***

Stockholders of record at the close of business on the Record Date are entitled to receive notice of and to participate in the Annual Meeting. At the close of business on the Record Date, 85,372,303 shares of the Company’s common stock, \$0.001 par value per share, were issued and outstanding. If you were a stockholder of record on that date, you will be entitled to vote all of the shares that you held on that date at the Annual Meeting, or any continuations, postponements or adjournments of the Annual Meeting.

Each outstanding share of the Company’s common stock will be entitled to one vote on each proposal considered at the Annual Meeting.

***What constitutes a quorum? What are broker non-votes? What are advisory votes?***

The presence at the Annual Meeting, in person or by proxy, of the holders of a majority of the aggregate voting power of the common stock outstanding on the Record Date will constitute a quorum, permitting the Company to conduct its business at the Annual Meeting. As of the Record Date, 85,372,303 shares of common stock, representing the same number of votes, were outstanding. Thus, the presence of the holders of common stock representing at least 42,686,152 shares will be required to establish a quorum. The presence of a quorum will be determined by the Inspector of Elections (the “Inspector”).

Proxies received but marked as abstentions, as well as “broker non-votes,” will be included in the calculation of the number of shares considered to be present at the Annual Meeting. Broker non-votes occur when a holder of shares in “street name” does not give instructions to the broker or nominee holding the shares as to how to vote on “non-routine” matters. Under the rules and interpretations of the New York Stock Exchange (the “NYSE”), “non-routine” matters are matters that may substantively affect the rights or privileges of stockholders, such as mergers, stockholder proposals and elections of directors, even if not contested. In addition, as required by Section 957 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, advisory votes on executive compensation is a non-routine matter for which brokers do not have discretionary authority to vote shares held by account holders. Only ratification of our independent registered public accounting firm under Proposal Four is considered a routine matter.

The vote on Proposal Two is advisory, the outcome of which will not be binding on the Company or the Board of Directors and neither will create or imply any change to the fiduciary duties of the Board of Directors. However, the Company and the Board of Directors will consider the results of the advisory vote on Proposal Two in making future decisions about compensation of the Company’s named executive officers.

***How do I vote?***

If you complete and properly sign the accompanying proxy card and return it to the Company, it will be voted as you direct. If you are a registered stockholder (that is, if you hold your stock in certificate form and attend the Annual Meeting), you may deliver your completed proxy card in person. “Street name” stockholders who wish to vote at the Annual Meeting will need to obtain a proxy form from the institution that holds their shares.

The cost of solicitation of proxies will be borne by the Company. The Company will reimburse expenses incurred by brokerage firms and other persons representing beneficial owners of shares in forwarding solicitation material to beneficial owners. To assist in soliciting proxies (votes), the Company may retain a professional proxy solicitation firm, at an approximate cost of \$10,000. Proxies also may be solicited by certain of the Company’s directors, officers and regular employees, without additional compensation, personally, by telephone or by other appropriate means.

***Can I vote by telephone or electronically?***

If you are a registered stockholder you may vote by telephone, or electronically through the Internet, by following the instructions included with your proxy card. If your shares are held in “street name,” please check your proxy card or contact your broker or nominee to determine whether you will be able to vote by telephone or electronically. The deadline for voting by telephone or electronically is 11:59 p.m., Eastern Time, on May 27, 2015.

***Can I change my vote after I return my proxy card?***

Yes. Even after you have submitted your proxy, you may change your vote at any time before the proxy is exercised by filing with the Corporate Secretary of the Company either a notice of revocation or a duly executed proxy bearing a later date. Your proxy will also be revoked if you attend the Annual Meeting and vote in person. Attendance at the Annual Meeting will not by itself revoke a previously granted proxy.



***What does it mean if I receive more than one set of proxy materials?***

If you receive more than one set of proxy materials, your ordinary shares are registered in more than one name or are registered in different accounts. Please complete, sign and return each proxy card to ensure that all of your shares are voted.

***What are the Board of Directors' recommendations?***

Unless you give other instructions on your proxy card, the persons named as proxy holders on the proxy card will vote in accordance with the recommendations of the Board of Directors. The Board of Directors' recommendation is set forth together with the description of each item in this proxy statement. In summary, the Board of Directors recommends a vote:

- *for* election of the three nominees for Class I Director named herein (see Proposal One);
- *for* an advisory vote on the compensation paid to the Company's named executive officers (see Proposal Two);
- *for* approval of the amendment to the Company's 2011 Equity Incentive Plan to increase the number of shares of common stock reserved for issuance thereunder from 8,500,000 to 13,500,000 (see Proposal Three); and
- *for* ratification of the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2015 (see Proposal Four).

With respect to any other matter that properly comes before the meeting, the proxy holders will vote as recommended by the Board of Directors or, if no recommendation is given, in their own discretion.

***What vote is required to approve each item?***

**Election of Directors.** The affirmative vote of a plurality of the votes cast at the Annual Meeting is required for the election of directors. A properly executed proxy marked "WITHHOLD AUTHORITY" with respect to the election of one or more directors will not be voted with respect to the director or directors indicated, although it will be counted for purposes of determining whether there is a quorum.

**Other Items.** For each item, the affirmative vote of the holders of a majority of the shares represented in person or by proxy and entitled to vote on the item will be required for approval. A properly executed proxy marked "ABSTAIN" with respect to any such matter will not be voted, although it will be counted for purposes of determining the number of shares represented in person or by proxy at the Annual Meeting. Accordingly, an abstention will have the effect of a negative vote. If you hold your shares in "street name" through a broker or other nominee, your broker or nominee will not be permitted to exercise voting discretion with respect to each of the matters to be acted upon, other than Proposal Four. Thus, if you do not give your broker or nominee specific instructions, your shares will not be voted on and will not be counted. Shares represented by such "broker non-votes" will, however, be counted in determining whether there is a quorum.

***Who counts the votes?***

Votes cast by proxy or in person at the Annual Meeting will be tabulated by the Inspector.

***What proxy materials are available on the Internet?***

The proxy statement and annual report to stockholders are available on the Internet at [www.proxyvote.com](http://www.proxyvote.com). Please have the control number on your proxy card available.

***How can I find out the results of the voting at the Annual Meeting?***

Preliminary voting results will be announced at the Annual Meeting. In addition, final voting results will be published in a current report on Form 8-K that we expect to file within four business days after the Annual Meeting. If final voting results are not available to us in time to file a Form 8-K within four business days after the meeting, we intend to file a Form 8-K to publish preliminary results and, within four business days after the final results are known to us, file an amended Form 8-K to publish the final results.

## STOCK OWNERSHIP

### *Who are the principal stockholders, and how much stock does management own?*

The following table sets forth the beneficial ownership of the Company's common stock as of March 15, 2015 by (i) each of the executive officers named in the table under the heading "Summary Compensation Table," (ii) each current director, (iii) all current directors and executive officers as a group and (iv) all persons known to the Company to be the beneficial owners of more than 5% of the Company's common stock. The table is based upon information supplied by our executive officers, directors and principal stockholders and a review of Schedules 13D and 13G, if any, filed with the Securities and Exchange Commission (the "SEC"). A total of 85,260,525 shares of the Company's common stock were issued and outstanding as of March 15, 2015.

<u>Name and Address of Beneficial Owner (1)</u>	<u>Number of Shares of Common Stock Owned (2)</u>	<u>Number of Shares of Common Stock Acquirable Within 60 Days (3)</u>	<u>Total Number of Shares of Common Stock Beneficially Owned (4)</u>	<u>Percent Ownership</u>
FMR LLC (5) . . . . . 82 Devonshire Street, Boston, MA 02109	11,400,773	—	11,400,773	13.4%
T. Rowe Price Associates, Inc. (6) . . . . . 100 East Pratt Street, Baltimore, MD 21202	10,069,239	—	10,069,239	11.8%
BlackRock, Inc. (7) . . . . . 40 East 52 <sup>nd</sup> Street, New York, NY 10022	6,347,260	—	6,347,260	7.4%
Kevin C. Gorman, Ph.D. . . . .	188,452	751,137	939,589	1.1%
Timothy P. Coughlin . . . . .	101,374	407,036	508,410	*
Christopher F. O'Brien, M.D. . . . .	100,044	361,724	461,768	*
Dimitri E. Grigoriadis, Ph.D. . . . .	80,308	219,580	299,888	*
Haig P. Bozigian, Ph.D. . . . .	81,829	279,580	361,409	*
William H. Rastetter, Ph.D. . . . .	—	103,333	103,333	*
Gary A. Lyons . . . . .	297,066	88,749	385,815	*
Corinne H. Nevinny . . . . .	3,273	103,749	107,022	*
W. Thomas Mitchell . . . . .	1,000	43,749	44,749	*
Joseph A. Mollica, Ph.D. . . . .	19,175	98,749	117,924	*
Richard F. Pops . . . . .	3,273	103,749	107,022	*
Stephen A. Sherwin, M.D. . . . .	2,806	103,749	106,555	*
All current executive officers and directors as a group (15 persons) . . . . .	905,213	2,883,962	3,789,175	4.3%

\* Represents beneficial ownership of less than one percent (1%) of the outstanding shares of the Company's common stock as of March 15, 2015.

- (1) The address of each beneficial owner named is c/o Neurocrine Biosciences, Inc., 12780 El Camino Real, San Diego, CA 92130, unless otherwise indicated.
- (2) Represents shares of common stock owned, excluding shares of common stock subject to stock options that are listed under the heading "Number of Shares of Common Stock Acquirable Within 60 Days," by the named parties as of March 15, 2015.
- (3) Shares of common stock subject to stock options currently exercisable or exercisable within 60 days of March 15, 2015, regardless of exercise price, are deemed to be outstanding for computing the percentage ownership of the person holding such options and the percentage ownership of any group of which the holder is a member, but are not deemed outstanding for computing the percentage of any other person.
- (4) Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities. Except as indicated by footnote, and subject to community

property laws where applicable, the Company believes that the persons named in the table have sole voting and investment power with respect to all shares of common stock shown as beneficially owned by them.

- (5) Based on Amendment No. 5 to Schedule 13G filed by FMR LLC (“FMR”) on February 13, 2015, reporting ownership as of December 31, 2014. According to such filing, FMR beneficially owns 11,400,773 shares of common stock and sole voting power as to 849,588 shares of common stock. Various persons have the right to receive or the power to direct the receipt of dividends from, or the proceeds from the sale of, the common stock held by FMR.
- (6) Based on Amendment No. 3 to Schedule 13G filed by T. Rowe Price Associates, Inc. (“Price Associates”) filed on February 10, 2015, reporting ownership as of December 31, 2014. According to such filing, Price Associates beneficially owns 10,069,239 shares of common stock and sole voting power as to 1,701,843 shares of common stock. These securities are owned by various individual and institutional investors which Price Associates serves as an investment adviser with power to direct investments and/or sole power to vote the securities. For the purposes of the reporting requirements of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), Price Associates is deemed to be a beneficial owner of such securities; however, Price Associates expressly disclaims that it is, in fact, the beneficial owner of such securities.
- (7) Based on Amendment No. 2 to Schedule 13G filed by BlackRock, Inc. (“BlackRock”) on January 25, 2015, reporting ownership as of December 31, 2014. Various persons have the right to receive or the power to direct the receipt of dividends from, or the proceeds from the sale of shares of the common stock held by BlackRock. No one person’s interest in the common stock held by BlackRock is more than five percent of the Company’s total outstanding common stock.

#### ***Section 16(a) Beneficial Ownership Reporting Compliance***

Section 16(a) of the Exchange Act requires the Company’s officers and directors, and persons who beneficially own 10% or greater of a registered class of the Company’s equity securities, to file reports of ownership on Form 3 and reports of changes in ownership on Form 4 or Form 5 with the SEC. Such officers, directors and 10% or greater stockholders are also required by SEC rules to furnish the Company with copies of all Section 16(a) forms they file. Based solely on its review of the copies of such forms received by it, and written representations from certain reporting persons, the Company believes that its officers, directors and 10% or greater stockholders complied with all Section 16(a) filing requirements applicable to them during the fiscal year ended December 31, 2014.

## BOARD OF DIRECTORS AND COMMITTEES

### General

The Company's bylaws, as amended, provide that the Board of Directors will be comprised of eight directors. The Company's Certificate of Incorporation provides that the Board of Directors is divided into three classes. There are currently three directors in Class I (William H. Rastetter, Ph.D., W. Thomas Mitchell and Joseph A. Mollica, Ph.D.), three directors in Class II (Corinne H. Nevinny, Richard F. Pops and Stephen A. Sherwin, M.D.), and two directors in Class III (Kevin C. Gorman, Ph.D. and Gary A. Lyons ). With the exception of Kevin C. Gorman, Ph.D., who is the President and Chief Executive Officer of Neurocrine, all current members of the Board of Directors meet the definition of "independent director" under the Nasdaq Stock Market qualification standards.

The directors in Class I hold office until the 2015 Annual Meeting of Stockholders, the directors in Class II hold office until the 2016 Annual Meeting of Stockholders and the directors in Class III hold office until the 2017 Annual Meeting of Stockholders (or, in each case, until their earlier resignation, removal from office, or death). After each such election, the directors in each such case will then serve in succeeding terms of three years and until a successor is duly elected and qualified. Officers of the Company serve at the discretion of the Board of Directors. There are no family relationships among the Company's directors and executive officers.

The term of office for directors William H. Rastetter, Ph.D., W. Thomas Mitchell and Joseph A. Mollica, Ph.D. will expire at the 2015 Annual Meeting. At the 2015 Annual Meeting, the stockholders will elect three Class I directors for a term of three years.

### Director Biographies

**Kevin C. Gorman, Ph.D.** has been employed with the Company since 1993. He was appointed President and Chief Executive Officer in January 2008 after having served as Executive Vice President and Chief Operating Officer since September 2006 and prior to that, as Executive Vice President and Chief Business Officer and Senior Vice President of Business Development. He has served on the Board of Directors since January 2008. From 1990 until 1993, Dr. Gorman was a principal of Avalon Medical Partners, L.P. where he was responsible for the early stage founding of the Company and several other biotechnology companies such as Onyx Pharmaceuticals, Inc., Metra Biosystems, Inc., Idun Pharmaceuticals, Inc. and ARIAD Pharmaceuticals, Inc. Dr. Gorman received his Ph.D. in immunology and M.B.A. in Finance from the University of California, Los Angeles and did further post-doctoral training at The Rockefeller University.

**William H. Rastetter, Ph.D.** has served on the Board of Directors since February 2010 and as Chairman of the Board of Directors since May 2011. Currently, he serves as the Chairman of the Board of Directors for Fate Therapeutics, a publicly traded company focused on stem cell research; as Chairman of the Board of Directors of Receptos, Inc., a publicly traded company focused on small molecule drug discoveries. Dr. Rastetter also serves on the Board of Directors at Regulus Therapeutics, a publicly traded company focused on RNA based therapeutics, and as the Lead Outside Director for Cerulean Pharma, Inc., a private company focused on innovative oncology therapies. Dr. Rastetter has served on the Board of Directors of Illumina, Inc. since November 1999 and has been the non-executive Chairman at Illumina since January 2005. He was a partner in the venture capital firm, Venrock, from 2006 through early 2013 and was Executive Chairman of Biogen Idec, Inc. from 2003 to 2005. Earlier, he served as Chairman and Chief Executive Officer of IDEC Pharmaceuticals Corporation until its merger with Biogen in 2003; he joined IDEC Corporation as its Chief Executive Officer at the company's founding in 1986. From 1984 to 1986, Dr. Rastetter was Director of Corporate Ventures at Genentech, where from 1982 to 1984 he held scientific positions. Dr. Rastetter held various faculty positions at the Massachusetts Institute of Technology and Harvard University and is an Alfred P. Sloan Fellow. Dr. Rastetter holds an S.B. in Chemistry from the Massachusetts Institute of Technology and received his M.A. and Ph.D. in Chemistry from Harvard University.

**Gary A. Lyons** has served on the Board of Directors since joining Neurocrine in February 1993. Mr. Lyons served as the President and Chief Executive Officer of the Company from February 1993 through January 2008. Prior to joining the Company, Mr. Lyons held a number of senior management positions at Genentech, Inc., including Vice President of Business Development and Vice President of Sales. Mr. Lyons currently serves on the Boards of Directors for Rigel Pharmaceuticals, Inc., a biotechnology company focused on developing drugs for the treatment of inflammatory/autoimmune and metabolic diseases, Vical Incorporated, a biotechnology company focused on the prevention and treatment of serious or life-threatening diseases, Cytori Therapeutics, a company focused on stem cell therapies, KaloBios Pharmaceuticals, Inc., a company developing patient targeted, first in-class monoclonal antibodies and Retrophin, Inc., a company focused on developing drugs for the treatment of debilitating and often life-threatening diseases. Mr. Lyons was previously a director of PDL BioPharma, Inc., Poniard Pharmaceuticals, Inc., Neurogesx, and Facet Biotech Corporation. Mr. Lyons holds a B.S. in marine biology from the University of New Hampshire and an M.B.A. from Northwestern University's J.L. Kellogg Graduate School of Management.

**W. Thomas Mitchell** has served on the Board of Directors since November 2002. Mr. Mitchell is the former Chairman of the Board and Chief Executive Officer of Genencor International, a biotechnology company. Under his guidance, Genencor's revenues grew from under \$30 million to over \$325 million. In addition, he successfully managed the acquisition and integration of three major businesses to build the global enterprise that is now Genencor. An industry leader, Mr. Mitchell has participated in a number of important policy initiatives including the 1999 federal executive order that created the national bioenergy initiative. He also served as a member of the Governor's Council on Biotechnology in California, which was responsible for helping to improve the state's competitiveness in the mid-1990's. Mr. Mitchell previously served on the Board of Directors of DJO, Inc., a medical device company, where he was a member of the audit committee. He also served on the Advisory Boards of the Chemical Engineering School at Cornell University and the University of Iowa's School of Engineering. Mr. Mitchell received his B.S. in chemical engineering from Drexel University. He also completed the Executive Development Program at the University of Michigan.

**Joseph A. Mollica, Ph.D.** has served on the Board of Directors since June 1997 and as Chairman of the Board from 1998 until 2011. From 2004 to 2008, Dr. Mollica served as the Chairman of the Board of Pharmacopeia Drug Discovery, Inc., a biopharmaceutical company focused on drug discovery and development. From 1994 to 2004, Dr. Mollica served as the Chairman of the Board of Directors, President and Chief Executive Officer of Accelrys, Inc., the former parent of Pharmacopeia Drug Discovery. From 1987 to December 1993, Dr. Mollica served as Vice President, Medical Products of DuPont Company and then as President and CEO of DuPont Merck Pharmaceutical Company from 1991 to 1993. At Ciba-Geigy Ltd., where he was employed from 1966 to 1986, he served in a variety of positions of increasing responsibility, rising to Senior Vice President of Ciba-Geigy's Pharmaceutical Division. Dr. Mollica is currently the Chairman of the Board of Celator Pharmaceuticals, Inc., an oncology focused biotechnology company, and was previously a director of Cytogen Corporation, Redpoint Bio Corporation and Genencor International. He received his B.S. from the University of Rhode Island, his M.S. and Ph.D. from the University of Wisconsin and his Sc.D.h.c. from the University of Rhode Island.

**Corinne H. Nevinny** has served on the Board of Directors since June 2004. Ms. Nevinny is currently a General Partner of LMNVC LLC, a privately held venture firm. From 2003 to 2010, Ms. Nevinny held various positions at Edwards Lifesciences, Inc., the global leader in the science of heart valves and hemodynamic monitoring. She served as Corporate Vice President and the General Manager of the Cardiac Surgery Systems and Vascular business units, was responsible for Edwards' global operations and served as Chief Financial Officer and Treasurer. Before joining Edwards in 2003, Ms. Nevinny was Vice President, Chief Financial Officer of Tularik, Inc., a company involved in the discovery and development of drugs based on gene regulation, which was sold to Amgen, Inc. in 2004. Prior to joining Tularik, she was Executive Director-Health Care Group at Warburg Dillon Read LLC, an investment bank. Ms. Nevinny was previously on the Board of Directors of Onyx Pharmaceuticals, Inc., a biopharmaceutical company focused on the treatment of cancer that was sold to Amgen during 2013, and the Board of Directors at Avanir Pharmaceuticals, Inc., a biopharmaceutical company focused



on central nervous system disorders that was acquired by Otsuka Pharmaceutical in 2015. Ms. Neviny received her undergraduate degree in industrial engineering from Stanford University and her Master's degree in business administration from Harvard Business School.

**Richard F. Pops** has served on the Board of Directors since April 1998. Mr. Pops is the Chairman and Chief Executive Officer of Alkermes, Inc. He joined Alkermes as Chief Executive Officer in February 1991. Under his leadership, Alkermes has grown from a privately held research based company with 25 employees to an international, publicly traded pharmaceutical company with more than 1,300 employees. In addition to Alkermes, he currently serves on the Board of Directors of: Acceleron Pharma, Inc., a biotechnology company focused on musculoskeletal and metabolic therapeutics; Epizyme Corporation, a biotechnology company focused on epigenetics; the Biotechnology Industry Organization; and the Pharmaceutical Research and Manufacturers of America (PhRMA). He has previously served on the board of directors of two other publicly traded biopharmaceutical companies, Sirtris Pharmaceuticals from 2004 to 2008, and CombinatoRx, Incorporated from 2001 to 2009. Mr. Pops also served on the board of directors of Reliant Pharmaceuticals, a privately held pharmaceutical company purchased by GlaxoSmithKline in 2007, and on the advisory board of Polaris Venture Partners. He was a member of the Harvard Medical School Board of Fellows through June 2012. In 2014 Mr. Pops was appointed to FasterCures' Value & Coverage Advisory Council, which is designed to provide guidance on fostering a coverage and reimbursement environment that incentivizes biomedical innovation and ensures that patients have meaningful access to life-saving therapies. He holds a B.A. in economics from Stanford University.

**Stephen A. Sherwin, M.D.** has served on the Board of Directors since April 1999. Dr. Sherwin currently divides his time between advisory work in the life science industry and patient care and teaching in his specialty of medical oncology. He is a Clinical Professor of Medicine at the University of California, San Francisco, and a volunteer Attending Physician in Hematology-Oncology at San Francisco General Hospital. Dr. Sherwin currently serves on the Board of Directors of Biogen Idec, Rigel Pharmaceuticals, Verastem, Inc. and Vical Incorporated and is also a member of the board and chairman emeritus of the Biotechnology Industry Organization. Previously Dr. Sherwin was chairman and chief executive officer of Cell Genesys, a cancer immunotherapy company, from 1990 until the company's merger with BioSante Pharmaceuticals in 2009. He was also a co-founder and chairman of Abgenix, an antibody company which was acquired by Amgen in 2006, and co-founder and chairman of Ceregene, a gene therapy company which was acquired by Sangamo Biosciences in 2013. From 1983 to 1990, Dr. Sherwin held various positions in clinical research at Genentech, most recently that of Vice President. Prior to 1983, he was on the staff of the National Cancer Institute. Dr. Sherwin holds a B.A. in biology summa cum laude from Yale University and an M.D. from Harvard Medical School, and is board-certified in internal medicine and medical oncology.

## CORPORATE GOVERNANCE

### General

*We have long believed that good corporate governance is important to ensure that Neurocrine is managed for the long-term benefit of its stockholders. We periodically review our corporate governance policies and practices. The Board of Directors has adopted Corporate Governance Guidelines which describe our corporate governance practices and address corporate governance issues such as Board composition, responsibilities and director qualifications. These guidelines are available at [www.neurocrine.com](http://www.neurocrine.com).*

### **What is the Board's leadership structure?**

It is the Company's policy to separate the roles of Chief Executive Officer and Chairman of the Board. This separation recognizes the independent roles of the Board of Directors, Chairman of the Board and Chief Executive Officer. The Board of Directors sets Company strategy and provides oversight and accountability for the Chief Executive Officer and Company management. The Chairman of the Board presides over the Board of Directors and provides guidance to the Chief Executive Officer. The Chief Executive Officer and the balance of

the Board of Directors set Company goals with the Chief Executive Officer providing leadership and day to day oversight in furtherance of those goals. The Company believes that separation of the Board of Directors and Company leadership preserves the independence of these roles and maximizes performance.

***Are the members of the Board independent?***

The Board of Directors annually reviews the independence of each of the directors. With the exception of Kevin C. Gorman, Ph.D., who is the President and Chief Executive Officer of Neurocrine, all current members of the Board of Directors meet the definition of “independent director” under the Nasdaq Stock Market qualification standards.

***How often did the Board meet during fiscal 2014?***

The Board of Directors held a total of five meetings during 2014. For 2014, the Board of Directors had an Audit Committee, a Compensation Committee and a Nominating/Corporate Governance Committee. Charters for each of these committees have been established and approved by the Board of Directors and copies of the charters for each of the committees have been posted on the Company’s website at [www.neurocrine.com](http://www.neurocrine.com). During 2014, no director attended fewer than 75% of the aggregate of the total meetings of the Board of Directors and no director attended fewer than 75% of the total number of meetings held by all committees of the Board of Directors on which such director served.

***What are the various committees of the Board and which directors are on those committees?***

The Company’s Audit Committee is comprised entirely of directors who meet the independence requirements set forth in Nasdaq Stock Market Rule 5605(c)(2)(A). Information regarding the functions performed by the committee, its membership, and the number of meetings held during the fiscal year is set forth in the “Report of the Audit Committee,” included in this annual proxy statement. The members of the Audit Committee are Corinne H. Nevinny, Richard F. Pops and Stephen A. Sherwin, M.D. The Board of Directors has determined that Corinne H. Nevinny, Richard F. Pops and Stephen A. Sherwin, M.D. are “audit committee financial experts” within the meaning of item 407(d)(5) of SEC Regulation S-K. The Company’s Compensation Committee consists of directors Richard F. Pops, W. Thomas Mitchell and Joseph Mollica, Ph.D. This committee met six times during 2014. The Compensation Committee reviews and recommends to the Board of Directors the compensation of executive officers and other employees of the Company. Under its charter, the Compensation Committee may form, and delegate authority to, subcommittees as appropriate. Each of the current members of the Compensation Committee is an “independent director” as defined by Nasdaq Stock Market Rule 5605(a)(2).

The Company also has a Nominating/Corporate Governance Committee currently comprised of W. Thomas Mitchell, Joseph A. Mollica, Ph.D. and Gary A. Lyons, all of whom are “independent directors” as defined by Nasdaq Stock Market Rule 5605(a)(2). The Nominating/Corporate Governance Committee is responsible for developing and implementing policies and practices relating to corporate governance, including administration of the Company’s Code of Business Conduct and Ethics, which applies to all of the Company’s officers, directors and employees, and is available on the Company’s website at [www.neurocrine.com](http://www.neurocrine.com). The functions of this committee also include consideration of the composition of the Board of Directors and recommendation of individuals for election as directors of the Company. The Nominating/Corporate Governance Committee will consider nominees recommended by stockholders, provided such nominations are made pursuant to the Company’s bylaws and applicable law. The committee met twice during 2014.



### ***What is our director nomination process?***

In selecting non-incumbent candidates and reviewing the qualifications of incumbent candidates for the Board of Directors, the Nominating/Corporate Governance Committee considers the Company's corporate governance principles, which include the following:

Directors should possess the highest ethics, integrity and values, and be committed to representing the long-term interest of the stockholders. They also must have experience they can draw upon to help direct the business strategies of the Company together with sound judgment. They must be actively engaged in the pursuit of information relevant to the Company's business and must constructively engage their fellow Board members and management in dialogue and the decision-making process.

Directors must be willing to devote sufficient time to carrying out their duties and responsibilities effectively, and should be committed to serve on the Board of Directors for an extended period of time.

Directors should notify the Chairman of the Board and Chairman of the Nominating/Corporate Governance Committee in the event of any significant change in their employment responsibilities or affiliations. Director nominees should meet the Director Qualification requirements set forth in the Company's Corporate Governance Guidelines.

In evaluating director nominees, the Nominating/Corporate Governance Committee considers the following factors: personal and professional integrity, ethics and values including any potential conflicts of interest; experience in corporate management, such as serving as an officer or former officer of a publicly held company; experience as a board member of another publicly held company; and additionally, for nominees seeking re-election, meeting attendance and participation and compliance with Company policies.

It is the Company's policy to have a diversity of skills, professional experience, education, associations, achievements, training, points of view and individual qualities and attributes represented on the Board of Directors. The Nominating/Corporate Governance Committee considers the diversity of the Board of Directors when evaluating candidates for election or re-election to the Board of Directors.

The Nominating/Corporate Governance Committee's goal is to assemble a Board of Directors that brings to the Company a variety of perspectives and skills derived from high quality business and professional experience. In doing so, the Nominating/Corporate Governance Committee also considers candidates with appropriate non-business backgrounds.

In addition to the foregoing, the Nominating/Corporate Governance Committee Charter and Corporate Governance Guidelines set forth minimum criteria for director nominees. The Nominating/Corporate Governance Committee may also consider such other facts as it may deem are in the best interests of the Company and its stockholders. The Nominating/Corporate Governance Committee does, however, believe that at least one, and preferably several members of the Board of Directors, meet the criteria for an "audit committee financial expert" as defined by SEC rules. The following paragraphs provide information as of the date of this proxy statement about the specific experience, qualifications, attributes and skills of each nominee and current member of the Board of Directors that led the Board to conclude that such person should serve as a director. In addition to the information below regarding each Board member, we also believe that all of our directors have a reputation for honesty, integrity and highest ethical standards. They each have demonstrated business acumen, an ability to exercise sound judgment and a commitment to serve the Company.

### **Class I Directors Nominated for Re-election at the 2015 Annual Meeting**

The nomination of *W. Thomas Mitchell* for election to the Company's Board of Directors is based on his proven ability to build companies on a global scale. Under Mr. Mitchell's leadership, Genencor International substantially increased its revenues and through acquisition and integration of businesses grew on an international scale. In addition to his strategic company experience, Mr. Mitchell brings experience in public policy initiatives and finance to the Company's Board of Directors.

The nomination of **Joseph A. Mollica, Ph.D.** for election to the Company's Board of Directors is based on his years of experience in the pharmaceutical industry including his wide range of leadership experience, roles and responsibilities with companies such as Pharmacopeia Drug Discovery, Inc., Accelrys, Dupont Company, Dupont Merck Pharmaceutical Company and Ciba-Geigy and his service on a number of life science company Boards. Dr. Mollica contributes a significant history and depth of experience in the biopharmaceutical industry to the Board of Directors.

The nomination of **William H. Rastetter, Ph.D.** for election to the Company's Board of Directors is based on Dr. Rastetter's scientific and technical expertise combined with his business experience in leading rapidly growing companies in the life science industry. The Company's continued growth is dependent on scientific and technical advances, and the Board of Directors believes that Dr. Rastetter offers both strategic and technical insight into the risks and opportunities associated with our business. In addition, Dr. Rastetter's board and executive leadership experience at other life science companies provides valuable strategic and governance insight to the Board of Directors as a whole.

### **Class II Directors Continuing Until 2016 Annual Meeting**

The continued service of **Corinne H. Neviny** on the Company's Board of Directors is based on her global expertise as a prior President for Global Operations of Edward Lifesciences, Inc., her financial background as a prior Chief Financial Officer for Edwards Lifesciences and Tularik, Inc. and her capital markets experience as Executive Director-Health Care Group at Warburg Dillon Read LLC. Her combination of financial, global and capital markets experience has in the past, and will in the future, help guide the Company's financial and capital strategies.

The continued service of **Richard F. Pops** on the Company's Board of Directors is based on his leadership experience and track record for growing companies, his strength in business strategy and his financial acumen and capital markets experience. In addition, Mr. Pops is recognized for his service to the biopharmaceutical industry as a member of the Boards of the Biotechnology Industry Organization and the Pharmaceutical Research and Manufacturers of America. His breadth and range of industry experience from operations and strategy is a significant contribution to the Board of Directors.

The continued service of **Stephen A. Sherwin, M.D.** on the Company's Board of Directors is based on his experience and credentials in the biotechnology industry as the former Chief Executive Officer of Cell Genesys, Inc., the former chairman and co-founder of Abgenix, Inc., the chairman and co-founder of Ceregene, Inc., and his positions at Genentech, Inc. and the National Cancer Institute. Dr. Sherwin is also currently Chairman Emeritus of the Biotechnology Industry Organization. In addition to his biotechnology credentials, Dr. Sherwin's medical expertise in internal medicine and medical oncology provides a unique contribution to the Board of Directors.

### **Class III Directors Continuing Until 2017 Annual Meeting**

The continued service of **Kevin C. Gorman, Ph.D.** on the Company's Board of Directors is based on the fact that as President and Chief Executive Officer of the Company, Dr. Gorman has extensive knowledge of our product candidates, our employees and the industry in which we operate. Dr. Gorman has also demonstrated exceptional leadership skills, sound business judgment and a strong commitment to the Company.

The continued service of **Gary A. Lyons** for election to the Company's Board of Directors is based on Mr. Lyons' extensive business development experience and, as the Company's former Chief Executive Officer, his in-depth understanding of the Company's product candidates, management and culture. With this history with the Company and management, Mr. Lyons brings a unique perspective and point of view to the Company's Board of Directors.

## **Identification and Evaluation of Nominees for Director**

The Nominating/Corporate Governance Committee identifies nominees for director by first evaluating the current members of the Board of Directors willing to continue in service. Current members with qualifications and skills that are consistent with the Nominating/Corporate Governance Committee's criteria for service and who are willing to continue are considered for re-nomination, balancing the value of continuity of service by existing members of the Board of Directors with that of obtaining members who would offer a new perspective. If any member of the Board of Directors does not wish to continue in service, or if the Board of Directors decides not to re-nominate a member for re-election, the Nominating/Corporate Governance Committee identifies the desired skills and experience of a new nominee in light of the criteria above. The Nominating/Corporate Governance Committee generally polls the Board of Directors and members of management for their recommendations and may also seek input from third-party search firms. The Nominating/Corporate Governance Committee may also seek input from industry experts or analysts. The Nominating/Corporate Governance Committee reviews the qualifications, experience and background of the candidates. Final candidates are then interviewed by the Company's independent directors and executive management. In making its determinations, the Nominating/Corporate Governance Committee evaluates each individual in the context of the Company's Board of Directors as a whole, with the objective of assembling a group that can best perpetuate the success of the Company and represent stockholder interests through the exercise of sound judgment. After review and deliberation of all feedback and data, the Nominating/Corporate Governance Committee makes its recommendation to the Board of Directors.

We have not received director candidate recommendations from the Company's stockholders and do not have a formal policy regarding consideration of such recommendations. However, any recommendations received from stockholders will be evaluated in the same manner that potential nominees suggested by members of our Board of Directors, management or other parties are evaluated. Accordingly, our Board of Directors believes a formal policy regarding consideration of such recommendations is unnecessary.

### ***What is our process for stockholder communications with the Board of Directors?***

Stockholders of the Company wishing to communicate with the Company's Board of Directors or an individual director may send a written communication to the Board of Directors or such director c/o Neurocrine Biosciences, Inc., 12780 El Camino Real, San Diego, CA 92130, Attn: Corporate Secretary. Each communication must set forth:

- the name and address of the Company stockholder on whose behalf the communication is sent; and
- the number of Company shares that are owned beneficially by such stockholder as of the date of the communication.

Each stockholder communication will be reviewed by the Company's Corporate Secretary to determine whether it is appropriate for presentation to the Board or such director. Examples of inappropriate communications include advertisements, solicitations or hostile communications.

Communications determined by the Corporate Secretary to be appropriate for presentation to the Board or such director will be submitted to the Board or such director on a periodic basis.

### ***What is the Board's role in risk oversight?***

While the Board of Directors has ultimate oversight responsibility for the risk management process, it has delegated portions of this responsibility to various committees. The Board of Directors and committees oversee risk throughout the business with focus on financial risk, legal/compliance risk and strategic risk. The Audit Committee focuses on financial risk and internal controls and receives an annual financial risk assessment from the Company's independent registered public accounting firm. The Nominating/Corporate Governance

Committee and Audit Committee each focus on legal/compliance risk with the Nominating/Corporate Governance Committee taking the lead on the governance and management process and the Audit Committee taking the lead on SEC reporting and compliance. The Compensation Committee addresses compensation policies and practices as they relate to risk management practices and risk-taking incentives. The participation of the full Board of Directors in setting the Company's business strategy incorporates assessment of strategic risk for the Company overall.

***How do the Company's compensation policies and practices relate to risk management practices and risk-taking incentives?***

During 2014, the Compensation Committee, in conjunction with the Board of Directors, continued an assessment of how the Company's compensation policies and practices relate to risk management practices and risk-taking incentives. As part of the process, the Compensation Committee engaged the services of an external, independent compensation consulting firm to conduct an independent risk assessment. Based on this assessment, the Compensation Committee concluded that the Company's compensation policies and practices do not create risks that are reasonably likely to have a material adverse effect on the Company.

***What is our policy regarding Board member attendance at the Company's Annual Meeting?***

The Company does not have a formal policy regarding attendance by members of the Board of Directors at the Annual Meeting. Directors Kevin C. Gorman, Ph.D. and William H. Rastetter, Ph.D. attended the 2014 Annual Meeting of Stockholders.

## REPORT OF THE AUDIT COMMITTEE

*The following Report of the Audit Committee does not constitute soliciting material and should not be deemed filed or incorporated by reference into any other Company filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent the Company specifically incorporates this Report by reference therein.*

The Audit Committee is currently comprised of directors Corinne H. Nevinny, Richard F. Pops, and Stephen A. Sherwin, M.D. All current committee members satisfy the definition of “independent director” as established in the Nasdaq Stock Market qualification requirements. The Audit Committee met four times during the year ended December 31, 2014.

The Audit Committee oversees the Company’s financial reporting process on behalf of the Board of Directors. Management has the primary responsibility for the Company’s financial statements and the reporting process, including the Company’s systems of internal controls. In fulfilling its oversight responsibilities, the Audit Committee has reviewed and discussed with management the Company’s audited financial statements as of and for the year ended December 31, 2014, including a discussion of the quality, not just the acceptability, of the accounting principles, the reasonableness of significant judgments and the clarity of disclosures in the financial statements.

The Audit Committee also has reviewed and discussed the Company’s audited financial statements as of and for the year ended December 31, 2014 with the Company’s independent registered public accounting firm, who are responsible for expressing an opinion on the conformity of those audited financial statements with accounting principles generally accepted in the United States, as well as their judgments as to the quality, not just the acceptability, of the Company’s accounting principles and such other matters as are required to be discussed with the Audit Committee under Auditing Standard No. 16, *Communications with Audit Committees*, as adopted by the Public Company Accounting Oversight Board (United States) (the “PCAOB”). The independent registered public accounting firm also is responsible for performing an independent audit of the Company’s internal control over financial reporting in accordance with the auditing standards of the PCAOB. In addition, the Audit Committee has discussed the independent registered public accounting firm’s independence from management and the Company, including the matters in the written disclosures and the letter from the independent registered public accounting firm required by applicable requirements of the PCAOB and considered the compatibility of non-audit services with the auditors’ independence.

The Audit Committee discussed with the Company’s independent registered public accounting firm the overall scope and plans for their audits. The Audit Committee meets with the independent registered public accounting firm, with and without management present, to discuss the results of their examinations, their evaluations of the Company’s internal controls, and the overall quality of the Company’s financial reporting.

In reliance on the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014, for filing with the Securities and Exchange Commission. The Audit Committee and the Board of Directors are also seeking stockholder ratification of the selection of the Company’s independent registered public accounting firm for the year ending December 31, 2015.

Respectfully submitted by:  
AUDIT COMMITTEE

Corinne H. Nevinny  
Richard F. Pops  
Stephen A. Sherwin, M.D.

***Audit and non-audit fees***

The aggregate fees billed to the Company by Ernst & Young LLP, the Company’s independent registered public accounting firm, for the indicated services for each of the last two fiscal years were as follows:

	<u>2014</u>	<u>2013</u>
Audit fees (1) . . . . .	\$558,293	\$400,190
Audit related fees (2) . . . . .	—	—
Tax fees (3) . . . . .	36,000	41,000
All other fees (4) . . . . .	—	—
Total . . . . .	<u>\$594,293</u>	<u>\$441,190</u>

- (1) Audit fees consist of fees for professional services performed by Ernst & Young LLP for the integrated audit of the Company’s annual financial statements and internal control over financial reporting and review of financial statements included in the Company’s 10-Q filings, review of registration statements on Form S-3 and Form S-8, and services that are normally provided in connection with statutory and regulatory filings or engagements.
- (2) Audit related fees consist of fees for assurance and related services performed by Ernst & Young LLP that are reasonably related to the performance of the audit or review of the Company’s financial statements.
- (3) Tax fees consist of fees for professional services performed by Ernst & Young LLP with respect to tax compliance, tax advice and tax planning. For 2014, these fees included \$26,000 for tax preparation services and \$10,000 for services related to Section 382 studies for net operating loss utilization. For 2013, these fees included \$26,000 for tax preparation services and \$15,000 for services related to Section 382 studies for net operating loss utilization.
- (4) All other fees consist of fees for other permissible work performed by Ernst & Young LLP that does not meet with the above category descriptions.

The Audit Committee has considered whether the provision of non-audit services is compatible with maintaining the independence of Ernst & Young LLP, and has concluded that the provision of such services is compatible with maintaining the independence of that firm. All of the services rendered by Ernst & Young LLP were pre-approved by the Audit Committee in accordance with the Audit Committee pre-approval policy described below.

***Audit Committee policy regarding pre-approval of audit and permissible non-audit services of our independent registered public accounting firm***

The Company’s Audit Committee has established a policy that all audit and permissible non-audit services provided by the Company’s independent registered public accounting firm will be pre-approved by the Audit Committee. These services may include audit services, audit related services, tax services and other services. The Audit Committee considers whether the provision of each non-audit service is compatible with maintaining the independence of the Company’s registered public accounting firm. Pre-approval is detailed as to the particular service or category of services and is generally subject to a specific budget. The Company’s independent registered public accounting firm and management are required to periodically (at least quarterly) report to the Audit Committee regarding the extent of services provided by the independent registered public accounting firm in accordance with this pre-approval, and the fees for the services performed to date.

## COMPENSATION COMMITTEE REPORT

*The following Report of the Committee does not constitute soliciting material and should not be deemed filed or incorporated by reference into any other Company filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent the Company specifically incorporates this Report by reference therein.*

The Compensation Committee of the Company has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with management and, based on such review and discussions, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Proxy Statement.

Respectfully submitted by:  
COMPENSATION COMMITTEE

Richard F. Pops  
W. Thomas Mitchell  
Joseph A. Mollica



## PROPOSAL ONE: ELECTION OF DIRECTORS

The Company’s bylaws, as amended, provide that the Board of Directors will be comprised of eight directors. The Company’s Certificate of Incorporation provides that the Board of Directors is divided into three classes. There are currently three directors in Class I (W. Thomas Mitchell, Joseph A. Mollica, Ph.D., and William H. Rastetter, Ph.D.), three directors in Class II (Corinne H. Nevinny, Richard F. Pops and Stephen A. Sherwin, M.D.), and two directors in Class III (Kevin C. Gorman, Ph.D., and Gary A. Lyons). With the exception of Kevin C. Gorman, Ph.D., who is the President and Chief Executive Officer of Neurocrine, all current members of the Board of Directors meet the definition of “independent director” under the Nasdaq Stock Market qualification standards.

The directors in Class I hold office until the 2015 Annual Meeting of Stockholders, the directors in Class II hold office until the 2016 Annual Meeting of Stockholders and the directors in Class III hold office until the 2017 Annual Meeting of Stockholders (or, in each case, until their earlier resignation, removal from office, or death). After each such election, the elected directors will then serve in succeeding terms of three years and until a successor is duly elected and qualified. Officers of the Company serve at the discretion of the Board of Directors. There are no family relationships among the Company’s directors and executive officers.

The term of office for directors W. Thomas Mitchell, Joseph A. Mollica, Ph.D., and William H. Rastetter, Ph.D. will expire at the 2015 Annual Meeting. At the 2015 Annual Meeting, the stockholders will elect three Class I directors for a term of three years.

### Nominees for Election at the Annual Meeting

All of the nominees (W. Thomas Mitchell, Joseph A. Mollica, Ph.D., and William H. Rastetter, Ph.D.) are currently Class I directors of the Company. All of the nominees were previously elected to the Board of Directors by the Company’s stockholders. Information about the nominees is set forth below:

<u>Name of Director</u>	<u>Age</u>	<u>Position in the Company</u>	<u>Director Since</u>
William H. Rastetter, Ph.D. . . . . .	67	Chairman of the Board	2010
W. Thomas Mitchell (1)(2) . . . . .	69	Director	2002
Joseph A. Mollica, Ph.D. (1)(2) . . . . .	74	Director	1997

(1) Member of the Nominating/Corporate Governance Committee.

### *Who are the remaining Directors that are not up for election this year?*

The Class II and III directors will remain in office after the 2015 Annual Meeting. The names and certain other current information about the directors whose terms of office continue after the Annual Meeting are set forth below:

<u>Name of Director</u>	<u>Age</u>	<u>Position in the Company</u>	<u>Director Since</u>
Kevin C. Gorman, Ph.D. . . . . .	57	President, Chief Executive Officer and Director	2008
Gary A. Lyons (1) . . . . .	64	Director	1993
Corinne H. Nevinny (3) . . . . .	55	Director	2004
Richard F. Pops (2)(3) . . . . .	53	Director	1998
Stephen A. Sherwin, M.D. (3) . . . . .	66	Director	1999

(1) Member of the Nominating/Corporate Governance Committee.

(2) Member of the Compensation Committee.

(3) Member of the Audit Committee



**Vote Required**

The nominees receiving the highest number of affirmative votes of the shares present in person or represented by proxy at the 2015 Annual Meeting and entitled to vote on the election of directors will be elected to the Board of Directors.

Votes withheld from any director are counted for purposes of determining the presence or absence of a quorum, but have no other legal effect under Delaware law.

Unless otherwise instructed, the proxy holders will vote the proxies received by them for the Company's Class I nominees named above. If any of the Company's nominees is unable or declines to serve as a director at the time of the Annual Meeting, the proxies will be voted for any nominee who is designated by the present Board of Directors to fill the vacancy. It is not expected that any of the Company's nominees will be unable or will decline to serve as a director. **The Board of Directors unanimously recommends that stockholders vote "FOR" the Class I nominees named above.**

## **PROPOSAL TWO: ADVISORY VOTE ON COMPENSATION PAID TO THE COMPANY'S NAMED EXECUTIVE OFFICERS**

### **General**

At the 2011 Annual Meeting of Stockholders, the Board of Directors, as a matter of good corporate governance, recommended that the stockholders approve an advisory vote on Named Executive Officer compensation ('say-on-pay') on an annual basis. Approximately 91% of the shareholder votes cast at the 2011 Annual Meeting of Stockholders were for the Company's recommendation, and in response the Company holds an annual say-on-pay vote. This annual vote is not intended to address any specific compensation item, but rather the overall compensation of the Company's Named Executive Officers and the philosophy, policies and practices described in this proxy statement.

### **Summary of the Company's Executive Compensation Philosophy**

The Compensation Committee of the Board of Directors (the "Committee") bases its executive compensation decisions on a number of objectives which include aligning management incentives with interests of stockholders, providing competitive compensation, appropriately balancing compensation risk in the context of the Company's business strategy and meeting evolving compensation governance standards. The philosophy of the Committee in establishing the Company's compensation policy for executive officers as well as all other employees is to:

- align compensation plans with both short-term and long-term goals and objectives of the Company and stockholder interests;
- attract and retain highly skilled individuals by offering compensation that compares favorably to other employers who are competing for available employees;
- incentivize employees through a mix of base salary, bonus amounts based on achievement of defined corporate and personal goals and long-term equity awards to generate returns for stockholders; and
- pay for performance by ensuring that an ever increasing percentage of an individual's compensation is performance-based as they progress to higher levels within the Company.

As discussed below in the Compensation Discussion and Analysis, we believe we have adopted a compensation philosophy that provides strong alignment between executive pay and performance based on strategic goals designed to provide both near-term and long-term growth in stockholder value. The historical approval rates, on an advisory basis, for the Company's executive compensation program have been approximately 95%, 94%, and 98% for each of the 2012, 2013 and 2014 Annual Meetings of Stockholders, respectively. The Committee and our Board of Directors believe that this level of approval of our executive compensation program is indicative of our stockholders' strong support of our compensation philosophy and goals as well as the overall administration of executive compensation by the Committee and the Board of Directors.

You are being asked to approve on an advisory basis, the compensation paid to the Company's Named Executive Officers as set forth in the Compensation Discussion and Analysis, Summary Compensation Table and related notes and narrative set forth herein. This vote is not intended to address any specific compensation item, but rather the overall compensation of the Company's Named Executive Officers and the philosophy, policies and practices described in this proxy statement.

### **Vote Required**

The 'say-on-pay' vote is advisory and therefore not binding on the Company, the Committee or the Board of Directors. However, we value the opinions of our stockholders and will review and will continue to consider the

outcome of this advisory vote when making future compensation decisions for our Named Executive Officers and will evaluate whether any actions are necessary to address the stockholders' concerns. Approval of this advisory vote requires the affirmative vote of the majority of shares represented in person or by proxy and entitled to vote on the item. **The Board of Directors unanimously recommends voting "FOR" approval of the Company's Named Executive Officers compensation.**

## PROPOSAL THREE: APPROVAL OF AN AMENDMENT TO THE 2011 EQUITY INCENTIVE PLAN

### General

The Neurocrine Biosciences, Inc. 2011 Equity Incentive Plan, as amended (the “2011 Plan”) was originally approved by the Board of Directors and the stockholders of the Company in 2011. The Board has approved an increase in the number of shares of common stock reserved for issuance under the 2011 Plan from 8,500,000 to 13,500,000, subject to stockholder approval at the 2015 Annual Meeting.

The Board believes that the proposed increase in the number of shares of common stock reserved for issuance under the 2011 Plan will allow the Company to attract and retain valuable employees and continue to provide its employees, consultants and directors with a proprietary interest in the Company. Within the Company, equity awards foster an ownership culture and are a critical tool for driving shareholder value and for recruiting, retaining and motivating employees. The Company grants annual equity awards to employees as an incentive to retain its work force and remain competitive. The terms of the Company’s annual equity awards and the Company’s employee policies are designed to align employee and shareholder interests. The Company grants equity awards to a broad group of employees and such awards constitute a significant component of the Company’s employees’ total compensation. The Company’s equity awards contain long-term vesting, performance-based vesting, and provisions designed to encourage employees to focus on the Company’s long-term goals and success. If our stockholders do not approve the amendment to the 2011 Plan, the Company strongly believes that it will be unable to successfully use equity as part of its compensation program, as most of its competitors in the industry do, putting the Company at a significant disadvantage and compromising its ability to enhance shareholder value.

The 2011 Plan authorizes the grant to our employees of options that qualify as incentive stock options under Section 422 of the Internal Revenue Code of 1986, as amended (the “Code”). The 2011 Plan also authorizes the grant of nonstatutory stock options, restricted stock awards, restricted stock units and stock bonus awards (collectively “Equity Awards”) to our employees, directors and consultants. The 2011 Plan also provides that certain nonstatutory stock options will be automatically granted to non-employee directors and the Chairman of the Board of Directors of the Company, as described below. As of April 1, 2015, under the 2011 Plan there were options outstanding to purchase 4,741,646 shares of common stock, and 1,535,641 shares were available for future equity awards; 1,400,375 shares were subject to outstanding restricted stock units; and 488,313 shares previously issued upon exercise of options granted and 334,025 shares previously issued upon vesting of restricted stock units under the 2011 Plan are now outstanding shares of common stock. As of April 1, 2015, there were approximately 100 employees and directors eligible to receive grants under the 2011 Plan.

As of the Record Date, an aggregate of 5,660,496 shares are issuable upon exercise of outstanding options with a weighted average exercise price of \$12.67 and a weighted average remaining contractual term of 6.99 years; and 1,400,375 shares are subject to unvested restricted stock units with a weighted average remaining contractual term of 3.3 years. The closing price of the Company’s common stock on April 1, 2015 was \$39.90, with 85,372,303 shares outstanding.

### Vote Required

At the Annual Meeting, the stockholders are being asked to approve the amendment to the 2011 Plan to increase the number of shares reserved for issuance thereunder. The affirmative vote of the holders of a majority of the shares represented in person or by proxy at the Annual Meeting will be required to approve the amendment of the 2011 Plan. **The Board of Directors recommends voting “FOR” the approval of the amendment to the 2011 Plan.**

## Summary of the 2011 Equity Incentive Plan

The essential features of the 2011 Plan are summarized below. This summary does not purport to be complete and is subject to, and qualified by reference to, all provisions of the 2011 Plan. The 2011 Plan, as amended in accordance with this Proposal Three, is attached as Appendix A to this proxy statement and is incorporated herein by reference.

**Purpose.** The purpose of the 2011 Plan is to enable the Company to attract and retain the best available personnel, to provide additional incentives to the employees, directors and consultants of the Company and to promote the success of the Company's business. **Administration.** Our Board of Directors has the authority to administer the 2011 Plan. Our Board of Directors also has the authority to delegate some or all of the administration of the 2011 Plan (except the Non-Discretionary Grant Program summarized below) to a committee or committees composed of one or more members of the Board of Directors or Company officers (the Board of Directors or any such committee, the "Administrator"). The 2011 Plan may be administered by different committees with respect to different groups of employees and consultants. The Administrator may make any determinations deemed necessary or advisable for the 2011 Plan. The Administrator, in its discretion, selects the employees, directors and consultants to whom stock awards may be granted, the time or times at which such awards shall be granted, the number of shares subject to each such grant, and other terms of the stock awards. All decisions, determinations and interpretations of the Administrator shall be final and binding on all holders.

**Eligibility.** Incentive stock options may be granted only to our employees. Nonstatutory stock options, restricted stock awards, restricted stock unit awards and stock bonus awards may be granted under the 2011 Plan to our employees, directors and consultants. Participation in the non-discretionary grant program is limited to our non-employee directors (see "Non-Discretionary Grant Program" below). As of April 1, 2015, we had approximately 100 employees and directors who were eligible to participate in the 2011 Plan.

### *Stock Subject to the 2011 Plan*

Subject to stockholder approval of this Proposal Three, an aggregate of 13,500,000 shares of common stock will be reserved for issuance under the 2011 Plan. The maximum number of shares of common stock that may be issued pursuant to the grant of any "full value stock award" or restricted stock, restricted stock units and other stock awards, but not including stock options or stock appreciation rights, is 50% of the total number of shares of common stock issuable under the 2011 Plan.

Shares may be issued in connection with a merger or acquisition as permitted by the rules of the applicable national securities exchange, and such issuance shall not reduce the number of shares available for issuance under the 2011 Plan. If a stock award granted under the 2011 Plan expires or otherwise terminates without being exercised in full, or if any shares of common stock issued pursuant to a stock award are forfeited to or repurchased by us, including, but not limited to, any repurchase or forfeiture caused by the failure to meet a contingency or condition required for the vesting of such shares, then the shares of common stock not issued under such stock award, or forfeited to or repurchased by us, shall revert to and again become available for issuance under the 2011 Plan.

If any shares subject to a stock award are not delivered to a participant because such shares are withheld for the payment of taxes or the stock award is exercised through a reduction of shares subject to the stock award (i.e. "net exercised"), or an appreciation distribution in respect of a stock appreciation right is paid in shares of common stock, the number of shares that are not delivered will not again become available for issuance under the 2011 Plan. If the exercise price of any stock award is satisfied by tendering shares of common stock held by the participant, then the number of shares so tendered will not become available for issuance under the 2011 Plan.

The aggregate maximum number of shares of common stock that may be issued under the 2011 Plan pursuant to the exercise of incentive stock options, subject to stockholder approval of this Proposal Three, is 13,500,000 shares.

**Stock Award Limitations.** Section 162(m) of the Code places limits on the deductibility for federal income tax purposes of compensation paid to certain executive officers of the Company. In order to preserve the Company's ability to deduct the compensation income associated with stock awards granted to such persons, the 2011 Plan provides that no employee may be granted, in any fiscal year of the Company, awards covering more than 250,000 shares of common stock. Notwithstanding this limit, however, in connection with an employee's initial employment, he or she may be granted awards covering up to an additional 250,000 shares of common stock.

**Minimum Vesting.** Generally, no full value stock award that vests on the basis of the participant's continuous service with the Company shall vest at a rate that is any more rapid than ratably over a three year period, and no full value stock award that vests based on the satisfaction of performance goals shall have a performance period of less than twelve months.

**Limited Exception to Minimum Vesting Restrictions.** Up to five percent (5%) of the total number of shares of common stock available for issuance under the 2011 Plan may in the aggregate be issued as awards of restricted stock, restricted stock units, stock bonuses or a combination thereof, that are not subject to the minimum vesting requirements set forth in the 2011 Plan.

**Stock Subject to the 2011 Plan.** Except for adjustments upon changes in our capitalization or in connection with a merger or other similar event, the aggregate number of shares of common stock with respect to which awards of restricted stock, restricted stock units, stock bonuses or a combination thereof shall be made under the 2011 Plan shall not exceed 50% of the aggregate number of shares of common stock available under the 2011 Plan.

## **Terms and Conditions of Options and Stock Appreciation Rights**

Options and stock appreciation rights may be granted under the 2011 Plan pursuant to stock option agreements and stock appreciation right agreements. The following is a description of the permissible terms of options and stock appreciation rights under the 2011 Plan. Individual grants may be more restrictive as to any or all of the permissible terms described below.

**Exercise Price.** The Administrator determines the exercise price of options and strike price of stock appreciation rights at the time the options or stock appreciation rights are granted as set forth in the applicable stock award agreement. The exercise price of a stock option and strike price of a stock appreciation right may not be less than 100% of the fair market value of the common stock on the date such award is granted. In the case of an incentive stock option granted to an optionee who owns more than 10% of all classes of stock of the Company or any parent or subsidiary of the Company, the exercise price may not be less than 110% of the fair market value of the common stock on the date such option is granted. The fair market value of the common stock is generally determined with reference to the closing sale price for the common stock on the date the option or stock appreciation right is granted.

**Stock Appreciation Rights.** Each stock appreciation right is denominated in shares of common stock equivalents. Upon exercise of a stock appreciation right, we will pay the participant an amount equal to the excess of (i) the aggregate fair market value of our common stock on the date of exercise over (ii) the strike price determined by the Administrator on the date of grant. The appreciation distribution upon exercise of a stock appreciation right will be paid in shares of our common stock, in cash, any combination of the two or any other form of consideration determined by the Administrator.

**Repricing; Cancellation and Re-Grant of Stock Awards.** Under the 2011 Plan, the Administrator does not have the authority to reprice any outstanding stock awards by reducing the exercise price of the stock award or to cancel any outstanding stock awards in exchange for cash or other stock awards without obtaining the approval of our stockholders within 12 months prior to the repricing or cancellation and re-grant event.

**Exercise; Form of Consideration.** The Administrator determines when options and stock appreciation rights become exercisable as set forth in the applicable stock award agreement. The means of payment for shares issued upon exercise of an option is specified in each option agreement. The 2011 Plan permits payment to be made to the extent permitted under applicable laws by cash, check, other shares of common stock of the Company (with some restrictions), net exercise, cashless exercise, any other form of consideration permitted by applicable law, or any combination thereof.

**Term.** The Administrator determines the term of options and stock appreciation rights granted under the 2011 Plan as set forth in the applicable stock award agreement. The term of options and stock appreciation rights granted under the 2011 Plan may be no more than 10 years from the date of grant. In the case of an incentive stock option granted to an optionee who owns more than 10% of all classes of stock of the Company or any parent or subsidiary of the Company, the term of the option may be no more than five years from the date of grant. No option or stock appreciation right may be exercised after the expiration of its term.

**Termination of Continuous Service.** Options and stock appreciation rights granted under the 2011 Plan generally terminate three months after termination of the participant's service unless (i) such termination is due to the participant's disability, in which case the stock award may, but need not, provide that it may be exercised (to the extent the stock award was exercisable at the time of the termination of service) at any time within 12 months of such termination; (ii) the participant dies before the participant's service has terminated, or within the period specified in the stock award agreement after termination of such service, in which case the stock award may, but need not, provide that it may be exercised (to the extent the stock award was exercisable at the time of the participant's death) within 18 months of the participant's death by the person or persons to whom the rights to exercise such stock award pass by will or by the laws of descent and distribution; (iii) the stock award by its terms specifically provides otherwise, or (iv) the termination is for cause. Except as provided otherwise in a participant's stock award agreement, or otherwise set forth in an employment agreement, upon termination of a participant's service for cause, the stock award shall immediately terminate and may not thereafter be exercised. A participant may designate a beneficiary who may exercise the stock award following the participant's death. Individual grants by their terms may provide for exercise within a longer or shorter period of time following termination of service. In no event, however, may an option or stock appreciation right be exercised beyond the expiration of its maximum term. The option or stock appreciation right term generally is extended in the event that exercise of the stock award within the foregoing periods is prohibited. A participant's stock award agreement may provide that if the exercise of the stock award following the termination of the participant's service would be prohibited because the issuance of stock would violate the registration requirements under the Securities Act of 1933, as amended, then the stock award will terminate on the earlier of (i) the expiration of the term of the stock award or (ii) three months after the termination of the participant's service during which the exercise of the stock award would not be in violation of such registration requirements.

**Other Provisions.** The stock option agreement may contain other terms, provisions and conditions not inconsistent with the 2011 Plan as may be determined by the Administrator.

### **Terms of Restricted Stock Awards and Restricted Stock Unit Awards**

Restricted stock awards and restricted stock unit awards may be granted under the 2011 Plan pursuant to restricted stock award and restricted stock unit award agreements. The following is a description of the permissible terms of restricted stock awards and restricted stock unit awards under the 2011 Plan. Individual grants may be more restrictive as to any or all of the permissible terms described below.

**Consideration.** The Administrator may grant restricted stock awards and restricted stock unit awards in consideration for past services rendered to the Company or in exchange for any other form of legal consideration acceptable to the Administrator.

**Vesting.** Shares of stock issued under a restricted stock award agreement may, but need not, be subject to forfeiture to the Company in accordance with a vesting schedule as determined by the Administrator. Stock unit



awards vest and are issued at the rate specified in the restricted stock unit award agreement as determined by the Administrator. However, at the time of grant, the Administrator may impose additional restrictions or conditions that delay the delivery of stock to be issued in respect of the restricted stock unit award after vesting.

***Termination of Service.*** Unless the Administrator determines otherwise, the restricted stock purchase agreement shall give the Company a repurchase option exercisable upon the voluntary or involuntary termination of the purchaser's employment or consulting relationship with the Company for any reason (including death and disability). The purchase price for any issued shares repurchased by the Company shall be the original price paid by the purchaser, if any. The repurchase option lapses at a rate determined by the Administrator. Except as otherwise provided in the applicable award agreement, restricted stock units that have not vested will be automatically forfeited upon the participant's termination of service.

***Dividend Equivalents.*** Dividend equivalent rights may be credited with respect to shares covered by a restricted stock unit award. However, we do not anticipate paying cash dividends on our common stock for the foreseeable future.

### **Terms of Performance Awards**

The 2011 Plan allows the Administrator to issue performance stock awards. Performance stock awards may be granted, vest or be exercised based upon the attainment during a certain period of time of certain performance goals. All of our employees, consultants and directors are eligible to receive performance stock awards under the 2011 Plan. The length of any performance period, the performance goals to be achieved during the performance period and the measure of whether and to what degree such performance goals have been attained shall be determined by the Administrator. The maximum amount to be granted to any individual in any calendar year attributable to such performance stock awards may not exceed 250,000 shares of our common stock. Notwithstanding this limit, however, in connection with an employee's initial employment, he or she may be granted stock awards covering up to an additional 250,000 shares of common stock.

In granting a performance stock award, the Administrator will set a period of time, or a performance period, over which the attainment of one or more goals, or performance goals, will be measured for the purpose of determining whether the stock award recipient has a vested right in or to such performance stock award. With respect to stock awards that are intended to qualify as performance based compensation for purposes of Section 162(m) of the Code, within the time period prescribed by Section 162(m) of the Code (typically before the 90th day of a performance period), the Administrator will establish the performance goals, based upon one or more pre-established criteria, or performance criteria, enumerated in the 2011 Plan and described below. As soon as administratively practicable following the end of the performance period, the Administrator will certify (in writing) whether the performance goals have been satisfied.

Performance goals under the 2011 Plan shall be established by the Administrator, based on one or more of the following performance criteria: (i) earnings (including earnings per share and net earnings); (ii) earnings before interest, taxes and depreciation; (iii) earnings before interest, taxes, depreciation and amortization; (iv) total stockholder return; (v) return on equity or average stockholder's equity; (vi) return on assets, investment, or capital employed; (vii) stock price; (viii) margin (including gross margin); (ix) income (before or after taxes); (x) operating income; (xi) operating income after taxes; (xii) pre-tax profit; (xiii) operating cash flow; (xiv) sales or revenue targets; (xv) increases in revenue or product revenue; (xvi) expenses and cost reduction goals; (xvii) improvement in or attainment of working capital levels; (xviii) economic value added (or an equivalent metric); (xix) market share; (xx) cash flow; (xxi) cash flow per share; (xxii) share price performance; (xxiii) debt reduction; (xxiv) implementation or completion of projects or processes; (xxv) customer satisfaction; (xxvi) stockholders' equity; (xxvii) capital expenditures; (xxviii) debt levels; (xxix) operating profit or net operating profit; (xxx) workforce diversity; (xxxi) growth of net income or operating income; (xxxii) billings; (xxxiii) funds from operations; and (xxxiv) to the extent that an award is not intended to comply with Section 162(m) of the Code, other measures of performance selected by the Administrator.



The Administrator is authorized to determine whether, when calculating the attainment of performance goals for a performance period: (i) to exclude restructuring and/or other nonrecurring charges; (ii) to exclude exchange rate effects, as applicable, for non-U.S. dollar denominated net sales and operating earnings; (iii) to exclude the effects of changes to generally accepted accounting standards required by the Financial Accounting Standards Board; (iv) to exclude the effects of any statutory adjustments to corporate tax rates; and (v) to exclude the effects of any “extraordinary items” as determined under generally accepted accounting principles. In addition, the Administrator retains the discretion to reduce or eliminate the compensation or economic benefit due upon attainment of performance goals.

### **Non-Discretionary Grant Program**

The non-discretionary grant program under the 2011 Plan provides for the grant of stock options to non-employee directors over their period of service on the Board of Directors. These stock options will be granted as follows:

**Initial Option Grant.** Each new non-employee director will, at the time of his or her initial election or appointment to the Board of Directors, receive an option to purchase a number of shares of the Company’s common stock determined by the Board of Directors (the “initial option grant”). The initial option grant shall vest monthly with respect to 1/36th of the shares over the three year period following the date of grant, subject to the director’s continuous service through the applicable vesting dates, so that the initial option grant will be fully vested on the third anniversary of the date of grant.

**Annual Option Grant.** On each annual meeting, each continuing non-employee director will automatically be granted a stock option to purchase a number of shares of our common stock determined by the Board of Directors (the “annual option grant”). The annual option grant shall vest monthly with respect to 1/12th of the shares over the one year period following the date of grant, subject to the director’s continuous service through the applicable vesting dates, so that the annual option grant will be fully vested on the first anniversary of the date of grant.

**General Terms.** The exercise price of each option granted under the non-discretionary grant program is 100% of the fair market value of the common stock subject to the option on the date of grant. The maximum term of options granted under the non-discretionary grant program is ten years. All other terms of each option granted under the non-discretionary grant program shall be consistent with the terms of the 2011 Plan.

**Corporate Transaction.** Each option granted under the non-discretionary grant program shall automatically fully accelerate vesting upon a corporate transaction, subject to the non-employee director’s continuous service through the date of the corporate transaction.

### **Terms of Other Stock Awards**

The Administrator may grant other stock awards that are valued in whole or in part by reference to our common stock. Subject to the provisions of the 2011 Plan, the Administrator has the authority to determine the persons to whom, and the dates on which, such other stock awards will be granted, the number of shares of common stock (or cash equivalents) to be subject to each award, and other terms and conditions of such awards.

### **General Provisions**

**Tax Withholding.** To the extent provided by the terms of any stock award agreement, a participant may satisfy any federal, state or local tax withholding obligation relating to such stock award by a cash payment, by authorizing the Company to withhold a portion of the stock otherwise issuable to the participant, by withholding from any amounts otherwise payable to the participant, by a combination of these means, or by such other method as set forth in the stock award agreement.

***Transferability.*** Stock awards may not be sold, pledged, transferred, or disposed of in any manner other than by will or by the laws of descent and distribution, pursuant to a domestic relations order, or with respect to stock awards other than options or stock appreciation rights, with the Administrator's consent, and may be exercised, during the lifetime of the holder, only by the holder or such transferees as have been transferred a stock award with the Administrator's consent. If the Administrator makes a stock award transferable, such stock award shall contain such additional terms and conditions as the Administrator deems appropriate and such award will not otherwise be transferred for consideration.

***Adjustments Upon Changes in Capitalization.*** In the event any change is made to the outstanding shares of the Company's common stock without the receipt of consideration (whether through a stock split or other specified change in our capital structure), the Administrator shall appropriately adjust the number and kind of shares of stock (or other securities or property) subject to the 2011 Plan, the maximum number and/or class of securities for which any one person may be granted stock awards per calendar year, the number and kind of shares of stock (or other securities or property) subject to any stock award outstanding under the 2011 Plan, and the exercise or purchase price of any such outstanding stock award.

***Effect of Certain Corporate Events.*** In the event of a dissolution or liquidation of the Company, all outstanding stock awards under the 2011 Plan shall terminate immediately prior to such dissolution or liquidation. The 2011 Plan further provides that, in the event of a sale, or other disposition of all or substantially all of the Company's assets or specified types of mergers or consolidations (each, a "corporate transaction"), any surviving or acquiring corporation shall either assume stock awards outstanding under the 2011 Plan or substitute similar stock awards for those outstanding under the 2011 Plan. If any surviving corporation declines to assume stock awards outstanding under the 2011 Plan or to substitute similar stock awards, then, with respect to participants whose service with the Company has not terminated prior to the time of such corporate transaction, the vesting and the time during which such stock awards may be exercised will be accelerated in full, and all outstanding stock awards will terminate if the participant does not exercise such stock awards at or prior to the corporate transaction. With respect to any stock awards that are held by other participants that terminated service with the Company prior to the corporate transaction, the vesting and exercisability provisions of such stock awards will not be accelerated and such stock awards will terminate if not exercised prior to the corporate transaction.

***Amendment and Termination of the 2011 Plan.*** The Board may amend, alter, suspend or terminate the 2011 Plan, or any part thereof, at any time and for any reason. Unless sooner terminated, the 2011 Plan will terminate on February 20, 2021. However, the 2011 Plan requires stockholder approval for any amendment to the 2011 Plan to the extent necessary to comply with applicable laws, rules and regulations. No action by the Board of Directors or stockholders may alter or impair any award previously granted under the 2011 Plan without the consent of the holder.

## **Federal Income Tax Consequences**

***Incentive Stock Options.*** An optionee who is granted an incentive stock option does not recognize taxable income at the time the option is granted or upon its exercise, although the exercise is an adjustment item for alternative minimum tax purposes and may subject the optionee to the alternative minimum tax. Upon a disposition of the shares more than two years after grant of the option and one year after exercise of the option, any gain or loss is treated as long-term capital gain or loss. If these holding periods are not satisfied, the optionee recognizes ordinary income at the time of disposition equal to the difference between the exercise price and the lesser of (i) the excess of the stock's fair market value on the date of exercise over the exercise price, or (ii) the participant's actual gain, if any, on the purchase and sale. Any gain or loss recognized on such a premature disposition of the shares in excess of the amount treated as ordinary income is treated as long-term or short-term capital gain or loss, depending on the holding period. A different rule for measuring ordinary income upon such a premature disposition may apply if the optionee is also an officer, director or 10% stockholder of the Company. Unless limited by Section 162(m) of the Code, the Company is entitled to a deduction in the same amount as the ordinary income recognized by the optionee.

***Nonstatutory Stock Options.*** An optionee does not recognize any taxable income at the time he or she is granted a nonstatutory stock option. Upon exercise, the optionee recognizes taxable income generally measured by the excess of the then fair market value of the shares over the exercise price. Any taxable income recognized in connection with an option exercise by an employee of the Company is subject to tax withholding by the Company. Unless limited by Section 162(m) of the Code, the Company is entitled to a deduction in the same amount as the ordinary income recognized by the optionee. Upon a disposition of such shares by the optionee, any difference between the sale price and the optionee's exercise price, to the extent not recognized as taxable income as provided above, is treated as long-term or short-term capital gain or loss, depending on the holding period.

***Stock Appreciation Rights.*** No taxable income is realized upon the receipt of a stock appreciation right. Upon exercise of the stock appreciation right, the fair market value of the shares (or cash in lieu of shares) received is recognized as ordinary income to the participant in the year of such exercise. Generally, with respect to employees, we are required to withhold from the payment made on exercise of the stock appreciation right or from regular wages or supplemental wage payments an amount based on the ordinary income recognized. Subject to the requirement of reasonableness, Section 162(m) of the Code and the satisfaction of a reporting obligation, we will be entitled to an income tax deduction equal to the amount of ordinary income recognized by the participant.

***Restricted Stock Awards.*** For federal income tax purposes, if an individual is granted a restricted stock award, the recipient generally will recognize taxable ordinary income equal to the excess of the common stock's fair market value over the purchase price, if any. However, to the extent the common stock is subject to certain types of restrictions, such as a repurchase right in favor of the Company, the taxable event will be delayed until the vesting restrictions lapse unless the recipient makes a valid election under Section 83(b) of the Code. If the recipient makes a valid election under Section 83(b) of the Code with respect to restricted stock, the recipient generally will recognize ordinary income at the date of acquisition of the restricted stock in an amount equal to the difference, if any, between the fair market value of the shares at that date over the purchase price for the restricted stock. If, however, a valid Section 83(b) election is not made by the recipient, the recipient will generally recognize ordinary income when the restrictions on the shares of restricted stock lapse, in an amount equal to the difference between the fair market value of the shares at the date such restrictions lapse over the purchase price for the restricted stock. With respect to employees, the Company is generally required to withhold from regular wages or supplemental wage payments an amount based on the ordinary income recognized. Generally, the Company will be entitled (subject to the requirement of reasonableness, the provisions of Section 162(m) of the Code and the satisfaction of a tax reporting obligation) to a business expense deduction equal to the taxable ordinary income realized by the recipient. Upon disposition of the common stock, the recipient will recognize a capital gain or loss equal to the difference between the selling price and the sum of the amount paid for such common stock, if any, plus any amount recognized as ordinary income upon acquisition (or the lapse of restrictions) of the common stock. Such gain or loss will be long-term or short-term depending on how long the common stock was held. Slightly different rules may apply to recipients who are subject to Section 16(b) of the Exchange Act.

***Restricted Stock Unit Awards.*** No taxable income is recognized upon receipt of a restricted stock unit award. The participant will recognize ordinary income in the year in which the shares subject to that unit are actually issued to the participant in an amount equal to the fair market value of the shares on the date of issuance. The participant and the Company will be required to satisfy certain tax withholding requirements applicable to such income. Subject to the requirement of reasonableness, Section 162(m) of the Code and the satisfaction of a tax reporting obligation, we will be entitled to an income tax deduction equal to the amount of ordinary income recognized by the participant at the time the shares are issued. In general, the deduction will be allowed for the taxable year in which such ordinary income is recognized by the participant.

***Potential Limitation on Company Deductions.*** Section 162(m) of the Code denies a deduction to any publicly held corporation for compensation paid to certain "covered employees" in a taxable year to the extent

that compensation exceeds \$1 million for a covered employee. It is possible that compensation attributable to awards granted in the future under the 2011 Plan, when combined with all other types of compensation received by a covered employee from the Company, may cause this limitation to be exceeded in any particular year. Certain kinds of compensation, including qualified “performance-based compensation,” are disregarded for purposes of the deduction limitation. In accordance with Treasury regulations issued under Section 162(m) of the Code, compensation attributable to stock options will qualify as performance-based compensation, provided that: (1) the stock award plan contains a per-employee limitation on the number of shares for which awards may be granted during a specified period; (2) the per-employee limitation is approved by the stockholders; (3) the stock award is granted by a compensation committee comprised solely of “outside directors”; and (4) the exercise price of the stock award is no less than the fair market value of the stock on the date of grant.

Restricted stock awards, restricted stock unit awards and other stock awards may qualify as performance-based compensation under the Treasury regulations only if: (1) the stock award is granted by a compensation committee comprised solely of “outside directors”; (2) the stock award is earned (typically through vesting) only upon the achievement of an objective performance goal established in writing by the compensation committee while the outcome is substantially uncertain; (3) the compensation committee certifies in writing prior to the earning of the stock award that the performance goal has been satisfied; and (4) prior to the earning of the stock award, stockholders have approved the material terms of the stock award (including the class of employees eligible for such stock award, the business criteria on which the performance goal is based, and the maximum amount (or formula used to calculate the amount) payable upon attainment of the performance goal). The 2011 Plan has been designed to permit the compensation committee to grant stock options, restricted stock awards, restricted stock units and other stock awards and performance cash awards which will qualify as “performance-based compensation.”

**The foregoing is only a summary of the effect of federal income taxation upon optionees, holders of restricted stock awards or stock bonus awards and the Company with respect to the grant and exercise of stock awards under the 2011 Plan. It does not purport to be complete, and does not discuss the tax consequences of the employee’s or consultant’s death or the provisions of the income tax laws of any municipality, state or foreign country in which the employee or consultant may reside.**

## Plan Benefits

The following table sets forth information as of the Record Date about grants under the 2011 Plan during the fiscal year ended December 31, 2014 to the executive officers, directors and employees identified below.

<u>Name and Position</u>	<u>Number of Restricted Stock Unit Awards Subject to Vesting</u>	<u>Dollar Value of Restricted Stock Unit Awards (1)</u>	<u>Number of Shares of Stock Bonus Awards Subject to Vesting</u>	<u>Dollar Value of Shares of Stock Bonus Award</u>	<u>Number of Shares Subject to Options Granted</u>
Kevin C. Gorman, Ph.D. President, Chief Executive Officer and Director .....	130,000	\$ 2,904,200	—	—	175,000
Timothy P. Coughlin Chief Financial Officer .....	89,000	\$ 1,988,260	—	—	86,000
Christopher F. O'Brien, M.D. Chief Medical Officer .....	89,000	\$ 1,988,260	—	—	86,000
Dimitri E. Grigoriadis, Ph.D. Chief Research Officer .....	88,000	\$ 1,965,920	—	—	75,000
Haig P. Bozigian, Ph.D. Chief Development Officer .....	88,000	\$ 1,965,920	—	—	75,000
All current executive officers as a group .....	572,000	\$12,778,480	—	—	572,000
All current non-employee directors as a group (2) .....	—	—	—	—	110,000
All current non-executive officer employees as a group .....	292,500	\$ 6,534,450	—	—	247,000

- (1) Value based on the closing price of the Company's common stock on December 31, 2014 of \$22.34.
- (2) Pursuant to the terms of the 2011 Plan, non-employee directors are entitled to receive options as described in "Non-Discretionary Grant Program" above. Currently the Company has seven non-employee directors, all of whom are eligible to receive options on the day of the Annual Meeting. The actual value realized upon exercise of an option will depend on the excess, if any, of the stock price over the exercise prices on the date of exercise. Only non-employee directors of the Company are eligible to receive non-discretionary grants under the 2011 Plan. All other grants under the 2011 Plan are within the discretion of the Board or its Compensation Committee, as applicable, and the benefits of such grants are, therefore, not determinable.

## EQUITY COMPENSATION PLANS

The following table sets forth information regarding all of the Company's equity compensation plans as of December 31, 2014:

<u>Plan Category</u>	<u>Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights (a)</u>	<u>Weighted Average Exercise Price of Outstanding Options, Warrants and Rights (b)</u>	<u>Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column a) (c)</u>
Equity compensation plans approved by security holders (1) .....	5,535,324	\$ 8.66	2,650,741
Equity compensation plans not approved by security holders (2) .....	<u>215,000</u>	<u>\$26.20</u>	<u>—</u>
Total .....	<u><u>5,750,324</u></u>	<u><u>\$ 9.31</u></u>	<u><u>2,650,741</u></u>

- (1) The number of securities remaining available for future issuance under equity compensation plans as of December 31, 2014 are from the 2011 Plan. In February 2015, the Company issued options to purchase approximately 0.7 million shares of common stock that vest monthly over a four year period with a strike price of \$32.99, restricted stock units representing approximately 0.4 million shares of common stock that vest annually over a four year period and restricted stock units representing 50,000 shares of common stock that are subject to performance-based vesting. The shares available for issuance under the 2011 Plan may be issued in the form of option awards, restricted stock awards, restricted stock unit awards or stock bonus awards subject to limitations set forth in the 2011 Plan. In addition to the above, the Company had approximately 1.1 million restricted stock units outstanding as of December 31, 2014.
- (2) Consists of shares of common stock issuable pursuant to employment commencement nonstatutory stock option awards.

## **PROPOSAL FOUR: RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

### **General**

The Audit Committee has selected Ernst & Young LLP to audit the financial statements of the Company for the current fiscal year ending December 31, 2015. Ernst & Young LLP has audited the Company's financial statements since 1992. Representatives of Ernst & Young LLP are expected to be present at the Annual Meeting, will have the opportunity to make a statement if they so desire, and are expected to be available to respond to appropriate questions.

Stockholders are not required to ratify the selection of Ernst & Young LLP as the Company's independent registered public accounting firm. However, the Audit Committee is submitting the selection of Ernst & Young LLP to the stockholders for ratification as a matter of good corporate practice. If the stockholders fail to ratify the selection, the Audit Committee will reconsider whether or not to retain that firm. Even if the selection is ratified, the Audit Committee in their discretion may direct the selection of a different independent registered public accounting firm at any time during the year if they determine that such a change would be in the best interests of the Company and its stockholders.

### **Vote Required**

The affirmative vote of the holders of a majority of the shares represented in person or by proxy at the Annual Meeting will be required to approve and ratify the Audit Committee's selection of Ernst & Young LLP. **The Board of Directors unanimously recommends voting "FOR" approval and ratification of such selection.** In the event of a negative vote on such ratification, the Audit Committee will reconsider its selection.



## EXECUTIVE OFFICERS

As of the Record Date, the Named Executive Officers of the Company were as follows:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Kevin C. Gorman, Ph.D. . . . . .	57	President, Chief Executive Officer and Director
Timothy P. Coughlin . . . . .	48	Chief Financial Officer
Christopher F. O'Brien, M.D. . . . . .	58	Chief Medical Officer
Dimitri E. Grigoriadis, Ph.D. . . . . .	57	Chief Research Officer
Haig P. Bozigian, Ph.D. . . . . .	57	Chief Development Officer

See above for biographical information concerning Kevin C. Gorman, Ph.D.

**Timothy P. Coughlin** was appointed Chief Financial Officer in September 2006 after having served as Vice President, Controller. He is responsible for Accounting, Finance, Information Technology, Operations and Investor Relations. Prior to joining Neurocrine in 2002, he was with CHI, a nationwide integrated healthcare delivery system where he served as Vice President, Financial Services. Mr. Coughlin also served as a Senior Manager in the Health Sciences practice of Ernst & Young LLP, and its predecessors, from 1989 to 1999. Mr. Coughlin currently serves on the Board of Directors of Fate Therapeutics, a publicly traded company focused on stem cell research, and Retrophin, Inc. a company focused on developing drugs for the treatment of debilitating and often life-threatening diseases. Mr. Coughlin holds a Bachelor's degree in Accounting from Temple University and a Master's degree in International Business from San Diego State University and is a certified public accountant in both California and Pennsylvania.

**Christopher F. O'Brien, M.D.** became Chief Medical Officer in January 2007 after having served as Senior Vice President of Clinical Development since 2005. He is responsible for Clinical Operations, Regulatory Affairs, Drug Safety, Biostatistics and Data Management. Prior to joining Neurocrine, he was Chief Medical Officer at Prestwick Pharmaceuticals, Inc. from 2003 to 2005 and Senior Vice President of Global Medical Affairs at Elan Pharmaceuticals, Inc. from 2000 to 2003. Dr. O'Brien is currently on the Board of Directors of Verifax Corporation, a biometrics company focused on developing a dynamic signature verification system. Dr. O'Brien is a Board Certified Neurologist and obtained his undergraduate degree in Neuroscience from Boston University, his medical degree and residency training from the University of Minnesota and fellowship training from the University of Rochester School of Medicine.

**Dimitri E. Grigoriadis, Ph.D.** became Chief Research Officer in January 2007 and oversees all research functions including Drug Discovery, Biology and Chemistry. Dr. Grigoriadis joined Neurocrine in 1993, established the Pharmacology and drug screening groups and was most recently a Neurocrine Fellow and Vice President of Discovery Biology. Prior to joining Neurocrine, he was a Senior Scientist in the Neuroscience group at the DuPont Pharmaceutical Company from 1990 to 1993. Dr. Grigoriadis received his B.Sc. from the University of Guelph in Ontario, Canada, and his M.Sc. and Ph.D. in Pharmacology from the University of Toronto, Ontario, Canada. He conducted his postdoctoral research at the National Institute on Drug Abuse from 1987 to 1990.

**Haig P. Bozigian, Ph.D.** was appointed Chief Development Officer in December 2006 after having served as Vice President of Preclinical Development. He is responsible for all Pre-Clinical, Chemical and Pharmaceutical Development. Dr. Bozigian joined Neurocrine in 1997. With extensive expertise in CNS related new product development, Dr. Bozigian has participated in research and development for more than 20 years. Prior to joining Neurocrine, Dr. Bozigian served as Director of Pharmaceutical Development at Procyte Corporation, Associate Director of Pharmacokinetics and Drug Metabolism at Sphinx Pharmaceuticals Corporation and as a Clinical Pharmacokineticist at GlaxoSmithKline. Dr. Bozigian earned his B.S. in Microbiology from the University of Massachusetts, his M.S. in Pharmacodynamics and Toxicology from the University of Nebraska Medical Center, and earned his Ph.D. in Pharmaceutical Sciences from the University of Arizona.



## COMPENSATION DISCUSSION AND ANALYSIS

This Compensation Discussion and Analysis describes Neurocrine’s executive compensation program for 2014 and certain elements of the 2015 program. It provides qualitative information on the factors relevant to these decisions and the manner in which compensation is awarded to the following individuals who are our Named Executive Officers (“NEO”):

- President and Chief Executive Officer, Kevin C. Gorman, Ph.D.;
- Chief Financial Officer, Timothy P. Coughlin;
- Chief Medical Officer, Christopher F. O’Brien, M.D.;
- Chief Research Officer, Dimitri E. Grigoriadis, Ph.D.; and
- Chief Development Officer, Haig P. Bozigian, Ph.D.

### Executive Summary

#### Business Overview

We discover and develop innovative and life-changing pharmaceuticals, in diseases with high unmet medical needs, through our novel R&D platform, focused on neurological and endocrine based diseases and disorders. Our two lead late-stage clinical programs are elagolix, a gonadotropin-releasing hormone antagonist for women’s health that is partnered with AbbVie Inc., and a wholly owned vesicular monoamine transporter 2 (VMAT2) inhibitor for the treatment of movement disorders. We intend to maintain certain commercial rights to our VMAT2 inhibitor for evolution into a fully-integrated pharmaceutical company.

#### 2014 Corporate Performance Highlights

We met or exceeded our goals for fiscal 2014. Our corporate goals for 2014, if accomplished, were designed to enhance shareholder value. We believe our goals were appropriate, as our total shareholder return (TSR) for 2014 was approximately 139%.

Our 2014 goals were:

- aggressively advance clinical compounds;
- rapidly develop multiple R&D programs simultaneously; and
- attain certain corporate, business development and financial goals, including maintaining a strong capital structure.

We exceeded our goals for advancing our VMAT2 programs. For our tardive dyskinesia program, we held a successful End-of-Phase II meeting with the FDA, we began our Phase III clinical trial for tardive dyskinesia, and we received Breakthrough Therapy Designation from the FDA. For our Tourette syndrome program, we filed our IND with the FDA, and initiated our Phase Ib clinical trial.

For our elagolix program, in early 2015 our collaboration partner announced positive top-line results from the first of two ongoing Phase III clinical trials, designed to evaluate the efficacy and safety of elagolix in women with endometriosis.

We also began a program developing a proprietary corticotropin releasing factor 1 (CRF) receptor antagonist. We obtained Orphan Drug designation for our compound and completed a Phase I clinical trial. In addition, we advanced multiple compounds in our preclinical development programs.

We maintained our strong capital structure by meeting our expected expense burn, and completing a public offering of our common stock to strengthen our balance sheet.

### ***Other Compensation Program Highlights***

#### Pay for Performance/At Risk Pay

- A significant portion of our CEO's and other executive officers' compensation is at risk; this includes cash incentives, stock options and vesting of the performance-based RSUs.

#### Independent Compensation Consultants and Analysis

- The Compensation Committee of the Board of Directors (the "Committee") engages an independent compensation consultant to analyze the competitive landscape and make recommendations regarding the compensation of our executive officers.

#### Equity Ownership Guidelines and Equity Burn Rate

- In March 2014, we implemented Equity Ownership Guidelines for our executive officers and currently all of our NEOs meet our guidelines.
- Our three-year 'burn' rate for equity grants is 2.75%, which is at or below industry standards.

### ***Role of the Compensation Committee***

The Committee (the "Committee") reviews and approves all of the Company's compensation policies. During 2014, the Committee consisted of Richard F. Pops, W. Thomas Mitchell and Joseph A. Mollica. As discussed in greater detail below, the Committee takes into consideration peer groups, survey data and advice from independent compensation consultants when setting the compensation structure and compensation philosophy for the Company. The Committee's complete roles and responsibilities are set forth in a written charter which was adopted by the Board of Directors and is available at [www.neurocrine.com](http://www.neurocrine.com). Some of the significant roles and responsibilities of the Committee include:

- reviewing and, if necessary, revising the compensation philosophy of the Company;
- reviewing and approving corporate goals and objectives relating to the compensation of the Company's executive officers, and evaluating the performance of the Company's executive officers in light of the Company's goals and objectives;
- reviewing and approving compensation for all executive officers, and guidelines for salaries, merit salary increases, cash incentive payments, stock based grants and performance based stock grants for all other employees of the Company;
- reviewing and approving all employment agreements for executive officers;
- reviewing and approving all promotions to executive officer positions and all new hires of executive officers;
- reviewing and approving director compensation;
- reviewing and approving equity grants to non-employees of the Company;
- making recommendations to the Board of Directors with regard to equity incentive plans and administering stock option, employee pension and benefit plans;
- managing and reviewing the grant of perquisite benefits, if any;
- managing and reviewing executive officer and director indemnification and insurance matters;

- retaining compensation consultants and independent advisors from time to time to advise the Committee on compensation policies and plans;
- complying with requirements established by the SEC, assessing the risks arising from the Company's compensation policies and taking any actions required as a result thereof; and
- preparing and approving the Compensation Discussion and Analysis to be included as part of the Company's annual proxy statement.

### ***Compensation Philosophy Overall Compensation Determination Process***

We believe that in order to create value for our stockholders it is critical to attract, motivate and retain key executive talent by providing competitive compensation packages. Accordingly, we design our executive compensation programs to attract, motivate and retain executives with the skills and expertise to execute our business plans, and reward those executives fairly over time for actions consistent with creating long-term stockholder value. The market for talented individuals in the life sciences industry is highly competitive. Our compensation philosophy for executive officers provides that cash compensation should be structured such that between base salary and cash incentives, at least one-third of the executive officer's total cash compensation is at risk. Non-cash long-term equity compensation for executive officers should be designed to reward and retain key employees as well as motivate executive officers to increase long-term stockholder value. The Committee believes that this approach provides an appropriate blend of short-term and long-term incentives to maximize stockholder value.

The implementation of the compensation philosophy is carried out under the supervision of the Committee. The Committee uses the services of an independent compensation consultant who is retained by, and reports directly to, the Committee. The compensation for our Chief Executive Officer, Dr. Gorman, as well as the other executive officers, is approved by the Committee in consultation with our other independent directors. Management, under guidelines and procedures approved by the Committee, determines the compensation of our other employees.

The Committee meets at least six times per year. In the first quarter of the year, the performance of each executive officer for the prior year and peer group compensation data are reviewed by the Committee, and base salary adjustments, cash incentive payouts and annual equity grants are discussed and approved. Also during the first quarter of the year, Company-wide performance goals for the then current year are finalized by the Board of Directors. At mid-year meetings the Committee reviews the Company's compensation philosophy, policies and procedures. Meetings in the fourth quarter of the year generally focus on Company goal achievement, selection of the peer group for the following year and the structure of executive officer performance reviews.

### ***Components of Compensation***

The Company's compensation for executive officers consists of six components: base salary, cash incentives, long-term equity awards, retirement benefits as provided under the Company's 401(k) plan, severance agreements and other benefits. The Company uses the peer group established by the Committee as a guideline for establishing base salaries, cash incentives and long-term equity award components of compensation. The Chief Executive Officer annually reviews the performance of each executive officer (other than himself) and reports the results of the reviews to the Committee. The Committee, in consultation with the other independent members of the Board of Directors, annually reviews the performance of the Chief Executive Officer.

The Committee considers each executive officer's performance, contribution to goals, responsibilities, experience, qualifications, and where in the competitive range the executive officer compares to the Company's identified peer group when determining the appropriate compensation for each executive officer. The Committee considers each component of compensation independently and therefore there is no direct correlation between any of the components. Each compensation component is described below.

## Base Salary

The base salary is designed to compensate executive officers competitively at levels necessary to attract and retain qualified executives in the life sciences industry. As a general matter, the base salary for each executive officer is based on the scope of each executive officer's responsibilities, as well as their qualifications, breadth of experience, performance record and depth of applicable functional expertise. The base salary is established and adjusted to be within the range of the applicable peer group, enabling the Company to attract, motivate, reward and retain highly skilled executives. Base salaries of the executive officers are reviewed by the Committee, in consultation with the independent members of the Board of Directors, annually in light of personal and Company goal attainment, executive officer performance and peer group data. Year-to-year adjustments to each executive officer's base salary are based upon sustained superior performance, changes in the general level of base salaries of persons in comparable positions within our industry, and the average merit salary increase for such year for all employees of the Company established by the Committee, as well as other factors the Committee judges to be pertinent during an assessment period. In making base salary decisions, the Committee exercises its judgment to determine the appropriate weight to be given to each of these factors. Adjustments may also be made during the fiscal year for promotions, highly urgent retention reasons, superior performance in response to changed or challenging circumstances, and similar special circumstances. The adjustment to base salary for our NEOs for 2014 was a three percent increase to base salaries. The pay increases were based on the foregoing analysis and a consideration of each officer's performance and base salary relative to his peer group. The NEOs' annualized base salaries for 2014 were as follows: \$557,300 for Dr. Gorman, \$409,700 for Mr. Coughlin, \$459,000 for Dr. O'Brien, \$363,400 for Dr. Bozigian, and \$331,100 for Dr. Grigoriadis.

Effective January 1, 2015, base salary increases varied from three percent to five percent based the Company's strong corporate performance in 2014, a review (as described above) of each officer's performance, and base salary positioning relative to similar officers in our peer group. The NEO's annualized base salaries for 2015 are as follows: \$575,000 for Dr. Gorman, \$422,000 for Mr. Coughlin, \$472,800 for Dr. O'Brien, \$381,600 for Dr. Bozigian, and \$347,700 for Dr. Grigoriadis.

## Cash Incentives

The Committee's philosophy in establishing the Company's cash incentive program is to provide a mix of compensation between base salary and total cash compensation such that at least one-third of the total target cash compensation is at risk for executive officers each year. The cash incentive program, including corporate goals and target payouts, are reviewed and approved by the Committee annually and may include individual performance targets for each executive officer. The corporate goals are prepared in an interactive process between management and the Board of Directors based on the Company's business plan and budget for the year. Cash incentive payments are linked to the attainment of overall corporate and personal goals. The Committee establishes the target and maximum potential amount of each executive officer's cash incentive payment annually.

In February 2014, the Board of Directors approved the Company's executive officer cash incentive target percentages and performance goals for 2014. The table below sets forth the target and maximum cash incentive targets for our Chief Executive Officer and other executive officers for 2014. Both the target and maximum target percentages were competitive to the applicable peer group data for the Chief Executive Officer as well as the other executive officers.

<u>Executive Officer</u>	<u>Minimum Payout</u>	<u>Target Percentage</u>	<u>Maximum Bonus Payout</u>
Chief Executive Officer . . . . .	0%	60%	72%
All Other Executive Officers . . . . .	0%	50%	60%

In general, achievement of the Company's goals determines the initial cash incentive pool for executive officers of the Company, which is then allocated to the executive officers based on the individual performance of each executive officer during the year. As in previous years, in 2014 the executive officer cash incentives were awarded based upon pre-established goals of the Company. The Board of Directors or the Committee may, in its sole discretion, eliminate any individual cash incentive or reduce or increase the amount of compensation payable with respect to any individual cash incentive. An executive officer must be an employee of the Company on the date the incentive is actually paid in order to receive the cash incentive. Any executive officer who leaves the employment of the Company, voluntarily or involuntarily, prior to the payment, will not receive any cash incentive. An employee who becomes an executive officer during the fiscal year may be eligible for a pro-rated cash incentive at the discretion of the Committee, generally provided the executive officer has been employed a minimum of three months during the calendar year. No clawback policy has been adopted by the Company at this time. The Committee believes that the performance goals established for incentives do not encourage excessive risk taking or have potential for encouraging behavior that may impact the Company negatively in future years.

The performance goals for 2014 consisted of goals for our lead development programs, our research function, our clinical activities and certain corporate goals. The Board of Directors and the Committee did not assign relative weightings to the goals for 2014. The Committee does place emphasis on results having greater impact on the long-term success of the Company, which the Committee believes translates into greater shareholder value. The 2014 goals were as follows:

- advance the Company's clinical pipeline;
- rapidly develop multiple research and development programs; and
- attain certain corporate, business development and financial goals, including maintaining a strong capital structure.

In February 2015, the Committee, in consultation with the other independent members of the Board of Directors, determined that the Company exceeded its corporate goals for 2014. The basis for such determination included:

- Held a successful end-of-Phase II meeting with the FDA, began enrollment in Phase III clinical trials for tardive dyskinesia and received breakthrough designation;
- Filed Tourette syndrome IND;
- Filed an IND and initiated CAH dose response study in target population for classic congenital adrenal hyperplasia and obtained orphan drug designation;
- Completed IND enabling studies in one program and moved one new program into preclinical development;
- Attained certain corporate, business development and financial goals, including maintaining a strong capital structure, maintaining appropriate burn levels, and other business development goals related to our proprietary compounds; and
- In early 2015, our collaborative partner reported positive top line Phase III data for elagolix.

Based on these achievements, the Committee awarded cash incentive payouts for our NEOs at 120% of targeted Company goal achievement. For example, this 120% achievement rate yielded Dr. Gorman a cash incentive award of 72% of his 2014 base salary (120% of the 60% target cash incentive percentage). The individual amounts approved by the Committee for each NEO were: Dr. Gorman, \$401,256; Mr. Coughlin, \$245,820; Dr. O'Brien, \$275,400; Dr. Bozgian, \$218,040; and Dr. Grigoriadis, \$198,660.

In February 2015, the Board of Directors approved the Company's performance goals for 2015 along with eligible cash incentive target percentages for executive officers. The 2015 target and maximum percentages did not change from 2014, and remain substantially similar to the applicable peer group data for the Chief Executive

Officer, as well as the other executive officers. The performance goals for 2015 are designed to enhance shareholder value and consist of key objectives for our development programs and general administrative activities. The Board of Directors and the Committee did not assign relative weightings to the goals for 2015. The Committee does place emphasis on results having greater impact on the long-term success of the Company. A summary of the 2015 goals are outlined below:

- obtain successful topline results for tardive dyskinesia and complete enrollment of NDA-enabling clinical trial;
- obtain topline results from our Tourette syndrome Phase Ib T-Force trial;
- obtain successful topline results from both the CAH single dose adolescent PK/PD study and the two-week study;
- obtain topline results from a new clinical program;
- rapidly develop multiple research and development programs, including additional studies for current pipeline and potential programs in discovery; and
- attain certain corporate, business development, and financial goals, including maintaining a strong capital structure, and preparing for commercialization of our lead product candidates.

#### Long-Term Equity Awards

The Committee provides the Company's executive officers with long-term incentive compensation through grants of stock options, restricted stock units ("RSUs"), and performance restricted stock units ("PRsUs") under the Company's equity compensation plans. These equity-based programs create a strong link to the Company's long-term financial performance, create an ownership culture and closely align the interests of our executive officers with those of our stockholders. The Committee believes that these grants directly motivate an executive officer to maximize long-term stockholder value and serve as an effective tool for incentivizing and retaining those executive officers who are most responsible for influencing stockholder value. The grants also utilize vesting periods, both performance-based and time-based, that encourage key executive officers to continue in the employ of the Company. The Committee considers each grant subjectively, considering factors such as the individual performance of the executive officer, the anticipated contribution of the executive officer to the attainment of the Company's long-term strategic performance goals, and the ability of such grants to retain and motivate key executive officers. The equity awards for each year are set to be competitive with the applicable peer group to enable the Company to attract, motivate, and retain highly skilled executive officers. Long-term incentives granted in prior years are also taken into consideration, but do not play a significant role in current year determinations.

It has been the Company's practice to make equity-based awards to our executive officers on an annual basis. Recent grants of annual stock option awards vest on a monthly basis, ratably, over four years and have a ten year term. Additionally, all stock option awards are priced based upon the closing price of the Company's common stock on the date of grant. Recent grants of RSUs vest on an annual basis, ratably over four years. PRsU grants vest upon achievement of certain objectives. Equity-based awards to our executive officers are reviewed by the Committee annually in light of Company goal attainment, executive officer performance evaluations and peer group data. Prior year actual gains from the exercise of vested equity grants are not considered in the determination of current year compensation.

The Committee also considers the Company's annual burn rate of equity grants as compared to industry standards when determining the long-term equity component of compensation. Burn rate is defined as the number of shares underlying equity grants for a given year divided by the total shares outstanding at the end of that same year. The Company's historical burn rate has approximated 2% to 3% per annum, which is below the industry average for life sciences companies.

On January 16, 2014, the Committee, in consultation with the independent members of the Board of Directors, considered the factors outlined above, and approved stock option awards, RSUs, and PRsUs to the



executive officers. The equity based awards were determined based on the Company's 2013 performance, each executive officer's individual performance, each executive officer's contribution to long-term strategic and performance goals, as well as retention and motivation of the executive officers. The individual grants of stock options and RSUs to NEOs were: Dr. Gorman 175,000 stock options and 30,000 RSUs; Mr. Coughlin and Dr. O'Brien each 86,000 stock options and 14,000 RSUs; and Dr. Bozigian and Dr. Grigoriadis each 75,000 stock options and 13,000 RSUs.

The Committee, in consultation with the independent members of the Board of Directors, determined with respect to the January 16, 2014 equity grants that the use of both stock options which vest monthly, on a pro-rata basis, over a four year period and RSUs which vest annually, on a pro-rata basis, over a four year period were the appropriate equity compensation vehicles. The Committee and Board of Directors believe that the long-term equity based compensation awards closely align stockholder and management interests. In addition, the Committee, on January 16, 2014, in consultation with the independent members of the Board of Directors, also approved a unique grant of PRSUs for the executive officers. These PRSUs represent a multi-year grant and are expected to be a one-time grant for the sole purpose described below. Vesting of these awards is designed to require several years of effort, coupled with the Company's success in clinical development and successful navigation of the regulatory approval process, for the executive officers to realize any value from these grants. If the vesting criteria outlined below are achieved, we believe significant shareholder value will be created. Additionally, these PRSUs have a limited term of five years for the Company to achieve the clinical and regulatory performance objectives required for vesting. Approximately two-thirds of these PRSUs vest upon the Company achieving the primary endpoint in an FDA approved Phase III study, while the remaining one-third of the PRSUs vest upon the Company obtaining FDA approval of a New Drug Application. These vesting provisions are entirely exclusive of the Company's elagolix program, thus these PRSUs provide direct motivation to our executive officers to achieve success with the Company's wholly-owned compounds. The individual PRSU grants for the Company's NEOs were: Dr. Gorman 100,000; and Mr. Coughlin, Dr. O'Brien, Dr. Bozigian and Dr. Grigoriadis 75,000 each. These officers had not previously received PRSUs.

On February 3, 2015, the Committee, in consultation with the other independent members of the Board of Directors, approved stock option awards and RSU grants to the executive officers. The equity based awards were determined based on 2014 individual performance and contribution to long-term strategic and performance goals as well as retention and motivation of the executive officers. The individual grants of stock options and RSUs to NEOs were: Dr. Gorman 150,000 stock options and 25,000 RSUs; Mr. Coughlin 80,000 stock options and 12,000 RSUs; Dr. O'Brien 75,000 stock options and 12,000 RSUs; and Dr. Bozigian and Dr. Grigoriadis each 65,000 stock options and 11,000 RSUs. The vesting terms of these grants are the same as the January 16, 2014 grants.

#### Retirement Benefits

The terms of the Company's 401(k) Savings Plan (the "401(k) Plan") provide for executive officer and broad-based employee participation on the same general terms. Under the 401(k) Plan, all Company employees are eligible to receive basic matching contributions from the Company that vest three years from date of hire and monthly thereafter. The Company's matching contribution to the 401(k) Plan for 2014 was 50% of eligible participant contributions, subject to applicable federal limits. The Company made no additional discretionary contributions to the 401(k) Plan in 2014.

#### Other Benefits

Executive officers are eligible to participate in the Company's employee benefit plans on the same terms as all other full-time employees. These plans include medical, dental and life insurance. In addition to the benefits available to all employees, we provide our executive officers with certain additional benefits that we believe reflect market standards and are reasonable and necessary to attract and/or retain each of our executive officers and allow the executive officers to realize the full benefit of the other elements of compensation we provide. These benefits include disability insurance premiums, an annual physical examination, financial planning



services, and tax gross-ups in the event of a change in control. The change in control gross-ups are part of pre-existing executive officer agreements and no new change in control gross-ups have been implemented for executive officers since 2007, nor does the Company intend to enter into any new agreements containing such gross-ups. Executive officers are eligible for four weeks of vacation from date of hire through ten years of employment, and five weeks of vacation per year thereafter. Additionally, all executive officers, as well as all other full-time employees who were employed as of December 31, 2011, are eligible to receive a one-time additional two week vacation benefit after ten years of service.

### Severance Benefits

In addition, executive officers are eligible to receive severance benefits in connection with terminations of employment due to death, disability, or termination without cause or constructive termination (including following a change-in-control) as set forth below and more fully described in *Potential Payments upon Termination or Change-in-Control*. The Committee believes that the executive officer severance arrangements reflect current market standards and severance benefits competitive with those provided by our peer group. The Committee believes that in order to continue to retain the services of our key executive officers, it is important to provide them with some income and benefit protection against an involuntary termination of employment.

Compensation components for executive officers in the event of death include partial stock award acceleration, pro-rata cash incentive payment, payments for accrued base salary, any accrued vacation and any accrued benefits under any plans of the Company in which the executive officer is a participant and any appropriate business expenses incurred by the executive officer. In the event of death, there is no base salary continuation.

Compensation components for executive officers in the event of a qualifying long-term disability include partial stock award acceleration, pro-rata cash incentive payment, limited base salary continuation, payments for accrued base salary, limited Company-paid health insurance benefits, and any accrued vacation and any accrued benefits under any plans of the Company in which the executive officer is a participant. Compensation components for executive officers in the event of termination by the Company without cause or termination by the executive officer due to constructive termination include payments for accrued base salary, cash compensation payments, partial stock award acceleration, limited Company-paid health insurance benefits, and any accrued vacation and any accrued benefits under any plans of the Company in which the executive officer is a participant. Eligibility for these benefits under either situation requires a signed release agreement by the executive officer.

Compensation components for executive officers in the event of a termination by the Company without cause or termination by the executive officer due to constructive termination following a change-in-control include payments for accrued base salary, a cash compensation payment, cash compensation for the value of all outstanding stock awards, limited Company-paid health insurance benefits, and any accrued vacation and any accrued benefits under any plans of the Company in which the executive officer is a participant. The change-in-control benefits also contain certain tax gross-up provisions. Eligibility for these benefits requires a signed release agreement by the executive officer.

The Committee believes that in order to continue to retain the services of our key executive officers and focus their efforts on stockholder interests when considering strategic alternatives, it is important to provide them with enhanced income and benefit protection against loss of employment in connection with a change-in-control of our Company and thereby align the interests of our stockholders and our executive officers. However, the Company does not provide for such benefits solely in the event of a change-in-control because we believe that our executive officers are materially harmed only if a change-in-control results in our executive officers' involuntary loss of employment, reduced responsibilities, reduced compensation, or other adverse change in the nature of the employment relationship.

### ***Compensation Consultants and Peer Group***

The Committee uses the services of an independent compensation consultant who is retained by and reports directly to the Committee. The Committee selected Radford, an AON Hewitt Company, as a third party compensation consultant to assist the Committee in establishing 2013, 2014 and 2015 overall compensation levels. Radford conducted analyses and provided advice on, among other things, the appropriate peer group, executive compensation for our executive officers and compensation trends in the life sciences industry. The Committee annually assesses the independence of Radford under the guidelines promulgated by the SEC and has determined that Radford is independent and has not provided the Company with any other services other than those requested by the Committee.

In order to evaluate the Company's competitive position in the industry related to executive officer compensation, the Committee has historically reviewed and analyzed the compensation packages, including base salary levels, cash incentive awards and equity awards, offered by biotechnology and pharmaceutical companies within a designated peer group, and with data from Radford's Global Life Sciences Survey for similarly sized companies. The Committee believes selection of a broad peer group on an annual basis provides the best long-term trend data for companies that compete with the Company for talent. The peer group is established annually by the Committee based on the advice of its independent compensation consultant taking into consideration various factors including size, market capitalization, location to key biotech talent hubs, and comparable stage of development of product candidates.

For equity awards granted and cash based compensation paid during 2014, the peer group consisted of: Achillion Pharmaceuticals, Inc., Array BioPharma, Inc., Clovis Oncology, Inc., Geron Corporation, Immunomedics, Inc., Infinity Pharmaceuticals, Inc., Intercept Pharmaceuticals, Inc., KYTHERA Biopharmaceuticals, Inc., Lexicon Pharmaceuticals, Inc., Ligand Pharmaceuticals, Inc., NewLink Genetics Corporation, Novavax, Inc., Orexigen Therapeutics, Inc., Osiris Therapeutics, Inc., Rigel Pharmaceuticals, Inc., Sangamo BioSciences, Inc., Sarepta Therapeutics, Inc., Synta Pharmaceuticals, Inc., TESARO, Inc., Xoma Corporation and ZIOPHARM Oncology, Inc.

For equity awards granted and cash based compensation paid during early 2015, the peer group consisted of: ACADIA Pharmaceuticals, Inc., Aegerion Pharmaceuticals, Inc., Anacor Pharmaceuticals, Inc., bluebird bio, Inc., Celldex Therapeutics, Inc., Clovis Oncology, Inc., Dyax, Corp., Keryx Biopharmaceuticals, Inc., KYTHERA Biopharmaceuticals, Inc., Lexicon Pharmaceuticals, Inc., Ligand Pharmaceuticals, Inc., NewLink Genetics Corporation, Novavax, Inc., Orexigen Therapeutics, Inc., PTC Therapeutics, Inc., Receptos, Inc., Relypsa, Inc., Sangamo BioSciences, Inc., Sarepta Therapeutics, Inc., Synageva BioPharma Corp., TESARO, Inc., and Xoma Corporation.

Changes to the 2015 peer group include elimination of Achillion Pharmaceuticals, Inc., Array BioPharma, Inc., Geron Corporation, Immunomedics, Inc., Infinity Pharmaceuticals, Inc., Intercept Pharmaceuticals, Inc., Osiris Therapeutics, Inc., Rigel Pharmaceuticals, Inc., Synta Pharmaceuticals, Inc., and ZIOPHARM Oncology, Inc. whose market capitalizations were determined by the Committee to no longer be comparable. ACADIA Pharmaceuticals, Inc., Aegerion Pharmaceuticals, Inc., Anacor Pharmaceuticals, Inc., bluebird bio, Inc., Celldex Therapeutics, Inc., Dyax, Corp., Keryx Biopharmaceuticals, Inc., PTC Therapeutics, Inc., Receptos, Inc., Relypsa, Inc., and Synageva BioPharma Corp. were added to the peer group.

### ***Equity Ownership Guidelines***

In March 2014, the Committee approved equity ownership guidelines for our executive officers. The equity ownership guidelines are designed to further align the interests of the executive officers with those of our stockholders by ensuring that our executive officers have a meaningful financial stake in the Company's long-term success. The equity ownership guidelines establish a minimum equity ownership level by position, with such values determined based on the value of our ordinary shares owned by such persons as of certain measurement dates. All shares directly or beneficially owned by the executive officer, including the net

exercisable value of outstanding vested stock options (where the market price of our common shares exceeds the strike price of such option) are included in determining the value of equity owned under our equity ownership guidelines. The guidelines are as follows:

Chief Executive Officer	3 times base salary
All other executive officers	1 times base salary

Annual compliance with the equity ownership guidelines is assessed during the first quarter of each year. As of March 31, 2015, each of our NEOs owned sufficient shares of our common stock such that the Company's equity ownership guidelines were met prior to the consideration of the value of any outstanding vested option awards.

New executive officers are granted a five year period to become compliant with the equity ownership guidelines; and are expected to make annual progress toward the equity ownership guidelines during this five year period. When an executive officer is not compliant with the equity ownership guidelines, they are restricted from selling any held shares until compliance is attained. Additionally, should an executive officer who is not in compliance with the equity ownership guidelines choose to exercise a stock option or vest in any RSUs, they are required to retain all shares acquired through those transactions, aside from any shares necessary to fulfill such transaction related tax obligations, until full compliance with the equity ownership guidelines is attained.

### ***Equity Trading Policies and Procedures***

The Company has policies and procedures to prohibit direct or indirect participation by employees of the Company in transactions involving trading activities in Company common stock which by their aggressive or speculative nature may give rise to an appearance of impropriety. Such prohibited activities would include the purchase of put or call options, or the writing of such options as well as short sales, hedging transactions such as "cashless" collars, forward sales, equity swaps and other related arrangement which may indirectly involve short-sale and any other transactions designed for profit from short-term movement in the Company's stock price.

Additionally, transactions in which Company common stock is margined or pledged to secure a loan must be pre-approved by the Company's Chief Financial Officer or General Counsel based on guidelines adopted by the Nominating/Corporate Governance Committee.

There are no transactions involving pledging or margining Company common stock as of the Record Date.

The Company also requires executive officers and directors to complete all equity related open-market purchase and sale transactions via a 10b5-1 plan. The 10b5-1 plans typically cover, among other transactions, direct sales and purchases of Company stock as well as same-day-sales related to option exercises and sales of stock upon the vesting of restricted stock units. All 10b5-1 plans are required to have a 90-day waiting period from the election date to the date of the first transaction. Additionally, Company policy restricts the executive officers and directors from amending, canceling, suspending or otherwise modifying any 10b5-1 trading plan subsequent to adoption of the plan.

### ***Tax Considerations***

#### **Internal Revenue Code Section 162(m)**

The Committee considers the potential impact under Internal Revenue Code Section 162(m) whereby we can only deduct up to \$1.0 million of the compensation we pay to named executive officers each taxable year unless such compensation is "performance-based compensation" within the meaning of the Internal Revenue Code. The Committee has determined that any gain related to the exercise of a stock option granted under any of our stockholder-approved stock option plans with an exercise price at least equal to the fair value of our common stock on the date of grant qualifies under the Internal Revenue Code as performance-based compensation and

therefore is not subject to the \$1.0 million limitation. However, deductibility is not the sole factor used by the Committee in ascertaining appropriate levels or manner of compensation and corporate objectives may not necessarily align with the requirements for full deductibility under Section 162(m). Accordingly, we may enter into executive officer compensation arrangements under which payments are not deductible under Section 162(m).

#### **Internal Revenue Code Section 409A**

Section 409A governs deferred compensation arrangements. The Committee reviewed our deferred compensation programs with the assistance of our external counsel and determined that the programs are compliant with Section 409A.

#### ***Compensation Committee interlocks and insider participation***

During 2014, the Committee consisted of Richard F. Pops, W. Thomas Mitchell and Joseph A. Mollica, Ph.D. No interlocking relationship existed between any member of the Committee and any member of any other company's Board of Directors or compensation committee.

## EXECUTIVE COMPENSATION AND OTHER INFORMATION

**Summary Compensation Table** The following table sets forth the compensation paid by the Company for the fiscal years ended December 31, 2012, 2013 and 2014 to the NEOs named below.

### Summary Compensation Table

Name and Title (1)	Year	Salary (2)	Bonus (2)	Option Awards (3)	Stock Awards (4)	All Other (5)	Total Compensation
Kevin C. Gorman, Ph.D. President and Chief Executive Officer	2012	\$525,300	\$220,600	\$1,495,200	\$ —	\$42,563	\$2,283,663
	2013	\$541,100	\$178,600	\$1,092,000	\$ 259,500	\$38,798	\$2,109,998
	2014	\$557,300	\$401,256	\$2,408,000	\$2,546,700	\$39,596	\$5,952,852
Timothy P. Coughlin Chief Financial Officer	2012	\$386,250	\$135,200	\$ 747,600	\$ —	\$36,545	\$1,305,595
	2013	\$397,800	\$109,400	\$ 536,640	\$ 121,100	\$35,739	\$1,200,679
	2014	\$409,700	\$245,820	\$1,183,360	\$1,743,510	\$34,815	\$3,617,205
Christopher F. O'Brien, M.D. Chief Medical Officer	2012	\$432,600	\$151,400	\$ 747,600	\$ —	\$26,050	\$1,357,650
	2013	\$445,600	\$122,500	\$ 536,640	\$ 121,100	\$23,869	\$1,249,709
	2014	\$459,000	\$275,400	\$1,183,360	\$1,743,510	\$24,818	\$3,686,088
Dimitri E. Grigoriadis, Ph.D. Chief Research Officer	2012	\$312,090	\$109,200	\$ 623,000	\$ —	\$36,290	\$1,080,580
	2013	\$321,500	\$ 88,400	\$ 468,000	\$ 112,450	\$38,199	\$1,028,549
	2014	\$331,100	\$198,660	\$1,032,000	\$1,723,920	\$40,205	\$3,325,885
Haig P. Bozigian, Ph.D. Chief Development Officer	2012	\$336,000	\$117,600	\$ 623,000	\$ —	\$35,878	\$1,112,478
	2013	\$352,800	\$ 97,000	\$ 468,000	\$ 112,450	\$37,844	\$1,068,094
	2014	\$363,400	\$218,040	\$1,032,000	\$1,723,920	\$39,589	\$3,376,949

- (1) The titles and capacities set forth in the table above are as of the Record Date.
- (2) Salary and bonus figures represent amounts earned during each respective fiscal year, regardless of whether part or all of such amounts were paid in subsequent fiscal year(s).
- (3) The amounts shown are the full grant date fair value in accordance with Accounting Standards Codification 718-10, *Compensation—Stock Compensation* (“ASC 718”). The assumptions used to calculate the grant date fair value of stock awards are set forth under Note 8 of the Notes to the Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014 filed with the SEC on February 9, 2015. The grant date fair values of option awards for 2012, 2013 and 2014 are based on per share Black-Scholes values of \$6.23, \$6.24 and \$13.76, respectively.
- (4) Stock awards consist of restricted stock units and performance restricted stock units and may be subject to deferred delivery arrangements. The amounts shown are the full grant date fair value in accordance with ASC 718. The fair values of restricted stock units granted in 2014 are based on the Company’s closing market price per share of \$19.59 on such grant date. The Company did not grant any stock awards in 2012.

(5) Includes all other compensation as described in the table below.

### All Other Compensation Table

<u>Name</u>	<u>Year</u>	<u>401(k) Employer Match</u>	<u>Insurance Premiums (1)</u>	<u>Physical Exams</u>	<u>Total Other</u>
Kevin C. Gorman, Ph.D. . . . . .	2012	\$7,500	\$35,063	\$ —	\$42,563
	2013	\$7,650	\$31,148	\$ —	\$38,798
	2014	\$7,650	\$31,946	\$ —	\$39,596
Timothy P. Coughlin . . . . .	2012	\$7,438	\$29,107	\$ —	\$36,545
	2013	\$7,650	\$25,243	\$2,846	\$35,739
	2014	\$7,650	\$27,165	\$ —	\$34,815
Christopher F. O'Brien, M.D. . . . . .	2012	\$7,500	\$18,550	\$ —	\$26,050
	2013	\$7,650	\$16,219	\$ —	\$23,869
	2014	\$7,650	\$17,168	\$ —	\$24,818
Dimitri E. Grigoriadis, Ph.D. . . . . .	2012	\$7,500	\$28,790	\$ —	\$36,290
	2013	\$7,650	\$30,549	\$ —	\$38,199
	2014	\$7,650	\$32,555	\$ —	\$40,205
Haig P. Bozigian, Ph.D. . . . . .	2012	\$7,500	\$28,378	\$ —	\$35,878
	2013	\$7,650	\$30,194	\$ —	\$37,844
	2014	\$7,650	\$31,939	\$ —	\$39,589

(1) The amounts in this column represent the costs for medical insurance for Company-wide plans, as well as disability insurance premiums and related tax gross-up amounts.

### Grant of Plan Based Awards During the Fiscal Year Ended December 31, 2014

The following table sets forth certain information regarding option awards granted by the Company pursuant to the 2011 Plan during the year ended December 31, 2014 to the NEOs below:

<u>Name</u>	<u>Grant Date</u>	<u>All Other Option Awards: No. of Shares or Units (1)(3)</u>	<u>All Other Option Awards: No. of Securities Underlying Options (1)</u>	<u>Exercise or Base Price of Awards (1)</u>	<u>Grant Date Fair Value of Stock and Option Awards (2)</u>
Kevin C. Gorman, Ph.D. . . . . .	01/16/2014	—	175,000	\$13.76	\$2,408,000
	01/16/2014	130,000	—	\$19.59	\$2,546,700
Timothy P. Coughlin . . . . .	01/16/2014	—	86,000	\$13.76	\$1,183,360
	01/16/2014	89,000	—	\$19.59	\$1,743,510
Christopher F. O'Brien, M.D. . . . . .	01/16/2014	—	86,000	\$13.76	\$1,183,360
	01/16/2014	89,000	—	\$19.59	\$1,743,510
Dimitri E. Grigoriadis, Ph.D. . . . . .	01/16/2014	—	75,000	\$13.76	\$1,032,000
	01/16/2014	88,000	—	\$19.59	\$1,723,920
Haig P. Bozigian, Ph.D. . . . . .	01/16/2014	—	75,000	\$13.76	\$1,032,000
	01/16/2014	88,000	—	\$19.59	\$1,723,920

(1) All options and restricted stock units were granted and approved on the same date with option awards having an exercise price equal to the closing market price of the Company's common stock on the date of grant. All option awards are time-based awards, which vest monthly, on a pro-rata basis, over four years and have an option term of ten years.

(2) Reflects the grant date per share Black-Scholes value of \$13.76 for option awards and the grant date per share value of \$19.59 for restricted stock units granted on January 16, 2014 which was calculated in accordance with ASC 718.



- (3) Consists of 100,000 Performance Restricted Stock Units (“PRSUs”) for Dr. Gorman and 75,000 PRSUs each for Mr. Coughlin, Dr. O’Brien, Dr. Grigoriadis, and Dr. Bozigian. Two-thirds of these PSRUs vest upon the Company achieving the primary endpoint in an FDA approved Phase III study, while the remaining one-third of the PSRUs vest upon the Company obtaining FDA approval of a New Drug Application. The PSRUs vesting provisions are entirely exclusive of the Company’s elagolix program. The PRSUs have a limited term of five years to obtain these goals. Additionally, 30,000 restricted stock unit awards (“RSUs”) were granted to Dr. Gorman and 14,000 RSUs each for Mr. Coughlin and Dr. O’Brien and 13,000 RSUs each for Dr. Grigoriadis and Dr. Bozigian. These RSUs are time-based which vest annually, on a pro-rata basis, over a four year period.

#### ***Agreements with Named Executive Officers***

***Kevin C. Gorman, Ph.D.*** has an employment contract that provides that: (i) Dr. Gorman will serve as the Company’s Executive Vice President and Chief Operating Officer commencing on August 1, 2007 at an initial annual salary of \$400,000, subject to annual adjustment by the Board of Directors (subsequent to entering into the employment contract, Dr. Gorman was promoted to President and Chief Executive Officer and his annual base salary for 2015 is \$575,000); (ii) the agreement terminates upon death, disability, termination by the Company with or without cause, constructive termination or voluntary resignation; (iii) Dr. Gorman is eligible for a discretionary annual bonus as determined by the Board of Directors, based upon achieving certain performance criteria; and (iv) each year starting in 2007 and continuing for the term of the agreement, Dr. Gorman will be eligible to receive stock option awards with the number of shares and exercise price as shall be determined by the Board of Directors.

***Timothy P. Coughlin*** has an employment contract that provides that: (i) Mr. Coughlin will serve as the Company’s Vice President and Chief Financial Officer commencing on August 1, 2007 at an initial annual salary of \$275,000, subject to annual adjustment by the Board of Directors (Mr. Coughlin’s annual base salary for 2015 is \$422,000); (ii) the agreement terminates upon death, disability, termination by the Company with or without cause, constructive termination or voluntary resignation; (iii) Mr. Coughlin is eligible for a discretionary annual bonus as determined by the Board of Directors, based upon achieving certain performance criteria; and (iv) each year starting in 2007 and continuing for the term of the agreement, Mr. Coughlin will be eligible to receive stock option awards with the number of shares and exercise price as shall be determined by the Board of Directors.

***Christopher F. O’Brien, M.D.*** has an employment contract that provides that: (i) Dr. O’Brien will serve as the Company’s Senior Vice President, Clinical Development and Chief Medical Officer commencing on August 1, 2007 at an initial annual salary of \$350,000, subject to annual adjustment by the Board of Directors (Dr. O’Brien’s annual base salary for 2015 is \$477,800); (ii) the agreement terminates upon death, disability, termination by the Company with or without cause, constructive termination or voluntary resignation; (iii) Dr. O’Brien is eligible for a discretionary annual bonus as determined by the Board of Directors, based upon achieving certain performance criteria; and (iv) Dr. O’Brien is eligible to receive stock option awards with the number of shares and exercise price as shall be determined by the Board of Directors.

***Dimitri E. Grigoriadis, Ph.D.*** has an employment contract that provides that: (i) Dr. Grigoriadis will serve as the Company’s Vice President, Research commencing on August 1, 2007 at an initial annual salary of \$260,000, subject to annual adjustment by the Board of Directors (Dr. Grigoriadis’ annual base salary for 2015 is \$347,700); (ii) the agreement terminates upon death, disability, termination by the Company with or without cause, constructive termination or voluntary resignation; (iii) Dr. Grigoriadis is eligible for a discretionary annual bonus as determined by the Board of Directors, based upon achieving certain performance criteria; and (iv) Dr. Grigoriadis is eligible to receive stock option awards with the number of shares and exercise price as shall be determined by the Board of Directors.

***Haig P. Bozigian, Ph.D.*** has an employment contract that provides that: (i) Dr. Bozigian will serve as the Company’s Senior Vice President, Pharmaceutical and Preclinical Development commencing on August 1, 2007 at an initial annual salary of \$260,000, subject to annual adjustment by the Board of Directors (Dr. Bozigian’s annual base salary for 2015 is \$381,600); (ii) the agreement terminates upon death, disability, termination by the Company with or without cause, constructive termination or voluntary resignation; (iii) Dr. Bozigian is eligible for a discretionary annual



bonus as determined by the Board of Directors, based upon achieving certain performance criteria; and (iv) Dr. Bozigian is eligible to receive stock option awards with the number of shares and exercise price as shall be determined by the Board of Directors.

**Outstanding Equity Awards.** The following table sets forth the outstanding equity awards held by the NEOs at December 31, 2014.

Name	Option Awards						Stock Awards	
	Award Grant and Commencement of Vesting Date	Number of Securities Underlying Unexercised Options Exercisable	Number of Securities Underlying Unexercised Options Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options	Option Exercise Price	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (9)	Market Value of Shares or Units of Stock That Have Not Vested (9)
Kevin C. Gorman,								
Ph.D. ....	05/11/2010	160,000(4)	—	—	\$ 2.59	05/11/2017	—	—
	08/25/2011	250,000(4)	—	—	\$ 5.76	08/25/2021	—	—
	01/12/2012	174,997(2)	65,003(2)	—	\$ 8.66	01/12/2022	—	—
	01/10/2013	83,852(2)	91,148(2)	—	\$ 8.65	01/10/2023	22,500(3)	\$ 502,650
	01/16/2014	40,103(2)	134,897(2)	—	\$19.59	01/16/2024	130,000(6)	\$2,904,200
Timothy P.								
Coughlin ....	05/11/2010	110,000(4)	—	—	\$ 2.59	05/11/2017	—	—
	08/25/2011	125,000(4)	—	—	\$ 5.76	08/25/2021	—	—
	01/12/2012	87,498(2)	32,502(2)	—	\$ 8.66	01/12/2022	—	—
	01/10/2013	41,207(2)	44,793(2)	—	\$ 8.65	01/10/2023	10,500(3)	\$ 234,570
	01/16/2014	19,708(2)	66,292(2)	—	\$19.59	01/16/2024	89,000(7)	\$1,988,260
Christopher F.								
O'Brien, M.D. ...	10/31/2005	55,000(1)	—	—	\$52.82	10/31/2015	—	—
	05/11/2010	55,000(4)	—	—	\$ 2.59	05/11/2017	—	—
	08/25/2011	125,000(4)	—	—	\$ 5.76	08/25/2021	—	—
	01/12/2012	87,498(2)	32,502(2)	—	\$ 8.66	01/12/2022	—	—
	01/10/2013	41,207(2)	44,793(2)	—	\$ 8.65	01/10/2023	10,500(3)	\$ 234,570
	01/16/2014	19,708(2)	66,292(2)	—	\$19.59	01/16/2024	89,000(7)	\$1,988,260
Dimitri E. Grigoriadis,								
Ph.D. ....	02/27/2008	2,500(5)	—	—	\$ 5.12	02/27/2015	—	—
	05/11/2010	30,000(4)	—	—	\$ 2.59	05/11/2017	—	—
	08/25/2011	125,000(4)	—	—	\$ 5.76	08/25/2021	—	—
	01/12/2012	72,915(2)	27,085(2)	—	\$ 8.66	01/12/2022	—	—
	01/10/2013	35,936(2)	39,064(2)	—	\$ 8.65	01/10/2023	9,750(3)	\$ 217,815
	01/16/2014	17,187(2)	57,813(2)	—	\$19.59	01/16/2024	88,000(8)	\$1,965,920
Haig P. Bozigian,								
Ph.D. ....	02/27/2008	2,500(5)	—	—	\$ 5.12	02/27/2015	—	—
	05/11/2010	30,000(4)	—	—	\$ 2.59	05/11/2017	—	—
	08/25/2011	125,000(4)	—	—	\$ 5.76	08/25/2021	—	—
	01/12/2012	72,915(2)	27,085(2)	—	\$ 8.66	01/12/2022	—	—
	01/10/2013	35,936(2)	39,064(2)	—	\$ 8.65	01/10/2023	9,750(3)	\$ 217,815
	01/16/2014	17,187(2)	57,813(2)	—	\$19.59	01/16/2024	88,000(8)	\$1,965,920

- (1) Vests monthly over four years, subject to an initial one-year “cliff.”
- (2) Vests monthly over four years.
- (3) Vests annually over four years.
- (4) Vests monthly over three years.
- (5) Vests annually over three years.

- (6) Consists of 100,000 Performance Restricted Stock Units (“PRsUs”) and 30,000 RSUs. The RSUs vest annually over four years. Two-thirds of the PSRUs vest upon the Company achieving the primary endpoint in an FDA approved Phase III study, while the remaining one-third of the PSRUs vest upon the Company obtaining FDA approval of a New Drug Application. The PSRUs vesting provisions are entirely exclusive of the Company’s elagolix program. The PRsUs have a limited term of five years to obtain these goals.
- (7) Consists of 75,000 PRsUs and 14,000 RSUs. The RSUs vest annually over four years. Two-thirds of the PSRUs vest upon the Company achieving the primary endpoint in an FDA approved Phase III study, while the remaining one-third of the PSRUs vest upon the Company obtaining FDA approval of a New Drug Application. The PSRUs vesting provisions are entirely exclusive of the Company’s elagolix program. The PRsUs have a limited term of five years to obtain these goals.
- (8) Consists of 75,000 PRsUs and 13,000 RSUs. The RSUs vest annually over four years. Two-thirds of the PSRUs vest upon the Company achieving the primary endpoint in an FDA approved Phase III study, while the remaining one-third of the PSRUs vest upon the Company obtaining FDA approval of a New Drug Application. The PSRUs vesting provisions are entirely exclusive of the Company’s elagolix program. The PRsUs have a limited term of five years to obtain these goals.
- (9) Represents RSUs and PRsUs which are subject to deferred delivery arrangements. The market value of RSUs that have not vested is derived by multiplying the number of RSUs that have not vested as of December 31, 2014 by \$22.34, the closing price of the Company’s common stock on December 31, 2014.

**Option Exercises and Stock Vested During the Year.** The following table sets forth the options exercised and stock awards that vested during fiscal 2014 along with their respective values at December 31, 2014 for the NEOs:

#### Option Exercises and Stock Vested Table

<u>Name</u>	<u>Option Awards (1)</u>		<u>Stock Awards (2)</u>	
	<u>Number of Shares Acquired on Exercise</u>	<u>Value Realized on Exercise (3)</u>	<u>Number of Shares Acquired on Vesting</u>	<u>Value Realized on Vesting (4)</u>
Kevin C. Gorman, Ph.D. . . . . .	178,000	\$1,917,065	7,500	\$139,200
Timothy P. Coughlin . . . . .	160,000	\$1,953,482	3,500	\$ 64,960
Christopher F. O’Brien, M.D. . . . . .	110,000	\$1,988,409	3,500	\$ 64,960
Dimitri E Grigoriadis, Ph.D. . . . . .	77,500	\$1,309,284	3,250	\$ 60,320
Haig P. Bozigian, Ph.D. . . . . .	77,500	\$1,309,404	3,250	\$ 60,320

- (1) Information relates to stock option exercises during 2014.
- (2) Information relates to restricted stock units that vested during 2014.
- (3) Calculated by multiplying the number of shares acquired upon exercise of stock options by the difference between the exercise price and the market price of the Company’s common stock at the time of exercise.
- (4) Calculated by multiplying the number of shares acquired upon vesting of restricted stock units by \$18.56, the average price of shares sold for purposes of satisfying federal and state income tax liabilities.

**Potential Payments Upon Termination or Change-in-Control.** The following tables set forth the potential severance benefits payable to the NEOs in the event of a termination prior to or following a change in control, assuming such event occurred on December 31, 2014:

**Potential Payment upon Termination Table\***

<u>Name</u>	<u>Salary (1)</u>	<u>Bonus (2)</u>	<u>Accrued Compensation (3)</u>	<u>Stock Awards (4)</u>	<u>Medical (5)</u>	<u>Total</u>
Kevin C. Gorman, Ph.D. . . . . .	\$696,625	\$417,975	\$55,299	\$2,458,495	\$38,126	\$3,666,520
Timothy P. Coughlin . . . . .	\$512,125	\$256,063	\$51,793	\$1,199,210	\$38,126	\$2,057,317
Christopher F. O'Brien, M.D. . . .	\$459,000	\$229,500	\$29,623	\$ 920,237	\$22,063	\$1,660,423
Dimitri E. Grigoriadis, Ph.D. . . . .	\$331,100	\$165,550	\$39,796	\$ 795,457	\$32,437	\$1,364,340
Haig P. Bozgian, Ph.D. . . . . .	\$363,400	\$181,700	\$57,654	\$ 795,457	\$30,365	\$1,428,576

\* Reflects a termination without cause or due to a constructive termination, or deemed termination, prior to a change in control.

- (1) Based on salary as of December 31, 2014.
- (2) Based on bonus targets established by the Board of Directors for 2014.
- (3) Accrued compensation is comprised of vacation pay earned and unpaid as of December 31, 2014 and a one-time additional two week vacation benefit for eligible employees.
- (4) The amounts in this column represent the intrinsic value of 'in-the money' unvested options and restricted stock units as of December 31, 2014 that would vest in accordance with the executive officers' employment agreements. Values were derived using the closing price of the Company's common stock on December 31, 2014 of \$22.34.
- (5) Medical is comprised of health insurance premiums for the period specified in each executive officer's employment contract.

**Potential Payment upon Change-in-Control Table\***

<u>Name</u>	<u>Severance (1)</u>	<u>Bonus (2)</u>	<u>Accrued Compensation (3)</u>	<u>Stock Awards (4)</u>	<u>Medical (5)</u>	<u>Statutory Tax Gross-up (6)</u>	<u>Total</u>
Kevin C. Gorman, Ph.D. . . . . .	\$1,114,600	\$668,760	\$55,299	\$5,914,874	\$61,002	\$2,646,819	\$10,461,354
Timothy P. Coughlin . . . . .	\$ 819,400	\$409,700	\$51,793	\$3,462,977	\$61,002	\$1,896,410	\$ 6,701,282
Christopher F. O'Brien, M.D. . . .	\$ 688,500	\$344,250	\$29,623	\$3,462,977	\$33,094	\$1,630,758	\$ 6,189,202
Dimitri E. Grigoriadis, Ph.D. . . .	\$ 496,650	\$248,325	\$39,796	\$3,248,030	\$48,655	\$1,471,481	\$ 5,552,937
Haig P. Bozgian, Ph.D. . . . . .	\$ 545,100	\$272,550	\$57,654	\$3,248,030	\$45,547	\$1,518,000	\$ 5,686,881

\* Reflects benefits to be provided upon a termination without cause, or due to a constructive termination, within a specified time following a change-in-control.

- (1) Based on salary as of December 31, 2014.
- (2) Based on bonus targets established by the Board of Directors for 2014.
- (3) Accrued compensation is comprised of vacation pay earned and unpaid as of December 31, 2014 and a one-time additional two week vacation benefit for eligible employees.
- (4) The amounts in this column represent the intrinsic value of 'in-the money' unvested options and restricted stock units as of December 31, 2014 that would vest in accordance with the executive officers' employment agreements. Values were derived using the closing price of the Company's common stock on December 31, 2014 of \$22.34.

- (5) Medical is comprised of health insurance premiums for the period specified in each executive officer's employment contract.
- (6) Represents tax gross-up payments (inclusive of the excise tax due) if total payments to executive in connection with a change-in-control exceed 2.99 times such executive's base amount by 15% or more. Based on the closing price of the Company's common stock on December 31, 2014 of \$22.34, excise tax payments will be due to all NEOs. The tax gross-up payments were calculated using the highest federal and state tax rates in effect during 2014.

#### **Potential Payment upon Termination by Disability Table\***

<u>Name</u>	<u>Base Salary (1)</u>	<u>Bonus (2)</u>	<u>Accrued Compensation (3)</u>	<u>Stock Awards (4)</u>	<u>Medical (5)</u>	<u>Total</u>
Kevin C. Gorman, Ph.D. ....	\$696,625	\$334,380	\$55,299	\$2,458,495	\$38,126	\$3,582,925
Timothy P. Coughlin .....	\$512,125	\$204,850	\$51,793	\$1,199,210	\$38,126	\$2,006,104
Christopher F. O'Brien, M.D. ....	\$459,000	\$229,500	\$29,623	\$ 920,237	\$22,063	\$1,660,423
Dimitri E. Grigoriadis, Ph.D. ....	\$331,100	\$165,550	\$39,796	\$ 795,457	\$32,437	\$1,364,340
Haig P. Bozigian, Ph.D. ....	\$363,400	\$181,700	\$57,654	\$ 795,457	\$30,365	\$1,428,576

\* Reflects a termination due to disability.

- (1) Based on salary as of December 31, 2014.
- (2) Based on bonus targets established by the Board of Directors for 2014.
- (3) Accrued compensation is comprised of vacation pay earned and unpaid as of December 31, 2014 and a one-time additional two week vacation benefit for eligible employees.
- (4) The amounts in this column represent the intrinsic value of 'in-the money' unvested options and restricted stock units as of December 31, 2014 that would vest in accordance with the executive officers' employment agreements. Values were derived using the closing price of the Company's common stock on December 31, 2014 of \$22.34.
- (5) Medical is comprised of health insurance premiums for the period specified in each executive officer's employment contract.

#### **Potential Payment upon Termination by Death Table\***

<u>Name</u>	<u>Bonus (1)</u>	<u>Accrued Compensation (2)</u>	<u>Stock Awards (3)</u>	<u>Total</u>
Kevin C. Gorman, Ph.D. ....	\$334,380	\$55,299	\$2,458,495	\$2,848,174
Timothy P. Coughlin .....	\$204,850	\$51,793	\$1,199,210	\$1,455,853
Christopher F. O'Brien, M.D. ....	\$229,500	\$29,623	\$ 920,237	\$1,179,360
Dimitri E. Grigoriadis, Ph.D. ....	\$165,550	\$39,796	\$ 795,457	\$1,000,803
Haig P. Bozigian, Ph.D. ....	\$181,700	\$57,654	\$ 795,457	\$1,034,811

\* Reflects a termination due to death.

- (1) Based on bonus targets established by the Board of Directors for 2014.
- (2) Accrued compensation is comprised of vacation pay earned and unpaid as of December 31, 2014 and a one-time additional two week vacation benefit for eligible employees.
- (3) The amounts in this column represent the intrinsic value of 'in-the money' unvested options and restricted stock units as of December 31, 2014 that would vest in accordance with the executive officers' employment agreements. Values were derived using the closing price of the Company's common stock on December 31, 2014 of \$22.34.

The following is a description of the arrangements under which the NEOs may be entitled to potential payments upon a termination without cause or resignation due to a constructive termination (including following a change-in-control) or upon disability or death. Resignation due to constructive termination may include an executive's resignation following one or more of the following material adverse changes in the nature of executive's employment, as specified in the agreement, which is not cured following notification:

- a significant reduction in the executive or the executive supervisor's duties or responsibilities,
- a material reduction in base salary,
- material relocation, or
- material breach of the executive's employment agreement.

**Dr. Gorman** is entitled to 1.25 times the amount of his annual base salary and target annual bonus to be paid equally over 15 months, an acceleration of unvested shares that would have vested over the 15 continuous months after the date of termination, and payment of COBRA benefits to continue then-current coverage for a period of 15 months following termination in the event that the Company terminates his employment without cause, or he resigns due to a constructive termination. In the event of such termination within a specified time following a change of control, Dr. Gorman is entitled to 2 times the amount of his annual base salary and annual target bonus to be paid in one lump sum, a cash amount equal to the value of all unvested stock awards and all vested and outstanding stock awards, and payment of COBRA benefits to continue then-current coverage for a period of 24 months following termination. In addition, the Company has agreed to reimburse Dr. Gorman for the increase in federal and state income taxes payable by him by reason of the benefits provided in connection with such a termination in connection with a change in control if the total payment exceeds 2.99 times his base amount by more than 15%. In the event of termination due to disability, Dr. Gorman is entitled to 15 months of base salary paid semi-monthly over 15 months, a lump sum amount equal to his target annual bonus multiplied by a fraction the numerator of which is the number of full months of employment by Dr. Gorman in the fiscal year and the denominator of which is 12, an acceleration of unvested shares that would have vested over the 15 continuous months after the date of termination, and payment of COBRA benefits to continue then-current coverage for a period of 15 months following termination. In the event of a termination due to Dr. Gorman's death, his beneficiaries or estate, would be entitled to an acceleration of unvested shares that would have vested over the 15 continuous months after the date of termination, a lump sum amount equal to his target annual bonus multiplied by a fraction the numerator of which is the number of full months of employment by Dr. Gorman in the fiscal year and the denominator of which is 12 and any accrued and unpaid compensation on the date of termination.

**Mr. Coughlin** is entitled to 1.25 times the amount of his annual base salary and target annual bonus to be paid equally over 15 months, an acceleration of unvested shares that would have vested over the 15 continuous months after the date of termination, and payment of COBRA benefits to continue then-current coverage for a period of 15 months following termination in the event that the Company terminates his employment without cause, or he resigns due to a constructive termination. In the event of such termination within a specified time following a change of control, Mr. Coughlin is entitled to 2 times his annual base salary and annual target bonus to be paid in one lump sum, a cash amount equal to the value of all unvested stock awards and all vested and outstanding stock awards, and payment of COBRA benefits to continue then-current coverage for a period of 24 months following termination. In addition, the Company has agreed to reimburse Mr. Coughlin for the increase in federal and state income taxes payable by him by reason of the benefits provided in connection with such a termination in connection with a change in control if the total payment exceeds 2.99 times his base amount by more than 15%. In the event of termination due to disability, Mr. Coughlin is entitled to 15 months of base salary paid semi-monthly over 15 months, a lump sum amount equal to his target annual bonus multiplied by a fraction the numerator of which is the number of full months of employment by Mr. Coughlin in the fiscal year and the denominator of which is 12, an acceleration of unvested shares that would have vested over the 15 continuous months after the date of termination, and payment of COBRA benefits to continue then-current coverage for a period of 15 months following termination. In the event of a termination due to Mr. Coughlin's

death, his beneficiaries or estate, would be entitled to an acceleration of unvested shares that would have vested over the 15 continuous months after the date of termination, a lump sum amount equal to his target annual bonus multiplied by a fraction the numerator of which is the number of full months of employment by Mr. Coughlin in the fiscal year and the denominator of which is 12 and any accrued and unpaid compensation on the date of termination.

*Dr. O'Brien* is entitled to 1.0 times the amount of his annual base salary and target annual bonus to be paid equally over 12 months, an acceleration of unvested shares that would have vested over the 12 continuous months after the date of termination, and payment of COBRA benefits to continue then-current coverage for a period of 12 months following termination in the event that the Company terminates his employment without cause, or he resigns due to a constructive termination. In the event of such termination within a specified time following a change of control, Dr. O'Brien is entitled to 1.5 times the amount of his annual base salary and annual target bonus to be paid in one lump sum, a cash amount equal to the value of all unvested stock awards and all vested and outstanding stock awards, and payment of COBRA benefits to continue then-current coverage for a period of 18 months following termination. In addition, the Company has agreed to reimburse Dr. O'Brien for the increase in federal and state income taxes payable by him by reason of the benefits provided in connection with such a termination in connection with a change in control if the total payment exceeds 2.99 times his base amount by more than 15%. In the event of termination due to disability, Dr. O'Brien is entitled to 12 months of base salary paid semi-monthly over 12 months, a lump sum amount equal to his target annual bonus multiplied by a fraction of the numerator of which is the number of full months of employment by Dr. O'Brien in the fiscal year and the denominator of which is 12, an acceleration of unvested shares that would have vested over the 12 continuous months after the date of termination, and payment of COBRA benefits to continue then-current coverage for a period of 12 months following termination. In the event of a termination due to Dr. O'Brien's death, his beneficiaries or estate, would be entitled to an acceleration of unvested shares that would have vested over the 12 continuous months after the date of termination, a lump sum amount equal to his target annual bonus multiplied by a fraction the numerator of which is the number of full months of employment by Dr. O'Brien in the fiscal year and the denominator of which is 12 and any accrued and unpaid compensation on the date of termination.

*Dr. Grigoriadis* is entitled to 1.0 times the amount of his annual base salary and target annual bonus to be paid equally over 12 months, an acceleration of unvested shares that would have vested over the 12 continuous months after the date of termination, and payment of COBRA benefits to continue then-current coverage for a period of 12 months following termination in the event that the Company terminates his employment without cause, or he resigns due to a constructive termination. In the event of such termination within a specified time following a change of control, Dr. Grigoriadis is entitled to 1.5 times the amount of his annual base salary and annual target bonus to be paid in one lump sum, a cash amount equal to the value of all unvested stock awards and all vested and outstanding stock awards, and payment of COBRA benefits to continue then-current coverage for a period of 18 months following termination. In addition, the Company has agreed to reimburse Dr. Grigoriadis for the increase in federal and state income taxes payable by him by reason of the benefits provided in connection with such a termination in connection with a change in control if the total payment exceeds 2.99 times his base amount by more than 15%. In the event of termination due to disability, Dr. Grigoriadis is entitled to 12 months of base salary paid semi-monthly over 12 months, a lump sum amount equal to his target annual bonus multiplied by a fraction the numerator of which is the number of full months of employment by Dr. Grigoriadis in the fiscal year and the denominator of which is 12, an acceleration of unvested shares that would have vested over the 12 continuous months after the date of termination, and payment of COBRA benefits to continue then-current coverage for a period of 12 months following termination. In the event of a termination due to Dr. Grigoriadis' death, his beneficiaries or estate, would be entitled to an acceleration of unvested shares that would have vested over the 12 continuous months after the date of termination, a lump sum amount equal to his target annual bonus multiplied by a fraction the numerator of which is the number of full months of employment by Dr. Grigoriadis in the fiscal year and the denominator of which is 12 and any accrued and unpaid compensation on the date of termination.



**Dr. Bozigian** is entitled to 1.0 times the amount of his annual base salary and target annual bonus to be paid equally over 12 months, an acceleration of unvested shares that would have vested over the 12 continuous months after the date of termination, and payment of COBRA benefits to continue then-current coverage for a period of 12 months following termination in the event that the Company terminates his employment without cause, or he resigns due to a constructive termination. In the event of such termination within a specified time following a change of control, Dr. Bozigian is entitled to 1.5 times the amount of his annual base salary and annual target bonus to be paid in one lump sum, a cash amount equal to the value of all unvested stock awards and all vested and outstanding stock awards, and payment of COBRA benefits to continue then-current coverage for a period of 18 months following termination. In addition, the Company has agreed to reimburse Dr. Bozigian for the increase in federal and state income taxes payable by him by reason of the benefits provided in connection with such a termination in connection with a change in control if the total payment exceeds 2.99 times his base amount by more than 15%. In the event of termination due to disability, Dr. Bozigian is entitled to 12 months of base salary paid semi-monthly over 12 months, a lump sum amount equal to his target annual bonus multiplied by a fraction the numerator of which is the number of full months of employment by Dr. Bozigian in the fiscal year and the denominator of which is 12, an acceleration of unvested shares that would have vested over the 12 continuous months after the date of termination, and payment of COBRA benefits to continue then-current coverage for a period of 12 months following termination. In the event of a termination due to Dr. Bozigian's death, his beneficiaries or estate, would be entitled to an acceleration of unvested shares that would have vested over the 12 continuous months after the date of termination, a lump sum amount equal to his target annual bonus multiplied by a fraction the numerator of which is the number of full months of employment by Dr. Bozigian in the fiscal year and the denominator of which is 12 and any accrued and unpaid compensation on the date of termination.



## DIRECTORS COMPENSATION SUMMARY

### 2014 Director Compensation

Non-employee directors are reimbursed for expenses incurred in connection with performing their duties as directors of the Company. For 2014, directors who are not employees of the Company received a \$50,000 annual retainer. The Company provided the Chairman of the Board, William H. Rastetter, an additional \$30,000, making his total annual cash retainer \$80,000. In addition to the cash compensation set forth above, the Chairman of the Audit Committee, Corinne H. Nevinny, received an additional \$20,000 annual cash retainer. The Chairman of the Compensation Committee, Richard F. Pops, received an additional \$20,000 annual cash retainer. The Chairman of the Nominating/Corporate Governance Committee, W. Thomas Mitchell, received an additional \$9,000 annual cash retainer. Each other director who was a member of the Audit Committee, the Compensation Committee or the Nominating/Corporate Governance Committee received an additional annual cash retainer of \$12,000, \$12,000 and \$5,000, respectively, for each Committee on which he or she served.

Additionally for 2014, each non-employee director received a grant of a nonstatutory stock option to purchase 15,000 shares of the Company's common stock (except that the Chairman of the Board received an option to purchase 20,000 shares) at the 2014 Annual Meeting with exercise prices equal to the fair market value of the Company's common stock on the date of the grant. The options granted to non-employee directors are subject to a ten year term and vest monthly over the one-year period following the date of grant.

### 2015 Director Compensation

Director cash compensation for 2015 will remain at the 2014 levels. Additionally, each non-employee director will receive a grant of a nonstatutory stock option to purchase 25,000 shares of the Company's common stock (except that the Chairman of the Board will receive an option to purchase 30,000 shares) at the 2015 Annual Meeting, provided that such non-employee director was a director of the Company for at least six months prior to the date of such Annual Meeting. Each new non-employee director will be automatically granted a nonstatutory stock option to purchase 40,000 shares of the Company's common stock upon the date such person joins the Board of Directors. All options granted to non-employee directors are subject to a ten year term and vest monthly over the one-year period following the date of grant and all option grants will have exercise prices equal to the fair market value of the Company's common stock on the date of the grant.

**Compensation of Directors.** The following table sets forth the compensation paid by the Company for the fiscal year ended December 31, 2014 to the directors of the Company named below:

**Director Compensation Table**

<u>Name</u>	<u>Fees Earned or Paid in Cash (1)</u>	<u>Option Awards (2)</u>	<u>Total</u>
Kevin C. Gorman, Ph.D. (3) . . . . .	\$ —	\$ —	\$ —
William H. Rastetter, Ph.D. (4) . . . . .	\$80,000	\$180,000	\$260,000
Gary A. Lyons (5) . . . . .	\$55,000	\$135,000	\$190,000
Joseph A. Mollica, Ph.D. (6) . . . . .	\$67,000	\$135,000	\$202,000
W. Thomas Mitchell (7) . . . . .	\$71,000	\$135,000	\$206,000
Corinne H. Nevinny (8) . . . . .	\$70,000	\$135,000	\$205,000
Richard F. Pops (9) . . . . .	\$82,000	\$135,000	\$217,000
Stephen A. Sherwin, M.D. (10) . . . . .	\$62,000	\$135,000	\$197,000

(1) Amounts in this column reflect compensation earned in 2014, all of which was paid during 2014.

(2) The amounts shown represent the full grant date fair value of option awards granted in 2014 as determined pursuant to ASC 718. The assumptions used to calculate the value of such awards are set forth under Note 8 of the Notes to the Consolidated Financial Statements included in the Company's Annual Report on

Form 10-K for the year ended December 31, 2014 filed with the SEC on February 9, 2015. The grant date fair values of option awards are based on a per share Black-Scholes value of \$9.00.

- (3) During 2014, Dr. Gorman was an employee of the Company, and as such, did not receive any compensation for service on the Board of Directors. As of December 31, 2014, Dr. Gorman had outstanding options to purchase 1,000,000 shares of common stock.
- (4) As of December 31, 2014, Dr. Rastetter had outstanding options to purchase 105,000 shares of common stock.
- (5) As of December 31, 2014, Mr. Lyons had outstanding options to purchase 105,000 shares of common stock.
- (6) As of December 31, 2014, Dr. Mollica had outstanding options to purchase 100,000 shares of common stock.
- (7) As of December 31, 2014, Mr. Mitchell had outstanding options to purchase 98,000 shares of common stock.
- (8) As of December 31, 2014, Ms. Nevinny had outstanding options to purchase 105,000 shares of common stock.
- (9) As of December 31, 2014, Mr. Pops had outstanding options to purchase 105,000 shares of common stock.
- (10) As of December 31, 2014, Dr. Sherwin had outstanding options to purchase 105,000 shares of common stock.

#### ***Additional Information***

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

### **RELATED PERSON TRANSACTIONS**

#### **Review, approval or ratification of related person transactions**

In accordance with the Company's Audit Committee Charter, the Company's Audit Committee is responsible for reviewing and approving the terms and conditions of all related person transactions. In connection with its review, approval or ratification of related person transactions, the Company's Audit Committee takes into account all relevant available facts and circumstances in determining whether such transaction is in the best interests of the Company and its stockholders. Any transaction that would disqualify a director from meeting the "independent director" standard as defined under the Nasdaq Stock Market rules requires review by the Company's Audit Committee prior to entering into such transaction. For all other related person transactions the Company reviews all agreements and payments for related person transactions and based on this review, a report is made to the Company's Audit Committee quarterly disclosing all related person transactions during that quarter, if any. All related person transactions shall be disclosed in the Company's applicable filings with the SEC as required under SEC rules.

#### **Related person transactions during fiscal 2014**

There were no related person transactions during fiscal 2014.

### **OTHER MATTERS**

As of the date of this proxy statement, the Company knows of no other matters to be submitted to the stockholders at the Annual Meeting. If any other matters properly come before the Annual Meeting, it is the intention of the persons named in the enclosed proxy card to vote the shares they represent as the Board of Directors may recommend.

## ADDITIONAL INFORMATION

**“Householding” of Proxy Materials.** The SEC has adopted rules that permit companies and intermediaries such as brokers to satisfy delivery requirements for proxy statements with respect to two or more stockholders sharing the same address by delivering a single proxy statement addressed to those stockholders. This process, which is commonly referred to as “householding,” potentially provides extra convenience for stockholders and cost savings for companies. The Company, as well as certain brokers, household proxy materials, unless contrary instructions have been received from the affected stockholders. Once you have received notice from your broker or us that they or we will be householding materials to your address, householding will continue until you are notified otherwise or until you revoke your consent. If, at any time, you no longer wish to participate in householding and would prefer to receive a separate proxy statement, please notify your broker if your shares are held in a brokerage account or us if you hold registered shares. If you hold registered shares, you may direct your written request to the Company’s Corporate Secretary at 12780 El Camino Real, San Diego, California 92130 or contact the Company’s Corporate Secretary at 858-617-7600.

**Advance Notice Procedures.** To be considered for inclusion in next year’s proxy materials, a stockholder must submit his, her or its proposal in writing by December 31, 2015, which is the date that is 120 days prior to the first anniversary of the mailing date of this proxy statement, to the Company’s Corporate Secretary at 12780 El Camino Real, San Diego, California 92130. Any proposal must comply with the requirements as to form and substance established by the SEC for such proposal to be included in our proxy statement. Stockholders are also advised to review our bylaws, which contain additional requirements about advance notice of stockholder proposals and director nominations.

NEUROCRINE BIOSCIENCES, INC.

2011 EQUITY INCENTIVE PLAN

ADOPTED BY THE BOARD OF DIRECTORS: FEBRUARY 21, 2011

APPROVED BY THE STOCKHOLDERS: MAY 25, 2011

AMENDED BY THE STOCKHOLDERS: MAY 23, 2013

AMENDED BY THE STOCKHOLDERS: MAY 22, 2014

TERMINATION DATE: FEBRUARY 20, 2021

1. GENERAL.

**(a) Successor to and Continuation of Prior Plans.** The Plan is intended as the successor to and continuation of the Neurocrine Biosciences, Inc. 2003 Incentive Stock Plan, 2001 Stock Option Plan, 1997 Incentive Stock Plan, 1996 Director Stock Option Plan and 1992 Incentive Stock Plan (together the “*Prior Plans*”). On the Effective Date, awards will automatically be granted to the Company’s Directors pursuant to the terms of Section 10 of the Neurocrine Biosciences, Inc. 2003 Incentive Stock Plan (the “*2011 Automatic Director Awards*”). From and following the Effective Date, no additional stock awards shall be granted under the Prior Plans except for the 2011 Automatic Director Awards. From and after the Effective Date, all outstanding stock awards granted under the Prior Plans shall remain subject to the terms of the Prior Plans; *provided, however,* any shares subject to outstanding stock awards granted under the Prior Plans that expire or terminate for any reason prior to exercise or settlement or are otherwise forfeited prior to issuance of the shares because of the failure to meet a contingency or condition required to vest such shares shall not again become available for issuance under either the Prior Plans or this Plan. Except with respect to the 2011 Automatic Director Awards, all Awards granted on or after the Effective Date of this Plan shall be subject to the terms of this Plan.

**(b) Eligible Award Recipients.** The persons eligible to receive discretionary Awards are Employees, Directors and Consultants. The persons eligible to receive Stock Awards under the Director Grant Program are Eligible Directors.

**(c) Available Awards.** The Plan provides for the grant of the following Awards: (i) Incentive Stock Options, (ii) Nonstatutory Stock Options, (iii) Stock Appreciation Rights, (iv) Restricted Stock Awards, (v) Restricted Stock Unit Awards, (vi) Performance Stock Awards, and (vii) Other Stock Awards.

**(d) Purpose.** The Company, by means of the Plan, seeks to secure and retain the services of the group of persons eligible to receive Awards as set forth in Section 1(b), to provide incentives for such persons to exert maximum efforts for the success of the Company and any Affiliate and to provide a means by which such eligible recipients may be given an opportunity to benefit from increases in value of the Common Stock through the granting of Awards.

2. ADMINISTRATION.

**(a) Administration by Board.** The Board shall administer the Plan unless and until the Board delegates administration of the Plan to a Committee or Committees, as provided in Section 2(d). However, the Board may not delegate administration of the Director Grant Program.

**(b) Powers of Board.** Except with respect to the Director Grant Program, the Board shall have the power, subject to, and within the limitations of, the express provisions of the Plan:

**(i)** To determine from time to time (A) which of the persons eligible under the Plan shall be granted Awards; (B) when and how each Award shall be granted; (C) what type or combination of types of Award shall be granted; (D) the provisions of each Award granted (which need not be identical), including the time

or times when a person shall be permitted to receive cash or Common Stock pursuant to an Award; (E) the number of shares of Common Stock with respect to which a Stock Award shall be granted to each such person; and (F) the Fair Market Value applicable to a Stock Award.

(ii) To construe and interpret the Plan and Awards granted under it, and to establish, amend and revoke rules and regulations for its administration. The Board, in the exercise of this power, may correct any defect, omission or inconsistency in the Plan or in any Stock Award Agreement in a manner and to the extent it shall deem necessary or expedient to make the Plan or Award fully effective.

(iii) To settle all controversies regarding the Plan and Awards granted under it.

(iv) To accelerate the time at which an Award may first be exercised or the time during which an Award or any part thereof will vest in accordance with the Plan, notwithstanding the provisions in the Award stating the time at which it may first be exercised or the time during which it will vest.

(v) To suspend or terminate the Plan at any time. Suspension or termination of the Plan shall not impair rights and obligations under any Award granted while the Plan is in effect except with the written consent of the affected Participant.

(vi) To amend the Plan in any respect the Board deems necessary or advisable. However, except as provided in Section 10(a) relating to Capitalization Adjustments, to the extent required by applicable law or listing requirements, stockholder approval shall be required for any amendment of the Plan that either (A) materially increases the number of shares of Common Stock available for issuance under the Plan, (B) materially expands the class of individuals eligible to receive Awards under the Plan, (C) materially increases the benefits accruing to Participants under the Plan or materially reduces the price at which shares of Common Stock may be issued or purchased under the Plan, (D) materially extends the term of the Plan, or (E) expands the types of Awards available for issuance under the Plan. Except as provided above, rights under any Award granted before amendment of the Plan shall not be impaired by any amendment of the Plan unless (1) the Company requests the consent of the affected Participant, and (2) such Participant consents in writing.

(vii) To submit any amendment to the Plan for stockholder approval, including, but not limited to, amendments to the Plan intended to satisfy the requirements of (A) Section 162(m) of the Code regarding the exclusion of performance-based compensation from the limit on corporate deductibility of compensation paid to Covered Employees, (B) Section 422 of the Code regarding incentive stock options or (C) Rule 16b-3.

(viii) To approve forms of Award Agreements for use under the Plan and to amend the terms of any one or more Awards, including, but not limited to, amendments to provide terms more favorable to the Participant than previously provided in the Award Agreement, subject to any specified limits in the Plan that are not subject to Board discretion; *provided however*, that except with respect to amendments that disqualify or impair the status of an Incentive Stock Option, a Participant's rights under any Award shall not be impaired by any such amendment unless (A) the Company requests the consent of the affected Participant, and (B) such Participant consents in writing. Notwithstanding the foregoing, subject to the limitations of applicable law, if any, the Board may amend the terms of any one or more Awards without the affected Participant's consent if necessary to maintain the qualified status of the Award as an Incentive Stock Option or to bring the Award into compliance with Section 409A of the Code.

(ix) Generally, to exercise such powers and to perform such acts as the Board deems necessary or expedient to promote the best interests of the Company and that are not in conflict with the provisions of the Plan or Awards.

(x) To adopt such procedures and sub-plans as are necessary or appropriate to permit participation in the Plan by Employees, Directors or Consultants who are foreign nationals or employed outside the United States.

**(c) Administration of Director Grant Program.** The Board shall have the power, subject to and within the limitations of, the express provisions of the Director Grant Program:

**(i)** To determine the provisions of each Stock Award to the extent not specified in the Director Grant Program.

**(ii)** To construe and interpret the Director Grant Program and the Stock Awards granted under it, and to establish, amend and revoke rules and regulations for its administration. The Board, in the exercise of this power, may correct any defect, omission or inconsistency in the Director Grant Program or in any Stock Award Agreement, in a manner and to the extent it shall deem necessary or expedient to make the Director Grant Program fully effective.

**(iii)** To amend the terms of the Director Grant Program or a Stock Award granted thereunder, except that rights under any such Stock Award granted before amendment of the Director Grant Program shall not be impaired by any amendment of the Director Grant Program unless (1) the Company requests the consent of the affected Participant, and (2) such Participant consents in writing.

**(iv)** Generally, to exercise such powers and to perform such acts as the Board deems necessary or expedient to promote the best interests of the Company and that are not in conflict with the provisions of the Director Grant Program.

**(d) Delegation to Committee.**

**(i) General.** The Board may delegate some or all of the administration of the Plan (except the Director Grant Program) to a Committee or Committees. If administration of the Plan is delegated to a Committee, the Committee shall have, in connection with the administration of the Plan, the powers theretofore possessed by the Board that have been delegated to the Committee, including the power to delegate to a subcommittee of the Committee any of the administrative powers the Committee is authorized to exercise (and references in this Plan to the Board shall thereafter be to the Committee or subcommittee), subject, however, to such resolutions, not inconsistent with the provisions of the Plan, as may be adopted from time to time by the Board. The Committee may, at any time, abolish the subcommittee and/or invest in the Committee any powers delegated to the subcommittee. The Board may retain the authority to concurrently administer the Plan with the Committee and may, at any time, invest in the Board some or all of the powers previously delegated.

**(ii) Section 162(m) and Rule 16b-3 Compliance.** The Committee may consist solely of two or more Outside Directors, in accordance with Section 162(m) of the Code, or solely of two or more Non-Employee Directors, in accordance with Rule 16b-3.

**(e) Delegation to an Officer.** The Board may delegate to one (1) or more Officers the authority to do one or both of the following (i) designate Employees who are providing Continuous Service to the Company or any of its Subsidiaries who are not Officers to be recipients of Options and SARs (and, to the extent permitted by applicable law, other Stock Awards) and the terms thereof, and (ii) determine the number of shares of Common Stock to be subject to such Stock Awards granted to such Employees; provided, however, that the Board resolutions regarding such delegation shall specify the total number of shares of Common Stock that may be subject to the Stock Awards granted by such Officer and that such Officer may not grant a Stock Award to himself or herself. Notwithstanding the foregoing, the Board may not delegate authority to an Officer to determine the Fair Market Value pursuant to Section 14(z)(iii) below.

**(f) Effect of Board's Decision.** All determinations, interpretations and constructions made by the Board in good faith shall not be subject to review by any person and shall be final, binding and conclusive on all persons.

**(g) Cancellation and Re-Grant of Stock Awards.** Except in connection with a Corporate Transaction, as provided in Section 10(a) relating to Capitalization Adjustments, or unless the stockholders of the Company have approved such an action within twelve (12) months prior to such an event, neither the Board nor any Committee



shall have the authority to: (i) reduce the exercise price of any outstanding Options or SARs under the Plan, or (ii) cancel any outstanding Options or SARs that have an exercise price or strike price greater than the current Fair Market Value of the Common Stock in exchange for cash, Full Value Awards, or Options or SARs with an exercise price less than the original exercise price of the Options or SARs that are cancelled.

### **3. SHARES SUBJECT TO THE PLAN.**

**(a) Share Reserve.** Subject to Section 10(a) relating to Capitalization Adjustments, the aggregate number of shares of Common Stock that may be issued pursuant to Stock Awards from and after the Effective Date shall not exceed thirteen million five hundred thousand (13,500,000) shares. For clarity, the Share Reserve in this Section 3(a) is a limitation on the number of shares of the Common Stock that may be issued pursuant to the Plan and does not limit the granting of Stock Awards except as provided in Section 8(a). Shares may be issued in connection with a merger or acquisition as permitted by, as applicable, NASDAQ Listing Rule 5635(c) or, if applicable, NYSE Listed Company Manual Section 303A.08, AMEX Company Guide Section 711 or other applicable rule, and such issuance shall not reduce the number of shares available for issuance under the Plan. Furthermore, if a Stock Award or any portion thereof expires or otherwise terminates without all of the shares covered by such Stock Award having been issued, such expiration or termination shall not reduce (or otherwise offset) the number of shares of Common Stock that may be available for issuance under the Plan.

**(b) Reversion of Shares to the Share Reserve.** If any shares of common stock issued pursuant to a Stock Award are forfeited back to the Company because of the failure to meet a contingency or condition required to vest such shares in the Participant, then the shares that are forfeited shall revert to and again become available for issuance under the Plan.

**(c) Limitation on Full Value Awards.** The aggregate number of shares of Common Stock that may be issued pursuant to grants of Full Value Awards shall not exceed fifty percent (50%) of the aggregate number of shares of Common Stock available for issuance under this Plan as set forth in Section 3(a), subject to adjustment as provided in Sections 3(b) and 10(a).

**(d) Shares Not Available For Subsequent Issuance.** If any shares subject to a Stock Award are not delivered to a Participant because the Stock Award is exercised through a reduction of shares subject to the Stock Award (i.e., “net exercised”), the number of shares that are not delivered to the Participant shall no longer be available for issuance under the Plan. Also, any shares used to pay the exercise price of a Stock Award or that are withheld in satisfaction of applicable tax withholding obligations shall no longer be available for issuance under the Plan. Any shares repurchased on the open market with the proceeds of the exercise price of a Stock Award shall not again be available for issuance under the Plan.

**(e) Incentive Stock Option Limit.** Notwithstanding anything to the contrary in this Section 3 and, subject to the provisions of Section 10(a) relating to Capitalization Adjustments, the aggregate maximum number of shares of Common Stock that may be issued pursuant to the exercise of Incentive Stock Options shall be thirteen million five hundred thousand (13,500,000) shares of Common Stock.

**(f) Section 162(m) Limitation on Annual Grants.** Subject to the provisions of Section 10(a) relating to Capitalization Adjustments, at such time as the Company may be subject to the applicable provisions of Section 162(m) of the Code, a maximum of two hundred fifty thousand (250,000) shares of Common Stock subject to Options, SARs and Other Stock Awards whose value is determined by reference to an increase over an exercise or strike price of at least one hundred percent (100%) of the Fair Market Value on the date any such Stock Award is granted may be granted to any Participant during any calendar year; provided, however that in connection with his or her initial employment, an Employee may be granted such forms of Stock Awards for up to an additional two hundred fifty thousand (250,000) shares of Common Stock which shall not count against such annual limit. Notwithstanding the foregoing, if any additional Options, SARs or Other Stock Awards whose value is determined by reference to an increase over an exercise or strike price of at least one hundred percent



(100%) of the Fair Market Value on the date the Stock Award are granted to any Participant during any calendar year, compensation attributable to the exercise of such additional Stock Awards shall not satisfy the requirements to be considered “qualified performance-based compensation” under Section 162(m) of the Code unless such additional Stock Awards are approved by the Company’s stockholders.

**(g) Source of Shares.** The stock issuable under the Plan shall be shares of authorized but unissued or reacquired Common Stock, including shares repurchased by the Company on the open market or otherwise; provided, however that the Company may not repurchase shares to be used under this Plan to the extent such repurchased shares would exceed the limitation in Section 3(a).

#### **4. ELIGIBILITY.**

**(a) Eligibility for Specific Stock Awards.** Incentive Stock Options may be granted only to employees of the Company or a “parent corporation” or “subsidiary corporation” thereof (as such terms are defined in Sections 424(e) and (f) of the Code). Stock Awards other than Incentive Stock Options may be granted to Employees, Directors and Consultants; *provided, however*, Nonstatutory Stock Options and SARs may not be granted to Employees, Directors and Consultants who are providing Continuous Service only to any “parent” of the Company, as such term is defined in Rule 405 promulgated under the Securities Act, unless the stock underlying such Stock Awards is treated as “service recipient stock” under Section 409A of the Code because the Stock Awards are granted pursuant to a corporate transaction (such as a spin off transaction) or unless such Stock Awards comply with the distribution requirements of Section 409A of the Code. Stock Awards granted under the Director Grant Program in Section 7 may be granted only to Eligible Directors.

**(b) Ten Percent Stockholders.** A Ten Percent Stockholder shall not be granted an Incentive Stock Option unless the exercise price of such Option is at least one hundred ten percent (110%) of the Fair Market Value on the date of grant and the Option is not exercisable after the expiration of five (5) years from the date of grant.

#### **5. PROVISIONS RELATING TO OPTIONS AND STOCK APPRECIATION RIGHTS.**

Each Option or SAR shall be in such form and shall contain such terms and conditions as the Board shall deem appropriate. All Options shall be separately designated Incentive Stock Options or Nonstatutory Stock Options at the time of grant, and, if certificates are issued, a separate certificate or certificates shall be issued for shares of Common Stock purchased on exercise of each type of Option. If an Option is not specifically designated as an Incentive Stock Option, then the Option shall be a Nonstatutory Stock Option. The provisions of separate Options or SARs need not be identical; *provided, however*, that each Option Agreement or SAR Agreement shall conform to (through incorporation of provisions hereof by reference in the applicable Award Agreement or otherwise) the substance of each of the following provisions:

**(a) Term.** Subject to the provisions of Section 4(b) regarding Ten Percent Stockholders, no Option or SAR shall be exercisable after the expiration of ten (10) years from the date of its grant or such shorter period specified in the Award Agreement.

**(b) Exercise Price.** Subject to the provisions of Section 4(b) regarding Ten Percent Stockholders, the exercise price (or strike price) of each Option or SAR shall be not less than one hundred percent (100%) of the Fair Market Value of the Common Stock subject to the Option or SAR on the date the Option or SAR is granted. Notwithstanding the foregoing, an Option or SAR may be granted with an exercise price (or strike price) lower than one hundred percent (100%) of the Fair Market Value of the Common Stock subject to the Option or SAR if such Option or SAR is granted pursuant to an assumption of or substitution for another option or stock appreciation right pursuant to a Corporate Transaction and in a manner consistent with the provisions of Sections 409A and, if applicable, 424(a) of the Code. Each SAR will be denominated in shares of Common Stock equivalents.

**(c) Purchase Price for Options.** The purchase price of Common Stock acquired pursuant to the exercise of an Option shall be paid, to the extent permitted by applicable law and as determined by the Board in its sole discretion, by any combination of the methods of payment set forth below. The Board shall have the authority to grant Options that do not permit all of the following methods of payment (or otherwise restrict the ability to use certain methods) and to grant Options that require the consent of the Company to utilize a particular method of payment. The permitted methods of payment are as follows:

(i) by cash, check, bank draft or money order payable to the Company;

(ii) pursuant to a program developed under Regulation T as promulgated by the Federal Reserve Board that, prior to the issuance of the stock subject to the Option, results in either the receipt of cash (or check) by the Company or the receipt of irrevocable instructions to pay the aggregate exercise price to the Company from the sales proceeds;

(iii) by delivery to the Company (either by actual delivery or attestation) of shares of Common Stock;

(iv) if the option is a Nonstatutory Stock Option, by a “net exercise” arrangement pursuant to which the Company will reduce the number of shares of Common Stock issuable upon exercise by the largest whole number of shares with a Fair Market Value that does not exceed the aggregate exercise price; *provided, however,* that the Company shall accept a cash or other payment from the Participant to the extent of any remaining balance of the aggregate exercise price not satisfied by such reduction in the number of whole shares to be issued; *provided, further,* that shares of Common Stock will no longer be subject to an Option and will not be exercisable thereafter to the extent that (A) shares issuable upon exercise are reduced to pay the exercise price pursuant to the “net exercise,” (B) shares are delivered to the Participant as a result of such exercise, and (C) shares are withheld to satisfy tax withholding obligations; or

(v) in any other form of legal consideration that may be acceptable to the Board.

**(d) Exercise and Payment of a SAR.** To exercise any outstanding SAR, the Participant must provide written notice of exercise to the Company in compliance with the provisions of the SAR Agreement evidencing such SAR. The appreciation distribution payable on the exercise of a SAR will be not greater than an amount equal to the excess of (A) the aggregate Fair Market Value (on the date of the exercise of the SAR) of a number of shares of Common Stock equal to the number of Common Stock equivalents in which the Participant is vested under such SAR, and with respect to which the Participant is exercising the SAR on such date, over (B) the strike price that will be determined by the Board at the time of grant of the SAR. The appreciation distribution in respect to a SAR may be paid in Common Stock, in cash, in any combination of the two or in any other form of consideration, as determined by the Board and contained in the SAR Agreement evidencing such SAR.

**(e) Transferability of Options and SARs.** The Board may, in its sole discretion, impose such limitations on the transferability of Options and SARs as the Board shall determine. In the absence of such a determination by the Board to the contrary, the following restrictions on the transferability of Options and SARs shall apply:

(i) **Restrictions on Transfer.** An Option or SAR shall not be transferable except by will or by the laws of descent and distribution and shall be exercisable during the lifetime of the Participant only by the Participant. Except as explicitly provided herein, neither an Option nor a SAR may be transferred.

(ii) **Domestic Relations Orders.** Notwithstanding the foregoing, an Option or SAR may be transferred pursuant to a domestic relations order; *provided, however,* that if an Option is an Incentive Stock Option, such Option may be deemed to be a Nonstatutory Stock Option as a result of such transfer.

(iii) **Beneficiary Designation.** Notwithstanding the foregoing, the Participant may, by delivering written notice to the Company, in a form provided by or otherwise satisfactory to the Company and any broker designated by the Company to effect Option exercises, designate a third party who, in the event of the death of the Participant, shall thereafter be entitled to exercise the Option or SAR and receive the Common Stock or other consideration resulting from such exercise. In the absence of such a designation, the executor or administrator of the Participant’s estate shall be entitled to exercise the Option or SAR and receive the Common Stock or other consideration resulting from such exercise.

**(f) Vesting Generally.** The total number of shares of Common Stock subject to an Option or SAR may vest and therefore become exercisable in periodic installments that may or may not be equal. The Option or SAR may be subject to such other terms and conditions on the time or times when it may or may not be exercised (which may be based on the satisfaction of Performance Goals or other criteria) as the Board may deem appropriate. The vesting provisions of individual Options or SARs may vary. The provisions of this Section 5(f) are subject to any Option or SAR provisions governing the minimum number of shares of Common Stock as to which an Option or SAR may be exercised.

**(g) Termination of Continuous Service.** Except as otherwise provided in the applicable Award Agreement or other agreement between the Participant and the Company, if a Participant's Continuous Service terminates (other than for Cause or upon the Participant's death or Disability), the Participant may exercise his or her Option or SAR (to the extent that the Participant was entitled to exercise such Award as of the date of termination of Continuous Service) but only within such period of time ending on the earlier of (i) the date three (3) months following the termination of the Participant's Continuous Service (or such longer or shorter period specified in the applicable Award Agreement), or (ii) the expiration of the term of the Option or SAR as set forth in the Award Agreement. If, after termination of Continuous Service, the Participant does not exercise his or her Option or SAR within the time specified herein or in the Award Agreement (as applicable), the Option or SAR shall terminate.

**(h) Extension of Termination Date.** If the exercise of an Option or SAR following the termination of the Participant's Continuous Service (other than for Cause or upon the Participant's death or Disability) would be prohibited at any time solely because the issuance of shares of Common Stock would violate the registration requirements under the Securities Act, then the Option or SAR shall terminate on the earlier of (i) the expiration of a total period of three (3) months (that need not be consecutive) after the termination of the Participant's Continuous Service during which the exercise of the Option or SAR would not be in violation of such registration requirements, or (ii) the expiration of the term of the Option or SAR as set forth in the applicable Award Agreement. In addition, unless otherwise provided in a Participant's Award Agreement, if the immediate sale of any Common Stock received upon exercise of an Option or SAR following the termination of the Participant's Continuous Service (other than for Cause) would violate the Company's insider trading policy, then the Option or SAR shall terminate on the earlier of (i) the expiration of a period equal to the applicable post-termination exercise period after the termination of the Participant's Continuous Service during which the sale of the Common Stock received upon exercise of the Option or SAR would not be in violation of the Company's insider trading policy, or (ii) the expiration of the term of the Option or SAR as set forth in the applicable Award Agreement.

**(i) Disability of Participant.** Except as otherwise provided in the applicable Award Agreement or other agreement between the Participant and the Company, if a Participant's Continuous Service terminates as a result of the Participant's Disability, the Participant may exercise his or her Option or SAR (to the extent that the Participant was entitled to exercise such Option or SAR as of the date of termination of Continuous Service), but only within such period of time ending on the earlier of (i) the date twelve (12) months following such termination of Continuous Service (or such longer or shorter period specified in the Award Agreement), or (ii) the expiration of the term of the Option or SAR as set forth in the Award Agreement. If, after termination of Continuous Service, the Participant does not exercise his or her Option or SAR within the time specified herein or in the Award Agreement (as applicable), the Option or SAR (as applicable) shall terminate.

**(j) Death of Participant.** Except as otherwise provided in the applicable Award Agreement or other agreement between the Participant and the Company, if (i) a Participant's Continuous Service terminates as a result of the Participant's death, or (ii) the Participant dies within the period (if any) specified in the Award Agreement for exercisability after the termination of the Participant's Continuous Service (for a reason other than death), then the Option or SAR may be exercised (to the extent the Participant was entitled to exercise such Option or SAR as of the date of death) by the Participant's estate, by a person who acquired the right to exercise the Option or SAR by bequest or inheritance or by a person designated to exercise the Option or SAR upon the

Participant's death, but only within the period ending on the earlier of (i) the date eighteen (18) months following the date of death (or such longer or shorter period specified in the Award Agreement), or (ii) the expiration of the term of such Option or SAR as set forth in the Award Agreement. If, after the Participant's death, the Option or SAR is not exercised within the time specified herein or in the Award Agreement (as applicable), the Option or SAR shall terminate.

**(k) Termination for Cause.** Except as explicitly provided otherwise in a Participant's Award Agreement or other individual written agreement between the Company or any Affiliate and the Participant, if a Participant's Continuous Service is terminated for Cause, the Option or SAR shall terminate immediately upon such Participant's termination of Continuous Service, and the Participant shall be prohibited from exercising his or her Option or SAR from and after the time of such termination of Continuous Service.

**(l) Non-Exempt Employees.** No Option or SAR, whether or not vested, granted to an Employee who is a non-exempt employee for purposes of the Fair Labor Standards Act of 1938, as amended, shall be first exercisable for any shares of Common Stock until at least six months following the date of grant of the Option or SAR. Notwithstanding the foregoing, consistent with the provisions of the Worker Economic Opportunity Act, (i) in the event of the Participant's death or Disability, (ii) upon a Corporate Transaction in which such Option or SAR is not assumed, continued, or substituted, (iii) upon a Change in Control, or (iv) upon the Participant's retirement (as such term may be defined in the Participant's Award Agreement or in another applicable agreement or in accordance with the Company's then current employment policies and guidelines), any such vested Options and SARs may be exercised earlier than six months following the date of grant. The foregoing provision is intended to operate so that any income derived by a non-exempt employee in connection with the exercise or vesting of an Option or SAR will be exempt from his or her regular rate of pay.

## 6. PROVISIONS OF STOCK AWARDS OTHER THAN OPTIONS AND SARs.

**(a) Restricted Stock Awards.** Each Restricted Stock Award Agreement shall be in such form and shall contain such terms and conditions as the Board shall deem appropriate. To the extent consistent with the Company's bylaws, at the Board's election, shares of Common Stock may be (i) held in book entry form subject to the Company's instructions until any restrictions relating to the Restricted Stock Award lapse; or (ii) evidenced by a certificate, which certificate shall be held in such form and manner as determined by the Board. The terms and conditions of Restricted Stock Award Agreements may change from time to time, and the terms and conditions of separate Restricted Stock Award Agreements need not be identical; *provided, however*, that each Restricted Stock Award Agreement shall conform to (through incorporation of the provisions hereof by reference in the agreement or otherwise) the substance of each of the following provisions:

**(i) Consideration.** A Restricted Stock Award may be awarded in consideration for (A) cash, check, bank draft or money order payable to the Company, (B) past services to the Company or an Affiliate, or (C) any other form of legal consideration (including future services) that may be acceptable to the Board, in its sole discretion, and permissible under applicable law.

**(ii) Vesting.** Shares of Common Stock awarded under the Restricted Stock Award Agreement may be subject to forfeiture to the Company in accordance with a vesting schedule to be determined by the Board.

**(iii) Termination of Participant's Continuous Service.** If a Participant's Continuous Service terminates, the Company may receive through a forfeiture condition or a repurchase right any or all of the shares of Common Stock held by the Participant that have not vested as of the date of termination of Continuous Service under the terms of the Restricted Stock Award Agreement.

**(iv) Transferability.** Rights to acquire shares of Common Stock under the Restricted Stock Award Agreement shall be transferable by the Participant only upon such terms and conditions as are set forth in the Restricted Stock Award Agreement, as the Board shall determine in its sole discretion, so long as Common Stock awarded under the Restricted Stock Award Agreement remains subject to the terms of the Restricted Stock Award Agreement.

(v) **Dividends.** A Restricted Stock Award Agreement may provide that any dividends paid on Restricted Stock will be subject to the same vesting and forfeiture restrictions as apply to the shares subject to the Restricted Stock Award to which they relate.

(b) **Restricted Stock Unit Awards.** Each Restricted Stock Unit Award Agreement shall be in such form and shall contain such terms and conditions as the Board shall deem appropriate. The terms and conditions of Restricted Stock Unit Award Agreements may change from time to time, and the terms and conditions of separate Restricted Stock Unit Award Agreements need not be identical; *provided, however*, that each Restricted Stock Unit Award Agreement shall conform to (through incorporation of the provisions hereof by reference in the Agreement or otherwise) the substance of each of the following provisions:

(i) **Consideration.** At the time of grant of a Restricted Stock Unit Award, the Board will determine the consideration, if any, to be paid by the Participant upon delivery of each share of Common Stock subject to the Restricted Stock Unit Award. The consideration to be paid (if any) by the Participant for each share of Common Stock subject to a Restricted Stock Unit Award may be paid in any form of legal consideration that may be acceptable to the Board, in its sole discretion, and permissible under applicable law.

(ii) **Vesting.** At the time of the grant of a Restricted Stock Unit Award, the Board may impose such restrictions on or conditions to the vesting of the Restricted Stock Unit Award as it, in its sole discretion, deems appropriate.

(iii) **Payment.** A Restricted Stock Unit Award will be settled by the delivery of shares of Common Stock as determined by the Board and contained in the Restricted Stock Unit Award Agreement.

(iv) **Additional Restrictions.** At the time of the grant of a Restricted Stock Unit Award, the Board, as it deems appropriate, may impose such restrictions or conditions that delay the delivery of the shares of Common Stock (or their cash equivalent) subject to a Restricted Stock Unit Award to a time after the vesting of such Restricted Stock Unit Award.

(v) **Dividend Equivalents.** Dividend equivalents may be credited in respect of shares of Common Stock covered by a Restricted Stock Unit Award, as determined by the Board and contained in the Restricted Stock Unit Award Agreement. At the sole discretion of the Board, such dividend equivalents may be converted into additional shares of Common Stock covered by the Restricted Stock Unit Award in such manner as determined by the Board. Any additional shares covered by the Restricted Stock Unit Award credited by reason of such dividend equivalents will be subject to all of the same terms and conditions of the underlying Restricted Stock Unit Award Agreement to which they relate, including any vesting restrictions.

(vi) **Termination of Participant's Continuous Service.** Except as otherwise provided in the applicable Restricted Stock Unit Award Agreement, such portion of the Restricted Stock Unit Award that has not vested will be forfeited upon the Participant's termination of Continuous Service.

(c) **Performance Awards.**

(i) **Performance Stock Awards.** A Performance Stock Award is a Stock Award that may vest or may be exercised contingent upon the attainment during a Performance Period of certain Performance Goals. A Performance Stock Award may, but need not, require the completion of a specified period of Continuous Service. The length of any Performance Period, the Performance Goals to be achieved during the Performance Period, and the measure of whether and to what degree such Performance Goals have been attained shall be conclusively determined by the Committee, in its sole discretion. The maximum number of shares covered by an Award that may be granted to any Participant in a calendar year attributable to Stock Awards described in this Section 6(c)(i) (whether the grant, vesting or exercise is contingent upon the attainment during a Performance Period of the Performance Goals) shall not exceed two hundred fifty thousand (250,000) shares of Common Stock; provided, however that in connection with his or her initial employment, an Employee may be granted Performance Stock Awards for up to an additional two hundred fifty thousand (250,000) shares of Common Stock which shall not count against such annual limit. The Board may provide for or, subject to such terms and conditions as the Board may specify, may permit a



Participant to elect for, the payment of any Performance Stock Award to be deferred to a specified date or event. In addition, to the extent permitted by applicable law and the applicable Award Agreement, the Board may determine that cash may be used in payment of Performance Stock Awards.

Dividend equivalents may be credited in respect of shares of Common Stock covered by a Performance Stock Award, as determined by the Board and contained in the Performance Stock Award Agreement. At the sole discretion of the Board, such dividend equivalents may be converted into additional shares of Common Stock covered by the Performance Stock Award in such manner as determined by the Board. Any additional shares covered by the Performance Award credited by reason of such dividend equivalents will be subject to all of the same terms and conditions of the underlying Performance Stock Award Agreement to which they relate, including any vesting contingent upon the attainment during a Performance Period of certain Performance Goals.

**(ii) Board Discretion.** The Board retains the discretion to reduce or eliminate the compensation or economic benefit due upon attainment of Performance Goals and to define the manner of calculating the Performance Criteria it selects to use for a Performance Period.

**(iii) Section 162(m) Compliance.** Unless otherwise permitted in compliance with the requirements of Section 162(m) of the Code with respect to an Award intended to qualify as “performance-based compensation” thereunder, the Committee shall establish the Performance Goals applicable to, and the formula for calculating the amount payable under, the Award no later than the earlier of (a) the date ninety (90) days after the commencement of the applicable Performance Period, or (b) the date on which twenty-five percent (25%) of the Performance Period has elapsed, and in either event at a time when the achievement of the applicable Performance Goals remains substantially uncertain. Prior to the payment of any compensation under an Award intended to qualify as “performance-based compensation” under Section 162(m) of the Code, the Committee shall certify the extent to which any Performance Goals and any other material terms under such Award have been satisfied (other than in cases where such relate solely to the increase in the value of the Common Stock). Notwithstanding satisfaction of any completion of any Performance Goals, to the extent specified at the time of grant of an Award to “covered employees” within the meaning of Section 162(m) of the Code, the number of shares of Common Stock, Options, or other benefits granted, issued, retainable and/or vested under an Award on account of satisfaction of such Performance Goals may be reduced by the Committee on the basis of such further considerations as the Committee, in its sole discretion, shall determine.

**(d) Other Stock Awards.** Other forms of Stock Awards valued in whole or in part by reference to, or otherwise based on, Common Stock, including the appreciation in value thereof may be granted either alone or in addition to Stock Awards provided for under Section 5 and the preceding provisions of this Section 6. Subject to the provisions of the Plan, the Board shall have sole and complete authority to determine the persons to whom and the time or times at which such Other Stock Awards will be granted, the number of shares of Common Stock (or the cash equivalent thereof) to be granted pursuant to such Other Stock Awards and all other terms and conditions of such Other Stock Awards.

## **7. INITIAL AND ANNUAL GRANTS TO ELIGIBLE DIRECTORS.**

**(a) General.** The Director Grant Program in this Section 7 provides that Eligible Directors shall receive certain Stock Awards at designated intervals over their period of Continuous Service on the Board. For the avoidance of doubt, all Stock Awards granted the Plan, including any Stock Awards granted under this Section 7, are subject to all the terms and conditions of the Plan, including but not limited to the share reserve limitations of Section 3 and the cancellation and regrant restrictions set forth in Section 2(g).

**(b) Eligibility.** Stock Awards shall be granted under this Section 7 to all Eligible Directors who meet the criteria specified below.

**(c) Director Grants.**

**(i) Initial Award.** At the time a person is first elected or appointed to serve on the Board, provided such person is an Eligible Director, he or she automatically shall, upon the date of his or her initial election or appointment as an Eligible Director, be granted an Option to purchase a number of shares of Common Stock as determined by the Board in its sole discretion, on the terms and conditions set forth in Section 7(d) (each such Option is an “*Initial Award*”).

**(ii) Annual Awards.** On the date of each Annual Meeting, commencing with the Annual Meeting in 2012, each person who is then a Eligible Director and who has served as an Eligible Director on the Board for a period of at least six (6) months shall be granted an Option to purchase a number of shares of Common Stock as determined by the Board, in its sole discretion on the terms and conditions set forth in Section 7(d) (each such Option is an “*Annual Award*”).

**(d) Director Option Grant Provisions.**

**(i) Option Type.** Each Option automatically granted under this Section 7 shall be a Nonstatutory Stock Option.

**(ii) Term .** No Option shall be exercisable after the expiration of ten (10) years from the date it was granted.

**(iii) Exercise Price.** The exercise price of each Option shall be one hundred percent (100%) of the Fair Market Value of the Common Stock subject to the Option on the date the Option is granted.

**(iv) Vesting.**

**(1)** Initial Awards granted pursuant to this Section 7 shall vest monthly with respect to 1/36th of the shares over the three (3) year period following the date of grant, subject to the Eligible Director’s Continuous Service through the applicable vesting dates, so that the Option will be fully vested on the third anniversary of the date of grant.

**(2)** Annual Awards granted pursuant to this Section 7 shall vest monthly with respect to 1/12th of the shares over the one (1) year period following the date of grant, subject to the Eligible Director’s Continuous Service through the applicable vesting dates, so that the Option will be fully vested on the first anniversary of the date of grant.

**(3)** Each Option granted pursuant to this Section shall automatically fully accelerate vesting upon a Corporate Transaction, subject to the Eligible Director’s Continuous Service through the date of the Corporate Transaction.

**(v) Remaining Terms.** The remaining terms and conditions of each Option shall be as set forth in an Option Agreement in the form adopted from time to time by the Board; *provided, however*, that the terms of such Option Agreement shall be consistent with the terms of the Plan.

**8. COVENANTS OF THE COMPANY.**

**(a) Availability of Shares.** During the terms of the Stock Awards, the Company shall keep available at all times the number of shares of Common Stock reasonably required to satisfy such Stock Awards.

**(b) Securities Law Compliance.** The Company shall seek to obtain from each regulatory commission or agency having jurisdiction over the Plan such authority as may be required to grant Stock Awards and to issue and sell shares of Common Stock upon exercise of the Stock Awards; *provided, however*, that this undertaking shall not require the Company to register under the Securities Act the Plan, any Stock Award or any Common Stock issued or issuable pursuant to any such Stock Award. If, after reasonable efforts, the Company is unable to obtain from any such regulatory commission or agency the authority that counsel for the Company deems necessary for the lawful issuance and sale of Common Stock under the Plan, the Company shall be relieved from



any liability for failure to issue and sell Common Stock upon exercise of such Stock Awards unless and until such authority is obtained. A Participant shall not be eligible for the grant of a Stock Award or the subsequent issuance of Common Stock pursuant to the Stock Award if such grant or issuance would be in violation of any applicable securities law.

**(c) No Obligation to Notify or Minimize Taxes.** The Company shall have no duty or obligation to any Participant to advise such holder as to the time or manner of exercising such Stock Award. Furthermore, the Company shall have no duty or obligation to warn or otherwise advise such holder of a pending termination or expiration of a Stock Award or a possible period in which the Stock Award may not be exercised. The Company has no duty or obligation to minimize the tax consequences of a Stock Award to the holder of such Stock Award.

## 9. MISCELLANEOUS.

**(a) Use of Proceeds from Sales of Common Stock.** Proceeds from the sale of shares of Common Stock pursuant to Stock Awards shall constitute general funds of the Company.

**(b) Corporate Action Constituting Grant of Stock Awards.** Corporate action constituting a grant by the Company of a Stock Award to any Participant shall be deemed completed as of the date of such corporate action, unless otherwise determined by the Board, regardless of when the instrument, certificate, or letter evidencing the Stock Award is communicated to, or actually received or accepted by, the Participant.

**(c) Stockholder Rights.** No Participant shall be deemed to be the holder of, or to have any of the rights of a holder with respect to, any shares of Common Stock subject to such Stock Award unless and until (i) such Participant has satisfied all requirements for exercise of the Stock Award pursuant to its terms, if applicable, and (ii) the issuance of the Common Stock subject to such Stock Award has been entered into the books and records of the Company.

**(d) No Employment or Other Service Rights.** Nothing in the Plan, any Stock Award Agreement or any other instrument executed thereunder or in connection with any Award granted pursuant thereto shall confer upon any Participant any right to continue to serve the Company or an Affiliate in the capacity in effect at the time the Stock Award was granted or shall affect the right of the Company or an Affiliate to terminate (i) the employment of an Employee with or without notice and with or without cause, (ii) the service of a Consultant pursuant to the terms of such Consultant's agreement with the Company or an Affiliate, or (iii) the service of a Director pursuant to the bylaws of the Company or an Affiliate, and any applicable provisions of the corporate law of the state in which the Company or the Affiliate is incorporated, as the case may be.

**(e) Incentive Stock Option \$100,000 Limitation.** To the extent that the aggregate Fair Market Value (determined at the time of grant) of Common Stock with respect to which Incentive Stock Options are exercisable for the first time by any Optionholder during any calendar year (under all plans of the Company and any Affiliates) exceeds one hundred thousand dollars (\$100,000), the Options or portions thereof that exceed such limit (according to the order in which they were granted) shall be treated as Nonstatutory Stock Options, notwithstanding any contrary provision of the applicable Option Agreement(s).

**(f) Investment Assurances.** The Company may require a Participant, as a condition of exercising or acquiring Common Stock under any Stock Award, (i) to give written assurances satisfactory to the Company as to the Participant's knowledge and experience in financial and business matters and/or to employ a purchaser representative reasonably satisfactory to the Company who is knowledgeable and experienced in financial and business matters and that he or she is capable of evaluating, alone or together with the purchaser representative, the merits and risks of exercising the Stock Award; and (ii) to give written assurances satisfactory to the Company stating that the Participant is acquiring Common Stock subject to the Stock Award for the Participant's own account and not with any present intention of selling or otherwise distributing the Common Stock. The foregoing requirements, and any assurances given pursuant to such requirements, shall be inoperative if (A) the

issuance of the shares upon the exercise or acquisition of Common Stock under the Stock Award has been registered under a then currently effective registration statement under the Securities Act, or (B) as to any particular requirement, a determination is made by counsel for the Company that such requirement need not be met in the circumstances under the then applicable securities laws. The Company may, upon advice of counsel to the Company, place legends on stock certificates issued under the Plan as such counsel deems necessary or appropriate in order to comply with applicable securities laws, including, but not limited to, legends restricting the transfer of the Common Stock.

**(g) Withholding Obligations.** Unless prohibited by the terms of a Stock Award Agreement, the Company may, in its sole discretion, satisfy any federal, state or local tax withholding obligation relating to an Award by any of the following means or by a combination of such means: (i) causing the Participant to tender a cash payment; (ii) withholding shares of Common Stock from the shares of Common Stock issued or otherwise issuable to the Participant in connection with the Award; *provided, however*, that no shares of Common Stock are withheld with a value exceeding the minimum amount of tax required to be withheld by law (or such lesser amount as may be necessary to avoid classification of the Stock Award as a liability for financial accounting purposes); (iii) withholding cash from an Award settled in cash; (iv) withholding payment from any amounts otherwise payable to the Participant; or (v) by such other method as may be set forth in the Award Agreement.

**(h) Electronic Delivery.** Any reference herein to a “written” agreement or document shall include any agreement or document delivered electronically or posted on the Company’s intranet (or other shared electronic medium controlled by the Company to which the Participant has access).

**(i) Deferrals.** To the extent permitted by applicable law, the Board, in its sole discretion, may determine that the delivery of Common Stock or the payment of cash, upon the exercise, vesting or settlement of all or a portion of any Award may be deferred and may establish programs and procedures for deferral elections to be made by Participants. Deferrals by Participants will be made in accordance with Section 409A of the Code. Consistent with Section 409A of the Code, the Board may provide for distributions while a Participant is still an employee or otherwise providing services to the Company. The Board is authorized to make deferrals of Awards and determine when, and in what annual percentages, Participants may receive payments, including lump sum payments, following the Participant’s termination of Continuous Service, and implement such other terms and conditions consistent with the provisions of the Plan and in accordance with applicable law.

**(j) Compliance with Section 409A.** To the extent that the Board determines that any Award granted hereunder is subject to Section 409A of the Code, the Award Agreement evidencing such Award shall incorporate the terms and conditions necessary to avoid the consequences specified in Section 409A(a)(1) of the Code. To the extent applicable, the Plan and Award Agreements shall be interpreted in accordance with Section 409A of the Code. Notwithstanding anything to the contrary in this Plan (and unless the Award Agreement specifically provides otherwise), if the shares of Common Stock are publicly traded and a Participant holding an Award that constitutes “deferred compensation” under Section 409A of the Code is a “specified employee” for purposes of Section 409A of the Code, no distribution or payment of any amount shall be made upon a “separation from service” before a date that is six (6) months following the date of such Participant’s “separation from service” (as defined in Section 409A of the Code without regard to alternative definitions thereunder) or, if earlier, the date of the Participant’s death.

**(k) Minimum Vesting.** After the Effective Date of the Plan, generally (i) no Full Value Award that vests on the basis of the Participant’s Continuous Service with the Company shall vest at a rate that is any more rapid than ratably over a three (3)-year period and (ii) no Full Value Award that vests based on the satisfaction of Performance Goals shall provide for a Performance Period of less than twelve (12) months. Notwithstanding the foregoing, Full Value Awards may be granted by the Committee after the Effective Date that do not meet the foregoing minimum vesting guidelines, provided that such Awards shall be limited to no more than 5% of the total number of shares reserved for issuance under the Plan.

## 10. ADJUSTMENTS UPON CHANGES IN COMMON STOCK; OTHER CORPORATE EVENTS.

**(a) Capitalization Adjustments.** In the event of a Capitalization Adjustment, the Board shall appropriately and proportionately adjust: (i) the class(es) and maximum number of securities subject to the Plan pursuant to Section 3(a), (ii) the class(es) and maximum number of securities that may be issued pursuant to the exercise of Incentive Stock Options pursuant to Section 3(e), (iii) the class(es) and maximum number of securities that may be awarded to any person pursuant to Sections 3(f) and 6(c)(i), and (iv) the class(es) and number of securities and price per share of stock subject to outstanding Stock Awards. The Board shall make such adjustments, and its determination shall be final, binding and conclusive.

**(b) Dissolution or Liquidation.** Except as otherwise provided in the Stock Award Agreement, in the event of a dissolution or liquidation of the Company, all outstanding Stock Awards (other than Stock Awards consisting of vested and outstanding shares of Common Stock not subject to a forfeiture condition or the Company's right of repurchase) shall terminate immediately prior to the completion of such dissolution or liquidation, and the shares of Common Stock subject to the Company's repurchase rights or subject to a forfeiture condition may be repurchased or reacquired by the Company notwithstanding the fact that the holder of such Stock Award is providing Continuous Service, *provided, however*, that the Board may, in its sole discretion, cause some or all Stock Awards to become fully vested, exercisable and/or no longer subject to repurchase or forfeiture (to the extent such Stock Awards have not previously expired or terminated) before the dissolution or liquidation is completed but contingent on its completion.

**(c) Corporate Transaction.** The following provisions shall apply to Stock Awards in the event of a Corporate Transaction unless otherwise provided in the instrument evidencing the Stock Award or any other written agreement between the Company or any Affiliate and the Participant or unless otherwise expressly provided by the Board at the time of grant of a Stock Award.

**(i) Stock Awards May Be Assumed.** In the event of a Corporate Transaction, any surviving corporation or acquiring corporation (or the surviving or acquiring corporation's parent company) may assume or continue any or all Stock Awards outstanding under the Plan or may substitute similar stock awards for Stock Awards outstanding under the Plan (including but not limited to, awards to acquire the same consideration paid to the stockholders of the Company pursuant to the Corporate Transaction), and any reacquisition or repurchase rights held by the Company in respect of Common Stock issued pursuant to Stock Awards may be assigned by the Company to the successor of the Company (or the successor's parent company, if any), in connection with such Corporate Transaction. A surviving corporation or acquiring corporation (or its parent) may choose to assume or continue only a portion of a Stock Award or substitute a similar stock award for only a portion of a Stock Award, or may choose to assume or continue the Stock Awards held by some, but not all Participants. The terms of any assumption, continuation or substitution shall be set by the Board.

**(ii) Stock Awards Held by Current Employee and Director Participants.** In the event of a Corporate Transaction in which the surviving corporation or acquiring corporation (or its parent company) does not assume or continue such outstanding Stock Awards or substitute similar stock awards for such outstanding Stock Awards, then with respect to Stock Awards that have not been assumed, continued or substituted and that are held by Participants that are Employees or Directors and whose Continuous Service has not terminated prior to the effective time of the Corporate Transaction (referred to as the "***Current Employee and Director Participants***"), the vesting of such Stock Awards (and, with respect to Options and SARs, the time when such Stock Awards may be exercised) shall be accelerated in full to a date prior to the effective time of such Corporate Transaction (contingent upon the effectiveness of the Corporate Transaction) as the Board shall determine (or, if the Board shall not determine such a date, to the date that is fifteen (15) days prior to the effective time of the Corporate Transaction), and such Stock Awards shall terminate if not exercised (if applicable) at or prior to the effective time of the Corporate Transaction, and any reacquisition or repurchase rights held by the Company with respect to such Stock Awards shall lapse (contingent upon the effectiveness of the Corporate Transaction).

**(d) Stock Awards Held by Persons other than Current Employee and Director Participants.** In the event of a Corporate Transaction in which the surviving corporation or acquiring corporation (or its parent company) does not assume or continue such outstanding Stock Awards or substitute similar stock awards for such outstanding Stock Awards, then with respect to Stock Awards that have not been assumed, continued or substituted and that are held by persons other than Current Employee and Director Participants, such Stock Awards shall terminate if not exercised (if applicable) prior to the effective time of the Corporate Transaction; *provided, however*, that any reacquisition or repurchase rights held by the Company with respect to such Stock Awards shall not terminate and may continue to be exercised notwithstanding the Corporate Transaction.

**(e) Payment for Stock Awards in Lieu of Exercise.** Notwithstanding the foregoing, in the event a Stock Award will terminate if not exercised prior to the effective time of a Corporate Transaction, the Board may provide, in its sole discretion, that the holder of such Stock Award may not exercise such Stock Award but will receive a payment, in such form as may be determined by the Board, equal in value, at the effective time, to the excess, if any, of (A) the value of the property the Participant would have received upon the exercise of the Stock Award (including, at the discretion of the Board, any unvested portion of such Stock Award), over (B) any exercise price payable by such holder in connection with such exercise.

**(f) Change in Control.** A Stock Award may be subject to acceleration of vesting and exercisability upon or after a Change in Control as may be provided in the Stock Award Agreement for such Stock Award or as may be provided in any other written agreement between the Company or any Affiliate and the Participant, but in the absence of such provision, no such acceleration shall occur.

#### **11. TERMINATION OR SUSPENSION OF THE PLAN.**

**(a) Plan Term.** The Board may suspend or terminate the Plan at any time. Unless terminated sooner by the Board, the Plan shall automatically terminate on the day before the tenth (10th) anniversary of the earlier of (i) the date the Plan is adopted by the Board, or (ii) the date the Plan is approved by the stockholders of the Company. No Awards may be granted under the Plan while the Plan is suspended or after it is terminated.

**(b) No Impairment of Rights.** Suspension or termination of the Plan shall not impair rights and obligations under any Award granted while the Plan is in effect except with the written consent of the affected Participant.

#### **12. EFFECTIVE DATE OF PLAN.**

This Plan shall become effective on the Effective Date.

#### **13. CHOICE OF LAW.**

The laws of the State of California shall govern all questions concerning the construction, validity and interpretation of this Plan, without regard to that state's conflict of laws rules.

#### **14. DEFINITIONS.** As used in the Plan, the following definitions shall apply to the capitalized terms indicated below:

**(a) "Affiliate"** means, at the time of determination, any "parent" or "subsidiary" of the Company as such terms are defined in Rule 405 promulgated under the Securities Act. The Board shall have the authority to determine the time or times at which "parent" or "subsidiary" status is determined within the foregoing definition.

**(b) "Annual Meeting"** means the first meeting of the Company's stockholders held each calendar year at which Directors of the Company are selected.

**(c) "Award"** means a Stock Award.

(d) **“Award Agreement”** means a written agreement between the Company and a Participant evidencing the terms and conditions of an Award.

(e) **“Board”** means the Board of Directors of the Company.

(f) **“Capitalization Adjustment”** means any change that is made in, or other events that occur with respect to, the Common Stock subject to the Plan or subject to any Stock Award after the Effective Date without the receipt of consideration by the Company through merger, consolidation, reorganization, recapitalization, reincorporation, stock dividend, dividend in property other than cash, large nonrecurring cash dividend, stock split, liquidating dividend, combination of shares, exchange of shares, change in corporate structure or any similar equity restructuring transaction, as that term is used in Statement of Financial Accounting Standards No. 123 (revised). Notwithstanding the foregoing, the conversion of any convertible securities of the Company shall not be treated as a Capitalization Adjustment.

(g) **“Cause”** shall mean, with respect to a Participant, the occurrence of any of the following events: (i) such Participant’s commission of any crime involving fraud, dishonesty or moral turpitude; (ii) such Participant’s attempted commission of or participation in a fraud or act of dishonesty against the Company that results in (or might have reasonably resulted in) material harm to the business of the Company; (iii) such Participant’s intentional, material violation of any contract or agreement between Participant and the Company or any statutory duty Participant owes to the Company; or (iv) such Participant’s conduct that constitutes gross insubordination, incompetence or habitual neglect of duties and that results in (or might have reasonably resulted in) material harm to the business of the Company; provided, however, that the action or conduct described in clauses (iii) and (iv) above will constitute “Cause” only if such action or conduct continues after the Company has provided such Participant with written notice thereof and not less than five business days to cure the same.

(h) **“Change in Control”** means the occurrence, in a single transaction or in a series of related transactions, of any one or more of the following events:

(i) any Exchange Act Person becomes the Owner, directly or indirectly, of securities of the Company representing more than fifty percent (50%) of the combined voting power of the Company’s then outstanding securities other than by virtue of a merger, consolidation or similar transaction. Notwithstanding the foregoing, a Change in Control shall not be deemed to occur (A) on account of the acquisition of securities of the Company directly from the Company, (B) on account of the acquisition of securities of the Company by an investor, any affiliate thereof or any other Exchange Act Person that acquires the Company’s securities in a transaction or series of related transactions the primary purpose of which is to obtain financing for the Company through the issuance of equity securities, or (C) solely because the level of Ownership held by any Exchange Act Person (the *“Subject Person”*) exceeds the designated percentage threshold of the outstanding voting securities as a result of a repurchase or other acquisition of voting securities by the Company reducing the number of shares outstanding, provided that if a Change in Control would occur (but for the operation of this sentence) as a result of the acquisition of voting securities by the Company, and after such share acquisition, the Subject Person becomes the Owner of any additional voting securities that, assuming the repurchase or other acquisition had not occurred, increases the percentage of the then outstanding voting securities Owned by the Subject Person over the designated percentage threshold, then a Change in Control shall be deemed to occur;

(ii) there is consummated a merger, consolidation or similar transaction involving (directly or indirectly) the Company and, immediately after the consummation of such merger, consolidation or similar transaction, the stockholders of the Company immediately prior thereto do not Own, directly or indirectly, either (A) outstanding voting securities representing more than fifty percent (50%) of the combined outstanding voting power of the surviving Entity in such merger, consolidation or similar transaction or (B) more than fifty percent (50%) of the combined outstanding voting power of the parent of the surviving Entity in such merger, consolidation or similar transaction, in each case in substantially the same proportions as their Ownership of the outstanding voting securities of the Company immediately prior to such transaction;



(iii) the stockholders of the Company approve or the Board approves a plan of complete dissolution or liquidation of the Company, or a complete dissolution or liquidation of the Company shall otherwise occur, except for a liquidation into a parent corporation;

(iv) there is consummated a sale, lease, exclusive license or other disposition of all or substantially all of the consolidated assets of the Company and its Subsidiaries, other than a sale, lease, license or other disposition of all or substantially all of the consolidated assets of the Company and its Subsidiaries to an Entity, more than fifty percent (50%) of the combined voting power of the voting securities of which are Owned by stockholders of the Company in substantially the same proportions as their Ownership of the outstanding voting securities of the Company immediately prior to such sale, lease, license or other disposition; or

(v) individuals who, on the date the Plan is adopted by the Board, are members of the Board (the “*Incumbent Board*”) cease for any reason to constitute at least a majority of the members of the Board; *provided, however*, that if the appointment or election (or nomination for election) of any new Board member was approved or recommended by a majority vote of the members of the Incumbent Board then still in office, such new member shall, for purposes of this Plan, be considered as a member of the Incumbent Board.

Notwithstanding the foregoing or any other provision of this Plan, the term Change in Control shall not include a sale of assets, merger or other transaction effected exclusively for the purpose of changing the domicile of the Company.

(i) “*Code*” means the Internal Revenue Code of 1986, as amended, including any applicable regulations and guidance thereunder.

(j) “*Committee*” means a committee of one or more Directors to whom authority has been delegated by the Board in accordance with Section 2(d).

(k) “*Common Stock*” means the common stock of the Company.

(l) “*Company*” means Neurocrine Biosciences, Inc., a Delaware corporation.

(m) “*Consultant*” means any person, including an advisor, who is (i) engaged by the Company or an Affiliate to render consulting or advisory services and is compensated for such services, or (ii) serving as a member of the board of directors of an Affiliate and is compensated for such services. However, service solely as a Director, or payment of a fee for such service, shall not cause a Director to be considered a “Consultant” for purposes of the Plan. Notwithstanding the foregoing, a person is treated as a Consultant under this Plan only if a Form S-8 Registration Statement under the Securities Act is available to register either the offer or the sale of the Company’s securities to such person.

(n) “*Continuous Service*” means that the Participant’s service with the Company or an Affiliate, whether as an Employee, Director or Consultant, is not interrupted or terminated. A change in the capacity in which the Participant renders service to the Company or an Affiliate as an Employee, Consultant or Director or a change in the entity for which the Participant renders such service, provided that there is no interruption or termination of the Participant’s service with the Company or an Affiliate, shall not terminate a Participant’s Continuous Service; *provided, however*, if the Entity for which a Participant is rendering services ceases to qualify as an Affiliate, as determined by the Board, in its sole discretion, such Participant’s Continuous Service shall be considered to have terminated on the date such Entity ceases to qualify as an Affiliate. To the extent permitted by law, the Board or the chief executive officer of the Company, in that party’s sole discretion, may determine whether Continuous Service shall be considered interrupted in the case of (i) any leave of absence approved by the Board or Chief Executive Officer, including sick leave, military leave or any other personal leave, or (ii) transfers between the Company, an Affiliate, or their successors. Notwithstanding the foregoing, a leave of absence shall be treated as

Continuous Service for purposes of vesting in a Stock Award only to such extent as may be provided in the Company's leave of absence policy, in the written terms of any leave of absence agreement or policy applicable to the Participant, or as otherwise required by law.

(o) "**Corporate Transaction**" means the consummation, in a single transaction or in a series of related transactions, of any one or more of the following events:

(i) a sale or other disposition of all or substantially all, as determined by the Board, in its sole discretion, of the consolidated assets of the Company and its Subsidiaries;

(ii) a sale or other disposition of at least ninety percent (90%) of the outstanding securities of the Company;

(iii) a merger, consolidation or similar transaction following which the Company is not the surviving corporation; or

(iv) a merger, consolidation or similar transaction following which the Company is the surviving corporation but the shares of Common Stock outstanding immediately preceding the merger, consolidation or similar transaction are converted or exchanged by virtue of the merger, consolidation or similar transaction into other property, whether in the form of securities, cash or otherwise.

(p) "**Covered Employee**" shall have the meaning provided in Section 162(m)(3) of the Code.

(q) "**Director**" means a member of the Board.

(r) "**Director Grant Program**" means the grant program in effect under Section 7 of the Plan.

(s) "**Disability**" means, with respect to a Participant, the inability of such Participant to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than twelve (12) months, as provided in Sections 22(e)(3) and 409A(a)(2)(c)(i) of the Code, and shall be determined by the Board on the basis of such medical evidence as the Board deems warranted under the circumstances.

(t) "**Effective Date**" means the effective date of this Plan document, which is the date of the annual meeting of stockholders of the Company held in 2011 provided this Plan is approved by the Company's stockholders at such meeting.

(u) "**Eligible Director**" means a Director who is not an Employee and is eligible to participate in the Director Grant Program.

(v) "**Employee**" means any person employed by the Company or an Affiliate. However, service solely as a Director, or payment of a fee for such services, shall not cause a Director to be considered an "Employee" for purposes of the Plan.

(w) "**Entity**" means a corporation, partnership, limited liability company or other entity.

(x) "**Exchange Act**" means the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

(y) "**Exchange Act Person**" means any natural person, Entity or "group" (within the meaning of Section 13(d) or 14(d) of the Exchange Act), except that "Exchange Act Person" shall not include (i) the Company or any Subsidiary of the Company, (ii) any employee benefit plan of the Company or any Subsidiary of the Company or any trustee or other fiduciary holding securities under an employee benefit plan of the Company or any Subsidiary of the Company, (iii) an underwriter temporarily holding securities pursuant to a registered



public offering of such securities, (iv) an Entity Owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their Ownership of stock of the Company; or (v) any natural person, Entity or “group” (within the meaning of Section 13(d) or 14(d) of the Exchange Act) that, as of the Effective Date, is the Owner, directly or indirectly, of securities of the Company representing more than fifty percent (50%) of the combined voting power of the Company’s then outstanding securities.

(z) “**Fair Market Value**” means, as of any date, the value of the Common Stock determined as follows:

(i) If the Common Stock is listed on any established stock exchange or traded on any established market, the Fair Market Value of a share of Common Stock shall be the closing sales price for such stock as quoted on such exchange or market (or the exchange or market with the greatest volume of trading in the Common Stock) on the date of determination, as reported in a source the Board deems reliable.

(ii) Unless otherwise provided by the Board, if there is no closing sales price for the Common Stock on the date of determination, then the Fair Market Value shall be the closing selling price on the last preceding date for which such quotation exists.

(iii) In the absence of such markets for the Common Stock, the Fair Market Value shall be determined by the Board in good faith and in a manner that complies with Sections 409A and 422 of the Code.

(aa) “**Full Value Award**” generally means any Award granted under the Plan, but does not include any Option or a SAR granted pursuant to Section 5 of the Plan.

(bb) “**Incentive Stock Option**” means an option granted pursuant to Section 5 of the Plan that is intended to be, and qualifies as, an “incentive stock option” within the meaning of Section 422 of the Code.

(cc) “**Non-Employee Director**” means a Director who either (i) is not a current employee or officer of the Company or an Affiliate, does not receive compensation, either directly or indirectly, from the Company or an Affiliate for services rendered as a consultant or in any capacity other than as a Director (except for an amount as to which disclosure would not be required under Item 404(a) of Regulation S-K promulgated pursuant to the Securities Act (“**Regulation S-K**”)), does not possess an interest in any other transaction for which disclosure would be required under Item 404(a) of Regulation S-K, and is not engaged in a business relationship for which disclosure would be required pursuant to Item 404(b) of Regulation S-K; or (ii) is otherwise considered a “non-employee director” for purposes of Rule 16b-3.

(dd) “**Nonstatutory Stock Option**” means any option granted pursuant to Section 5 of the Plan that does not qualify as an Incentive Stock Option.

(ee) “**Officer**” means a person who is an officer of the Company within the meaning of Section 16 of the Exchange Act.

(ff) “**Option**” means an Incentive Stock Option or a Nonstatutory Stock Option to purchase shares of Common Stock granted pursuant to the Plan.

(gg) “**Option Agreement**” means a written agreement between the Company and an Optionholder evidencing the terms and conditions of an Option grant. Each Option Agreement shall be subject to the terms and conditions of the Plan.

(hh) “**Optionholder**” means a person to whom an Option is granted pursuant to the Plan or, if applicable, such other person who holds an outstanding Option.

(ii) “**Other Stock Award**” means an award based in whole or in part by reference to the Common Stock which is granted pursuant to the terms and conditions of Section 6(d).

(jj) “**Other Stock Award Agreement**” means a written agreement between the Company and a holder of an Other Stock Award evidencing the terms and conditions of an Other Stock Award grant. Each Other Stock Award Agreement shall be subject to the terms and conditions of the Plan.

**(kk) “Outside Director”** means a Director who either (i) is not a current employee of the Company or an “affiliated corporation” (within the meaning of Treasury Regulations promulgated under Section 162(m) of the Code), is not a former employee of the Company or an “affiliated corporation” who receives compensation for prior services (other than benefits under a tax-qualified retirement plan) during the taxable year, has not been an officer of the Company or an “affiliated corporation,” and does not receive remuneration from the Company or an “affiliated corporation,” either directly or indirectly, in any capacity other than as a Director, or (ii) is otherwise considered an “outside director” for purposes of Section 162(m) of the Code.

**(ll) “Own,” “Owned,” “Owner,” “Ownership”** A person or Entity shall be deemed to “Own,” to have “Owned,” to be the “Owner” of, or to have acquired “Ownership” of securities if such person or Entity, directly or indirectly, through any contract, arrangement, understanding, relationship or otherwise, has or shares voting power, which includes the power to vote or to direct the voting, with respect to such securities.

**(mm) “Participant”** means a person to whom an Award is granted pursuant to the Plan or, if applicable, such other person who holds an outstanding Stock Award.

**(nn) “Performance Criteria”** means the one or more criteria that the Board shall select for purposes of establishing the Performance Goals for a Performance Period. The Performance Criteria that shall be used to establish such Performance Goals may be based on any one of, or combination of, the following as determined by the Board: (i) earnings (including earnings per share and net earnings); (ii) earnings before interest, taxes and depreciation; (iii) earnings before interest, taxes, depreciation and amortization; (iv) total stockholder return; (v) return on equity or average stockholder’s equity; (vi) return on assets, investment, or capital employed; (vii) stock price; (viii) margin (including gross margin); (ix) income (before or after taxes); (x) operating income; (xi) operating income after taxes; (xii) pre-tax profit; (xiii) operating cash flow; (xiv) sales or revenue targets; (xv) increases in revenue or product revenue; (xvi) expenses and cost reduction goals; (xvii) improvement in or attainment of working capital levels; (xviii) economic value added (or an equivalent metric); (xix) market share; (xx) cash flow; (xxi) cash flow per share; (xxii) share price performance; (xxiii) debt reduction; (xxiv) implementation or completion of projects or processes; (xxv) customer satisfaction; (xxvi) stockholders’ equity; (xxvii) capital expenditures; (xxviii) debt levels; (xxix) operating profit or net operating profit; (xxx) workforce diversity; (xxxi) growth of net income or operating income; (xxxii) billings; (xxxiii) funds from operations); and (xxxiv) to the extent that an Award is not intended to comply with Section 162(m) of the Code, other measures of performance selected by the Board.

**(oo) “Performance Goals”** means, for a Performance Period, the one or more goals established by the Board for the Performance Period based upon the Performance Criteria. Performance Goals may be based on a Company-wide basis, with respect to one or more business units, divisions, Affiliates, or business segments, and in either absolute terms or relative to the performance of one or more comparable companies or the performance of one or more relevant indices. Unless specified otherwise by the Board (i) in the Award Agreement at the time the Award is granted or (ii) in such other document setting forth the Performance Goals at the time the Performance Goals are established, the Board shall appropriately make adjustments in the method of calculating the attainment of Performance Goals for a Performance Period as follows: (1) to exclude restructuring and/or other nonrecurring charges; (2) to exclude exchange rate effects, as applicable, for non-U.S. dollar denominated Performance Goals; (3) to exclude the effects of changes to generally accepted accounting principles; (4) to exclude the effects of any statutory adjustments to corporate tax rates; and (5) to exclude the effects of any “extraordinary items” as determined under generally accepted accounting principles.

**(pp) “Performance Period”** means the period of time selected by the Board over which the attainment of one or more Performance Goals will be measured for the purpose of determining a Participant’s right to and the payment of a Stock Award. Performance Periods may be of varying and overlapping duration, at the sole discretion of the Board.

**(qq) “Performance Stock Award”** means a Stock Award granted under the terms and conditions of Section 6(c)(i).

(rr) “*Plan*” means this Neurocrine Biosciences, Inc. 2011 Equity Incentive Plan.

(ss) “*Restricted Stock Award*” means an award of shares of Common Stock which is granted pursuant to the terms and conditions of Section 6(a).

(tt) “*Restricted Stock Award Agreement*” means a written agreement between the Company and a holder of a Restricted Stock Award evidencing the terms and conditions of a Restricted Stock Award grant. Each Restricted Stock Award Agreement shall be subject to the terms and conditions of the Plan.

(uu) “*Restricted Stock Unit Award*” means a right to receive shares of Common Stock which is granted pursuant to the terms and conditions of Section 6(b).

(vv) “*Restricted Stock Unit Award Agreement*” means a written agreement between the Company and a holder of a Restricted Stock Unit Award evidencing the terms and conditions of a Restricted Stock Unit Award grant. Each Restricted Stock Unit Award Agreement shall be subject to the terms and conditions of the Plan.

(ww) “*Rule 16b-3*” means Rule 16b-3 promulgated under the Exchange Act or any successor to Rule 16b-3, as in effect from time to time.

(xx) “*Securities Act*” means the Securities Act of 1933, as amended.

(yy) “*Stock Appreciation Right*” or “*SAR*” means a right to receive the appreciation on Common Stock that is granted pursuant to the terms and conditions of Section 5.

(zz) “*Stock Appreciation Right Agreement*” or “*SAR Agreement*” means a written agreement between the Company and a holder of a Stock Appreciation Right evidencing the terms and conditions of a Stock Appreciation Right grant. Each Stock Appreciation Right Agreement shall be subject to the terms and conditions of the Plan.

(aaa) “*Stock Award*” means any right to receive Common Stock granted under the Plan, including an Incentive Stock Option, a Nonstatutory Stock Option, a Restricted Stock Award, a Restricted Stock Unit Award, a SAR, a Performance Stock Award or any Other Stock Award.

(bbb) “*Stock Award Agreement*” means a written agreement between the Company and a Participant evidencing the terms and conditions of a Stock Award grant. Each Stock Award Agreement shall be subject to the terms and conditions of the Plan.

(ccc) “*Subsidiary*” means, with respect to the Company, (i) any corporation of which more than fifty percent (50%) of the outstanding capital stock having ordinary voting power to elect a majority of the board of directors of such corporation (irrespective of whether, at the time, stock of any other class or classes of such corporation shall have or might have voting power by reason of the happening of any contingency) is at the time, directly or indirectly, Owned by the Company, and (ii) any partnership, limited liability company or other entity in which the Company has a direct or indirect interest (whether in the form of voting or participation in profits or capital contribution) of more than fifty percent (50%).

(ddd) “*Ten Percent Stockholder*” means a person who Owns (or is deemed to Own pursuant to Section 424(d) of the Code) stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or any Affiliate.

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**Form 10-K**

(Mark One)

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

For the fiscal year ended December 31, 2014

OR

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

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

Commission file number: 0-22705

**NEUROCRINE BIOSCIENCES, INC.**

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

12780 El Camino Real, San Diego, CA  
(Address of principal executive offices)

33-0525145  
(I.R.S. Employer  
Identification Number)

92130  
(Zip Code)

Registrant's telephone number, including area code:  
(858) 617-7600

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of Each Class</u>	<u>Name of Each Exchange on Which Registered</u>
Common Stock, \$0.001 par value	The NASDAQ Stock Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

The aggregate market value of the common equity held by non-affiliates of the registrant as of June 30, 2014 totaled approximately \$825,571,712 based on the closing price for the registrant's Common Stock on that day as reported by the NASDAQ Stock Market. Such value excludes Common Stock held by executive officers, directors and 10% or greater stockholders as of June 30, 2014. The identification of 10% or greater stockholders as of June 30, 2014 is based on Schedule 13G and amended Schedule 13G reports publicly filed before June 30, 2014. This calculation does not reflect a determination that such parties are affiliates for any other purposes.

As of January 26, 2015, there were 77,163,348 shares of the registrant's Common Stock outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

**Document Description**

**10-K Part**

Portions of the registrant's notice of annual meeting of stockholders and proxy statement to be filed pursuant to Regulation 14A within 120 days after registrant's fiscal year end of December 31, 2014 are incorporated by reference into Part III of this report . . .

III

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**PART I**  
**FORWARD-LOOKING STATEMENTS**

This Annual Report on Form 10-K and the information incorporated herein by reference contain forward-looking statements that involve a number of risks and uncertainties. Although our forward-looking statements reflect the good faith judgment of our management, these statements can only be based on facts and factors currently known by us. Consequently, these forward-looking statements are inherently subject to risks and uncertainties, and actual results and outcomes may differ materially from results and outcomes discussed in the forward-looking statements.

Forward-looking statements can be identified by the use of forward-looking words such as “believes,” “expects,” “hopes,” “may,” “will,” “plan,” “intends,” “estimates,” “could,” “should,” “would,” “continue,” “seeks,” “pro forma,” or “anticipates,” or other similar words (including their use in the negative), or by discussions of future matters such as the development of new products, technology enhancements, possible changes in legislation and other statements that are not historical. These statements include but are not limited to statements under the captions “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Business,” as well as other sections in this report. You should be aware that the occurrence of any of the events discussed under the heading “Item 1A. Risk Factors” and elsewhere in this report could substantially harm our business, results of operations and financial condition and that if any of these events occurs, the trading price of our common stock could decline and you could lose all or a part of the value of your shares of our common stock.

The cautionary statements made in this report are intended to be applicable to all related forward-looking statements wherever they may appear in this report. We urge you not to place undue reliance on these forward-looking statements, which speak only as of the date of this report. Except as required by law, we assume no obligation to update our forward-looking statements, even if new information becomes available in the future.

**ITEM 1. BUSINESS**

We were originally incorporated in California in January 1992 and were reincorporated in Delaware in May 1996.

We discover and develop innovative and life-changing pharmaceuticals, in diseases with high unmet medical needs, through our novel R&D platform, focused on neurological and endocrine based diseases and disorders. Our two lead late-stage clinical programs are elagolix, a gonadotropin-releasing hormone (GnRH) antagonist for women’s health that is partnered with AbbVie Inc. (AbbVie), and a wholly owned vesicular monoamine transporter 2 (VMAT2) inhibitor for the treatment of movement disorders. We intend to maintain certain commercial rights to our VMAT2 inhibitor and evolve into a fully-integrated pharmaceutical company.



## Our Product Pipeline

The following table summarizes our most advanced product candidates currently in clinical development and those currently in research and is followed by detailed descriptions of each program:

<u>Program</u>	<u>Target Indication(s)</u>	<u>Status</u>	<u>Rights</u>
<b><i>Product candidates in clinical development:</i></b>			
elagolix . . . . .	Endometriosis	Phase III	AbbVie
VMAT2 (NBI-98854) . . . . .	Tardive Dyskinesia	Phase III	Neurocrine
elagolix . . . . .	Uterine Fibroids	Phase II	AbbVie
CRF <sub>1</sub> Antagonist (NBI-77860) . . . . .	Classic Congenital Adrenal Hyperplasia	Phase I/II	Neurocrine
VMAT2 (NBI-98854) . . . . .	Tourette Syndrome	Phase I	Neurocrine
<b><i>Research programs:</i></b>			
VMAT2 . . . . .	Movement Disorders, Bipolar Disorder and Schizophrenia	Research	Neurocrine
GnRH Antagonists . . . . .	Men’s and Women’s Health, Oncology	Research	AbbVie
Antiepileptic Drugs . . . . .	Epilepsy, Essential Tremor, Pain	Research	Neurocrine
G Protein-Coupled Receptors . . . . .	Other Conditions	Research	Neurocrine

“Phase III” indicates that we or our collaborators are conducting large-scale, multicenter comparative clinical trials on patients afflicted with a target disease in order to provide substantial evidence for efficacy and safety of the product candidate.

“Phase II” indicates that we or our collaborators are conducting clinical trials on groups of patients afflicted with a specific disease in order to determine preliminary efficacy, optimal dosages and expanded evidence of safety of the product candidate.

“Phase I” indicates that we or our collaborators are conducting clinical trials with a smaller number of subjects to determine early safety profile, maximally tolerated dose and pharmacological properties of the product candidate in human volunteers.

“Research” indicates identification and evaluation of compound(s) in laboratory and preclinical models.

## Product Candidates In Clinical Development

### *elagolix – Gonadotropin-Releasing Hormone (GnRH) Antagonist*

GnRH is a peptide that stimulates the secretion of the pituitary hormones that are responsible for sex steroid production and normal reproductive function. Researchers have found that chronic administration of GnRH agonists, after initial stimulation, reversibly shuts down this transmitter pathway and is clinically useful in treating hormone-dependent diseases such as endometriosis and uterine fibroids. Several companies have developed peptide GnRH agonists on this principle, such as Lupron® and Zoladex®. However, since they are peptides, they must be injected via a depot formulation rather than the preferred oral route of administration. In addition, GnRH agonists can take up to several weeks to exert their desired effect once the initial stimulation has occurred, a factor not seen with the use of GnRH antagonists. Upon administration, GnRH agonists have shown a tendency to exacerbate the condition via a hormonal flare. More importantly, the profound suppression effect observed with GnRH agonists is similar to that seen after menopause and can be associated with hot flashes and the loss of bone mineral density.

Orally active, nonpeptide GnRH antagonists potentially offer several advantages over injectable GnRH peptide drugs, including rapid onset of hormone suppression without hormonal flare. Also, injection site reactions commonly observed in peptide depots are avoided and dosing can be rapidly discontinued if necessary – a clinical management option not available with long-acting depot injections. Additionally, by using GnRH antagonists, it may be possible to alter the level of pituitary GnRH suppression thereby titrating circulating estrogen levels. Using this approach, an oral GnRH antagonist may provide patients relief from the painful symptoms of endometriosis while avoiding the need for the active management of bone loss.

*Endometriosis.* Endometriosis is associated with a multitude of symptoms, some of the most common of which include pain related both to menstruation (dysmenorrhea) and sexual intercourse (dyspareunia) as well as chronic pelvic pain throughout the menstrual cycle, infertility, and menorrhagia, among many others. The wide range of symptoms associated with endometriosis serves to complicate and delay diagnosis due to the significant overlap of symptoms with the disease profiles of other conditions. The World Endometriosis Research Foundation estimates that there are over 170 million women worldwide who suffer from endometriosis, including approximately 7.5 million women in the United States alone. We believe that the availability of an oral treatment, lacking the side effect profile of the currently available peptide GnRH agonists, may be a desirable alternative to current pharmaceutical therapies and ultimately encourage a significantly higher treatment rate.

During 2008, we completed the first Phase IIB study of elagolix (PETAL or 603 study) in which 252 patients, with a laparoscopic diagnosis of endometriosis, were treated over the initial six-month period. This multi-center, randomized, double-blind, double-dummy study consisted of three treatment groups, elagolix 150mg once daily, elagolix 75mg twice daily, and an active control, DMPA-SC. The primary purpose of this study was to assess the impact of six months of treatment of elagolix on bone mineral density as measured by a dual energy x-ray absorptiometry (DXA) scan at the conclusion of treatment and at six and 12 months post treatment. This study also assessed, as secondary endpoints, the impact of treatment on endometriosis symptoms as measured by Composite Pelvic Signs and Symptoms Scale (CPSSS), a monthly recall scale that measures dysmenorrhea, non-menstrual pelvic pain, dyspareunia, pelvic tenderness and induration (all elements of endometriosis pain). Top-line results showed that elagolix met the primary endpoint by having minimal impact on bone mineral density at the conclusion of treatment. This study also showed that elagolix had both a statistical and clinically meaningful reduction in endometriosis symptoms as measured by CPSSS with an 86% responder rate in the 150mg once daily elagolix arm of the study. Additionally, elagolix was shown to be non-inferior to DMPA-SC under the CPSSS. Patient follow up both six and 12 months post treatment showed elagolix did not result in a significant reduction in bone mineral density as measured by DXA scan, with a mean time of return to ovulation of 24 days for elagolix subjects.

Toward the conclusion of the 603 study, the U.S. Food and Drug Administration (FDA) requested that the endpoints for dysmenorrhea and non-menstrual pelvic pain be assessed on a daily basis rather than utilizing the CPSSS monthly recall scale. In addition, the FDA also provided modified wording to assess the dysmenorrhea and non-menstrual pelvic pain scores on a daily basis. Given these new independent co-primary endpoints, we conducted two additional Phase IIB trials of elagolix to evaluate these modified endpoints as proposed by the FDA, to fully explore the elagolix dose range utilizing both 150mg and 250mg doses. These two trials were designed to assess elagolix for an initial three months, with the non-elagolix treatment arms re-randomized after three months into treatment groups of either 150mg or 250mg of elagolix once daily for an additional three months.

The first additional Phase IIB trial (Lilac PETAL or 702 study) consisted of three arms, elagolix 150mg once daily, elagolix 250mg once daily and placebo. We randomized 155 subjects with a laparoscopic diagnosis of endometriosis in this trial. The three-month placebo-controlled portion of the 702 study showed that elagolix provided endometriosis sufferers with clinical improvement of symptoms, coupled with an excellent safety and tolerability profile. However, the FDA-proposed non-menstrual pelvic pain daily scale had a low baseline score and was relatively insensitive to treatment effects. There were no treatment related serious adverse events in the 702 study and the two most common adverse events were headache and nausea, which were typically mild and transient and consistent with our previous studies.

The second additional Phase IIb trial (Tulip PETAL or 703 study) consisted of four arms, elagolix 150mg once daily, elagolix 250mg once daily, Prostag<sup>®</sup> SR 3.75mg (leuprorelin) and placebo. We enrolled 174 subjects with a laparoscopic diagnosis of endometriosis in this trial. The three-month placebo-controlled portion of the 703 study confirmed that elagolix and leuprorelin are associated with reductions in dysmenorrhea and non-menstrual pelvic pain daily scores when compared to placebo. However, the FDA-proposed non-menstrual pelvic pain daily scale numeric changes and dynamic range were both small. Although the adverse events reported in the 703 study as occurring more often with elagolix than with placebo were nausea and headache ( $\leq 12\%$ ), consistent with previous clinical studies of elagolix, these events were generally mild or moderate, transient and not generally associated with study discontinuation. There were no treatment related serious adverse events.

In August 2009, we held a Type C meeting with the FDA to discuss the non-menstrual pelvic pain scale as proposed by the FDA and used in the 702 and 703 studies. Based on this meeting, we modified the wording of the non-menstrual pelvic pain and dysmenorrhea daily scales and launched a new clinical trial, the Daisy PETAL Study (901 study). This parallel, double-blind, placebo-controlled clinical trial was designed to provide an assessment of the modified scales over an eight-week treatment period of 150mg elagolix, followed by sixteen weeks of open-label treatment. This trial commenced in September 2009 and randomized approximately 130 subjects. In May 2010, we announced the results of this trial which showed the symptoms of dysmenorrhea and non-menstrual pelvic pain, as measured by the modified daily scales, both improved significantly in the elagolix treated arms (p-value $<0.001$  and p-value $<0.01$ , respectively). Daily dysmenorrhea pain scores were a 2.1 at baseline (0-3 scale) with a 1.13 reduction in the elagolix arm compared to a 0.37 reduction in the placebo arm at eight weeks. Daily non-menstrual pelvic pain scores were a 1.4 at baseline (0-3 scale) with a 0.47 reduction in the elagolix arm compared to a 0.19 reduction in the placebo arm at eight weeks. There were no treatment related serious adverse events in the 901 study and the two most common adverse events were headache and nausea, which were typically mild and transient and consistent with our previous studies.

We have a worldwide collaboration with AbbVie to develop and commercialize elagolix and all next-generation non-peptide GnRH antagonists for women's and men's health indications. AbbVie has primary responsibility for all regulatory interactions with the FDA related to elagolix and the next-generation GnRH antagonists covered by the collaboration.

The endometriosis Phase III program is assessing two separate doses of elagolix (150mg once daily and 200mg twice daily) over a 24-week treatment period. The initial randomized, parallel, double-blind, placebo-controlled pivotal trial (Violet PETAL) enrolled 872 women in approximately 160 clinical sites throughout the United States, Canada and Puerto Rico. The co-primary endpoints were a comparison of the daily non-menstrual pelvic pain and daily dysmenorrhea scores during the third month of treatment to the respective daily baseline scores utilizing a responder analysis. Maintenance of response at month six was also assessed utilizing the same daily scales.

On January 8, 2015, AbbVie released the top-line results of the initial six months of placebo controlled dosing of the Violet PETAL study. After six months of continuous treatment, both doses of elagolix (150 mg once daily and 200 mg twice daily) met the study's co-primary endpoints (p $<0.001$ ) of reducing scores of non-menstrual pelvic pain and dysmenorrhea associated with endometriosis, at month three, as well as at month six.

The observed safety profile of elagolix in the Violet PETAL study was consistent with observations from prior studies. Among the most common adverse events were hot flash, headache, nausea and fatigue. While most adverse events were similar across treatment groups, some, such as hot flash and bone mineral density loss were dose-dependent. Overall discontinuation rates were similar across treatment groups and discontinuations specifically due to adverse events were 5.9%, 6.4%, and 9.7% for placebo, 150 mg once daily and 200 mg twice daily, respectively.

Additional efficacy and safety endpoints for the patients enrolled in the Violet PETAL study will be measured through one year of continuous dosing as well as for a period of time after the final dose. The one-year dosing portion of this study is expected to conclude in May 2015.

The second Phase III study of elagolix was initiated by AbbVie during 2013. This study (Solstice study) is similar in design to the Violet PETAL study with the same co-primary endpoints of daily non-menstrual pelvic pain and daily dysmenorrhea, comparing the third month of treatment to the respective daily baseline scores utilizing a responder analysis. This trial is anticipated to enroll 788 women with moderate to severe endometriosis-associated pain at more than 200 sites globally. Top-line efficacy results from the Solstice study are expected in late 2015.

*Uterine Fibroids.* Uterine fibroids are benign hormonally responsive tumors that form in the wall of the uterus. They are the most common solid tumor in women with a prevalence rate of at least 25% (American College of Obstetricians and Gynecologists). While many women do not have symptoms, depending on the size, location and number, uterine fibroids can cause pelvic pain, reproductive problems, and severe bleeding that can lead to anemia. Due to the severity of symptoms, treatment sometimes requires surgery, including the removal of the uterus. In fact, uterine fibroids is a leading indication for hysterectomy in the United States, with approximately 250,000 hysterectomies performed each year related to uterine fibroids (Whiteman *et al AJOG* 2008, 198, e1). We believe that a safe and effective oral therapy would be a preferred treatment regimen rather than surgical intervention.

During 2011, AbbVie initiated a randomized, double-blind, placebo-controlled, Phase IIa study of approximately 300 women to assess the safety and efficacy of elagolix in the treatment of uterine fibroids. The primary endpoint in this study was an assessment of blood loss after three months of treatment with elagolix. The dose ranging study evaluated various doses of elagolix compared to placebo. Additional efficacy endpoints were also evaluated including change in uterine volume, fibroid volume, and change in menstrual patterns. Based on the results of this study, AbbVie launched a Phase IIb uterine fibroids study for elagolix in 2013.

The Phase IIb clinical trial has enrolled approximately 520 women with heavy uterine bleeding due to uterine fibroids and will assess uterine blood loss after six months of treatment across various dosing regimens of elagolix, utilizing a quantitative assessment tool for blood loss, alkaline hematin. Secondary efficacy endpoints include change in uterine volume, fibroid volume, and menstrual patterns. Safety assessments of bone mineral density, comparing baseline to month six, will be performed via DXA scan. Patients will also be followed off drug for up to six months. This study is expected to be completed in the second half of 2015.

#### ***Vesicular Monoamine Transporter 2 Inhibitor (VMAT2) (NBI-98854)***

VMAT2 is a protein concentrated in the human brain that is essential for the transmission of nerve impulses between neurons. VMAT2 is primarily responsible for packaging and transporting monoamines (dopamine, norepinephrine, serotonin, and histamine) among nerve cells. Specifically, dopamine enables neurotransmission among nerve cells that are involved in voluntary and involuntary motor control. Disease states such as tardive dyskinesia, Huntington's chorea, schizophrenia, Tourette syndrome and tardive dystonia are characterized in part by a hyperdopaminergic state in the brain, and modulation of neuronal dopamine levels may provide symptomatic benefits for patients with these conditions.

Tardive dyskinesia (TD) is defined by hyperkinetic involuntary movements which arise after months or years of treatment with dopamine receptor blocking agents, e.g. antipsychotics for schizophrenia, bipolar disorder, and depression, and Reglan® (metoclopramide) for nausea and vomiting and gastric emptying in patients with gastroparesis. Features of the disorder may include grimacing, tongue protrusion, lip smacking, puckering and pursing of the lips, and rapid eye blinking. Rapid movements of the extremities may also occur. The impact on daily function and the quality of life for individuals suffering from TD can be substantial. While the prevalence rates of TD can vary greatly in accordance with the population being studied, it is estimated that approximately 500,000 individuals are affected by TD in the United States alone (Kantar Health).

To address the unmet medical needs of patients suffering from TD, we are developing NBI-98854. NBI-98854 is a potent, highly selective, VMAT2 inhibitor that is effective in regulating pre-synaptic release of dopamine. This selectivity should reduce the likelihood of "off target" side effects. Additionally, we have

designed this novel compound to provide low, sustained, plasma and brain concentrations of the active drug to minimize the potential side effects associated with excessive dopamine depletion, while at the same time having minimal impact on the other monoamines, e.g. norepinephrine and serotonin. With these features, NBI-98854 should be well tolerated in patients. NBI-98854 has been evaluated in several Phase I studies and four Phase II studies to assess its safety, tolerability and efficacy and to establish a treatment regimen to be used in future clinical trials. We believe that the potential efficacy and safety profile of NBI-98854 will address many of the shortcomings of current off-label treatments. Finally, NBI-98854 may be useful in the treatment of other disorders, such as Huntington's chorea, schizophrenia, Tourette syndrome and tardive dystonia.

During 2009, a Phase I single ascending dose clinical trial of NBI-98854 was completed in healthy male volunteers in Canada under an approved Clinical Trial Application with Health Canada. This trial showed NBI-98854 to be generally safe and well tolerated. There were no serious adverse events, clinically significant drug-related laboratory abnormalities or clinically significant electrocardiogram (ECG) findings. The characteristics of NBI-98854 met the pre-specified pharmacokinetic requirements for the trial: dose proportionality, low maximum concentration with adequate area-under-curve for drug exposure, low variability and a half-life which supports once per day dosing.

During 2010, we completed a multiple, repeat dose Phase I study of NBI-98854 in healthy male volunteers. This trial also showed NBI-98854 to be generally safe and well tolerated, and again displayed the desired pharmacokinetic requirements. There were no serious adverse events, clinically significant drug-related laboratory abnormalities or clinically significant ECG findings.

Based on the successful completion of this second Phase I study, we initiated a Phase IIa open label dose exploration study of NBI-98854 in six patients with TD in late 2010. This study was designed to assess, over a twelve-day dosing period, the efficacy, safety and tolerability of NBI-98854 in schizophrenia patients who have moderate to severe TD. The impact on the dyskinesia was assessed utilizing the Abnormal Involuntary Movement Scale (AIMS). The study inclusion criteria included a baseline total score of at least nine on the first seven physical components of AIMS, with at least two body regions receiving scores of moderate (3) or severe (4). For the study the mean baseline score was 14.3 (AIMS total items 1-7, possible total score of 28). The dosing regimen consisted of three, four-day periods of NBI-98854, at increasing doses of 12.5mg, 25mg, and 50mg administered once daily. After discontinuation of NBI-98854, a seven-day washout period was followed by a final assessment. After the twelve days of dosing, the mean AIMS score decreased to 8.4, a reduction of 41.3%. Reduction in abnormal involuntary movements was shown across multiple assessment points. After the seven-day washout period, most patients' AIMS scores returned to their baseline levels. The adverse events reported during administration of NBI-98854 were transient and mild or moderate including one subject with dizziness and one with restlessness. One subject became anxious and agitated seven days after study medication due to the patient's return to baseline-intensity TD.

Upon successful completion of this open-label Phase IIa study, we filed an Investigational New Drug (IND) Application with the FDA to permit the initiation of larger Phase II studies in patients with TD in the United States.

In September 2011, we began a second Phase II study in TD patients. This 32 patient placebo-controlled, double-blind, randomized, cross-over study, used a within-subject comparison for safety and efficacy evaluation. Patients were randomized to either 12.5mg or 50mg doses of NBI-98854 for a two-week dosing period, and each patient also had a two-week placebo dosing period. The primary efficacy endpoint of the study was a comparison of placebo versus active AIMS scores at the end of the two dosing periods.

After database lock and unblinding of study data, an inconsistent pattern of AIMS scores emerged at one of the eight sites that was not evident during the blinded data review. Based on these findings, the AIMS data from this single site was removed and a post-hoc analysis was completed which demonstrated a clinically meaningful and statistically significant improvement in TD symptoms for the subjects receiving the 50mg once daily dose.



These subjects had a significant reduction in TD symptoms at the end of two weeks of active treatment versus the end of two weeks of placebo (difference in LS mean of 4.2 for the 50mg period versus the placebo period, p-value=0.002). As expected, the 12.5mg dosing group was not statistically better during the active treatment period than during the placebo period (difference in LS mean of 0.4 for the 12.5mg period versus placebo period, p-value=0.68).

When including the data from the site in question, this study did not meet the pre-specified primary endpoint of reducing the AIMS scores during active treatment periods. The efficacy results from the entire study population showed a non-significant reduction in TD at the end of two weeks of active treatment versus the end of two weeks of placebo (difference in LS mean of 1.1 for the 50mg period versus the placebo period (n=15), p-value=0.42) (difference in LS mean of 0.7 for the 12.5mg period versus placebo period (n=17), p-value=0.59).

We also performed a second post-hoc analysis, engaging a single, independent, blinded AIMS assessor to review the videotaped AIMS assessments at all of the eight sites that participated in the trial. This AIMS assessor scored, in a blinded fashion, the videotaped baseline, day fifteen and day twenty-nine AIMS assessments. This independent secondary post-hoc analysis demonstrated a clinically meaningful and statistically significant improvement in TD symptoms for the subjects receiving the 50mg once daily dose. These subjects had a significant reduction in TD symptoms at the end of two weeks of active treatment versus the end of two weeks of placebo (difference in LS mean of 3.0 for the 50mg period versus the placebo period, p-value=0.008). As expected, the 12.5mg dosing group was not statistically better during the active treatment period than during the placebo period (difference in LS mean of 0.7 for the 12.5mg period versus placebo period, p-value=0.54).

NBI-98854 was generally safe and well tolerated during the fourteen days of treatment. The frequency of treatment-emergent adverse events was 17% during the placebo period and 24% and 32% in the 12.5mg and 50mg treatment periods, respectively. There were no serious adverse events during the treatment period. The most common adverse event was headache and one subject in the 50mg group discontinued due to akathisia.

The larger Phase IIb TD program began in 2012. The initial Phase IIb study (Kinect 1 Study) was a randomized, parallel, double-blind, placebo-controlled, clinical trial utilizing the capsule formulation of NBI-98854 in moderate to severe TD patients with underlying schizophrenia or schizoaffective disorder. This 109 subject study assessed two doses of once daily NBI-98854 over a six-week placebo-controlled dosing period. Approximately half of the randomized subjects received placebo and half received one of two doses of NBI-98854. The two NBI-98854 dosing groups consisted of a 50mg group for six weeks and a group that began at 100mg for the initial two weeks and then converted to 50mg for the final four weeks of placebo-controlled dosing period. Subsequent to the placebo-controlled dosing, all subjects were eligible to enter a six-week open label safety extension, whereby 50mg of NBI-98854 was administered once daily with additional AIMS assessments. The primary endpoint of the study was a comparison of placebo versus active scores utilizing the AIMS at the end of week six as assessed by the on-site AIMS assessors.

The 50mg dose of NBI-98854 did not reach statistical significance for the primary endpoint at week six. As discussed below, in a post-hoc analysis, utilizing a blinded central video AIMS assessment, both the 100mg dose (at Week 2) and the 50 mg dose (at Week 6) showed a statistically significant and clinically meaningful reduction in TD symptoms.

NBI-98854 was generally safe and well tolerated during the twelve weeks of the Kinect 1 Study. During the six-week placebo-controlled treatment period the frequency of treatment-emergent adverse events was 37% for placebo and 26% for NBI-98854. There were no drug-related serious adverse events. The most common treatment emergent adverse event was mild and transient somnolence during the placebo-controlled portion of the study.

Participants in the Kinect 1 Study were assessed utilizing the Barnes Akathisia Ratings Scale (BARS) for akathisia and the Simpson-Angus Scale (SAS) for parkinsonism. Both of these scales documented minimal symptoms at baseline and were measured as stable to improved during the twelve weeks of treatment. Subjects

were also assessed using various safety scales including the Positive and Negative Syndrome Scale (PANSS) for Schizophrenia, the Calgary Depression Scale for Schizophrenia and the Columbia-Suicide Severity Rating Scale (C-SSRS); all of these scores were measured as stable to improved from baseline. Clinical hematology, chemistry and ECG monitoring indicated no emergent safety signals. There were no apparent drug-drug interactions identified in subjects who were utilizing a range of psychotropic and other concomitant medications.

In November 2013, we convened a Scientific Advisory Board (SAB) to review the results of the Kinect 1 Study. The SAB was formed to specifically focus on the dose levels and the AIMS assessment tool. Based on the results of the Kinect 1 Study and the advice from the SAB, the protocol for the second Phase IIb study (Kinect 2 Study) was amended to change the primary endpoint from on-site AIMS assessments to a blinded central video assessment conducted by two movement disorder specialists who would review the AIMS videos in a scrambled fashion and concur on a final AIMS score for each video.

The Kinect 2 Study, was a randomized, parallel, double-blind, placebo-controlled, clinical trial utilizing the capsule formulation of NBI-98854 in moderate to severe TD patients with underlying mood disorders, schizophrenia and schizoaffective disorders, and gastrointestinal disorders. This study randomized 102 patients into a six-week placebo-controlled dosing period where half of the subjects received placebo and half received NBI-98854. The study began with all subjects on once daily 25mg of NBI-98854, or placebo. The treating physician was then permitted to escalate the dose at two-week intervals, at the end of week two and at the end of week four, to a maximum dose of once daily 75mg. The dose escalation was determined by the treating physician based on week two and week four on-site AIMS assessments coupled with safety and tolerability assessments at these same time points. By week six, approximately 70% of the ITT subjects, randomized to NBI-98854, were titrated to the 75 mg dose, approximately 20% were titrated to the 50mg dose and the remaining subjects received 25 mg of NBI-98854. The primary endpoint of the study was a comparison of placebo versus active scores utilizing the AIMS at the end of week six as assessed by scrambled blinded central video assessment conducted by two movement disorder specialists. The mean baseline AIMS score for the placebo group was 7.9 compared to 8.0 for the NBI-98854 group.

At week six, AIMS scores, as assessed by blinded central video raters, were reduced by 2.6 points in the NBI-98854 intention-to-treat (ITT) group (n=45) compared to a reduction of 0.2 points in the placebo arm (n=44) ( $p<0.001$ ). Additionally, the responder rate ( $\geq 50\%$  improvement from baseline) was 49% in the NBI-98854 ITT group compared to 18% in placebo ( $p=0.002$ ). In the per-protocol (PP) group (n=78) AIMS scores were reduced by 3.3 points for those subjects taking NBI-98854 ( $p<0.001$ ), with a corresponding responder rate of 59% ( $p<0.001$ ). The improvement in week six AIMS was also corroborated by on-site treating physicians utilizing the Clinical Global Impression–Tardive Dyskinesia (CGI-TD) scale scores. Treating clinicians determined that approximately 67% of the subjects taking NBI-98854 were “much improved” or “very much improved” at week six compared to only 16% of the placebo subjects ( $p<0.001$ ) in this pre-specified key secondary efficacy endpoint.

In the Kinect 2 Study NBI-98854 was generally safe and well tolerated. During the six-week treatment period the frequency of treatment-emergent adverse events was 33% for placebo and 43% for NBI-98854. There were no drug related serious adverse events. The most common treatment emergent adverse events were fatigue in five subjects (9.8%) randomized to NBI-98854 versus two subjects (4.1%) in the placebo group, and headache reported by four subjects (7.8%) on NBI-98854 versus two subjects (4.1%) on placebo. Discontinuation rates were similar in both the NBI-98854 and placebo treatment groups with five per study arm (none of which were study drug related).

Participants in the Kinect 2 Study were assessed utilizing the BARS for akathisia and the SAS for parkinsonism. Both of these scales documented minimal symptoms at baseline and there was no worsening during the six weeks of treatment. Clinical hematology, chemistry and ECG monitoring indicated no emergent safety signals. There were no drug-drug interactions identified in subjects who were utilizing a range of psychotropic and other concomitant medications.



Subsequent to completion of the Kinect 2 Study, in a post-hoc analysis, the Kinect 1 Study videos were evaluated by performing the same comparison of placebo versus active scores employed in the Kinect 2 Study. We engaged two movement disorder specialists, both of whom were not involved with the Kinect 1 Study, to assess the Kinect 1 Study baseline and week six videos utilizing AIMS in a randomized blinded central video assessment. These raters scored the mean baseline AIMS of 8.0 for the Kinect 1 Study. After six weeks of treatment, these raters scored the placebo group in the Kinect 1 Study with a mean reduction from baseline of 0.1 points while the NBI-98854 group was scored with a mean reduction from baseline of 1.3 points. Utilizing this analysis, NBI-98854 in the Kinect 1 Study showed a statistically significant change from baseline.

The data from the Kinect 1 and Kinect 2 studies, along with the other Phase I and Phase II clinical studies, preclinical work, and drug manufacturing data formed the basis for an end of Phase II meeting that was held with the FDA in June of 2014. During this meeting, the FDA reviewed the current data package and overall clinical development plan for NBI-98854 including the proposed Phase III development to support the registration of NBI-98854 in the United States as a treatment for tardive dyskinesia. Based on the results of this meeting and the related minutes, we are conducting a single placebo-controlled Phase III study of NBI-98854, the Kinect 3 Study.

The Kinect 3 Study was launched in the fourth quarter of 2014. The design of the Kinect 3 Study is a randomized, parallel-group, double-blind, placebo-controlled clinical trial utilizing the capsule formulation of NBI-98854 in moderate to severe TD subjects with an underlying diagnosis of mood disorder, schizophrenia or schizoaffective disorder. The primary endpoint in the Kinect 3 Study will be the mean change from baseline in the AIMS as assessed by blinded central raters. The Kinect 3 Study will include approximately 240 subjects randomized to either placebo, once daily 40mg of NBI-98854 or once daily 80mg of NBI-98854 for 6 weeks of placebo-controlled dosing followed by an extension of active dosing through Week 48. Top-line efficacy data from the Kinect 3 Study is expected in the second half of 2015.

In addition to the Kinect 3 Study, we are also conducting a separate one-year open-label safety study of NBI-98854 (the Kinect 4 Study) which we believe will be used to support the filing of a New Drug Application in TD that is expected in 2016.

In October 2014, the FDA granted us breakthrough therapy designation for NBI-98854, in TD. Breakthrough therapy designation is granted for a drug that is intended to treat a serious or life-threatening disease or condition and preliminary clinical evidence indicates that the drug may demonstrate substantial improvement on clinically significant endpoints over available therapies. This designation also allows intensive discussions with the FDA which are intended to expedite the development and review process of eligible drugs. The breakthrough therapy designation was granted, in part, based on the results of the Phase IIb Kinect studies of NBI-98854 in approximately 220 patients with TD.

*Tourette syndrome.* Tourette syndrome is a neurological disorder that consists of rapid, non-rhythmic stereotyped motor and vocal tics. Motor tics are typically characterized by facial grimacing, head jerks, extremity movements and other dystonic movements. Vocal tics typically include grunting, throat clearing, and repeating words and phrases. The average age of onset for Tourette syndrome is at approximately six years, with symptoms reaching their peak severity at approximately age ten. Tourette syndrome is more commonly diagnosed in males than females and may also be associated with attention deficit hyperactivity disorder and obsessive compulsive disorder. We believe there are approximately 400,000 people with Tourette syndrome in the United States.

We have completed juvenile rodent preclinical studies of NBI-98854 and based on the results of these preclinical studies, we have initiated the T-Force Study in children and adolescents with Tourette syndrome. The T-Force Study is an open-label, multiple ascending dose, pharmacokinetic and pharmacodynamic study to evaluate the safety, tolerability and exposure-response of NBI-98854 in children and adolescents with Tourette syndrome. A total of 36 patients will be evaluated over 14 days of once daily dosing followed by 7 days off-drug at approximately 10 study centers in the United States. The study is divided into two dosing groups consisting of children (ages 6-11) and adolescents (ages 12-18), and each age group is further divided into three dosing cohorts

of six patients each. After completing the initial two weeks of dosing with the first adolescent cohort, an independent review of both safety and pharmacokinetic results will occur prior to escalating the dose level for the second cohort of adolescents. In parallel, while initiating the second cohort of adolescents, the first cohort of children (ages 6-11) will also be administered NBI-98854 for a two-week period. Subsequent dose escalations for children and adolescents will be based, in part, on the pharmacokinetic and safety data from the previous cohort in each age group. Additionally, the patient's Tourette symptoms will be evaluated weekly via the Yale Global Tic Severity Scale, the Premonitory Urge for Tics Scale as well as an overall Clinical Global Impression in Tourette syndrome Scale. We expect data from this study in the second half of 2015.

### ***Corticotropin-Releasing Factor (CRF) Receptor<sub>1</sub> Antagonist (NBI-77860)***

CRF is a hypothalamic hormone released directly into the hypophyseal portal vasculature which acts on specific CRF<sub>1</sub> receptors on corticotropes in the anterior pituitary to stimulate the release of adrenocorticotropin (ACTH). The primary role of ACTH is the stimulation of the synthesis and release of adrenal steroids including cortisol. Cortisol from the adrenals, have a negative feedback role at the level of the hypothalamus that decreases CRF release as well as at the level of the pituitary to inhibit the release of ACTH. This tight control loop is known as the hypothalamic-pituitary-adrenal (HPA) axis. Blockade of CRF receptors at the pituitary has been shown to decrease the release of ACTH and subsequently attenuate the production and release of adrenal steroids.

Classic congenital adrenal hyperplasia (classic CAH) is a group of autosomal recessive genetic disorders that affects approximately 20,000-30,000 people in the United States and results in an enzyme deficiency altering the production of adrenal steroids. Because of this deficiency, the adrenal glands have little to no cortisol biosynthesis resulting in a potentially life-threatening condition. If left untreated, classic CAH can result in salt wasting, dehydration and eventually death. Even with cortisol replacement, persistent elevation of ACTH from the pituitary gland results in excessive androgen levels leading to virilization of females including precocious puberty, menstrual irregularity, short stature, hirsutism, acne and fertility problems.

Corticosteroids are the current standard of care for classic CAH and are used chronically to both correct the endogenous cortisol deficiency and reduce the excessive ACTH levels and androgen excess. However, the dose and duration of steroid use required to suppress ACTH is well above the normal physiological level of cortisol; resulting in metabolic syndrome, bone loss, growth impairment, and Cushing's syndrome as common and serious side effects.

NBI-77860 is a potent, selective, orally-active, non-peptide CRF receptor antagonist as demonstrated in a range of in vitro and in vivo assays. Blockade of CRF receptors at the pituitary has been shown to decrease the release of ACTH, which in turn decreases the production of adrenal steroids including androgens, and potentially the symptoms associated with classic CAH. Lower ACTH levels would also reduce the amount of exogenous corticosteroid necessary for classic CAH patients to thrive avoiding the side-effects currently associated with excessive steroid therapy.

In 2014, we conducted an initial pilot clinical trial of NBI-77860 in adult females with refractory classic CAH. The trial was a blinded, single-site, pharmacokinetic/pharmacodynamic study assessing two single, ascending doses of NBI-77860 against placebo. The eight study participants visited the investigative site for three separate overnight visits consisting of bedtime dosing with placebo or one of two active doses of NBI-77860. Each of the visits was separated by a three-week washout period. Key pharmacodynamic biomarker measurements included adrenocorticotropin hormone (ACTH), 17-hydroxyprogesterone (17-OHP), androgen, and cortisol levels collected in the morning after dosing. Data from this initial single dose exploratory study demonstrated a robust decrease in both ACTH and 17-OHP.

Based on the results of this initial pilot study, we initiated a second clinical study of NBI-77860 in classic CAH. The 1401 study is a Phase I/II open-label, sequential cohort, single ascending dose pharmacokinetic/pharmacodynamic study assessing three doses of NBI-77860. Fifteen adolescent females with classic CAH will

be split into three cohorts and each will receive one dose of NBI-77860 at bedtime. Biomarker measurements include ACTH, 17-OHP, androgens, and cortisol levels collected the day after dosing. We expect to have data from this study in the second half of 2015.

In early 2015, NBI-77860 was granted orphan drug designation for the treatment of congenital adrenal hyperplasia. Orphan drug designation is granted by the FDA Orphan Drug Designation program for medicines intended for the safe and effective treatment, diagnosis or prevention of rare diseases or disorders that affect fewer than 200,000 people in the United States and provides sponsors with development and commercial incentives for such designated compounds and medicines.

We have a strategic position in the CRF field through our intellectual property portfolio and relationship with experts in the endocrine and neuropsychiatric fields. We have patents covering both the receptor subtypes termed CRF<sub>1</sub> and CRF<sub>2</sub>, and we have pending patent applications on small molecule organic compounds modulating the CRF receptors.

*Other indications.* The National Institute on Alcohol Abuse and Alcoholism is currently enrolling subjects in a Phase II clinical trial evaluating NBI-77860 in stress-induced craving in alcoholic women with high anxiety. This randomized, double-blind, placebo-controlled trial is expected to enroll 60 patients for a four-week treatment period. This study is expected to take several years to complete.

## **Research Programs**

Our research and development focus is on addressing diseases and disorders of the central nervous and endocrine systems, which include therapeutic categories ranging from HPA disorders to stress-related disorders and neurodegenerative diseases. Central nervous system and endocrinology drug therapies are among the largest therapeutic categories, accounting for over \$140 billion in worldwide drug sales according to GlobalData (2013).

### ***VMAT2***

VMAT2 inhibition results in the modulation of dopamine pathways which may also be useful for patients suffering from schizophrenia. Approximately 2.2 million people in the United States suffer from schizophrenia at an estimated annual cost of \$62 billion. Our discovery efforts around VMAT2 inhibitors also focus on developing novel therapies for schizophrenia sufferers.

### ***Antiepileptic Drugs***

Antiepileptic drugs are utilized in the treatment of epileptic seizures by suppressing the rapid firing of neurons that initiate a seizure. Antiepileptics also have additional effects within the central nervous system that have proven beneficial in bipolar disease, neuropathic pain and essential tremor. According to Datamonitor, in 2014, worldwide sales of branded anticonvulsants approximate \$5 billion.

### ***G Protein-Coupled Receptors (GPCR)***

GPCRs are the largest known gene superfamily of the human genome. Greater than thirty percent of all marketed prescription drugs act on GPCRs; which makes this class of proteins historically the most successful therapeutic target family. However, only a small fraction of the GPCR gene superfamily has been exploited. Next generation therapies derived from targeting GPCRs will be discovered through the understanding of the complex relationships of drug/receptor interactions and their subsequent impact on efficacy, downstream signaling networks and regulation.

Our GPCR research platform has met this requirement by integrating drug discovery research efforts with a suite of assays and assay systems and automated analytical techniques. This process provides an unbiased profile of GPCR pharmacological receptor/ligand interactions coupled with in vivo efficacy using discrete animal

models allowing for rapid discovery of initial leads and advancement into preclinical and clinical development. Importantly, this design cycle is not limited to GPCR targets, but can be utilized for other proteins that play a role in human disease where current treatments or therapies are either inadequate or nonexistent.

## **Our Business Strategy**

Our goal is to become the leading biopharmaceutical company focused on neurological and endocrine-related diseases and disorders. The following are the key elements of our business strategy:

*Continuing to Advance and Build Our Product Portfolio Focused on Neurological and Endocrine-Related Diseases and Disorders.* We believe that by continuing to advance and extend our product pipeline, we can mitigate some of the clinical development risks associated with drug development. We currently have multiple programs in various stages of research and development. Our two lead late-stage clinical programs are elagolix, a GnRH antagonist in Phase III development for endometriosis and Phase II clinical studies of uterine fibroids that is partnered with AbbVie, and a wholly owned VMAT2 inhibitor for the treatment of movement disorders that is currently in Phase III development. We take a portfolio approach to managing our pipeline that balances the size of the market opportunities with clear and defined clinical and regulatory paths to approval. We do this to ensure that we focus our internal development resources on innovative therapies with improved probabilities of technical and commercial success.

*Maintaining Certain Commercial Rights to Our Product Portfolio to Evolve into a Fully-Integrated Pharmaceutical Company.* We intend to retain commercial rights to certain products that we can effectively and efficiently develop, secure regulatory approval and economically commercialize. These include products with a concentrated prescriber base and well-defined patient population that can be accessed with an efficient patient and prescriber outreach program.

*Selectively Establishing Corporate Collaborations with Global Pharmaceutical Companies to Assist in the Development of Our Products and Mitigate Financial Risk while Retaining Significant Commercial Upside.* We leverage the development, regulatory and commercialization expertise of our corporate collaborators to accelerate the development of certain of our potential products, while typically retaining co-promotional rights, and at times commercial rights, in North America. We intend to further leverage our resources by selectively entering into additional strategic alliances to enhance our internal development and commercialization capabilities by licensing our technology.

*Identifying Novel Drugs to Address Unmet Market Opportunities.* We seek to identify and validate novel drugs on characterized targets for internal development or collaboration. For example, GnRH antagonists, compounds designed to reduce the secretions of sex steroids, may represent the first novel non-peptide, non-injectable means of treatment of endometriosis. We believe the creativity and productivity of our discovery research group will continue to be a critical component for our continued success. Research and development costs were \$46.4 million, \$39.2 million and \$37.2 million for the years ended December 31, 2014, 2013 and 2012, respectively.

*Acquiring Rights to Complementary Drug Candidates and Technologies.* We plan to continue to selectively acquire rights to products in various stages of development to take advantage of our drug development capabilities.

## **Our Corporate Collaborations and Strategic Alliances**

One of our business strategies is to utilize strategic alliances to enhance our development and commercialization capabilities. The following is a summary of our significant collaborations/alliances:

*AbbVie Inc. (AbbVie).* In June 2010, we announced an exclusive worldwide collaboration with AbbVie to develop and commercialize elagolix and all next-generation GnRH antagonists (collectively, GnRH Compounds) for women's and men's health. AbbVie made an upfront payment of \$75 million and has agreed to make

additional development and regulatory event based payments of up to \$480 million and up to an additional \$50 million in commercial event based payments. Under the terms of the agreement, AbbVie is responsible for all development, marketing and commercialization costs. We received funding for certain internal collaboration expenses which included reimbursement from AbbVie for internal and external expenses related to the GnRH Compounds and personnel funding through the end of 2012. We will be entitled to a percentage of worldwide sales of GnRH Compounds for the longer of ten years or the life of the related patent rights. Under the terms of our agreement with AbbVie, the collaborative development effort between the parties to advance GnRH compounds towards commercialization was governed by a joint development committee with representatives from both us and AbbVie. The collaborative development portion of the agreement concluded, as scheduled, on December 31, 2012. AbbVie may terminate the collaboration at its discretion upon 180 days written notice to us. In such event, we would be entitled to specified payments for ongoing clinical development and related activities and all GnRH Compound product rights would revert to us. Since the inception of the agreement, we have recorded revenues of \$75.0 million related to the amortization of up-front license fees, \$30.0 million in milestone revenue, and \$37.0 million of sponsored development revenue.

*The Mount Sinai School of Medicine of the City University of New York (Mt. Sinai).* In August 1999, we entered into an agreement with Mt. Sinai pursuant to which we acquired a nonexclusive license to certain patents and patent applications related to GnRH, to develop and commercialize licensed products worldwide. Pursuant to the terms of the agreement, we have the right to grant sublicenses to third parties only with the prior written consent of Mt. Sinai. Upon entering into the agreement, we paid a \$50,000 upfront fee and are required to pay an additional \$10,000 annual license fee on each anniversary of the agreement. In addition, we are obligated to pay Mt. Sinai a royalty equal to 1% of net sales of licensed products. The agreement will remain in effect until the later of 15 years after the date of the first commercial sale of the first licensed product or the expiration of the last to expire of the licensed patents, unless terminated earlier at our election or for material breach by either party. Mt. Sinai also has the right to terminate the agreement if we become insolvent or bankrupt or have suspended our business operations. Pursuant to the terms of the agreement, in the event that Mt. Sinai grants a third party a license to the GnRH patents and patent applications on economic terms and conditions less favorable to Mt. Sinai than those in our agreement, we have the right to substitute the terms and conditions of the other third party license for those currently set forth in our agreement.

## **Intellectual Property**

We seek to protect our lead compounds, compound libraries, expressed proteins, synthetic organic processes, formulations, assays, cloned targets, screening technology and other technologies by filing, or by causing to be filed on our behalf, patent applications in the United States and abroad. Additionally, we have licensed from institutions the rights to issued United States patents, pending United States patent applications, and issued and pending foreign filings. We face the risk that one or more of the above patent applications may be denied. We also face the risk that issued patents that we own or license may be challenged or circumvented or may otherwise not provide protection for any commercially viable products we develop.

The technologies we use in our research, as well as the drug targets we select, may infringe the patents or violate the proprietary rights of third parties. If this occurs, we may be required to obtain licenses to patents or proprietary rights of others in order to continue with the commercialization of our products.

In addition to the granted and potential patent protection, the United States, the European Union and Japan all provide data and marketing exclusivity for new medicinal compounds. If this protection is available, no competitor may use the original applicant's data as the basis of a generic marketing application during the period of data and marketing exclusivity. This period of exclusivity is generally five years in the United States, six years in Japan and ten years in the European Union, measured from the date of FDA, or corresponding foreign, approval.

Elagolix, our small molecule GnRH antagonist currently in clinical trials for the treatment of endometriosis and uterine fibroids, is covered by six issued U.S. patents relating to composition of matter, pharmaceutical compositions, and methods of use. U.S. Patent Nos. 6,872,728, 7,179,815 and 7,462,625 are due to expire in



2021 (not including potential patent term extensions of up to five years) while U.S. Patent Nos. 7,056,927, 7,176,211 and 7,419,983 are due to expire in 2024 (not including potential patent term extensions of up to five years).

NBI-98854, our highly selective VMAT2 inhibitor, currently in clinical trials for the treatment of tardive dyskinesia, is covered by U.S. Patent No. 8,039,627 which expires in 2029 and U.S. Patent No. 8,357,697 which expires in 2027 (not including a potential patent term extension of up to five years). NBI-98854 is also covered by European Patent No. 2,081,929 which expires in 2027.

Our CRF antagonist NBI-77860 is currently in clinical trials for the treatment of classic congenital adrenal hyperplasia and stress-related disorders. NBI-77860 is covered by U.S. Patent No. 7,879,862 which expires in 2026 (not including potential patent term extensions of up to five years).

### **Manufacturing and Distribution**

We currently rely on, and expect to continue to rely on, contract manufacturers to produce sufficient quantities of our product candidates for use in our preclinical and clinical trials. In addition, we intend to rely on third parties to manufacture any products that we may commercialize in the future. We have established an internal pharmaceutical development group to develop manufacturing methods for our product candidates, to optimize manufacturing processes, and to select and transfer these manufacturing technologies to our suppliers. We contract with multiple manufacturers to ensure adequate product supply and to mitigate risk.

There currently are a limited number of these manufacturers. Furthermore, some of the contract manufacturers that we have identified to date only have limited experience at manufacturing, formulating, analyzing and packaging our product candidates in quantities sufficient for conducting clinical trials or for commercialization.

We currently have no distribution capabilities. In order to independently commercialize any of our product candidates, we must either internally develop distribution capabilities or make arrangements with third parties to perform these services.

### **Marketing and Sales**

We currently have limited experience in marketing or selling pharmaceutical products. To market any of our products independently would require us to develop a sales force with technical expertise along with establishing commercial infrastructure and capabilities.

### **Government Regulation**

Regulation by government authorities in the United States and foreign countries is a significant factor in the development, manufacture, distribution, marketing and sale of our proposed products and in our ongoing research and product development activities. All of our products will require regulatory approval by government agencies prior to commercialization. In particular, human therapeutic products are subject to rigorous preclinical studies and clinical trials and other approval procedures of the FDA and similar regulatory authorities in foreign countries. The process of obtaining these approvals and the subsequent compliance with appropriate federal and state statutes and regulations require the expenditure of substantial time and financial resources. In the United States, various federal and state statutes and regulation also govern or influence testing, manufacturing, safety, labeling, storage, and record-keeping of human therapeutic products and their marketing. Recent federal legislation imposes additional obligations on pharmaceutical manufacturers regarding product tracking and tracing. In addition, federal and state healthcare laws restrict business practices in the pharmaceutical industry. These laws include, without limitation, federal and state fraud and abuse laws, false claims laws, data privacy and security laws, as well as transparency laws regarding payments or other items of value provided to healthcare providers.



Preclinical studies generally are conducted in laboratory animals to evaluate the potential safety and efficacy of a product. Drug developers submit the results of preclinical studies to the FDA as a part of an IND application before clinical trials can begin in humans. Typically, clinical evaluation involves a time consuming and costly three-phase process.

- Phase I Clinical trials are conducted with a small number of subjects to determine the early safety profile, maximum tolerated dose and pharmacological properties of the product in human volunteers.
- Phase II Clinical trials are conducted with groups of patients afflicted with a specific disease in order to determine preliminary efficacy, optimal dosages and expanded evidence of safety.
- Phase III Large-scale, multi-center, comparative clinical trials are conducted with patients afflicted with a specific disease in order to determine safety and efficacy as primary support for regulatory approval by the FDA to market a product candidate for a specific disease.

The FDA closely monitors the progress of each of the three phases of clinical trials that are conducted in the United States and may, at its discretion, re-evaluate, alter, suspend or terminate the testing based upon the data accumulated to that point and the FDA's assessment of the risk/benefit ratio to the patient. To date, we have also conducted some of our clinical trials in Europe, Canada, Oceania and South Africa. Clinical trials conducted in foreign countries are also subject to oversight by regulatory authorities in those countries.

Once Phase III trials are completed, drug developers submit the results of preclinical studies and clinical trials to the FDA in the form of an New Drug Application (NDA) or a biologics licensing application for approval to commence commercial sales. The FDA may also convene an advisory committee to provide input on critical review issues associated with an NDA. The FDA is not bound by the recommendation of an advisory committee, but it considers such recommendations carefully when making decisions.

Before approving an NDA, the FDA typically will inspect the facility or facilities where the product is manufactured. The FDA will not approve an application unless it determines that the manufacturing processes and facilities are in compliance with current Good Manufacturing Practice requirements and that they are adequate to assure consistent production of the product within required specifications. Additionally, before approving an NDA, the FDA will typically inspect one or more clinical trial sites to assure compliance with Good Clinical Practices.

At the conclusion of its review, the FDA may grant marketing approval or may issue a complete response letter requesting additional information if the FDA determines that the application does not meet regulatory approval criteria. FDA approvals may not be granted on a timely basis, or at all. Furthermore, the FDA may not approve the product with the desired indications, which may impair commercialization of the product.

If the FDA approves the NDA, the drug becomes available for physicians to prescribe in the United States. After approval, the drug developer must submit periodic reports to the FDA, including descriptions of any adverse reactions reported. The FDA may request post-approval clinical studies, known as Phase IV studies, in order to evaluate long-term or other effects of the drug. The FDA may also require a Risk Evaluation and Mitigation Strategy (REMS) safety management plan upon approval.

We will also have to complete an approval process similar to that in the United States in virtually every foreign target market for our products in order to commercialize our product candidates in those countries. The approval procedure and the time required for approval vary from country to country and may involve additional testing. Foreign approvals may not be granted on a timely basis, or at all. In addition, regulatory approval of prices is required in most countries other than the United States. The resulting prices may not be sufficient to generate an acceptable return to us or our corporate collaborators.

## **Competition**

The biotechnology and pharmaceutical industries are subject to rapid and intense technological change. We face, and will continue to face, competition in the development and marketing of our product candidates from

biotechnology and pharmaceutical companies, research institutions, government agencies and academic institutions. Competition may also arise from, among other things:

- other drug development technologies;
- methods of preventing or reducing the incidence of disease, including vaccines; and
- new small molecule or other classes of therapeutic agents.

Developments by others may render our product candidates or technologies obsolete or noncompetitive. We are performing research on or developing products for the treatment of several disorders including endometriosis, tardive dyskinesia, uterine fibroids, Tourette syndrome, classic congenital adrenal hyperplasia, stress-related disorders, pain, and other neurological and endocrine-related diseases and disorders.

Lupron Depot<sup>®</sup>, marketed by AbbVie, and Synarel<sup>®</sup> and depo-subQ provera104<sup>®</sup>, marketed by Pfizer, are products that have been approved for the treatment of endometriosis, infertility, and central precocious puberty. These drugs, and any generic alternatives, may compete with any small molecule non-peptide GnRH antagonists we, in conjunction with our collaborative partner AbbVie, develop for these indications. Approximately 130,000 hysterectomies are performed annually in the United States as a direct result of endometriosis, as well as a significant number of laparoscopic procedures to ablate endometrial explants. Our oral small molecule pharmaceutical agent, elagolix, would also compete directly with these current invasive standards of care.

We, in conjunction with our collaborative partner AbbVie, are developing elagolix for the treatment of uterine fibroids. There are no current pharmaceutical therapies approved in the United States for the chronic treatment of uterine fibroids. Lupron Depot<sup>®</sup> is approved for short-term use to improve the outcome of uterine fibroid surgery. However, approximately 250,000 hysterectomies are performed annually in the United States as a direct result of uterine fibroids, as well as myomectomies (surgery) to remove the fibroids. Our oral small molecule pharmaceutical agent, elagolix, would compete directly with these current invasive standards of care.

Our VMAT2 inhibitor, NBI-98854, is currently in clinical trials for the treatment of movement disorders, specifically TD. At present there are no approved drug therapies for TD; however, off-label treatment regimens consist of utilizing various atypical antipsychotic medications (e.g., clozapine), benzodiazepines (off-label) or botulinum toxin injections to treat the movements associated with TD. Other potential indications for our VMAT2 inhibitor are Tourette syndrome, Huntington's disease, schizophrenia and tardive dystonia. Currently, Xenazine<sup>®</sup>, marketed by Lundbeck, is approved for the chorea associated with Huntington's disease. Generic neuroleptic medications (pimozide and haloperidol) are generally utilized to control the tics associated with Tourette syndrome. Additionally, Auspex Pharmaceuticals, Inc. has recently initiated clinical trials for their VMAT2 inhibitor SD-809 for the treatment of TD and Tourette syndrome and is in Phase III development for Huntington's disease with the same compound.

Our CRF antagonist NBI-77860 is being studied in classic CAH, for which there are limited therapies. High doses of corticosteroids are the current standard of care to both correct the endogenous cortisol deficiency as well as reduce the excessive ACTH levels. However, the level of dose as well as the duration of steroid use required to suppress ACTH is well above the normal physiological level of cortisol; resulting in metabolic syndrome, bone loss, growth impairment, and Cushing's syndrome as common and serious side effects.

If one or more of these competitive products or programs are successful, it may reduce or eliminate the market for our products.

Compared to us, many of our competitors and potential competitors have substantially greater:

- capital resources;
- research and development resources, including personnel and technology;
- regulatory experience;

- preclinical study and clinical testing experience;
- manufacturing and marketing experience; and
- production facilities.

Any of these competitive factors could harm our business, prospects, financial condition and results of operations, which could negatively affect our stock price.

### **Employees**

As of December 31, 2014, we had approximately 94 full-time employees, of which 24 hold Ph.D., M.D. or equivalent degrees, and 18 others hold an M.S., M.B.A., or equivalent degrees. Of these full-time employees, 73 were engaged in, or directly support, research and development activities, and 21 were in general and administrative positions. None of our employees are represented by a collective bargaining arrangement, and we believe our relationship with our employees is good. In addition, we rely on a number of consultants to assist us in formulating our research and development strategies.

### **Insurance**

We maintain product liability insurance for our clinical trials. We intend to expand our insurance coverage to include the sale of commercial products if marketing approval is obtained for products in development. However, insurance coverage is becoming increasingly expensive, and we may not be able to maintain insurance coverage at a reasonable cost or in sufficient amounts to protect us against losses due to liability. In addition, we may not be able to obtain commercially reasonable product liability insurance for any products approved for marketing.

### **Available Information**

Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to reports filed pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended, are available free of charge on our website at [www.neurocrine.com](http://www.neurocrine.com), as soon as reasonably practicable after such reports are available on the Securities and Exchange Commission website at [www.sec.gov](http://www.sec.gov).

Additionally, copies of our Annual Report will be made available, free of charge, upon written request.

## ITEM 1A. RISK FACTORS

The following information sets forth risk factors that could cause our actual results to differ materially from those contained in forward-looking statements we have made in this Annual Report on Form 10-K and those we may make from time to time. If any of the following risks actually occur, our business, operating results, prospects or financial condition could be harmed. Additional risks not presently known to us, or that we currently deem immaterial, may also affect our business operations.

### Risks Related to Our Company

*Our clinical trials may fail to demonstrate the safety and efficacy of our product candidates, which could prevent or significantly delay their regulatory approval.*

Before obtaining regulatory approval for the sale of any of our potential products, we must subject these product candidates to extensive preclinical and clinical testing to demonstrate their safety and efficacy for humans. Clinical trials are expensive, time-consuming and may take years to complete.

In connection with the clinical trials of our product candidates, we face the risks that:

- the U.S. Food and Drug Administration (FDA) or similar foreign regulatory authority may not approve an Investigational New Drug (IND) Application or foreign equivalent filings required to initiate human clinical studies for our drug candidates or the FDA may require additional preclinical or clinical studies as a condition of the initiation of Phase I clinical studies, progression from Phase I to Phase II, or Phase II to Phase III, or for New Drug Application (NDA) approval;
- the product candidate may not prove to be effective or as effective as other competing product candidates;
- we may discover that a product candidate may cause harmful side effects or results of required toxicology studies may not be acceptable to the FDA;
- the results may not replicate the results of earlier, smaller trials;
- the FDA or similar foreign regulatory authorities may require use of new or experimental endpoints that may prove insensitive to treatment effects;
- we or the FDA or similar foreign regulatory authorities may suspend the trials;
- the results may not be statistically significant;
- patient recruitment may be slower than expected;
- patients may drop out of the trials; and
- regulatory requirements may change.

These risks and uncertainties impact all of our clinical programs. Specifically, with respect to our gonadotropin-releasing hormone (GnRH) program with AbbVie Inc. (AbbVie), any of the clinical, regulatory or operational events described above could delay timelines for the completion of the Phase III endometriosis program or the Phase II uterine fibroids program, require suspension of these programs and/or obviate filings for regulatory approvals. Similarly, our VMAT2 inhibitor program will be impacted if any of the events above lead to delayed timelines for the enrollment in, or completion of, the Phase III tardive dyskinesia or the Phase I Tourette syndrome clinical trials of NBI-98854.

In addition, late stage clinical trials are often conducted with patients having the most advanced stages of disease. During the course of treatment, these patients can die or suffer other adverse medical effects for reasons that may not be related to the pharmaceutical agent being tested but which can nevertheless adversely affect clinical trial results. Any failure or substantial delay in completing clinical trials for our product candidates may severely harm our business.

***We depend on AbbVie to develop and commercialize elagolix, and may need to enter into future collaborations to develop and commercialize other product candidates.***

Our strategy for fully developing and commercializing elagolix is dependent upon maintaining our current collaboration agreement with AbbVie. This collaboration agreement provides for significant future payments should certain development, regulatory and commercial milestones be achieved, and royalties on future sales of elagolix. Under this agreement, AbbVie is responsible for, among other things, conducting clinical trials and obtaining required regulatory approvals for elagolix; as well as manufacturing and commercialization of elagolix in the event it receives regulatory approval.

Because of our reliance on AbbVie, the development and commercialization of elagolix could be substantially delayed, and our ability to receive future funding could be substantially impaired, if AbbVie:

- failed to gain the requisite regulatory approval of elagolix;
- did not successfully launch and commercialize elagolix;
- did not conduct its collaborative activities in a timely manner;
- did not devote sufficient time and resources to our partnered program;
- terminated its agreement with us;
- developed, either alone or with others, products that may compete with elagolix;
- disputed our respective allocations of rights to any products or technology developed during our collaboration; or
- merged with a third party that wants to terminate our agreement.

In addition, we may need to enter into other collaborations to assist in the development and commercialization of other product candidates we are developing now or may develop in the future. These collaborations would be subject to risks and uncertainties similar to those described above.

These issues and possible disagreements with AbbVie or any future corporate collaborators could lead to delays in the collaborative research, development or commercialization of our product candidates. Furthermore, disagreements with these parties could require or result in litigation or arbitration, which would be time-consuming and expensive. If any of these issues arise, it may delay the development and commercialization of drug candidates and, ultimately, our generation of product revenues.

***Because the development of our product candidates is subject to a substantial degree of technological uncertainty, we may not succeed in developing any of our product candidates.***

All of our product candidates are currently in research or clinical development. Only a small number of research and development programs ultimately result in commercially successful drugs. Potential products that appear to be promising at early stages of development may not reach the market for a number of reasons. These reasons include the possibilities that the potential products may:

- be found ineffective or cause harmful side effects during preclinical studies or clinical trials;
- fail to receive necessary regulatory approvals on a timely basis or at all;
- be precluded from commercialization by proprietary rights of third parties;
- be difficult to manufacture on a large scale; or
- be uneconomical to commercialize or fail to achieve market acceptance.

If any of our products encounters any of these potential problems, we may never successfully market that product.

***We do not and will not have access to all information regarding the product candidates we licensed to AbbVie.***

We do not and will not have access to all information regarding the products being developed and potentially commercialized by AbbVie, including potentially material information about clinical trial design and execution, safety reports from clinical trials, spontaneous safety reports if a product candidate is later approved and marketed, regulatory affairs, process development, manufacturing, marketing and other areas known by AbbVie. In addition, we have confidentiality obligations under our agreement with AbbVie. Thus, our ability to keep our shareholders informed about the status of product candidates under our collaboration with AbbVie will be limited by the degree to which AbbVie keeps us informed and allows us to disclose such information to the public. If AbbVie fails to keep us informed about the clinical development and regulatory approval of our collaboration and product candidates licensed to it, we may make operational and investment decisions that we would not have made had we been fully informed, which may materially and adversely affect our business and operations.

***If we cannot raise additional funding, we may be unable to complete development of our product candidates.***

We may require additional funding to continue our research and product development programs, to conduct preclinical studies and clinical trials, for operating expenses and to pursue regulatory approvals for product candidates, for the costs involved in filing and prosecuting patent applications and enforcing or defending patent claims, if any, product in-licensing and any possible acquisitions, and we may require additional funding to establish manufacturing and marketing capabilities in the future. We believe that our existing capital resources, together with investment income, and future payments due under our strategic alliances, will be sufficient to satisfy our current and projected funding requirements for at least the next 12 months. However, these resources might be insufficient to conduct research and development programs to the full extent currently planned. If we cannot obtain adequate funds, we may be required to curtail significantly one or more of our research and development programs or obtain funds through additional arrangements with corporate collaborators or others that may require us to relinquish rights to some of our technologies or product candidates.

Our future capital requirements will depend on many factors, including:

- continued scientific progress in our research and development programs;
- the magnitude and complexity of our research and development programs;
- progress with preclinical testing and clinical trials;
- the time and costs involved in obtaining regulatory approvals;
- the costs involved in filing and pursuing patent applications, enforcing patent claims, or engaging in interference proceedings or other patent litigation;
- competing technological and market developments;
- the establishment of additional strategic alliances;
- the cost of commercialization activities and arrangements, including manufacturing of our product candidates; and
- the cost of product in-licensing and any possible acquisitions.

We intend to seek additional funding through strategic alliances, and may seek additional funding through public or private sales of our securities, including equity securities. For example, we have an effective shelf registration statement on file with the Securities and Exchange Commission (SEC) which, for so long as we continue to satisfy the requirements to be deemed a well-known seasoned issuer, allows us to issue an unlimited number of shares of our common stock from time to time. We also have an effective shelf registration statement on file with the SEC which allows us to issue shares of our common stock from time to time for an aggregate initial offering price of up to \$150 million. In the event that we fail to satisfy the requirements to be deemed a well-known seasoned issuer, we would be limited to using this shelf registration statement which may be used for



the issuance of shares of our common stock for an aggregate initial offering price of up to only \$150 million. In addition, we have previously financed capital purchases and may continue to pursue opportunities to obtain additional debt financing in the future. Additional equity or debt financing might not be available on reasonable terms, if at all. Any additional equity financings will be dilutive to our stockholders and any additional debt financings may involve operating covenants that restrict our business.

***We have a history of losses and expect to incur negative operating cash flows for the foreseeable future, and we may never achieve sustained profitability.***

Since our inception, we have incurred significant net losses and negative cash flow from operations. As a result of historical operating losses, we had an accumulated deficit of \$826.3 million as of December 31, 2014. We do not expect to be profitable, or generate positive cash flows from operations, for the year ending December 31, 2015.

We have not yet obtained regulatory approvals of any products and, consequently, have not generated revenues from the sale of products. Even if we succeed in developing and commercializing one or more of our drugs, we may not be profitable. We also expect to continue to incur significant operating and capital expenditures as we:

- seek regulatory approvals for our product candidates;
- develop, formulate, manufacture and commercialize our product candidates;
- in-license or acquire new product development opportunities;
- implement additional internal systems and infrastructure; and
- hire additional clinical, scientific and marketing personnel.

We expect to experience negative cash flow in the coming years as we fund our operations, in-licensing or acquisition opportunities, and capital expenditures. We will need to generate significant revenues to achieve and maintain profitability and positive cash flow on an annual basis. We may not be able to generate these revenues, and we may never achieve profitability on an annual basis in the future. Our failure to achieve or maintain profitability on an annual basis could negatively impact the market price of our common stock. Even if we become profitable on an annual basis, we cannot assure you that we would be able to sustain or increase profitability on an annual basis.

***The price of our common stock is volatile.***

The market prices for securities of biotechnology and pharmaceutical companies historically have been highly volatile, and the market has from time to time experienced significant price and volume fluctuations that are unrelated to the operating performance of particular companies. Over the course of the last 12 months, the price of our common stock has ranged from approximately \$12.00 per share to approximately \$35.00 per share. The market price of our common stock may fluctuate in response to many factors, including:

- the results of our clinical trials;
- developments concerning new and existing collaboration agreements;
- announcements of technological innovations or new therapeutic products by us or others;
- general economic and market conditions;
- developments in patent or other proprietary rights;
- developments related to the FDA;
- future sales of our common stock by us or our stockholders;

- comments by securities analysts;
- fluctuations in our operating results;
- government regulation;
- health care reimbursement;
- failure of any of our product candidates, if approved, to achieve commercial success; and
- public concern as to the safety of our drugs.

***Because our operating results may vary significantly in future periods, our stock price may decline.***

Our quarterly revenues, expenses and operating results have fluctuated in the past and are likely to fluctuate significantly in the future. Our revenues are unpredictable and may fluctuate, among other reasons, due to our achievement of product development objectives and milestones, clinical trial enrollment and expenses, research and development expenses and the timing and nature of contract manufacturing and contract research payments. A high portion of our costs are predetermined on an annual basis, due in part to our significant research and development costs. Thus, small declines in revenue could disproportionately affect operating results in a quarter. Because of these factors, our operating results in one or more future quarters may fail to meet the expectations of securities analysts or investors, which could cause our stock price to decline.

***We license some of our core technologies and drug candidates from third parties. If we default on any of our obligations under those licenses, we could lose our rights to those technologies and drug candidates.***

We are dependent on licenses from third parties for some of our key technologies. These licenses typically subject us to various commercialization, reporting and other obligations. If we fail to comply with these obligations, we could lose important rights. For example, we license some of the core technologies used in our research and development activities and collaborations from third parties, including the GnRH receptor which we license from The Mount Sinai School of Medicine of the City University of New York for use in the elagolix program. If we were to default on our obligations under any of our licenses, we could lose some or all of our rights to develop, market and sell products covered by these licenses. Likewise, if we were to lose our rights under a license to use proprietary research tools, it could adversely affect our existing collaborations or adversely affect our ability to form new collaborations. We also face the risk that our licensors could, for a number of reasons, lose patent protection or lose their rights to the technologies we have licensed, thereby impairing or extinguishing our rights under our licenses with them.

***We have limited marketing experience, and no sales force or distribution capabilities, and if our products are approved, we may not be able to commercialize them successfully.***

Although we do not currently have any marketable products, our ability to produce revenues ultimately depends on our ability to sell our products if and when they are approved by the FDA. We currently have limited experience in marketing and selling pharmaceutical products. If we fail to establish successful marketing and sales capabilities or fail to enter into successful marketing arrangements with third parties, our product revenues will suffer.

***The independent clinical investigators and contract research organizations that we rely upon to conduct our clinical trials may not be diligent, careful or timely, and may make mistakes, in the conduct of our trials.***

We depend on independent clinical investigators and contract research organizations (CROs) to conduct our clinical trials under their agreements with us. The investigators are not our employees, and we cannot control the amount or timing of resources that they devote to our programs. If independent investigators fail to devote sufficient time and resources to our drug development programs, or if their performance is substandard, or not in compliance with Good Clinical Practices, it may delay or prevent the approval of our FDA applications and our

introduction of new drugs. The CROs we contract with for execution of our clinical trials play a significant role in the conduct of the trials and the subsequent collection and analysis of data. Failure of the CROs to meet their obligations could adversely affect clinical development of our products. Moreover, these independent investigators and CROs may also have relationships with other commercial entities, some of which may compete with us. If independent investigators and CROs assist our competitors at our expense, it could harm our competitive position.

***We have no manufacturing capabilities. If third-party manufacturers of our product candidates fail to devote sufficient time and resources to our concerns, or if their performance is substandard, our clinical trials and product introductions may be delayed and our costs may rise.***

We have in the past utilized, and intend to continue to utilize, third-party manufacturers to produce the drug compounds we use in our clinical trials and for the potential commercialization of our future products. We have no experience in manufacturing products for commercial purposes and do not currently have any manufacturing facilities. Consequently, we depend on, and will continue to depend on, several contract manufacturers for all production of products for development and commercial purposes. If we are unable to obtain or retain third-party manufacturers, we will not be able to develop or commercialize our products. The manufacture of our products for clinical trials and commercial purposes is subject to specific FDA regulations, including current Good Manufacturing Practice regulations. Our third-party manufacturers might not comply with FDA regulations relating to manufacturing our products for clinical trials and commercial purposes or other regulatory requirements now or in the future. Our reliance on contract manufacturers also exposes us to the following risks:

- contract manufacturers may encounter difficulties in achieving volume production, quality control and quality assurance, and also may experience shortages in qualified personnel. As a result, our contract manufacturers might not be able to meet our clinical schedules or adequately manufacture our products in commercial quantities when required;
- switching manufacturers may be difficult because the number of potential manufacturers is limited. It may be difficult or impossible for us to find a replacement manufacturer quickly on acceptable terms, or at all;
- our contract manufacturers may not perform as agreed or may not remain in the contract manufacturing business for the time required to successfully produce, store or distribute our products; and
- drug manufacturers are subject to ongoing periodic unannounced inspection by the FDA, the U.S. Drug Enforcement Administration, and other agencies to ensure strict compliance with good manufacturing practices and other government regulations and corresponding foreign standards. We do not have control over third-party manufacturers' compliance with these regulations and standards.

Our current dependence upon third parties for the manufacture of our products may harm our profit margin, if any, on the sale of our future products and our ability to develop and deliver products on a timely and competitive basis.

***If we are unable to retain and recruit qualified scientists or if any of our key senior executives discontinues his or her employment with us, it may delay our development efforts.***

We are highly dependent on the principal members of our management and scientific staff. The loss of any of these people could impede the achievement of our objectives. Furthermore, recruiting and retaining qualified scientific personnel to perform research and development work in the future is critical to our success. We may be unable to attract and retain personnel on acceptable terms given the competition among biotechnology, pharmaceutical and health care companies, universities and non-profit research institutions for experienced scientists. In addition, we rely on a significant number of consultants to assist us in formulating our research and development strategy. Our consultants may have commitments to, or advisory or consulting agreements with, other entities that may limit their availability to us.

***We may be subject to claims that we or our employees have wrongfully used or disclosed alleged trade secrets of their former employers.***

As is commonplace in the biotechnology industry, we employ individuals who were previously employed at other biotechnology or pharmaceutical companies, including our competitors or potential competitors. Although no claims against us are currently pending, we may be subject to claims that these employees or we have inadvertently or otherwise used or disclosed trade secrets or other proprietary information of their former employers. Litigation may be necessary to defend against these claims. Even if we are successful in defending against these claims, litigation could result in substantial costs and be a distraction to management.

***Governmental and third-party payors may impose sales and pharmaceutical pricing controls on our products or limit coverage or reimbursement for our products that could limit our product revenues and delay sustained profitability.***

The continuing efforts of government and third-party payors to contain or reduce the costs of health care through various means may reduce our potential revenues. These payors' efforts could decrease the price that we receive for any products we may develop and sell in the future. In addition, third-party insurance coverage and adequate reimbursement levels may not be available to patients for any products we develop. Coverage and reimbursement levels may impact the demand for, or the price of, any product candidate for which we obtain marketing approval. If government and third-party payors do not provide adequate coverage and reimbursement levels for our products, or if price controls are enacted, our product revenues will suffer.

***If physicians and patients do not accept our products, we may not recover our investment.***

The commercial success of our products, if they are approved for marketing, will depend upon the acceptance of our products as safe and effective by the medical community and patients.

The market acceptance of our products could be affected by a number of factors, including:

- the timing of receipt of marketing approvals;
- the safety and efficacy of the products;
- the success of existing products addressing our target markets or the emergence of equivalent or superior products; and
- the cost-effectiveness of the products.

In addition, market acceptance depends on the effectiveness of our marketing strategy, and, to date, we have very limited sales and marketing experience or capabilities. If the medical community and patients do not ultimately accept our products as being safe, effective, superior and/or cost-effective, we may not recover our investment.

***Compliance with changing regulation of corporate governance and public disclosure may result in additional expenses.***

Changing laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002, the Dodd-Frank Wall Street Reform and Consumer Protection Act, new SEC regulations and NASDAQ rules, are creating uncertainty for companies such as ours. These laws, regulations and standards are subject to varying interpretations in some cases due to their lack of specificity, and as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies, which could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. We are committed to maintaining high standards of

corporate governance and public disclosure. As a result, our efforts to comply with evolving laws, regulations and standards have resulted in, and are likely to continue to result in, increased general and administrative expenses and management time related to compliance activities. If we fail to comply with these laws, regulations and standards, our reputation may be harmed and we might be subject to sanctions or investigation by regulatory authorities, such as the SEC. Any such action could adversely affect our financial results and the market price of our common stock.

## **Risks Related to Our Industry**

### ***We may not receive regulatory approvals for our product candidates or approvals may be delayed.***

Regulation by government authorities in the United States and foreign countries is a significant factor in the development, manufacture and marketing of our proposed products and in our ongoing research and product development activities. Any failure to receive the regulatory approvals necessary to commercialize our product candidates would harm our business. The process of obtaining these approvals and the subsequent compliance with federal and state statutes and regulations require spending substantial time and financial resources. If we fail or our collaborators or licensees fail to obtain or maintain, or encounter delays in obtaining or maintaining, regulatory approvals, it could adversely affect the marketing of any products we develop, our ability to receive product or royalty revenues, our recovery of prepaid royalties, and our liquidity and capital resources. All of our products are in research and development, and we have not yet received regulatory approval to commercialize any product from the FDA or any other regulatory body. In addition, we have limited experience in filing and pursuing applications necessary to gain regulatory approvals, which may impede our ability to obtain such approvals.

In particular, human therapeutic products are subject to rigorous preclinical testing and clinical trials and other approval procedures of the FDA and similar regulatory authorities in foreign countries. The FDA regulates, among other things, the development, testing, manufacture, safety, efficacy, record keeping, labeling, storage, approval, advertising, promotion, sale and distribution of biopharmaceutical products. Securing FDA approval requires the submission of extensive preclinical and clinical data and supporting information to the FDA for each indication to establish the product candidate's safety and efficacy. The approval process may take many years to complete and may involve ongoing requirements for post-marketing studies. Any FDA or other regulatory approval of our product candidates, once obtained, may be withdrawn. If our potential products are marketed abroad, they will also be subject to extensive ongoing regulation by foreign governments.

### ***Health care reform measures and other recent legislative initiatives could adversely affect our business.***

The business and financial condition of pharmaceutical and biotechnology companies are affected by the efforts of governmental and third-party payers to contain or reduce the costs of health care. In the United States, comprehensive health care reform legislation was enacted by the Federal government and we expect that there will continue to be a number of federal and state proposals to implement government control over the pricing of prescription pharmaceuticals. In addition, increasing emphasis on reducing the cost of health care in the United States will continue to put pressure on the rate of adoption and pricing of prescription pharmaceuticals. Moreover, in some foreign jurisdictions, pricing of prescription pharmaceuticals is already subject to government control. Additionally, other recent federal legislation imposes new obligations on manufacturers of pharmaceutical products, among others, related to product tracking and tracing. Among the requirements of this new legislation, manufacturers are required to provide certain information regarding the drug product to individuals and entities to which product ownership is transferred, label drug product with a product identifier, and keep certain records regarding distribution of the drug product. Further, under this new legislation, manufacturers will have drug product investigation, quarantine, disposition, notification and purchaser license verification responsibilities related to counterfeit, diverted, stolen, and intentionally adulterated products, as well as products that are the subject of fraudulent transactions or which are otherwise unfit for distribution such that they would be reasonably likely to result in serious health consequences or death.

We are currently unable to predict what additional legislation or regulation, if any, relating to the health care industry may be enacted in the future or what effect recently enacted Federal legislation or any such additional legislation or regulation would have on our business. The pendency or approval of such proposals or reforms could result in a decrease in our stock price or limit our ability to raise capital or to enter into collaboration agreements for the further development and commercialization of our programs and products.

***We face intense competition, and if we are unable to compete effectively, the demand for our products, if any, may be reduced.***

The biotechnology and pharmaceutical industries are subject to rapid and intense technological change. We face, and will continue to face, competition in the development and marketing of our product candidates from academic institutions, government agencies, research institutions and biotechnology and pharmaceutical companies.

Competition may also arise from, among other things:

- other drug development technologies;
- methods of preventing or reducing the incidence of disease, including vaccines; and
- new small molecule or other classes of therapeutic agents.

Developments by others may render our product candidates or technologies obsolete or noncompetitive.

We are performing research on or developing products for the treatment of several disorders including endometriosis, tardive dyskinesia, uterine fibroids, Tourette syndrome, classic congenital adrenal hyperplasia, stress-related disorders, pain, and other neurological and endocrine-related diseases and disorders, and there are a number of competitors to products in our research pipeline. If one or more of our competitors' products or programs are successful, the market for our products may be reduced or eliminated.

Compared to us, many of our competitors and potential competitors have substantially greater:

- capital resources;
- research and development resources, including personnel and technology;
- regulatory experience;
- preclinical study and clinical testing experience;
- manufacturing and marketing experience; and
- production facilities.

***If we are unable to protect our intellectual property, our competitors could develop and market products based on our discoveries, which may reduce demand for our products.***

Our success will depend on our ability to, among other things:

- obtain patent protection for our products;
- preserve our trade secrets;
- prevent third parties from infringing upon our proprietary rights; and
- operate without infringing upon the proprietary rights of others, both in the United States and internationally.



Because of the substantial length of time and expense associated with bringing new products through the development and regulatory approval processes in order to reach the marketplace, the pharmaceutical industry places considerable importance on obtaining patent and trade secret protection for new technologies, products and processes. Accordingly, we intend to seek patent protection for our proprietary technology and compounds. However, we face the risk that we may not obtain any of these patents and that the breadth of claims we obtain, if any, may not provide adequate protection of our proprietary technology or compounds.

We also rely upon unpatented trade secrets and improvements, unpatented know-how and continuing technological innovation to develop and maintain our competitive position, which we seek to protect, in part, through confidentiality agreements with our commercial collaborators, employees and consultants. We also have invention or patent assignment agreements with our employees and some, but not all, of our commercial collaborators and consultants. However, if our employees, commercial collaborators or consultants breach these agreements, we may not have adequate remedies for any such breach, and our trade secrets may otherwise become known or independently discovered by our competitors.

In addition, although we own a number of patents, the issuance of a patent is not conclusive as to its validity or enforceability, and third parties may challenge the validity or enforceability of our patents. We cannot assure you how much protection, if any, will be given to our patents if we attempt to enforce them and they are challenged in court or in other proceedings. It is possible that a competitor may successfully challenge our patents or that challenges will result in limitations of their coverage. Moreover, competitors may infringe our patents or successfully avoid them through design innovation. To prevent infringement or unauthorized use, we may need to file infringement claims, which are expensive and time-consuming. In addition, in an infringement proceeding a court may decide that a patent of ours is not valid or is unenforceable, or may refuse to stop the other party from using the technology at issue on the grounds that our patents do not cover its technology. Interference proceedings declared by the United States Patent and Trademark Office may be necessary to determine the priority of inventions with respect to our patent applications or those of our licensors. Litigation or interference proceedings may fail and, even if successful, may result in substantial costs and be a distraction to management. We cannot assure you that we will be able to prevent misappropriation of our proprietary rights, particularly in countries where the laws may not protect such rights as fully as in the United States.

***The technologies we use in our research as well as the drug targets we select may infringe the patents or violate the proprietary rights of third parties.***

We cannot assure you that third parties will not assert patent or other intellectual property infringement claims against us or our collaborators with respect to technologies used in potential products. If a patent infringement suit were brought against us or our collaborators, we or our collaborators could be forced to stop or delay developing, manufacturing or selling potential products that are claimed to infringe a third party's intellectual property unless that party grants us or our collaborators rights to use its intellectual property. In such cases, we could be required to obtain licenses to patents or proprietary rights of others in order to continue to commercialize our products. However, we may not be able to obtain any licenses required under any patents or proprietary rights of third parties on acceptable terms, or at all. Even if our collaborators or we were able to obtain rights to the third party's intellectual property, these rights may be non-exclusive, thereby giving our competitors access to the same intellectual property. Ultimately, we may be unable to commercialize some of our potential products or may have to cease some of our business operations as a result of patent infringement claims, which could severely harm our business.

***Our employees, independent contractors, principal investigators, consultants, commercial partners and vendors may engage in misconduct or other improper activities, including non-compliance with regulatory standards and requirements.***

We are exposed to the risk of employee fraud or other misconduct. Misconduct by employees and independent contractors, such as principal investigators, consultants, commercial partners and vendors, could include failures to comply with FDA regulations, to provide accurate information to the FDA, to comply with

manufacturing standards we have established, to comply with federal and state healthcare fraud and abuse laws, to report financial information or data accurately or to disclose unauthorized activities to us. In particular, sales, marketing and other business arrangements in the healthcare industry are subject to extensive laws intended to prevent fraud, kickbacks, self-dealing and other abusive practices. Employee and independent contractor misconduct could also involve the improper use of individually identifiable information, including, without limitation, information obtained in the course of clinical trials, which could result in regulatory sanctions and serious harm to our reputation.

***Any relationships with healthcare professionals, principal investigators, consultants, customers (actual and potential) and third-party payors in connection with our current and future business activities are and will continue to be subject, directly or indirectly, to federal and state healthcare laws. If we are unable to comply, or have not fully complied, with such laws, we could face penalties, contractual damages, reputational harm, diminished profits and future earnings and curtailment or restructuring of our operations.***

Our business operations and activities may be directly, or indirectly, subject to various federal and state healthcare laws, including without limitation, fraud and abuse laws, false claims laws, data privacy and security laws, as well as transparency laws regarding payments or other items of value provided to healthcare providers. These laws may restrict or prohibit a wide range of business activities, including, but not limited to, research, manufacturing, distribution, pricing, discounting, marketing and promotion, sales commission, customer incentive programs and other business arrangements. These laws may impact, among other things, our current activities with principal investigators and research subjects, as well as proposed and future sales, marketing and education programs.

Efforts to ensure that our business arrangements will comply with applicable healthcare laws may involve substantial costs. It is possible that governmental and enforcement authorities will conclude that our business practices may not comply with current or future statutes, regulations or case law interpreting applicable fraud and abuse or other healthcare laws. If our operations or activities are found to be in violation of any of the laws described above or any other governmental regulations that apply to us, we may be subject to, without limitation, civil, criminal and administrative penalties, damages, monetary fines, disgorgement, possible exclusion from participation in Medicare, Medicaid and other federal healthcare programs, contractual damages, reputational harm, diminished profits and future earnings and curtailment or restructuring of our operations, any of which could adversely affect our ability to operate.

In addition, any sales of our product candidates once commercialized outside the United States will also likely subject us to foreign equivalents of the healthcare laws mentioned above, among other foreign laws.

***We face potential product liability exposure far in excess of our limited insurance coverage.***

The use of any of our potential products in clinical trials, and the sale of any approved products, may expose us to liability claims. These claims might be made directly by consumers, health care providers, pharmaceutical companies or others selling our products. We have obtained limited product liability insurance coverage for our clinical trials in the amount of \$10 million per occurrence and \$10 million in the aggregate. However, our insurance may not reimburse us or may not be sufficient to reimburse us for any expenses or losses we may suffer. Moreover, insurance coverage is becoming increasingly expensive, and we may not be able to maintain insurance coverage at a reasonable cost or in sufficient amounts to protect us against losses due to liability. We intend to expand our insurance coverage to include the sale of commercial products if we obtain marketing approval for product candidates in development, but we may be unable to obtain commercially reasonable product liability insurance for any products approved for marketing. On occasion, juries have awarded large judgments in class action lawsuits based on drugs that had unanticipated side effects. A successful product liability claim or series of claims brought against us would decrease our cash reserves and could cause our stock price to fall.

***Our activities involve hazardous materials, and we may be liable for any resulting contamination or injuries.***

Our research activities involve the controlled use of hazardous materials. We cannot eliminate the risk of accidental contamination or injury from these materials. If an accident occurs, a court may hold us liable for any resulting damages, which may harm our results of operations and cause us to use a substantial portion of our cash reserves, which would force us to seek additional financing.

***Security breaches and other disruptions could compromise our information and expose us to liability, which would cause our business and reputation to suffer.***

In the ordinary course of our business, we collect and store confidential and sensitive information on our networks and in our data centers. This information includes, among other things, our intellectual property and proprietary information, the confidential information of our collaborators and licensees, and the personally identifiable information of our employees. It is important to our operations and business strategy that this information remains secure and is perceived to be secure. Despite security measures, however, our information technology and network infrastructure may be vulnerable to attacks by hackers or breached due to employee error, malfeasance, or other disruptions. Any such attack or breach could compromise our networks and data centers and the information stored there could be accessed, publicly disclosed, lost, or stolen. Any such access, disclosure, or other loss of information could result in legal claims or proceedings, liability under laws that protect the privacy of personal information, delays and impediments to our discovery and development efforts, and damage to our reputation.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2. PROPERTIES**

We lease our corporate headquarters which consists of approximately 140,000 square feet of laboratory and office space located at 12780 El Camino Real in San Diego, California. The lease expires in December 2019; however we have options to extend the term of the lease for up to two consecutive ten year periods.

We believe that our property and equipment are generally well maintained and in good operating condition.

**ITEM 3. LEGAL PROCEEDINGS**

We are not currently a party to any material legal proceedings.

**ITEM 4. MINE SAFETY DISCLOSURES**

None.

## PART II

### ITEM 5. *MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES*

Our common stock is traded on the NASDAQ Global Select Market under the symbol "NBIX." The following table sets forth for the periods indicated the high and low sale price for our common stock. These prices do not include retail markups, markdowns or commissions.

	<u>High</u>	<u>Low</u>
<b>Year Ended December 31, 2014</b>		
1st Quarter .....	\$20.29	\$ 9.19
2nd Quarter .....	16.47	12.17
3rd Quarter .....	17.00	12.63
4th Quarter .....	24.86	15.20
<b>Year Ended December 31, 2013</b>		
1st Quarter .....	\$12.44	\$ 7.56
2nd Quarter .....	14.06	10.87
3rd Quarter .....	16.74	10.42
4th Quarter .....	11.88	8.57

As of January 30, 2015, there were approximately 62 stockholders of record of our common stock. We have not paid any cash dividends on our common stock since inception and do not anticipate paying cash dividends in the foreseeable future.

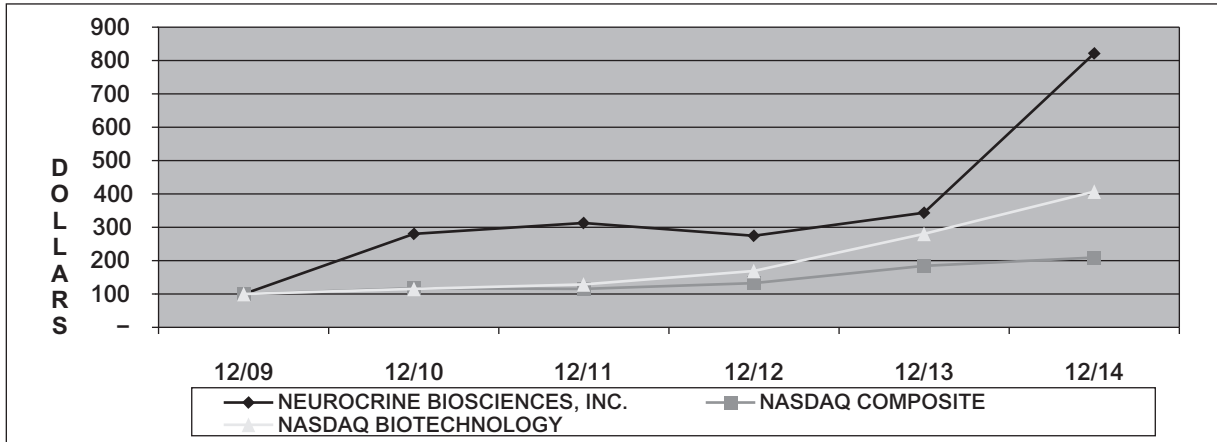
Information about our equity compensation plans is incorporated herein by reference to Item 12 of Part III of this Annual Report on Form 10-K.

#### **Recent Sales of Unregistered Securities**

There were no unregistered sales of equity securities during fiscal 2014.

### Stock Performance Graph and Cumulative Total Return\*

The graph below shows the cumulative total stockholder return assuming the investment of \$100 on December 31, 2009 (and the reinvestment of dividends thereafter) in each of (i) Neurocrine Biosciences, Inc.'s common stock, (ii) the NASDAQ Composite Index and (iii) the NASDAQ Biotechnology Index. The comparisons in the graph below are based upon historical data and are not indicative of, or intended to forecast, future performance of our common stock or Indexes.



\* *The material in this section is not “soliciting material”, is not deemed “filed” with the SEC and is not to be incorporated by reference into any of our SEC filings whether made before or after the date hereof and irrespective of any general incorporation language in any such SEC filing except to the extent we specifically incorporate this section by reference.*



## ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data have been derived from our audited financial statements. The information set forth below is not necessarily indicative of our results of future operations and should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the financial statements and notes thereto appearing elsewhere in this Annual Report on Form 10-K.

	2014	2013	2012	2011	2010
	(In thousands, except for net (loss) income per share data)				
<b>STATEMENT OF COMPREHENSIVE (LOSS) INCOME DATA</b>					
Revenues:					
Sponsored research and development . . . . .	\$ —	\$ —	\$ 18,897	\$ 10,462	\$ 10,938
Milestones and license fees . . . . .	—	2,919	34,243	66,951	22,563
Total revenues . . . . .	—	2,919	53,140	77,413	33,501
Operating expenses:					
Research and development . . . . .	46,425	39,248	37,163	30,951	31,151
General and administrative . . . . .	17,986	13,349	13,437	12,458	13,273
Cease-use expense . . . . .	—	—	1,092	82	2,799
Total operating expenses . . . . .	64,411	52,597	51,692	43,491	47,223
(Loss) income from operations . . . . .	(64,411)	(49,678)	1,448	33,922	(13,722)
Other income:					
Gain on sale/disposal of assets . . . . .	3,222	3,170	3,074	3,195	3,161
Other income, net . . . . .	647	418	503	454	2,593
Total other income, net . . . . .	3,869	3,588	3,577	3,649	5,754
Net (loss) income . . . . .	\$ (60,542)	\$ (46,090)	\$ 5,025	\$ 37,571	\$ (7,968)
Net (loss) income per common share:					
Basic . . . . .	\$ (0.81)	\$ (0.69)	\$ 0.08	\$ 0.68	\$ (0.15)
Diluted . . . . .	\$ (0.81)	\$ (0.69)	\$ 0.08	\$ 0.67	\$ (0.15)
Shares used in calculation of net (loss) income per common share:					
Basic . . . . .	74,577	66,989	65,619	55,176	52,820
Diluted . . . . .	74,577	66,989	66,946	56,347	52,820
<b>BALANCE SHEET DATA</b>					
Cash, cash equivalents and investments . . . . .	\$ 231,301	\$ 145,739	\$ 173,493	\$ 129,103	\$ 130,604
Working capital . . . . .	182,539	136,763	173,618	85,366	80,274
Total assets . . . . .	243,033	154,676	195,979	138,368	144,424
Long-term debt . . . . .	—	—	—	—	—
Accumulated deficit . . . . .	(826,305)	(765,763)	(719,673)	(724,698)	(762,269)
Total stockholders’ equity . . . . .	208,699	120,410	154,372	60,081	19,345

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

*The following Management's Discussion and Analysis of Financial Condition and Results of Operations section contains forward-looking statements pertaining to, among other things, the expected continuation of our collaborative agreements, the receipt of research and development payments thereunder, the future achievement of various milestones in product development and the receipt of payments related thereto, the potential receipt of royalty payments, preclinical testing and clinical trials of potential products, the period of time that our existing capital resources will meet our funding requirements, and our financial results of operations. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various risks and uncertainties, including those set forth in this Annual Report on Form 10-K under the heading "Item 1A. Risk Factors." See "Forward-Looking Statements" in Part I of this Annual Report on Form 10-K.*

### **Overview**

We discover and develop innovative and life-changing pharmaceuticals, in diseases with high unmet medical needs, through our novel R&D platform, focused on neurological and endocrine based diseases and disorders. Utilizing a portfolio approach to drug discovery, we have multiple small molecule drug candidates at various stages of pharmaceutical development. We develop proprietary pharmaceuticals for our pipeline, as well as collaborate with other pharmaceutical companies on our discoveries.

To date, we have not generated any revenues from the sale of products. We have funded our operations primarily through private and public offerings of our common stock and payments received under research and development collaboration agreements. While we independently develop many of our product candidates, we have entered into collaborations for several of our programs, and intend to rely on existing and future collaborators to meet funding requirements. We expect to generate future operating cash flow losses as product candidates are advanced through the various stages of clinical development. As of December 31, 2014, we had an accumulated deficit of \$826.3 million and expect to incur operating cash flow losses for the foreseeable future, which may be greater than losses in prior years.

Our two lead late-stage clinical programs are elagolix, a gonadotropin-releasing hormone (GnRH) antagonist in Phase III development for endometriosis and Phase II clinical studies of uterine fibroids that is partnered with AbbVie Inc. (AbbVie), and a wholly owned vesicular monoamine transporter 2 (VMAT2) inhibitor for the treatment of movement disorders, currently in Phase III development. Additionally, in 2014 we advanced a third drug candidate into clinical development, our corticotropin releasing factor (CRF) receptor antagonist for the treatment of classic congenital adrenal hyperplasia (CAH). We intend to maintain certain commercial rights to our VMAT2 inhibitor and CRF antagonist programs to evolve into a fully-integrated pharmaceutical company.

### **Critical Accounting Policies**

Our discussion and analysis of our financial condition and results of operations is based upon financial statements that we have prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities and expenses, and related disclosures. On an on-going basis, we evaluate these estimates, including those related to clinical trial accruals (research and development expense) and share-based compensation. Estimates are based on historical experience, information received from third parties and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Historically, revisions to our estimates have not resulted in a material change to the financial statements. The items in our financial statements requiring significant estimates and judgments are as follows:

#### ***Research and Development Expense***

Research and development (R&D) expenses consists primarily of salaries, payroll taxes, employee benefits, and share-based compensation charges, for those individuals involved in ongoing research and development

efforts; as well as scientific contractor fees, preclinical and clinical trial costs, research and development facilities costs, laboratory supply costs, and depreciation of scientific equipment. All such costs are charged to R&D expense as incurred. These expenses result from our independent R&D efforts as well as efforts associated with collaborations and in-licensing arrangements. In addition, we fund R&D and clinical trials at other companies and research institutions under agreements, which are generally cancelable. We review and accrue clinical trials expense based on work performed, which relies on estimates of total costs incurred based on patient enrollment, completion of studies and other events. We follow this method since reasonably dependable estimates of the costs applicable to various stages of a research agreement or clinical trial can be made. Accrued clinical costs are subject to revisions as trials progress. Revisions are charged to expense in the period in which the facts that give rise to the revision become known. Historically, revisions have not resulted in material changes to R&D expense; however a modification in the protocol of a clinical trial or cancellation of a trial could result in a charge to our results of operations.

### ***Share-Based Compensation***

We grant stock options to purchase our common stock to our employees and directors under our 2011 Equity Incentive Plan (the 2011 Plan) and grant stock options to certain employees pursuant to Employment Commencement Nonstatutory Stock Option Agreements (inducement grants). We also grant certain employees stock bonuses and restricted stock units under the 2011 Plan. Additionally, we have outstanding options that were granted under previous option plans from which we no longer make grants. Share-based compensation expense related to these equity instruments for the years ended December 31, 2014, 2013 and 2012 was \$10.4 million, \$6.8 million and \$5.5 million, respectively.

Stock option awards and restricted stock units (RSUs) generally vest over a three to four year period and expense is ratably recognized over those same time periods. For RSUs with performance-based vesting requirements (PRSUs), no expense is recorded until the performance condition is probable of being achieved.

For purposes of calculating share-based compensation, we estimate the fair value of share-based compensation awards using a Black-Scholes option-pricing model. The determination of the fair value of share-based compensation awards utilizing the Black-Scholes model is affected by our stock price and a number of assumptions, including but not limited to expected stock price volatility over the term of the awards and the expected term of stock options. Our stock options have characteristics significantly different from those of traded options, and changes in the assumptions can materially affect the fair value estimates. For example, an increase in the underlying stock price results in a significant increase in the Black-Scholes option-pricing, which includes estimates such as expected term, expected volatility and interest rates.

If factors change and we employ different assumptions, share-based compensation expense may differ significantly from what we have recorded in the past. If there is a difference between the assumptions used in determining share-based compensation expense and the actual factors which become known over time, specifically with respect to anticipated forfeitures, we may change the input factors used in determining share-based compensation expense for future grants. These changes, if any, may materially impact our results of operations in the period such changes are made. If actual forfeitures vary from our estimates, we will recognize the difference in compensation expense in the period the actual forfeitures occur or at the time of vesting.

## Results of Operations for Years Ended December 31, 2014, 2013 and 2012

### Revenue

The following table summarizes our primary sources of revenue during the periods presented:

	Year Ended December 31,		
	2014	2013	2012
	(In millions)		
Revenues under collaboration agreements:			
AbbVie .....	\$—	\$—	\$46.9
GlaxoSmithKline (GSK) .....	—	—	0.1
Dainippon Sumitomo Pharma Co. Ltd. (DSP) .....	—	2.9	2.9
Boehringer Ingelheim .....	—	—	3.2
Total revenues .....	<u>\$—</u>	<u>\$2.9</u>	<u>\$53.1</u>

The decrease in revenue from the year ended December 31, 2012 to the year ended December 31, 2013 was primarily due to the completion of the collaborative development portion of the AbbVie collaboration agreement, which concluded as scheduled on December 31, 2012, and the completion of the collaborative research portion of the agreement with Boehringer Ingelheim, which was completed as planned in June 2012.

During each of the years ended December 31, 2013 and 2012, we recognized \$2.9 million in revenue under our collaboration agreement with DSP from the amortization of up-front licensing fees. The up-front licensing fee was fully amortized as of December 31, 2013.

### Operating Expenses

#### Research and Development

Our R&D expenditures include costs related to preclinical and clinical trials, scientific personnel, equipment, consultants, sponsored research, share-based compensation and allocated facility costs. We do not track fully burdened research and development costs separately for each of our drug candidates. We review our research and development expenses by focusing on four categories: external development, personnel, facility and depreciation, and other. External development expenses consist of costs associated with our external preclinical and clinical trials, including pharmaceutical development and manufacturing. Personnel expenses include salaries and wages, share-based compensation, payroll taxes and benefits for those individuals involved in ongoing research and development efforts. Other research and development expenses mainly represent lab supply expenses, scientific consulting expenses and other expenses.

The following table presents our total R&D expenses by category during the periods presented:

	Years Ended December 31,		
	2014	2013	2012
	(In millions)		
External development expense:			
elagolix .....	\$ —	\$ —	\$ 2.2
VMAT2 .....	9.0	12.3	7.9
CRF .....	2.8	—	—
Other .....	2.6	1.5	1.5
Total external development expense .....	14.4	13.8	11.6
R&D personnel expense .....	20.2	15.4	14.5
R&D facility and depreciation expense .....	5.8	5.4	5.9
Other R&D expense .....	6.0	4.6	5.2
Total research and development expense .....	<u>\$46.4</u>	<u>\$39.2</u>	<u>\$37.2</u>

R&D expense increased from \$39.2 million in 2013 to \$46.4 million in 2014. This increase was primarily due to higher personnel related expenses coupled with higher early discovery and preclinical costs. The \$4.8 million increase in personnel related expenses was attributable to increased R&D headcount and performance-based compensation. Additionally, \$1.9 million of the increase in R&D personnel expense was due to higher share-based compensation expense. Other R&D expense increased by \$1.4 million primarily due to higher laboratory related costs and external scientific consulting and testing expenses. Preclinical and manufacturing efforts related to early stage programs resulted in a \$1.1 million increase in other external development expenses from 2013 to 2014. The CRF program for congenital adrenal hyperplasia was initiated in 2014, and resulted in \$2.8 million of expense for the year. These increases in R&D external development expense were offset by lower VMAT2 external development expenses which decreased by \$3.3 million due to this program substantially completing its Phase IIb development during 2013 and the initiation of Phase III studies later in 2014.

R&D expense increased from \$37.2 million in 2012 to \$39.2 million in 2013. The increase in R&D expenses from 2012 to 2013 was primarily due to higher external development expenses related to our VMAT2 program as it continued in Phase IIb development and a \$0.6 million increase in share-based compensation expense. These increases were offset by a \$0.9 million decrease in scientific consultants utilized to advise on multiple programs, and lower elagolix related costs as the full responsibility for that program transitioned to AbbVie in 2013.

The funding necessary to bring a drug candidate to market is subject to numerous uncertainties, which may adversely affect our liquidity and capital resources. Once a drug candidate is identified, the further development of that drug candidate can be halted or abandoned at any time due to a number of factors. These factors include, but are not limited to, funding constraints, safety or a change in market demand.

The nature and efforts required to develop our drug candidates into commercially viable products include research to identify a clinical candidate, preclinical development, clinical testing, FDA approval and commercialization. For each drug candidate that successfully completes all stages of research and development, and is commercialized, total research and development spending in the pharmaceutical industry may exceed \$1 billion. Additionally, the stages of research and development can take in excess of ten years to complete for each drug candidate.

For each of our drug candidate programs, we periodically assess the scientific progress and merits of the programs to determine if continued research and development is economically viable. Certain of our programs have been terminated due to the lack of scientific progress and lack of prospects for ultimate commercialization. Because of the uncertainties associated with research and development of these programs, we may not be successful in achieving commercialization. As such, the ultimate timeline and costs to commercialize a product cannot be accurately estimated. Additionally, due to the uncertainty inherent in drug development, research and development costs are subject to considerable variation.

We expect research and development expenses to increase in 2015 as compared to 2014. We have recently initiated VMAT2 Phase III development as well as announced a new clinical program investigating our CRF antagonist NBI-77860 in congenital adrenal hyperplasia. The development efforts around these programs, coupled with higher share-based compensation expense due to increased Black-Scholes estimates and the anticipated vesting of certain performance-based restricted stock units, will result in a significant increase in research and development expenses in 2015.

#### *General and Administrative*

General and administrative expenses were \$18.0 million in 2014 compared to \$13.3 million in 2013 and \$13.4 million in 2012. The \$4.7 million increase in expenses from 2013 to 2014 resulted primarily from a \$3.5 million increase in personnel related costs, of which \$1.7 million was related to higher share-based compensation costs. Higher market research and professional fees accounted for \$0.6 million of the increase in general and administrative expenses from 2013 to 2014.

We expect our general and administrative expenses in 2015 to increase from 2014 expense levels due to increasing pre-commercialization activities related to our VMAT2 inhibitor for tardive dyskinesia, as well as higher share-based compensation expense primarily driven by higher Black-Scholes estimates and the anticipated vesting of certain performance-based restricted stock units.

#### *Cease-use Expense*

During 2012, we recognized \$1.1 million in net cease-use expense related to our corporate headquarters, as a result of entering certain sublease agreements.

#### ***Net (Loss) Income***

Our net loss for 2014 was \$60.5 million, or \$0.81 net loss per common share, net loss for 2013 was \$46.1 million, or \$0.69 net loss per common share, and net income for 2012 was \$5.0 million, or \$0.08 net income per fully diluted share.

The increase in our net loss from 2013 to 2014 was a result of the above mentioned higher expenses coupled with a \$2.9 million decrease in revenue.

The change to a net loss in 2013 from a net income position in 2012 was primarily the result of revenue recognized under multiple collaboration agreements. During 2012, we recorded an aggregate of \$50.1 million in revenue under our AbbVie and Boehringer Ingelheim collaboration agreements, the final year of the collaborative portion of these agreements.

We expect to have a net loss in 2015, primarily due to higher R&D expenses resulting from the progress of our VMAT2 inhibitor into Phase III and the addition of the congenital adrenal hyperplasia clinical program. Additionally, preparation for commercialization of NBI-98854 for tardive dyskinesia will lead to an increase in general and administrative expenses. We also expect an increase in share-based compensation expense due to higher Black-Scholes valuations related to 2015 equity grants and the anticipated vesting of certain performance-based restricted stock units in 2015.

#### **Liquidity and Capital Resources**

At December 31, 2014, our cash, cash equivalents, and investments totaled \$231.3 million compared with \$145.7 million at December 31, 2013.

Net cash used in operating activities during 2014 was \$47.1 million compared to \$29.6 million in 2013. The \$17.5 million change is primarily due to the increase in net loss coupled with a decrease in receivables of approximately \$14.1 million from 2012 receivables that were collected during the first quarter of 2013.

Net cash used in operating activities during 2013 was \$29.6 million compared to \$35.3 million in 2012. The \$5.7 million change is primarily related to \$14.1 million in accounts receivable at December 31, 2012 which was received during 2013, offset by higher R&D expenses in 2013 primarily due to expanded efforts on our VMAT2 program.

Net cash used in investing activities was \$105.4 million in 2014 compared to net cash provided by investing activities of \$5.3 million in 2013 and net cash used in investing activities of \$34.8 million 2012. The fluctuation in net cash used in investing activities resulted primarily from the timing differences in investment purchases, sales and maturities, and the fluctuation of our portfolio mix between cash equivalents and short-term investment holdings. The average term to maturity in our investment portfolio is less than one year.



Net cash provided by financing activities during 2014 was \$138.7 million compared to \$5.3 million and \$83.7 million in 2013 and 2012, respectively. Cash provided by financing activities included approximately \$133.2 million and \$83.0 million from our public offering of common stock in February 2014 and January 2012, respectively. During 2014, 2013 and 2012 stock option exercises yielded \$5.6 million, \$5.3 million and \$0.7 million, respectively, in cash proceeds. We had no outstanding debt at December 31, 2014.

*Equity Financing.* In February 2014, we completed a public offering of common stock in which we sold 8.0 million shares of our common stock at an offering price of \$17.75 per share. The shares were sold pursuant to a shelf registration statement with the Securities and Exchange Commission (SEC). The net proceeds generated from this transaction, after underwriting discounts and commissions and offering costs, were approximately \$133.2 million.

In January 2012, we completed a public offering of common stock in which we sold 10.9 million shares our common stock at an offering price of \$8.10 per share. The shares were sold pursuant to a shelf registration statement previously on file with the SEC. The net proceeds generated from this transaction, after underwriting discounts and commissions and offering costs, were approximately \$83.0 million.

*Shelf Registration Statements.* In February 2014, we filed an automatic shelf registration statement which immediately became effective by rule of the SEC. For so long as we continue to satisfy the requirements to be deemed a well-known seasoned issuer, this shelf registration statement allows us to issue an unlimited number of shares of our common stock from time to time. As of December 31, 2014, we had sold 8.0 million shares under this shelf registration statement.

In December 2012, the SEC declared effective a shelf registration statement filed by us in November 2012. The shelf registration statement allows us to issue shares of our common stock from time to time for an aggregate initial offering price of up to \$150 million. As of December 31, 2014, we had not sold any shares under this shelf registration statement.

### **Factors That May Affect Future Financial Condition and Liquidity**

We anticipate increases in expenditures as we continue to expand our research and development activities. Because of our limited financial resources, our strategies to develop some of our programs include collaborative agreements with major pharmaceutical companies and sales of our common stock in both public and private offerings. Our collaborative agreements typically include a partial recovery of our research costs through license fees, contract research funding and milestone revenues. Our collaborators are also financially and managerially responsible for clinical development and commercialization. In these cases, the estimated completion date would largely be under the control of the collaborator. We cannot forecast, with any degree of certainty, which other proprietary products or indications, if any, will be subject to future collaborative arrangements, in whole or in part, and how such arrangements would affect our capital requirements.

Our inlicensed, research and clinical development agreements are generally cancelable with written notice within 180 days or less. In addition to the minimum payments due under inlicense and research agreements, we may be required to pay up to approximately \$17 million in milestone payments, plus sales royalties, in the event that all scientific research under these agreements is successful.

From time to time, we may be subject to legal proceedings and claims in the ordinary course of business. We are not aware of any such proceedings or claims that we believe will have, individually or in the aggregate, a material adverse effect on our business, financial condition or results of operations.

We lease our office and research laboratories under an operating lease with an initial term that expires at the end of 2019. Additionally, our facility lease agreement calls for us to maintain \$50 million in cash and investments at all times, or to increase our security deposit by \$5 million.

As of December 31, 2014, the total estimated future annual minimum lease payments under our non-cancelable operating lease obligations are as follows (*in thousands*):

	<u>Payment Amount</u>
Year ending:	
2015 .....	\$ 7,385
2016 .....	7,606
2017 .....	7,834
2018 .....	8,070
2019 .....	8,311
Thereafter .....	<u>—</u>
Total future minimum lease payments .....	<u>\$39,206</u>

The funding necessary to execute our business strategies is subject to numerous uncertainties, which may adversely affect our liquidity and capital resources. Completion of clinical trials may take several years or more, but the length of time generally varies substantially according to the type, complexity, novelty and intended use of a product candidate. It is also important to note that if a clinical candidate is identified, the further development of that candidate can be halted or abandoned at any time due to a number of factors. These factors include, but are not limited to, funding constraints, safety or a change in market demand.

An important element of our business strategy is to pursue the research and development of a diverse range of product candidates for a variety of disease indications. We pursue this goal through proprietary research and development as well as searching for new technologies for licensing opportunities. This allows us to diversify against risks associated with our research and development spending. To the extent we are unable to maintain a diverse and broad range of product candidates, our dependence on the success of one or a few product candidates would increase.

The nature and efforts required to develop our product candidates into commercially viable products include research to identify a clinical candidate, preclinical development, clinical testing, FDA approval and commercialization. For each drug candidate that successfully completes all stages of research and development, and is commercialized, total research and development spending in the pharmaceutical industry may exceed \$1 billion. Additionally, the stages of research and development can take in excess of ten years to complete for each drug candidate.

We test our potential product candidates in numerous preclinical studies to identify disease indications for which our product candidates may show efficacy. We may conduct multiple clinical trials to cover a variety of indications for each product candidate. As we obtain results from trials, we may elect to discontinue clinical trials for certain product candidates or for certain indications in order to focus our resources on more promising product candidates or indications. The duration and the cost of clinical trials may vary significantly over the life of a project as a result of differences arising during the clinical trial protocol, including, among others, the following:

- we or the FDA or similar foreign regulatory authorities may suspend the trials;
- we may discover that a product candidate may cause harmful side effects;
- patient recruitment may be slower than expected; and
- patients may drop out of the trials.

For each of our programs, we periodically assess the scientific progress and merits of the programs to determine if continued research and development is economically viable. Certain of our programs have been

terminated due to the lack of scientific progress and lack of prospects for ultimate commercialization. Because of the uncertainties associated with research and development of these programs, we may not be successful in achieving commercialization. As such, the ultimate timeline and costs to commercialize a product cannot be accurately estimated.

Our product candidates have not yet achieved FDA regulatory approval, which is required before we can market them as therapeutic products in the United States. In order to proceed to subsequent clinical trial stages and to ultimately achieve regulatory approval, the FDA must conclude that our clinical data establish safety and efficacy. We must satisfy the requirements of similar regulatory authorities in foreign countries in order to market products in those countries. The results from preclinical testing and early clinical trials may not be predictive of results in later clinical trials. It is possible for a candidate to show promising results in clinical trials, but subsequently fail to establish sufficient safety and efficacy data necessary to obtain regulatory approvals.

As a result of the uncertainties discussed above, among others, the duration and completion costs of our research and development projects are difficult to estimate and are subject to considerable variation. Our inability to complete our research and development projects in a timely manner or our failure to enter into collaborative agreements, when appropriate, could significantly increase our capital requirements and could adversely impact our liquidity. These uncertainties could force us to seek additional, external sources of financing from time to time in order to continue with our business strategy. Our inability to raise additional capital, or to do so on terms reasonably acceptable to us, would jeopardize the future success of our business.

We also may be required to make further substantial expenditures if unforeseen difficulties arise in other areas of our business. In particular, our future capital requirements will depend on many factors, including:

- continued scientific progress in our research and development programs;
- the magnitude of our research and development programs;
- progress with preclinical testing and clinical trials;
- the time and costs involved in obtaining regulatory approvals;
- the costs involved in filing and pursuing patent applications and enforcing patent claims;
- competing technological and market developments;
- the establishment of additional collaborations and strategic alliances;
- the cost of manufacturing facilities and of commercialization activities and arrangements; and
- the cost of product in-licensing and any possible acquisitions.

We believe that our existing capital resources, together with investment income and future payments due under our strategic alliances, will be sufficient to satisfy our current and projected funding requirements for at least the next 12 months. However, we cannot guarantee that our existing capital resources and anticipated revenues will be sufficient to conduct and complete all of our research and development programs as planned.

We will require additional funding to continue our research and product development programs, to conduct preclinical studies and clinical trials, for operating expenses, to pursue regulatory approvals for our product candidates, for the costs involved in filing and prosecuting patent applications and enforcing or defending patent claims, if any, for the cost of product in-licensing and for any possible acquisitions, and we may require additional funding to establish manufacturing and marketing capabilities in the future. We may seek to access the public or private equity markets whenever conditions are favorable. For example, we have an effective shelf registration statement on file with the SEC which allows us to issue an unlimited number of shares of our common stock from time to time. We may also seek additional funding through strategic alliances or other financing mechanisms. We cannot assure you that adequate funding will be available on terms acceptable to us, if at all. Any additional equity financings will be dilutive to our stockholders and any additional debt may

involve operating covenants that may restrict our business. If adequate funds are not available through these means, we may be required to curtail significantly one or more of our research or development programs or obtain funds through arrangements with collaborators or others. This may require us to relinquish rights to certain of our technologies or product candidates. To the extent that we are unable to obtain third-party funding for such expenses, we expect that increased expenses will result in increased cash flow losses from operations. We cannot assure you that we will successfully develop our products under development or that our products, if successfully developed, will generate revenues sufficient to enable us to earn a profit.

### **Interest Rate Risk**

We are exposed to interest rate risk on our short-term investments. The primary objective of our investment activities is to preserve principal while at the same time maximizing yields without significantly increasing risk. To achieve this objective, we invest in highly liquid and high quality government and other debt securities. To minimize our exposure due to adverse shifts in interest rates, we invest in short-term securities and ensure that the maximum average maturity of our investments does not exceed 12 months. If a 10% change in interest rates were to have occurred on December 31, 2014, this change would not have had a material effect on the fair value of our investment portfolio as of that date. Due to the short holding period of our investments, we have concluded that we do not have a material financial market risk exposure.

### **New Accounting Pronouncements**

In July 2013, the Financial Accounting Standards Board (FASB) issued guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The guidance is effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2013, with an option for early adoption. The adoption of this guidance did not have a material impact on our consolidated financial statements.

In May 2014, the FASB amended the existing accounting standards for revenue recognition. The amendments are based on the principle that revenue should be recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for said goods or services. We are required to adopt the amendments beginning in 2017. Early adoption is not permitted. The amendments may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial application. We are currently evaluating the impact that these amendments will have on our consolidated financial statements.

### **ITEM 7A. *QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK***

Information required by this item is contained in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Interest Rate Risk.” Such information is incorporated herein by reference.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

**NEUROCRINE BIOSCIENCES, INC.  
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## **Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders of  
Neurocrine Biosciences, Inc.

We have audited the accompanying consolidated balance sheets of Neurocrine Biosciences, Inc. as of December 31, 2014 and 2013, and the related consolidated statements of comprehensive (loss) income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2014. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Neurocrine Biosciences, Inc. at December 31, 2014 and 2013, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Neurocrine Biosciences, Inc.'s internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 9, 2015 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

San Diego, California  
February 9, 2015



**NEUROCRINE BIOSCIENCES, INC.**

**Consolidated Balance Sheets**  
**(In thousands, except for par value and share totals)**

	<b>December 31,</b>	
	<b>2014</b>	<b>2013</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents .....	\$ 31,014	\$ 44,789
Short-term investments, available-for-sale .....	162,795	100,950
Other current assets .....	4,394	2,723
Total current assets .....	198,203	148,462
Property and equipment, net .....	2,507	1,771
Long-term investments, available-for-sale .....	37,492	—
Restricted cash .....	4,831	4,443
Total assets .....	\$ 243,033	\$ 154,676
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable .....	\$ 246	\$ 101
Accrued liabilities .....	11,508	7,955
Current portion of deferred rent .....	119	—
Current portion of cease-use liability .....	467	416
Current portion of deferred gain on sale of real estate .....	3,324	3,227
Total current liabilities .....	15,664	11,699
Deferred gain on sale of real estate .....	14,322	17,645
Deferred rent .....	1,877	1,982
Cease-use liability .....	2,211	2,680
Other liabilities .....	260	260
Total liabilities .....	34,334	34,266
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.001 par value; 5,000,000 shares authorized; no shares issued and outstanding .....	—	—
Common stock, \$0.001 par value; 110,000,000 shares authorized; issued and outstanding shares were 76,465,942 and 67,351,195 at December 31, 2014 and 2013, respectively .....	76	67
Additional paid-in capital .....	1,035,205	886,101
Accumulated other comprehensive (loss) gain .....	(277)	5
Accumulated deficit .....	(826,305)	(765,763)
Total stockholders' equity .....	208,699	120,410
Total liabilities and stockholders' equity .....	\$ 243,033	\$ 154,676

See accompanying notes.

**NEUROCRINE BIOSCIENCES, INC.**

**Consolidated Statements of Comprehensive (Loss) Income**  
**(In thousands, except net (loss) income per share data)**

	<u>Year Ended December 31,</u>		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Revenues:			
Sponsored research and development .....	\$ —	\$ —	\$18,897
Milestones and license fees .....	—	2,919	34,243
Total revenues .....	<u>—</u>	<u>2,919</u>	<u>53,140</u>
Operating expenses:			
Research and development .....	46,425	39,248	37,163
General and administrative .....	17,986	13,349	13,437
Cease-use expense .....	—	—	1,092
Total operating expenses .....	<u>64,411</u>	<u>52,597</u>	<u>51,692</u>
(Loss) income from operations .....	(64,411)	(49,678)	1,448
Other income:			
(Loss) gain on sale/disposal of assets .....	(4)	37	32
Deferred gain on real estate .....	3,226	3,133	3,042
Investment income, net .....	629	402	489
Other income, net .....	18	16	14
Total other income .....	<u>3,869</u>	<u>3,588</u>	<u>3,577</u>
Net (loss) income .....	<u>\$(60,542)</u>	<u>\$(46,090)</u>	<u>\$ 5,025</u>
Net (loss) income per common share:			
Basic .....	<u>\$ (0.81)</u>	<u>\$ (0.69)</u>	<u>\$ 0.08</u>
Diluted .....	<u>\$ (0.81)</u>	<u>\$ (0.69)</u>	<u>\$ 0.08</u>
Shares used in the calculation of net (loss) income per common share:			
Basic .....	<u>74,577</u>	<u>66,989</u>	<u>65,619</u>
Diluted .....	<u>74,577</u>	<u>66,989</u>	<u>66,946</u>
Other comprehensive (loss) income:			
Net (loss) income .....	\$(60,542)	\$(46,090)	\$ 5,025
Net unrealized (losses) gains on available-for-sale securities .....	(282)	7	85
Comprehensive (loss) income .....	<u>\$(60,824)</u>	<u>\$(46,083)</u>	<u>\$ 5,110</u>

See accompanying notes.

**NEUROCRINE BIOSCIENCES, INC.**

**Consolidated Statements of Stockholders' Equity**  
**(In thousands)**

	<u>Common Stock</u>		<u>Additional Paid in Capital</u>	<u>Accumulated Other Comprehensive (Loss) Gain</u>		<u>Accumulated Deficit</u>	<u>Total Stockholders' Equity</u>
	<u>Shares</u>	<u>Amount</u>					
BALANCE AT DECEMBER 31, 2011 . . . . .	55,263	\$55	\$ 784,811	\$ (87)	\$(724,698)	\$ 60,081	
Net income . . . . .	—	—	—	—	5,025	5,025	
Unrealized gains on investments . . . . .	—	—	—	85	—	85	
Share-based compensation . . . . .	—	—	5,479	—	—	5,479	
Issuance of common stock for restricted share units vested . . . . .	50	—	—	—	—	—	
Issuance of common stock for option exercises . . . . .	209	—	731	—	—	731	
Issuance of common stock, net of offering costs . . . . .	<u>10,925</u>	<u>11</u>	<u>82,960</u>	<u>—</u>	<u>—</u>	<u>82,971</u>	
BALANCE AT DECEMBER 31, 2012 . . . . .	66,447	\$66	\$ 873,981	\$ (2)	\$(719,673)	\$154,372	
Net loss . . . . .	—	—	—	—	(46,090)	(46,090)	
Unrealized gains on investments . . . . .	—	—	—	7	—	7	
Share-based compensation . . . . .	—	—	6,819	—	—	6,819	
Issuance of common stock for option exercises . . . . .	<u>904</u>	<u>1</u>	<u>5,301</u>	<u>—</u>	<u>—</u>	<u>5,302</u>	
BALANCE AT DECEMBER 31, 2013 . . . . .	67,351	\$67	\$ 886,101	\$ 5	\$(765,763)	\$120,410	
Net loss . . . . .	—	—	—	—	(60,542)	(60,542)	
Unrealized losses on investments . . . . .	—	—	—	(282)	—	(282)	
Share-based compensation . . . . .	—	—	10,382	—	—	10,382	
Issuance of common stock for restricted share units vested . . . . .	93	—	—	—	—	—	
Issuance of common stock for option exercises . . . . .	<u>1,022</u>	<u>1</u>	<u>5,559</u>	<u>—</u>	<u>—</u>	<u>5,560</u>	
Issuance of common stock, net of offering costs . . . . .	<u>8,000</u>	<u>8</u>	<u>133,163</u>	<u>—</u>	<u>—</u>	<u>133,171</u>	
BALANCE AT DECEMBER 31, 2014 . . . . .	<u>76,466</u>	<u>\$76</u>	<u>\$1,035,205</u>	<u>\$(277)</u>	<u>\$(826,305)</u>	<u>\$208,699</u>	

See accompanying notes.

**NEUROCRINE BIOSCIENCES, INC.**  
**Consolidated Statements of Cash Flows**  
(In thousands)

	Years Ended December 31,		
	2014	2013	2012
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Net (loss) income .....	\$ (60,542)	\$ (46,090)	\$ 5,025
Adjustments to reconcile net (loss) income to net cash used in operating activities:			
Depreciation and amortization .....	827	671	657
Gain on sale of assets, net .....	(3,222)	(3,170)	(3,074)
Cease-use expense .....	—	—	1,092
Deferred revenues .....	—	(2,919)	(34,242)
Deferred rent .....	14	142	305
Amortization of premiums on investments .....	3,792	2,843	3,135
Non-cash share-based compensation expense .....	10,382	6,819	5,479
Change in operating assets and liabilities: .....			
Accounts receivable and other assets .....	(1,671)	13,528	(12,878)
Cease-use liability .....	(418)	(590)	(263)
Other liabilities .....	—	108	27
Accounts payable and accrued liabilities .....	3,698	(949)	(557)
Net cash used in operating activities .....	(47,140)	(29,607)	(35,294)
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Purchases of investments .....	(257,544)	(145,328)	(166,313)
Sales/maturities of investments .....	154,133	151,281	132,520
Deposits and restricted cash .....	(388)	(108)	(29)
Proceeds from sales of property and equipment .....	45	40	32
Purchases of property and equipment .....	(1,612)	(545)	(971)
Net cash (used in) provided by investing activities .....	(105,366)	5,340	(34,761)
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Issuance of common stock .....	138,731	5,302	83,702
Net cash provided by financing activities .....	138,731	5,302	83,702
Net change in cash and cash equivalents .....	(13,775)	(18,965)	13,647
Cash and cash equivalents at beginning of the year .....	44,789	63,754	50,107
Cash and cash equivalents at end of the year .....	\$ 31,014	\$ 44,789	\$ 63,754
<b>SUPPLEMENTAL DISCLOSURES</b>			
Taxes paid .....	\$ —	\$ —	\$ —

See accompanying notes.

**NEUROCRINE BIOSCIENCES, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2014**

**NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Business Activities.** Neurocrine Biosciences, Inc. (the Company or Neurocrine) was incorporated in California in 1992 and reincorporated in Delaware in 1996. The Company discovers and develops innovative and life-changing pharmaceuticals, in diseases with high unmet medical needs, through its novel research and development (R&D) platform, focused on neurological and endocrine based diseases and disorders. The Company's two lead late-stage clinical programs are elagolix, a gonadotropin-releasing hormone (GnRH) antagonist for women's health that is partnered with AbbVie Inc. (AbbVie), and a wholly owned vesicular monoamine transporter 2 (VMAT2) inhibitor for the treatment of movement disorders.

Neurocrine Continental, Inc., is a Delaware corporation and a wholly owned subsidiary of the Company and is inactive. The Company also has two wholly-owned Irish subsidiaries, Neurocrine Therapeutics, Ltd. and Neurocrine Europe, Ltd. which were formed during December 2014.

**Principles of Consolidation.** The consolidated financial statements include the accounts of Neurocrine as well as its wholly owned subsidiaries. The Company does not have any significant interests in any variable interest entities. All intercompany transactions and balances have been eliminated in consolidation.

**Use of Estimates.** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Actual results could differ from those estimates.

**Cash Equivalents.** The Company considers all highly liquid investments that are readily convertible into cash and have an original maturity of three months or less at the time of purchase to be cash equivalents.

**Short-Term and Long-Term Investments Available-for-Sale.** Certain investments are classified as available-for-sale and, in accordance with authoritative guidance, are carried at fair value, with the unrealized gains and losses reported in other comprehensive (loss) income. The amortized cost of debt securities in this category is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization and accretion is included in investment income. Realized gains and losses and declines in value judged to be other-than-temporary, if any, on available-for-sale securities are included in other income or expense. The cost of securities sold is based on the specific identification method. Interest and dividends on securities classified as available-for-sale are included in investment income.

**Concentration of Credit Risk.** Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash, cash equivalents and investments. The Company has established guidelines to limit its exposure to credit risk by placing investments with high credit quality financial institutions, diversifying its investment portfolio and placing investments with maturities that maintain safety and liquidity.

**Collaboration Agreements.** During the years ended December 31, 2013 and 2012 collaborative R&D agreements accounted for all of the Company's revenue.

**Property and Equipment.** Property and equipment are stated at cost and depreciated over the estimated useful lives of the assets using the straight-line method. Equipment is depreciated over an average estimated useful life of three to seven years. Leasehold improvements are depreciated over the shorter of their estimated useful lives or the remaining lease term.

**Industry Segment and Geographic Information.** The Company operates in a single industry segment – the discovery and development of therapeutics for the treatment of neurological and endocrine based diseases and disorders. The Company had no foreign based operations during any of the years presented.

**Impairment of Long-Lived Assets.** The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If indicators of impairment exist, the Company assesses the recoverability of the affected long-lived assets by determining whether the carrying value of such assets can be recovered through undiscounted future operating cash flows. If the carrying amount is not recoverable, the Company measures the amount of any impairment by comparing the carrying value of the asset to the present value of the expected future cash flows associated with the use of the asset.

**Fair Value of Financial Instruments.** Financial instruments, including cash and cash equivalents, accounts receivable, accounts payable, and accrued liabilities, are carried at cost, which management believes approximates fair value because of the short-term maturity of these instruments.

**Research and Development Expenses.** R&D expenses consists primarily of salaries, payroll taxes, employee benefits, and share-based compensation charges, for those individuals involved in ongoing R&D efforts; as well as scientific contractor fees, preclinical and clinical trial costs, R&D facilities costs, laboratory supply costs, and depreciation of scientific equipment. All such costs are charged to R&D expense as incurred. These expenses result from the Company's independent R&D efforts as well as efforts associated with collaborations and in-licensing arrangements. In addition, the Company funds R&D at other companies and research institutions under agreements, which are generally cancelable. The Company reviews and accrues clinical trial expenses based on work performed, which relies on estimates of total costs incurred based on patient enrollment, completion of patient studies and other events. The Company follows this method since reasonably dependable estimates of the costs applicable to various stages of a research agreement or clinical trial can be made. Accrued clinical costs are subject to revisions as trials progress. Revisions are charged to expense in the period in which the facts that give rise to the revision become known.

**Share-Based Compensation.** The Company estimates the fair value of stock options using the Black-Scholes option pricing model on the date of grant. Restricted stock units are valued based on the closing price of the Company's common stock on the date of grant. The fair value of equity instruments expected to vest are recognized and amortized on a straight-line basis over the requisite service period of the award, which is generally three to four years; however, certain provisions in the Company's equity compensation plans provide for shorter vesting periods under certain circumstances. Additionally, the Company has granted certain performance-based equity awards that vest upon the achievement of certain pre-defined Company-specific performance criteria. Expense related to these performance-based equity awards is generally recognized upon achievement of the specific performance criteria.

**Investment Income, net.** Investment income, net is comprised of interest and dividends earned on cash, cash equivalents and investments as well as gains and losses realized from activity in the Company's investment portfolio. The following table presents certain information related to the components of investment income (in thousands):

	<u>Years Ended December 31,</u>		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Interest income . . . . .	629	400	489
Realized gains, net . . . . .	—	2	—
Total . . . . .	<u>\$629</u>	<u>\$402</u>	<u>\$489</u>

**Net (Loss) Income Per Share.** The Company computes basic net (loss) income per share using the weighted average number of common shares outstanding during the period. Diluted net income per share is based upon the weighted average number of common shares and potentially dilutive securities (common share equivalents) outstanding during the period. Common share equivalents outstanding, determined using the treasury stock method, are comprised of shares that may be issued under the Company's stock option agreements. Common share equivalents are excluded from the diluted net loss per share calculation because of their anti-dilutive effect.



Due to the net loss position in 2014 and 2013, approximately 2.9 million and 2.1 million, respectively, of common share equivalents were excluded from the diluted common shares outstanding. At December 31, 2012, the Company had approximately 1.3 million of additional common share equivalents outstanding that were included in the diluted income per share calculation. For the years ended December 31, 2014, 2013 and 2012, there were employee stock options, calculated on a weighted average basis, to purchase 1.0 million, 0.3 million and 2.2 million shares of our common stock with an exercise price greater than the average market price of the underlying common shares.

***Impact of Recently Issued Accounting Standards.*** In May 2014, the Financial Accounting Standards Board (FASB) amended the existing accounting standards for revenue recognition. The amendments are based on the principle that revenue should be recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for said goods or services. The Company is required to adopt the amendments beginning in 2017. Early adoption is not permitted. The amendments may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial application. The Company is currently evaluating the impact that these amendments will have on its consolidated financial statements.

In July 2013, the FASB issued guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The guidance is effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2013, with an option for early adoption. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

## **NOTE 2. REVENUE RECOGNITION AND SIGNIFICANT COLLABORATIVE RESEARCH AND DEVELOPMENT AGREEMENTS**

***Revenue Recognition Policy.*** Revenues under collaborative agreements and grants are recognized as research costs are incurred over the period specified in the related agreement or as the services are performed. These agreements are on a best-efforts basis, do not require scientific achievement as a performance obligation and provide for payment to be made when costs are incurred or the services are performed. All fees are nonrefundable to the collaborators. Prior to the revised multiple element guidance adopted by the Company on January 1, 2011, upfront, nonrefundable payments for license fees, grants, and advance payments for sponsored research revenues received in excess of amounts earned were classified as deferred revenue and recognized as income over the contract or development period. Estimating the duration of the development period includes continual assessment of development stages and regulatory requirements. If and when the Company enters into a new collaboration agreement or materially modifies an existing collaboration agreement, the Company will be required to apply the new multiple element guidance. Milestone payments are recognized as revenue upon achievement of pre-defined scientific events, which require substantive effort, and for which achievement of the milestone was not readily assured at the inception of the agreement.

***AbbVie Inc. (AbbVie).*** In June 2010, the Company announced an exclusive worldwide collaboration with AbbVie, to develop and commercialize elagolix and all next-generation GnRH antagonists (collectively, GnRH Compounds) for women's and men's health. AbbVie made an upfront payment of \$75 million and has agreed to make additional development and regulatory event based payments of up to \$480 million and up to an additional \$50 million in commercial event based payments. The Company has assessed event based payments under the revised authoritative guidance for research and development milestones and determined that event based payments prior to commencement of a Phase III clinical study, as defined in the agreement, meet the definition of a milestone in accordance with authoritative guidance as (1) they are events that can only be achieved in part on the Company's past performance, (2) there is substantive uncertainty at the date the arrangement was entered into that the event will be achieved and (3) they result in additional payments being due to the Company. Development and regulatory event based payments subsequent to the commencement of a Phase III clinical study, however, currently do not meet these criteria as their achievement is based on the performance of AbbVie.

As of December 31, 2014, \$500 million remains outstanding in future event based payments under the agreement. However, none of the remaining event based payments meet the definition of a milestone in accordance with authoritative accounting guidance.

Under the terms of the agreement, AbbVie is responsible for all third-party development, marketing and commercialization costs. The Company received funding for certain internal collaboration expenses which included reimbursement from AbbVie for internal and external expenses related to the GnRH Compounds through the end of 2012. The Company will be entitled to a percentage of worldwide sales of GnRH Compounds for the longer of ten years or the life of the related patent rights. Under the terms of the Company's agreement with AbbVie, the collaboration effort between the parties to advance GnRH Compounds towards commercialization was governed by a joint development committee with representatives from both the Company and AbbVie. AbbVie may terminate the collaboration at its discretion upon 180 days' written notice to the Company. In such event, the Company would be entitled to specified payments for ongoing clinical development and related activities and all GnRH Compound product rights would revert to the Company. The Company's participation in the joint development committee was determined to be a substantive deliverable under the contract, and therefore, the upfront payment was deferred and recognized over the term of the joint development committee, which was completed, as scheduled, in December 2012. During 2012, the Company recorded \$13.1 million in revenue related to completion of the collaborative development period which is included as part of sponsored research and development revenue.

There was no revenue recognized in 2014 or 2013 related to this collaboration. During the year ended December 31, 2012 the Company recognized \$46.9 million in revenue under the AbbVie collaboration agreement, \$29.1 million from the amortization of up-front license fees and \$17.8 million from sponsored research and development.

*Dainippon Sumitomo Pharma Co., Ltd. (DSP)*. In October 2007, the Company entered into an exclusive license agreement with DSP, under which the Company licensed rights to indiplon to DSP and agreed to collaborate with DSP on the development and commercialization of indiplon in Japan. Pursuant to the license agreement, among other things, the Company received an up-front license fee of \$20 million. The Company is also eligible to receive additional event based payments upon specified future events related to the development and commercialization of indiplon in Japan. Should all event based payments be achieved, the Company may be entitled to payments totaling an additional \$115 million. Event based payments under the DSP agreement do not meet the criteria of a milestone in accordance with the authoritative guidance as they are based on the performance of DSP. Additionally, the Company is entitled to royalties from DSP on future sales of indiplon in Japan. For each of the years ended December 31, 2013 and 2012, the Company recognized into revenue \$2.9 million of the upfront license fee under the DSP agreement. All performance obligations pursuant to the contract were completed during 2013.

### **NOTE 3. INVESTMENTS**

Available-for-sale securities are carried at fair value, with the unrealized gains and losses reported in comprehensive (loss) income. The amortized cost of debt securities in this category is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization and accretion is included in investment income. Realized gains and losses and declines in value judged to be other-than-temporary, if any, on available-for-sale securities are included in other income or expense. The cost of securities sold is based on the specific identification method. Interest and dividends on securities classified as available-for-sale are included in investment income.

Investments at December 31, 2014 and 2013 consisted of the following (in thousands):

	Years Ended December 31,	
	2014	2013
Certificates of deposit .....	\$ 17,438	\$ 11,012
Commercial paper .....	7,498	4,997
Corporate debt securities .....	174,323	77,441
Securities of government-sponsored entities .....	1,028	7,500
Total investments .....	<u>\$200,287</u>	<u>\$100,950</u>

The following is a summary of investments classified as available-for-sale securities (in thousands):

	<u>Contractual Maturity (in years)</u>	<u>Amortized Cost</u>	<u>Gross Unrealized Gains(1)</u>	<u>Gross Unrealized Losses(1)</u>	<u>Aggregate Estimated Fair Value</u>
<b>December 31, 2014:</b>					
Classified as current assets:					
Certificates of deposit .....	Less than 1	\$ 9,072	\$—	\$ (6)	\$ 9,066
Commercial paper .....	Less than 1	7,497	1	—	7,498
Corporate debt securities .....	Less than 1	145,321	5	(123)	145,203
Securities of government-sponsored entities .....	Less than 1	1,029	—	(1)	1,028
Total short-term available-for-sale securities .....		<u>\$162,919</u>	<u>\$ 6</u>	<u>\$(130)</u>	<u>\$162,795</u>
Classified as non-current assets:					
Certificates of deposit .....	1 to 2	\$ 8,400	\$—	\$ (28)	\$ 8,372
Corporate debt securities .....	1 to 2	29,245	—	(125)	29,120
Total long-term available-for-sale securities .....		<u>\$ 37,645</u>	<u>\$—</u>	<u>\$(153)</u>	<u>\$ 37,492</u>
<b>December 31, 2013:</b>					
Classified as current assets:					
Certificates of deposit .....	Less than 1	\$ 11,018	\$ 1	\$ (7)	\$ 11,012
Commercial paper .....	Less than 1	4,997	—	—	4,997
Corporate debt securities .....	Less than 1	77,430	19	(8)	77,441
Securities of government-sponsored entities .....	Less than 1	7,500	—	—	7,500
Total short-term available-for-sale securities .....		<u>\$100,945</u>	<u>\$20</u>	<u>\$(15)</u>	<u>\$100,950</u>

(1) Unrealized gains and losses are included in other comprehensive income.

The following table presents certain information related to sales and maturities of available-for-sale investments (in thousands):

	Year Ended December 31,		
	2014	2013	2012
Proceeds from sales/maturities of available-for-sale securities . . . . .	\$154,133	\$151,283	\$132,520
Gross realized gains on sales of available-for-sale securities . . . . .	—	2	—
Gross realized losses on sales of available-for-sale securities . . . . .	—	—	—
Gains reclassified out of accumulated other comprehensive (loss) income into earnings . . . . .	—	—	—

The following table presents information about available-for-sale investments in an unrealized loss position (in thousands):

	Less Than 12 Months		12 Months or Greater		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
<b>December 31, 2014:</b>						
Certificates of deposit . . . . .	\$ 16,957	\$ (34)	\$—	\$—	\$ 16,957	\$ (34)
Corporate debt securities . . . . .	149,477	(248)	—	—	149,477	(248)
Securities of government-sponsored entities . . . . .	1,028	(1)	—	—	1,028	(1)
Total . . . . .	<u>\$167,462</u>	<u>\$(283)</u>	<u>\$—</u>	<u>\$—</u>	<u>\$167,462</u>	<u>\$(283)</u>
<b>December 31, 2013:</b>						
Certificates of deposit . . . . .	\$ 9,802	\$ (7)	\$—	\$—	\$ 9,802	\$ (7)
Corporate debt securities . . . . .	29,919	(8)	—	—	29,919	(8)
Total . . . . .	<u>\$ 39,721</u>	<u>\$(15)</u>	<u>\$—</u>	<u>\$—</u>	<u>\$ 39,721</u>	<u>\$(15)</u>

**NOTE 4. FAIR VALUE MEASUREMENTS**

Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, a three-tier fair value hierarchy has been established, which prioritizes the inputs used in measuring fair value as follows:

- Level 1: Observable inputs such as quoted prices in active markets;
- Level 2: Inputs include quoted prices for similar instruments in active markets and/or quoted prices for identical or similar instruments in markets that are not active near the measurement date; and
- Level 3: Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

The Company classifies its cash equivalents and available for sale investments within Level 1 or Level 2. The fair value of the Company’s high quality investment grade corporate debt securities is determined using proprietary valuation models and analytical tools. These valuation models and analytical tools use market pricing or prices for similar instruments that are both objective and publicly available, including matrix pricing or reported trades, benchmark yields, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids and/or offers. The Company did not reclassify any investments between levels in the fair value hierarchy during the years ended December 31, 2014 and 2013.

The Company's assets which are measured at fair value on a recurring basis as of December 31, 2014 and 2013 were determined using the inputs described above (in millions):

	Fair Value Measurements Using			
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>December 31, 2014:</b>				
Classified as current assets:				
Cash and money market funds	\$ 28.7	\$ 28.7	\$ —	\$—
Certificates of deposit	9.1	9.1	—	—
Commercial paper	7.5	—	7.5	—
Securities of government-sponsored entities	1.5	—	1.5	—
Corporate debt securities	147.0	—	147.0	—
Subtotal	193.8	37.8	156.0	—
Classified as long-term assets:				
Certificates of deposit	13.2	13.2	—	—
Corporate debt securities	29.1	—	29.1	—
Total	236.1	51.0	185.1	—
Less cash, cash equivalents and restricted cash				
	(35.8)	(33.5)	(2.3)	—
Total investments	<u>\$200.3</u>	<u>\$ 17.5</u>	<u>\$182.8</u>	<u>\$—</u>
<b>December 31, 2013:</b>				
Classified as current assets:				
Cash and money market funds	\$ 34.9	\$ 34.9	\$ —	\$—
Certificates of deposit	11.0	11.0	—	—
Commercial paper	5.0	—	5.0	—
Securities of government-sponsored entities	7.5	—	7.5	—
Corporate debt securities	87.4	—	87.4	—
Subtotal	145.8	45.9	99.9	—
Classified as long-term assets:				
Certificates of deposit	4.4	4.4	—	—
Total	150.2	50.3	99.9	—
Less cash, cash equivalents and restricted cash				
	(49.2)	(39.3)	(9.9)	—
Total investments	<u>\$101.0</u>	<u>\$ 11.0</u>	<u>\$ 90.0</u>	<u>\$—</u>

## NOTE 5. PROPERTY AND EQUIPMENT

Property and equipment, net, at December 31, 2014 and 2013 consisted of the following (in thousands):

	<u>2014</u>	<u>2013</u>
Tenant improvements .....	1,226	1,195
Furniture and fixtures .....	819	819
Equipment .....	<u>29,208</u>	<u>28,089</u>
	31,253	30,103
Less accumulated depreciation .....	<u>(28,746)</u>	<u>(28,332)</u>
Property and equipment, net .....	<u>\$ 2,507</u>	<u>\$ 1,771</u>

For each of the years ended December 31, 2014, 2013 and 2012, depreciation expense was \$0.8 million, \$0.7 million and \$0.7 million, respectively. During 2014, 2013 and 2012, the Company recognized a (loss) gain of approximately (\$4,000), \$37,000 and \$32,000, respectively, related to disposal of capital equipment.

## NOTE 6. ACCRUED LIABILITIES

Accrued liabilities at December 31, 2014 and 2013 consisted of the following (in thousands):

	<u>2014</u>	<u>2013</u>
Accrued employee related costs .....	\$ 6,520	\$3,403
Accrued development costs .....	1,706	1,387
Other accrued liabilities .....	<u>3,282</u>	<u>3,165</u>
	<u>\$11,508</u>	<u>\$7,955</u>

## NOTE 7. COMMITMENTS AND CONTINGENCIES

**Real Estate.** In December 2007, the Company closed the sale of its facility and associated real property for a purchase price of \$109 million. Concurrent with the sale, the Company retired the entire \$47.7 million in mortgage debt previously outstanding with respect to the facility and associated real property, and received cash of \$61.0 million net of transaction costs and debt retirement.

Upon the closing of the sale of the facility and associated real property, the Company entered into a lease agreement (Lease) with DMH Campus Investors, LLC (DMH) whereby it leased back for an initial term of 12 years its corporate headquarters comprised of two buildings located at 12790 El Camino Real (Front Building) and 12780 El Camino Real (Rear Building) in San Diego, California. The Company also entered into a series of lease amendments (Amendments), beginning in late 2008, through which it vacated the Front Building, but continues to occupy the Rear Building. The ultimate result of this real estate sale was a net gain of \$39.1 million which was deferred in accordance with authoritative guidance. For the years ended December 31, 2014, 2013 and 2012, the Company recognized \$3.2 million, \$3.1 million and \$3.0 million, respectively, of the deferred gain and will recognize the remaining \$17.6 million of the deferred gain over the initial Lease term which will expire at the end of 2019.

Under the terms of the Lease and the Amendments, the Company pays base annual rent (subject to an annual fixed percentage increase), plus a 3.5% annual management fee, property taxes and other normal and necessary expenses associated with the Lease such as utilities, repairs and maintenance. In lieu of a cash security deposit under the Lease, Wells Fargo Bank, N.A. issued on the Company's behalf a letter of credit in the amount

of \$4.6 million, which is secured by a deposit of equal amount with the same bank. The Company also has the right to extend the Lease for two consecutive ten-year terms.

In December 2010, the Company entered into a sublease agreement (Sublease) for approximately 16,000 square feet of the Rear Building. The Sublease is expected to result in approximately \$0.6 million of rental income per year over the three year term of the Sublease and is recorded as an offset to rent expense. The Sublease provides an option to extend for two one-year renewal periods. The income generated under the Sublease is lower than the Company's financial obligation under the Lease for the Rear Building with DMH, as determined on a per square foot basis. Consequently, at December 31, 2010 the Company was required to record a cease-use liability for the net present value estimated difference between the expected income to be generated under the Sublease and future subleases and the Lease obligation over the remaining term of the Lease for the space that is occupied by the subtenant. This transaction resulted in \$2.5 million of gross cease-use expense, and a reversal of \$173,000 in associated deferred rent, being recorded in December 2010. In August 2012, the Company extended the terms of the Sublease and increased the leased square footage to approximately 17,000 square feet. This transaction resulted in approximately \$150,000 of gross cease-use expense, and a reversal of \$15,000 in associated deferred rent, being recorded in September 2012.

In September 2011, the Company entered into a second sublease agreement (Second Sublease) for approximately 3,300 square feet of space in the Rear Building. The Second Sublease is expected to result in approximately \$0.1 million in rental income per year over the three year term and is recorded as an offset to rent expense. The Second Sublease provides an option to extend for a one-year renewal period which was exercised in 2013. Similar to the Sublease, the Second Sublease resulted in \$0.3 million of gross cease-use expense, and a reversal of \$47,000 in associated deferred rent, being recorded in September 2011.

In November 2012, the Company entered into a third sublease agreement (Third Sublease) for approximately 14,000 square feet of space in the Rear Building. The Third Sublease is expected to result in approximately \$0.5 million in rental income per year over the three and a half year term and is recorded as an offset to rent expense. The Third Sublease provides the subtenant with an option to extend the term for two one-year renewal periods. Similar to the previous subleases, the Third Sublease resulted in \$1.2 million of gross cease-use expense, and a reversal of \$250,000 in associated deferred rent, being recorded in December 2012.

The following table sets forth changes to the accrued cease-use liability during 2014 and 2013 (in thousands):

	Years Ended December 31,	
	2014	2013
Beginning balance .....	\$3,096	\$3,686
Payments .....	(418)	(590)
Ending balance .....	<u>\$2,678</u>	<u>\$3,096</u>

**Rent Expense.** Rent expense was \$5.9 million for each of the years ended December 31, 2014, 2013 and 2012, respectively. For financial reporting purposes, the Company recognizes rent expense on a straight-line basis over the term of the lease. Accordingly, rent expense recognized in excess of rent paid is reflected as a liability in the accompanying consolidated balance sheets.

**Lease Commitments.** The Company leases its office and research laboratories under an operating lease with an initial term of twelve years, expiring at the end of 2019. Additionally, the Company's facility lease agreement calls for it to maintain \$50 million in cash and investments at all times, or to increase the security deposit by \$5 million.



As of December 31, 2014, the total estimated future annual minimum lease payments under the Company's non-cancelable building lease for the years ending after December 31, 2014 were as follows (in thousands):

	<u>Payment Amount</u>
2015 .....	\$ 7,385
2016 .....	7,606
2017 .....	7,834
2018 .....	8,070
2019 .....	8,311
Thereafter .....	<u>—</u>
Total future minimum lease payments .....	<u>\$39,206</u>

**Product Liability.** The Company's business exposes it to liability risks from its potential drug products. A successful product liability claim or series of claims brought against the Company could result in payment of significant amounts of money and divert management's attention from running the business. The Company may not be able to maintain insurance on acceptable terms, or the insurance may not provide adequate protection in the case of a product liability claim. To the extent that product liability insurance, if available, does not cover potential claims, the Company would be required to self-insure the risks associated with such claims. The Company believes that it carries reasonably adequate insurance for product liability claims.

**Licensing and Research Agreements.** The Company has entered into inlicensing agreements with various universities and research organizations, which are generally cancelable at the option of the Company with terms ranging from 0-180 days written notice. Under the terms of these agreements, the Company has received licenses to research tools, know-how and technology claimed, in certain patents or patent applications. The Company is required to pay fees, milestones and/or royalties on future sales of products employing the technology or falling under claims of a patent, and some of the agreements require minimum royalty payments. Some of the agreements also require the Company to pay expenses arising from the prosecution and maintenance of the patents covering the inlicensed technology. The Company continually reassesses the value of the license agreements and cancels them when research efforts are discontinued on these programs. If all inlicensed and research candidates are successfully developed, the Company may be required to pay milestone payments of approximately \$17 million over the lives of these agreements, in addition to royalties on sales of the affected products at rates ranging up to 5%. Due to the uncertainties of the development process, the timing and probability of the milestone and royalty payments cannot be accurately estimated.

**Litigation.** From time to time, the Company may be subject to legal proceedings and claims in the ordinary course of business. The Company is not aware of any such proceedings or claims that it believes will have, individually or in the aggregate, a material adverse effect on its business, financial condition or results of operations.

## NOTE 8. SHARE-BASED COMPENSATION

**Share-Based Compensation Plans.** In May 2011, the Company adopted the Neurocrine Biosciences, Inc. 2011 Equity Incentive Plan (the 2011 Plan) pursuant to which 8.5 million shares of Company common stock are authorized for issuance. The 2011 Plan provides for the grant of stock options that qualify as incentive stock options under Section 422 of the Internal Revenue Code of 1986, as amended (the Code), nonstatutory stock options, restricted stock awards, restricted stock unit awards (RSUs), stock appreciation rights, performance stock awards, performance-based restricted stock units (PRSUs) and other forms of equity compensation.

The Company also issues stock options under the Neurocrine Biosciences, Inc. Inducement Plan to certain executive level employees. During 2014, 160,000 stock options were granted pursuant to such inducement plan. These stock option grants have a four year vesting period. The Company currently has approximately 0.2 million in stock options outstanding under such inducement plans.

As of December 31, 2014, approximately 2.7 million remained available for future grant awards under the 2011 Plan. Only share awards made under the 2011 Plan that are subsequently cancelled due to forfeiture or expiration are returned to the share pool available for future grants.

The Company issues new shares upon the exercise of stock options, the issuance of stock bonus awards and vesting of RSUs and PRSUs, and has 9.5 million shares of common stock reserved for such issuance as of December 31, 2014.

**Vesting Provisions of Share-Based Compensation.** Stock options generally have terms from seven to ten years from the date of grant, and generally vest over a three to four-year period. The maximum contractual term for all options granted from the 2011 Plan is ten years. RSUs granted under the 2011 Plan generally have vesting periods of four years. PRSUs granted under the 2011 Plan vest based on the achievement of certain pre-defined Company-specific performance criteria and expire five years from the grant date.

**Share-Based Compensation.** The compensation cost that has been included in the statement of comprehensive (loss) income for all share-based compensation arrangements is as follows (in thousands):

	<u>Years Ended December 31,</u>		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
General and administrative expense .....	\$ 5,167	\$3,516	\$2,746
Research and development expense .....	5,215	3,303	2,733
Share-based compensation expense .....	<u>\$10,382</u>	<u>\$6,819</u>	<u>\$5,479</u>

Authoritative guidance requires that cash flows resulting from tax deductions in excess of the cumulative compensation cost recognized for options exercised be classified as cash inflows provided by financing activities and cash outflows used in operating activities. Due to the Company's net tax loss position, no tax benefits have been recognized in the consolidated statements of cash flows.

**Stock Options.** The exercise price of all options granted during the years ended December 31, 2014, 2013 and 2012 was equal to the closing price of the Company's common stock on the date of grant. The estimated fair value of each option award granted was determined on the date of grant using the Black-Scholes option-pricing valuation model with the following weighted-average assumptions for option grants during the three years ended December 31, 2014:

	<u>Years Ended December 31,</u>		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Risk-free interest rate .....	2.2%	1.4%	1.3%
Expected volatility of common stock .....	71%	76%	79%
Dividend yield .....	0.0%	0.0%	0.0%
Expected option term .....	7.2 years	7.3 years	6.8 years

The Company estimates the fair value of stock options using a Black-Scholes option-pricing model on the date of grant. The fair value of equity instruments that are ultimately expected to vest, net of estimated forfeitures, are recognized and amortized on a straight-line basis over the requisite service period. The Black-Scholes option-pricing model incorporates various and highly sensitive assumptions including expected volatility, expected term and interest rates. The expected volatility is based on the historical volatility of the Company's common stock over the most recent period commensurate with the estimated expected term of the Company's stock options. The expected option term is estimated based on historical experience as well as the status of the employee. For example, directors and officers have a longer expected option term than all other employees. Additionally, grants of stock options during the past three years have a contractual life of ten years,

versus seven years for older option grants, and the vesting period for these same option grants has been extended to four years, which together have resulted in an increase in the expected option term. The risk-free rate for periods within the contractual life of the option is based upon observed interest rates appropriate for the expected term of the Company's employee stock options. The Company has never declared or paid dividends and has no plans to do so in the foreseeable future.

Authoritative guidance requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Pre-vesting forfeitures for awards with monthly vesting terms were estimated to be 0% in 2014 based on historical experience. Pre-vesting forfeitures for awards with annual vesting terms were also estimated at 0% in 2014 based on historical employee turnover experience. The effect of past restructurings has been excluded from the historical review of employee turnover. The effect of pre-vesting forfeitures for awards has historically been negligible on the Company's recorded expense. The Company's determination of fair value is affected by the Company's stock price as well as a number of assumptions that require judgment. The weighted-average fair values of options granted during the years ended December 31, 2014, 2013 and 2012, estimated as of the grant date using the Black-Scholes option valuation model, were \$12.57, \$6.55 and \$6.05, respectively.

A summary of the status of the Company's stock options as of December 31, 2014, 2013 and 2012 and of changes in options outstanding under the plans during the three years ended December 31, 2014 is as follows (in thousands, except for weighted average exercise price data):

	2014		2013		2012	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding at January 1	5,853	\$ 7.54	6,166	\$ 7.62	5,315	\$ 8.82
Granted/amended	1,089	18.41	771	9.24	1,446	8.50
Exercised	(1,135)	6.50	(904)	5.96	(209)	3.49
Canceled	(57)	56.83	(180)	25.68	(386)	29.66
Outstanding at December 31	<u>5,750</u>	<u>\$ 9.31</u>	<u>5,853</u>	<u>\$ 7.54</u>	<u>6,166</u>	<u>\$ 7.62</u>

Options outstanding at December 31, 2014 have a weighted average remaining contractual term of 6.4 years.

For the year ended December 31, 2014, share-based compensation expense related to stock options was \$7.8 million. As of December 31, 2014, there was approximately \$14.7 million of unamortized compensation cost related to stock options, which is expected to be recognized over a weighted average remaining vesting period of approximately 2.7 years. As of December 31, 2014, there were approximately 4.2 million options exercisable with a weighted average exercise price of \$7.55 and a weighted-average remaining contractual term of 5.6 years. The total intrinsic value, which is the amount by which the exercise price was exceeded by the sale price of the Company's common stock on the date of sale, of stock option exercises during the years ended December 31, 2014, 2013, and 2012 was \$14.3 million, \$6.0 million and \$943,000, respectively. As of December 31, 2014, the total intrinsic value of options outstanding and exercisable was \$77.1 million and \$64.3 million, respectively. Cash received from stock option exercises for the years ended December 31, 2014, 2013 and 2012 was \$5.6 million, \$5.3 million and \$0.7 million, respectively.

**Restricted Stock Units.** Certain employees receive RSUs under the 2011 Plan. The fair value of RSUs is based on the closing sale price of the Company's common stock on the date of issuance. The total number of RSUs expected to vest is adjusted by estimated forfeiture rates, which has been based on historical experience of equity awards and historical employee turnover experience. The effect of pre-vesting forfeitures for awards has historically been negligible on the Company's recorded expense and was estimated at 0% in 2014. The effect of

past restructurings has been excluded from the historical review of employee turnover. For the year ended December 31, 2014, 2013 and 2012, share-based compensation expense related to RSUs was \$2.6 million, \$0.8 million, and \$0, respectively. As of December 31, 2014, there was approximately \$7.5 million of unamortized compensation cost related to RSUs, which is expected to be recognized over a weighted average remaining vesting period of approximately 2.9 years.

The total intrinsic value of RSUs converted into common shares during the years ended December 31, 2014, 2013 and 2012 was \$1.7 million, \$0, and \$0.4 million, respectively. The RSUs, at the election of eligible employees, may be subject to deferred delivery arrangement. The total intrinsic value of RSUs outstanding at December 31, 2014 was \$15.0 million based on the Company's closing stock price on that date.

A summary of the status of the Company's RSUs as of December 31, 2014, 2013 and 2012 and of changes in RSUs outstanding under the plans for the three years ended December 31, 2014 is as follows (in thousands, except for weighted average grant date fair value per unit):

	2014		2013		2012	
	Number of Units	Weighted Average Grant Date Fair Value per Unit	Number of Units	Weighted Average Grant Date Fair Value per Unit	Number of Units	Weighted Average Grant Date Fair Value per Unit
Restricted stock units outstanding at January 1 . . . . .	373	\$ 8.65	—	\$ —	50	\$5.88
Restricted stock units granted . . . . .	389	19.59	379	8.65	—	—
Restricted stock units cancelled . . . . .	—	—	(6)	8.65	—	—
Restricted stock units converted into common shares . . . . .	(93)	8.65	—	—	(50)	5.88
Restricted stock units outstanding at December 31 . . . . .	<u>669</u>	<u>\$15.01</u>	<u>373</u>	<u>\$8.65</u>	<u>—</u>	<u>\$ —</u>

**Performance-Based Restricted Stock Units.** During the year ended December 31, 2014, the Company granted approximately 0.5 million PRSUs that vest based on the achievement of certain pre-defined Company-specific performance criteria and expire five years from the grant date. As the performance based criteria for vesting for the PRSUs is not currently probable, no associated expense has been recorded for the PRSUs during the year ended December 31, 2014. The total unrecognized estimated compensation expense related to these PRSUs is \$9.3 million and is expected to be recognized when the performance condition have been achieved, which is when these events will become probable. The total intrinsic value of PRSUs outstanding at December 31, 2014 was \$10.6 million based on the Company's closing stock price on that date.

## NOTE 9. STOCKHOLDERS' EQUITY

### Equity Financing

In February 2014, the Company completed a public offering of common stock in which the Company sold 8.0 million shares of our common stock at an offering price of \$17.75 per share. The shares were sold pursuant to an automatic shelf registration statement filed with the Securities and Exchange Commission (SEC). The net proceeds generated from this transaction, after underwriting discounts and commissions and offering costs, were approximately \$133.2 million.

In January 2012, the Company completed a public offering of common stock in which the Company sold 10.9 million shares of its common stock at an offering price of \$8.10 per share. The shares were sold pursuant to a shelf registration statement previously on file with the SEC. The net proceeds generated from this transaction, after underwriting discounts and commissions and offering costs, were approximately \$83.0 million.

### ***Shelf Registration Statement***

In February 2014, the Company filed an automatic shelf registration statement which immediately became effective by rule of the SEC. For so long as the Company continues to satisfy the requirements to be deemed a well-known seasoned issuer, this shelf registration statement allows the Company to issue an unlimited number of shares of its common stock from time to time. As of December 31, 2014, the Company had sold 8.0 million shares under this shelf registration statement.

In December 2012, the SEC declared effective a shelf registration statement filed by the Company in November 2012. The shelf registration statement allows the Company to issue shares of its common stock from time to time for an aggregate initial offering price of up to \$150 million. The specific terms of future offerings, if any, under the shelf registration statement would be established at the time of such offerings.

### **NOTE 10. INCOME TAXES**

Under the FASB's accounting guidance related to uncertain tax positions, among other things, the impact of an uncertain income tax position on the income tax return must be recognized at the largest amount that is more-likely-than-not to be sustained upon audit by the relevant taxing authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. Additionally, the guidance provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

The Company's policy is to recognize interest and/or penalties related to income tax matters in income tax expense. The Company had no accrual for interest or penalties on the Company's consolidated balance sheets at December 31, 2014 or December 31, 2013, and has not recognized interest and/or penalties in the statement of comprehensive (loss) income for the year ended December 31, 2014.

The Company is subject to taxation in the United States and various state jurisdictions. The Company's tax years for 1998 (federal)/1997 (California) and forward are subject to examination by the United States and California tax authorities due to the carry forward of unutilized net operating losses and R&D credits.

At December 31, 2014, the Company had deferred tax assets of \$367.1 million. Due to uncertainties surrounding the Company's ability to generate future taxable income to realize these assets, a full valuation has been established to offset the net deferred tax asset. Additionally, the future utilization of the Company's net operating loss and research and development credit carry forwards to offset future taxable income may be subject to an annual limitation, pursuant to Internal Revenue Code Sections 382 and 383, as a result of ownership changes that could occur in the future. The Company has determined that no ownership changes have occurred through December 31, 2014.

At December 31, 2014, the Company had Federal and California income tax net operating loss carry forwards of approximately \$668.3 million and \$652.8 million, respectively. The Federal tax loss carry forwards will begin to expire in 2021, unless previously utilized.

The California net operating loss carry forwards will expire as follows (in thousands):

<u>Year</u>	<u>Amount</u>
2015	68,500
2016	113,400
2017	72,100
2018	140,600
2028 and beyond	258,200

In addition, the Company has Federal and California R&D tax credit carry forwards of \$33.9 million and \$23.6 million, respectively. The Federal research and development tax credit carry forwards begin expiring in 2018 and will continue to expire unless utilized. The California research and development tax credit carryforwards carry forward indefinitely. The Company also has Federal Alternative Minimum Tax credit carryforwards of approximately \$227,000, which will carry forward indefinitely. At December 31, 2014, approximately \$26.5 million of the net operating loss carry forwards relate to stock option exercises, which will result in an increase to additional paid-in capital and a decrease in income taxes payable at the time when the tax loss carryforwards are utilized.

Significant components of the Company's deferred tax assets as of December 31, 2014 and 2013 are listed below. A valuation allowance of \$367.1 million and \$341.7 million at December 31, 2014 and 2013, respectively, has been recognized to offset the deferred tax assets as realization of such assets is uncertain. Amounts are shown as of December 31 as of each respective year (in thousands):

	<u>2014</u>	<u>2013</u>
Deferred tax assets:		
Net operating losses .....	\$ 260,600	\$ 246,500
Research and development credits .....	29,000	27,700
Capitalized research and development .....	45,700	34,500
Share-based compensation expense .....	6,900	5,200
Deferred revenue .....	800	800
Deferred gain on sales leaseback .....	7,200	8,500
Intangibles .....	10,600	13,200
Cease-use expense .....	1,100	1,300
Fixed assets .....	500	300
Other .....	4,700	3,700
Total deferred tax assets .....	367,100	341,700
Valuation allowance .....	(367,100)	(341,700)
Net deferred tax assets .....	<u>\$ —</u>	<u>\$ —</u>

The provision for income taxes on earnings subject to income taxes differs from the statutory Federal rate at December 31, 2014, 2013 and 2012, due to the following (in thousands):

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Federal income taxes at 35% .....	\$(21,190)	\$(16,131)	\$ 1,759
State income tax, net of Federal benefit .....	(3,410)	(2,611)	406
Tax effect on non-deductible expenses .....	10	7	9
Share-based compensation expense .....	91	215	1,154
Expired tax attributes .....	315	151	327
Research credits .....	(1,882)	(3,458)	(428)
Change in valuation allowance .....	25,366	20,504	(4,061)
Uncertain tax positions .....	621	1,283	876
Other .....	79	40	(42)
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

The following table summarizes the activity related to our unrecognized tax benefits (in thousands):

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Balance as of the beginning of the year .....	\$23,131	\$21,672	\$20,237
Increases related to prior year tax positions .....	47	543	1,434
Increases related to current year tax positions .....	676	916	165
Expiration of the statute of limitations for the assessment of taxes .....	—	—	(164)
Balance as of the end of the year .....	<u>\$23,854</u>	<u>\$23,131</u>	<u>\$21,672</u>

The Company, under authoritative guidance, excluded those deferred tax assets that are not more likely than not to be sustained under the technical merits of the tax position. These unrecognized tax benefits totaled \$47,000 and \$0.7 million for prior year tax positions and current year tax positions, respectively, as reflected in the tabular rollforward above.

As of December 31, 2014, the Company had \$20.2 million of unrecognized tax benefits that, if recognized and realized, would effect the effective tax rate.

In the next twelve months, the Company does not expect a significant change in their unrecognized tax benefits.

#### **NOTE 11. RETIREMENT PLAN**

The Company has a 401(k) defined contribution savings plan (401(k) Plan). The 401(k) Plan is for the benefit of all qualifying employees and permits voluntary contributions by employees up to 60% of base salary limited by the IRS-imposed maximum. Employer contributions were \$0.3 million, \$0.3 million and \$0.2 million for the years ended December 31, 2014, 2013 and 2012, respectively.

#### **NOTE 12. SUBSEQUENT EVENTS**

The Company evaluated all subsequent events that have occurred after the date of the accompanying financial statements and determined that there were no events or transactions occurring during this subsequent event reporting period which require recognition or disclosure in the Company's financial statements, other than as disclosed below.



**NOTE 13. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)**

The following is a summary of the quarterly results of the Company for the years ended December 31, 2014 and 2013 (*unaudited, in thousands, except for per share data*):

	<u>Year Ended December 31,</u>				<u>Year Ended December 31</u>
	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>	
<b>2014:</b>					
Revenues .....	\$ —	\$ —	\$ —	\$ —	\$ —
Operating expenses .....	12,725	14,361	16,857	20,468	64,411
Net loss .....	(11,842)	(13,381)	(15,875)	(19,444)	(60,542)
Net loss per share:					
Basic and Diluted .....	\$ (0.17)	\$ (0.18)	\$ (0.21)	\$ (0.26)	\$ (0.81)
Shares used in the calculation of net loss per share:					
Basic and Diluted .....	70,260	75,879	75,948	76,139	74,577
<b>2013:</b>					
Revenues .....	\$ 730	\$ 730	\$ 729	\$ 730	\$ 2,919
Operating expenses .....	13,705	13,897	12,735	12,260	52,597
Net loss .....	(12,075)	(12,242)	(11,131)	(10,642)	(46,090)
Net loss per share:					
Basic and Diluted .....	\$ (0.18)	\$ (0.18)	\$ (0.17)	\$ (0.16)	\$ (0.69)
Shares used in the calculation of net loss per share:					
Basic and Diluted .....	66,600	66,799	67,199	67,346	66,989

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

Not applicable.

**ITEM 9A. *CONTROLS AND PROCEDURES***

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the timelines specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can only provide reasonable assurance of achieving the desired control objectives, and in reaching a reasonable level of assurance, management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As required by SEC Rule 13a-15(b), we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the year covered by this report. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level.

## **Management's Report on Internal Control Over Financial Reporting**

Internal control over financial reporting refers to the process designed by, or under the supervision of, our Chief Executive Officer and Chief Financial Officer, and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles, and includes those policies and procedures that:

- (1) Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets;
- (2) Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorization of our management and directors; and
- (3) Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk. Management is responsible for establishing and maintaining adequate internal control over financial reporting for the company.

Management has used the framework set forth in the report entitled Internal Control-Integrated Framework (2013 framework) published by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), known as COSO, to evaluate the effectiveness of our internal control over financial reporting. Based on this assessment, management has concluded that our internal control over financial reporting was effective as of December 31, 2014. Ernst & Young, LLP, our independent registered public accounting firm, has issued an attestation report on our internal control over financial reporting as of December 31, 2014, which is included herein.

There has been no change in our internal control over financial reporting during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of  
Neurocrine Biosciences, Inc.

We have audited Neurocrine Biosciences, Inc.'s internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Neurocrine Biosciences, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Neurocrine Biosciences, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Neurocrine Biosciences, Inc. as of December 31, 2014 and 2013, and the related consolidated statements of comprehensive (loss) income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2014 of Neurocrine Biosciences, Inc. and our report dated February 9, 2015 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

San Diego, California  
February 9, 2015

**ITEM 9B. *OTHER INFORMATION***

None.

### **PART III**

#### **ITEM 10. *DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE***

Information required by this item will be contained in our Definitive Proxy Statement for our 2015 Annual Meeting of Stockholders, to be filed pursuant to Regulation 14A with the Securities and Exchange Commission within 120 days of December 31, 2014. Such information is incorporated herein by reference.

We have adopted a code of ethics that applies to our Chief Executive Officer, Chief Financial Officer, and to all of our other officers, directors, employees and agents. The code of ethics is available at the Corporate Governance section of the Investors page on our website at [www.neurocrine.com](http://www.neurocrine.com). We intend to disclose future amendments to, or waivers from, certain provisions of our code of ethics on the above website within four business days following the date of such amendment or waiver.

#### **ITEM 11. *EXECUTIVE COMPENSATION***

Information required by this item will be contained in our Definitive Proxy Statement for our 2015 Annual Meeting of Stockholders, to be filed pursuant to Regulation 14A with the Securities and Exchange Commission within 120 days of December 31, 2014. Such information is incorporated herein by reference.

#### **ITEM 12. *SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS***

Information required by this item will be contained in our Definitive Proxy Statement for our 2015 Annual Meeting of Stockholders, to be filed pursuant to Regulation 14A with the Securities and Exchange Commission within 120 days of December 31, 2014. Such information is incorporated herein by reference.

#### **ITEM 13. *CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE***

Information required by this item will be contained in our Definitive Proxy Statement for our 2015 Annual Meeting of Stockholders, to be filed pursuant to Regulation 14A with the Securities and Exchange Commission within 120 days of December 31, 2014. Such information is incorporated herein by reference.

#### **ITEM 14. *PRINCIPAL ACCOUNTANT FEES AND SERVICES***

Information required by this item will be contained in our Definitive Proxy Statement for our 2015 Annual Meeting of Stockholders, to be filed pursuant to Regulation 14A with the Securities and Exchange Commission within 120 days of December 31, 2014. Such information is incorporated herein by reference.

## PART IV

### ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

#### (a) Documents filed as part of this report.

1. List of Financial Statements. The following are included in Item 8 of this report:

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets as of December 31, 2014 and 2013

Consolidated Statements of Comprehensive (Loss) Income for the years ended December 31, 2014, 2013 and 2012

Consolidated Statements of Stockholders' Equity for the years ended December 31, 2014, 2013 and 2012

Consolidated Statements of Cash Flows for the years ended December 31, 2014, 2013 and 2012

Notes to the Consolidated Financial Statements (includes unaudited Selected Quarterly Financial Data)

2. List of all Financial Statement schedules. All schedules are omitted because they are not applicable or the required information is shown in the Financial Statements or notes thereto.

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

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

<u>Exhibit Number</u>	<u>Description</u>
3.1	Certificate of Incorporation(13)
3.2	Certificate of Amendment to Certificate of Incorporation(13)
3.3	Bylaws, as amended(13)
4.1	Form of Common Stock Certificate(1)
10.1**	Neurocrine Biosciences, Inc. 2003 Incentive Stock Plan, as amended and form of stock option agreement and restricted stock unit agreement.(7)
10.2**	Form of Indemnity Agreement entered into between the Company and its officers and directors.(5)
10.3**	Employment Commencement Nonstatutory Stock Option Agreement dated October 31, 2005 between the Company and Christopher O'Brien.(4)
10.4	Amended and Restated Lease dated November 1, 2011 between the Company and Kilroy Realty, L.P.(9)
10.5	Letter of Credit dated December 3, 2007, issued by Wells Fargo Bank, N.A. for the benefit of Kilroy Realty, L.P., as amended on November 20, 2014.
10.6**	Amended and Restated Employment Agreement effective August 1, 2007 between the Company and Kevin C. Gorman, Ph.D.(3)
10.7	License agreement dated August 27, 1999 between the Company and the Mount Sinai School of Medicine of the City University of New York.(11)
10.8**	Amended and Restated Employment Agreement effective August 1, 2007 between the Company and Timothy P. Coughlin.(3)



<u>Exhibit Number</u>	<u>Description</u>
10.9**	Amended and Restated Employment Agreement effective August 6, 2007 between the Company and Christopher F. O'Brien M.D.(6)
10.10**	Amended and Restated Employment Agreement effective August 23, 2007 between the Company and Dimitri E. Grigoriadis, Ph.D.(6)
10.11**	Amended and Restated Employment Agreement effective August 14, 2007 between the Company and Haig Bozigian, Ph.D.(6)
10.12**	2011 Equity Incentive Plan, as amended, Form of Stock Option Grant Notice and Option Agreement for use thereunder, and Form of Restricted Stock Unit Grant Notice and Restricted Stock Unit Agreement for use thereunder.(14)
10.13*	Collaboration Agreement dated June 15, 2010, by and between Abbott International Luxembourg S.a.r.l. and the Company.(8)
10.14*	First Amendment to Collaboration and License Agreement dated August 31, 2011 between the Company and Abbott International Luxembourg S.à. r.l.(10)
10.15**	Form of Amendment to Employment Agreement for executive officers.(12)
10.16**	Neurocrine Biosciences, Inc. Inducement Plan, as amended, Form of Stock Option Grant Notice and Option Agreement for use thereunder.(2)
21.1	Subsidiaries of the Company
23.1	Consent of Independent Registered Public Accounting Firm
31.1	Certification of Chief Executive Officer pursuant to Rules 13a-14 and 15d-14 promulgated under the Securities Exchange Act of 1934
31.2	Certification of Chief Financial Officer pursuant to Rules 13a-14 and 15d-14 promulgated under the Securities Exchange Act of 1934
32***	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

- (1) Incorporated by reference to the Company's Registration Statement on Form S-1 (Registration No. 333-03172)
- (2) Incorporated by reference to the Company's Quarterly Report on Form 10-Q filed on November 4, 2014
- (3) Incorporated by reference to the Company's Quarterly Report on Form 10-Q filed on August 3, 2007
- (4) Incorporated by reference to the Company's Current Report on Form 8-K filed on November 1, 2005
- (5) Incorporated by reference to the Company's Current Report on Form 8-K filed on September 1, 2009
- (6) Incorporated by reference to the Company's Annual Report on Form 10-K filed on February 11, 2008
- (7) Incorporated by reference to the Company's Quarterly Report on Form 10-Q filed on July 30, 2009
- (8) Incorporated by reference to the Company's Quarterly Report on Form 10-Q filed on July 29, 2010

- (9) Incorporated by reference to the Company's Current Report on Form 8-K filed on January 18, 2012
- (10) Incorporated by reference to the Company's Quarterly Report on Form 10-Q filed on October 31, 2011
- (11) Incorporated by reference to the Company's Quarterly Report on Form 10-Q filed on July 26, 2013
- (12) Incorporated by reference to the Company's Annual Report on Form 10-K filed on February 10, 2011
- (13) Incorporated by reference to the Company's Annual Report on Form 10-K filed on February 8, 2013
- (14) Incorporated by reference to the Company's Quarterly Report on Form 10-Q filed on August 6, 2014

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

\*\* Management contract or compensatory plan or arrangement.

\*\*\* These certifications are being furnished solely to accompany this annual report pursuant to 18 U.S.C. Section 1350, and are not being filed for purposes of Section 18 of the Securities Exchange Act of 1934 and are not to be incorporated by reference into any filing of Neurocrine Biosciences, Inc., whether made before or after the date hereof, regardless of any general incorporation language in such filing.

Except as specifically noted above, the Company's Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K have a Commission File Number of 000-22705.

*(c) Financial Statement Schedules.* See Item 15(a)(2) above.

## SIGNATURES

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

NEUROCRINE BIOSCIENCES, INC.

A Delaware Corporation

By: /s/ Kevin C. Gorman

Kevin C. Gorman  
President and Chief Executive Officer

Date: February 9, 2015

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

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Kevin C. Gorman</u> Kevin C. Gorman	President, Chief Executive Officer and Director (Principal Executive Officer)	February 9, 2015
<u>/s/ Timothy P. Coughlin</u> Timothy P. Coughlin	Chief Financial Officer (Principal Financial and Accounting Officer)	February 9, 2015
<u>/s/ William H. Rastetter</u> William H. Rastetter	Chairman of the Board of Directors	February 9, 2015
<u>/s/ Gary A. Lyons</u> Gary A. Lyons	Director	February 9, 2015
<u>/s/ W. Thomas Mitchell</u> W. Thomas Mitchell	Director	February 9, 2015
<u>/s/ Joseph A. Mollica</u> Joseph A. Mollica	Director	February 9, 2015
<u>/s/ Corinne H. Nevinny</u> Corinne H. Nevinny	Director	February 9, 2015
<u>/s/ Richard F. Pops</u> Richard F. Pops	Director	February 9, 2015
<u>/s/ Stephen A. Sherwin</u> Stephen A. Sherwin	Director	February 9, 2015

**Neurocrine Biosciences**  
**Corporate Information**

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**CORPORATE  
MANAGEMENT**

Kevin C. Gorman, Ph.D.  
*President and Chief Executive Officer*

Timothy P. Coughlin, CPA  
*Chief Financial Officer*

Christopher F. O'Brien, M.D.  
*Chief Medical Officer*

Darin Lippoldt, J.D.  
*Chief Legal Officer*

Dimitri E. Grigoriadis, Ph.D.  
*Chief Research Officer*

Haig Bozigian, Ph.D.  
*Chief Development Officer*

Kyle Gano, Ph.D.  
*Chief Business Development Officer*

Malcolm Lloyd-Smith  
*Chief Regulatory Officer*

**BOARD OF  
DIRECTORS**

William H. Rastetter, Ph.D.  
*Chairman of the Board,  
Neurocrine Biosciences, Inc. and  
Chairman of Illumina, Inc., Receptos, Inc.  
and Fate Therapeutics*

Kevin C. Gorman, Ph.D.  
*President and Chief Executive Officer,  
Neurocrine Biosciences, Inc.*

Gary A. Lyons  
*Former President and Chief Executive  
Officer, Neurocrine Biosciences, Inc.*

Corinne H. Nevinny  
*Former Corporate Vice President,  
Cardiac Surgery Systems and Vascular  
Edwards Life Sciences Corporation*

W. Thomas Mitchell  
*Former Chairman of the Board  
and Chief Executive Officer,  
Genencor International*

Joseph A. Mollica, Ph.D.  
*Former Chairman of the Board,  
Pharmacoepia Drug Discovery, Inc.*

Richard F. Pops  
*Chairman of the Board  
and Chief Executive Officer  
Alkermes, Inc.*

Stephen A. Sherwin, M.D.  
*Former Chairman of the Board  
and Chief Executive Officer,  
Cell Genesys, Inc.*

**STOCKHOLDER  
INFORMATION**

**Transfer Agent**  
American Stock Transfer

**Auditors**  
Ernst & Young LLP

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12780 EL CAMINO REAL, SAN DIEGO, CA 92130 (858) 617-7600

[WWW.NEUROCRINE.COM](http://WWW.NEUROCRINE.COM)