

Deloitte Recap Executive Analysis

Licensor	Targacept	Product	Amplixa, TC-5214 nicotinic channel blocker (Phase IIb complete)
Licensee	AstraZeneca	Field	Depression
Date	12/09	Territory	WW

Pre-Commercial Paymts & Rights

Upfront Payment

- \$200M to Targacept

R&D Costs

- AZ pays 80% of costs for initial global development program
- AZ pays 100% of costs supporting only ex-US ex-EU approvals
- Targacept option not to fund beyond \$CON Initial Development Cost Threshold (excess costs paid by AZ offset against future milestones and royalties)
- Targacept option not to fund beyond Additional CON\$ Development Cost Threshold, with same milestone and royalty offsets if AZ picks up the addtl funding

Milestone Payments

- 12 (CON dev/reg milestones, up to \$540M)
- 7 (CON) sales milestones, up to \$500M

Termination Rights

Either party may terminate for breach or bankruptcy of the other party

AZ may terminate:

- for convenience after Ph3 completion
- for convenience on country by country basis after 4 years
- for safety
- for lack of 3rd party license

Targacept may terminate:

- for AZ patent challenge of Targacept patent rights

Reversion Rights upon Termination

- Rights to Targacept with Reversion Royalty to AZ, (rate CON%)
- AZ's licenses shall survive (subject to royalties) upon Targacept breach
- Reduced royalty rate to Targacept in light of a very material breach.

Change of Control

- If AZ acquired within 3 years by company engaged in competitive activity, AZ must terminate competitive activity or divest competing product.
- On Targacept change in control, AZ may terminate joint decision-making and co-promotion

Commercial Payments & Rights

License Grant

Targacept grants AZ an exclusive license (or sublicense) under Targacept Technology to Commercialize Licensed Products in all fields.

Excluded fields: Hypertension, subject to AZ option to include if Targacept wishes to develop itself or with 3rd party

Booking of Sales & Commercialization

AZ has sole and exclusive commercialization rights, subject to Targacept co-pro option

Sublicense Rights

- AZ may sublicense through multiple tiers of sublicensees, though consent of USFRF may be required in some cases (contract CON)
- AZ may appoint Distributors
- AZ may co-promote with 3rd parties

Royalty or Profit Split

- 4 royalty tiers for ex-US sales
- 4 royalty tiers for US sales (Double-digit royalties on WW sales, per PR)

Royalty Offsets

- CON% where no patent protection exists
- Amounts not covered by Targacept above Development Cost Thresholds
- CON% of any 3rd party royalties, upfront paymts and milestones
- CON% of 3rd party sales under granted compulsory licensed discounted against royalty-bearing sales
- Royalty floor of CON%

Term of Agreement

Royalty term shall expire on the later of:

- expiration of patent rights
- 12 years from first commercial sale

Co-Promotion

- Targacept option to Co-Promote in the U.S.
- Notice of co-pro to be given within CON days of NDA submission.
 - AstraZeneca to reimburse Targacept for sales force recruitment
 - AZ to reimburse Targacept for PDE's

Manufacturing Rights

- All by AstraZeneca
- Existing Targacept 3rd party API agmts assigned to AZ (TRGT API Agmts with Poli and Interchem)

Diligence

- Each party to diligently perform its development activities
- AZ to diligently launch and commercialize in CON indication in each Major Country

Governance & Disputes

- Joint Development Committee
- Alliance Manager for each party
- Development Liaison for each party
- Disputes first escalated to Executives
- Certain (CON) allocation of decision power, with several exceptions
- Excepted Decision matters must be resolved by JDC consensus
- Binding arbitration for unresolved matters

Equity Options & Restrictions

- AZ CON-year Standstill