SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2004

OR

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

For the transition period from _____ to _____

Commission file number 0-28150

NEUROCRINE BIOSCIENCES, INC.

(Exact name of registrant as specified in its charter)

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days:
Yes [X] No [ ]

Indicate by checkmark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act): Yes [X] No [ ]

The number of outstanding shares of the registrant's common stock, par value $0.001 per share, was 36,346,021 as of April 28, 2004.

NEUROCRINE BIOSCIENCES, INC.
FORM 10-Q INDEX

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

NEUROCRINE BIOSCIENCES, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except for share information)

	March 31, 2004	December 31, 2003
	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 38,009	$ 105,854
Short-term investments, available-for-sale	333,724	347,314
Receivables under collaborative agreements	4,563	13,659
Other current assets	5,354	4,982
Total current assets	381,650	471,809
Property and equipment, net	79,044	56,236
Deposits and restricted cash	17,551	25,539
Prepaid royalties	95,000	—
Other non-current assets	4,024	1,371
Total assets	$ 577,269	$ 554,955
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 2,910	$ 1,295
Accrued liabilities	42,676	55,091
Deferred revenues	47,916	49,666
Current portion of long-term debt	4,034	3,960
Total current liabilities	97,536	110,012
Long-term debt	43,096	32,473
Deferred revenues	7,296	18,241
Other liabilities	3,936	3,109
Total liabilities	151,864	163,835
Stockholders' equity:		
Preferred stock, $0.001 par value; 5,000,000 shares authorized; no shares issued and outstanding	—	—
Common stock, $0.001 par value; 50,000,000 shares authorized; issued and outstanding shares were 36,318,495 as of March 31, 2004 and 35,311,893 as of December 31, 2003	36	35
Additional paid-in capital	668,713	622,526
Deferred compensation	(667)	(784)
Notes receivable from stockholders	(139)	(139)
Accumulated other comprehensive income	2,024	1,664
Accumulated deficit	(244,562)	(232,182)
Total stockholders' equity	425,405	391,120
Total liabilities and stockholders' equity	$ 577,269	$ 554,955

See accompanying notes to the condensed consolidated financial statements.

NEUROCRINE BIOSCIENCES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except loss per share data)

	Three Months Ended March 31,	
	2004	2003
	(unaudited)	
Revenues:		
Sponsored research and development	$ 5,369	$ 30,725
License fees	11,319	6,667
Grant income	253	324
Total revenues	16,941	37,716
Operating expenses:		
Research and development	26,388	48,324
General and administrative	5,283	4,744
Total operating expenses	31,671	53,068
Loss from operations	(14,730)	(15,352)
Other income and (expenses):		
Interest income	2,353	2,201
Interest expense	—	(136)
Other income, net	—	48
Total other income	2,353	2,113
Loss before income tax expense	(12,377)	(13,239)
Income tax expense	3	151
Net loss	$(12,380)	$(13,390)
Net loss per common share:		
Basic and diluted	$ (0.35)	$ (0.43)
Shares used in the calculation of net loss per common share:		
Basic and diluted	35,527	30,789

See accompanying notes to the condensed consolidated financial statements.

NEUROCRINE BIOSCIENCES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Three Months Ended March 31,	
	2004	2003
	(unaudited)	
CASH FLOW FROM OPERATING ACTIVITIES		
Net loss	$ (12,380)	$ (13,390)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,243	866
Deferred revenues	(12,695)	91,958
Deferred expenses	164	578
Non-cash compensation expenses	132	271
Change in operating assets and liabilities:		
Accounts receivable and other current assets	8,724	(30,186)
Other non-current assets	300	78
Accounts payable and accrued liabilities	(11,406)	12,643
Net cash (used in) provided by operating activities	(25,918)	62,818
CASH FLOW FROM INVESTING ACTIVITIES		
Purchases of short-term investments	(289,438)	(112,680)
Sales/maturities of short-term investments	301,100	73,280
Purchase of royalty stream	(50,000)	—
Deposit	7,988	(2,500)
Purchases of property and equipment	(24,051)	(1,234)
Net cash used in investing activities	(54,401)	(43,134)
CASH FLOW FROM FINANCING ACTIVITIES		
Issuance of common stock	1,777	4,047
Proceeds from debt financing	11,701	1,013
Principal payments on long-term obligations	(1,004)	(646)
Net cash provided by financing activities	12,474	4,414
Net (decrease) increase in cash and cash equivalents	(67,845)	24,098
Cash and cash equivalents at beginning of the period	105,854	44,313
Cash and cash equivalents at end of the period	$ 38,009	$ 68,411

See accompanying notes to the condensed consolidated financial statements.

NEUROCRINE BIOSCIENCES, INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. BASIS OF PRESENTATION

The condensed consolidated financial statements included herein are unaudited. These statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions of the Securities and Exchange Commission (SEC) on Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and disclosures required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, these financial statements include all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the financial position, results of operations, and cash flows for the periods presented. The results of operations for the interim period shown in this report are not necessarily indicative of results expected for the full year. The financial statements should be read in conjunction with the audited financial statements and notes thereto for the year ended December 31, 2003 included in our Annual Report on Form 10-K filed with the SEC.

In May 2003, Neurocrine Biosciences, Inc. (Neurocrine) increased its ownership interest in Science Park Center, LLC (Science Park) from 1% to 50.5% effective April 1, 2003. Accordingly, the financial statements of Science Park are included in the March 31, 2004 and December 31, 2003 condensed consolidated balance sheets, and the condensed consolidated statement of operations for the three months ended March 31, 2004.

These financial statements should be reads in conjunction with the “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Quantitative and Qualitative Disclosures About Market Risk” contained herein and the audited financial statements and notes thereto for the year ended December 31, 2003 included in our Annual Report on Form 10-K filed with the SEC.

The terms “Company” and “we” and “our” are used in this report to refer collectively to Neurocrine Biosciences, Inc. and its subsidiaries.

Stockholders’ Equity

The Company applies the intrinsic-value-based method prescribed in APB Opinion No. 25, “Accounting for Stock Issued to Employees,” in accounting for employee stock options. Accordingly, compensation expense is generally recognized only when options are granted with a discounted exercise price. Any resulting compensation expense is recognized ratably over the associated service period, which is generally the option vesting term.

The Company has determined pro forma net loss and related per share information as if the fair value method described in SFAS No. 123, “Accounting for Stock Based Compensation,” had been applied to its employee stock-based compensation. The pro forma effect on net loss and net loss per share is as follows for the three months ended March 31, 2004 and 2003 (in thousands, except for loss per share data):

	Three Months Ended March 31,	
	2004	2003
Net loss:		
As reported	$(12,380)	$(13,390)
Stock option expense	(6,641)	(4,919)
Pro forma net loss	$(19,021)	$(18,309)
Loss per share as reported (basic and diluted)	$ (0.35)	$ (0.43)
Pro forma loss per share (basic and diluted)	$ (0.54)	$ (0.59)

2. USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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.

3. SHORT-TERM INVESTMENTS AVAILABLE-FOR-SALE

Available-for-sale securities are carried at fair value, with the unrealized gains and losses reported in comprehensive income. The amortized cost of debt securities in this category is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization is included in interest income. Realized gains and losses and declines in value judged to be other-than-temporary, if any, on available-for-sale securities are included in interest income or expense. The cost of securities sold is based on the specific identification method. Interest and dividends on securities classified as available-for-sale are included in interest income.

4. IMPAIRMENT OF LONG-LIVED ASSETS

In accordance with Statement of Financial Accounting Standard (SFAS) No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets,” if indicators of impairment exist, the Company assesses the recoverability of the affected long-lived assets by determining whether the carrying value of such assets can be recovered through undiscounted future operating cash flows. If impairment is indicated, the Company measures the amount of such impairment by comparing the carrying value of the asset to the estimated fair value of the related asset, which is generally determined based on the present value of the expected future cash flows. While the Company’s current and historical operating and cash flow losses are indicators of impairment, the Company believes the future cash flows to be received from the long-lived assets will exceed the assets’ carrying value, and accordingly the Company has not recognized any impairment losses through March 31, 2004.

5. LOSS PER COMMON SHARE

The Company computes net loss per share in accordance with SFAS No. 128, “Earnings Per Share.” Under the provisions of SFAS No. 128, basic net loss per share is computed by dividing the net loss for the period by the weighted average number of common shares outstanding during the period. Diluted net loss per share is computed by dividing the net loss for the period by the weighted average number of common and common equivalent shares outstanding during the period. Additionally, potentially dilutive securities, composed of incremental common shares issuable upon the exercise of stock options and warrants, are excluded from historical diluted loss per share because of their anti-dilutive effect. Potentially dilutive securities totaled 2.4 million and 1.9 million for the period ended March 31, 2004 and 2003, respectively.

6. COMPREHENSIVE LOSS

Comprehensive loss is calculated in accordance with SFAS No. 130, “Comprehensive Income.” SFAS No. 130 requires the disclosure of all components of comprehensive loss, including net loss and changes in equity during a period from transactions and other events and circumstances generated from non-owner sources. The Company’s components of comprehensive loss consist of the net loss and unrealized gains and losses on short-term investments. For the three months ended March 31, 2004 and 2003, comprehensive loss was $12.0 million and $13.4 million, respectively.

7. REVENUE RECOGNITION

Revenue under collaborative research agreements and grants is recognized as research costs are incurred over the period specified in the related agreement or as the services are performed. These agreements are on a best-efforts basis and do not require scientific achievement as a performance obligation, and provide for payment to be made when costs are incurred or the services are performed. All fees are nonrefundable to the collaborators. Up-front, nonrefundable payments for license fees and advance payments for sponsored research revenues received in excess of amounts earned are classified as deferred revenue and recognized as income over the contract or development period. Milestone payments are recognized as revenue upon achievement of pre-defined scientific events which require

substantive effort. Revenues from government grants are recognized based on a percentage-of-completion basis as the related costs are incurred.

8. RESEARCH AND DEVELOPMENT EXPENSES

Research and development (R&D) expenses are recognized as incurred and include related salaries, contractor fees, facilities costs, administrative expenses and allocations of certain other costs. All such costs are charged to R&D expenses as incurred. These expenses result from our independent R&D efforts as well as efforts associated with collaborations, grants and in-licensing arrangements. In addition, the Company funds R&D, conducted on our behalf, at other companies and research institutions under agreements, which are generally cancelable. The Company reviews and accrues clinical trials expense based on work performed. Accrued clinical costs are subject to revisions as trials progress to completion. Revisions to accruals are charged to expense in the period in which the facts that give rise to the revision become known.

9. REAL ESTATE TRANSACTIONS

During 2003, the Company acquired undeveloped real property in San Diego, California for approximately $17.0 million to construct a new corporate facility. Also during 2003, the Company sold its current headquarters and an adjacent undeveloped parcel of land for approximately $40.0 million. This sale of the current headquarters includes a leaseback provision to allow for the completion of the construction of a new facility.

The Company is currently constructing a new facility, which it expects to complete during the third quarter of 2004. The Company estimates the construction costs for this facility at approximately $45.0 million and expects to finance these costs through the net proceeds of the sale of the existing facility, a construction loan and a subsequent permanent financing. Capitalized construction costs totaled $40.2 million at March 31, 2004.

The Company has secured a construction loan from a commercial bank for up to $60.6 million to finance the construction of the new facility. The loan requires a guaranty deposit of $17.5 million, which amount is included in deposits and restricted cash, to be maintained at the bank for the duration of the loan. The loan bears interest at the prime rate plus .75 percentage points, and interest is payable monthly. In accordance with SFAS No. 34, applicable interest cost will be capitalized during the construction period. As of March 31, 2004, $37.0 million was outstanding under the construction loan.

During the first quarter of 2004, the Company acquired a parcel of land adjacent to the new headquarters site for approximately $7.7 million to allow for future expansion.

10. PREPAID ROYALTIES

During the first quarter of 2004, the Company entered into several agreements with Wyeth and DOV pursuant to which we acquired Wyeth’s financial interest in indiplon (the Company’s lead clinical candidate for the treatment of insomnia) for $95.0 million, consisting of $50.0 million in cash and $45.0 million in Neurocrine Biosciences, Inc. common stock based on a 15 day average stock price prior to the date of the agreement. Wyeth’s financial interest in indiplon arises from a 1998 license agreement between Wyeth and DOV whereby Wyeth licensed the indiplon technology to DOV in exchange for milestone payments and royalties on future sales of indiplon. The Company subsequently licensed the indiplon technology from DOV in exchange for milestones (a portion of which is payable by DOV to Wyeth) and royalties (a portion of which is payable by DOV to Wyeth). The agreements among the Company, Wyeth and DOV provide that the Company will make milestone and royalty payments to DOV net of amounts that DOV would have been obligated to pay to Wyeth such that the Company will retain all milestone, royalty and other payments on indiplon commercialization that would have otherwise been payable to Wyeth. This decreases the Company’s overall royalty obligation on sales of indiplon from six percent to three and one-half percent. This transaction has been recorded as a long-term asset, and the asset will be amortized over the commercialization period of indiplon, based upon indiplon sales.

11. NEW ACCOUNTING PRONOUNCEMENTS

In January 2003, the FASB issued FASB Interpretation No. 46 ("FIN 46"), "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51." FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. In December 2003, the FASB issued FIN 46R, a revision to FIN 46. FIN 46R provides a broad deferral of the latest date by which all public entities must apply FIN 46 to certain variable interest entities to the first reporting period ending after March 15, 2004. The Company does not expect the adoption of FIN 46 or FIN 46R to have a material impact upon our financial position, cash flows or results of operations.

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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations section contains forward-looking statements, which involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth below under the caption "Risk Factors." The interim financial statements and this Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the Financial Statements and Notes thereto for the year ended December 31, 2003 and the related Management's Discussion and Analysis of Financial Condition and Results of Operations, both of which are contained in our Annual Report on Form 10-K for the year ended December 31, 2003.

OVERVIEW

We discover, develop and intend to commercialize drugs for the treatment of neurological and endocrine-related diseases and disorders. Our product candidates address some of the largest pharmaceutical markets in the world, including insomnia, anxiety, depression, various female and male health disorders, multiple sclerosis, diabetes and other neurological and endocrine related diseases and disorders. To date, we have not generated any revenues from the sale of products, and we do not expect to generate any revenues until the Food and Drug Administration approves a drug candidate. Our lead drug candidate (indiplon) is in phase III clinical trials. We have funded our operations primarily through private and public offerings of our common stock and payments received under research and development agreements. We are developing a number of products with corporate collaborators and will rely on existing and future collaborators to meet funding requirements. We expect to generate future net losses due to significant increases in operating expenses as product candidates are advanced through the various stages of clinical development. As of March 31, 2004, we have incurred a cumulative deficit of $244.6 million and expect to incur operating losses in future periods.

CRITICAL ACCOUNTING POLICIES

Our discussion and analysis of our financial condition and results of operations is based upon financial statements that we have prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities and expenses, and related disclosures. On an on-going basis, we evaluate these estimates, including those related to revenues under collaborative research agreements and grants, clinical trial accruals (which affect research and development expense), facility lease, investments and fixed assets. Estimates are based on historical experience, information received from third parties and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. The items in our financial statements requiring significant estimates and judgments are as follows:

Revenues under collaborative research agreements and grants are recognized as research costs are incurred over the period specified in the related agreement or as the services are performed. These agreements are on a best-efforts basis and do not require scientific achievement as a performance obligation, and provide for payment to be made when costs are incurred or the services are performed. All fees are nonrefundable to the collaborators. Up-front, nonrefundable payments for license fees and advance payments for sponsored research revenues received in excess of amounts earned are classified as deferred revenue and recognized as income over the contract or development period. Estimating the duration of the development period includes continual assessment of development stages and regulatory requirements. Milestone payments are recognized as revenue upon achievement of pre-defined scientific events, which require substantive effort, and achievement of the milestone was not readily assured at the inception of the agreement. Revenues from government grants are recognized based on a percentage-of-completion basis as the related costs are incurred.

Research and development (R&D) expenses include related salaries, contractor fees, facilities costs, administrative expenses and allocations of corporate costs. All such costs are charged to R&D expense as incurred. These expenses result from our independent R&D efforts as well as efforts associated with collaborations, grants and in-licensing arrangements. In addition, we fund R&D at other companies and research institutions under agreements, which are generally cancelable. We review and accrue clinical trials expenses based on work performed, which relies on estimates of total hours and costs incurred based on patient enrollment, completion of studies and other events. We follow this method since reasonably dependable estimates of the costs applicable to various stages of a research agreement or clinical trial can be made. Accrued clinical costs are subject to revisions as trials progress to completion. Revisions are charged to expense in the period in which the facts that give rise to the revision become known.

RESULTS OF OPERATIONS

THREE MONTHS ENDED MARCH 31, 2004 AND 2003

The following table summarizes our primary sources of revenue:

	Quarter Ended March 31	
	2004	2003
	(in thousands)	
Revenues under collaboration agreements:		
Pfizer	$14,898	$34,412
GlaxoSmithKline	1,790	1,828
Taisho	—	1,144
Wyeth	—	8
Total revenue under collaboration agreements	16,688	37,392
Grant income	253	324
Total revenues	$16,941	$37,716

Revenues were $16.9 million for the first quarter 2004 compared with $37.7 million for the respective period last year. The decrease in revenues for the three months ended March 31, 2004, compared with the respective period in 2003, is primarily from revenues recognized under our collaboration agreement with Pfizer, Inc (Pfizer). During the first quarter of 2004 we recognized $14.9 million in revenue from Pfizer, of which $4.0 million was in the form of sponsored development funding and $10.9 million resulted from amortization of up-front license fees. During the first quarter of 2003, we recognized $29.3 million from Pfizer in the form of sponsored development funding and $5.1 million resulted from amortization of up-front license fees. Under the GlaxoSmithKline agreement, we recognized $1.8 million in revenues during the first quarter of 2004 as well as in the first quarter of 2003. Revenues recognized under the Taisho Pharmaceutical Co., Ltd. agreement totaled $1.1 million for the three months ended March 31, 2003. Effective April 1, 2003 our collaboration agreement with Taisho was restructured such that we reacquired worldwide rights to our diabetes drug candidate.

Research and development expenses decreased to $26.4 million for the first quarter 2004 compared with $48.3 million for the respective period in 2003. This $21.9 million decrease in research and development expenses is primarily due to our Phase III program for indiplon (for insomnia) which is nearing completion, offset by increased research and development expenses in other programs. External development costs incurred related to indiplon for the

first quarter of 2004 were $7.8 million compared to $33.0 million for the same period last year. This decrease of $25.2 million is due to the tapering of the program as it nears completion. We currently have 13 programs in various stages of research and development, including eight programs in clinical development. Additionally, personnel costs have increased by $1.6 million, from $5.9 million in the first quarter of 2003 to $7.5 million in the first quarter of 2004. Laboratory supply costs have increased from $1.8 million in the first quarter of 2003 to $2.8 million in the first quarter of 2004. The increase in personnel and laboratory costs is related to the expansion of research and development activities. We expect increases in non-indiplon related research and development expense in the future as we seek to continue to advance and build our product portfolio focused on neurological and endocrine-related diseases and disorders.

General and administrative expenses increased to $5.3 million for the first quarter 2004 compared with $4.7 million during the same period last year. The increase in expenses from 2003 to 2004 resulted primarily from the addition of administrative personnel ($.5 million) needed to support expanding research and development activities and the implementation of our commercialization strategy.

Interest income increased to $2.4 million during the first quarter of 2004 compared to $2.2 million for the same period last year. The increase primarily resulted from higher overall investment balances.

Net loss for the first quarter of 2004 was $12.4 million, or $0.35 per share, compared to $13.4 million, or $0.43 per share, for the same period in 2003. We expect to incur a net loss in 2004 as our research, development, pre-clinical studies and clinical trial activities continue, however, fluctuations in the quarterly results may occur due to the timing of milestone achievements under our collaboration agreements with Pfizer and GlaxoSmithKline.

To date, the Company’s revenues have come from funded research and development, achievements of milestones under corporate collaborations, and licensing of product candidates. The nature and amount of these revenues from period to period may lead to substantial fluctuations in the results of quarterly revenues and earnings. Accordingly, results and earnings of one period are not predictive of future periods. Collaborations accounted for 99% of our revenue for the quarters ended March 31, 2004 and 2003.

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2004, our cash, cash equivalents, and short-term investments totaled $371.7 million compared with $453.2 million at December 31, 2003. The decrease in cash balances at March 31, 2004 resulted primarily from the cash payment to Wyeth of $50.0 million for its portion of the indiplon royalty stream, and our net loss of $12.4 million.

Net cash (used in) provided by operating activities during the first quarter of 2004 was $(25.9) million compared with $62.8 million during the same period last year. This fluctuation resulted primarily from the receipt of the initial licensing payment from Pfizer for $100.0 million in the first quarter of 2003, offset by a reduction in accounts receivable in 2004.

Net cash used in investing activities during the first quarter of 2004 was $54.4 million compared to $43.1 million for the first quarter of 2003. This fluctuation resulted primarily from the cash payment of $50.0 million to Wyeth in the first quarter of 2004 for its portion of the indiplon royalty stream. The increase in net cash used in investing activities also resulted in part from timing differences in investment purchases, sales and maturities and the fluctuations in our portfolio mix between cash equivalents and short-term investment holdings. We expect similar fluctuations to continue in future periods. Purchases of property and equipment increased from $1.2 million in 2003 to $24.1 million in 2004 as a result of the construction of our new corporate facility. Capital equipment purchases for 2004 are expected to be approximately $11.0 million and will be financed primarily through debt arrangements. Capital expenditures related to the new corporate facility expected during 2004 are approximately $28.0 million.

Net cash provided by financing activities during the first quarter of 2004 was $12.5 million compared with net cash provided by financing activities of $4.4 million for the respective period last year. This fluctuation resulted primarily from financing for $11.0 million through our construction loan. Cash proceeds from the issuance of common stock under option programs decreased by $2.2 million in the current quarter compared to the same quarter

last year. We expect similar fluctuations to occur throughout the year, as the amount and frequency of stock-related transactions are dependent upon the market performance of our common stock.

During the first quarter of 2004, we entered into several agreements with Wyeth and DOV Pharmaceutical, Inc. (“DOV”) pursuant to which, we acquired Wyeth's financial interest in indiplon for approximately $95 million, consisting of $50 million in cash and $45 million in our common stock. Wyeth's financial interest in indiplon arises from a 1998 license agreement between Wyeth and DOV whereby Wyeth licensed the indiplon technology to DOV in exchange for milestone payments and royalties on future sales of indiplon. We subsequently licensed the indiplon technology from DOV in exchange for milestones (a portion of which is payable by DOV to Wyeth) and royalties (a portion of which is payable by DOV to Wyeth). The agreements among us, Wyeth and DOV provide that we will make milestone and royalty payments to DOV net of amounts that DOV would have been obligated to pay to Wyeth such that we will retain all milestone, royalty and other payments on indiplon commercialization that would have otherwise been payable to Wyeth. This decreases our overall royalty obligation on sales of indiplon from six percent to three and one-half percent. This transaction was recorded as a long-term asset, and the asset will be amortized over the commercialization period of indiplon, based upon indiplon sales.

We believe that our existing capital resources, together with interest income and future payments due under our strategic alliances, will be sufficient to satisfy our current and projected funding requirements for at least the next 12 months. However, we cannot guarantee that these capital resources and payments will be sufficient to conduct all of our research and development programs as planned. The amount and timing of expenditures will vary depending upon a number of factors, including progress of our research and development programs.

We will require additional funding to continue our research and product development programs, to conduct preclinical studies and clinical trials, for operating expenses, to pursue regulatory approvals for our product candidates, for the costs involved in filing and prosecuting patent applications and enforcing or defending patent claims, if any, the cost of product in-licensing and any possible acquisitions, and we may require additional funding to establish manufacturing and marketing capabilities in the future. We may seek to access the public or private equity markets whenever conditions are favorable. We may also seek additional funding through strategic alliances and other financing mechanisms. Adequate funding may not be available on terms acceptable to us, if at all. If adequate funds are not available, we may be required to curtail significantly one or more of our research or development programs or obtain funds through arrangements with collaborators or others. This may require us to relinquish rights to certain of our technologies or product candidates.

We expect to experience negative cash flow for the foreseeable future as we fund our operating losses, in-licensing or acquisition opportunities, and capital expenditures. To the extent that we are unable to obtain third-party funding for such costs, we expect that increased expenses will result in increased losses from operations. We may not be successful in the development of our product candidates, and even if we are successful, any products marketed may not generate sufficient revenues to enable us to earn a profit.

CAUTION ON FORWARD-LOOKING STATEMENTS

Our business is subject to significant risks, including but not limited to, the risks inherent in our research and development activities, including the successful continuation of our strategic collaborations, the successful completion of clinical trials, the lengthy, expensive and uncertain process of seeking regulatory approvals, uncertainties associated both with the potential infringement of patents and other intellectual property rights of third parties, and with obtaining and enforcing our own patents and patent rights, uncertainties regarding government reforms and of product pricing and reimbursement levels, technological change and competition, manufacturing uncertainties and dependence on third parties. Even if our product candidates appear promising at an early stage of development, they may not reach the market for numerous reasons. Such reasons include the possibilities that the product will be ineffective or unsafe during clinical trials, will fail to receive necessary regulatory approvals, will be difficult to manufacture on a large scale, will be uneconomical to market or will be precluded from commercialization by proprietary rights of third parties. For more information about the risks we face, see “Risk Factors” included in Part I of our Annual Report on Form 10-K filed with the SEC and the discussions set forth below under the caption “Risk Factors.”

INTEREST RATE RISK

We are exposed to interest rate risk on our short-term investments. The primary objective of our investment activities is to preserve principal while at the same time maximizing yields without significantly increasing risk. To achieve this objective, we invest in highly liquid and high quality government and other debt securities. To minimize our exposure due to adverse shifts in interest rates, we invest in short-term securities and ensure that the maximum average maturity of our investments does not exceed 40 months. If a 10% change in interest rates were to have occurred on March 31, 2004, this change would not have had a material effect on the fair value of our investment portfolio as of that date. Due to the short holding period of our investments, we have concluded that we do not have a material financial market risk exposure.

RISK FACTORS

The following information sets forth risk factors that could cause our actual results to differ materially from those contained in forward-looking statements we have made in this Quarterly Report and those we may make from time to time. If any of the following risks actually occur, our business, operating results, prospects or financial condition could be harmed. Additional risks not presently known to us or that we currently deem immaterial may also affect our business operations. For a more detailed discussion of the factors that could cause actual results to differ, see "Item 1: Business — Risks Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2003.

Risks Related to the Company

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

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

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

Based on the results of the Phase III clinical trials on indiplon, we are currently assembling two NDAs, one for the immediate release formulation (IR) and one for the modified release formulation (MR). We are currently finalizing our strategy for market differentiation, dose selection, product positioning and labeling which will determine our filing timelines. The Company may not successfully co-ordinate completion and submission of the regulatory filings on the Company's timelines including risk that the Phase III clinical trials may not be completed on the Company's timeline, risk that the Phase III trials may fail to generate sufficient or suitable data to support regulatory filing and risk that the Company and Pfizer or the FDA may determine that additional clinical studies may be required to support the filings for regulatory approval. If we are forced to delay our filings or the FDA rejects our NDAs or finds them incomplete or insufficient, our business and reputation may be harmed and our stock price may decrease. In addition, even if our indiplon NDA is approved, the labeling granted by the FDA may limit the commercial success of the product. The FDA could also require Phase IV, or post-marketing, trials to study the long-term effects of indiplon and could withdraw its approval based on the results of those trials.

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

Any failure or substantial delay in completing clinical trials for our product candidates may severely harm our business. Before obtaining regulatory approval for the sale of any of our potential products, we must subject these product candidates to extensive preclinical and clinical testing to demonstrate their safety and efficacy for humans. Clinical trials are expensive, time-consuming and may take years to complete. We are currently conducting Phase III clinical trials in our indiplon development program for insomnia. This is our most advanced clinical program and

represents a significant portion of our total clinical development activities and expenditures. If our Phase III indiplon program is significantly delayed or fails to demonstrate that indiplon is safe and efficacious for the targeted patient populations or if the FDA does not approve the proposed indiplon product labeling, our business and reputation would be harmed and our stock price would be negatively affected.

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

- the product may not prove to be effective;
- we may discover that a product candidate may cause harmful side effects;
- the results may not replicate the results of earlier, smaller trials;
- we or the FDA may suspend the trials;
- the results may not be statistically significant;
- patient recruitment may be slower than expected; and
- patients may drop out of the trials.

Also, late stage clinical trials are often conducted with patients having the most advanced stages of disease. During the course of treatment, these patients can die or suffer other adverse medical effects for reasons that may not be related to the pharmaceutical agent being tested but which can nevertheless adversely affect clinical trial results.

We expect to rely on our collaboration with Pfizer for the funding of the completion of our indiplon clinical program and for commercialization of indiplon.

Pfizer has agreed to:

- fund substantially all third-party costs related to future indiplon development, manufacturing and commercialization activities;
- fund a 200-person Neurocrine sales force that will initially promote Zoloft® and, upon approval of the indiplon NDA, will co-promote indiplon in the Unites States;
- be responsible for obtaining all regulatory approvals outside of the United States and regulatory approvals in the United States after approval of the first indiplon NDA; and
- be responsible for sales and marketing of indiplon worldwide.

While our agreement with Pfizer requires them to use commercially reasonable efforts in the development and commercialization of indiplon, we cannot control the amount and timing of resources Pfizer may devote to our collaboration following FDA approval in the United States nor can we control when Pfizer will seek regulatory approvals outside of the United States. In addition, if Pfizer's development activities in pursuing new indications and uses of indiplon are not successful or Pfizer's sales and marketing activities for indiplon are not effective, indiplon sales and our business may be harmed.

Pfizer may terminate the collaboration at any time upon 180-days written notice, subject to payment of specified amounts related to ongoing clinical development activities. If Pfizer elects to terminate the collaboration prior to FDA approval, we will be responsible for Phase III indiplon development expenses while we seek another partner to assist us in the worldwide development and commercialization of indiplon. This could cause delays in obtaining marketing approvals and sales, and negatively impact our business. If Pfizer elects to terminate the collaboration after receipt of FDA approval, we would be forced to fund the Neurocrine sales force and/or seek new marketing partners for indiplon. This could lead to loss of sales and negatively impact our business. In the event the collaboration is terminated by Pfizer, we may not be successful in finding another collaboration partner on favorable terms, or at all,

and any failure to obtain a new partner on favorable terms could adversely affect indiplon development and commercialization and our business.

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

Since our inception, we have incurred significant net losses, including net losses of $12.4 million and $30.3 million for the three months ended March 31, 2004 and the year ended December 31, 2003, respectively. As a result of ongoing operating losses, we had an accumulated deficit of $244.6 million and $232.2 million as of March 31, 2004 and December 31, 2003, respectively. We were not profitable for the year ended December 31, 2003, and we do not expect to be profitable in 2004. We have not yet completed the development, including obtaining regulatory approvals, of any products and, consequently, have not generated revenues from the sale of products. Even if we succeed in developing and commercializing one or more of our drugs, we may not be profitable. We also expect to continue to incur significant operating and capital expenditures as we:

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

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

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

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

We depend on continuing our current strategic alliances and developing additional strategic alliances to develop and commercialize our product candidates.

We depend upon our corporate collaborators to provide adequate funding for a number of our programs. Under these arrangements, our corporate collaborators are responsible for:

- selecting compounds for subsequent development as drug candidates;
- conducting preclinical studies and clinical trials and obtaining required regulatory approvals for these drug candidates; and
- manufacturing and commercializing any resulting drugs.

Our strategy for developing and commercializing our products is dependent upon maintaining our current arrangements and establishing new arrangements with research collaborators, corporate collaborators and others. We have collaborations with Pfizer, GlaxoSmithKline, Wyeth and Eli Lilly and Company. Because we rely heavily on our corporate collaborators, the development of our projects would be substantially delayed if our collaborators:

- fail to select a compound that we have discovered for subsequent development into marketable products;
- fail to gain the requisite regulatory approvals of these products;
- do not successfully commercialize products that we originate;
- do not conduct their collaborative activities in a timely manner;
- do not devote sufficient time and resources to our partnered programs or potential products;
- terminate their alliances with us;
- develop, either alone or with others, products that may compete with our products;
- dispute our respective allocations of rights to any products or technology developed during our collaborations; or
- merge with a third party that may wish to terminate the collaboration.

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

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

We are dependent on licenses from third parties for some of our key technologies. These licenses typically subject us to various commercialization, reporting and other obligations. If we fail to comply with these obligations, we could lose important rights. For example, we have licensed indiplon from DOV Pharmaceutical. In addition, we license some of the core research tools used in our collaborations from third parties, including the CRF receptor we license from The Salk Institute and use in our CRF program collaboration with GlaxoSmithKline and the excitatory amino acid transporters we license from Oregon Health Sciences University and use in our collaboration with Wyeth. Other in-licensed technologies, such as the GnRH receptor we license from Mount Sinai School of Medicine and melanocortin subtype 4 we license from the University of Michigan, will be important for future collaborations for our GnRH and melanocortin programs. If we were to default on our obligations under any of our product licenses, such as our license to indiplon, we could lose some or all of our rights to develop, market and sell the product. Likewise, if we were to lose our rights under a license to use proprietary research tools, it could adversely affect our existing collaborations or adversely affect our ability to form new collaborations. We also face the risk that our licensors could, for a number of reasons, lose patent protection or lose their rights to the technologies we have licensed, thereby impairing or extinguishing our rights under our licenses with them.

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

All of our product candidates are in research or development and we do not expect any of our product candidates to be commercially available within a year, if at all. Only a small number of research and development programs ultimately result in commercially successful drugs. Potential products that appear to be promising at early stages of development may not reach the market for a number of reasons. These reasons include the possibilities that the potential products may:

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

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

We are currently conducting Phase III clinical trials for indiplon. Since this is our most advanced product program, our business and reputation would be particularly harmed, and our stock price likely would be harmed, if the product does not prove to be efficacious in these clinical trials or we fail to receive necessary regulatory approvals on a timely basis or achieve market acceptance.

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

Although we do not currently have any marketable products, our ability to produce revenues ultimately depends on our ability to sell our products if and when they are approved by the FDA. We currently have no experience in marketing or selling pharmaceutical products. We are currently initiating marketing activities for indiplon by hiring staff with experience in pharmaceutical sales, marketing and distribution. We will rely on Pfizer to co-promote indiplon with us in the United States and rely exclusively on Pfizer to market indiplon outside of the United States.

We will also rely on Pfizer to provide distribution, customer service, order entry, shipping, billing, customer reimbursement assistance and managed care sales support related to indiplon. If we fail to establish successful marketing and sales capabilities or fail to enter into successful marketing arrangements with third parties, our product revenues will suffer.

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

We depend on independent clinical investigators and contract research organizations, or CROs, to conduct our clinical trials under their agreements with us. The investigators are not our employees, and we cannot control the amount or timing of resources that they devote to our programs. If independent investigators fail to devote sufficient time and resources to our drug development programs, or if their performance is substandard, it will delay the approval of our FDA applications and our introductions of new drugs. The CROs we contract with for execution of our clinical trials play a significant role in the conduct of the trials and the subsequent collection and analysis of data. Failure of the CROs to meet their obligations could adversely affect clinical development of our products. Moreover, these independent investigators and CROs may also have relationships with other commercial entities, some of which may compete with us. If independent investigators and CROs assist our competitors at our expense, it could harm our competitive position.

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

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

manufacturing our products for clinical trials and commercial purposes or other regulatory requirements now or in the future. Our reliance on contract manufacturers also exposes us to the following risks:

- contract manufacturers may encounter difficulties in achieving volume production, quality control and quality assurance, and also may experience shortages in qualified personnel. As a result, our contract manufacturers might not be able to meet our clinical schedules or adequately manufacture our products in commercial quantities when required;

- switching manufacturers may be difficult because the number of potential manufacturers is limited. It may be difficult or impossible for us to find a replacement manufacturer quickly on acceptable terms, or at all;

- our contract manufacturers may not perform as agreed or may not remain in the contract manufacturing business for the time required to successfully produce, store or distribute our products;

- drug manufacturers are subject to ongoing periodic unannounced inspection by the FDA, the Drug Enforcement Agency, and corresponding state agencies to ensure strict compliance with good manufacturing practices and other government regulations and corresponding foreign standards. We do not have control over third-party manufacturers' compliance with these regulations and standards; and

- if our primary contract manufacturer should be unable to manufacture indiplon for any reason, or should fail to receive FDA approval or Drug Enforcement Agency approval, commercialization of indiplon could be delayed, which would delay indiplon sales and negatively impact our business.

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

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

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

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

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

Governmental and third-party payors may impose sales and pharmaceutical pricing controls on our products that could limit our product revenues and delay profitability.

The continuing efforts of government and third-party payors to contain or reduce the costs of health care through various means may reduce our potential revenues. These payors' efforts could decrease the price that we receive for any products we may develop and sell in the future. In addition, third-party insurance coverage may not be available

to patients for any products we develop. If government and third-party payors do not provide adequate coverage and reimbursement levels for our products, or if price controls are enacted, our product revenues will suffer.

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

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

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

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

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

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

We may require additional funding to continue our research and product development programs, including preclinical testing and clinical trials of our product candidates, for operating expenses and to pursue regulatory approvals for product candidates. We also may require additional funding to establish manufacturing and marketing capabilities in the future. We believe that our existing capital resources, together with interest income, and future payments due under our strategic alliances, will be sufficient to satisfy our current and projected funding requirements for at least the next 12 months. However, these resources might be insufficient to conduct research and development programs as planned. If we cannot obtain adequate funds, we may be required to curtail significantly one or more of our research and development programs or obtain funds through additional arrangements with corporate collaborators or others that may require us to relinquish rights to some of our technologies or product candidates.

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

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

We intend to seek additional funding through strategic alliances, and may seek additional funding through public or private sales of our securities, including equity securities. In addition, we have financed capital purchases and may continue to pursue opportunities to obtain additional debt financing in the future. However, additional equity or debt financing might not be available on reasonable terms, if at all, and any additional equity financings will be dilutive to our stockholders.

The price of our common stock is volatile.

The market prices for securities of biotechnology and pharmaceutical companies historically have been highly volatile, and the market has from time to time experienced significant price and volume fluctuations that are unrelated to the operating performance of particular companies. Over the course of the last 12 months, the price of our common stock has ranged from approximately $45 per share to approximately $70 per share. The market price of our common stock may fluctuate in response to many factors, including:

- the results of our clinical trials;
- developments concerning our strategic alliance agreements;
- announcements of technological innovations or new therapeutic products by us or others;
- developments in patent or other proprietary rights;
- future sales of our common stock by existing stockholders;
- comments by securities analysts;
- general market conditions;
- fluctuations in our operating results;
- government regulation;
- health care reimbursement;
- failure of any of our product candidates, if approved, to achieve commercial success; and
- public concern as to the safety of our drugs.

If any of the risks described in this “Risk Factors” section occurs, it could cause our stock price to fall dramatically and may expose us to class action securities lawsuits which, even if unsuccessful, would be costly to defend and a distraction to management.

Risks Related to Our Industry

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

The biotechnology and pharmaceutical industries are subject to rapid and intense technological change. We face, and will continue to face, competition in the development and marketing of our product candidates from academic institutions, government agencies, research institutions and biotechnology and pharmaceutical companies. Competition may also arise from, among other things:

- other drug development technologies;
- methods of preventing or reducing the incidence of disease, including vaccines; and

- new small molecule or other classes of therapeutic agents.

Developments by others may render our product candidates or technologies obsolete or noncompetitive.

We are performing research on or developing products for the treatment of several disorders including insomnia, anxiety, depression, various female and male disorders, multiple sclerosis, diabetes and other neuro-endocrine related diseases and disorders, and there are a number of competitors to products in our research pipeline. If one or more of our competitors' products or programs are successful, the market for our products may be reduced or eliminated.

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

- capital resources;
- research and development resources, including personnel and technology;
- regulatory experience;
- preclinical study and clinical testing experience;
- manufacturing and marketing experience; and
- production facilities.

Any of these competitive factors could reduce demand for our products.

If we are unable to protect our intellectual property, our competitors could develop and market products based on our discoveries, which may reduce demand for our products.

Our success will depend on our ability to, among other things:

- obtain patent protection for our products;
- preserve our trade secrets;
- prevent third parties from infringing upon our proprietary rights; and
- operate without infringing upon the proprietary rights of others, both in the United States and internationally.

Because of the substantial length of time and expense associated with bringing new products through the development and regulatory approval processes in order to reach the marketplace, the pharmaceutical industry places considerable importance on obtaining patent and trade secret protection for new technologies, products and processes. Accordingly, we intend to seek patent protection for our proprietary technology and compounds. However, we face the risk that we may not obtain any of these patents and that the breadth of claims we obtain, if any, may not provide adequate protection of our proprietary technology or compounds.

We also rely upon unpatented trade secrets and improvements, unpatented know-how and continuing technological innovation to develop and maintain our competitive position, which we seek to protect, in part, by confidentiality agreements with our commercial collaborators, employees and consultants. We also have invention or patent assignment agreements with our employees and some, but not all, of our commercial collaborators and consultants. However, if our employees, commercial collaborators or consultants breach these agreements, we may not have adequate remedies for any such breach, and our trade secrets may otherwise become known or independently discovered by our competitors.

In addition, although we own a number of patents, the issuance of a patent is not conclusive as to its validity or enforceability, and third parties may challenge the validity or enforceability of our patents. We cannot assure you how much protection, if any, will be given to our patents if we attempt to enforce them and they are challenged in court or

in other proceedings. It is possible that a competitor may successfully challenge our patents or that challenges will result in limitations of their coverage. Moreover, competitors may infringe our patents or successfully avoid them through design innovation. To prevent infringement or unauthorized use, we may need to file infringement claims, which are expensive and time-consuming. In addition, in an infringement proceeding a court may decide that a patent of ours is not valid or is unenforceable, or may refuse to stop the other party from using the technology at issue on the ground that our patents do not cover its technology. Interference proceedings declared by the United States Patent and Trademark Office may be necessary to determine the priority of inventions with respect to our patent applications or those of our licensors. Litigation or interference proceedings may fail and, even if successful, may result in substantial costs and be a distraction to management. We cannot assure you that we will be able to prevent misappropriation of our proprietary rights, particularly in countries where the laws may not protect such rights as fully as in the United States.

The technologies we use in our research as well as the drug targets we select may infringe the patents or violate the proprietary rights of third parties.

We cannot assure you that third parties will not assert patent or other intellectual property infringement claims against us or our collaboration partners with respect to technologies used in potential products. Any claims that might be brought against us relating to infringement of patents may cause us to incur significant expenses and, if successfully asserted against us, may cause us to pay substantial damages. Even if we were to prevail, any litigation could be costly and time-consuming and could divert the attention of our management and key personnel from our business operations. Furthermore, if a patent infringement suit were brought against us or our collaboration partners, we or our collaboration partners could be forced to stop or delay developing, manufacturing or selling potential products that are claimed to infringe a third party's intellectual property unless that party grants us or our collaboration partners rights to use its intellectual property. In such cases, we could be required to obtain licenses to patents or proprietary rights of others in order to continue to commercialize our products. However, we may not be able to obtain any licenses required under any patents or proprietary rights of third parties on acceptable terms, or at all. Even if our collaboration partners or we were able to obtain rights to the third party's intellectual property, these rights may be non-exclusive, thereby giving our competitors access to the same intellectual property. Ultimately, we may be unable to commercialize some of our potential products or may have to cease some of our business operations as a result of patent infringement claims, which could severely harm our business.

We face potential product liability exposure far in excess of our limited insurance coverage.

The use of any of our potential products in clinical trials, and the sale of any approved products, may expose us to liability claims. These claims might be made directly by consumers, health care providers, pharmaceutical companies or others selling our products. We have obtained limited product liability insurance coverage for our clinical trials in the amount of $10 million per occurrence and $10 million in the aggregate. However, our insurance may not reimburse us or may not be sufficient to reimburse us for any expenses or losses we may suffer. Moreover, insurance coverage is becoming increasingly expensive, and we may not be able to maintain insurance coverage at a reasonable cost or in sufficient amounts to protect us against losses due to liability. We intend to expand our insurance coverage to include the sale of commercial products if we obtain marketing approval for product candidates in development, but we may be unable to obtain commercially reasonable product liability insurance for any products approved for marketing. On occasion, juries have awarded large judgments in class action lawsuits based on drugs that had unanticipated side effects. A successful product liability claim or series of claims brought against us would decrease our cash reserves and could cause our stock price to fall.

Our activities involve hazardous materials and we may be liable for any resulting contamination or injuries.

Our research activities involve the controlled use of hazardous materials. We cannot eliminate the risk of accidental contamination or injury from these materials. If an accident occurs, a court may hold us liable for any resulting damages, which may reduce our cash reserves and force us to seek additional financing.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 4. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the timelines specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decision regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can only provide reasonable assurance of achieving the desired control objectives, and in reaching a reasonable level of assurance, management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As required by SEC Rule 13a-15(b), the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and the Company's Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the end of the quarter covered by this report. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level.

There has been no change in our internal controls over financial reporting during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

PART II: OTHER INFORMATION

ITEM 2. CHANGES IN SECURITIES, USE OF PROCEEDS AND ISSUER PURCHASES OF EQUITY SECURITIES

On March 15, 2004, the Company completed the purchase from Wyeth Holdings Corporation ("Wyeth"), a Maine corporation formerly known as American Cyanamid Corporation, of all of Wyeth's financial interest in *indiplon*, the Company's late stage clinical development compound for the treatment of insomnia, for approximately $95 million, consisting of $50 million in cash and 802,998 shares of the Company's common stock, valued for purposes of the transaction at $45 million.

Under the Assignment and License Agreement dated as of February 26, 2004 by and between the Company and Wyeth (the "Assignment Agreement"), Wyeth assigned to the Company at the closing (i) all of Wyeth's rights and obligations under a license agreement between Wyeth and DOV Pharmaceuticals, Inc. ("DOV") relating to indiplon, under which Neurocrine currently holds a sublicense from DOV (the "Compound License Agreement"), and a related Consent Agreement dated December 13, 2002 among DOV, the Company and Wyeth (the "2002 Consent Agreement") and (ii) subject to the rights and licenses granted to DOV under the Compound License Agreement and to the Company, DOV and Neurocrine's sublicensee, Pfizer, Inc. under the 2002 Consent Agreement, all of Wyeth's right title and interest in and to the indiplon composition patent filed by Neurocrine in Wyeth's name. The Company completed the acquisition following the satisfaction of all conditions to closing, including approval of the Wyeth Board of Directors and termination of waiting periods under the Hart-Scott-Rodino Antitrust Improvements Act.

In connection with the closing, on March 15, 2004, the Company entered into a Stock Purchase Agreement with Wyeth relating to the shares of the Company's common stock issued to Wyeth and a Consent Agreement and Amendment by and among the Company, Wyeth and DOV (the "2004 Consent Agreement"), which provides that the Company will make milestone and royalty payments to DOV net of amounts that DOV otherwise would have been obligated to pay to Wyeth under the Compound License Agreement. DOV and Wyeth also entered into a License Agreement dated as of March 15, 2004 (the "2004 License Agreement"), which supersedes the Compound License Agreement. As a result of the restructuring of the parties' relationship, the Company will retain all milestone, royalty and other payments on indiplon commercialization that would have otherwise been payable to Wyeth, decreasing the Company's, potential milestone payments on indiplon by $2.5 million and royalty obligation on sales of indiplon from six percent to three and one-half percent.

The shares of common stock issued to Wyeth in a private placement pursuant to Rule 506 under the Securities Act of 1933. Wyeth has represented to us that it is an accredited investor, the shares were acquired for its own account and not with a view to any distribution thereof to the public and the absence of general solicitation or advertising.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(A) EXHIBITS.

2.1	Assignment and License Agreement dated February 26, 2004 by and among Wyeth Holdings Corporation and Neurocrine Biosciences, Inc. (1)*
3.1	Restated Certificate of Incorporation(2)
3.2	Bylaws(2)
3.3	Certificate of Amendment of Bylaws(2)
10.1	Stock Purchase Agreement dated March 15, 2004 by and among Wyeth Holdings Corporation and Neurocrine Biosciences, Inc.(1)
10.2	Consent Agreement and Amendment dated March 15, 2004 by and among Wyeth Holdings Corporation, Neurocrine Biosciences, Inc. and DOV Pharmaceutical, Inc.(1)
10.3	License Agreement dated March 15, 2004 by and among Wyeth Holdings Corporation and DOV Pharmaceutical, Inc.(1)
10.4	Tax Indemnity Agreement between the Registrant and Paul W. Hawran(3)
10.5	Tax Indemnity Agreement between the Registrant and Margaret Valeur-Jensen(3)
10.6	Tax Indemnity Agreement between the Registrant and Kevin Gorman(3)

10.7	Tax Indemnity Agreement between the Registrant and Paul Conlon(3)
10.8	Tax Indemnity Agreement between the Registrant and Gary A. Lyons(3)
10.9	Employment agreement between the Registrant and Kevin C. Gorman, Ph.D.
31.1	Certification of Chief Executive Officer pursuant to Rules 13a-14 and 15d-14 promulgated under the Securities Exchange Act of 1934.
31.2	Certification of Chief Financial Officer pursuant to Rules 13a-14 and 15d-14 promulgated under the Securities Exchange Act of 1934.
32**	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
(1)	Incorporated by reference to the Company's Current Report on Form 8-K filed March 17, 2003
(2)	Incorporated by reference to the Company's Registration Statement on Form S-1 (Registration No. 333-03172)
(3)	Incorporated by reference to the Company's Annual Report on Form 10-K for the Year Ended December 31, 2003
*	The Company has requested the confidential treatment with respect to portions of this exhibit.
**	These certifications are being furnished solely to accompany this quarterly report pursuant to 18. U.S.C. Section 1350, and are not being filed for purposes of Section 18 of the Securities Exchange Act of 1934 and are not to be incorporated by reference into any filing of Neurocrine Biosciences, Inc., whether made before or after the date hereof, regardless of any general incorporation language in such filing.

(B) REPORTS ON FORM 8-K.

On March 15, 2004, the Company filed a report on Form 8-K, which reported under Item 2 the Company's purchase of Wyeth's financial interest in indiplon.

SIGNATURES

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

Dated: May 7, 2004

/s/ Paul W. Hawran
Paul W. Hawran
Executive Vice President and
Chief Financial Officer
(Duly authorized Officer and
Principal Financial Officer)

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT, dated as of October 27, 2003 by and between NEUROCRINE BIOSCIENCES, INC., 10555 Science Center Drive, San Diego, California 92121 (hereinafter the "Company"), and KEVIN C. GORMAN, PH.D. (hereinafter "Executive").

RECITALS

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

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

ARTICLE 1

TERM OF AGREEMENT

1.1 COMMENCEMENT DATE. Executive's fulltime employment with the Company under this Agreement shall commence as of September 15, 2003 ("Commencement Date") and this Agreement shall expire after a period of three (3) years from the Commencement Date, unless renewed in accordance with paragraph 1.2 or terminated pursuant to Article 6.

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

ARTICLE 2
EMPLOYMENT DUTIES

2.1 TITLE/RESPONSIBILITIES. Executive hereby accepts employment with the Company pursuant to the terms and conditions hereof. Executive agrees to serve the Company in the position of Vice President, Business Development. Executive shall have the powers and duties

commensurate with such position, including but not limited to hiring personnel necessary to carry out the responsibilities for such position as directed by the Chief Executive Officer.

2.2 FULL TIME ATTENTION. Executive shall devote his best efforts and his full business time and attention to the performance of the services customarily incident to such office and to such other services as the Chief Executive Officer or Board may reasonably request. Executive shall discharge his responsibilities in a diligent and faithful manner, consistent with sound business practices and in accordance with the directives of the Chief Executive Officer of the Company.

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

ARTICLE 3
COMPENSATION

3.1 BASE SALARY. Executive shall receive a Base Salary at an annual rate of two hundred sixty-five ($265,000), payable semi-monthly in equal installments in accordance with the Company's normal payroll practices. The Chief Executive Officer shall provide Executive with annual performance reviews, and, thereafter, Executive shall be entitled to such increase in Base Salary as the Compensation Committee of the Board and Chief Executive Officer may from time to time establish in their sole discretion.

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

3.3 EQUITY. Each year starting in 2004 and continuing for the term of this Agreement, the Executive will be eligible to receive a Stock Option award under the Company's 2003 Incentive Stock Option Plan as amended, with the number of shares and exercise price as shall be determined by the Board of Directors.

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

ARTICLE 4
EXPENSE ALLOWANCES AND FRINGE BENEFITS

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

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

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

ARTICLE 5
CONFIDENTIALITY

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

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

5.3 NO USE OF PRIOR CONFIDENTIAL INFORMATION. Executive will not intentionally disclose to the Company or use on its behalf any confidential information belonging to any of his former employers or any other third party.

ARTICLE 6
TERMINATION

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

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

6.3 BY COMPANY FOR CAUSE. The Company may terminate the Executive's employment for Cause (as defined below) without liability at any time with or without advance notice to Executive. The Company shall pay Executive all Accrued Compensation, but no other compensation or reimbursement of any kind, including without limitation, severance compensation, and thereafter the Company's obligations hereunder shall terminate. Termination shall be for "Cause" in the event of the occurrence of any of the following: (a) any intentional action or intentional failure to act by Executive which was performed in bad faith and to the

material detriment of the Company; (b) Executive intentionally refuses or intentionally fails to act in accordance with any lawful and proper direction or order of the Chief Executive Officer; (c) Executive and habitually neglects the duties of employment; or (d) Executive is convicted of a felony crime involving moral turpitude, provided that in the event that an of the foregoing events is capable of being cured, the Company shall provide written notice to Executive describing the nature of such event and Executive shall thereafter have ten (10) business days to cure such event.

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

(a) the Company shall pay to Executive all Accrued Compensation;

(b) the Company shall continue to pay to Executive as provided herein Executive's Base Salary over the period equal to nine (9) months from the date of such termination as severance compensation;

(c) the Company shall make a lump sum payment to Executive in an amount equal to a pro rata portion of the Executive's annual actual cash incentive bonus for Company's fiscal year preceding the year of termination based on the number of completed months of Executive's employment in the fiscal year plus nine (9);

(d) the vesting of all outstanding stock options held by Executive shall be accelerated so that the amount of shares vested under such option shall equal that number of shares which would have been vested if the Executive had continued to render services to the Company for nine (9) continuous months after the date of his termination of employment; and

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

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

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

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

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

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

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

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

6.6 TERMINATION FOLLOWING CHANGE IN CONTROL. In the event of a termination Without Cause or Constructive Termination within six (6) months after a Change in Control (as defined below) or Executive's voluntary termination within thirty (30) days following the six (6) month anniversary of a Change in Control, the Company shall pay to Executive a lump sum severance payment in an amount equal to one (1) times Executive's then Base Salary plus annual actual cash incentive bonus for Company's fiscal year preceding the year of termination). In addition, the Executive will receive at Executive's option (i) accelerated vesting of all stock options held by Executive by reason of the assumption or substitution of successor corporation stock options for the Executive's unvested Company stock options at the time of the Change in Control pursuant to the terms of the Company's 1992 and/or 2003 Stock Incentive Plans, as amended,

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

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

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

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

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

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

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

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

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

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

ARTICLE 7
GENERAL PROVISIONS

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

7.2 ASSIGNMENT; SUCCESSORS BINDING AGREEMENT.

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

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

(c) This Agreement shall inure to the benefit of and be enforceable by Executive's personal or legal representatives, executors, administrators, successors, heirs, distributee, devisees and legatees. If Executive should die while any amount is at such time payable to his hereunder, all such amounts, unless otherwise provided herein,

shall be paid in accordance with the terms of this Agreement to Executive's devisee, legates or other designee or, if there be no such designee, to his estate.

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

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

To the Company:

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

To Executive:

Kevin C. Gorman, Ph.D.

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

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

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

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

7.9 REMEDIES.

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

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

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

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

EXECUTED BY THE PARTIES AS OF THE DAY AND YEAR FIRST ABOVE WRITTEN.

KEVIN C. GORMAN, PH.D.	NEUROCRINE BIOSCIENCES, INC
/s/ Kevin C. Gorman	By: /s/ Gary A. Lyons
- ------------------------	----------
	Gary A. Lyons
	President & Chief Executive Officer

EXHIBIT 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT
TO SECITON 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Gary A. Lyons, President and Chief Executive Officer of Neurocrine Biosciences, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Neurocrine Biosciences, 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 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 this 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 (the registrant's fourth fiscal quarter in the case of an annual report) 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 the internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   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 controls over financial reporting.

Dated: May 7, 2004

/s/ Gary A. Lyons

Gary A. Lyons
President and Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT
TO SECITON 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Paul W. Hawran, Executive Vice President and Chief Financial Officer of Neurocrine Biosciences, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Neurocrine Biosciences, 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 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 this 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 (the registrant's fourth fiscal quarter in the case of an annual report) 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 the internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   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 controls over financial reporting.

Dated: May 7, 2004

/s/ Paul W. Hawran

Paul W. Hawran
Executive Vice President and
Chief Financial Officer

EXHIBIT 32

CERTIFICATIONS OF
CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Neurocrine Biosciences, Inc. (the "Company") on Form 10-Q for the period ended March 31, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Gary A. Lyons, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

(2) That information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

May 7, 2004

By: /s/ Gary A. Lyons

Name: Gary A. Lyons
Title: President and Chief Executive Officer

In connection with the Quarterly Report of Neurocrine Biosciences, Inc. (the "Company") on Form 10-Q for the period ended March 31, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Paul W. Hawran, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

(4) That information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

May 7, 2004

By: /s/ Paul W. Hawran

Name: Paul W. Hawran
Title: Executive Vice President and Chief Financial Officer