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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2005

or

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

Commission File Number: 000-50768

ACADIA PHARMACEUTICALS INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**06-1376651**
(State of Incorporation)	**(I.R.S. Employer Identification No.)**
3911 Sorrento Valley Boulevard **San Diego, California**	**92121**
(Address of Principal Executive Offices)	**(Zip Code)**

(858) 558-2871
(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or 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 is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

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

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

Total shares of common stock outstanding as of the close of business on October 31, 2005:

Class	**Number of Shares Outstanding**
Common Stock, $0.0001 par value	23,488,317

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PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

ACADIA PHARMACEUTICALS INC.

CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	September 30, 2005	December 31, 2004(1)
Assets		
Cash and cash equivalents	$ 23,352,700	$ 8,301,700
Investment securities, available-for-sale	39,378,400	27,625,700
Prepaid expenses, receivables and other current assets (Note 8)	5,268,400	1,890,700
Total current assets	67,999,500	37,818,100
Property and equipment, net	2,249,300	2,546,900
Other assets	21,800	—
	$ 70,270,600	$ 40,365,000
Liabilities and Stockholders' Equity		
Accounts payable	$ 1,729,500	$ 2,152,800
Accrued expenses	4,515,300	3,681,100
Accrued loss from litigation (Note 8)	8,350,000	—
Current portion of deferred revenue	4,167,900	1,320,300
Current portion of long-term debt	926,400	1,486,400
Total current liabilities	19,689,100	8,640,600
Other long-term liabilities	458,000	—
Long-term debt, less current portion	926,700	1,044,000
Total liabilities	21,073,800	9,684,600
Commitments and contingencies		
Stockholders' equity		
Preferred stock, $0.0001 par value; 5,000,000 shares authorized at September 30, 2005 and December 31, 2004; no shares issued and outstanding at September 30, 2005 and December 31, 2004	—	—
Common stock, $0.0001 par value; 75,000,000 shares authorized at September 30, 2005 and December 31, 2004; 23,487,739 shares and 16,922,850 shares issued and outstanding at September 30, 2005 and December 31, 2004, respectively	2,300	1,700
Additional paid-in capital	168,345,300	126,755,100
Accumulated deficit	(118,215,200)	(94,283,000)
Unearned stock-based compensation	(1,095,400)	(2,107,800)
Accumulated other comprehensive income	159,800	314,400
Total stockholders' equity	49,196,800	30,680,400
	$ 70,270,600	$ 40,365,000

(1) The condensed consolidated balance sheet at December 31, 2004 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements.

The accompanying notes are an integral part of these condensed consolidated financial statements.

ACADIA PHARMACEUTICALS INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Revenues				
Collaborative revenues	$ 3,673,500	$ 1,581,300	$ 8,513,300	$ 3,520,900
Operating expenses				
Research and development(1)	8,064,900	5,923,200	20,743,700	17,079,100
General and administrative(1)	2,098,300	1,311,000	5,787,100	3,102,400
Provision for loss from litigation (Note 8)	5,861,000	—	5,861,000	—
Stock-based compensation	461,800	669,600	1,227,900	1,979,300
Total operating expenses	16,486,000	7,903,800	33,619,700	22,160,800
Loss from operations	(12,812,500)	(6,322,500)	(25,106,400)	(18,639,900)
Interest income	546,700	204,400	1,302,100	409,000
Interest expense	(40,300)	(96,400)	(127,900)	(351,400)
Net loss	$ (12,306,100)	$ (6,214,500)	$ (23,932,200)	$ (18,582,300)
Participation of preferred stock	—	—	—	(8,586,500)
Net loss available to common stockholders	(12,306,100)	(6,214,500)	(23,932,200)	(9,995,800)
Net loss per common share, basic and diluted	$ (0.53)	$ (0.37)	$ (1.11)	$ (1.22)
Weighted average common shares outstanding, basic and diluted	23,343,309	16,628,914	21,507,104	8,225,452
Net loss available to participating preferred stockholders	$ —	$ —	$ —	$ (8,586,500)
Net loss per participating preferred share, basic and diluted	$ —	$ —	$ —	$ (0.87)
Weighted average participating preferred shares outstanding, basic and diluted	—	—	—	9,900,913

(1) Excludes stock-based compensation as follows:

Research and development	$ 336,800	$ 376,400	$ 753,700	$ 1,062,600
General and administrative	125,000	293,200	474,200	916,700
	$ 461,800	$ 669,600	$ 1,227,900	$ 1,979,300

The accompanying notes are an integral part of these condensed consolidated financial statements.

ACADIA PHARMACEUTICALS INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended September 30,	
	2005	2004
Cash flows from operating activities		
Net loss	$ (23,932,200)	$ (18,582,300)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	819,400	948,300
Stock-based compensation	1,087,900	1,979,300
Loss on disposal of property and equipment	128,700	—
Changes in operating assets and liabilities:		
Prepaid expenses, receivables and other current assets	(3,377,700)	(707,500)
Other assets	(21,800)	1,400
Accounts payable	(423,300)	943,000
Accrued expenses	834,100	1,094,300
Accrued loss from litigation	8,350,000	—
Deferred revenue	2,847,600	333,600
Other long-term liabilities	458,000	
Net cash used in operating activities	(13,229,300)	(13,989,900)
Cash flows from investing activities		
Purchases of investment securities	(50,138,000)	(32,211,500)
Maturities of investment securities	38,328,000	15,610,000
Purchases of property and equipment	(791,300)	(385,200)
Net cash used in investing activities	(12,601,300)	(16,986,700)
Cash flows from financing activities		
Proceeds from issuance of common stock and warrants, net of issuance costs	41,515,400	31,245,000
Proceeds from issuance of long-term debt	633,700	1,669,700
Repayments of long-term debt	(1,312,800)	(2,502,000)
Net cash provided by financing activities	40,836,300	30,412,700
Effect of exchange rate changes on cash	45,300	(51,600)
Net increase (decrease) in cash and cash equivalents	15,051,000	(615,500)
Cash and cash equivalents		
Beginning of period	8,301,700	6,308,100
End of period	$ 23,352,700	$ 5,692,600
Supplemental schedule of noncash investing and financing activities		
Unrealized loss on investment securities	$ (57,300)	$ (42,200)
Conversion of debt to common stock	$ —	$ 1,007,400
Conversion of convertible preferred stock to common stock upon initial public offering	$ —	$ 74,514,000

The accompanying notes are an integral part of these condensed consolidated financial statements.

ACADIA PHARMACEUTICALS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2005
(Unaudited)

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of ACADIA Pharmaceuticals Inc. (together with its wholly owned subsidiaries, ACADIA Pharmaceuticals AB and ACADIA Pharmaceuticals A/S, the "Company") should be read in conjunction with the audited financial statements and notes thereto as of and for the year ended December 31, 2004 included in the Company's Annual Report on Form 10-K ("Annual Report") filed with the Securities and Exchange Commission (the "SEC"). The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, since they are interim statements, the accompanying financial statements do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, the accompanying financial statements reflect all adjustments (consisting of normal recurring adjustments) that are necessary for a fair statement of the financial position, results of operations and cash flows for the interim periods presented. Interim results are not necessarily indicative of results for a full year.

The preparation of financial statements in conformity with 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.

2. Earnings (Loss) Per Share

Basic earnings (loss) per common share is computed by dividing net income (loss) available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings (loss) per common share is computed by dividing net income (loss) available to common stockholders by the weighted average number of common shares outstanding during the period increased to include potential dilutive common shares that were outstanding during the period. The dilutive effect of outstanding stock options and warrants is reflected, when dilutive, in diluted earnings (loss) per common share by application of the treasury stock method. The Company has excluded all outstanding stock options and warrants from the calculation of diluted net loss per common share because all such securities are antidilutive for all periods presented.

Shares used in calculating basic and diluted net loss per common share exclude these potential common shares:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
	(unaudited)		(unaudited)	
Antidilutive options to purchase common stock	2,187,810	1,715,355	2,063,284	1,741,094
Antidilutive warrants to purchase common stock	1,393,475	74,073	953,674	74,073
Restricted vesting common stock	83,029	216,687	104,118	177,195
	3,664,314	2,006,115	3,121,076	1,992,362

For the period prior to the closing of the Company's initial public offering, the Company computed its net income (loss) per common share using the two class method; therefore, the Company's net income (loss) was allocated between the common stockholders and the preferred stockholders based on their respective rights to share in dividends. For the nine months ended September 30, 2004, the method by which the Company allocated net income (loss) to the preferred stock was based on the number of preferred shares outstanding compared to the total combined preferred and common shares outstanding as of the date of the completion of the initial public offering on June 2, 2004. The remaining net income (loss) was allocated to common stockholders. Upon the closing of the Company's initial public offering on June 2, 2004, all outstanding preferred stock was reclassified or converted into common stock. As there were no preferred shares outstanding during the three and nine months ended September 30, 2005, the Company allocated net income (loss) solely to common stockholders.

3. Stock-Based Compensation

The Company measures compensation expense for its employee stock-based compensation plans using the intrinsic value method and provides pro forma disclosures of net income (loss) as if a fair value method had been applied in measuring compensation expense. Accordingly, compensation cost for stock awards is measured as the excess, if any, of the fair value

ACADIA PHARMACEUTICALS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
September 30, 2005
(Unaudited)

of the Company's common stock at the date of grant over the amount an employee must pay to acquire the stock. Compensation cost is amortized over the related vesting periods using an accelerated method. Accrued compensation costs for unvested awards that are forfeited are reversed against compensation expense or unearned stock-based compensation, as appropriate, in the period of forfeiture.

Stock-based awards issued to nonemployees are accounted for using a fair value method and are remeasured to fair value at each period end until the earlier of the date that performance by the nonemployee is complete or a performance commitment has been obtained. The fair value of each award is estimated using the Black-Scholes option pricing model.

Pro forma information regarding net income (loss) has been determined as if the Company had accounted for its employee stock options under the fair value methodology.

The value of each employee stock option granted is estimated on the grant date under the fair value method using the Black-Scholes option pricing model. Prior to the initial public trading of the Company's stock on May 27, 2004, the value of each employee stock option grant was estimated on the date of grant using the minimum value method. Under the minimum value method, a volatility factor of 0.0 percent is assumed. The following assumptions were used for the employee stock purchase plan, which became effective as of May 26, 2004: dividend yield of 0.0 percent; volatility of 50.0 percent; risk-free interest rate of 3.0 percent; and expected life in years of 0.5. The following weighted average assumptions were used for employee stock options:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
	(unaudited)		(unaudited)	
Dividend yield	0.0%	0.0%	0.0%	0.0%
Volatility	70.0%	70.0%	70.0%	70.0%
Risk-free interest rate	4.0%	3.0%	4.0%	3.0%
Expected life in years	5	5	5	5

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
September 30, 2005
(Unaudited)

Pro forma information follows for the periods:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
	(unaudited)		(unaudited)	
Net loss, as reported	$ (12,306,100)	$ (6,214,500)	$ (23,932,200)	$ (18,582,300)
Add: Total stock-based employee compensation costs included in the determination of net loss	286,500	640,100	1,019,800	1,932,800
Deduct: Total stock-based employee compensation costs that would have been included in net loss if the fair value method had been applied	(877,300)	(734,200)	(2,299,600)	(2,143,600)
Pro forma net loss	$ (12,896,900)	$ (6,308,600)	$ (25,212,000)	$ (18,793,100)
Participation of preferred stock	—	—	—	(8,641,100)
Pro forma net loss available to common stockholders	$ (12,896,900)	$ (6,308,600)	$ (25,212,000)	$ (10,152,000)
Actual net loss per common share, basic and diluted	$ (0.53)	$ (0.37)	$ (1.11)	$ (1.22)
Pro forma net loss per common share, basic and diluted	$ (0.55)	$ (0.38)	$ (1.17)	$ (1.23)
Pro forma net loss available to participating preferred stockholders	$ —	$ —	$ —	$ (8,641,100)
Actual net loss per participating preferred share, basic and diluted	$ —	$ —	$ —	$ (0.87)
Pro forma net loss per participating preferred share, basic and diluted	$ —	$ —	$ —	$ (0.87)

4. Comprehensive Loss

For the three and nine months ended September 30, 2005 and 2004, comprehensive loss consisted of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
	(unaudited)		(unaudited)	
Net loss	$ (12,306,100)	$ (6,214,500)	$ (23,932,200)	$ (18,582,300)
Unrealized gain (loss) on investment securities	(26,400)	3,500	(57,300)	(42,200)
Foreign currency translation loss	(12,400)	(25,800)	(97,300)	(83,600)
Total comprehensive loss	$ (12,344,900)	$ (6,236,800)	$ (24,086,800)	$ (18,708,100)

5. Segment Information

Management has determined that the Company operates in one business segment. All revenues for the three and nine months ended September 30, 2005 and 2004 were generated in the United States. Information regarding long-lived assets by geographic area as of the dates indicated is as follows:

	September 30, 2005	December 31, 2004
	(unaudited)	
United States	$ 1,293,800	$ 1,364,500
Europe	955,500	1,182,400
Total	$ 2,249,300	$ 2,546,900

6. Collaboration Agreement With Sepracor

On January 10, 2005, the Company entered into a collaboration agreement with Sepracor for the development of new drug candidates targeted toward the treatment of central nervous system disorders. Under the agreement, the parties will

ACADIA PHARMACEUTICALS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
September 30, 2005
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investigate potential clinical candidates resulting from the Company's preclinical muscarinic program. The Company will receive research funding from Sepracor over the three-year research term of the collaboration and, if certain conditions are met, is eligible to receive milestone payments as well as royalties on future product sales worldwide, if any. The agreement also includes an option to select a preclinical compound from the Company's 5-HT2A program for use in combination with LUNESTA, Sepracor's insomnia drug, for sleep-related indications. Should this option be exercised, the Company will be eligible to receive additional license and milestone payments as well as royalties on future product sales worldwide, if any.

In connection with the collaboration, Sepracor purchased 1,077,029 shares of the Company's common stock for $10 million based on a per share price of approximately $9.28, which represented a 40 percent premium to the 30-day trailing average closing price. The Company recorded the aggregate premium amount of $3.1 million, which was computed based on the excess of the purchase price over the closing price of the Company's common stock on January 10, 2005, as deferred revenue and the remaining purchase amount of $6.9 million as stockholders' equity. The deferred revenue is being recognized as revenue as the related research activities are performed over the research term. Sepracor also agreed to purchase an additional $10 million of ACADIA common stock at a 25 percent premium to the 30-day trailing average closing price on the one-year anniversary of the collaboration, subject to customary closing conditions. These stock purchases, in the aggregate, shall not exceed 19.99 percent of the Company's outstanding common stock after giving effect to the second purchase. During the three and nine months ended September 30, 2005, revenue of $985,000 and $2.7 million, respectively, was recognized under this collaboration.

7. Private Placement

On April 20, 2005, the Company completed a private placement in which it raised net proceeds of approximately $34 million through the sale, at a price of $6.82125 per share, of 5,277,621 shares of its common stock and warrants to purchase 1,319,402 shares of its common stock. The warrants have an exercise price of $8.148 per share, became exercisable on October 17, 2005, and will expire on April 19, 2010, unless earlier terminated. In accordance with EITF 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock," the allocated fair value of the warrants at the issuance date of $4.5 million has been included as permanent equity. The fair value was determined at the date of issuance using the Black-Scholes model. Pursuant to the terms of the private placement, the Company filed a registration statement with the SEC to register for resale the shares of common stock sold in the private placement and the shares of common stock issuable upon the exercise of the warrants. This registration statement became effective June 7, 2005.

8. Commitments and Contingencies

On August 24, 2005, a jury rendered a verdict against the Company and two of its executive officers in a civil action filed by a former employee for claims of sexual harassment and retaliation. The jury awarded compensatory damages in the aggregate amount of $3.9 million, and punitive damages in the aggregate amount of $2.2 million against the Company. The jury also awarded punitive damages against the executive officers in the aggregate amount of $1.8 million. Pursuant to the Company's bylaws and existing indemnity agreements, the Company is required to indemnify the executive officers. The Company has employment practices liability, or EPL, insurance in the amount of $3 million, of which approximately $2.5 remained available at September 30, 2005 and may be available to offset a portion of the compensatory damages as well as fees and expenses incurred in connection with this litigation.

Although the Company has filed a notice of appeal and intends to continue to contest the verdict, a charge of $5.9 million was recorded during the three months ended September 30, 2005. This amount represented the aggregate amount of damages awarded pursuant to the jury verdict together with $422,000 awarded for plaintiff's fees and costs, net of $2.5 million in remaining proceeds which may be received under the Company's EPL insurance policy. This anticipated insurance recovery is included in prepaid expenses, receivables and other current assets in the accompanying balance sheet.

During the fourth quarter, in connection with the appeal process, the Company has filed a bond with the San Diego Superior Court for an aggregate amount of $12.5 million, or approximately 150% of the total award. The bond is backed by a letter of credit in the amount of $12.5 million, which in turn is collateralized by approximately $17.0 million of cash and investment securities.

The Company strongly disagrees with, and does not believe that the facts support, the verdict rendered. The Company intends to contest the verdict vigorously through the appellate courts. There can be no assurance that the Company will prevail in its efforts to contest the verdict. The Company expects to incur additional legal costs in connection with such

ACADIA PHARMACEUTICALS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
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proceedings. These proceedings may consume a substantial portion of the Company's management and financial resources, regardless of outcome, and may take years to ultimately resolve. If these proceedings are resolved unfavorably, the Company's business and financial condition may be harmed.

On November 1, 2005, the Company extended the lease term for its primary facilities consisting of research and office space located in San Diego, California for a period of seven years. The lease provides the Company with two additional two-year options to further extend the lease term and provides an early termination option.

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

The following discussion and analysis of our consolidated financial condition and results of operations should be read in conjunction with our unaudited condensed consolidated financial statements and related notes included in this quarterly report on Form 10-Q (this "Quarterly Report") and the audited financial statements and notes thereto as of and for the year ended December 31, 2004 included with our annual report on Form 10-K ("Annual Report") filed with the SEC. Past operating results are not necessarily indicative of results that may occur in future periods.

This Quarterly Report contains forward-looking statements. These forward-looking statements involve a number of risks and uncertainties. Such forward-looking statements include statements about our strategies, objectives, expectations, discoveries, collaborations, clinical trials, internal programs, and other statements that are not historical facts, including statements which may be preceded by the words "intends," "may," "will," "plans," "expects," "anticipates," "projects," "predicts," "estimates," "aims," "believes," "hopes," "potential" or similar words. For such statements, we claim the protection of the Private Securities Litigation Reform Act of 1995. Readers of this Quarterly Report are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date on which they are made. We undertake no obligation to update publicly or revise any forward-looking statements. Actual events or results may differ materially from our expectations. Important factors that could cause actual results to differ materially from those stated or implied by our forward-looking statements include, but are not limited to, the risk factors identified in our filings with the SEC, including this Quarterly Report.

Overview

Background

We are a biopharmaceutical company focused on the discovery, development and commercialization of small molecule drugs for the treatment of central nervous system disorders. We currently have four drug programs in clinical development and several additional programs in preclinical and discovery stages. Our three proprietary Phase II-stage clinical programs are ACP-103 as an adjunctive therapy for schizophrenia, ACP-103 for treatment-induced dysfunctions in Parkinson's disease, and ACP-104 for the treatment of schizophrenia. We have retained worldwide commercialization rights for these programs. We also have a neuropathic pain program in an initial single-dose exploratory Phase II clinical trial and a glaucoma program in preclinical development, each in collaboration with Allergan.

We have incurred substantial operating losses since our inception due in large part to expenditures for our research and development activities. At September 30, 2005, we had an accumulated deficit of $118.2 million. We expect our operating losses to increase for at least the next several years as we pursue the clinical development of our lead drug candidates and expand our discovery and development pipeline.

Recent Developments

In October 2005, we announced that we had received a milestone payment pursuant to our neuropathic pain collaboration with Allergan during the third quarter. The payment was triggered by the commencement of an initial Phase II trial in this program by Allergan.

On August 24, 2005, a jury rendered a verdict against us and two of our executive officers in a civil action filed by a former employee for claims of sexual harassment and retaliation. The jury awarded compensatory damages in the aggregate amount of $3.9 million, and punitive damages in the aggregate amount of $2.2 million against us. The jury also awarded punitive damages against the executive officers in the aggregate amount of $1.8 million. Pursuant to our bylaws and existing indemnity agreements, we are required to indemnify these executive officers. We have employment practices liability, or EPL, insurance in the amount of $3 million, of which approximately $2.5 remained available at September 30, 2005 and may be available to offset a portion of the compensatory damages as well as fees and expenses incurred in connection with this litigation.

Although we have filed a notice of appeal and intend to continue to contest the verdict, we recorded a charge of $5.9 million during the three months ended September 30, 2005. This amount represented the aggregate amount of damages awarded pursuant to the jury verdict together with $422,000 awarded for plaintiff's fees and costs, net of $2.5 million in remaining proceeds which may be received under our EPL insurance policy.

During the fourth quarter, in connection with the appeal process, we have filed a bond with the San Diego Superior Court for an aggregate amount of $12.5 million, or approximately 150% of the total award. The bond is backed by a letter of credit in the amount of $12.5 million, which in turn is collateralized by approximately $17.0 million of cash and investment securities.

We strongly disagree with, and do not believe that the facts support, the verdict rendered. We intend to contest the verdict vigorously through the appellate courts. There can be no assurance that we will prevail in our efforts to contest the verdict. We expect to incur additional legal costs in connection with such proceedings. These proceedings may consume a substantial portion of our management and financial resources, regardless of outcome, and may take years to ultimately resolve. If these proceedings are resolved unfavorably, our business and financial condition may be harmed.

Revenues

We have not generated any revenues from product sales to date, and we do not expect to generate revenues from product sales for at least the next several years, if at all. Our revenues to date have been generated substantially from research and milestone payments under our collaboration agreements. We have entered into three separate collaboration agreements with Allergan and one with Sepracor. We have also entered into a development agreement with The Stanley Medical Research Institute ("SMRI"), and smaller scale collaboration and license agreements with other parties. As of September 30, 2005, we had received $43.5 million in payments under these agreements, including research funding and related fees and upfront and milestone payments. We expect our revenues for the next several years to consist of payments under our current agreements and any additional collaborations, including potential upfront payments upon execution of new agreements, research funding and related fees throughout the research term of the agreements and milestone payments contingent upon achievement of agreed upon objectives.

Pursuant to the terms of our March 2003 collaboration agreement with Allergan, we had received an aggregate of $11.2 million in research funding and related fees through September 30, 2005, and we are entitled to receive additional research funding through March 2006, at which time the research term of this agreement will end, unless extended by the parties. In addition, we may receive milestone payments and royalties on product sales, if any, under each of our three collaboration agreements with Allergan. Pursuant to the terms of our January 2005 collaboration agreement with Sepracor, we had received $2.0 million in initial research funding through September 30, 2005, and we are entitled to receive additional research funding through January 2008. In addition, in connection with this collaboration, Sepracor purchased $10 million of our common stock at a 40 percent premium to the 30-day trailing average closing price. We recorded the aggregate premium amount of $3.1 million resulting from this stock purchase as deferred revenue, which we are recognizing as revenue over the research term. Pursuant to our collaboration with Sepracor, if certain conditions are met, we are also eligible to receive license fees and milestone payments as well as royalties on product sales, if any. Pursuant to our development agreement with SMRI, we are entitled to receive up to $5 million in funding to support the development of ACP-104, of which $2 million had been received as of September 30, 2005.

Each of our collaboration agreements is subject to early termination by the collaborator upon specified events, including if we breach the agreement or, in the case of one of our agreements with Allergan, if we have a change in control. Upon the conclusion of the research term under each agreement, our collaborator may terminate the agreement by notice.

Research and Development Expenses

Our research and development expenses consist primarily of salaries and related personnel expenses, fees paid to external service providers, laboratory supplies and costs for facilities and equipment. We charge all research and development expenses to operations as incurred. Our research and development activities are primarily focused on our most advanced clinical and preclinical programs. We are responsible for all costs incurred in the development of ACP-103 for both schizophrenia and treatment-induced dysfunctions in Parkinson's disease and in the development of ACP-104 for schizophrenia, as well as the costs associated with our other internal drug programs. We are not responsible for, nor have we incurred, development expenses, including costs related to clinical trials, in the drug programs that we are pursuing under our collaboration agreements, including our clinical program for neuropathic pain and our preclinical development program for glaucoma, each of which we are pursuing in collaboration with Allergan.

We use our internal research and development resources, including our employees and discovery infrastructure, across several projects and many of our costs are not attributable to a specific project but are directed to broadly applicable research activities. Accordingly, we do not report our internal research and development costs on a project basis. We use external service providers to manufacture our drug candidates to be used in clinical trials and for the majority of the services performed in connection with the preclinical and clinical development of our drug candidates. To the extent that costs associated with external service providers are not attributable to a specific project, they are included in other external costs. The following table summarizes our research and development expenses for the three and nine months ended September 30, 2005 and 2004, excluding stock-based compensation expense (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Costs of external service providers:				
ACP-103	$ 1,733	$ 1,055	$ 4,086	$ 3,566
ACP-104	388	510	706	674
Other	511	441	1,259	1,096
Subtotal	2,632	2,006	6,051	5,336
Internal costs	5,433	3,917	14,693	11,743
Total research and development	$ 8,065	$ 5,923	$20,744	$17,079

At this time, due to the risks inherent in the clinical trial process and given the early stage of development of our drug programs, we are unable to estimate with any certainty the costs we will incur in the continued development of our drug candidates for potential commercialization. Due to these same factors, we are unable to determine the anticipated completion dates for our current research and development programs. Clinical development timelines, probability of success, and development costs vary widely. While we are currently focused on advancing the clinical development of ACP-103 and ACP-104, we anticipate that we will make determinations as to which programs to pursue and how much funding to direct to each program on an ongoing basis in response to the scientific and clinical success of each drug candidate, as well as an ongoing assessment as to each drug candidate's commercial potential. In addition, we cannot forecast with any degree of certainty which drug candidates will be subject to future collaborative or licensing arrangements, when such arrangements will be secured, if at all, and to what degree such arrangements would affect our development plans and capital requirements. As a result, we cannot be certain when and to what extent we will receive cash inflows from the commercialization of our drug candidates.

We expect our research and development expenses to be substantial and to increase as we continue the development of our clinical programs and expand our discovery and development pipeline. The lengthy process of completing clinical trials and seeking regulatory approval for our drug candidates requires the expenditure of substantial resources. Any failure by us or delay in completing clinical trials, or in obtaining regulatory approvals could cause our research and development expenses to increase and, in turn, have a material adverse effect on our results of operations.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations is based on our consolidated financial statements. We have identified the accounting policies that we believe require application of management's most subjective judgments, often requiring the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. Our actual results may differ substantially from these estimates under different assumptions or conditions. While our significant accounting policies are described in more detail in the notes to consolidated financial statements included in this Quarterly Report and in our Annual Report, we believe that the following accounting policies require the application of significant judgments and estimates.

Revenue Recognition

We recognize revenues in accordance with SEC Staff Accounting Bulletin, or SAB, No. 104, *Revenue Recognition*. SAB No. 104 requires that four basic criteria must be met before revenue can be recognized: persuasive evidence of an arrangement exists; delivery has occurred or services have been rendered; the fee is fixed or determinable; and collectibility is reasonably assured. Our revenues are primarily related to our collaboration agreements, and such agreements provide for various types of payments to us, including research funding and related fees, upfront payments, milestone payments, and royalties. We analyze our multiple element arrangements to determine whether the elements can be separated and accounted for individually as separate units of accounting in accordance with EITF 00-21, *Revenue Arrangements with Multiple Deliverables*.

Upfront, nonrefundable payments under collaboration agreements are recognized ratably over the term of the agreement. Payments for research funding are recognized as revenues as the related research activities are performed. Our collaborations do not require scientific achievement as a performance obligation and amounts received under the agreements are nonrefundable. Revenues from nonrefundable milestones are recognized when earned, provided that (i) the milestone event is substantive and its achievability was not reasonably assured at the inception of the agreement and (ii) we do not have ongoing performance obligations. Any amounts received under the agreements in advance of performance are recorded as deferred revenue. Revenues from licenses of our technology are generally recognized at the inception of the license term. When arrangements contain extended payment terms, revenues are recognized upon the receipt of the payment. None of the revenues recognized to date are refundable even if the related research activities are not successful.

Accrued Expenses

We are required to estimate accrued expenses as part of our process of preparing financial statements. This process involves estimating the level of service performed on our behalf and the associated cost incurred in instances where we have not been invoiced or otherwise notified of actual costs. Examples of areas in which subjective judgments may be required include costs associated with services provided by contract organizations for preclinical development, manufacturing of clinical materials, and clinical trials. We account for expenses associated with these external services by determining the total cost of a given study or service based on the terms of the related contract. We accrue for costs incurred as the services are being provided by monitoring the status of the trials or services provided, and the invoices received from our external service providers. In the case of clinical trials, a portion of the estimated cost normally relates to the projected cost to treat a patient in our trials and we recognize this cost over the estimated term of the study based on the number of patients enrolled in the trial on an ongoing basis, beginning with patient enrollment. As actual costs become known to us, we adjust our accruals. To date, our estimates have not differed significantly from the actual costs incurred. However, we expect to expand the level of our clinical trials and related research and development services in the future. As a result, we anticipate that our estimated accruals for clinical and research services will be more material to our operations in future periods. Subsequent changes in estimates may result in a material change in our accrual, which could also materially affect our balance sheet and results of operations.

Stock-based Compensation

We account for employee stock options using the intrinsic value method in accordance with Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations, and provide pro forma disclosures of net income (loss) as if a fair value method had been applied in measuring compensation expense. Stock compensation expense, which is a non-cash charge, is measured as the excess, if any, of the fair value of our underlying common stock at the date of grant over the amount an employee must pay to acquire such stock. This compensation cost is amortized over the related vesting periods, generally four years, using an accelerated method.

In December 2004, the FASB issued SFAS No. 123 (revised 2004), Share-Based Payment, or SFAS 123(R), which requires that compensation costs relating to share-based payment transactions be recognized in financial statements. We are required to implement SFAS 123(R) in the first quarter of 2006. We are currently evaluating the requirements of SFAS 123(R) and we have not yet fully determined the impact on our consolidated financial statements.

Results of Operations

Fluctuations in Operating Results

Our results of operations have fluctuated significantly from period to period in the past and are likely to continue to do so in the future. We anticipate that our quarterly and annual results of operations will be impacted for the foreseeable future

by several factors, including the timing and amount of payments received pursuant to our current and future collaborations, and the progress and timing of expenditures related to our discovery and development efforts. Due to these fluctuations, we believe that the period-to-period comparisons of our operating results are not a good indication of our future performance.

Comparison of the Three Months Ended September 30, 2005 and 2004

Revenues

Revenues increased to $3.7 million for the three months ended September 30, 2005 from $1.6 million for the three months ended September 30, 2004. This increase was primarily due to $985,000 in revenues recognized under our collaboration agreement with Sepracor, which commenced in January 2005, increased revenues from our collaboration agreements with Allergan, and $500,000 in revenues earned pursuant to our agreement with SMRI during the three months ended September 30, 2005. Revenues from our collaboration agreements with Allergan increased to $2.1 million for the three months ended September 30, 2005 from $1.5 million for the comparable period of 2004. This increase was primarily due to increased milestone payments earned during the three months ended September 30, 2005 relative to the comparable period of 2004.

Research and Development Expenses

Research and development expenses increased to $8.1 million for the three months ended September 30, 2005 from $5.9 million for the three months ended September 30, 2004. This increase was primarily due to $626,000 in increased fees paid to external service providers, and $1.5 million in increased costs associated with our internal research and development activities, comprised of $1.0 million in increased salaries and related personnel costs, including costs associated with expansion of our research and development organization and employee termination costs, $249,000 in increased laboratory supplies, and increased facility and other costs. External service costs totaled $2.6 million, or 33 percent of our research and development expenses, for the three months ended September 30, 2005, compared to $2.0 million, or 34 percent of our research and development expenses, for the comparable period in 2004. The increase in external service costs for the three months ended September 30, 2005 relative to the comparable period of 2004 was primarily attributable to increased clinical development expenses associated with ACP-103. We expect that our research and development costs will increase significantly in future periods as we continue to pursue the clinical development of our lead drug candidates and expand our discovery and development pipeline.

General and Administrative Expenses

General and administrative expenses increased to $2.1 million for the three months ended September 30, 2005 from $1.3 million for the three months ended September 30, 2004. The increase in general and administrative expenses was primarily due to $511,000 in increased professional fees, including increased costs associated with operating as a public company and costs related to litigation, $193,000 in increased salaries and related personnel costs, and increased facility and other costs. We anticipate increases in general and administrative expenses in future periods as we continue to expand our administrative organization and incur additional costs associated with operating as a public company, costs related to litigation, and costs to support the future operations and growth of our organization.

Provision for Loss From Litigation

During the three months ended September 30, 2005, we recorded a charge of $5.9 million, which amount represented the aggregate amount of damages awarded pursuant to the jury verdict against us together with $422,000 awarded for plaintiff’s fees and costs, net of $2.5 million in remaining proceeds which may be received under our employment practices liability insurance policy. While we have filed a notice of appeal and intend to contest the verdict vigorously, there can be no assurance that ultimately we will prevail.

Stock-Based Compensation Expenses

Stock-based compensation expenses totaled $462,000 for the three months ended September 30, 2005, compared to $670,000 for the three months ended September 30, 2004. The decrease in stock-based compensation expenses resulted largely from a decrease in the amortization of deferred stock-based compensation associated with employee stock options.

Interest Income

Interest income increased to $547,000 for the three months ended September 30, 2005 from $204,000 for the three months ended September 30, 2004. The increase in interest income was primarily due to higher average levels of cash and investment securities and, to a lesser extent, increased yields on our investment portfolio.

Interest Expense

Interest expense decreased to $40,000 for the three months ended September 30, 2005 from $96,000 for the three months ended September 30, 2004. The decrease in interest expense was primarily due to repayments under our loan agreements.

Comparison of the Nine Months Ended September 30, 2005 and 2004

Revenues

Revenues increased to $8.5 million for the nine months ended September 30, 2005 from $3.5 million for the comparable period of 2004. This increase was primarily due to $2.7 million in revenues recognized under our collaboration agreement with Sepracor, which commenced in January 2005, $1.5 million in revenues earned pursuant to our agreement with SMRI, and increased revenues from our collaboration agreements with Allergan during the nine months ended September 30, 2005. Revenues from our collaboration agreements with Allergan increased to $4.2 million for the nine months ended September 30, 2005 from $3.4 million for the comparable period of 2004. This increase was primarily due to increased milestone payments earned during the nine months ended September 30, 2005 relative to the comparable period of 2004.

Research and Development Expenses

Research and development expenses increased to $20.7 million for the nine months ended September 30, 2005 from $17.1 million for the comparable period of 2004. This increase was primarily due to $3.0 million in increased costs associated with our internal research and development activities, comprised of $2.1 million in increased salaries and related personnel costs, primarily related to expansion of our research and development organization, $498,000 in increased equipment and facilities expenses, and increased laboratory supply and other costs, as well as $715,000 in increased fees paid to external service providers. External service costs totaled $6.1 million, or 29 percent of our research and development expenses, for the nine months ended September 30, 2005 compared to $5.3 million, or 31 percent of our research and development expenses, for the comparable period in 2004.

General and Administrative Expenses

General and administrative expenses increased to $5.8 million for the nine months ended September 30, 2005 from $3.1 million for the comparable period of 2004. This increase was primarily due to $1.4 million in increased professional fees and insurance costs, including increased costs associated with operating as a public company and costs related to litigation, $942,000 in increased salaries and related personnel costs, and $349,000 in increased facility and other administrative costs.

Provision for Loss from Litigation

During the nine months ended September 30, 2005, we recorded a charge of $5.9 million, which amount represented the aggregate amount of damages awarded pursuant to the jury verdict against us together with $422,000 awarded for plaintiff's fees and costs, net of $2.5 million in remaining proceeds which may be received under our employment practices liability insurance policy. While we have filed a notice of appeal and intend to contest the verdict vigorously, there can be no assurance that ultimately we will prevail.

Stock-Based Compensation Expenses

Stock-based compensation expense totaled $1.2 million for the nine months ended September 30, 2005, compared to $2.0 million for the comparable period of 2004. The decrease in stock-based compensation expense resulted largely from a decrease in the amortization of deferred stock-based compensation associated with employee stock options.

Interest Income

Interest income increased to $1.3 million for the nine months ended September 30, 2005 from $409,000 for the comparable period in 2004. The increase in interest income was primarily due to higher average levels of cash and investment securities and, to a lesser extent, increased yields on our investment portfolio.

Interest Expense

Interest expense decreased to $128,000 for the nine months ended September 30, 2005 from $351,000 for the comparable period in 2004. The decrease in interest expense was primarily due to repayments under our loan agreements.

Liquidity and Capital Resources

Since inception, we have funded our operations primarily through sales of our equity securities, payments under our collaboration agreements, debt financings, and interest income. As of September 30, 2005, we had received $156.2 million in net proceeds from sales of our equity securities, including $6.9 million in debt we had retired through the issuance of our stock, $43.5 million in payments from collaboration agreements, $19.9 million in debt financing, and $7.4 million in interest income.

At September 30, 2005, we had approximately $62.7 million in cash, cash equivalents and investment securities compared to $35.9 million at December 31, 2004. We have invested a substantial portion of our available cash in investment securities consisting of high quality, marketable debt instruments of corporations, financial institutions and government agencies. We have adopted an investment policy and established guidelines relating to diversification and maturities of our investments to preserve principal and maintain liquidity.

Net cash used in operating activities decreased to $13.2 million for the nine months ended September 30, 2005 compared to $14.0 million for the nine months ended September 30, 2004. This decrease was primarily due to an increase of $8.4 million in accrued loss from litigation and an increase of $3.0 million in deferred revenue from our collaboration agreements during the nine months ended September 30, 2005, compared to an increase of $334,000 in deferred revenue during the comparable period in 2004, partially offset by an increase of $3.4 million in our prepaid expenses, receivables and other current assets, an increase in our net loss and a decrease in accounts payable. The increase in deferred revenue during the nine months ended September 30, 2005 was largely attributable to payments from our collaboration with Sepracor, including a portion of the premium amount of $3.1 million resulting from Sepracor's purchase of $10 million of our common stock in January 2005.

Net cash used in investing activities other than purchases and maturities of investment securities reflects our purchases of property and equipment. We fund the majority of our purchases of property and equipment through equipment financing agreements and other debt facilities.

Net cash provided by financing activities totaled $40.8 million for the nine months ended September 30, 2005, compared to $30.4 million for the nine months ended September 30, 2004. The net cash provided by financing activities in the nine months ended September 30, 2005 was primarily due to $41.5 million in net proceeds received from sales of our equity securities, including $34.0 million received from the sale of common stock and warrants to purchase common stock in our April 2005 private placement and $6.9 million resulting from the purchase of common stock by Sepracor, which amount does not include the $3.1 million premium received in connection with this stock purchase, partially offset by net repayments of our long-term debt. Sepracor has agreed to purchase an additional $10 million of our common stock in January 2006 at a 25 percent premium to the then 30-day trailing average closing price, subject to specified closing conditions set forth in a stock purchase agreement entered into by the parties. The net cash provided by financing activities for the nine months ended September 30, 2004 was primarily due to net proceeds of approximately $31.1 million raised in our initial public offering, offset by net repayments of our long-term debt.

We have entered into equipment financing agreements from time to time, which we have utilized to fund the majority of our property and equipment acquisitions. The agreements contain interest rates ranging from 7.93 to 9.58 percent per annum. At September 30, 2005, we had $1.8 million in outstanding borrowings under these agreements, which are secured by the related equipment. We were in compliance with required financial covenants and conditions at September 30, 2005.

The following table summarizes our contractual obligations at September 30, 2005 and includes the minimum lease obligations under the lease extension for our primary facilities entered into on November 1, 2005:

	Total	Less than 1 Year	1 - 3 Years (2006-2009)	4 - 5 Years (2009-2010)	After 5 Years
Operating leases	$ 13,071,000	$ 1,830,500	$ 4,855,900	$ 1,925,100	$ 4,459,500
Long-term debt	2,053,600	1,049,400	1,004,200	—	—
Total	$ 15,124,600	$ 2,879,900	$ 5,860,100	$ 1,925,100	$ 4,459,500

We have also entered into agreements with contract research organizations and other external service providers for services in connection with the development of our drug candidates. We were contractually obligated for up to approximately $5.9 million of future services under these agreements as of September 30, 2005. The nature of the work being conducted under our agreements with contract research organizations is such that, in most cases, the services may be stopped with short notice. In such event, we would not be liable for the full amount of the contract. Our actual contractual obligations may vary depending upon several factors, including the results of the underlying studies.

We have consumed substantial amounts of capital since our inception. We anticipate that our cash and investment securities will total approximately $52 to $55 million at December 31, 2005. Although we believe our existing cash resources and the anticipated payments from existing agreements with our collaborators will be sufficient to fund our anticipated cash requirements through at least mid-2007, we will require significant additional financing in the future to fund our operations. After September 30, 2005, we filed a bond with the San Diego Superior Court for $12.5 million that is backed by a letter of credit in the amount of $12.5 million, which in turn is collateralized by approximately $17.0 million of our cash and investment securities.

Our future capital requirements will depend on, and could increase significantly as a result of, many factors, including:

- progress in, and the costs of, our preclinical studies and clinical trials and other research and development programs;
- the scope, prioritization and number of research and development programs;
- the ability of our collaborators and us to reach the milestones, and other events or developments, under our collaboration agreements;
- the costs involved in filing, prosecuting, enforcing and defending patent claims and other intellectual property rights;
- the costs of securing manufacturing arrangements for clinical or commercial production of drug candidates;
- the costs of establishing, or contracting for, sales and marketing capabilities if we obtain regulatory clearances to market our drug candidates; and
- the costs associated with litigation.

Until we can generate significant continuing revenues, we expect to satisfy our future cash needs through strategic collaborations, private or public sales of our securities, debt financings, or by licensing all or a portion of our drug candidates or technology. We cannot be certain that additional funding will be available to us on acceptable terms, or at all. If funds are not available, we may be required to delay, reduce the scope of, or eliminate one or more of our research or development programs or our commercialization efforts.

To date, we have not had any relationships with unconsolidated entities or financial partnerships, such as entities referred to as structured finance or special purpose entities, which are established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

RISK FACTORS

You should consider carefully the following information about the risks described below, together with the other information contained in this report and in our other public filings in evaluating our business. If any of the following risks actually occurs, our business, financial condition, results of operations and future growth prospects would likely be materially and adversely affected. In these circumstances, the market price of our common stock would likely decline.

Risks Related to Our Business

We expect our net losses to continue for at least several years and are unable to predict the extent of future losses or when we will become profitable, if ever.

We have experienced significant net losses since our inception. As of September 30, 2005, we had an accumulated deficit of approximately $118.2 million. We expect our annual net losses to increase over the next several years as we expand our research and development activities, incur significant preclinical and clinical development costs, and enhance our infrastructure.

We have not received, and do not expect to receive for at least the next several years, any revenues from the commercialization of our drug candidates. Substantially all of our revenues for the three and nine months ended September 30, 2005 were from our agreements with Allergan, Sepracor and SMRI. We anticipate that collaborations with pharmaceutical companies will continue to be our primary source of revenues for the next several years, which provide us with research funding and potential milestone payments and royalties. We cannot be certain that the milestones required to trigger payments under our existing collaborations will be reached or that we will secure additional collaboration agreements. To obtain revenues from our drug candidates, we must succeed, either alone or with others, in developing, obtaining regulatory approval for, and manufacturing and marketing drugs with significant market potential. We may never succeed in these activities, and may never generate revenues that are significant enough to achieve profitability.

Our most advanced clinical products are in clinical trials, which are long, expensive and unpredictable, and there is a high risk of failure.

Preclinical testing and clinical trials are long, expensive and unpredictable processes that can be subject to delays. It may take several years to complete the preclinical testing and clinical development necessary to commercialize a drug, and delays or failure can occur at any stage. Interim results of clinical trials do not necessarily predict final results, and success in preclinical testing and early clinical trials does not ensure that later clinical trials will be successful. A number of companies in the pharmaceutical and biotechnology industries have suffered significant setbacks in advanced clinical trials even after promising results in earlier trials.

All of our drug candidates are at an early stage of development and the historical rate of failures for drug candidates is extremely high. Our three internal Phase II-stage clinical programs are ACP-103 as an adjunctive therapy for schizophrenia, ACP-103 for treatment-induced dysfunctions in Parkinson’s disease, and ACP-104 for the treatment of schizophrenia. We also have a neuropathic pain program in an initial exploratory Phase II clinical trial in collaboration with Allergan.

In connection with clinical trials, we face risks that:

- a drug candidate may not prove to be efficacious;
- patients may die or suffer other adverse effects for reasons that may or may not be related to the drug candidate being tested;
- the results may not confirm the positive results of earlier trials; and
- the results may not meet the level of statistical significance required by the Food and Drug Administration, or FDA, or other regulatory agencies.

If we do not successfully complete preclinical and clinical development, we will be unable to market and sell products derived from our drug candidates and to generate product revenues. Even if we do successfully complete Phase I and Phase II clinical trials, those results are not necessarily predictive of results of additional trials needed before a new drug application, or NDA, may be submitted to the FDA. Of the large number of drugs in development, only a small percentage result in the submission of an NDA to the FDA and even fewer are approved for commercialization.

Delays, suspensions and terminations in our clinical trials could result in increased costs to us and delay our ability to generate product revenues.

The commencement of clinical trials can be delayed for a variety of reasons, including delays in:

- demonstrating sufficient safety and efficacy to obtain regulatory approval to commence a clinical trial;
- reaching agreement on acceptable terms with prospective contract research organizations and clinical trial sites;
- manufacturing sufficient quantities of a drug candidate;
- obtaining approval of an NDA from the FDA;
- obtaining institutional review board approval to conduct a clinical trial at a prospective clinical trial site; and
- insufficient patient enrollment, which is a function of many factors, including the size of the patient population, the nature of the protocol, the proximity of patients to clinical trial sites, the availability of effective treatments for the relevant disease and the eligibility criteria for the clinical trial.

Once a clinical trial has begun, it may be delayed, suspended or terminated due to a number of factors, including:

- ongoing discussions with regulatory authorities regarding the scope or design of our clinical trials or requests by them for supplemental information with respect to our clinical trial results;
- failure to conduct clinical trials in accordance with regulatory requirements;
- lower than anticipated retention rate of patients in clinical trials;
- serious adverse events or side effects experienced by participants; and
- insufficient supply or deficient quality of drug candidates or other materials necessary for the conduct of our clinical trials.

Many of these factors may also ultimately lead to denial of regulatory approval of a current or potential drug candidate. If we experience delays, suspensions or terminations in our clinical trials, the commercial prospects for that drug candidates will be harmed, and our ability to generate product revenues will be delayed.

If we fail to obtain the capital necessary to fund our operations, we will be unable to successfully develop products.

We have consumed substantial amounts of capital since our inception. For the year ended December 31, 2004, we used $20.7 million in cash to fund our operating activities and additional cash for purchases of property and equipment and repayment of long-term debt. For the nine months ended September 30, 2005, we used $13.2 million in cash to fund our operating activities and additional cash for purchases of property and equipment and repayment of long-term debt. We anticipate that our cash and investment securities will total approximately $52 to $55 million at December 31, 2005. Although we believe our existing cash resources and anticipated payments from existing agreements with our collaborators will be sufficient to fund our anticipated cash requirements through at least mid-2007, we will require significant additional financing in the future to continue to fund our operations. Our future capital requirements will depend on, and could increase significantly as a result of, many factors, including:

- progress in, and the costs of, our preclinical studies and clinical trials and other research and development programs;
- the scope, prioritization and number of our research and development programs;

- the ability of our collaborators and us to reach the milestones, and other events or developments, triggering payments under our collaboration agreements or to otherwise make payments under these agreements;
- the costs involved in filing, prosecuting, enforcing and defending patent claims and other intellectual property rights;
- the costs of securing manufacturing arrangements for clinical or commercial production;
- the costs of establishing or contracting for sales and marketing capabilities if we obtain regulatory clearances to market our drug candidates; and
- the costs associated with litigation.

Until we can generate significant continuing revenues, we expect to satisfy our future cash needs through strategic collaborations, private or public sales of our securities, debt financings, or by licensing all or a portion of our drug candidates or technology. We cannot be certain that additional funding will be available to us on acceptable terms, if at all. If funds are not available, we may be required to delay, reduce the scope of, or eliminate one or more of our research or development programs or our commercialization efforts. Additional funding may significantly dilute existing stockholders.

We depend on collaborations with third parties to develop and commercialize selected drug candidates and to provide the majority of our revenues.

A key aspect of our strategy is to selectively enter into collaborations with third parties. We currently rely, and will continue to rely, on our collaborators for financial resources and for development, commercialization and regulatory expertise for selected drug candidates. Substantially all of our revenues for the three and nine months ended September 30, 2005 were from our agreements with Allergan, Sepracor and SMRI. We expect that nearly all of our revenues for the foreseeable future will be generated by collaborations, although there is no guarantee that revenues from our collaborations will continue at current or past levels.

Our collaborators may fail to develop or effectively commercialize products using our drug candidates or technologies because they:

- do not have sufficient resources or decide not to devote the necessary resources due to internal constraints such as limited cash or human resources;
- decide to pursue a competitive product developed outside of the collaboration; or
- cannot obtain the necessary regulatory approvals.

The continuation of our collaborations is dependent on our collaborators' periodic renewal of the governing agreements. Allergan and Sepracor can terminate our existing collaborations before the full term of these collaborations under specific circumstances, including in some cases the right to terminate upon notice. We may not be able to renew these collaborations on acceptable terms, if at all. In particular, the research term of our 2003 collaboration with Allergan will expire in March 2006, unless extended by the parties. We also face competition in our search for new collaborators.

If conflicts arise with our collaborators, they may act in their self interests, which may be adverse to our interests.

Conflicts may arise in our collaborations due to one or more of the following:

- disputes with respect to payments that we believe are due under the applicable agreements;
- disagreements with respect to ownership of intellectual property rights;
- unwillingness on the part of a collaborator to keep us informed regarding the progress of its development and commercialization activities, or to permit public disclosure of these activities;

- delay of a collaborator's development or commercialization efforts with respect to our drug candidates; or
- termination or non-renewal of the collaboration.

Conflicts arising with our collaborators could harm our reputation, result in a loss of revenues, reduce our cash position and cause a decline in our stock price.

In addition, in each of our collaborations, we generally have agreed not to conduct independently, or with any third party, any research that is directly competitive with the research conducted under our collaborations. Our collaborations may have the effect of limiting the areas of research that we may pursue, either alone or with others. Our collaborators, however, may develop, either alone or with others, products in related fields that are competitive with the products or potential products that are the subject of these collaborations.

We have collaborations with Allergan for the development of drug candidates related to neuropathic pain and opthalmic diseases, including glaucoma. Allergan currently markets therapeutic products to treat glaucoma and is engaged in other research programs related to glaucoma and other ophthalmic products that are independent from our development program in this therapeutic area. Allergan is also pursuing other research programs related to pain management that are independent from our collaboration in this therapeutic area. Our collaboration with Sepracor is targeted toward the development of new drug candidates to treat central nervous system disorders. Sepracor currently is engaged in other research programs related to this field that are independent from our collaboration project in this therapeutic area. In addition, our collaboration with Sepracor includes an option to pursue a combination drug to treat sleep disorders. Sepracor currently markets a therapeutic product to treat sleep disorders and is engaged in other research programs related to this field that are independent from our development program in this therapeutic area. Competing products, either developed by our collaborators or to which our collaborators have rights, may result in the allocation of resources by our competitors to competing products and their withdrawal of support for our drug candidates or may otherwise result in lower demand for our potential products.

We rely on third parties to conduct our clinical trials and perform data collection and analysis, which may result in costs and delays that prevent us from successfully commercializing drug candidates.

Although we design and manage our current preclinical studies and clinical trials, we currently do not have the ability to conduct clinical trials for our drug candidates. In addition to our collaborators, we rely on contract research organizations, medical institutions, clinical investigators and contract laboratories to perform data collection and analysis and other aspects of our clinical trials. In addition, we also rely on third parties to assist with our preclinical studies, including studies regarding biological activity, safety, absorption, metabolism, and excretion of drug candidates.

Our preclinical development activities or clinical trials may be delayed, suspended or terminated if:

- these third parties do not successfully carry out their contractual duties or fail to meet regulatory obligations or expected deadlines;
- these third parties need to be replaced; or
- the quality or accuracy of the data obtained by third parties is compromised due to their failure to adhere to our clinical protocols or regulatory requirements or for other reasons.

Failure to perform by these third parties may increase our development costs, delay our ability to obtain regulatory approval, and delay or prevent the commercialization of our drug candidates. We currently use several contract research organizations to perform services for our preclinical studies and clinical trials. While we believe that there are numerous alternative sources to provide these services, in the event that we seek such alternative sources, we may not be able to enter into replacement arrangements without delays or additional expenditures.

Even if we successfully complete the clinical trials of our drug candidates, they may fail for other reasons.

Even if we successfully complete the clinical trials of our drug candidates, they may fail for other reasons, including the possibility that the drug candidates will:

- fail to receive the regulatory clearances required to market them as drugs;
- be subject to proprietary rights held by others requiring the negotiation of a license agreement prior to marketing;
- be difficult or expensive to manufacture on a commercial scale;
- have adverse side effects that make their use less desirable; or
- fail to compete with drug candidates or other treatments commercialized by our competitors.

Our drug candidates may not gain acceptance among physicians, patients and the medical community, thereby limiting our potential to generate revenues.

Even if our drug candidates are approved for commercial sale by the FDA or other regulatory authorities, the degree of market acceptance of any approved drug candidate by physicians, healthcare professionals and third-party payors and our profitability and growth will depend on a number of factors, including:

- our ability to provide acceptable evidence of safety and efficacy;
- relative convenience and ease of administration;
- the prevalence and severity of any adverse side effects;
- availability of alternative treatments;
- pricing and cost effectiveness, which may be subject to regulatory control;
- effectiveness of our or our collaborators' sales and marketing strategy; and
- our ability to obtain sufficient third-party insurance coverage or reimbursement.

If any drug candidate that we discover and develop does not provide a treatment regimen that is as beneficial as the current standard of care or otherwise does not provide patient benefit, that product will not achieve market acceptance and we will not generate sufficient revenues to achieve or maintain profitability.

We do not know whether one of our drug candidates, ACP-104, will have the same adverse effects as clozapine, a currently available therapy.

One of our drug candidates under development is ACP-104 for the treatment of schizophrenia. ACP-104 is formed in the body from clozapine, a generic drug that is currently approved as a "second-line" therapy for schizophrenia in the United States. This means that clozapine will only be prescribed to a patient after a doctor determines that the patient has failed to progress under a "first-line" therapy consisting of antipsychotic drugs. Clozapine is associated with the occurrence of a rare and potentially fatal blood disorder leading to a complete loss of white blood cells, known as agranulocytosis, in approximately 1 percent of patients treated with clozapine. As a result, patients being treated with clozapine are subject to weekly or bi-weekly blood monitoring. In addition, one of the other side effects of clozapine is the occurrence of seizures, which is found in approximately 5 percent of users. ACP-104 may have the same adverse effects of clozapine or other significant adverse effects and, if successfully developed, may also only be approved as a "second-line" therapy. These factors could substantially limit the commercial potential of ACP-104 and may substantially restrict its potential market.

If we are unable to attract, retain and motivate key management and scientific staff, our drug development programs and our research and discovery efforts may be delayed and we may be unable to successfully develop or commercialize our drug candidates.

Our success depends on our ability to attract, retain and motivate highly qualified management and scientific personnel. In particular, our drug discovery and development programs depend on our ability to attract and retain highly skilled chemists, biologists, pharmacologists and development personnel, especially in the fields of central nervous system disorders, including neuropsychiatric and pain disorders. We will need to hire additional personnel as we continue to expand our clinical development and other research and development activities. We face competition for experienced scientists and other

technical personnel from numerous companies and academic and other research institutions. Competition for qualified personnel is particularly intense in the San Diego, California area. If we are unable to attract and retain the necessary personnel, this will significantly impede the achievement of our research and development objectives and our ability to meet the demands of our collaborators in a timely fashion.

Although we have employment agreements with key members of management, all of our employees are "at will" employees, which means that any employee may quit at any time and we may terminate any employee at any time. We do not carry "key person" insurance covering members of senior management.

We do not know whether our drug discovery platform will lead to the discovery or development of commercially viable drug candidates.

Our drug discovery platform uses new and unproven methods to identify and develop drug candidates. We have never successfully completed clinical development of any of our drug candidates, and there are no drugs on the market that have been discovered using our drug discovery platform.

Much of our research focuses on small molecule drugs for the treatment of central nervous system disorders. Due to our limited resources, we may have to forego potential opportunities with respect to discovering drug candidates to treat diseases or conditions in other areas. If we are not able to use our technologies to discover and develop drug candidates that can be commercialized, we may not achieve profitability. In the future, we may find it necessary to license the technology of others or acquire additional drug candidates to augment the results of our internal discovery activities. If we are unable to identify new drug candidates using our drug discovery platform, we may be unable to establish or maintain a clinical development pipeline or generate product revenues.

We may not be able to continue or fully exploit our collaborations with outside scientific and clinical advisors, which could impair the progress of our clinical trials and our research and development efforts.

We work with scientific and clinical advisors at academic and other institutions who are experts in the field of central nervous system disorders. They assist us in our research and development efforts and advise us with respect to our clinical trials. These advisors are not our employees and may have other commitments that would limit their future availability to us. Although our scientific and clinical advisors and collaborators generally agree not to engage in competing work, if a conflict of interest arises between their work for us and their work for another entity, we may lose their services, which may impair our reputation in the industry and delay the development of our drug candidates.

We will need to increase the size of our organization, and we may encounter difficulties managing our growth, which could adversely affect our results of operations.

We will need to expand and effectively manage our operations and facilities in order to advance our drug development programs, achieve milestones under our collaboration agreements, facilitate additional collaborations and pursue other development activities. It is possible that our human resources and infrastructure may be inadequate to support our future growth. To manage our growth, we will be required to continue to improve our operational, financial and management controls, reporting systems and procedures in at least two countries and to attract and retain sufficient numbers of talented employees. In addition, we may have to develop sales, marketing and distribution capabilities if we decide to market any drug that we may successfully develop. We may not successfully manage the expansion of our operations and, accordingly, may not achieve our research, development and commercialization goals.

We face financial and administrative challenges in coordinating the operations of our European activities with our activities in California, which could have an adverse impact on our operations.

In June 2005, we consolidated our chemistry operations in a single research and development facility located in Malmo, Sweden. We have incurred and are likely to incur additional costs in setting up and adjusting to operations in a new country with a new Swedish subsidiary. Our subsidiary in Sweden, ACADIA Pharmaceuticals AB, employs approximately 32 percent of our total personnel and is engaged in research and development activities, with primary responsibility for combinatorial, medicinal and analytical chemistry. Our principal executive offices, however, are located in San Diego. The additional administrative expense required to follow and coordinate activities in both Europe and California could divert management resources from other important endeavors and, in turn, delay any development and commercialization efforts. In addition, currency fluctuations involving our Swedish operations may cause foreign currency translation gains and losses. These exchange-rate fluctuations could have a negative effect on our operations. We do not engage in currency hedging transactions.

We expect that our results of operations will fluctuate, which may make it difficult to predict our future performance from period to period.

Our quarterly operating results have fluctuated in the past and are likely to do so in the future. Some of the factors that could cause our operating results to fluctuate from period to period include:

- the status of development of ACP-103 and ACP-104 and the preclinical and clinical development of our other drug candidates;
- whether we generate revenues by achieving specified research or commercialization milestones under any agreements or otherwise receive potential payments under these agreements;
- the incurrence of preclinical or clinical expenses that could fluctuate significantly from period to period;
- the initiation, termination or reduction in the scope of our collaborations during these periods or any disputes regarding these collaborations;
- the timing of our satisfaction of applicable regulatory requirements;
- the rate of expansion of our clinical development and other internal research and development efforts;
- the effect of competing technologies and products and market developments;
- the costs associated with litigation; and
- general and industry specific economic conditions.

We believe that quarterly comparisons of our financial results are not necessarily meaningful and should not be relied upon as an indication of our future performance.

Relying on third-party manufacturers may result in delays in our clinical trials and product introductions.

We have no manufacturing facilities and have no experience in the manufacturing of drugs or in designing drug-manufacturing processes. We have contracted with third-party manufacturers to produce, in collaboration with us, our drug candidates for clinical trials. If any of our drug candidates are approved by the FDA or other regulatory agencies for commercial sale, we may need to contract with a third party to manufacture them in larger quantities. We currently use third-party manufacturers to produce ACP-103 and ACP-104 for us. While we believe that there are alternative sources available to manufacture our drug candidates, in the event that we seek such alternative sources, we may not be able to enter into replacement arrangements without delays or additional expenditures. We cannot estimate these delays or costs with certainty but do not expect them to be material.

Our manufacturers are obliged to operate in accordance with FDA-mandated current good manufacturing practices, or cGMPs. A failure of any of our contract manufacturers to establish and follow cGMPs and to document their adherence to such practices may lead to significant delays in clinical trials or obtaining regulatory approval of drug candidates or the ultimate launch of our products into the market. Failure by our third-party manufacturers or us to comply with applicable

regulations could result in sanctions being imposed on us, including fines, injunctions, civil penalties, failure of the government to grant premarket approval of drugs, delays, suspension or withdrawal of approvals, seizures or recalls of products, operating restrictions and criminal prosecutions.

Our management has broad discretion over the use of our cash and we may not use our cash effectively, which could adversely affect our results of operations.

Our management has significant flexibility in applying our cash resources and could use these resources for corporate purposes that do not increase our profitability or our market value, or in ways with which our stockholders may not agree. We may use our cash resources for corporate purposes that do not yield a significant return or any return at all for our stockholders, which may cause our stock price to decline.

We will incur increased costs as a result of recently enacted and proposed changes in laws and regulations relating to corporate governance and other matters.

Recently enacted and proposed changes in the laws and regulations affecting public companies, including the provisions of the Sarbanes-Oxley Act of 2002, or SOA, and rules adopted or proposed by the SEC and by the Nasdaq Stock Market, will result in increased costs to us as we evaluate the implications of any new rules and respond to their requirements. Although we are not required to issue an evaluation of our internal control over financial reporting under Section 404 of SOA until March 2006, at the earliest, preparations for the issuance of this report have already resulted in increased costs to us, which will increase further. If we are not able to issue an evaluation of our internal control over financial reporting as required or we or our independent registered public accounting firm determine that our internal control over financial reporting is not effective, this shortcoming could have an adverse effect on our business and financial results and the price of our common stock could be negatively affected. The new rules could make it more difficult or more costly for us to obtain certain types of insurance, including director and officer liability insurance, and we may be forced to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. The impact of these events could also make it more difficult for us to attract and retain qualified persons to serve on our board of directors, our board committees and as executive officers. We cannot predict or estimate the amount of the additional costs we may incur or the timing of such costs to comply with these rules and regulations.

Changes in stock option accounting treatment will adversely affect our results of operations.

Changes in stock option accounting treatment commencing January 1, 2006 will require us to account for employee stock options as compensation expense in our financial statements. In December 2004, the Financial Accounting Standards Board, or FASB, issued SFAS No. 123 (revised 2004), Share-Based Payment, or SFAS 123(R), which requires that compensation costs relating to share-based payment transactions be recognized in financial statements. We are required to implement SFAS 123(R) in our first quarter of 2006. We are currently evaluating the requirements of SFAS 123(R) and we have not yet fully determined the impact on our consolidated financial statements. However, implementation of SFAS 123(R) could materially, and will adversely, affect our reported results of operations and our timing to achieve profitability.

If we are unable to establish sales and marketing capabilities or enter into agreements with third parties to sell and market any products we may develop, we may not be able to generate product revenue.

We do not currently have an organization for the sales, marketing and distribution of pharmaceutical products. In order to market any products that may be approved by the FDA, we must build our sales, marketing, managerial and other non-technical capabilities or make arrangements with third parties to perform these services. If we are unable to establish adequate sales, marketing and distribution capabilities, whether independently or with third parties, we may not be able to generate product revenue and may not become profitable.

If we engage in any acquisition, we will incur a variety of costs and may never realize the anticipated benefits of the acquisition.

We may attempt to acquire businesses, technologies, services, or products or license in technologies that we believe are a strategic fit with our business. We have limited experience in identifying acquisition targets, successfully completing proposed acquisitions and integrating any acquired businesses, technologies, services or products into our current infrastructure. The process of integrating any acquired business, technology, service or product may result in unforeseen operating difficulties and expenditures and may divert significant management attention from our ongoing business operations. As a result, we will incur a variety of costs in connection with an acquisition and may never realize its anticipated benefits.

Earthquake damage to our facilities could delay our research and development efforts and adversely affect our business.

Our headquarters and research and development facilities in San Diego are located in a seismic zone, and there is the possibility of an earthquake, which could be disruptive to our operations and result in delays in our research and development efforts. In the event of an earthquake, if our facilities or the equipment in our facilities is significantly damaged or destroyed for any reason, we may not be able to rebuild or relocate our facilities or replace any damaged equipment in a timely manner and our business, financial condition and results of operations could be materially and adversely affected. We do not have insurance for damages resulting from earthquakes.

Ongoing litigation may consume our management and financial resources and could adversely affect our business.

Approximately $8.4 million in the aggregate has been awarded against us in connection with a jury verdict in a civil action rendered in August 2005. While we have posted a bond, filed a notice of appeal and intend to contest the verdict vigorously through the appellate courts, there can be no assurance that we will prevail in our efforts to contest the verdict on appeal. We will incur additional legal costs in connection with an appeal. The appeal will also require the attention of certain of our employees whose time could be used to further our business objectives. These proceedings may consume a substantial portion of the our management and financial resources, regardless of outcome, and may take years to ultimately resolve. If these proceedings are resolved unfavorably, our business and financial condition may be harmed.

Risks Related to Our Intellectual Property

Our ability to compete may decline if we do not adequately protect our proprietary rights.

Our commercial success depends on obtaining and maintaining proprietary rights to our drug candidates and technologies and their uses, as well as successfully defending these rights against third-party challenges. We will only be able to protect our drug candidates, proprietary technologies and their uses from unauthorized use by third parties to the extent that valid and enforceable patents or effectively protected trade secrets cover them. Although we have filed several patent applications with respect to ACP-104 and ACP-103, we have not been issued any patents with respect to ACP-104, and have been issued only two patents with respect to ACP-103.

Our ability to obtain patent protection for our products and technologies is uncertain due to a number of factors, including:

- we may not have been the first to make the inventions covered by our pending patent applications or issued patents;
- we may not have been the first to file patent applications for our drug candidates or the technologies we rely upon;
- others may independently develop similar or alternative technologies or duplicate any of our technologies;
- our disclosures in patent applications may not be sufficient to meet the statutory requirements for patentability;
- any or all of our pending patent applications may not result in issued patents;
- we may not seek or obtain patent protection in all countries that will eventually provide a significant business opportunity;

- any patents issued to us or our collaborators may not provide a basis for commercially viable products, may not provide us with any competitive advantages or may be challenged by third parties;
- our proprietary technologies may not be patentable;
- others may design around our patent claims to produce competitive products which fall outside of the scope of our patents; or
- others may identify prior art which could invalidate our patents.

Even if we have or obtain patents covering our drug candidates or technologies, we may still be barred from making, using and selling our drug candidates or technologies because of the patent rights of others. Others have or may have filed, and in the future are likely to file, patent applications covering compounds, assays, genes, gene products or therapeutic products that are similar or identical to ours. There are many issued U.S. and foreign patents relating to genes, nucleic acids, polypeptides, chemical compounds or therapeutic products, and some of these may encompass reagents utilized in the identification of candidate drug compounds or compounds that we desire to commercialize. Numerous U.S. and foreign issued patents and pending patent applications owned by others exist in the area of central nervous system disorders and the other fields in which we are developing products. These could materially affect our ability to develop our drug candidates or sell our products. Because patent applications can take many years to issue, there may be currently pending applications, unknown to us, that may later result in issued patents that our drug candidates or technologies may infringe. These patent applications may have priority over patent applications filed by us.

We regularly conduct searches to identify patents or patent applications that may prevent us from obtaining patent protection for our proprietary compounds or that could limit the rights we have claimed in our patents and patent applications. In particular, we are aware of claims that have been allowed by, and are pending before, the United States Patent and Trademark Office that, if issued as currently drafted, would encompass the chemical structure of ACP-103. While we do not believe that these pending claims would be valid if issued in their current form, there can be no assurance that a court would find these claims invalid or that the text or substance of these claims will not be modified upon further prosecution of the application. If valid, these claims could limit our rights with respect to ACP-103.

Disputes may arise regarding the ownership or inventorship of our inventions. It is difficult to determine how such disputes would be resolved. Others may challenge the validity of our patents. If our patents are found to be invalid, we will lose the ability to exclude others from making, using or selling the inventions claimed therein.

Some of our academic institutional licensors, research collaborators and scientific advisors have rights to publish data and information to which we have rights. If we cannot maintain the confidentiality of our technology and other confidential information in connection with our collaborations, then our ability to receive patent protection or protect our proprietary information will be impaired. In addition, technology that we may license in may become important to some aspects of our business. We generally will not control the patent prosecution, maintenance or enforcement of in-licensed technology.

We have limited proprietary rights to one of our drug candidates, ACP-104, which may limit our ability to prevent competitors from exploiting that compound.

One of our drug candidates, ACP-104, is a publicly available compound, and we will have limited proprietary rights in this candidate. Other companies may obtain patents or regulatory approvals to use the same drug for treatments other than to treat the indications for which we have filed for patent protection. We are aware of an issued patent not owned by us that claims the use of N-desmethylclozapine, which is the chemical name for ACP-104, to induce analgesia. ACP-104, which we are developing for treatment of schizophrenia, is formed in the body from clozapine and its structure was known prior to our filing of patent applications relating to its use to treat certain conditions. Accordingly, we will not be able to obtain composition of matter patents for ACP-104. We have filed method of use patent applications for ACP-104, but a competitor could use ACP-104, and patent its method of use, for a treatment not covered by our patent applications. In addition, while we have filed patent applications directed to methods of synthesis of ACP-104 and various crystalline polymorphs thereof, those claims will not prevent a potential competitor from making ACP-104.

Confidentiality agreements with employees and others may not adequately prevent disclosure of our trade secrets and other proprietary information and may not adequately protect our intellectual property, which could limit our ability to compete.

Because we operate in the highly technical field of drug discovery and development of small molecule drugs, we rely in part on trade secret protection in order to protect our proprietary technology and processes. However, trade secrets are difficult to protect. We enter into confidentiality and intellectual property assignment agreements with our corporate partners, employees, consultants, outside scientific collaborators, sponsored researchers and other advisors. These agreements generally require that the other party keep confidential and not disclose to third parties all confidential information developed by the party or made known to the party by us during the course of the party's relationship with us. These agreements also generally provide that inventions conceived by the party in the course of rendering services to us will be our exclusive property. However, these agreements may not be honored and may not effectively assign intellectual property rights to us. Enforcing a claim that a party illegally obtained and is using our trade secrets is difficult, expensive and time consuming and the outcome is unpredictable. In addition, courts outside the United States may be less willing to protect trade secrets. The failure to obtain or maintain trade secret protection could adversely affect our competitive position. In addition, we have not entered into any noncompete agreements with any of our employees other than Mark Brann, Ph.D., our founder, President and CSO.

A dispute concerning the infringement or misappropriation of our proprietary rights or the proprietary rights of others could be time consuming and costly, and an unfavorable outcome could harm our business.

There is significant litigation in our industry regarding patent and other intellectual property rights. While we are not currently subject to any pending intellectual property litigation, and are not aware of any such threatened litigation, we may be exposed to future litigation by third parties based on claims that our drug candidates, technologies or activities infringe the intellectual property rights of others. In particular, there are many patents relating to specific genes, nucleic acids, polypeptides or the uses thereof to identify drug candidates. Some of these may encompass genes or polypeptides that we utilize in our drug development activities. If our drug development activities are found to infringe any such patents, we may have to pay significant damages or seek licenses to such patents. A patentee could prevent us from using the patented genes or polypeptides for the identification or development of drug compounds. There are also many patents relating to chemical compounds and the uses thereof. If our compounds are found to infringe any such patents, we may have to pay significant damages or seek licenses to such patents. A patentee could prevent us from making, using or selling the patented compounds. We may need to resort to litigation to enforce a patent issued to us, protect our trade secrets or determine the scope and validity of third-party proprietary rights. From time to time, we may hire scientific personnel formerly employed by other companies involved in one or more areas similar to the activities conducted by us. Either we or these individuals may be subject to allegations of trade secret misappropriation or other similar claims as a result of their prior affiliations. If we become involved in litigation, it could consume a substantial portion of our managerial and financial resources, regardless of whether we win or lose. We may not be able to afford the costs of litigation. Any legal action against our company or our collaborators could lead to:

- payment of damages, potentially treble damages, if we are found to have willfully infringed a party's patent rights;
- injunctive or other equitable relief that may effectively block our ability to further develop, commercialize and sell products; or
- we or our collaborators having to enter into license arrangements that may not be available on commercially acceptable terms, if at all.

As a result, we could be prevented from commercializing current or future products.

The patent applications of pharmaceutical and biotechnology companies involve highly complex legal and factual questions, which, if determined adversely to us, could negatively impact our patent position.

The patent positions of pharmaceutical and biotechnology companies can be highly uncertain and involve complex legal and factual questions. For example, some of our patent applications will cover gene sequences and products and the uses of those gene sequences and products. Public disclosures and patent applications related to the Human Genome Project and other genomics efforts may limit the scope of our claims or make unpatentable subsequent patent applications. No consistent policy regarding the breadth of claims allowed in biotechnology patents has emerged to date. The United States Patent and Trademark Office's standards are uncertain and could change in the future. Consequently, the issuance and scope of patents cannot be predicted with certainty. Patents, if issued, may be challenged, invalidated or circumvented. U.S. patents and patent applications may also be subject to interference proceedings, and U.S. patents may be subject to reexamination proceedings in the United States Patent and Trademark Office (and foreign patents may be subject to opposition or comparable proceedings in the corresponding foreign patent office), which proceedings could result in either loss of the patent or denial of the patent application or loss or reduction in the scope of one or more of the claims of the patent or patent application. In addition, such interference, reexamination and opposition proceedings may be costly. Accordingly, rights under any issued patents may not provide us with sufficient protection against competitive products or processes.

In addition, changes in or different interpretations of patent laws in the United States and foreign countries may permit others to use our discoveries or to develop and commercialize our technology and products without providing any compensation to us. The laws of some countries do not protect intellectual property rights to the same extent as U.S. laws and those countries may lack adequate rules and procedures for defending our intellectual property rights. For example, some countries, including many in Europe, do not grant patent claims directed to methods of treating humans, and in these countries patent protection may not be available at all to protect our drug candidates.

If we fail to obtain and maintain patent protection and trade secret protection of our drug candidates, proprietary technologies and their uses, we could lose our competitive advantage and competition we face would increase, reducing our potential revenues and adversely affecting our ability to attain or maintain profitability.

Risks Related to Our Industry

We will be subject to stringent regulation in connection with the marketing of any products derived from our drug candidates, which could delay the development and commercialization of our products.

The pharmaceutical industry is subject to stringent regulation by the FDA and other regulatory agencies in the United States and by comparable authorities in other countries. Neither we nor our collaborators can market a pharmaceutical product in the United States until it has completed rigorous preclinical testing and clinical trials and an extensive regulatory clearance process implemented by the FDA. Satisfaction of regulatory requirements typically takes many years, depends upon the type, complexity and novelty of the product, and requires substantial resources. Even if regulatory approval is obtained, it may impose significant restrictions on the indicated uses, conditions for use, labeling, advertising, promotion and/or marketing of such products, and requirements for post-approval studies, including additional research and development and clinical trials. These limitations may limit the size of the market for the product or result in the incurrence of additional costs. Any delay or failure in obtaining required approvals could have a material adverse effect on our ability to generate revenues from the particular drug candidate.

Outside the United States, the ability to market a product is contingent upon receiving approval from the appropriate regulatory authorities. The requirements governing the conduct of clinical trials, marketing authorization, pricing and reimbursement vary widely from country to country. Only after the appropriate regulatory authority is satisfied that adequate evidence of safety, quality and efficacy has been presented will it grant a marketing authorization. Approval by the FDA does not automatically lead to the approval by regulatory authorities outside the United States, and similarly approval by regulatory authorities outside the United States will not automatically lead to FDA approval.

In addition, U.S. and foreign government regulations control access to and use of some human or other tissue samples in our research and development efforts. U.S. and foreign government agencies may also impose restrictions on the use of data derived from human or other tissue samples. Accordingly, if we fail to comply with these regulations and restrictions, the commercialization of our drug candidates may be delayed or suspended, which may delay or impede our ability to generate product revenues.

If our competitors develop and market products that are more effective than our drug candidates, they may reduce or eliminate our commercial opportunity.

Competition in the pharmaceutical and biotechnology industries is intense and expected to increase. We face competition from pharmaceutical and biotechnology companies, as well as numerous academic and research institutions and governmental agencies, both in the United States and abroad. Some of these competitors have products or are pursuing the development of drugs that target the same diseases and conditions that are the focus of our drug development programs.

For example, our potential product for treatment-induced dysfunctions in Parkinson's disease would compete with off-label use of Seroquel, marketed by Astra-Zeneca, and the generic drug clozapine. Our potential products for the treatment of schizophrenia would compete with Zyprexa, marketed by Eli Lilly, Risperdal, marketed by Johnson & Johnson, Seroquel, marketed by Astra-Zeneca, and clozapine. In the area of neuropathic pain, our potential products would compete with Neurontin and Lyrica (pregabalin), marketed by Pfizer, and Cymbalta, marketed by Eli Lilly, as well as a variety of generic or proprietary opioids. Our potential products for the treatment of glaucoma would compete with Xalatan, marketed by Pfizer, and Lumigan and Alphagan, marketed by Allergan.

Many of our competitors and their collaborators have significantly greater experience than we do in the following:

- identifying and validating targets;
- screening compounds against targets;
- preclinical studies and clinical trials of potential pharmaceutical products; and
- obtaining FDA and other regulatory approvals.

In addition, many of our competitors and their collaborators have substantially greater capital and research and development resources, manufacturing, sales and marketing capabilities, and production facilities. Smaller companies also may prove to be significant competitors, particularly through proprietary research discoveries and collaboration arrangements with large pharmaceutical and established biotechnology companies. Many of our competitors have products that have been approved or are in advanced development and may develop superior technologies or methods to identify and validate drug targets and to discover novel small molecule drugs. Our competitors, either alone or with their collaborators, may succeed in developing drugs that are more effective, safer, more affordable or more easily administered than ours and may achieve patent protection or commercialize drugs sooner than us. Our competitors may also develop alternative therapies that could further limit the market for any drugs that we may develop. Our failure to compete effectively could have a material adverse affect on our business.

Any claims relating to improper handling, storage or disposal of biological, hazardous and radioactive materials used in our business could be costly and delay our research and development efforts.

Our research and development activities involve the controlled use of potentially harmful hazardous materials, including volatile solvents, biological materials such as blood from patients that has the potential to transmit disease, chemicals that cause cancer and various radioactive compounds. Our operations also produce hazardous waste products. We face the risk of contamination or injury from the use, storage, handling or disposal of these materials. We are subject to federal, state and local laws and regulations governing the use, storage, handling and disposal of these materials and specified waste products. The cost of compliance with these laws and regulations could be significant, and current or future environmental regulations may impair our research, development or production efforts. If one of our employees were accidentally injured from the use, storage,

handling or disposal of these materials, the medical costs related to his or her treatment would be covered by our workers' compensation insurance policy. However, we do not carry specific biological or hazardous waste insurance coverage and our general liability insurance policy specifically excludes coverage for damages and fines arising from biological or hazardous waste exposure or contamination. Accordingly, in the event of contamination or injury, we could be subject to criminal sanctions or fines or be held liable for damages, our operating licenses could be revoked, or we could be required to suspend or modify our operations and our research and development efforts.

Consumers may sue us for product liability, which could result in substantial liabilities that exceed our available resources and damage our reputation.

Researching, developing and commercializing drug products entails significant product liability risks. Liability claims may arise from our and our collaborators' use of products in clinical trials and the commercial sale of those products. Consumers may make these claims directly and our collaborators or others selling these products may seek contribution from us if they receive claims from consumers. Although we currently have product liability insurance that covers our clinical trials, we will need to increase and expand this coverage as we commence larger scale trials and if our drug candidates are approved for commercial sale. This insurance may be prohibitively expensive or may not fully cover our potential liabilities. Inability to obtain sufficient insurance coverage at an acceptable cost or otherwise to protect against potential product liability claims could prevent or inhibit the commercialization of products that we or our collaborators develop. Product liability claims could have a material adverse effect on our business and results of operations. Our liability could exceed our total assets if we do not prevail in a lawsuit from any injury caused by our drug products.

Risks Related to Our Common Stock

Our stock price may be particularly volatile because we are a drug discovery and development company.

The market prices for securities of biotechnology companies in general, and early-stage drug discovery and development companies in particular have been highly volatile and may continue to be highly volatile in the future. The following factors, in addition to other risk factors described in this section, may have a significant impact on the market price of our common stock:

- the development status of our drug candidates, including results of our clinical trials for ACP-103, ACP-104, and our neuropathic pain collaboration;
- market conditions or trends related to biotechnology and pharmaceutical industries, or the market in general;
- announcements of technological innovations, new commercial products or other material events by our competitors or us;
- disputes or other developments concerning our proprietary rights;
- changes in, or failure to meet, securities analysts' or investors' expectations of our financial performance;
- additions or departures of key personnel;
- discussions of our business, products, financial performance, prospects or stock price by the financial and scientific press and online investor communities such as chat rooms;
- public concern as to, and legislative action with respect to, genetic testing or other research areas of biopharmaceutical companies, the pricing and availability of prescription drugs or the safety of drugs and drug delivery techniques;
- regulatory developments in the United States and foreign countries;
- developments in litigation or the announcement of new litigation matters; or
- economic and political factors, including wars, terrorism and political unrest.

In the past, following periods of volatility in the market price of a particular company's securities, securities class action litigation has often been brought against that company. We may become subject to this type of litigation, which is often extremely expensive and diverts management's attention.

If our officers, directors and largest stockholders choose to act together, they may be able to control our management and operations, acting in their best interests and not necessarily those of other stockholders.

Our directors, executive officers and holders of five percent or more of our outstanding common stock and their affiliates beneficially own a substantial portion of our outstanding common stock. As a result, these stockholders, acting together, have the ability to significantly influence all matters requiring approval by our stockholders, including the election of all of our directors, amendments to our certificate of incorporation, going-private transactions and the approval of mergers or other business combination transactions. The interests of this group of stockholders may not always coincide with our interests or the interests of other stockholders, and they may act in a manner that advances their best interests and not necessarily those of other stockholders.

If our stockholders sell substantial amounts of our common stock, the market price of our common stock may decline.

A significant number of shares of our common stock are held by a small number of stockholders. Sales of a significant number of shares of our common stock, or the expectation that such sales may occur, could significantly reduce the market price of our common stock. As of November 1, 2005, holders of at least 8 million shares of our common stock, and holders of approximately 74,000 shares issuable upon the exercise of warrants, had rights to cause us to file a registration statement on their behalf or include those shares in registration statements that we may file on our behalf or on behalf of other stockholders. We have filed a registration statement with respect to approximately 6.5 million shares of our common stock that are owned by stockholders, including approximately 1.3 million shares that may be issued upon the exercise of warrants. Our stock price may decline as a result of the sale of shares of our common stock pursuant to the prospectus included in that registration statement, which was declared effective on June 7, 2005.

Anti-takeover provisions in our charter documents and under Delaware law may make an acquisition of us more complicated and may make the removal and replacement of our directors and management more difficult.

Our amended and restated certificate of incorporation and amended and restated bylaws contain provisions that may delay or prevent a change in control, discourage bids at a premium over the market price of our common stock and adversely affect the market price of our common stock and the voting and other rights of the holders of our common stock. These provisions may also make it difficult for stockholders to remove and replace our board of directors and management. These provisions:

- establish that members of the board of directors may be removed only for cause upon the affirmative vote of stockholders owning at least a majority of our capital stock;
- authorize the issuance of "blank check" preferred stock that could be issued by our board of directors to increase the number of outstanding shares and prevent or delay a takeover attempt;
- limit who may call a special meeting of stockholders;
- establish advance notice requirements for nominations for election to the board of directors or for proposing matters that can be acted upon at stockholder meetings;
- prohibit our stockholders from making certain changes to our amended and restated certificate of incorporation or amended and restated bylaws except with 66 $^{2}/_{3}$ percent stockholder approval; and
- provide for a board of directors with staggered terms.

We are also subject to provisions of the Delaware corporation law that, in general, prohibit any business combination with a beneficial owner of 15 percent or more of our common stock for five years unless the holder's acquisition of our stock was approved in advance by our board of directors. Although we believe these provisions collectively provide for an opportunity to receive higher bids by requiring potential acquirors to negotiate with our board of directors, they would apply even if the offer may be considered beneficial by some stockholders.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

We invest our excess cash in investment-grade, interest-bearing securities. 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 marketable debt instruments of corporations, government agencies and financial institutions with maturities of less than two years. If a 10 percent change in interest rates were to have occurred on September 30, 2005, this change would not have had a material effect on the fair value of our investment portfolio as of that date.

Foreign Currency Risk

We have wholly-owned subsidiaries in Sweden and in Denmark, each of which exposes us to foreign exchange risk. The functional currency of our subsidiary in Sweden is the Swedish kroner and the functional currency of our subsidiary in Denmark is the Danish kroner. Accordingly, all assets and liabilities of these subsidiaries are translated to U.S. dollars based on the exchange rate on the balance sheet date. Expense components are translated to U.S. dollars at weighted average exchange rates in effect during the period. Gains and losses resulting from foreign currency translation are included in accumulated other comprehensive income as a component of our stockholders' equity (deficit). Other foreign currency transaction gains and losses are included in our results of operations and, to date, have not been significant. We have not hedged exposures denominated in foreign currencies or any other derivative financial instrument.

ITEM 4. CONTROLS AND PROCEDURES

Prior to the filing of this Quarterly Report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a - 15(e) or 15d - 15(e) of the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this Quarterly Report. Disclosure controls and procedures are designed to ensure that information required to be disclosed in our periodic reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Based upon that evaluation, our Chief Executive Officer and our Vice President and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this Quarterly Report.

An evaluation was also performed under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of any change in our internal control over financial reporting that occurred during our last fiscal quarter and that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. That evaluation did not identify any change in our internal control over financial reporting that occurred during our latest fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Our management, including our Chief Executive Officer and our Chief Financial Officer, does not expect that its disclosure controls will prevent all errors or potential fraud. A control system, no matter how well conceived and operated, can provide only reasonable, and not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their cost. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons or by collusion of two or more people. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, control may become inadequate because of changes in conditions, or the degree of compliance with policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

On August 24, 2005, a San Diego Superior Court jury rendered a verdict against the Company and two of our executive officers in a civil action, captioned Audra Scully v. ACADIA Pharmaceuticals Inc., Mark Brann and Robert Davis, which had been filed by a former employee of the Company in August 2004 for claims of sexual harassment and retaliation. The jury awarded compensatory damages in the aggregate amount of $3.9 million and punitive damages in the aggregate amount of $2.2 million against the Company. The jury also awarded punitive damages against the executive officers in the aggregate amount of $1.8 million. The trial court also awarded $422,000 for plaintiff's fees and costs. Pursuant to our bylaws and existing indemnity agreements, we are required to indemnify our executive officers. We have employment practices liability, or EPL, insurance in the amount of $3 million, which may be used to offset a portion of the compensatory damages as well as fees and expenses incurred in connection with this litigation.

We filed motions for a new hearing and a motion for judgment notwithstanding the verdict, or JNOV, with the trial court. The trial court ruled against us on those motions on October 28, 2005. We filed a notice of appeal on November 9, 2005 and intend to continue to contest the verdict vigorously through the appellate court. There can be no assurance that we will prevail in our efforts to contest the verdict and we expect to incur additional legal costs in connections with such proceedings. In the fourth quarter, in connection with the appeal, we filed a bond with the San Diego Superior Court in the aggregate amount of $12.5 million, or approximately 150% of the total award.

Item 6. Exhibits

Exhibit Number	Description of Document
3.1	Amended and Restated Certificate of Incorporation (filed as Exhibit 3.3 to Registration Statement File No. 333-113137).
3.2	Amended and Restated Bylaws (filed as Exhibit 3.5 to Registration Statement File No. 333-113137).
4.1	Form of common stock certificate of Registrant (filed as Exhibit 4.1 to Registration Statement No. 333-52492, dated December 21, 2000).
4.2	Form of Warrant to Purchase Preferred Stock issued to GATX Ventures on May 31, 2002 (filed as Exhibit 4.3 to Registration Statement No. 333-113137).
4.3	Form of Warrant to Purchase Common Stock issued to purchasers in a private placement on April 20, 2005 (filed as Exhibit 4.3 to Registration Statement No 333-124753).
10.1	Separation Agreement, dated November 1, 2005, by and between the registrant and Robert E. Davis, Ph.D. (incorporated by reference to Exhibit 99.1 to registrant's Current Report on Form 8-K, filed November 3, 2005).
10.2	Consultant Agreement, effective November 4, 2005, by and between the registrant and Robert E. Davis, Ph.D. (incorporated by reference to Exhibit 99.2 to registrant's Current Report on Form 8-K, filed November 3, 2005).
10.3	Lease Amendment, dated November 1, 2005, between registrant and E.G. Sirrah, LLC (successor in interest to R.G. Harris Co.), to Standard Industrial/Commercial Single-Tenant Lease-Net, dated August 15, 1997, between the registrant and R.G. Harris Co.
10.4	Lease Agreement, executed November 2, 2005, between the ACADIA Pharmaceuticals AB and Medeon Fastigheter AB
31.1	Certification of Uli Hacksell, Ph.D., Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Thomas H. Aasen, Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Uli Hacksell, Ph.D., Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Thomas H. Aasen, Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

Pursuant to the requirements 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.

ACADIA Pharmaceuticals Inc.

Date: November 14, 2005

By: /s/ ULI HACKSELL

Uli Hacksell, Ph.D.
Chief Executive Officer
(on behalf of the registrant and as the registrant's Principal Executive Officer)

By: /s/ THOMAS H. AASEN

Thomas H. Aasen
Vice President and Chief Financial Officer
(on behalf of the registrant and as the registrant's Principal Financial and Accounting Officer)

AMENDMENT NO. 2

TO STANDARD INDUSTRIAL/COMMERCIAL

SINGLE-TENANT LEASE - NET

This Amendment No. 2 to Standard Industrial/Commercial Single Tenant Lease-Net (the "Second Amendment") is entered into as of November 1, 2005 but to relate back to and be effective as of the 15th day of October, 2005, by and between E.G. SIRRAH, LLC (successor-in-interest to R.G. HARRIS CO., a California corporation, and the HARRIS FAMILY REVOCABLE TRUST (hereinafter "Lessor"), and ACADIA PHARMACEUTICALS INC., a Delaware corporation, formerly known as RECEPTOR TECHNOLOGIES INC. (hereinafter "Lessee"), and is made with reference to the following facts:

A. On or about August 15, 1997, Lessor and Lessee entered into a Standard Industrial/Commercial Single-Tenant Lease-Net and Addendum No. 1 thereto (collectively, the "Lease") with respect to the lease of that certain real property and improvements located at 3911 Sorrento Valley Boulevard, San Diego, California (the "Premises") for a term commencing on October 15, 1997 and ending October 14, 2005.

B. Lessor and Lessee entered into Amendment No. 1 to Standard Industrial/Commercial Single-Tenant Lease-Net on October 30, 1997 (the "First Amendment") relating to the deposit and disbursement of certain funds, including contributions by Lessor to Lessee's tenant improvements, in accordance with the provisions of the Lease. All funds to be disbursed in accordance with the provisions of the Lease and the First Amendment have been disbursed.

C. Lessor and Lessee wish to extend the term of the Lease which will expire on October 14, 2005 and desire to revise certain other covenants and provisions of the Lease as modified by the First Amendment.

NOW, THEREFORE, in consideration of the covenants and provisions contained herein, and other good and valuable consideration, the sufficiency of which Lessor and Lessee hereby acknowledge, Lessor and Lessee agree as follows:

1. Confirmation of Defined Terms.

Unless modified herein, all terms previously defined and capitalized in the Lease shall hold the same meaning for the purposes of this Second Amendment.

2. Extension of Term.

The Term of the Lease is hereby extended seven (7) years (the "Extended Term"), from and including October 15, 2005 (the "Effective Date"), through and including midnight on October 14, 2012 (the "Termination Date"). Except as provided in Paragraph *11* hereof, it is expressly understood and agreed that in no event shall Lessee have the right to further extend the Extended Term of this Lease.

3. Use.

The provisions of Section 1.8 of the Lease are deleted and the following is substituted in its place and stead:

"**1.8 Agreed Use:** biotechnology and/or pharmaceutical office, research and development, manufacturing, and any other legally permitted uses under the existing zoning."

4. Base Rent.

Base Rent shall be due and payable on the first day of each month during the Extended Term as follows:

A. For the period October 15, 2005 through October 31, 2005, Base Rent shall be due in the sum of Twenty-Eight Thousand One Hundred Seventy-Seven and 50/100 Dollars ($28,177.50).

B. For the period November 1, 2005 through October 31, 2006, Base Rent shall be due in the sum of Fifty-Six Thousand Three Hundred Fifty-Five and No/100 Dollars ($56,355.00).

C. For the period November 1, 2006 through October 31, 2007, Base Rent shall be due in the sum of Fifty-Eight Thousand Forty-Five and 65/100 Dollars ($58,045.65) per month.

D. For the period November 1, 2007 through October 31, 2008, Base Rent shall be due in the sum of Fifty-Nine Seven Hundred Eighty-Seven and 02/100 Dollars ($59,787.02).

E. For the period November 1, 2008 through October 31, 2009, Base Rent shall be due in the sum of Sixty-One Thousand Five Hundred Eighty and 63/100 Dollars ($61,580.63) per month.

F. For the period November 1, 2009 through October 31, 2010, Base Rent shall be due in the sum of Sixty-Three Thousand Four Hundred Twenty-Eight and 05/100 Dollars ($63,428.05) per month.

G. For the period November 1, 2010 through October 31, 2011, Base Rent shall be due in the sum of Sixty-Five Thousand Three Hundred Thirty and 89/100 Dollars ($65,330.89) per month.

H. For the period November 1, 2011 through September 30, 2012, Base Rent shall be due in the sum of Sixty-Seven Thousand Two Hundred Ninety and 82/100 Dollars ($67,290.82) per month.

I. For the period October 1, 2012 through October 14, 2012, Base Rent shall be due in the sum of Thirty Thousand Three Hundred Eighty-Nine and 40/100 Dollars ($30,389.40).

Any overpayment of Base Rent delivered to Lessor prior to the execution of this Amendment shall be applied to Base Rent for November 2005.

5. Lessee Improvements and Amortization Rent.

Lessee desires to construct certain improvements at the Premises during the occupancy of Lessee of the Premises as reflected in Exhibit **"A"** attached hereto (the "Lessee Improvements"). In addition to Base Rent and other charges payable by Lessee during the Extended Term, Lessee shall pay an additional amount of rent (the "Amortization Rent") to Lessor which shall be the amount of any Additional Allowance (as such term is defined in Exhibit **"A"** hereto) for improvements constructed by Lessee at the Premises as advanced by Lessor pursuant to the provisions of Exhibit **"A"**, with interest thereon at eight percent (8%) per annum from the date of disbursement, amortized on a straight line basis and payable on the first day of each month over a period of four (4) years commencing on November 1, 2008 through the Termination Date, provided, however, that the entire unpaid balance of the Amortization Rent, together with all accrued and unpaid interest, shall be due and payable in full on the Early

Termination Date in the event Lessee elects an early termination of the Lease as provided in Paragraph *13* herein. There will be no reduction or adjustment of the Base Rent or other rent payable hereunder as a result of the interference with or inability to use any portion of the Premises during the construction of Lessor's Work (except as provided in Paragraph *9* hereinbelow) or the Lessee Improvements pursuant to Exhibit **"A"** hereto.

6. Signage.

Without limiting Lessee's rights set forth in the Lease, Lessor hereby grants to Lessee the right to install prominent building signage on the exterior of the Building adjacent to the entrance to the Premises and full monument signage at the location mutually approved by Lessor and Lessee, subject to the applicable laws and CC&Rs. Lessor shall construct the monument and monument signage following reasonable approval by Lessor and Lessee of (i) the plan and specifications, and (ii) a detailed construction contract by a licensed contractor. Lessee may apply the Allowance and the Additional Allowance to the cost of preparation of the plans and specifications and the cost of construction of the monument and the monument signage and any reasonable cost in excess of the Allowance and/or Additional Allowance shall be borne by Lessee as additional rent. Lessee shall maintain the building signage, monument and monument signage in first class condition and repair and the monument and monument signage shall become the property of Lessor on the Termination Date of the Lease. Any new signage or modification to the existing signage on the exterior of the Premises or in the area outside of the building located on the Premises shall only be made in accordance with the provisions of Article 57 of the Lease.

7. Parking Lot.

Without limiting Lessee's rights set forth in the Lease, Lessee shall have the right to designate visitor, car-pooling, executive and other parking in the parking lot which is a part of the Premises as Lessee may reasonably require, subject to Lessor's reasonable review and approval.

8. Subletting and Assignment.

Section *12* of the Lease and Paragraph *56* of Addendum No. 1 to the Lease are further modified and amended as follows:

A. Lessor shall have fifteen (15) days after Lessee's notice of assignment and/or sublease is received with the financial information specified in Section 12.2 (e) of the Lease and such other financial information reasonably requested by Lessor, to advise Lessee of Lessor's **(i)** consent to such proposed assignment or sublease, **(ii)** withholding of consent to such proposed assignment or sublease, or **(iii)** election to terminate this Lease, such termination to be effective as of the date of the commencement of the proposed assignment or subletting. As provided in Section 12.1(a) of the Lease, Lessor's consent shall not be unreasonably withheld, conditioned or delayed. If Lessor shall exercise its termination right hereunder, Lessor shall have the right to enter into a lease or other occupancy agreement directly with the proposed assignee or sublessee, and Lessee shall have no right to any of the rents or other consideration payable by such proposed assignee or sublessee under such other lease or occupancy agreement, even if such rents and other consideration exceed the rent payable under this Lease by Lessee. Lessor shall have the right to lease the Premises to any other tenant, or not lease the Premises, in its sole and absolute discretion. Lessor and Lessee specifically agree that Lessor's right to terminate this Lease under clause *(iii)* above is a material consideration for Lessor's agreement to enter into this Second Amendment and such right may be exercised in Lessor's sole and absolute discretion and no test of reasonableness shall be applicable thereto; provided, however, that **(A)** Lessor may exercise the termination right described in said clause *(iii)* only if Lessee proposes to assign this Lease or sublet more than seventy-five percent (75%) of the square footage of the Premises, and **(B)** Lessor shall have no such termination right in connection with any sublease or assignment to a permitted transferee as referred to in Section *12.5* of the Lease or a sublease permitted by Section 56.A. of Addendum No. 1. Nothing in this paragraph is intended to limit the rights to sublease or assign as set forth in Section 12.5 of the Lease and in Section 56.A. of Addendum No. 1.

B**.** As provided in Paragraph ***56 B.*** of Addendum No. 1 to Lease, Lessor shall receive, as additional rent hereunder (and without affecting or reducing any other obligation of Lessee under the Lease) fifty percent (50%) of all rent payable by a sublessee to Lessee in excess of that payable by Lessee to Lessor, and, in the case of an assignment, of all consideration given by the assignee to Lessee. Lessor and Lessee agree that such sum payable to Lessor shall be the "Net Rental Profit". Net Rental Profit shall mean all rent or other consideration payable (in lieu of or in addition to rent) by such transferee in connection with the transfer in excess of the rent and additional rent payable by Lessee under this Lease during the term of the transfer on a per rentable square foot basis if less than all of the Premises is transferred, after deducting the reasonable expenses incurred by Lessee in connection with such transfer for **(i)** any improvement allowance or other economic concessions (e.g., space planning allowance, moving expenses or free rent) paid by Lessee in connection with such transfer, **(ii)** any brokerage commissions incurred by Lessee in connection with the transfer, and **(iii)** reasonable attorneys' fees incurred by Lessee in connection with the transfer.

With respect to any sublease for which Net Rental Profit is payable to Lessor hereunder, Lessee shall deliver to Lessor a statement within thirty (30) days after the end of each calendar year and/or within thirty (30) days after the expiration or earlier termination of the term of this Lease in which any transfer has occurred, specifying for each such transfer:

(i) the date of its execution and delivery, the number of square feet demised thereby, and the term thereof, and

(ii) a computation in reasonable detail showing the amounts (if any) paid and payable by Lessee to Lessor pursuant to this Paragraph *8. B.* with respect to such transfer for the period covered by such statement, and the amounts (if any) paid and payable by Lessee to Lessor pursuant to this Paragraph *8. B.* with respect to any payments received from a transferee during such period but which relate to an earlier period.

9. Lessor's Work.

Lessor shall, promptly following the execution of this Second Amendment, and during the occupancy of Lessee, **(i)** complete certain improvements to the Premises in order to establish proper air flow into the Premises, including replacement, if reasonably necessary, of the existing roof mounted HVAC units, **(ii)** inspect the existing roof, **(iii)** replace all existing exterior glass with dual pane glass, and **(iv)** resurface and re-stripe the parking lot (collectively "Lessor's Work"). Notwithstanding the foregoing, Lessor's contribution toward the cost of establishing proper air flow into the Premises including, if necessary, replacement of the existing HVAC units, shall not exceed Ten Thousand Dollars ($10,000.00). Lessee shall pay for all costs to establish proper air flow into the Premises including, if reasonably necessary, replacement of the existing HVAC units in excess of Ten Thousand Dollars ($10,000.00). Except as provided in the Paragraph 9, there will be no adjustment or reduction of Base Rent or other rent payable hereunder as a result of any inconvenience, or inability to use any portion of the Premises during the construction of Lessor's Work hereunder.

Lessor has estimated that it will take approximately five (5) months to complete Lessor's Work following the execution of this Second Amendment. Although Base Rent and other rent payable hereunder shall continue unabated during the period of construction of Lessor's Work, Lessor agrees that in the event that Lessor's Work is not substantially completed within five (5) months from the date of execution of this Second Amendment, together with any period of "Force Majeure Delay" as defined below and any period of delay which results from any act or omission of Lessee (the "Anticipated Completion Date"), Lessee shall be credited with one (1) day of free prorated Base Rent for each day beyond the Anticipated Completion Date that substantial completion of Lessor's Work, as defined below, has not occurred. For purposes of this Paragraph 9, substantial completion of Lessor's Work shall mean completion of construction of Lessor's Work in the Building pursuant to the plans and specifications, with the exception of any pick up or punch list items. For purposes of this Paragraph 9, the term "Force Majeure" means strikes, acts of God, shortages of labor or materials, war, civil disturbances and other causes beyond the reasonable control of the performing party.

10. Acceptance of Premises; Lessee's Work; Lessee's Improvements.

Lessee acknowledges that it has been in possession of the Premises for over seven (7) years and, to Lessee's knowledge, Lessee has no claim against Lessor in connection with the Premises or the Lease. Lessee has made its own inspection of and inquiries regarding the Premises, which is already improved. Therefore, except as expressly set forth in the Lease or this Second Amendment, including, without limitation, Lessor's Work (as defined in Paragraph *9* above) and Lessee Improvements (as defined in Paragraph *5* above), Lessee accepts the Premises in its "as-is" condition. Lessee further acknowledges that Lessor has made no currently effective representation or warranty, express or implied, regarding the condition, suitability or usability of the Premises for the purposes intended by Lessee.

11. Options to Extend Term.

11.1 Options.

Provided Lessee is not in material default after the expiration of notice and the opportunity to cure on the date or at any time during the remainder of the Term of the Lease after Lessee gives notice to Lessor of Lessee's intent to exercise its rights pursuant to this Paragraph *11*, Lessee is given two (2) options to extend the term of this Lease (the "2012 Option" and the "2014 Option", respectively, and collectively the "Options"), with each option being for an additional two (2) year period (the "2012 Option Term" and the "2014 Option Term" respectively), commencing the next calendar day after the expiration of the Extended Term (as to the 2012 Option) and the next calendar day after the expiration of the 2012 Option Term (as to the 2014 Option). The Options shall apply only to the entirety of the Premises as leased hereunder on the date such Option is exercised, and Lessee shall have no right to exercise an Option as to only a portion of the Premises. In the event that as of the commencement date of the 2012 Option Term or the 2014 Option Term, Lessee is leasing the 3931 Property as defined in Paragraph *12* hereunder, then the applicable Option shall apply only to the entirety of the then existing Premises and the 3931 Property, and the calculation of the Base Rent payable during the 2012 and 2014 Option Terms as provided in Paragraph *11.1* shall involve calculation of the Fair Market Value of such Premises and the 3931 Property. The terms of the Lease during the 2012 and 2014 Option Terms shall be as provided in the Lease, as amended, as modified by this Paragraph *11* hereunder.

Lessee's exercise of each of the Options is contingent upon Lessee giving written notice to Lessor (the "Option Notice") of Lessee's election to exercise its rights pursuant to this Option in accordance with the provisions of the Lease, no more than fifteen (15) and no less than six (6) months prior to the expiration of the Extended Term (as to the 2012 Option) and prior to the expiration of the 2012 Option Term (as to the 2014 Option). In the event the 2012 Option is not timely exercised by Lessee in the manner provided herein, the term of the Lease will expire on the Termination Date and the 2012 Option and the 2014 Option will terminate and be null and void. In the event the 2012 Option is timely exercised by Lessee as provided herein, but the 2014 Option is not timely exercised by Lessee in the manner provided herein, the term of the Lease will expire at the expiration of the 2012 Option Term.

11.2 Base Rent Payable.

The Base Rent payable by Lessee during the 2012 and 2014 Option Terms ("Option Rent") shall be equal to ninety-five percent (95%) of the Fair Market Value of the Premises as of the commencement date of the 2012 Option Term and 2014 Option Term respectively. The term "Fair Market Value" shall be defined as the rent then being charged for comparable properties in the Sorrento Valley area.

Said computation shall specifically be based on the Premises in its "as-is" condition, taking into account the age, appearance and quality of construction, the value of the existing improvements, parking facilities, location, access and visibility. Fair Market Value shall include all economic benefits obtainable by Lessor including, without limitation, periodic adjustments and all other monetary and non-monetary considerations that may be given in the market place by a tenant for a similar use of comparable space in the Sorrento Valley area. Comparable lease terms shall be measured to two-year transactions with adjustments to rental rates and conditions, as appropriate.

Lessor and Lessee shall have thirty (30) days (the "Negotiation Period") after Lessor receives the Option Notice in which to agree on the Fair Market Value and the Base Rent. If Lessor and Lessee agree on the Fair Market Value and Base Rent during the Negotiation Period, they shall immediately execute an amendment to the Lease extending the Term and stating the Base Rent.

11.3 Appraisers to Set Base Rent.

If Lessor and Lessee are unable to agree on the Fair Market Value and Base Rent during the Negotiation Period, then:

A. Lessor and Lessee, each at its own cost, shall select an independent real estate appraiser with at least ten (10) years full-time commercial appraisal experience in the area in which the Premises are located, and shall provide written notice to the other party of the identity and address of the appraiser so appointed. Lessor and Lessee shall make such selection within ten (10) days after the expiration of the Negotiation Period.

B. Within thirty (30) days of having been appointed to do so (the ”Appraisal Period”), the two (2) appraisers so appointed shall meet and set the Fair Market Value and the Base Rent for the 2012 Option Term or 2014 Option Term, as appropriate.

11.4 Failure by Appraisers to Set Fair Market Value.

If the two (2) appointed appraisers are unable to agree on the Fair Market Value and the Base Rent within ten (10) days after expiration of the Appraisal Period, they shall elect a third appraiser of like or better qualifications, and who has not previously acted in any capacity for either Lessor or Lessee. Lessor and Lessee shall each bear one half of the costs of the third appraiser’s fee.

Within thirty (30) days after the selection of the third appraiser (the “Second Appraisal Period”) the Fair Market Value and the Base Rent for the 2012 Option Term or 2014 Option Term, as appropriate, shall be set by a majority of the appraisers now appointed.

If a majority of the appraisers are unable to set the Fair Market Value and Base Rent within the Second Appraisal Period, the three (3) appraisers shall individually render separate appraisals of the Fair Market Value, and their three (3) appraisals shall be added together, then divided by three (3); resulting in an average of the appraisals, which shall be the Fair Market Value for determining the Base Rent during the 2012 Option Term or 2014 Option Term, as appropriate.

However, if the low appraisal or high appraisal varies by more than ten percent (10%) from the middle appraisal, then one (1) or both shall be disregarded. If only one (1) appraisal is disregarded, the remaining two (2) appraisals shall be added together and their total divided by two (2), and the resulting average shall be the Fair Market Value. If both the low and high appraisal are disregarded, the middle appraisal shall be the Fair Market Value for determining the Base Rent for the Premises during the 2012 Option Term or 2014 Option Term, as appropriate. The appraisers shall immediately notify Lessor and Lessee of the Fair Market Value and Base Rent so established, and Lessor and Lessee shall immediately execute an amendment to the Lease, extending the 2012 Option Term or 2014 Option Term, as appropriate, and revising the Base Rent payable pursuant to the Fair Market Value so established.

Lessor or Lessee's failure to execute such amendment establishing the Fair Market Value within fifteen (15) days after the other party's request therefor shall constitute a material default under the Lease and if Lessee is the party failing to so execute, these Options shall become null and void and of no further force or effect.

11.5 No Right of Reinstatement or Further Extension.

Once Lessee has either failed to execute its rights to extend the term pursuant to this Paragraph *11* or failed to execute the amendment called for within the time period hereunder, it shall have no right of reinstatement of its Options, nor shall Lessee have any right to a further extension of the Term beyond the period stated in this Paragraph *11* hereinabove.

11.6 No Assignment of Option.

The Options may be exercised only by the original Lessee signing this Second Amendment or any transferee or successor as a result of a permitted transfer as defined in Paragraph *12.5* of the Lease ("Permitted Transfer") and shall be null, void and of no further force or effect as of the date that Lessee otherwise assigns the Lease to an unaffiliated entity.

12. Expansion Option and Right of First Refusal.

12.1 Expansion Option.

Lessor is the owner of real property located at 3931 Sorrento Valley Boulevard, San Diego, California, consisting of approximately Twenty-Four Thousand (24,000) square feet of improvements (the "3931 Property"). The 3931 Property is currently leased (the "Existing

3931 Lease"), and the Existing 3931 Lease is to expire on October 31, 2007 (the "3931 Termination Date"). Lessor hereby grants to Lessee an option to lease the 3931 Property commencing on the earlier of (i) November 1, 2007 or (ii) the earlier termination of the Existing 3931 Lease (the "Expansion Date"), subject to the following:

A. In order to exercise this Expansion Option, no later than April 15, 2007 Lessee shall deliver to Lessor written notification ("Lessee's Expansion Notice") that Lessee desires to lease the 3931 Property and exercises this Expansion Option; and

B. Lessee may not exercise this Expansion Option or, if exercised, the Expansion Option shall be null and void if Lessee is in material uncured default after the expiration of time and the opportunity to cure as of the date or any time after Lessee tenders to Lessor Lessee's Expansion Notice until the date the 3931 Property is delivered to Lessee.

12.2 Right of First Refusal.

Lessor grants Lessee a continuing right of first refusal to lease the 3931 Property on each occasion that all or any portion of the 3931 Property is available for rent during the period commencing upon the expiration of Lessee's Expansion Option and continuing through the Extended Term of this Lease and the 2012 or 2014 Option Terms, as follows:

If Lessor receives a bona fide offer to lease all or any portion of the 3931 Property, which offer the Lessor is willing to accept, then prior to accepting or becoming bound with respect to such offer, Lessor shall give written notice thereof (the "Offer Notice") to Lessee, advising Lessee of the terms and conditions of the offer. Lessee shall have ten (10) business days after receipt of the Offer Notice from Lessor to advise Lessor of Lessee's irrevocable election (the "Acceptance Notice") to accept the terms and conditions set forth in the Offer Notice and lease all the portion of the 3931 Property which is the subject thereof pursuant to the provisions of this Lease, as modified by the Offer Notice.

12.3 Base Rent, Tenant Improvement Allowance and Other Provisions.

(i) If Lessee exercises its Expansion Option, Base Rent for the 3931 Property shall be the Fair Market Value of the 3931 Property as of the commencement of the lease of the 3931 Property. Fair Market Value shall be defined and determined in the same fashion and utilizing the same methodology as is utilized in determining Fair Market Value in determining the Base Rent in connection with the exercise of the Options set forth in Paragraph *11* hereof

except that the Base Rent shall be One Hundred Percent (100%) of the Fair Market Value of the 3931 Property and the determination of Fair Market Value shall take into consideration the tenant improvement allowance, if any, to be provided pursuant to Paragraph *12.3 (ii)* herein. The Negotiation Period shall commence as of the date Lessee gives Lessee's Expansion Notice.

(ii) Provided Lessee exercises its Expansion Option to lease the 3931 Property, Lessee shall be entitled to a tenant improvement allowance (the "3931 Allowance") in an amount to be negotiated by the parties. If the parties, after good faith efforts, do not agree on the amount of the 3931 Allowance within forty-five (45)) days following the date of Lessee's Expansion Notice, then, at the written election of either party, the Exercise Notice shall be deemed withdrawn. In the event that Lessee exercises its Right of First Refusal, the tenant improvement allowance, if any, shall be as set forth in the Offer Notice.

(iii) In the event Lessee exercises its Expansion Option, the term of the lease of the 3931 Property shall be coterminous with the Extended Term of this Lease and shall terminate on October 14, 2012, subject to the Options set forth in Paragraph *11* hereinabove. In the event Lessee exercises the Right of First Refusal , the term of the lease of the 3931 Property shall be for the term set forth in the Offer Notice (the "Offer Notice Term"); provided that if during the Offer Notice Term Lessee exercises its 2012 Option and/or its 2014 Option, then the term of the lease of the 3931 Property shall be extended to be coterminous with the applicable Option Term, and Base Rent for any period after the end of the Offer Notice Term through the end of the applicable Option Term shall be at the same Base Rent, on a per square foot basis, as then applies to the remainder of the Premises.

(iv) Lessee acknowledges that it has made its own inspection of and inquiry regarding the 3931 Property which is already improved. Lessee shall accept the 3931 Property in its "as-is" condition as of the date of this Second Amendment, subject to reasonable wear and tear during the period following the execution of this Second Amendment through the date of delivery of possession of the 3931 Property to Lessee and acknowledges that Lessor has made no representation or warranty, express or implied, regarding the condition, suitability or usability of the 3931 Property for the purposes intended by Lessee.

(v) In the event Lessee exercises the Expansion Option, Lessor shall deliver the 3931 Property to Lessee on or about the Expansion Date. In the event Lessee exercises its Right of First Refusal, Lessor shall deliver possession of the 3931 Property to Lessee on the commencement date set forth in the Offer Notice, so that Lessee may commence construction of any improvements desired by Lessee pursuant to Exhibit **"A"** hereto (the "Anticipated Delivery Date").

(vi) The date Lessor delivers possession of the 3931 Property to Lessee shall be hereinafter referred to as the "Delivery Date." Rent (which shall include, without limitation, Base Rent, real estate taxes and insurance costs) shall commence sixty (60) days thereafter (the "Commencement Date"). Lessee's occupancy of the 3931 Property subsequent to the Delivery Date and prior to the Commencement Date shall be upon all of the terms and conditions of the Lease, except that Lessee shall not be obligated to pay Base Rent until the Commencement Date.

(vii) If for any reason outside Lessor's reasonable control (including the holding over by any existing tenant of the 3931 Property), Lessor is unable to deliver possession of the 3931 Property to Lessee on or before the Expansion Date (in the event of the exercise of the Expansion Option), or the Anticipated Delivery Date (in the event of the exercise of the Right of First Refusal), the Lease of the 3931 Property shall not be void or voidable, nor shall Lessor be liable to Lessee for any damage resulting from Lessor's inability to deliver such possession. However, Lessee shall not be obligated to pay the Rent that Lessee is required to pay until sixty (60) days has elapsed from the date possession of the 3931 Property has been delivered to Lessee. Except for such delay in the commencement of Rent and the termination rights set forth below, Lessor's failure to give possession on the anticipated Delivery Date shall in no way affect Lessee's obligations hereunder.

If possession of the 3931 Property is not tendered by Lessor within one hundred twenty (120) days after the Expansion Date (in the event of the exercise of the Expansion Option) or the Anticipated Delivery Date (in the event of the exercise of the Right of First Refusal), then Lessee shall have the right to terminate the Lease of the 3931 Property or of both the 3931 Property (and, at lessee's option the original Premises) by giving written notice to Lessor within ten (10) business days after such failure and within the first ten (10) business days of each

calendar month thereafter until the Delivery Date occurs. If such notice of termination is not so given by Lessee within the relevant periods, the Lease of the 3931 Property and the Premises shall continue in full force and effect.

If Lessor is unable to tender possession of the 3931 Property despite reasonable good faith efforts within three hundred sixty (360) days after the Expansion Date (in the event of the exercise of the Expansion Option), or the Anticipated Delivery Date (in the event of the exercise of the Right of First Refusal), then the Lease of the 3931 Property, and the rights and obligations of Lessor and Lessee pertaining to the 3931 Property (and at Lessee's sole option, the original Premises) shall terminate automatically without further liability by either party to the other and without further documentation being required.

(vii) Within ten (10) days of Lessor's delivery to Lessee of an amendment reflecting the determination of the Fair Market Value and other relevant provisions, Lessee shall sign such amendment to the Lease adding the 3931 Property to this lease of the Premises and incorporating all of the terms and conditions contained in this Paragraph *12*.

12.4 Failure to Exercise Rights.

If Lessee does not timely tender the Acceptance Notice, the Lessor may lease the 3931 Property (or portion thereof) to the party identified and on the terms and conditions set forth in the Offer Notice, provided that if such lease is not entered into within 90 days following the date of such Offer Notice, or if the terms and conditions of the lease are materially different from the terms and conditions set forth in the Offer Notice, then prior to entering into such lease, Lessor must again deliver an Offer Notice to Lessee and Lessee's Right of First Refusal shall apply to such Offer Notice.

12.5 Reinstatement of Right of First Refusal.

If Lessor then enters into a lease for all or any portion of the 3931 Property with a third party tenant, which lease terminates and the 3931 Property again becomes available during the Extended Term, the 2012 Option Term or the 2014 Option Term of this Lease, this Right of First Refusal, as set forth herein, shall re-apply.

12.6 No Assignment of Right.

The rights set forth in this Section 12 is personal to the original Lessee signing this Second Amendment and any Permitted Transferee and shall be null, void and of no further force or effect as of the date that Lessee otherwise assigns the Lease.

13. Termination Option.

A. Notwithstanding anything to the contrary contained in this Lease, in the event Lessee fails to exercise its Expansion Option to lease the 3931 Property, as set forth in Paragraph *12* hereinabove, Lessee shall have the option to terminate and cancel this Lease effective as of the last calendar day of any calendar month including or following thirty-sixth (36th) full calendar month of the Extended Term (the "Early Termination Date") upon Lessee's delivery of written notice to Lessor (the "Termination Notice"), which notice shall be delivered to Lessor no later than nine(9) months prior to the intended Early Termination Date (the "Notice Period"), and concurrently therewith, Lessee shall deliver to Lessor a termination fee equal to **(i)** six (6) months of the then existing Base Rent, and **(ii)** the unamortized Allowance and leasing commissions paid by Lessor (as of the date six (6) months following the Early Termination Date, to take into account, in each case, the six (6) months of Base Rent included in the Termination

Fee), and **(iii)** the full amount of any unamortized Additional Allowance which has been drawn by Lessee, with accrued interest, that is then due and owing to Lessor (collectively the "Termination Fee"). Subject to Lessor's timely receipt of the Termination Notice and the Termination Fee, this Lease shall automatically terminate and be of no further force or effect, and Lessor and Lessee shall be relieved of their respective obligations under this Lease, as of the Early Termination Date, except with respect to those obligations set forth in this Lease which specifically survive the expiration or earlier termination of this Lease, including, without limitation, the payment by Lessee of all amounts owed by Lessee under this Lease accruing prior to the Early Termination Date. The termination rights granted to Lessee under this Paragraph *13* are personal to the Lessee originally-named in this Second Amendment or any Permitted Transferee, and may not be assigned or transferred to any other person or entity. If Lessee fails to deliver timely the Termination Notice and the Termination Fee in accordance with this Paragraph *13*, then any purported exercise shall be deemed null, void and of no further force and effect.

B. In the event that Lessee exercises the Expansion Option to lease the 3931 Property, as set forth in Paragraph *12* hereinabove, the option to cancel this Lease set forth in Paragraph *13.A* shall be modified to provide that the Early Termination Date shall be the last calendar day of any calendar month including or following the sixtieth (60^{th}) full calendar month following the Commencement Date of the lease of the 3931 Property, the Termination Notice shall be delivered to Lessor no later than nine (9) months prior to the intended Early Termination Date and the Termination Fee shall be equal to **(i)** six (6) months of the then existing Base Rent payable for the Premises and the 3931 Property, and **(ii)** the unamortized Allowance and leasing commissions paid by Lessor relative to the Premises (as of the date six (6) months following the Early Termination Date to take into account, in each case, the six (6) months of Base Rent included in the Termination Fee), and **(iii)** the unamortized 3931 Allowance and leasing commissions paid by Lessor relative to the 3931 Property (as of the date six (6) months following the Early Termination Date to take into account, for each case, the six (6) months Base Rent included in the Termination Fee), and **(iv)** the full amount of any unamortized Additional Allowance which has been drawn by Lessee, with accrued interest, that is then due and owing to Lessor. If Lessee fails to deliver timely the Termination Notice and the Termination Fee in accordance with this Paragraph *13*, then any purported exercise shall be deemed null, void and of no further force and effect.

14. Telecommunications Equipment.

14.1 Lessor hereby grants Lessee the exclusive right, at Lessee's sole cost and expense, and subject to the provisions of this Paragraph *14*, to install one (1) satellite dish (the "Satellite Dish"), with a non-penetrating roof mount on the roof of the Premises in a location designated by Lessor and reasonably approved by Lessee, and subject to Lessor's prior receipt review and approval of the plans and specifications for the Satellite Dish and related connection equipment. In addition, Lessee shall have the right, subject to the capacity of the building in which the Premises is located (the "Building"), to install such connection equipment, such as conduits, cables, risers, feeders and materials (collectively the "Connecting Equipment") in the shafts, ducts, conduits, chases, utility closets and other facilities of the Premises as is reasonably necessary to connect the Connecting Equipment and/or Satellite Dish to Lessee's other machinery and equipment in the Building, subject however, to the provisions of Paragraph *14.2* below, and subject to the availability of vertical riser and feeder excess capacity, as reasonably determined by Lessor.

14.2 The installation of the Satellite Dish and related Connecting Equipment (hereinafter referred to together and/or separately as the "Transmission and/or Reception Equipment") shall be performed in a good and workmanlike manner according to the approved plans and specifications, and the Transmission and/or Reception Equipment shall be treated for all purposes of this Lease as Lessee's property. For the purposes of determining Lessee's obligations with respect to its use of the roof of the Building, all of the provisions of this Lease relating to compliance with requirements as to insurance, indemnity, repairs and maintenance and compliance with laws shall apply to the installation, use and maintenance of the Transmission and/or Reception Equipment.

14.3 Lessee shall install, use, maintain and repair the Transmission and/or Reception Equipment so as not to damage the mechanical, electrical, plumbing, HVAC or communications systems of the Premises (collectively the "Systems and Equipment") or any equipment located on the roof of the Premises and Lessee's use of the roof shall be limited to the installation, maintenance and repair of the Transmission and/or Reception Equipment; Lessee

hereby agrees to indemnify, defend and hold Lessor harmless from and against any and all claims, costs, damages, expenses and liabilities (including reasonable attorney's fees) arising out of Lessee's failure to comply with the provisions of this Paragraph *14.3*.

14.4 Lessor shall not have any obligations with respect to the Transmission and/or Reception Equipment or compliance with any requirements relating thereto nor shall Lessor be responsible for any damage that may be caused to the Transmission and/or Reception Equipment unless and to the extent caused by the negligent or intentional acts of Lessor, its agents, employees, or contractors. Lessor makes no representation that the Transmission and/or Reception Equipment will be able to receive or transmit communication signals without interference or disturbance and Lessee agrees that Lessor shall not be liable to Lessee therefor.

14.5 Lessee, at Lessee's sole cost and expense, shall maintain such equipment and install such fencing and other protective equipment on or about the Transmission and/or Reception Equipment as Lessor may reasonably determine to be appropriate. Further Lessee at Lessee's sole expense shall be responsible for abnormal wear and tear to the roof area affected by the Transmission and/or Receptor Equipment installation or utilization. Lessee's failure to pay such amounts, upon the expiration of any applicable notice and cure period set forth in this Lease with regard to the non-payment of Rent, shall entitle Lessor to exercise any and all remedies available to Lessor pursuant to this Lease. Additionally, upon the expiration of any applicable notice and cure period, but with one (1) additional business days' notice, Lessor shall have the right to remove the Transmission and/or Receptor Equipment, at Lessee's expense.

14.6 Lessee shall **(i)** be solely responsible for any damage caused as a result of the Transmission and/or Reception Equipment, **(ii)** promptly pay any tax, license or permit fees charged pursuant to any requirements in connection with the installation, maintenance or use of the Transmission and/or Reception Equipment and comply with all precautions and safeguards recommended by any governmental authority, and **(iii)** make necessary repairs, replacements or maintenance of the Transmission and/or Reception Equipment.

14.7 If any of the conditions set forth in this Paragraph *14* are not complied with by Lessee, then without limiting Lessor's rights and remedies it may otherwise have under the Lease, Lessee shall, upon written notice from Lessor, have the obligation either to **(i)** reposition the Transmission and/or Reception Equipment to a location designated by Lessor (if

Lessor elects to permit such repositioning), and make the repairs and restorations required under Paragraph *14.8* below, or **(ii)** otherwise correct such noncompliance within ten (10) days after receipt of notice (or such longer period as may be reasonably required as long as Lessee commences such correction within such ten (10) day period and diligently prosecutes same to completion). If Lessee fails to correct such noncompliance within such ten (10) day period (as may be extended as set forth above), then Lessee shall immediately discontinue its use of the Transmission and/or Reception Equipment and remove the same, in all events at Lessee's sole expense.

14.8 Upon the expiration or earlier termination of the Lease, Lessee shall, subject to the control and direction of Lessor, remove the Transmission and/or Reception Equipment, repair any damage caused thereby, and restore the roof and other facilities of the Premises to their condition existing prior to the installation of the Transmission and/or Reception Equipment.

14.9 Lessee's rights pursuant to this Paragraph *14* shall be personal to the original Lessee signing this Second Amendment or any Permitted Transferee, and shall be null, void and of no further force or effect as of the date that Lessee assigns.

15. Security Deposit.

The parties acknowledge that as of the date prior to the date of this Second Amendment, the Security Deposit is Forty-Nine Thousand One Hundred Thirty Dollars ($49,130.00). Concurrently with the execution of this Second Amendment, Lessee shall deposit with Lessor an additional security deposit so that the remaining security deposit shall be increased to Fifty-Six Thousand Three Hundred Fifty-Five Dollars ($56,355.00) which shall continue to be held by Lessor pursuant to the provisions of Paragraph *5* of the Lease for the balance of the term and any Option term of the Lease. In the event that Lessee exercises the Expansion Option or Right of First Refusal set forth in Paragraph *12* of this Second Amendment, and the 3931 Property is leased by Lessee, the security deposit shall be further increased by an amount equal to the initial amount of Monthly Base Rent payable by Lessee as rent for the 3931 Property and said sum shall be payable concurrently to Lessor at the Delivery Date of the 3931 Property.

16. Warranty of Authority.

Lessor and Lessee each individually represent that **(i)** it is a duly authorized and existing entity that is qualified to do business in California; and **(ii)** that each and every person signing on behalf of such party is authorized in writing to do so.

17. Broker Representation.

Lessor and Lessee represent to one another that it has dealt with no broker in connection with this Second Amendment other than Irving Hughes and CB Richard Ellis. Lessor and Lessee shall hold one another harmless from and against any and all liability, loss, damage, expense, claim, action, demand, suit or obligation arising out of or relating to a breach by the indemnifying party of such representation. Lessor agrees to pay all commissions due to the brokers listed above created by Lessee’s execution of this Second Amendment in accordance with a separate written agreement executed by Lessor and such brokers.

18. Governing Law.

The provisions of this Second Amendment shall be governed by the laws of the State of California.

19. Reaffirmation.

Lessor and Lessee acknowledge and agree that the Lease, as amended by the First Amendment and as amended herein, constitutes the entire agreement by and between Lessor and Lessee relating to the Premises, and supersedes any and all other agreements written or oral between the parties hereto. Furthermore, except as modified herein, all other covenants and provisions of the Lease shall remain unmodified and in full force and effect.

The parties hereto have executed this Second Amendment at the place and on the dates specified above their respective signatures.

By Lessor: E.G. SIRRAH, LLC,
successor-in-interest to R.G. HARRIS CO., a California corporation,
and the HARRIS FAMILY REVOCABLE TRUST

By: /s/ Henry K. Workman

Name: Henry K. Workman
Title: Manager
Executed at: Malibu, CA
on Date: November 1, 2005

By Lessee: ACADIA PHARMACEUTICALS INC., a Delaware corporation,
formerly Receptor Technologies Inc., a Delaware corporation

By: /s/ Thomas H. Aasen

Name: Thomas H. Aasen
Title: VP & CFO
Address: 3911 Sorrento Valley Blvd.
San Diego, CA 92121
Telephone: (858) 558-2871
Facsimile: (858) 558-2872
Executed at: San Diego, CA
on Date: October 31, 2005

EXHIBIT "A"

IMPROVEMENT CONSTRUCTION AGREEMENT

CONSTRUCTION PERFORMED BY LESSEE

Section 1. Lessee to Undertake Construction.

Lessee's general contractor ("Contractor") shall furnish and install within the Premises those items of general construction (the "Improvements"), shown on the final plans and specifications prepared by Lessee's Architect and approved by Lessor (the "Approved Plans"), which shall be deemed to include any change orders approved by Lessor, and which approval shall not be unreasonably withheld, delayed or conditioned, and in compliance with all applicable codes and regulations. Lessor shall approve or disapprove (specifying in detail the reasons for such disapproval) each set of plans and specifications submitted by Lessee to Lessor within seven (7) business days following Lessor's receipt thereof. Lessor's failure to disapprove any such set of plans and specifications within seven (7) business days of Lessor's receipt thereof shall be deemed to be Lessor's approval thereof.

All Lessee selections of finishes shall be indicated in the Approved Plans.

In the event Lessee requires any changes to the Approved Plans, Lessor shall not unreasonably withhold its consent to any such changes, and shall grant its consent to such changes within five (5) business days after Lessor's receipt of same, provided the changes do not affect the systems, structure or exterior appearance of the Premises. Lessee may make minor modifications to the Approved Plans without Lessor's prior consent so long as they are cosmetic or otherwise consistent with the Approved Plans.

Section 2. Lessee's Payment of Costs.

Subject to Lessor's reimbursement as specified hereinbelow, Lessee shall bear all costs of the Improvements, and shall timely pay said costs directly to the Contractor. From time to time, Lessee shall provide Lessor with such evidence as Lessor may reasonably request that the Contractor has been paid in full for the work completed to-date.

Section 3. Lien Releases.

Contractor shall provide Lessor with customary lien releases as reasonably requested by Lessor and confirmation that no liens have been filed against the Premises. If any liens arise against the Premises as a result of the Improvements, Lessee shall within thirty (30) days thereafter, at Lessee's sole expense, remove such liens and provide Lessor evidence that the title to the Premises have been cleared of such liens.

Section 4. Lessee Improvement Costs.

4.1. The Allowance and the Additional Allowance.

Lessee shall be entitled to a tenant improvement allowance (the "Allowance") in the amount of One Hundred Thousand Dollars ($100,000.00) . In no event shall Lessor be obligated to make disbursements pursuant to this Exhibit **"A"** in a total amount that exceeds the aggregate of the Allowance and the Additional Allowance (as such term is hereinafter defined). If the cost of constructing the Improvements exceeds the Allowance, Lessor agrees to advance, on behalf of Lessee, an amount not to exceed Seven Hundred Thousand Dollars ($700,000.00) (the "Additional Allowance") provided, however, that no more than Three Hundred Thousand Dollars ($300,000.00) of the Additional Allowance shall be disbursed by Lessor in the first eighteen (18) months following the Effective Date. If the cost of constructing the Improvements exceeds Four Hundred Thousand Dollars ($400,000.00), the balance of the Additional Allowance in the sum of Four Hundred Thousand Dollars ($400,000.00) will be disbursed by Lessor at the request of Lessee, during the period commencing eighteen (18) months following the Effective Date and ending on October 31, 2008. Lessor shall not be obligated to disburse any portion of the Allowance or Additional Allowance after October 31, 2008. The total amount of the Additional Allowance advanced by Lessor, with interest thereon at eight percent (8%) per annum from the date of disbursement, shall be repaid by Lessee as Amortization Rent, pursuant to the provisions of Paragraph 5 of the Second Amendment.

4.2. Use of the Allowance.

4.2.1. Lessee Improvement Allowance Items.

Except as otherwise set forth in this Exhibit "A", the Allowance and Additional Allowance shall be disbursed by Lessor only for the following items and costs (collectively, the "Allowance Items"):

4.2.1.1. Payment of any space planning or architectural fees;

4.2.1.2. The payment of plan check permit and license fees relating to construction of the Improvements;

4.2.1.3. The cost of construction of the Improvements, including without limitation, testing and inspection costs, installation of built-in work stations, floor loading reinforcement costs, hoisting and trash removal costs, and Contractors' fees and general conditions;

4.2.1.4. The cost of any changes to the Plans and Specifications or the Improvements required by all applicable building codes (the "Code"); and

4.2.1.5. Sales and use taxes and Title 24 fees.

4.2.2. Disbursement of the Allowance and Additional Allowance.

During the construction of the Improvements, Lessor shall make monthly disbursements of the Allowance and Additional Allowance for the Allowance Items for the benefit of Lessee and shall authorize the release of monies for the benefit of Lessee as follows:

4.2.2.1. Monthly Disbursements. On or before the first day of each calendar month during the construction of the Improvements, Lessee shall deliver to Lessor: **(i)** a request for payment approved by Lessee, in a form to be prepared by Lessee and approved by Lessor, showing the schedule, by trade, of percentage of completion of the Improvements in the Premises, detailing the portion of the work completed and the portion not completed; **(ii)** invoices from Contractor and its subcontractors and suppliers (collectively, "Lessee's Agents") for labor rendered and materials delivered to the Premises; and **(iii)** executed conditional mechanic's lien releases from all of Lessee's Agents which shall comply with the appropriate provisions, as reasonably determined by Lessor, of California Civil Code Section 3262(d). Lessee's request for payment shall be deemed Lessee's acceptance and approval of the work

furnished and/or the materials supplied as set forth in Lessee's payment request. Within fifteen (15) business days thereafter, Lessor shall deliver a check to Lessee made jointly payable to Contractor and Lessee in payment of the amounts so requested by Lessee. Lessor's payment of such amounts shall not be deemed Lessor's approval or acceptance of the work furnished or materials supplied as set forth in Lessee's payment request.

4.2.2.2. Other Terms. Lessor shall only be obligated to make disbursements from the Allowance and Additional Allowance to the extent costs are incurred by Lessee for the Allowance Items.

4.2.2.3. Lease Termination. If prior to the completion of the Improvements, this Lease terminates because of a default by Lessee of any of the provisions of the Lease or this Second Amendment, Lessor shall have no obligation or duty to make any payments of the Allowance or Additional Allowance whatsoever to Lessee and Lessee shall immediately refund to Lessor any amounts of the Allowance or Additional Allowance previously paid to Lessee by Lessor. No portion of the Allowance or Additional Allowance shall be payable to Lessee if Lessee is in default of any term, covenant or condition of the Lease, the Lease is not in full force or effect or if there are any liens pending or threatened relative to Lessee's Work.

4.2.2.4. Risk of Loss. All risk of loss prior to completion of the Improvements shall be borne by Lessee. Any damage shall be promptly repaired by Lessee. Lessee will provide builder's risk coverage in the amount of Lessee's construction contract and change orders and will furnish Lessor with certificates of insurance, naming Lessor and Lessee as additional insureds thereunder.

4.2.2.5. Deduction of Amounts Due. It shall be Lessee's responsibility to obtain from Contractor and forward to Lessor a complete set of "as built" drawings showing thereon all architectural, structural, mechanical and electrical work as actually installed in the Premises. These drawings shall be furnished as soon as is practicable following substantial completion of the Improvements, but in no event later than ninety (90) days after substantial completion of the Improvements.

Section 5. Pre-Construction Requirements.

Prior to Lessee or Contractor commencing any work:

(a) Lessee's Architect, Contractor, and its subcontractors and suppliers, shall be approved in writing by Lessor, which approval shall not be unreasonably withheld, conditioned or delayed;

(b) Lessee or Lessee's Contractor shall submit all Plans and Specifications to Lessor, and no work on the Premises shall be commenced before Lessee has received Lessor's final written approval thereof, which shall not be unreasonably withheld, delayed or conditioned;

(c) Contractor shall concurrently submit to Lessor and Lessee a written bid for completion of the Improvements. Said bid shall include Contractor's overhead, profit, and fees;

(d) Contractor shall complete all architectural and planning review and obtain all permits, including signage, required by the city, state or county in which the Premises are located;

(e) Contractor shall submit to Lessor verification of public liability and workmen's compensation insurance adequate to fully protect Lessor and Lessee from and against any and all liability for death or injury to persons or damage to property caused in, on or about the Premises from any cause whatsoever arising out completion of the Improvements or any other work done by Contractor.

Section 6. Miscellaneous.

(a) Lessee shall notify Lessor immediately of the commencement of the Improvements in sufficient time to permit Lessor to post a Notice of Nonresponsibility.

(b) Lessee and/or Lessee's Contractor shall not use the driveways, parking areas or other exterior areas of the Premises for storage of materials or equipment or other construction activities without the prior written consent of Lessor (not to be unreasonably withheld), and all such storage shall be limited to those areas reasonably designated by Lessor. Any damage, staining or defacing of the parking area surfaces or other areas shall be repaired by Lessee at its cost and such repairs shall be to the satisfaction of Lessee.

(c) Lessee shall at all times during the construction of Lessee's work assure that the Premises and the surrounding area are maintained in a clean, neat and orderly manner. Any rubbish caused by construction operations shall be removed immediately.

(d) No sign of any type shall be placed on or about the Premises by the Contractor or anyone performing work for the Contractor during the construction period without the prior written consent of Lessor, not to be unreasonably withheld.

(e) Contractor shall include in his bid or contract proposal a provision that he will guarantee that the Improvements shall be free from any defects in workmanship and materials for a period of not less than one (1) year from the date of completion thereof. Such Contractor shall be responsible for the replacement or repair, without additional charge, of all work done or furnished in accordance with his contract which shall become defective within one (1) year after substantial completion of the work. The correction of such work shall include, without additional charge, all additional expenses or damages in connection with such removal or replacement of all or any part of the Improvements, the building shell and/or the other improvements which may be damaged or disturbed thereby. Such guarantees as to materials or workmanship of or with respect to the Improvements shall be contained in the contract and shall be so written that such guarantees or warranties shall inure to the benefit of both Lessor and Lessee, as their respective interests may appear and can be directly enforced by either.

(f) All of the Improvements shall be the property of Lessee, but considered a part of the Premises. Lessor may, at any time, elect in writing to be the owner of all or any specified part of the Improvements. Lessor shall have the option to require Lessee to remove all or any part of the Improvements at the expiration or termination of the Lease in accordance with Section *7.4(b)* of the Lease provided Lessor notifies Lessee in writing as to the portion of the Improvements to be removed by Lessee at the time Lessor consents to the construction of the Improvements. Lessor hereby waives any right to remove any improvements within the Premises which exist as of the date of this Amendment. Unless otherwise instructed in accordance with Section *7.4(b)*, all of the Improvements shall at the expiration or termination of the Lease become the Property of Lessor and be surrendered by Lessee with the Premises.

Exhibit 10.4

LEASE AGREEMENT

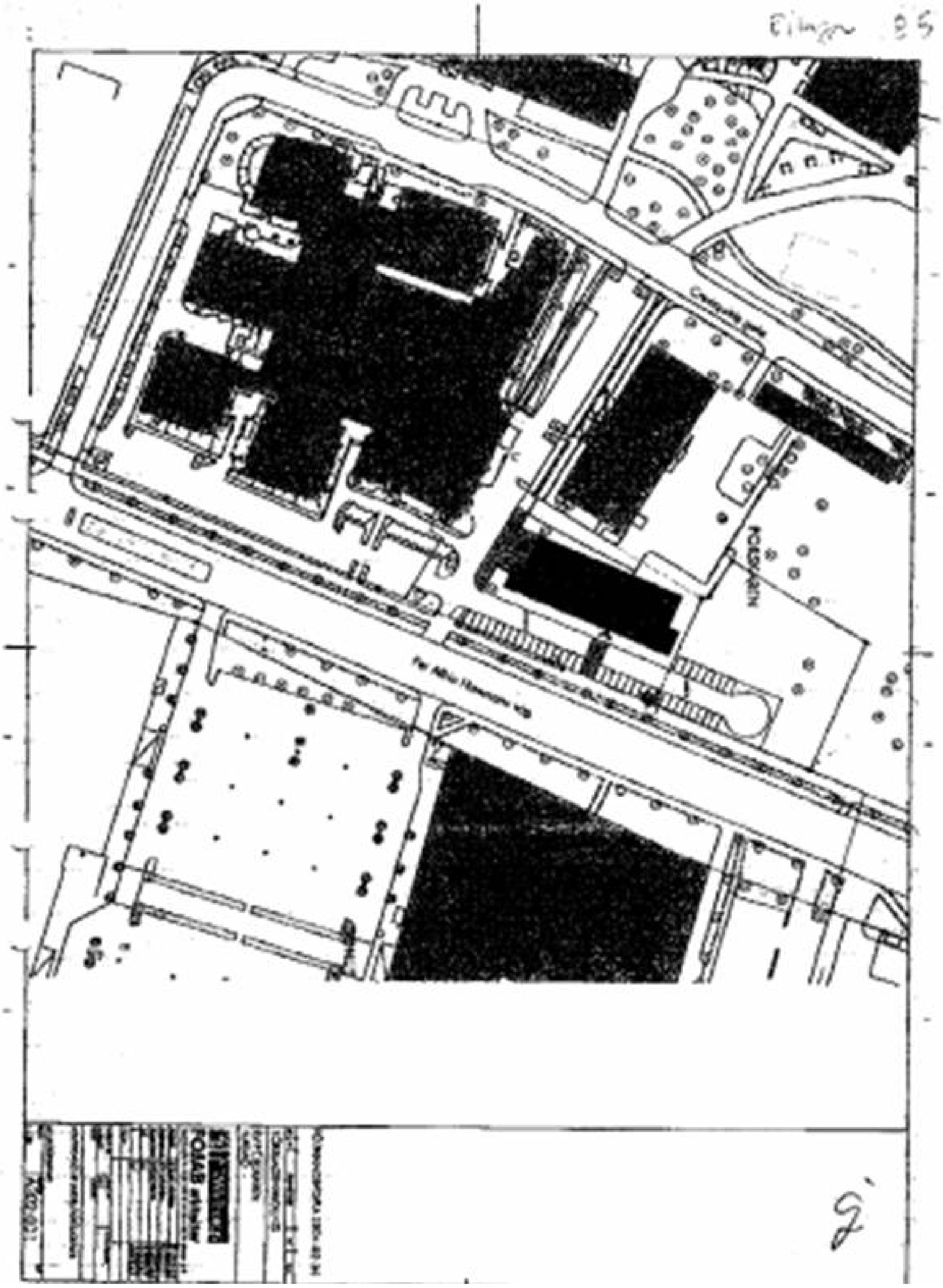
between

Medeon Fastigheter AB

and

ACADIA Pharmaceuticals Inc.

Bilaga 35



Wihlborgs

LEASE AGREEMENT
FOR NON-RESIDENTIAL PREMISES

No. 4881-20000

The undersigned have this day entered into the following Lease Agreement — **An X in a box means that the text following thereafter applies.**

Landlord
Medeon Fastigheter AB
National ID/company registration no.
556034-1140

Tenant
ACADIA Pharmaceuticals AB
National ID/company registration no.
556666-6805

Premises Address, etc
Municipality: Malmö
Property designation Forskaren 1
Street P A Hanssonsväg 35, Malmö
Floor/building
Apartment no. 20000
Billing Address Medeon - Malmö Science Park 205 12 Malmö

Condition and use of premises
Unless otherwise stated, the premises and appurtenant storage areas are let in their existing condition for use as: Kontor och

Size and extent of premises

Retail space Floor	Sq. m.	Office space Floor	Sq. m. ca	Floor	Sq. m.	Storage space Floor	Sq. m.	Other space Floor	Sq. m.
		1	960	2	930				19 ca Gasforrad
		3	890						

The designated areas
☐ **have** ☒ **have not** **been measured jointly prior to the execution of the Agreement**

Should the area shown in the Agreement deviate from that actually measured, this does not entitle the Tenant to any repayment of rent nor entitle the Landlord to any increased rent — **Appendix** 1A-1D

☒ **The extent of the leased premises is marked on appended plan(s)**

☒ **access for cars loading/unloading** ☐ **place for sign** ☐ **place for display cabinet/ vending machine** ☐ **parking space(s) for _____car(s)** ☐ **garage space(s) for _____car(s)** ☐

Furnishings/ Fixtures/Fittings
The premises are let:
☐ **without furnishings/fixtures/fittings specific to the Tenants use of the premises**
☒ **with furnishings/fixtures/fittings specific to the Tenants use of the premises according to appendix** — **Appendix** 7

Unless otherwise agreed upon, at the termination of the tenancy, the Tenant shall remove all property belonging to him and surrender the premises in acceptable condition. The parties agree to carry out a joint inspection of the premises not later than the last day of the tenancy. If, as a result of the Tenant's actions – carried out with or without the Landlord's consent – the premises upon surrender should contain material, which it had not previously been agreed that the Landlord should be responsible for, the Tenant shall remove such material or pay the Landlord's expenses in so doing, including but not limited to, transportation costs, waste disposal taxes and storage charges.

Telephone lines
☐ **The Tenant shall pay for the installation of the necessary telephone lines from a connection point designated by the service provider to those points in the premises chosen by the Tenant in consultation with the Landlord.**
☒ **The Landlord shall pay for corresponding installation of lines to the premises. The installation of lines inside the premises shall be carried out by the Tenant in consultation with the Landlord; the cost, however, to be borne by the Tenant.**

Data communication lines
☐ **The Tenant shall pay for the installation of the necessary data communication lines from a connection point designated by the service provider to those points in the premises chosen by the Tenant in consultation with the Landlord.**
☒ **The Landlord shall pay for corresponding installation of lines to the premises. The installation of lines inside the premises shall be carried out by the Tenant in consultation with the Landlord; the cost, however, to be borne by the Tenant.**

Term of lease
Commencing 2005-06-01
Up to and including 2015-05-31

Termination/ Extensions
Notice of termination of this Agreement must be given in writing at least __12__ months prior to the expiry of this Agreement.
In the absence thereof, this Agreement is extended by a term of __5__ years at a time.

Heating and hot water
Requisite heating of the premises is provided by ☒ **the Landlord** ☐ **the Tenant**
Hot water is provided ☒ **throughout the year** ☐ **not provided** ☐

Notice
Note that in certain cases, in addition to marking a box with an X, an appendix must be appended to the Agreement in order for the agreement set forth in such appendix to be binding. This applies, for example, with respect to an index clause, a property tax clause and the Tenant's right to a reduction of rent in conjunction with customary maintenance. In addition, see instructions prepared by the organisations.

Initial **Initial**

LEASE AGREEMENT
FOR NON-RESIDENTIAL PREMISES **No.** 4881-20000

The undersigned have this day entered into the following Lease Agreement **An X in a box means that the text following thereafter applies.**

Rent	**SEK** 7 400 000:— **Per annum comprising**	☐ **total rent**	☒ **rent excluding supplements marked below**	
Index clause	☒ **Changes to the above-stated rent will be effected pursuant to the appended index clause**			**Appendix 3**
Heating and hot water costs	**Fuel/heating supplement payable in accordance with** ☒ **appended clause**	enl. sjalvkostnad		**Appendix 4**
Water and sewerage cost	**Water and sewerage supplement payable in accordance** ☒ **with appended clause**	enl. sjalvkostnad		**Appendix 4**
Cooling Ventilation	**Costs for the operation of special cooling and ventilation appliances** ☒ **shall be reimbursed in accordance with appended clause**	enl. sjalvkostnad		**Appendix 4**
Electricity	☐ **included in rent**	☒ **Tenant has own contract with the provider**		
Cleaning of Stairwell	☐ **included in rent**	☒ **arranged for and paid for by the Tenant**		

Refuse and waste removal

Insofar as the Landlord is responsible for the provision of storage space for refuse/waste, and arranging for the removal of such refuse/waste, it is the Tenant's responsibility to sort and deposit refuse/waste in the appropriate containers as directed, in their designated place, as well as without recompense contribute towards further and/or additional sorting, as discussed by the Landlord.

Refuse and waste removal

☐ **included in rent**

☒ **Arranged for and paid for by the Tenant (the Landlord however shall provide the necessary refuse/waste containers and the requisite storage space for such)**

☐ **Included in rent with respect to the types of refuse/waste indicated below. The Tenant shall be responsible for, and pay for the costs of, collection, sorting, storage and transportation of the categories of refuse/waste not indicated below which are to be found on the Tenant's premises.**

☐ **household waste**	☐ **fluorescent tubes**	☐ **hard plastic packaging**
☐ **heavy refuse**	☐ **metal packaging**	☐ **hazardous waste pursuant to the Hazardous Waste Ordinance (1996:971)**
☐ **compostable waste**	☐ **clear glass containers**	☒ Bil 4
☐ **newspapers**	☐ **coloured glass containers**	☐
☐ **batteries**	☐ **cardboard packaging**	☐

Snow clearance and gritting	☐ **included in rent**	☐ **to be arranged for and paid for by the Tenant**	☒ **as per appendix**	**Appendix** 4
Property taxes	☐ **included in rent**	☒ **reimbursement payable as per special agreement**		**Appendix** 5

Unforeseen costs

Where, following the execution of this Agreement, unforeseen increases in costs arise in relation to the property as a consequence of:

a) the introduction of, or increases in taxes, charges or duties levied specifically on the property as a result of decision taken by Parliament, Government, municipalities, or other relevant authorities;

b) general rebuilding measures or such like in respect of the property which do not relate solely to the premises and which the Landlord is obliged to execute as a result of decisions of the Parliament, Government, municipalities, or other relevant authorities;

The Tenant shall, commencing at the time of the cost increase, reimburse the Landlord in relation to that proportion of the total annual increase in costs for the property represented by the premises.

The proportion represented by the premises is 100 per cent. Where the proportion has not been indicated, it shall be comprised of that proportion of the total rents for premises (excluding any value-added tax) represented by the Tenant's rent (excluding any value-added tax) at the time of the increase in costs in respect of unlet premises, the market rent for the premises shall be estimated.

"Taxes" in accordance with a) above does not refer to value-added tax and property tax to the extent that reimbursement in respect of this is paid as per agreement. "Unforeseen costs" means such costs as were not decided upon by the authorities as set forth in sections a) and b) at the inception of the Agreement. Reimbursement shall be paid in the same manner as set forth below for rental payments.

Notice

Note that in certain cases, in addition to marking a box with an X, an appendix must be appended to the Agreement in order for the agreement set forth in such appendix to be binding. This applies, for example, with respect to an index clause, a property tax clause and the Tenant's right to a reduction of rent in conjunction with customary maintenance. In addition, see instructions prepared by the organisations.

LEASE AGREEMENT
FOR NON-RESIDENTIAL PREMISES **No.** 4881-20000

The undersigned have this day entered into the following Lease Agreement **An X in a box means that the text following thereafter applies.**

Value-added tax (VAT)

☒ The property owner/Landlord is liable to pay value-added tax for the letting of the premises. In addition to rent, the Tenant shall on each occasion pay the VAT currently applicable.

☐ Where, following a decision by the Tax Authorities, the property owner/ Landlord becomes liable to pay VAT to the letting of the premises, the Tenant shall on each occasion in addition to the rent pay the VAT currently applicable.

The VAT paid together with rent shall be calculated on the stated rental amount and where applicable on supplemental charges and other reimbursements paid in accordance with the Agreement, pursuant to the rules applicable at the time in respect of VAT payable on rent.

Where the Landlord becomes liable to pay VAT pursuant to the provisions of the Value Added Tax Act as a consequence of the Tenant's independent actions, such as a subletting of the premises (including subletting to its own company) or assignment, the Tenant shall reimburse the Landlord in full. In addition, the Tenant shall reimburse the Landlord in respect of the increased costs arising as a consequence of the Landlord's loss of the entitlement to deduct VAT on operating expenses incurred as a consequence of the Tenant's actions.

Payment of rent

The rent shall be paid in advance without prior demand, not later than the last working day prior to the commencement of

Postal giro no.	**Bank giro no.**

☐ each calendar month **☒ each quarter** **By direct transfer to either of following accounts** enl avi enl. avi

Interest, Payment reminders

Upon delay in the payment of rent, the Tenant shall pay interest in accordance with the Interest Act as well as compensation for written payment reminders in accordance with the Debt Recovery Act, etc. Compensation for payment reminders shall on each occasion be paid in an amount currently applicable pursuant to the Debt Recovery Ordinance, etc.

Maintenance, etc.

☐ The Landlord shall carry out and bear the cost of necessary maintenance of the premises and furnishings/fittings/fixtures supplied by him.

However, the Tenant shall be responsible for **Appendix**

☐ The Tenant shall carry out and bear the cost of necessary maintenance of the surface of floors, walls and ceilings, as well as of furnishings/ fittings/fixtures provided by the Landlord.

In addition, the Tenant's maintenance obligations includes **Appendix**

Where the Tenant does not fulfill his maintenance obligations and does not within a reasonable time carry out rectification works following a written demand, then the Landlord shall be entitled to fulfill these obligations at the Tenant's expense.

☒ The allocation of the maintenance obligations is set forth as per separate appendix. Gransd.lista **Appendix** 6

Management and operation

Unless otherwise agreed, the Landlord shall, where applicable, manage, operate, and maintain the public and common areas.

The Tenant shall not be entitled, without the Landlord's written consent to carry out any fitting out and/or installation or alteration works within the premises or otherwise within the property, which directly effects the structural components of the building or installations important to the functioning of the property, such as water and sewerage, electricity, ventilation systems, etc., which are the property of the Landlord.

Sprinkler heads and ventilation equipment may not be covered by any fixtures/fittings by the Tenant in such a manner as to reduce the functioning of such equipment. In conjunction with the performance of fitting out works, the Tenant shall ensure that the functioning of radiators and other heating equipment is maintained in all significant respects.

Inspections

Where any defects and/or deficiencies are found subsequent to an inspection by a relevant authority, in the electrical and sprinkler equipment which is the

	property of the Tenant, the Tenant shall, at his own cost and within the period prescribed by the relevant authority, carry out any measures required. Where the Tenant has not rectified the defects and/or deficiencies within the assessed time, the Landlord shall be entitled, at the Tenant's expense, to carry out such measures as are required by the relevant authority.			
Access to certain spaces	The Tenant shall keep areas to which the maintenance personnel and personnel from the energy utilities, water and sewerage utilities, the telephone company, and any like organization must have access to, easily accessible by keeping such areas free of cupboards, crates, goods, or any other obstruction.			
Building material specifications	Whether, pursuant to the provisions of this Agreement or otherwise, the Tenant performs maintenance, improvement, or alteration works in respect of the premises, the Tenant shall provide the Landlord, in good time prior to the execution of such work, with specifications of the building materials – to the extent such have been prepared – for the products and materials to be used on the premises.			
Planning and Building Code (PBL) Insts.	Where the Tenant undertakes alterations to the premises without the requisite construction permit and, as a consequence thereof the Landlord is compelled to pay construction fines or supplemental fees pursuant to the rules set forth in the Planning and Building Code (PBL), the Tenant shall reimburse the Landlord in respect of this.			
Reduction of rent	The Tenant shall not be entitled to a reduction in rent for the period during which the Landlord allows work to be carried out in order to place the premises in the agreed condition, or other works specifically set forth in the Agreement. SEE GENERAL AGREEMENT.			
	☒ The Tenant's right to a reduction in rent during the Landlord's performance of customary maintenance of the leased premises or the property shall be governed by a separate appendix.			Appendix 2
Regulations imposed by relevant authorities, etc.	☐ The Landlord	☒ The Tenant	shall be solely responsible for, and bear the cost of, undertaking measures which may be required for the intended use of the premises by insurance companies, building authorities, environmental or health authorities, fire departments, or other relevant authorities after the date of taking possession. The Tenant shall consult with the Landlord prior to undertaking any such measures.	

Notice

Note that in certain cases, in addition to marking a box with an X, an appendix must be appended to the Agreement in order for the agreement set forth in such appendix to be binding. This applies, for example, with respect to an index clause, a property tax clause and the Tenant's right to a reduction of rent in conjunction with customary maintenance. In addition, see instructions prepared by the organisations.

Initial **Initial**

LEASE AGREEMENT
FOR NON-RESIDENTIAL PREMISES **No.** 4881-20000

The undersigned have this day entered into the following Lease Agreement **An X in a box means that the text following thereafter applies.**

Signs, awnings, windows, doors, etc.

Following consultation with the Landlord, the Tenant shall be entitled to display a customary business sign provided that the Landlord has not reasonably denied the same and that the Tenant has obtained the requisite permit from the relevant authority. Upon surrender of the premises, the Tenant shall restore the facade to of the building to an acceptable condition. In conjunction with more extensive property maintenance, such as the renovation of facades, etc. the Tenant shall, at its own cost and without compensation, dismantle and reassemble signs, awnings, and antennas. The Landlord undertakes not to fix vending machines and display cabinets on the exterior walls of the premises let to the Tenant without the Tenant's consent, and grants to the Tenant an option to fix vending machines and display cabinets on the walls in question.

☐ **The Landlord**

Is liable for any damage due to negligence of malicious intent to

☒ **The Tenant**	☒ **windows**	☐ **display/shop windows**	☒ **entrance doors**
	☐ **signs**	☐	

☐ **The Tenant shall purchase and maintain glass insurance with respect to displaying windows and entrance doors appurtenant to the premises.**

Locks ☐ **The Landlord** ☒ **The Tenant** **shall equip the premises with such locks and anti-theft devices as may be required to ensure the validity of the Tenant's business insurance.**

Force majeure **The Landlord shall not be compelled to perform the obligations under this Agreement or pay any damages where, as a consequence of acts of war or riots, work stoppages, blockages, fires, explosions, or intervention by a public authority over which the Landlord has no control and which could not have been foreseen, and the Landlord is prevented entirely from performing his obligations or may only be able to do so at abnormally high cost.**

Security **This Agreement is contingent upon the provision of security in the form of a** **Appendix**

☐ **Bank guarantee** ☐ **Personal guarantee** ☐ **To be provided no later than**

Special provisions Särskilda Bestämmelser **Appendix** 7

Signature **This Agreement which may not be registered without specific consent, has been prepared in two identical counterparts of which each party has received one. All prior agreements between the parties with respect to these premises shall cease to apply commencing on the date of execution of this Agreement.**

Place/date		**Place/date**
Landlord	**This is just a translation.** **Do not sign here!** **Sign the Swedish form!**	**Tenant**
Printed name		**Printed name**

Agreement with respect to the surrender of the premises **As a consequence of an agreement entered into this day, the Agreement shall cease to apply commencing , at which time the Tenant undertakes to surrender the premises.**

Place/date	**Place/date**
Landlord	**Tenant**

Assignment **This Lease Agreement is hereby assigned to commencing**

Assignor	**Assignee**	**National ID/company regulation no.**

The above-referenced assignment is hereby approved

Place/date	**Landlord**

Notice
Note that in certain cases, in addition to marking a box with an X, an appendix must be appended to the Agreement in order for the agreement set forth in such appendix to be binding. This applies, for example, with respect to an index clause, a property tax clause and the Tenant's right to a reduction of rent in conjunction with customary maintenance. In addition, see instructions prepared by the organisations.

Här skall infogas relations ritningar

Wihlborgs

Appendix 2 to Lease Agreement No. 4811-20000

The parties have agreed as follows about reduction of the rent in conjunction with customary maintenance (an X in a box means that the text following thereafter applies).

☐ **Reduction of the rent for obstacles to or infringement of the right of the user in consequence of the Landlord allowing work to be done in order to carry out customary maintenance of the leased premises or the property is to be granted according to the rules of The Rent Act.**

☒ **The Tenant is not entitled to reduction of the rent for obstacles to or infringement of the right of the user in consequence of the Landlord allowing work to be done in order to carry out customary maintenance of the leased premises or the property. The Landlord shall, however, in good time inform the Tenant not only about the kind and the extent of the work but also about the starting point and the period during which the work will be carried out.**

☐ **The parties are agreed that the right to reduction of the rent during the Landlord's performance of customary maintenance of the leased premises or the property shall be governed in accordance to the following.**

Place/date

Landlord

Printed name

This is just a translation.
Do not sign here!
Sign the Swedish form!

Place/date

Printed name

Wihlborgs

INDEX CLAUSE
for non-residential premises

Appendix no. 3

Concerning

Lease Agreement no
4881-20000

Property designation
Forskaren 1

Landlord
Medeon Fastigheter AB
c/o Wihlborgs Fastigheter AB

Tenant
ACADIA Pharmaceuticals AB

Clause

Of the rent of SEK 7 400 000- **stipulated in the Lease Agreement** 100 **% or SEK** 7 400 000:- **shall constitute the base rent. During the period of the Lease Agreement, a surcharge to the rent, constituting a certain percentage of the base rent, shall be payable with regard to changes in the consumer price index (using the total index for 1980 as a base) according to the following:**

- ***For lease agreements commencing during the period 1/1—30/6 the base rent is deemed to be adjusted to the index level for that of the previous October*.**
- ***for lease agreements commencing during the period 1/7—31/12 the base rent is deemed to be adjusted to the index level for October of that year.***
- ***The index level for the October that the base rent is deemed to be adjusted to, as shown above, becomes the base figure unless otherwise agreed by designating a year as per the following. Alternative agreed base figure: the index level of October* 2004.**

Should the index level any following October have risen in relation to the base figure, the surcharge shall be calculated on the percentage by which the index has changed in relation to the base figure. Future surcharges due will be based on the changes in the index, the rental change to be calculated on the percentage change between the base figure and the index level for the October in question.

The rent payable shall nevertheless be adjusted below that stipulated in the Lease Agreement. A change in the rent is always effective from 1st January following an adjustment occasioned by a recomputation due to a change in the index the previous October.

The instructions in page 2 are applicable to the agreement.

Signature

Place/date		**Place/date**
Landlord	**This is just a translation.** **Do not sign here!** **Sign the Swedish form!**	**Tenant**
		_____
		_____
Printed name		**Printed name**

The Landlord's notes regarding the base figure: 281,0

Instructions in respect of Index Clause for non-residential premises

Base Rent

Whether all or a part of the rent stipulated in the Lease Agreement shall consist of base rent, is a matter for negotiation and can depend on the terms of the Lease Agreement (for example the quantum of the rent expressed as SEK/sq. m/per annum, and also for what other obligations the Tenant is responsible).

Base Figure

The index level for the October that the base rent is deemed to be aligned to becomes the base figure, unless otherwise agreed by designating a year (as per conditions stated in page 1).

Comparison of index levels shall be done as soon as the annual October index is published. During recent years the October index has been published by the middle of November.

Calculation of the Surcharge

1) Calculate the difference between the relevant October index and the base figure.
2) If the difference is positive, divide the difference by the base figure.
3) The surcharge is calculated by multiplying the base rent by the factor thus determined.

Example

a) Presume that the base rent is SEK 75,000 pa (per annum) and is aligned to the 1996 October index, which is 255.9. 1998 October index is 257.3.
    1) The difference between the index figure 257.3 and the case figure 255.9, is 1.4.
    2) 1.4 divided by the base figure 255.9 produces a factor of 0.0055 (0.55%)
    3) This factor of 0.0055 (i.e. 0.55%) multiplied by the base rent SEK 75,000 is SEK 410 which according to the clause becomes the surcharge for 1999.

b) Assume the base rent is instead aligned to the 1997 October index which is 259.6.
    1) The difference between the index level 257.3 and the base figure 259.6 is negative and no surcharge applies. The rent stated in the Lease Agreement applies.

Wihlborgs

PROPERTY TAX CLAUSE
for non-residential premises

Appendix no. 5

Part of	**Lease Agreement no.** 4881-20000	**Property designation** Forskaren 1
Landlord	Medeon Fastigheter AB c/o Wihlborgs Fastigheter AB	
Tenant	ACADIA Pharmaceuticals AB	

Clause

The applicable alternative is indicated by putting an X in the relevant box and completing the requisite details.

To the extent that the parts of the property that are comprised of non-residential premises are or become subject to property tax, the Tenant shall with the rent reimburse the Landlord according to the conditions as indicated below.

☒ **The Tenant shall in addition to the rent specified in the Lease Agreement annually reimburse the Landlord for his share of property tax due in respect of the non-residential premises. The Tenant's share is deemed to be 100 per cent.**
According to the conditions that apply at the inception of the Lease Agreement the reimbursement at the inception of the rental period is SEK ej kant a year.

☐ **Reimbursement in respect of the current share of property tax for the non-residential premises is included in the rent specified in the Lease Agreement and at its inception it is SEK**

The non-residential premises share of the property tax applying to non-residential premises is deemed to be per cent. The Tenant shall provide reimbursement for his share of any changes in the applicable property tax in respect of non-residential premises that take effect after the inception of the Lease Agreement (irrespective of the cause) to the extent that the tax exceeds that amount that is included in the rent as reimbursement for property tax.

Should the property tax reduce/cease so that Tenant's share of the reimbursement is less than that as per above, which is included in the rent specified in the Lease Agreement, the rent shall nevertheless be payable at not less than the original amount. Thus due to other clauses (e.g. index) contained in the agreement this means that the total rent payable by the Tenant is/can be greater than that shown in the Lease Agreement.

The Tenant's above specified share, which shall be unchanged during the term of the Lease Agreement, has been calculated as follows:

_____

_____

_____

The instructions in page 2 are applicable to the agreement.

Signature	**Place/date**		**Place/date**
	Landlord	**This is just a translation.** **Do not sign here!** **Sign the Swedish form!**	**Tenant**
	Printed name		**Printed name**

Instructions – Property tax clause for non-residential premises

1. The clause was formulated in June 1995, i.e., before the time (normally the 1st of January 1995) from which property tax for premises applies. Therefore the clause has a wording which means that it can be incorporated in agreements that have been made before the tax is payable, as well as in agreements where the tax is actually payable.

2. The reimbursement shall compensate for the increased costs of administration irrespective of who is liable for the tax. A property owner/Landlord is liable for tax. According to previous regulations if the property owner/Landlord was a trading partnership the owners/shareholders were liable for tax. The supplement was nevertheless to be paid to the Landlord as a matter of course. After the 1st of January 1997 trading partnerships as such (and not the individual owners/shareholders) are liable for property tax.

3. According to section 19 of the Rent Act the rent must – with some exceptions – be determined in the Lease Agreement. If the rental period is fixed, and is for at least three years, certain additional exceptions apply in that the rent shall be payable with such sums which are determined according to "different method of calculation" e.g. indexation. This also means that the rental period has to be fixed and be at least three years to enable the Landlord to obtain reimbursement for property tax in sums that can vary as the tax changes. Furthermore the method of calculation must be shown in the Lease Agreement. The clause therefore presumes that the parties state what share of the tax the Tenant shall provide reimbursement for.

According to the regulations that apply when this clause is formulated the tax is comprised of a certain percentage of the assessed value of the premises (both grounds and buildings). This information is to be found in the tax statement. The Tenant's share of the tax for the premises can be determined by the relationship which the extent of that area leased by the Tenant bears to the total lettable premises in the property or as a relationship between the Tenant's rent and the total of the rents for premises in the property.

It is a matter for negotiation which method of calculation the parties choose. Other methods of calculation can be used. For the sake of simplicity, however, the Tenant's share should be unchanged during the rental period, and thereby independent of among other things, how the tax in the future might be calculated and possible changes in the rental market.

It is therefore appropriate to show in the designated space how the premises share has been calculated. Should details in respect of this not be completed this does not mean that the agreement becomes invalid. A property can comprise of a variety of different buildings with different value years and different taxation categories (small dwelling houses, apartment blocks, industrial units and special units). The tax – that the Tenant is due to pay reimbursement for – shall only relate to the building in which the premises are located. A building is normally defined as a free standing self-contained building. Relevant information can be ascertained from information regarding decisions referring to general property taxation that the tax authorities have advised the property owner. Any property owner who has a problem in ascertaining the Tenant's share should contact their property owners association for assistance.

Complete the Tenant's share!

4. The clause contains two alternatives. In the first the reimbursement for the tax is payable as a supplement "alongside" the rent agreed in the Lease Agreement. If the tax disappears so does the supplement. The other alternative presumes that the parties agree a specific rent which includes, among other things, reimbursement for the then applicable tax. Should the tax be increased irrespective of the cause (for example increase in tax rates, increased assessed value etc) the Tenant shall nevertheless tender reimbursement for the increased cost. Should the tax disappear the rent reverts to the original sum, i.e., the agreed rent (which includes reimbursement for the tax applicable at inception which has been discontinued). Naturally the Tenant shall continue to pay other supplements such as those caused by changes in indexes and in respect of increased fuel costs and so forth.

5. To the extent that the Tenant pays a supplement in respect of property tax the supplement should be accounted for separately on the rent invoice.

6. Indicate the chosen alternative with an X. In the chosen alternative the Tenant's share and the sum should be filled in. Specify how the Tenant's share has been calculated.

Special Provisions

1 Condition of the Premises

1.1 The premises are let in the condition set forth in the General Agreement entered into between the Landlord and the Tenant and shall be used as office and laboratory within the frame of the Tenant's enterprise.

2 Extension of term of lease

2.1 The Tenant shall have the right to extend the term of lease with an additional period of five (5) years from the expiration of the initial ten (10) year-term, on in all other respects unaltered terms and conditions.

2.2 Should the Tenant not exercise its right of extension, the Tenant shall – in addition to the ordinary remaining rental payments – pay a penalty to the Landlord with an amount corresponding to the annual rent of year ten of the initial ten year-term.

3 Early termination

3.1 The Tenant is entitled to terminate this Lease Agreement by giving notice twelve (12) months in advance.

3.2 Should the Tenant exercise its right of early termination set forth in 3.1 above, the Tenant shall pay to the Landlord compensation with an amount corresponding to two thirds (2/3) of the total amount of all future rental payments.

3.3 The compensation for the period 2005-06-01 – 2007-05-31 shall amount to maximum SEK 40,000,000 (forty million) and for the period 2007-06-01 – 2015-05-31 to maximum SEK 35,000,000 (thirty five million).

3.4 The obligation for the Tenant to compensate the landlord shall under no circumstances be less than an amount corresponding to the annual rent for two (2) years.

4 Subletting

4.1 The Tenant may sublet the premises, in whole or partly, provided that the Landlord reasonably should be content with the new sub-tenant and provided that the subletting entails a liability to pay value-added tax.

4.2 Subletting is permitted under the prerequisite that the Tenant has the full responsibility for any and all obligations under this Lease Agreement.

5 Use of the premises

5.1 The Tenant is solely responsible for the observation of applicable law and regulation as regards use of the premises. The Tenant shall indemnify the Landlord for any losses relating to the Tenant's omission to fulfill his liability set forth in this section.

6 English translation

6.1 An English translation of the lease Agreement with appendices has been enclosed to the agreement, Appendix 8. Should any dispute arise regarding the interpretation of this Lease Agreement, the parties have agreed that the Swedish version of this Lease Agreement with appendices shall precede.

Place:	Place:
Date:	Date:
MEDEON FASTIGHETER AB	ACADIA PHARMACEUTICALS AB

[This is just a translation. Do not sign here!]

Exhibit 31.1

CERTIFICATION
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Uli Hacksell, Ph.D., certify that:

1. I have reviewed this quarterly report on Form 10-Q for the three months ended September 30, 2005 of ACADIA Pharmaceuticals Inc.

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2005

/s/ ULI HACKSELL

Uli Hacksell, Ph.D.
Chief Executive Officer

Exhibit 31.2

CERTIFICATION
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Thomas H. Aasen., certify that:

1. I have reviewed this quarterly report on Form 10-Q for the three months ended September 30, 2005 of ACADIA Pharmaceuticals Inc.

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2005

/S/ THOMAS H. AASEN
Thomas H. Aasen
Vice President and Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of ACADIA Pharmaceuticals Inc. (the "Company") on Form 10-Q for the period ending September 30, 2005, as filed with the Securities and Exchange Commission on or about the date hereof (the "Report"), I, Uli Hacksell, Ph.D., Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge, that:

(1) the Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition of the Company at the end of the period covered by the Report and results of operations of the Company for the period covered by the Report.

Date: November 14, 2005

/s/ ULI HACKSELL

Uli Hacksell, Ph.D.
Chief Executive Officer

This certification shall not be deemed "filed" for purposes of Section 18 of the Securities and Exchange Act of 1934, or the Exchange Act, or otherwise subject to the liability of Section 18 of the Exchange Act. Such certification shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of ACADIA Pharmaceuticals Inc. (the "Company") on Form 10-Q for the period ending September 30, 2005, as filed with the Securities and Exchange Commission on or about the date hereof (the "Report"), I, Thomas H. Aasen, Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge, that:

(1) the Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition of the Company at the end of the period covered by the Report and results of operations of the Company for the period covered by the Report.

Date: November 14, 2005

/s/ THOMAS H. AASEN
Thomas H. Aasen
Vice President and Chief Financial Officer

This certification shall not be deemed "filed" for purposes of Section 18 of the Securities and Exchange Act of 1934, or the Exchange Act, or otherwise subject to the liability of Section 18 of the Exchange Act. Such certification shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.