UNITED STATES
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 SECURITES AND EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 1996

OR

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

For the transition period to

from

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.)

3050 Science Park Road
San Diego, California 92121
(Address of principal executive offices)

(619) 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, no par value, was 16,766,473 as of September 30, 1996

NEUROCRINE BIOSCIENCES, INC
FORM 10-Q
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PART I. FINANCIAL INFORMATION
ITEM I. FINANCIAL STATEMENTS

NEUROCRINE BIOSCIENCES, INC.
CONDENSED BALANCE SHEETS

	September 30, 1996 (unaudited)	December 31, 1995 (Note)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 7,159,722	$ 6,392,749
Short-term investments, available for sale	53,450,256	12,303,460
Receivables under collaborative agreements	4,524,723	1,000,000
Other current assets	1,156,838	234,334
Total current asset	66,291,539	19,930,543
Furniture, equipment, and leasehold improvements, net	3,503,643	2,772,844
Licensed technology and patent application costs, net	1,314,418	919,049
Other assets	1,131,953	389,296
Total assets	$ 72,241,553	$ 24,011,732
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 561,055	$ 820,883
Accrued expenses, other current liabilities, and current portion of obligations under capital leases	2,168,331	2,120,581
Total current liabilities	2,729,386	2,941,464
Other long-term liabilities	1,298,864	1,845,329
Stockholders' equity:		
Preferred Stock, $0.001 par value, 5,000,000 shares authorized, no shares issued and outstanding		
Common stock, no par value:		
Authorized shares - 100,000,000		
Issued and outstanding shares - 16,766,473 shares in 1996, 11,723,101 in 1995	82,731,694	35,120,404
Accumulated deficit	(14,518,391)	(15,895,465)
Total stockholders' equity	68,213,303	19,224,939
Total liabilities and stockholders' equity	$ 72,241,553	$ 24,011,732

Note The balance sheet at December 31, 1995 has been derived from the audited financial statements at that date, but does not include all of the disclosures required by generally accepted accounting principles.

See accompanying notes to condensed financial statements.

NEUROCRINE BIOSCIENCES, INC.
CONDENSED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1996	1995	1996	1995
Revenues under collaborative research agreements :				
Sponsored research	$ 1,625,000	$ 750,000	$ 4,875,000	$ 2,250,000
Milestones			3,000,000	750,000
License fees				2,000,000
Other revenue	562,965	73,719	1,983,359	223,522
Total revenues	2,187,965	823,719	9,858,359	5,223,522
Operating expenses				
Research and development	3,032,562	1,824,617	8,339,515	5,631,100
General and administration	717,370	713,488	2,012,554	2,152,148
Total operating expenses	3,749,932	2,538,105	10,352,069	7,783,248
Loss from operations	(1,561,967)	(1,714,386)	(493,710)	(2,559,726)
Interest income	938,005	296,247	1,686,220	930,205
Interest expense	(60,277)	(76,850)	(198,216)	(225,160)
Other income	279,200	103,070	382,781	133,805
Net income (loss)	$(405,039)	$(1,391,919)	$1,377,075	$(1,720,876)
Net income (loss) per share	$ (0.02)	$ (0.12)	$ 0.09	$ (0.14)
Shares used in computing net income (loss) per share	16,764,209	12,027,446	16,160,506	11,976,152

See accompanying notes to condensed financial statements

NEUROCRINE BIOSCIENCES, INC.
CONDENSED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Nine Months Ended September 30, 1996	1995
Operating activities		
Net Income (loss)	$ 1,377,075	$ (1,720,876)
Adjustments to reconcile net income (loss) to cash used in operating activities:		
Compensation expense recognized for stock options	56,115	24,263
Write-off of licensed technology and patent application costs	7,360	-
Depreciation and amortization	697,887	514,199
Deferred revenue	324,065	750,000
Deferred rent	41,457	191,352
Change in operating assets and liabilities:		
Other current assets	(4,447,227)	(1,263,137)
Other assets	(742,734)	(250,486)
Accounts payable and accrued liabilities	(576,433)	(382,181)
Net cash flows used in operating activities	(3,262,435)	(2,136,866)
Investing activities		
Purchases of short-term investments	(64,454,483)	(17,623,995)
Sales/maturities of short-term investments	23,336,486	12,843,042
Purchase of licensed technology and expenditures for patent application costs	(500,564)	(206,687)
Purchases of furniture, equipment and leasehold improvements	(1,330,774)	(68,066)
Net cash flows used in investing activities	(42,949,336)	(5,055,706)
Financing acitivities		
Issuance of common stock, net	47,518,523	3,730,000
Principal payments on obligations under capital leases	(547,632)	(412,671)
Payments received on notes receivable from stockholders	7,853	7,513
Net cash flows provided by financing activities	46,978,744	3,324,842
Increase (decrease) in cash and cash equivalents	766,973	(3,867,730)
Cash and cash equivalents at beginning of period	6,392,749	4,716,052
Cash and cash equivalents at end of period	$ 7,159,722	$ 848,322
Supplemental disclosures of cash flow information		
Interest paid	$ 198,216	$ 225,160
Supplemental schedule of noncash investing and financing activities		
Furniture and equipment financed with obligations under capital leases	$	$ 494,200

See accompanying notes to condensed financial statements

NEUROCRINE BIOSCIENCES, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS

1. Basis of presentation

The interim unaudited condensed financial statements contained herein have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. The 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, 1995, included in the Company's Registration Statement on Form S-1, filed with the Securities and Exchange Commission and effective on May 23, 1996.

2. Net income (loss) per share

Net income (loss) per share is computed using the weighted average number of shares of common stock outstanding during each period. Common stock equivalent shares from stock options, warrants, and convertible preferred shares are excluded from the computation when their effect is antidilutive, except that, pursuant to the Securities and Exchange Commission Staff Accounting Bulletins, common and common equivalent shares issued at prices substantially below the public price during the 12-month period prior to the filing of the initial public offering have been included in the calculation as if they were outstanding for all periods through that date (using the treasury stock method and the initial public offering price of $10.50 per share). For the nine month period ended September 30, 1996 shares used in computing net income per share also includes common equivalent shares arising from dilutive stock options, warrants, and convertible preferred shares which were issued more than 12 months immediately preceding the IPO, using the treasury stock method. Income per share on a fully diluted basis was unchanged.

3. Neuroscience Pharma (NPI) Inc.

In March 1996, the Company established Neuroscience Pharma (NPI) Inc. ("NPI"), a subsidiary of the Company in Canada. The Company owns 49% of the outstanding shares of NPI's Common Stock. The remaining 51% is owned by a group of Canadian institutional investors. Since the Company does not have a majority interest in NPI, NPI is not consolidated. As of September 30, 1996, NPI had total assets consisting primarily of cash and cash equivalents of $9.4 million, stated in U.S dollars. Such assets are available to fund additional research and clinical development of certain of the Company's research programs.

4. Subsequent events

In October of 1996, the Company entered into a Collaborative Research Agreement with Eli Lilly and Company to discover and develop corticotropin releasing factor (CRF) - binding protein ligand inhibitors for the treatment of two critical central-nervous system disorders, obesity and dementia, such as that associated with Alzheimer's disease. The value of the entire agreement including license fees, sponsored research and development, and contingent milestone payments is estimated at up to $74.0 million, $22.0 million of which consists of guaranteed initial license fees and sponsored research and development funding.

ITEM 2.

MANAGEMENT DISCUSSION AND ANAYLSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management's Discussion and Analysis of Financial Condition and Results of Operations of Neurocrine Biosciences, Inc. ("Neurocrine" or the "Company") contain forward-looking statements which involve risks and uncertainties. Actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth below and/or outlined in "Risk Factors" and elsewhere in the Company's registration statement on Form S-1 and the related prospectus, dated May 23, 1996, constituting a part thereof.

Overview

Since the founding of the Company in January 1992, Neurocrine has been engaged in the discovery and development of novel pharmaceutical products for diseases and disorders of the central nervous and immune systems. To date, Neurocrine has not generated any revenues from the sale of products, and does not expect to generate any product revenues for the foreseeable future. The Company's revenues, if any, are expected to come from its strategic alliances. Neurocrine has incurred a cumulative deficit of $14.5 million as of September 30, 1996 and expects to incur substantial additional operating losses, potentially greater than losses in prior years, in the future.

Neurocrine has primarily financed its operations through the sale of Common Stock. In February 1994, the Company completed the sale of Common Stock in a private placement offering resulting in gross proceeds of $30.0 million. In connection with the its strategic alliance with Janssen Pharmaceutica, N.V. ("Janssen"), Johnson and Johnson Development Corporation ("JJDC") purchased $2.5 million of Common Stock in January 1995 and purchased an additional $2.5 million of Common Stock concurrent with the Company's initial public offering in May 1996. In January 1996, the Company sold $5.0 million of Common Stock to Ciba-Geigy Limited ("Ciba-Geigy") in connection with the Ciba-Geigy strategic alliance. Ciba-Geigy also purchased an additional $5.0 million of Common Stock concurrent with the Company's initial public offering in May 1996. In addition to the shares sold to JJDC and Ciba-Geigy, Neurocrine sold 3.5 million shares of common stock pursuant to its initial public offering in May 1996 resulting in net proceeds to the Company of $34.2 million (net of offering expenses).

In February 1995, the Company entered into a three to five year strategic alliance with Janssen for the development of CRF receptor antagonists for the treatment of anxiety, depression and substance abuse. Pursuant to the agreement, Janssen has paid the Company $5.3 million through September 30, 1996 and is obligated to pay the Company an additional $4.2 million in sponsored research payments through 1997, as well as $6.0 million for two additional years should Janssen exercise its option to extend the collaboration. The Company could also receive milestone payments of up to $10.0 million for the indications of anxiety, depression and substance abuse, and up to $9.0 million for other indications, if certain development and regulatory milestones are achieved. In addition, Janssen paid a $1.0 million license fee in 1995 and an additional $1.0 million license fee in July of 1996. In return, Janssen received worldwide manufacturing and marketing rights to the compounds developed during this collaboration, and is required to pay the Company royalties on net sales and the costs associated with establishing a North American sales force should Neurocrine exercise its option to co-promote.

In January 1996, the Company entered into an agreement with Ciba-Geigy to develop altered peptide ligands for the treatment of multiple sclerosis. Pursuant to the agreement, Ciba-Geigy is obligated to provide Neurocrine with $12.0 million in license fees and research and development funding during the first two years of the agreement, and up to $15.5 million in further research and development funding thereafter, unless the agreement is sooner terminated. Ciba-Geigy has the right to terminate the agreement after December 30, 1997. In addition, the Company could also receive milestone payments if certain development and regulatory milestones are achieved. In return, Ciba-Geigy received manufacturing and marketing rights outside of North America and will receive a percentage of profits on sales in North America. The Company will receive royalties for all sales outside North America and a percentage of profits on sales in North America, which the Company may at its option convert to a right to receive royalties on product sales. Neurocrine is obligated to repay a portion of the development costs for potential products developed in such collaboration unless the Company elects to convert to the right to receive royalty payments.

ITEM 2:

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

In March 1996, the Company completed the formation of a research and development subsidiary, Neuroscience Pharma (NPI), Inc. ("NPI"), with a group of Canadian investors. The investors purchased a 51% equity interest of NPI for approximately $9.5 million. The Company licensed certain technology and transferred to NPI the Canadian marketing rights related to its Neurosteroid program and Canadian marketing rights to products developed in the Company's Neurogenomics program. Along with certain Canadian government incentives, such funds are expected to fund the early clinical trials of DHEA and research activities in the Neurogenomics program. At the option of the investors, the investors may convert and relinquish the marketing rights upon conversion of NPI Preferred Stock into the Company's Common Stock at a conversion price of $7.45 per share. In connection with their investment in NPI, such investors also received warrants exercisable for shares of Common Stock at an exercise price of the stock sold in the Company's initial public offering ($10.50) and are eligible to receive additional future warrants exercisable at the then prevailing market price in the event that NPI receives certain Canadian government incentives for research activities, if any. The Company may at its option, repurchase the marketing rights at a predetermined price.

In May 1996, the Company sold 3.5 million shares of Common Stock in an initial public offering resulting in net proceeds to the Company of $34.2 million (excluding offering expenses). Concurrent with this offering the Company sold 714,286 shares of Common Stock to JJDC and Ciba-Geigy in accordance with the provisions of their respective collaboration agreements. These transactions resulted in aggregate net proceeds to the Company of $7.2 million. In June 1996 the Company sold an additional 180,000 shares of Common Stock to the underwriters of the initial public offering to cover over-allotments. This transaction resulted in net proceeds to the Company of $1.8 million.

In October 1996, the Company entered into a Collaborative Research Agreement with Eli Lilly and Company to discover and develop corticotropin releasing factor (CRF) - binding protein ligand inhibitors for the treatment of at least two critical central-nervous system disorders, obesity and dementia, such as that associated with Alzheimer's disease. Under the terms of the agreement the Company will receive $22.0 million in fees and research and development funding and may also realize milestone payments based upon attainment of certain development and regulatory accomplishments. The Company will have the option to receive copromotion rights and share profits from commercial sales of select products which result from the collaboration in the U.S. or receive royalties on U.S. product sales. The Company will receive royalties on product sales for the rest of the world. The potential value of the entire agreement including license fees, sponsored research and development, and contingent milestone payments is estimated at up to $74.0 million.

There can be no assurance that the Company and its corporate partners will be successful commercializing any potential products. As a result, there can be no assurance that any product development milestone, royalties, or profit sharing payments will be made. The Company is dependent upon its corporate partners to provide adequate funding for its research and development programs. Under these arrangements, the Company's corporate partners are responsible for (i) selecting compounds for subsequent development as drug candidates, (ii) conducting preclinical testing and clinical trials and obtaining required regulatory approvals for such drug candidates, and (iii) manufacturing and commercializing any resulting drugs. Failure of these partners to select a compound discovered by the Company for subsequent development into marketable products, gain the requisite regulatory approvals or successfully commercialize products, would have a material adverse effect on the Company's business, financial condition and results of operations. The Company's strategy for development and commercialization of certain of its products is dependent upon entering into additional arrangements with research collaborators, corporate partners and others and upon the subsequent success of these third parties in performing their obligations. There can be no assurance that the Company will be able to enter into additional strategic alliances on terms favorable to the Company, or at all. Failure of the Company to enter into additional strategic alliances would have a material adverse effect on the Company's business, financial condition and results of operations. The Company's strategic alliances with Janssen, Ciba-Geigy and Eli Lilly and Company are subject to termination by the collaborators. There can be no assurance that Janssen, Ciba Geigy, or Eli Lilly and Company will not elect to terminate its strategic alliance with the Company prior to its scheduled expiration.

The Company expects its research and development expenditures to

increase substantially over the next several years as the Company expands its research and development efforts and undertakes preclinical testing and clinical trials with respect to certain of its programs. In addition, general and administrative expenses are expected to increase as the Company expands its operations, and incurs the additional expenses associated with operating as a public company.

ITEM 2:

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Company's business is subject to significant risks, including but not limited to, the risks inherent in its research and development activities, including clinical trials, uncertainties associated both with obtaining and enforcing its patents and with patent rights of others, the lengthy, expensive and uncertain process of seeking regulatory approvals, uncertainties regarding government reforms and of product pricing and reimbursement levels, technological change and competition, manufacturing uncertainties and dependence on third parties. Even if the Company's 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 large scale, will be uneconomical to market or will be precluded from commercialization by proprietary rights of third parties.

Results of Operations

Revenues increased to $2.2 million for the third quarter and $9.9 million for the nine month period ended September 30, 1996, compared with $824,000 and $5.2 million, respectively, for the same periods in 1995. These increases were primarily due to increased sponsored research revenues and milestone revenues recognized under the collaboration with Ciba-Geigy.
Research and development expenses increased to $3.0 million for the third quarter and $8.3 million for the nine month period ended September 30, 1996, compared with $1.8 million and $5.6 million, respectively, for the same periods in 1995. These increases reflect continued additions to scientific personnel and related support expenditures as the Company increased its research activities primarily in the CRF and Altered Peptide Ligand programs.
General and administrative expenses increased slightly to $717,000 for the third quarter and decreased to $2.0 million for the nine month period ended September 30, 1996, compared with $713,000 and $2.2 million, respectively, for the same periods in 1995. The decrease in the nine month period in 1996 was largely attributable to non-recurring timing differences of certain expenses which occurred in the first quarter of 1996.

Interest income increased to $938,000 for the third quarter and $1.7 million for the nine month period ended September 30, 1996, compared with $296,000 and $930,000, respectively, for the same periods in 1995. These increases were due to increased investment income attributable to increased cash and short term investments purchased with proceeds from the Company's initial public offering in May 1996.

Net loss decreased to $405,000 or $.02 per share for the third quarter and net income increased to $1.4 million or $.09 per share for the nine month period ended September 30, 1996, compared with a net loss of $1.4 million or $.12 per share and $1.7 million or $.14 per share, respectively, for the same periods in 1995. The reduction in the net loss for the three month period and the increased net income for the nine month period was primarily attributable to the increased revenues earned under the Ciba-Geigy corporate collaboration. Net income per share for the nine month period increased also as a result of these revenues and was partially offset by the inclusion of dilutive common stock equivalents in the calculation of weighed average shares used in computing net income per share in accordance with generally accepted accounting principles.

Liquidity and Capital Resources

On September 30, 1996 the Company's cash, cash equivalents, and short-term investments totaled $60.6 million. This excludes approximately $9.2 million held by NPI which is available to fund certain of the Company's research and development activities and $4.5 million due from corporate collaborators.

In May 1996, the Company sold 3.5 million shares of Common Stock in an initial public offering resulting in net proceeds to the Company of $34.2 million (excluding offering expenses). Concurrent with this offering the Company sold 714,286 shares of Common Stock to JJDC and Ciba-Geigy in accordance with the provisions of their respective collaboration agreements. These transactions resulted in aggregate net proceeds to the Company of $7.2 million. In June 1996 the Company sold an additional 180,000 shares of Common Stock to the underwriters of the initial public offering to cover over-allotments. This transaction resulted in net proceeds to the Company of $1.8 million.

Cash used in operating activities during the nine month period ended

September 30, 1996 increased to $3.3 million compared with $2.1 million for the same period in 1995. The increase was the result of timing differences associated with sponsored research, development, and milestone payments under corporate collaborations and increased cash outflows attributable to increased research and development expenditures associated with the Company's CRF and Altered Peptide Ligand programs.

Cash used in investing activities during the nine month period ended September 30, 1996 increased to $42.9 million compared with $5.1 million for the same period in 1995. This increase was the result of the purchase of additional short-term investments with proceeds from the Company's initial public offering and the sale of Common Stock to corporate collaborators in May 1996.

Cash provided by financing activities during the nine month period ended September 30, 1996 increased to $47.0 million compared with $3.3 million for the same period in 1995. This increase was the result of proceeds received from the Company's initial public offering and the sale of Common Stock to corporate collaborators in May 1996.

The Company believes that its existing capital resources, together with interest income and future payments due under the strategic alliances, will be sufficient to satisfy its current and projected funding requirements at least through 1998. However, no assurance can be given that such capital resources and payments will be sufficient to conduct its research and development programs as planned. The amount and timing of expenditures will vary depending upon a number of factors, including progress of the Company's research and development programs, conducting preclinical testing and clinical trials, developing regulatory submissions, the costs associated with protecting its patents and other proprietary rights, developing marketing and sales capabilities, the availability of third-party funding, technological advances, changing competitive conditions and the commercial potential of the Company's proposed products, if any.

The Company may seek to access the public or private equity markets whenever conditions are favorable. The Company may also seek additional funding through strategic alliances and other financing mechanisms, potentially including off-balance sheet financing. There can be no assurance that such funding will be available on terms acceptable to the Company, if at all. If adequate funds are not available, the Company may be required to curtail significantly one or more of its research or development programs or obtain funds through arrangements with collaborative partners or others. This may require the Company to relinquish rights to certain of its technologies or product candidates.

PART II - OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

a. Exhibits

27.1 Financial Data Schedule

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.

NEUROCRINE BIOSCIENCES, INC.

Dated: Nov. 5, 1996

Paul W. Hawran

PAUL W. HAWRAN
Senior Vice President and Chief Financial Officer

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