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, 2001

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

The number of outstanding shares of the registrant's Common Stock, par value of $0.001, was 25,453,423 as of April 27, 2001.

NEUROCRINE BIOSCIENCES, INC
FORM 10-Q INDEX

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	March 31, 2001	December 31, 2000
ASSETS		
Current assets:		
Cash and cash equivalents	$ 27,320	$ 21,078
Short-term investments, available-for-sale	128,369	143,592
Receivables under collaborative agreements	1,243	5,974
Other current assets	1,952	1,761
Total current assets	158,884	172,405
Property and equipment, net	11,510	11,300
Licensed technology and patent applications costs, net	323	362
Other assets	2,120	1,895
Total assets	$ 172,837	$ 185,962
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 658	$ 1,065
Accrued liabilities	8,242	11,135
Deferred revenues	1,645	1,172
Current portion of long-term debt	149	149
Current portion of capital lease obligations	1,399	1,438
Total current liabilities	12,093	14,959
Long-term debt, net of current portion	125	162
Capital lease obligations, net of current portion	1,851	2,121
Deferred rent	1,792	1,646
Deferred revenues	2,681	2,890
Other liabilities	1,003	976
Total liabilities	19,545	22,754
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 25,440,683 in 2001 and 25,314,470 in 2000	25	25
Additional paid in capital	235,354	233,565
Deferred compensation	(44)	(59)
Stockholder notes	(104)	(104)
Accumulated other comprehensive income	4	261
Accumulated deficit	(81,943)	(70,480)
Total stockholders' equity	153,292	163,208
Total liabilities and stockholders' equity	$ 172,837	$ 185,962

See accompanying notes to the condensed financial statements.

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

	Three Months Ended March 31,	
	2001	2000
Revenues:		
Sponsored research and development	$ 2,965	$ 1,522
License and option fees	229	1,000
Grant income and other revenues	294	256
Total revenues	3,488	2,778
Operating expenses:		
Research and development	15,190	7,771
General and administrative	2,377	2,233
Total operating expenses	17,567	10,004
Loss from operations	(14,079)	(7,226)
Other income and (expenses):		
Interest income	2,605	1,572
Interest expense	(72)	(58)
Other income and expenses, net	83	(135)
Loss before taxes	(11,463)	(5,847)
Income taxes	-	200
Net loss	$ (11,463)	$ (6,047)
Loss per common share:		
Basic & Diluted	$ (0.45)	$ (0.28)
Shares used in the calculation of loss per common share:		
Basic & Diluted	25,407	21,771

See accompanying notes to the condensed financial statements.

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

	Three Months Ended March 31,	
	2001	2000
CASH FLOW FROM OPERATING ACTIVITIES		
Net loss	$ (11,463)	$ (6,047)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Loss on asset disposal	51	-
Depreciation and amortization	593	519
Deferred revenues	264	1,578
Deferred expenses	174	445
Compensation expenses for stock options	640	834
Change in operating assets and liabilities:		
Accounts receivable and other current assets	4,540	1,446
Other non-current assets	(142)	59
Accounts payable and accrued liabilities	(2,874)	(799)
Net cash flows used in operating activities	(8,217)	(1,965)
CASH FLOW FROM INVESTING ACTIVITIES		
Purchases of short-term investments	(15,976)	(24,988)
Sales/maturities of short-term investments	30,942	17,000
Purchases of property and equipment	(898)	(548)
Net cash flows provided by/(used in) investing activities	14,068	(8,536)
CASH FLOW FROM FINANCING ACTIVITIES		
Issuance of Common Stock	737	1,463
Principal payments on long-term obligations	(346)	(239)
Net cash flows provided by financing activities	391	1,224
Net increase/(decrease) in cash and cash equivalents	6,242	(9,277)
Cash and cash equivalents at beginning of the period	21,078	21,265
Cash and cash equivalents at end of the period	$ 27,320	$ 11,988

See accompanying notes to the condensed financial statements

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

1. BASIS OF PRESENTATION

The condensed financial statements included herein are unaudited. Certain reclassifications have been made to prior year amounts to conform to the presentation for the three months ended March 31, 2001. These statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions of the Securities and Exchange Commission (SEC) on Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, these financial statements include all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the financial position, results of operations, and cash flows for the periods presented.

The results of operations for the interim periods shown in this report are not necessarily indicative of results expected for the full year. The financial statements should be read in conjunction with the audited financial statements and notes for the year ended December 31, 2000, included in our Annual Report on Form 10-K filed with the SEC.

2. USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

3. LOSS PER COMMON SHARE

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

4. COMPREHENSIVE INCOME

Our comprehensive losses consist of net losses and unrealized gains and losses on investments. The accumulated balances of these components are disclosed as a separate component of stockholders' equity.

5. NEW ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 133,"Accounting for Derivative Instruments and Hedging Activities." SFAS 133 requires the recognition of all derivative instruments as either assets or liabilities in the statement of financial position and the measurement of those instruments at fair value. The Company adopted SFAS 133 in January 2001. The adoption of this statement did not have a material impact on its results of operations or financial position.

In September 2000, the FASB issued SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." SFAS 140 provides accounting and reporting standards for transfers and servicing of financial assets and extinguishments of liabilities and is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001. The adoption of SFAS 140 did not have a material impact on the Company's results of operations or financial position.

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, pertaining generally to the expected continuation of our collaborative agreements, the receipt of research payments thereunder, the future achievement of various milestones in product development and the receipt of payments related thereto, the potential receipt of royalty payments, preclinical testing and clinical trials of potential products, the period of time that our existing capital resources will meet our funding requirements, and our financial results and operations. 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.

OVERVIEW

We incorporated in California in 1992 and reincorporated in Delaware in 1996. Since we were founded, we have been engaged in the discovery and development of novel pharmaceutical products for neurologic and endocrine diseases and disorders. Our product candidates address some of the largest pharmaceutical markets in the world including insomnia, anxiety, depression, cancer and diabetes. To date, we have not generated any revenues from the sale of products, and we do not expect to generate any product revenues in the foreseeable future. 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 in anticipation of significant increases in operating expenses as products are advanced through the various stages of clinical development. As of March 31, 2001, we have incurred a cumulative deficit of $81.9 million and expect to incur operating losses in the future, which may be greater than losses in prior years.

RESULTS OF OPERATIONS

THREE MONTHS ENDED MARCH 31, 2001 AND 2000

Revenues were $3.5 million for the first quarter 2001 compared with $2.8 million for the respective period last year. The increase in revenues from last year to this year resulted primarily from revenues received under the Taisho Pharmaceuticals Co., Ltd. (Taisho) agreement. Under the Taisho agreement, we received $2.1 million in revenues this quarter compared to $1.0 million in option fees in the same quarter last year. The option fee totaled $2.0 million and granted Taisho a six-month exclusive right to negotiate a collaborative agreement with us. The option fee was deferred and recognized as income over the option period. In July 2000, a collaborative agreement was reached with Taisho. The agreement provides for license fees, milestones and sponsored research & development funding. The increase in revenues from the Taisho agreement was partially offset by the completion of the sponsored research portion of the 1999 Janssen Pharmaceutica, N.V. (Janssen) agreement. These activities concluded, as scheduled, in February 2001. Under the Janssen agreement, we received $388,000 during the first quarter of 2001 compared with $675,000 during the first quarter of 2000.

Research and development expenses increased to $15.2 million for the first quarter 2001 compared with $7.8 million for the respective period in 2000. Increased expenses primarily reflect higher costs associated with expanding development activities and the addition of scientific personnel. Currently, we have 15 programs in our research and development pipeline. Five of these programs are in clinical development, three programs are in advanced pre-clinical development and seven are in various stages of research. We expect to incur significant increases in future periods as later phases of development typically involve an increase in the scope of studies, the number of patients treated and the number of scientific personnel required to manage the trials.

General and administration expenses increased to $2.4 million for the first quarter 2001 compared with $2.2 million during the same period last year. We expect general and administrative costs to increase moderately this year to provide continued support on patent matters and collaborative relationships.

Interest income increased to $2.6 million during the first quarter of 2001 compared to $1.6 million for the same period last year. The increase primarily resulted from higher investment balances achieved through offerings of our common stock. In December 2000, we sold 3.2 million shares in a public offering, which resulted in net proceeds of $90.4 million. Due to the increase in cash reserves generated from this transaction, we anticipate interest income for this year will be higher than that of last year.

Net loss for the first quarter of 2001 was $11.5 million, or $0.45 per share, compared to $6.0 million, or $0.28 per share, for the same period in 2000. The increase in net loss resulted primarily from the expanded testing of our five clinical programs. Net losses are expected to increase this year as our programs continue to advance through the various stages of the research and clinical development processes.

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

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2001, our cash, cash equivalents, and short-term investments totaled $155.7 million compared with $164.7 million at December 31, 2000. The decrease in cash balances at March 31, 2001 resulted primarily from the funding of current period operations.

Net cash used by operating activities during the first quarter of 2001 was $8.2 million compared with $2.0 million during the same period last year. The increase in cash used in operations resulted primarily from the increase in clinical development activities and the addition of scientific personnel.

Net cash provided by investing activities during the first quarter of 2001 was $14.1 million compared to net cash used $8.5 million for the first quarter of 2000. This fluctuation resulted primarily from the timing differences in the investment purchases, sales, 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. Capital equipment purchases for 2001 are expected to be approximately $4.0 million and will be financed primarily through leasing arrangements.

Net cash provided by financing activities during the first quarter of 2001 was $391,000 compared with $1.2 million for the respective period last year. Cash proceeds from the issuance of common stock under option and employee purchase programs provided the net cash balances in both periods. 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.

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 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. We cannot assure you that adequate funding will 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 incur operating losses over the next several years as our research, development, preclinical studies and clinical trial activities increase. To the extent that we are unable to obtain third party funding for such expenses, we expect that increased expenses will result in increased losses from operations. We cannot assure you that we will be successful in the development of our product candidates, or that, if successful, any products marketed will generate sufficient revenues to enable us to earn a profit.

INTEREST RATE RISK

We are exposed to interest rate risk on our short-term investments and on our long-term debt. 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, 2001, 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.

Interest risk exposure on long-term debt relates to our note payable, which bears a floating interest rate of prime plus one quarter percent (8.25% at March 31, 2001 and 9.75% at December 31, 2000). At March 31, 2001 and December 31, 2000, the note balance was $274,000 and $311,000, respectively. This note is payable in equal monthly installments through January 2003. Based on the balance of our long-term debt, we have concluded that we do not have a material financial market risk exposure.

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 Form 10-K filed with the SEC.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

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

PART II: OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(A) Exhibits. There are no exhibits filed with this report.

(B) Reports on Form 8-K. There were no current reports on Forms 8-K filed this quarter.

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 4, 2001

/s/ Paul W. Hawran
Paul W. Hawran
Executive Vice President and
Chief Financial Officer