SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(MARK ONE)
[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 1997

OR

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

FOR THE TRANSITION PERIOD FROM
--------------- TO
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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)	(I.R.S. EMPLOYER IDENTIFICATION NUMBER)
3050 SCIENCE PARK ROAD, SAN DIEGO, CA	92121
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICE)	(ZIP CODE)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (619) 658-7600
SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT: NONE
SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT: COMMON STOCK, $0.001 PAR VALUE

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 check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

The aggregate market value of the voting stock of the issuer held by non-affiliates of the issuer on February 27, 1998 was approximately $123,019,669, based upon the closing price of such stock of $8.25 on February 27, 1998. As of February 27, 1998, 17,707,815 shares of Common Stock of the registrant were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information required by Part III of this Form 10-K is incorporated by reference from the Registrant's Proxy Statement for the Annual Meeting of Shareholders to be held on May 25, 1998 (the "Proxy Statement"), which will be filed with the Securities and Exchange Commission within 120 days after the close of the Registrant's fiscal year ended December 31, 1997.

PART I

ITEM 1. BUSINESS

INTRODUCTION

Neurocrine Biosciences, Inc. is a leading neuroimmunology company focused on the discovery and development of novel therapeutics to treat diseases and disorders of the central nervous and immune systems. The Company's neuroscience and immunology disciplines provide a biological understanding of the molecular interactions between the central nervous, immune and endocrine systems leading to therapeutic opportunities for diseases and disorders such as anxiety, depression, Alzheimer's disease, obesity and multiple sclerosis.

Neurocrine is leveraging its resources through strategic alliances and other financing mechanisms to build its internal product development and commercialization capabilities. To date, Neurocrine has entered into strategic alliances with Janssen Pharmaceutica, N.V. ("Janssen"), a subsidiary of Johnson & Johnson Development Corporation, focused on the treatment of anxiety, depression and substance abuse; Novartis, Inc. ("Novartis") for the treatment of multiple sclerosis; and Eli Lilly and Co. ("Lilly") for the treatment of central nervous system disorders including obesity and dementias such as Alzheimer's disease. In conjunction with a number of institutional investors, the Company has also established a research and development affiliate in Canada, Neuroscience Pharma (NPI) Inc. ("NPI"), to develop additional compounds for the treatment of Alzheimer's disease and other neurodegenerative diseases and disorders.

The following Business section contains forward-looking statements concerning the continuation of the Company's strategic alliances and the receipt of payments thereunder, the identification of drug targets and selection of lead compounds for clinical development, the commencement and successful conclusion of clinical trials, the receipt of regulatory approvals, and the potential development of future commercial products. Such forward-looking statements necessarily involve risks and uncertainties. The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including, without limitation, that research funding and development will continue under the Company's collaborations, that research and development candidates will successfully proceed through pre-clinical and early stage clinical trials, that development candidates will prove effective for treatment in humans in later stage clinical trials, the timely receipt of regulatory clearances required for clinical testing, manufacturing and marketing of products, the potential impact of competitive technologies and potential products, and the failure to achieve product development and commercialization goals. Actual results and the timing of certain events could differ materially from those indicated in the forward-looking statements as a result of these and other factors.

RISKS INHERENT IN THE COMPANY'S BUSINESS

Neurocrine was founded in 1992 and all of its product candidates are in research or early stages of development. The Company has not requested nor received regulatory approval to commercialize any product from the United Stated Food and Drug Administration ("FDA") or any other regulatory body. Any products which may result from the Company's research and development programs are not expected to be commercially available for the foreseeable future, if at all.

The development of new pharmaceutical products is highly uncertain and subject to a number of significant risks. Potential products that appear to be promising at early stages of development may not reach the market for a number of reasons. Such reasons include the possibilities that the potential products will be found ineffective or cause harmful side effects during preclinical testing or clinical trials, fail to receive necessary regulatory approvals, be difficult to manufacture on a large scale, be uneconomical, fail to achieve market acceptance or be precluded from commercialization by proprietary rights of third parties.

The Company's product candidates require significant additional research and development efforts. No assurance can be given that any of the Company's development programs will be successfully completed, that any investigational new drug application ("IND") will be accepted or approved by the FDA, that clinical trials will commence as planned, that required regulatory approvals will be obtained on a timely basis, if at all,

or that any products for which approval is obtained will be approved for the indications requested or be commercially successful. If any of the Company's development programs are not successfully completed, required regulatory approvals and appropriate labeling are not obtained, or products for which approvals are obtained are not commercially successful, the Company's business, financial condition and results of operations would be materially adversely affected.

BACKGROUND

Corticotropin Releasing Factor ("CRF")

Corticotropin releasing factor, the central regulator of the body's overall response to stress, affects multiple systems by functioning both as an endocrine factor and a neurotransmitter. CRF acts as a hormone at the pituitary gland causing the secretion of the steroid cortisol from the adrenal glands resulting in a number of metabolic effects, including suppression of the immune system. CRF also functions as a neurotransmitter in the brain and plays a critical role in coordinating psychological and behavioral responses to stress such as increased heart rate, anxiety, arousal and reduced appetite. In addition to neuroendocrine and neurotransmitter roles, accumulating evidence suggests that CRF may also integrate actions between the immune and central nervous systems in response to physiological and psychological stressors.

The body has several mechanisms to regulate the effects of CRF. The Company's recent cloning of human CRF receptors suggests that the diverse functions of CRF are mediated through distinct receptor subtypes which are differentially distributed in specific brain areas and in tissues outside of the central nervous system. These receptors may offer a mechanism to modulate specific actions of CRF without affecting the broad range of its activities. There are several diseases and disorders such as anxiety, depression and substance abuse in which CRF levels are increased. The deleterious effects of high levels of CRF may be countered by the administration of selective CRF receptor antagonists. A protein in the brain that binds to CRF and holds it in an inactive state, CRF-binding protein ("CRF-BP"), tightly regulates levels of CRF in certain brain regions. CRF-BP may provide a novel target to selectively increase levels of CRF in diseases that are associated with decreased levels of CRF, such as Alzheimer's disease and obesity.

Altered Peptide Ligands

The immune system employs highly specific T-cells that recognize and attack foreign antigens that invade the body. Occasionally, certain T-cells arise that inappropriately recognize the body's own tissues as foreign and attack healthy cells, resulting in autoimmune diseases such as multiple sclerosis and Type I diabetes. Recently, it has been found that the peptide recognition site on healthy tissue can be altered, creating molecular decoys that can be developed as potential drug candidates. The Company believes that these molecules, known as altered peptide ligands, are capable of binding to and deactivating T-cells implicated in certain autoimmune diseases.

Multiple sclerosis is a chronic disease caused by the immune system's attack on myelin, the insulating material that surrounds and protects nerve fibers in the central nervous system ("CNS"). This autoimmune reaction is led by T-cells which come in contact with myelin by utilizing T-cell receptors specific for myelin proteins. This interaction leads to a destructive inflammatory response mediated by molecules of the immune system known as cytokines. Cytokines such as gamma interferon, tumor necrosis factor-alpha and interleukin-6 are found at the site of inflammation and demyelination and play a role in further advancing nerve cell destruction. The use of altered peptide ligands of dominant antigens in autoimmune diseases may inactivate certain T-cells and decrease the production of destructive cytokines.

Neurosteroids

Neurosteroids are a class of steroidal compounds produced in the central nervous system that show a wide range of effects on neurons. Dehydroepiandrosterone ("DHEA") is the most abundant adrenal steroid in humans. Blood levels of this hormone peak by age 20 and then decrease throughout life, reaching their lowest levels by age 65. DHEA levels have been found to be decreased in Alzheimer's patients while DHEA has been shown to have memory-enhancing effects in animal studies. For example, studies have been performed in aged

mice which perform more poorly than young mice in certain memory tasks. Administration of DHEA in the older animals has been shown to improve memory to the high levels seen in the younger animals. DHEA has also been shown to significantly reverse pharmacologically-induced amnesia and memory impairment in these animals.

In addition to the memory-enhancing effects of DHEA, preliminary data suggest that this steroid also increases neuronal survival. DHEA may also induce neuroprotection through inhibition of inflammatory cytokines in the brain which have recently been implicated in neurodegeneration. In view of its cognitive enhancing and neuroprotective potential, DHEA replacement therapy may be beneficial for the treatment of neurodegenerative disorders such as Alzheimer's disease.

Neurogenomics

The brain and spinal cord are comprised of two major cell types -- glial cells and neurons. Glial cells are the most prevalent cell type in the central nervous system, comprising over 75% of all brain cells. The gene products from these cells are crucial for the survival and development of neurons. Neurons are CNS cells which transmit and receive complex electrical and chemical messages from other neurons to control all cognitive processes. In certain pathological states, excessive glial activity results in the activation of cytosine and related genes. The proteins encoded by these genes may be implicated in the degenerative cascade leading to neurological disorders such as Alzheimer's disease, stroke, multiple sclerosis, Parkinson's disease, epilepsy and AIDS dementia. For example, in AIDS, the HIV virus does not attack neurons but does infect glial cells which in turn release inflammatory cytokines and other factors which are toxic to neurons. Similarly, in Alzheimer's disease, accumulating evidence suggests complex interactions between neurons, glia and a protein fragment known as beta amyloid leading to formation of senile plaques and neurodegeneration. Currently, it is estimated that only a small fraction of genes involved in neurodegeneration or regeneration have been identified. The identification of novel CNS genes involved in the neurodegenerative process may yield new therapeutic and diagnostic opportunities.

BUSINESS STRATEGY

The Company's strategy is to utilize its understanding of the biology of the central nervous, immune and endocrine systems to identify and develop novel therapeutics. There are five key elements to the Company's business strategy:

Target Multiple Product Platforms. Neurocrine is focusing on research and development programs which utilize its distinct biological and technological competencies. The Company believes certain central nervous system drug targets, such as CRF, CRF-BP, Insulin-like Growth Factor Binding Protein (IGF-BP) and neurosteroids, represent significant market opportunities in psychiatric, neurologic and metabolic disorders. Immunological targets, such as altered peptide ligands, offer product opportunities related to autoimmune diseases. Neurogenomics allows the Company to combine its neuroscience and immunology expertise with new drug discovery technologies to identify novel gene-related product or gene therapy opportunities.

Identify Novel Neuroscience and Immunology Drug Targets for the Development of Therapeutics Which Address Large Unmet Market Opportunities. Neurocrine employs molecular biology as an enabling discipline to identify novel drug targets such as receptors, genes and gene-related products. The Company uses advanced technologies, including combinatorial chemistry, high-throughput screening, gene sequencing and bioinformatics, to discover and develop novel small molecule therapeutics for diseases and disorders of the central nervous and immune systems including anxiety, depression, Alzheimer's disease, obesity and multiple sclerosis.

Leverage Strategic Alliances to Enhance Development and Commercialization Capabilities. Neurocrine intends to leverage the development, regulatory and commercialization expertise of its corporate partners to accelerate the development of its potential products, while retaining full or co-promotion rights in North America. The Company intends to further leverage its resources by continuing to enter into strategic alliances and novel financing mechanisms to enhance its internal development and commercialization capabilities. To

date, Neurocrine has entered into a strategic alliance with Janssen focusing on CRF receptor antagonists to treat anxiety, depression, and substance abuse; with Novartis to develop altered peptide ligands for the treatment of MS; and with Lilly to collaborate in the discovery, development and commercialization of CRF binding protein ligand inhibitors for the treatment of central nervous system disorders including obesity and dementias such as Alzheimer's disease. The Company has also formed NPI, a research and development subsidiary, to finance its Neurosteroid clinical development program for Alzheimer's disease and Neurogenomics programs.

Outsource Capital Intensive and Non-Strategic Activities. Neurocrine intends to focus its resources on research and development activities by outsourcing its requirements for manufacturing, preclinical testing, and clinical monitoring activities. The Company utilizes contract current Good Manufacturing Processes ("cGMP") manufacturing for both its Neurosteroid and Altered Peptide Ligand programs. Neurocrine believes that the ease of manufacturing of small molecule therapeutics will allow the Company to focus on its core discovery and development programs to generate additional product opportunities.

Acquire Complementary Products in Clinical Development. Neurocrine plans to acquire rights to products in various stages of clinical development in the fields of neurology and immunology to take advantage of the development and future commercialization capabilities it is developing in cooperation with its strategic partners. For example, Neurocrine has licensed rights to DHEA for the treatment of Alzheimer's disease which is currently being evaluated in a physician investigational new drug application ("physician-IND") Phase II clinical trial and in a Company-sponsored Phase II/III clinical trial in Canada under the regulatory authority of the Canadian Health Protection Board ("HPB").

TECHNOLOGY

Neurocrine utilizes advanced technologies to enhance its drug discovery capabilities and to accelerate the drug development process. These technologies include:

High-Throughput Screening. Neurocrine has assembled a chemical library of diverse, low molecular weight organic molecules for lead compound identification. The Company has implemented robotic screening capabilities linked to its library of compounds that facilitate the rapid identification of new drug candidates for multiple drug targets. The Company believes that the utilization of high-throughput screening and medicinal and peptide chemistry will enable the rapid identification and optimization of lead molecules.

Combinatorial Chemistry. Neurocrine has developed an automated combinatorial chemistry technology (Rapid Microscale Synthesis or "RMS") which is capable of rapidly producing large quantities of highly purified small organic molecules for evaluation as drug candidates. Unlike other combinatorial chemistry technologies, RMS enables individual chemists to optimize candidate compounds quickly and efficiently by producing hundreds of variations of existing lead molecules.

Molecular Biology. Neurocrine scientists have utilized novel techniques for examination of gene expression in a variety of cellular systems. The Company has developed a sophisticated technique to evaluate the type and quantity of genes in various cellular systems prior to the isolation of genes. Neurocrine has also developed unique expression vectors and cell lines that allow for the highly efficient protein expression of specific genes.

Gene Sequencing. Neurocrine applies integrated automated DNA sequencing and gene identification technology in its Neurogenomics program. The systems utilized by Neurocrine allow for extended gene analysis in a rapid, high-throughput format with independent linkage into a sequence identification database. Neurocrine has optimized gene sequencing instrumentation for "differential display," a technique that may facilitate the rapid identification of novel genes.

Bioinformatics. Neurocrine's Neurogenomics program creates a significant amount of genetic sequence information. Applied genomics relies on information management systems to collect, store and rapidly analyze thousands of gene sequences. Neurocrine has developed a bioinformatics system which the Company believes will allow it to identify novel genes which are involved in neurodegeneration. Data are collected by automated

instruments and stored and analyzed by Neurocrine using customized computational tools. To date, Neurocrine's molecular biologists have identified over 4,500 novel genes.

PRODUCTS UNDER DEVELOPMENT

The following table summarizes Neurocrine's most advanced products in development. This table is qualified in its entirety by reference to the more detailed descriptions appearing elsewhere in this Form 10-K.

PROGRAM	INDICATION	STATUS(1)	COMMERCIAL RIGHTS
Corticotropin Releasing Factor Receptor Antagonists	Anxiety	Phase I	Janssen/Neurocrine
	Depression	Phase I	Janssen/Neurocrine
	Stroke	Development	Neurocrine
	Substance Abuse	Research	Janssen/Neurocrine
Binding Protein Antagonists	Alzheimer's Disease	Development	Lilly/Neurocrine
	Obesity	Development	Lilly/Neurocrine
Altered Peptide Ligands	Multiple Sclerosis	Phase II	Novartis/Neurocrine
	Type I Diabetes	Preclinical	Neurocrine
Neurosteroids	Alzheimer's Disease	Physician-IND Phase II; Phase II/III	Neurocrine/NPI
Neurogenomics	Neurodegenerative Diseases	Research	Neurocrine/NPI

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(1) "Research" indicates identification and evaluation of compounds in in vitro and animal models.

"Development" indicates that lead compounds have been discovered that meet certain in vitro and in vivo criteria. These compounds may undergo structural modification and more extensive evaluation prior to selection for preclinical development.

"Preclinical" indicates that Neurocrine is conducting pharmacology testing, toxicology testing, formulation, process development and/or manufacturing, and is in the process of preparing an IND for regulatory submission.

"Phase I" indicates that Neurocrine or its collaborative partner is conducting clinical trials to determine safety, the maximally tolerated dose and pharmacokinetics of the compound in healthy volunteers.

"Physician-IND Phase II" indicates that an independent physician has received FDA approval to evaluate one of the Company's products in humans to determine safety and efficacy in an expanded patient population. This clinical trial is not under full control of the Company.

"Phase II" indicates that the Company has received FDA approval to evaluate one of the Company's products in humans to determine safety and efficacy in an expanded patient population.

"Phase II/III" indicates that the Company has received regulatory approval from the Canadian HPB to evaluate in Canada a multi-center Phase II/III clinical trial of DHEA.

CORTICOTROPIN RELEASING FACTOR -- RECEPTOR ANTAGONIST PROGRAM

Anxiety

Anxiety is among the most commonly observed group of CNS disorders, which includes phobias or irrational fears, panic attacks, obsessive-compulsive disorders and other fear and tension syndromes. Estimates by the National Institute of Mental Health suggest that the most commonly diagnosed forms of anxiety disorders may affect 10% of the United States population. Of the pharmaceutical agents that are currently marketed for the treatment of anxiety disorders, a class of compounds known as the benzodiazepines, such as Valium, is the most frequently prescribed. In spite of their therapeutic efficacy, several side effects limit the utility of these anti-anxiety drugs. Most problematic among these are drowsiness, ataxia (the inability to stand up), amnesia, drug dependency and withdrawal reactions following the cessation of therapy.

Neurocrine is developing a new class of therapeutics that target stress-induced anxiety. In view of the evidence implicating CRF in anxiety-related disorders, Neurocrine is developing small molecule CRF receptor antagonists as anti-anxiety agents which block the effects of overproduction of CRF. The Company believes that these compounds represent a class of molecules based on a novel mechanism of action which may offer the advantage of being more selective, thereby providing increased efficacy with reduced side effects. In animal studies used to evaluate anti-anxiety drugs, Neurocrine scientists have demonstrated the efficacy of its lead candidates following oral administration without evidence of apparent side effects. Neurocrine's corporate partner, Janssen, selected a drug candidate in 1996 for preclinical testing and commenced Phase I clinical trials on the drug candidate in late 1997. However, results obtained in animals are not necessarily predictive of results obtained in man, and no assurance can be given that the Company's partner will successfully complete Phase I clinical testing or progress to later clinical trials in a timely manner, or at all.

Depression

Depression is one of a group of neuropsychiatric disorders that is characterized by extremes of elation and despair, loss of body weight, decrease in aggressiveness and sexual behavior, and loss of sleep. This condition is believed to result from a combination of environmental factors, including stress, as well as an individual's biochemical vulnerability, which is genetically predetermined. The biochemical basis of depression is thought to involve elevated secretion of CRF and abnormally low levels of other neurotransmitters in the brain such as serotonin. Clinical depression was reported to affect 6% of the population, or approximately 25 million individuals in the United States in 1994. Current antidepressant therapies, including Prozac, increase the levels of several chemicals in the brain, such as serotonin. Because these drugs affect a wide range of neurotransmitters, they have been associated with a number of side effects. While newer, more selective drugs offer some safety improvement, their side effect profiles are still inadequate due to their unwanted effects on gastrointestinal and sexual function, and on appetite. Furthermore, most existing antidepressant therapies are limited by their slow onset of action.

Neurocrine is developing small molecule therapeutics to block the effects of overproduction of CRF for the treatment of depression. The Company has developed several CRF receptor antagonists. The Company's corporate partner, Janssen, selected a drug candidate in 1996 for preclinical testing and commenced Phase I clinical trials on the drug candidate in late 1997. However, results obtained in animals are not necessarily predictive of results obtained in man, and no assurance can be given that the Company's partner will successfully complete Phase I clinical testing or progress to later clinical trials in a timely manner, or at all.

Stroke

Stroke is an acute neurologic event caused by blockage or rupture of vessels which supply blood to the brain. Neuronal damage progresses over a period of four to six hours. According to the National Institutes of Health ("NIH") estimates, approximately 500,000 patients experience a stroke in the United States each year, with an approximately equal incidence in the rest of the world. Stroke results in an estimated 150,000 fatalities each year, making it the leading cause of death behind heart disease and cancer, and an estimated additional 150,000 stroke victims suffer permanent neurological damage. Survivors of stroke are at significantly increased risk of suffering another episode. Current treatments for stroke consist of surgery, steroid therapy and anti-platelet therapy. These treatments may help increase blood flow but do not affect the secondary mechanisms which cause nerve cell death.

Neurocrine believes its CRF receptor antagonist program may have utility in the treatment of stroke. Preliminary experiments in animal models of stroke show substantial enhancement of neuronal survival following treatment with a CRF receptor antagonist. The survival benefit is independent of increased blood flow and may be acting on secondary mechanisms.

CORTICOTROPIN RELEASING FACTOR -- BINDING PROTEIN ANTAGONIST PROGRAM

Alzheimer's Disease

Alzheimer's disease is a neurodegenerative brain disorder which leads to progressive memory loss and dementia. Alzheimer's disease generally follows a predictable course of deterioration over eight years or more, with the earliest symptom being impairment of short-term memory. Gradually, memory loss increases, reasoning abilities deteriorate, and individuals become depressed, agitated, irritable and restless. In the final stages of the disease, patients become unable to care for themselves. According to the National Alzheimer's Association, in 1994 over four million individuals in the United States suffered from Alzheimer's disease. Alzheimer's disease is the fourth leading cause of death for adults, responsible for over 100,000 deaths in 1994. Marketed therapies currently available for the treatment of Alzheimer's disease are severely limited. Tacrine, a therapy which has been recently approved, shows limited memory improvement in Alzheimer's patients; however, concerns regarding drug-induced elevations in liver enzymes have limited the widespread use of this product.

Neurocrine scientists have found that there are significant decreases in CRF levels in the brain areas that are affected in Alzheimer's disease. In spite of reduced CRF concentrations, CRF-BP levels are not decreased in areas of the brain affected by Alzheimer's disease, thereby providing the Company with a novel target for drug intervention. Consequently, Neurocrine is developing CRF-BP antagonists to displace CRF from the binding protein and effectively increase the amount of "free CRF" available to interact with the CRF receptors. This strategy is expected to selectively raise the concentration of CRF in brain areas involved in learning and memory processes. Because the therapeutic is designed to restore normal levels of CRF only in these areas, the Company believes that the drug will not induce the side effects associated with administering CRF directly, such as anxiety. The Company has identified a number of lead compounds which show efficacy following oral administration in animal models of learning and memory. Efforts are underway to further optimize these molecules. However, no assurance can be given that the Company and its corporate partner will successfully identify suitable candidate compounds for development in a timely manner, or at all.

Obesity

Obesity is the most common nutritional disorder in Western societies. As many as three in 10 adult Americans weigh at least 20% in excess of their ideal body weight, with 35 million people in the United States characterized as clinically obese. Increased body weight is a significant public health problem because it is associated with a number of serious diseases, including type II diabetes, hypertension, hyperlipidemia and several cancers. Although obesity has been commonly considered to be a behavioral problem, there is now evidence that body weight is physiologically regulated. The regulation of body weight is complex and appears to consist of both centrally and peripherally acting mechanisms.

Preliminary data indicate that CRF may act as a central regulator of both appetite and metabolism. Neurocrine has evaluated CRF-BP antagonists in a genetically mutant strain of obese animals as well as in animal models which were pharmacologically induced to overeat. Treatment with CRF-BP antagonists consistently normalized feeding behavior and weight in both types of models and did so without inducing excess CRF-related side effects such as anxiety. Neurocrine has developed several active series of lead molecules. Medicinal chemistry efforts have resulted in the generation of high-affinity molecules that show efficacy in elevating brain CRF levels. Neurocrine and its corporate partner, Lilly, anticipate selecting lead compounds in 1998 for further development. However, no assurance can be given that the Company and its corporate partner will successfully identify suitable candidate compounds for development in a timely manner, or at all. Further, results obtained in animals are not necessarily predictive of results obtained in humans, and

no assurance can be given that the Company will progress to clinical trials or successfully complete clinical trials in a timely manner, if at all.

ALTERED PEPTIDE LIGAND PROGRAM

Multiple Sclerosis ("MS")

Multiple sclerosis is a chronic immune mediated disease characterized by recurrent attacks of neurologic dysfunction due to damage in the CNS. The classic clinical features of MS include impaired vision and weakness or paralysis of one or more limbs. Patients develop a slow, steady deterioration of neurologic function over an average duration of approximately 30 years. The cause of MS is unknown but immunologic or infectious factors have been implicated. According to the National Multiple Sclerosis Society, there are an estimated 350,000 cases of multiple sclerosis in the United States and an equal number of patients in Europe with approximately 20,000 new cases diagnosed in the world each year. Currently available treatments for MS offer only limited efficacy. Steroids have been used to reduce the severity of acute flare-ups and speed recovery. Experimental therapy with other immunosuppressive agents has been tried, but with limited success. Betaseron (a form of beta-interferon) has been shown to delay the onset of flare-ups of the symptoms in approximately 30% of patients and has been approved for marketing by the FDA. In addition, Avonex, a similar form of beta-interferon, has received FDA approval. Clinical trial results show these therapies slowed, but did not prevent, the growth of lesions in the CNS which cause the disease. Patients treated with beta-interferon experience a variety of side effects, including "flu-like" symptoms.

One of the Company's co-founders, Dr. Lawrence Steinman, identified the dominant invading T-cell in the brains of patients who had died of MS. Dr. Steinman further identified the dominant target or recognition site on the myelin sheath to which invading T-cells bind. Neurocrine has exclusively licensed this technology and has designed altered peptide ligands which resemble native disease-causing molecules of the myelin sheath. These molecules have been altered to attract and bind to disease-causing T-cells and inhibit their destructive capabilities. Neurocrine's altered peptide ligand for the treatment of MS has been shown to reverse disease in animal models of MS and decrease the production of cytokines such as gamma interferon and tumor necrosis factor-alpha which contribute to the disease. These same molecules demonstrate the ability to turn off pathogenic T-cells from MS patients in vitro. Quantities of the Company's drug candidate were produced under cGMP conditions in preparation for a Phase I clinical trial. Together with Novartis, the Company's collaborative partner for this program, Neurocrine filed an IND and received approval in 1996 to commence clinical trials. The Company and its corporate partner have completed Phase I clinical trials and began patient accrual for Phase II randomized clinical trials in the latter half of 1997. However, results obtained in animals or in earlier phases of clinical trials are not necessarily predictive of results obtained in humans, and no assurance can be given that the Company will successfully complete clinical trials in a timely manner, if at all.

Type I Diabetes

Type I diabetes, or juvenile-onset diabetes, is an autoimmune disease resulting from the destruction of insulin producing cells, causing impaired glucose metabolism resulting from a deficiency in the action of the hormone insulin. It is one of the most prevalent chronic conditions in the United States, afflicting approximately 500,000 patients in all age groups in 1994. Diabetics suffer from a number of complications of the disease including heart disease, circulatory problems, kidney failure, neurologic disorders and blindness. Current therapy for type I diabetes consists of daily insulin injections to regulate blood glucose levels.

Neurocrine is developing altered peptide ligands which target dominant antigens on insulin producing cells to treat type I diabetes. Pre-diabetic patients can now be identified using immune markers of the disease several years before they become insulin dependent. The Company believes that an altered peptide ligand specific for autoimmune T-cells involved in diabetes may stop the destruction of the insulin secreting cells in these pre-diabetic patients, thus allowing them to delay or avoid chronic insulin therapy. The Company believes that this program can leverage the technological expertise the Company has developed in its MS program to discover and design altered peptide ligand therapy useful in treating diabetics and pre-diabetics.

Neurocrine has begun collaborations with a leading diabetes center, the Barbara Davis Center for Childhood Diabetes at the University of Colorado, to study the effects of altered peptide ligands on human T-cells from diabetic patients. A preliminary preclinical candidate was selected in late 1997 and the Company expects to file an IND or a foreign IND equivalent in Canada or Europe in late 1998. However, no assurance can be given that the Company will conclude preclinical testing in a timely manner, or at all.

NEUROSTEROID PROGRAM

Alzheimer's Disease

Alzheimer's disease is a neurodegenerative brain disorder which leads to progressive memory loss and dementia. The Company believes that DHEA, a naturally occurring hormone, may be useful in treatment of this disease based on a variety of mechanisms. DHEA may protect neurons from death by increasing growth factor levels in the brain, such as insulin-like growth factor-1. DHEA also appears to modulate several cytokines involved in inflammation, which are believed to be involved in the pathology of Alzheimer's disease. In addition, DHEA improves memory and learning processes in both animal models and humans and may prove beneficial in slowing the memory loss seen in Alzheimer's disease. Because DHEA is naturally occurring, it is expected to have few toxicity problems, which differentiates this drug from other compounds that are currently being tested as therapeutics for Alzheimer's disease.

A double-blind, placebo-controlled, physician-IND Phase II clinical trial of DHEA, was conducted in 1997 with investigators from the Alzheimer's Clinic at the University of California, San Francisco. The trial was designed to determine efficacy as measured by improving memory in mild to moderate Alzheimer's patients. Approximately 60 patients were treated for six months with either an active drug or a placebo. The trial was completed in 1997 and results are expected in mid-1998. The patients in this study will be evaluated to assess the progress of disease and retention of memory. However, no assurance can be given that the results of these clinical trials will be positive, that the Company will begin its own clinical trials in a timely manner (if at all), or that if the results are positive, the Company will be able to duplicate such results in its own Phase II clinical trials.

The Company has obtained regulatory approval and initiated a multi-center Phase II/III double-blind, placebo-controlled clinical trial of DHEA in Canada, New Zealand, Australia, South Africa and Europe. This trial has been designed to determine efficacy as measured by improving memory in mild to moderate Alzheimer's patients. The study was designed in collaboration with, and will be conducted by, the Consortium of Canadian Centres for Clinical Cognitive Research in 18 Canadian Alzheimer's research centers. The clinical trial plans to evaluate efficacy parameters in 300 patients with a single dose of DHEA vs. placebo administered twice daily. The Company anticipates that this trial will be completed by the end of 1998. However, results obtained in earlier clinical trials are not necessarily predictive of results obtained in later trials, and no assurance can be given that the Company will successfully complete clinical trials in a timely manner, or at all. Even if regulatory approval is granted in Canada, the Company will likely be required to undertake additional clinical testing to obtain regulatory approval from the FDA for sales in the United States.

NEUROGENOMICS PROGRAM

Neurodegenerative Diseases and Disorders

Neurodegenerative diseases and disorders involve damage to the cellular structure of the brain either acutely, as in stroke or trauma, or chronically, as in epilepsy and Alzheimer's disease. To date, only a limited number of effective therapeutics exist to treat neurological disorders, resulting in significant economic and social costs. In 1994, over 26 million people in the United States were affected by neurological disorders.

Activation of glial cells is a common feature of many neurodegenerative diseases. The primary goal of Neurocrine's Neurogenomics program is to identify and characterize novel genes that are induced in glial cells under conditions that lead to neurodegeneration or regeneration. The Company is focusing on stroke, multiple sclerosis, AIDS dementia, epilepsy, Parkinson's disease and Alzheimer's disease. The unique conditions leading to neurodegeneration in each of the disorders have been established in both animal and cellular models of the disease. Neurocrine is actively isolating and analyzing genes associated with neuronal cell death

utilizing state of the art molecular biology, gene sequencing and bioinformatics. In addition, activated genes which are neuroprotective or allow for the regeneration of neurons may also be identified.

Novel neurodegenerative genes that are discovered may include proteins, enzymes or receptors. Protein signaling molecules or the genes encoding such molecules may be utilized as therapeutics, while enzymes and receptors may serve as new targets for drug discovery. Neurocrine currently intends to place the receptors and enzymes encoded by these genes in high-throughput screens in an attempt to discover small molecule therapeutics to treat neurodegenerative disorders. To date, the Company has identified more than 4,500 novel genes of which a number are undergoing biological evaluation in in vitro and animal models. The Company currently intends to identify candidate genes as drugs or drug targets for one or more neurological diseases. However, there can be no assurance that the Company will successfully identify suitable gene candidates for development in a timely manner, or at all.

STRATEGIC ALLIANCES

The Company's business strategy is to utilize strategic alliances and novel financing mechanisms to enhance its development and commercialization capabilities. To date, Neurocrine has completed the following alliances:

JANSSEN PHARMACEUTICA, N.V.

On January 1, 1995, Neurocrine entered into a research and development agreement (the "Janssen Agreement") with Janssen to collaborate in the discovery, development and commercialization of CRF receptor antagonists focusing on the treatment of anxiety, depression and substance abuse. The collaboration utilizes Neurocrine's expertise in cloning and characterizing CRF receptor subtypes, CRF pharmacology and medicinal chemistry. Pursuant to the Janssen Agreement, the Company has received $2.0 million in license payments. In connection with the Janssen Agreement, Johnson & Johnson Development Corporation ("JJDC") purchased $5 million of the Company's Common Stock. The collaborative research portion of the Janssen Agreement was completed as scheduled in 1997 with the selection of a clinical candidate and the commencement of clinical trials in Europe. The Company will continue to receive milestone payments and royalties upon the successful continuation of the development portion of the Janssen Agreement. The Company has received $9.7 million in sponsored research payments during the term of the Janssen Agreement, of which $3.7 million was received in 1997.

Under the Janssen Agreement, Neurocrine is entitled to receive up to $10.0 million in milestone payments for the indications of anxiety, depression, and substance abuse, and up to $9.0 million in milestone payments for other indications, if certain development milestones are achieved. The Company has received $3.3 million of milestone payments through December 31, 1997, of which $1.5 million was received in 1997. The Company has granted Janssen an exclusive worldwide license to manufacture and market products developed under the Janssen Agreement. The Company is entitled to receive royalties on product sales throughout the world. The Company has certain rights to co-promote such products in North America. Janssen is responsible for funding all clinical development and marketing activities, including reimbursement to Neurocrine for its promotional efforts, if any. There can be no assurance that the Company and its corporate partner will be successful in developing, receiving regulatory approvals or commercializing any potential products discovered under the Janssen Agreement. As a result, there can be no assurance that any product development milestone or royalty payments will be made.

NOVARTIS

In January 1996, the Company entered into a binding letter agreement with Ciba-Geigy (which subsequently became Novartis) to develop altered peptide ligand therapeutics for the treatment of MS based upon the Company's drug development candidates and expertise in immunology and protein chemistry. In December 1996, the Company and Novartis entered into a definitive agreement (the "Novartis Agreement") incorporating the terms and conditions set forth in the letter agreement and certain other terms and conditions agreed to by the Company and Novartis. Novartis paid the Company a $5 million non-refundable fee prior to

executing the Novartis Agreement. In connection with the Novartis Agreement, Novartis purchased $10.0 million of the Company's Common Stock. Pursuant to the Novartis Agreement, Novartis is obligated to provide the Company with $3.5 million in research and development funding, plus certain other program expenses, each year for five years ending on December 31, 2000. In event that no biological license application ("BLA") has been filed as a result of the collaboration by December 31, 2000, then Novartis may be obligated to provide the Company with an additional $2.5 million per year thereafter until a Product License Application is filed, except in certain circumstances. The Company has received a total of $15.7 million in license fees and research funding under the Novartis Agreement (including the $5.0 million non-refundable fee), of which $7.2 million was received in 1997. Neurocrine is also entitled to receive milestone payments if certain research, development and regulatory milestones are achieved. Milestone payments were $3.8 million and $3.0 million for 1997 and 1996, respectively. Novartis has the right to terminate the Novartis Agreement on six months' notice which may be given at any time after December 30, 1997.

The Company has granted Novartis an exclusive license outside of the United States and Canada to market altered peptide ligand products developed under the Novartis Agreement for multiple sclerosis. The Novartis Agreement provides that the Company and Novartis will collaborate in the marketing of products developed under the Novartis Agreement in the United States and Canada. The Company has the option to discontinue the collaborative marketing effort in the United States and Canada, in which case Novartis will have exclusive marketing rights in such territory. Neurocrine is entitled to receive royalties on product sales.

Neurocrine is entitled to receive a share of the profits resulting from sales of altered peptide ligand products in North America subject to the recoupment of a portion of Novartis's development costs. Neurocrine retains the right to convert its profit share to the right to receive royalty payments at its sole discretion in which case no repayment of development costs are due to Novartis. Neurocrine is obligated to repay a portion of the development costs of any potential product developed pursuant to the collaboration unless the Company elects to convert to the right to receive royalty payments. There can be no assurance that the Company and Novartis will be successful in developing or commercializing any potential products. As a result, there can be no assurance that any product development milestone, royalty, or profit sharing payments will be made.

ELI LILLY AND CO.

On October 15, 1996, Neurocrine entered into a research and license agreement (the "Lilly Agreement") with Lilly to collaborate in the discovery, development and commercialization of CRF binding protein ligand inhibitors for the treatment of central nervous system disorders including obesity and dementias such as Alzheimer's disease. Neurocrine has received $10.4 million in research payments under the Lilly Agreement, of which $9.1 million was received in 1997. Neurocrine expects to receive an additional $11.6 million in research payments between January 1, 1998 and October 15, 1999, as well as additional sponsored research payments over the subsequent two-year period if certain milestones are met, and up to an additional $49.0 million in milestone payments for the first two products for dementia or obesity if certain development and regulatory milestones are achieved. The Company has granted Lilly an exclusive worldwide license to manufacture and market CRF binding protein ligand inhibitor products. Lilly is obligated to fund clinical development and marketing expenses (except as set forth below) and is responsible for clinical development, regulatory compliance, and manufacturing of products. Neurocrine is entitled to royalties on product sales. At its option, Neurocrine is entitled to receive a portion of the profits resulting from sales of products for the treatment of dementia in the United States subject to the Company's obligation to pay a portion of the development costs for such product. Lilly has agreed to provide the Company with access to a portion of its chemical compound library for screening against targets outside of the field of the Lilly Agreement and other Lilly program areas, subject to the Company's obligation to pay Lilly royalties on sales of products developed based on compounds in such library and milestone payments based upon certain development and regulatory milestones for such products. There can be no assurance that the Company's research under the Lilly Agreement will be successful in discovering any potential products or that Lilly will be successful in developing, receiving regulatory approvals, or commercializing any potential products that may be discovered.

As a result there can be no assurance that any product development milestone, royalty, or profit sharing payments will be made.

NEUROSCIENCE PHARMA INC.

In March 1996, Neurocrine formed Neuroscience Pharma (NPI) Inc. ("NPI"), a research and development company. Neurocrine licensed to NPI certain technology and Canadian marketing rights to the Company's Neurosteroid and Neurogenomics programs in exchange for 49% of the outstanding Common Stock of NPI. A group of Canadian institutional investors have invested approximately $9.5 million in NPI in exchange for Preferred Stock of NPI, which may be exchanged for an aggregate of approximately 1,279,758 shares of Common Stock of the Company. In December 1997, certain of such Canadian institutional investors exercised their right to exchange an aggregate of 610,000 shares of NPI Preferred Stock for warrants exercisable for an aggregate of 600,502 shares of Common Stock of the Company. In December 1997, such Canadian institutional investors exercised the warrants for 600,502 shares of Common Stock of the Company. Pursuant to a Research and Development Agreement with a wholly owned subsidiary of the Company, NPI has committed to expend an aggregate amount of $9.5 million for clinical development of the Neurosteroid program for Alzheimer's disease and for research activities related to the Neurogenomics program. Pursuant to such Research and Development Agreement, NPI is entitled to receive royalties on sales of products developed in these programs as well as exclusive Canadian marketing rights for such products in the event that the Company has not terminated the technology license and the marketing rights or that the investors have not exchanged their NPI Preferred Stock for shares of the Company's Common Stock. In connection with their initial investment in NPI, such investors also received warrants exercisable for 383,875 shares of the Company's Common Stock and are eligible to receive additional warrants in the future in the event that NPI receives certain Canadian government incentives for research activities.

DEPENDENCE ON STRATEGIC ALLIANCES

The Company is dependent upon its corporate partners to provide adequate funding for certain of its 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/or (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 cannot control the amount and timing of resources which its corporate partners devote to the Company's programs or potential products. If any of the Company's corporate partners breach or terminate their agreements with the Company or otherwise fail to conduct their collaborative activities in a timely manner, the preclinical testing, clinical development or commercialization of product candidates will be delayed, and the Company will be required to devote additional resources to product development and commercialization, or terminate certain development programs. The Company's strategic alliances with Janssen, Novartis and Lilly are subject to termination by Janssen, Novartis, or Lilly, respectively. There can be no assurance that Janssen, Novartis, or Lilly will not elect to terminate its strategic alliance with the Company prior to its scheduled expiration. In addition, if the Company's corporate partners effect a merger with a third party, there can be no assurance that the strategic alliances will not be terminated or otherwise materially adversely affected. Ciba-Geigy Ltd. recently completed a merger with Sandoz Ltd., another major pharmaceutical company, becoming Novartis. The termination of any current or future strategic alliances

could have a material adverse effect on the Company's business, financial condition and results of operations. Neurocrine's corporate partners may develop, either alone or with others, products that compete with the development and marketing of the Company's products. Competing products, either developed by the corporate partners or to which the corporate partners have rights, may result in their withdrawal of support with respect to all or a portion of the Company's technology, which would have a material adverse effect on the Company's business, financial condition and results of operations. There can be no assurance that disputes will not arise in the future with respect to the ownership of rights to any products or technology developed with corporate partners. These and other possible disagreements between corporate partners and the Company could lead to delays in the collaborative research, development or commercialization of certain product candidates or could require or result in litigation or arbitration, which would be time-consuming and expensive, and would have a material adverse effect on the Company's business, financial condition and results of operations.

MANUFACTURING

The Company has in the past utilized, and intends to continue to utilize, third-party manufacturing for the production of material for use in clinical trials and for the potential commercialization of future products. The Company has no experience in manufacturing products for commercial purposes and does not have any manufacturing facilities. Consequently, the Company is solely dependent on contract manufacturers for all production of products for development and commercial purposes. In the event that the Company is unable to obtain or retain third-party manufacturing, it will not be able to commercialize its products as planned. The manufacture of the Company's products for clinical trials and commercial purposes is subject to cGMP regulations promulgated by the FDA. No assurance can be given that the Company's third-party manufacturers will comply with cGMP regulations or other regulatory requirements now or in the future. The Company's current dependence upon third parties for the manufacture of its products may adversely affect its profit margin, if any, on the sale of future products and the Company's ability to develop and deliver products on a timely and competitive basis.

MARKETING, SALES, AND PHARMACEUTICAL PRICING ISSUES

Neurocrine has retained certain marketing or co-promotion rights in North America to its products under development, and plans to establish its own North American marketing and sales organization. The Company currently has no experience in marketing or selling pharmaceutical products and does not have a marketing and sales staff. In order to achieve commercial success for any product candidate approved by the FDA, Neurocrine must either develop a marketing and sales force or enter into arrangements with third parties to market and sell its products. There can be no assurance that Neurocrine will successfully develop such experience or that it will be able to enter into marketing and sales agreements with others on acceptable terms, if at all. If the Company develops its own marketing and sales capabilities, it will compete with other companies that currently have experienced and well funded marketing and sales operations. To the extent that the Company enters into co-promotion or other marketing and sales arrangements with other companies, any revenues to be received by Neurocrine will be dependent on the efforts of others, and there can be no assurance that such efforts will be successful.

The Company's business may be materially adversely affected by the continuing efforts of government and third-party payers to contain or reduce the costs of health care through various means. For example, in certain foreign markets, pricing or profitability of prescription pharmaceuticals is subject to government control. In the United States, there have been, and the Company expects that there will continue to be, a number of federal and state proposals to implement similar government control in such jurisdictions. In addition, an increasing emphasis on managed care in the United States has put, and will continue to put, pressure on pharmaceutical pricing. Such initiatives and proposals, if adopted, could decrease the price that the Company receives for any products it may develop and sell in the future, and thereby have a material adverse effect on the Company's business, financial condition and results of operations. Further, to the extent that such proposals or initiatives have a material adverse effect on other pharmaceutical companies that are

corporate partners or prospective corporate partners for certain of the Company's potential products, the Company's ability to commercialize its potential products may be materially adversely affected.

The Company's ability to commercialize pharmaceutical products may depend in part on the extent to which reimbursement for the costs of such products and related treatments will be available from government health administration authorities, private health insurers and other third-party payers. Significant uncertainty exists as to the reimbursement status of newly approved health care products, and third-party payers are increasingly challenging the prices charged for medical products and services. There can be no assurance that any third-party insurance coverage will be available to patients for any products developed by the Company. Government and other third-party payors are increasingly attempting to contain health care costs by limiting both coverage and the level of reimbursement for new therapeutic products, and by refusing, in some cases, to provide coverage for uses of approved products for disease indications for which the FDA has not granted marketing approval. If adequate coverage and reimbursement levels are not provided by government and third-party payors for the Company's products, the market acceptance of these products would be materially adversely affected.

COMPETITION

The biotechnology and pharmaceutical industries are subject to rapid and intense technological change. The Company faces, and will continue to face, competition in the development and marketing of its product candidates from academic institutions, government agencies, research institutions and biotechnology and pharmaceutical companies. Competition may arise from 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. There can be no assurance that developments by others will not render the Company's product candidates or technologies obsolete or noncompetitive.

Betaseron and Avonex, similar forms of beta-interferon marketed by Berlex BioSciences and Biogen, Inc., respectively, and Capoxen, a peptide polymer marketed by Teva, have been approved for the marketing in the United States and certain other countries for the treatment of relapsing remitting multiple sclerosis. Tacrine, marketed by Warner-Lambert Co., and Aricept, marketed by Pfizer Inc, have been approved for the treatment of Alzheimer's dementia. Sales of these drugs may reduce the available market for any product developed by the Company for these indications. The Company is developing products for the treatment of anxiety disorders, which will compete with well-established products in the benzodiazepene class, including Valium, marketed by Hoffman-La Roche, Inc., and depression, which will compete with well-established products in the anti-depressant class, including Prozac, marketed by Eli Lilly & Co. Certain technologies under development by other pharmaceutical companies could result in treatments for these and other diseases and disorders being pursued by the Company. For example, a number of companies are conducting research on molecules to block CRF to treat anxiety and depression. Other biotechnology and pharmaceutical companies are developing compounds to treat obesity. In the event that one or more of these products and/or programs are successful, the market for the Company's products may be reduced or eliminated.

In addition, if Neurocrine receives regulatory approvals for its products, manufacturing efficiency and marketing capabilities are likely to be significant competitive factors. At the present time, Neurocrine has no commercial manufacturing capability, sales force or marketing experience. In addition, many of the Company's competitors and potential competitors have substantially greater capital resources, research and development resources, manufacturing and marketing experience and production facilities than does Neurocrine. Many of these competitors also have significantly greater experience than does Neurocrine in undertaking preclinical testing and clinical trials of new pharmaceutical products and obtaining FDA and other regulatory approvals.

PATENTS AND PROPRIETARY RIGHTS

The Company files patent applications both in the United States and in foreign countries, as it deems appropriate, for protection of its proprietary technology and products. As of December 31, 1997, only one patent has been issued to the Company; however, the Company otherwise owns or has received exclusive

licenses to four issued patents. The Company owns or has exclusive rights to a total of approximately 120 patent applications pursuant to license agreements with academic and research institutions, including the Beckman Research Institute of the City of Hope, the Salk Institute for Biological Studies, and Leland Stanford Junior University. The Company intends to file additional United States and foreign applications in the future as appropriate.

The Company's success will depend on its ability to obtain patent protection for its products, preserve its trade secrets, prevent third parties from infringing upon its 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, the Company intends to seek patent protection for its proprietary technology and compounds. There can be no assurance as to the success or timeliness in obtaining any such patents, that the breadth of claims obtained, if any, will provide adequate protection of the Company's proprietary technology or compounds, or that the Company will be able to adequately enforce any such claims to protect its proprietary technology and compounds. Since patent applications in the United States are confidential until the patents issue, and publication of discoveries in the scientific or patent literature tend to lag behind actual discoveries by several months, the Company cannot be certain that it was the first creator of inventions covered by pending patent applications or that it was the first to file patent applications for such inventions.

The degree of patent protection afforded to pharmaceutical inventions is uncertain and any patents which may issue with regard to the Company's potential products will be subject to this uncertainty. There can be no assurance that competitors will not develop competitive products outside the protection that may be afforded by the claims of the Company's patents. For example, the Company is aware that other parties have been issued patents and have filed patent applications in the United States and foreign countries which claim alternative uses of DHEA, a potential product of the Company, and cover other therapeutics for the treatment of multiple sclerosis. DHEA is not a novel compound and is not covered by a composition of matter patent. The issued patents licensed to the Company covering DHEA are use patents containing claims covering therapeutic methods and the use of specific compounds and classes of compounds for neuroregeneration. Other potential products which the Company may develop may not consist of novel compounds and therefore would not be covered by composition of matter patent claims. Competitors may be able to commercialize DHEA products for indications outside of the protection provided by the claims of any use patents that may be issued to the Company. In this case, physicians, pharmacies and wholesalers could then substitute a competitor's product for the Company's product. Use patents may be unavailable or may afford a lesser degree of protection in certain foreign countries due to the patent laws of such countries.

The Company may be required to obtain licenses to patents or proprietary rights of others. As the biotechnology industry expands and more patents are issued, the risk increases that the Company's potential products may give rise to claims that such products infringe the patent rights of others. At least one patent containing claims covering compositions of matter consisting of certain altered peptide ligand therapeutics for use in modulating the immune response has issued in Europe, and the Company believes that this patent has been licensed to a competitor of the Company. There can be no assurance that a patent containing corresponding claims will not issue in the United States. In addition, there can be no assurance that the claims of the European patent or any corresponding claims of any future United States patents or other foreign patents which may issue will not be infringed by the manufacture, use or sale of any potential altered peptide ligand therapeutics developed by the Company or Novartis. Furthermore, there can be no assurance that the Company or Novartis would prevail in any legal action seeking damages or injunctive relief for infringement of any patent that might issue under such applications or that any license required under any such patent would be made available or, if available, would be available on acceptable terms. Failure to obtain a required license could prevent the Company and Novartis from commercializing any altered peptide ligand products which they may develop.

No assurance can be given that any licenses required under any patents or proprietary rights of third parties would be made available on terms acceptable to the Company, or at all. If the Company does not obtain such licenses, it could encounter delays in product introductions while it attempts to design around such patents, or could find that the development, manufacture or sale of products requiring such licenses could be foreclosed. Litigation may be necessary to defend against or assert such claims of infringement, to enforce patents issued to the Company, to protect trade secrets or know-how owned by the Company, or to determine the scope and validity of the proprietary rights of others. In addition, interference proceedings declared by the United States Patent and Trademark Office may be necessary to determine the priority of inventions with respect to patent applications of the Company or its licensors. Litigation or interference proceedings could result in substantial costs to and diversion of effort by, and may have a material adverse impact on, the Company. In addition, there can be no assurance that these efforts by the Company would be successful.

The Company also relies upon unpatented trade secrets and improvements, unpatented know-how and continuing technological innovation to develop and maintain its competitive position, which it seeks to protect, in part, by confidentiality agreements with its commercial partners, collaborators, employees and consultants. The Company also has invention or patent assignment agreements with its employees and certain, but not all, commercial partners and consultants. There can be no assurance that relevant inventions will not be developed by a person not bound by an invention assignment agreement. There can be no assurance that binding agreements will not be breached, that the Company would have adequate remedies for any breach, or that the Company's trade secrets will not otherwise become known or be independently discovered by competitors.

As is commonplace in the biotechnology industry, the Company employs individuals who were previously employed at other biotechnology or pharmaceutical companies, including competitors or potential competitors of the Company. To the extent such Company employees are involved in research areas at the Company which are similar to those areas in which they were involved at their former employer, the Company may be subject to claims that such employees and/or the Company have inadvertently or otherwise used or disclosed the alleged trade secrets or other proprietary information of the former employers. Litigation may be necessary to defend against such claims, which could result in substantial costs and be a distraction to management, and which may have a material adverse effect on the Company, even if the Company were successful in defending such claims.

GOVERNMENT REGULATION

Regulation by government authorities in the United States and foreign countries is a significant factor in the development, manufacture and marketing of the Company's proposed products and in its ongoing research and product development activities. All of the Company's products will require regulatory approval by government agencies prior to commercialization. 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. Various federal and state statutes and regulations also govern or influence testing, manufacturing, safety, labeling, storage and record-keeping related to such products and their marketing. The process of obtaining these approvals and the subsequent substantial compliance with appropriate federal and state statutes and regulations require the expenditure of substantial time and financial resources. Any failure by the Company or its collaborators or licensees to obtain, or any delay in obtaining or maintaining, regulatory approval could adversely affect the marketing of any products developed by the Company, its ability to receive product or royalty revenues and its liquidity and capital resources.

Preclinical testing is generally conducted in laboratory animals to evaluate the potential safety and the efficacy of a product. The results of these studies are submitted to the FDA as a part of an IND, which must be approved before clinical trials in humans can begin. Typically, clinical evaluation involves a time consuming and costly three-phase process. In Phase I, clinical trials are conducted with a small number of subjects to determine the early safety profile, the pattern of drug distribution and metabolism. In Phase II, clinical trials are conducted with groups of patients afflicted with a specific disease in order to determine preliminary efficacy, optimal dosages and expanded evidence of safety. In Phase III, large-scale, multi-center, comparative trials are conducted with patients afflicted with a target disease in order to provide enough data to demonstrate with substantial evidence the efficacy and safety required by the FDA. The FDA closely monitors

the progress of each of the three phases of clinical trials and may, at its discretion, re-evaluate, alter, suspend or terminate the testing based upon the data which have been accumulated to that point and its assessment of the risk/benefit ratio to the patient.

A physician-IND is an IND that allows a physician to conduct a clinical trial under less rigorous regulatory review standards. A physician-IND clinical trial does not replace the need for Company-sponsored clinical trials, but can provide a preliminary indication as to whether further clinical trials are warranted and may sometimes facilitate the more formal regulatory review process.

The results of preclinical testing and clinical trials are submitted to the FDA in the form of an NDA or BLA for approval to commence commercial sales. In responding to an NDA or BLA, the FDA may grant marketing approval, request additional information or deny the application if the FDA determines that the application does not satisfy its regulatory approval criteria. There can be no assurance that approvals will be granted on a timely basis (or at all). If approved, there can be no assurance that such approval will include acceptable labeling to adequately commercialize the product. Similar regulatory procedures must also be complied with in countries outside the United States.

To date, the Company or its collaborators have submitted two IND applications in the United States and Canada with regard to its product candidates and has commenced clinical trials with regard to two potential products. A physician-IND Phase II clinical trial was initiated in March 1996 with regard to the use of DHEA for the treatment of Alzheimer's disease. However, such clinical trials are not under the full control of the Company. A multi-center Phase II/III clinical trial was initiated in Canada in early 1997 with respect to the same potential product under the regulatory authority of the Canadian HPB. However, a physician-IND clinical trial does not replace the need for Company-sponsored clinical trials. Even if Canadian regulatory approval is obtained, the Company will be required to undertake additional clinical testing to obtain FDA regulatory approval in the United States. No assurance can be given that the Company will be able to obtain FDA or other governmental regulatory approval for any products.

In late 1997, the Company's corporate partner, Janssen, initiated Phase I clinical trials on a CRF receptor antagonist for anxiety and depression, representing the Company's first CRF product to enter clinical trials. However, results obtained in animals are not necessarily predictive of results obtained in man, and no assurance can be given that the Company's partner will successfully complete Phase I clinical testing or progress to later clinical trials in a timely manner, or at all.

The results from preclinical testing and early clinical trials may not be predictive of results obtained in later clinical trials, and there can be no assurance that clinical trials conducted by the Company or its corporate partners will demonstrate sufficient safety and efficacy to obtain the requisite regulatory approvals or will result in marketable products or marketable indications. In addition, 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. A number of companies in the biotechnology and pharmaceutical industries have suffered significant setbacks in advanced clinical trials, even after promising results in earlier trials. If the Company's drug candidates are not shown to be safe and effective in clinical trials, the resulting delays in developing other compounds and conducting related preclinical testing and clinical trials, as well as the potential need for additional financing, would have a material adverse effect on the Company's business, financial condition and results of operations.

The rate of completion of clinical trials conducted by the Company or its corporate partners may be delayed by many factors, including slower than expected patient recruitment or unforeseen safety issues. Any delays in, or termination of, the Company's clinical trials would have a material adverse effect on the Company's business, financial condition and results of operations. There can be no assurance that Neurocrine will be permitted by regulatory authorities to undertake clinical trials for its products or, if such trials are conducted, that any of the Company's product candidates will prove to be safe and efficacious or will receive regulatory approvals.

The Company is required to conduct its research activities in compliance with good laboratory practice regulations enforced by FDA. The Company is also subject to various Federal, state and local laws, regulations and recommendations relating to safe working conditions, laboratory manufacturing practices, and the use and

disposal of hazardous or potentially hazardous substances, including radioactive compounds and infectious disease agents, used in connection with the Company's research. The extent of government regulation which might result from future legislation or administrative action cannot be predicted accurately.

SCIENTIFIC ADVISORY BOARD

Neurocrine has assembled a Scientific Advisory Board that currently consists of 16 individuals. Members of the Scientific Advisory Board are leaders in the fields of neurobiology, immunology, endocrinology, psychiatry and medicinal chemistry. Scientific Advisory Board members meet as a group at least yearly to advise the Company in the selection, implementation and prioritization of its research programs. Certain members meet more frequently to advise the Company with regard to its specific programs.

The Scientific Advisory Board presently consists of the following individuals:

Floyd E. Bloom, M.D., is Chairman of the Department of Neuropharmacology at The Scripps Research Institute. Dr. Bloom is an internationally recognized expert in the fields of neuropharmacology and neurobiology. He is the current editor of the journal, Science.

Michael Brownstein, M.D., Ph.D., is Chief of the Laboratory of Cell Biology at the National Institute of Mental Health. He is a recognized expert in molecular pharmacology as it applies to the field of neuroendocrinology, where he has defined many of the pharmaceutically important neurotransmitter receptors and transporter systems.

Iain Campbell, Ph.D., is an Associate Member of the Department of Neuropharmacology at The Scripps Research Institute. Dr. Campbell is an expert in cytosine activation in autoimmune diseases and neuronal degeneration.

George P. Chrousos, M.D., Sc.D., is Chief of the Pediatric Endocrinology Section at the National Institute of Child Health and Human Development. He has investigated the role of stress hormones in pathological conditions such as Cushing's disease, anxiety-related disorders and rheumatoid arthritis.

Caleb E. Finch, Ph.D., is the Arco and William F. Kieschnick Professor of Neurobiology of Aging at the University of Southern California. He is an internationally recognized expert in the field of molecular gerontology and the genomic control of mammalian development and aging. His recent work has focused on the role of cytokines in neuronal protection and aging.

Stephen M. Hedrick, Ph.D., is Professor and Chairman of Cell Biology at the University of California, San Diego. Dr. Hedrick is an expert in T-cell immunology and co-discovered the first T-cell receptor genes and identified the regions responsible for antigen binding. He is an editor for the Journal of Immunology.

Florian Holsboer, M.D., Ph.D., is Director at the Max Planck Institute fur Psychiatrie. Dr. Holsboer is an international expert on the role of glucocorticoids and neuropeptides, particularly CRF, in neuropsychiatric disorders. He coordinates the efforts of several hundred scientists and clinicians at the Max Planck Institute, a major European neuropsychiatric institute.

George F. Koob, Ph.D., is a Member of the Department of Neuropharmacology at The Scripps Research Institute and an Adjunct Professor in the Departments of Psychology and Psychiatry at the University of California, San Diego. Dr. Koob is an internationally recognized behavioral pharmacology expert on the role of peptides in the central nervous system, the neurochemical basis of addiction and in the development of preclinical behavioral procedures for the screening of anxiolytic and antidepressant drugs and memory enhancers.

Phillip J. Lowry, Ph.D., is Professor and Head of the Department of Biochemistry and Physiology at the University of Reading in Great Britain. Dr. Lowry is an internationally recognized biochemical endocrinologist whose work has focused on the purification and characterization of some of the key hormonal mediators of the endocrine response to stress. Dr. Lowry is a member of the European Neuroscience Steering Committee, the European Neuroendocrine Association and the Committee of British Endocrinology.

Joseph B. Martin, M.D., Ph.D., is Chancellor and Professor of Neurology at the University of California, San Francisco. Dr. Martin is an internationally recognized expert in clinical and basic research in neurology and neuroendocrinology and the etiology of hypothalamic diseases, and was one of the first neurologists to embrace the role of the central nervous system on immune function.

Bruce S. McEwen, Ph.D., is Professor and Head of the Harold and Margaret Milliken Hatch Laboratory of Neuroendocrinology at The Rockefeller University. Dr. McEwen has identified and studied the function of intracellular receptors for neuroactive steroid hormones in the brain and immune system, in relation to stress and sex differences. Dr. McEwen is also President of the Society for Neuroscience.

Charles B. Nemeroff, M.D., Ph.D., is Chairman and Professor of the Department of Psychiatry and Behavioral Sciences at Emory University School of Medicine. Dr. Nemeroff is an internationally recognized expert on the effects of neuropeptides on behavior and their relevance in clinically important conditions such as depression, anxiety and schizophrenia, and has published over 400 articles on this subject.

Lawrence J. Steinman, M.D., is Chief Scientist, Neuroimmunology of the Company and a member of Neurocrine's Founding Board of Scientific and Medical Advisors and its Executive Committee. See "Item 10 -- Executive Officers and Directors of the Registrant."

Wylie W. Vale, Ph.D., is Chief Scientist, Neuroendocrinology of the Company and a member of Neurocrine's Founding Board of Scientific and Medical Advisors and its Executive Committee. See "Item 10 -- Executive Officers and Directors of the Registrant."

Stanley J. Watson, Jr., M.D., Ph.D., is Professor and Associate Chair for Research in the Department of Psychiatry and Co-Director of the Mental Health Research Institute at the University of Michigan. Dr. Watson is a recognized expert in neuropeptides and their receptors and their role in psychiatric diseases and behavior. Dr. Watson is also a member of the Institute of Medicine of the National Academy of Sciences.

Each of the members of the Scientific Advisory Board have signed consulting agreements that contain confidentiality provisions and restrict the members of the Scientific Advisory Board from competing with the Company for the term of the agreement. Each member of the Scientific Advisory Board receives either a per diem consulting fee or a retainer fee and is anticipated to provide at least five days of consulting per year. Each member also has received stock or stock options in the Company, which vest over time. All but one member of the Scientific Advisory Board is a full-time employee of a university or research institute that has regulations and policies which limit the ability of such personnel to act as part-time consultants or in other capacities for any commercial enterprise, including the Company. A change in these regulations or policies could adversely affect the relationship of the Scientific Advisory Board member with the Company.

INSURANCE

The Company maintains product liability insurance for clinical trials in the amount of $5.0 million per occurrence and $5.0 million in the aggregate. The Company intends to expand its insurance coverage to include the sale of commercial products if marketing approval is obtained for products in development. However, insurance coverage is becoming increasingly expensive, and no assurance can be given that the Company will be able to maintain insurance coverage at a reasonable cost or in sufficient amounts to protect the Company against losses due to liability. There can also be no assurance that the Company will be able to obtain commercially reasonable product liability insurance for any products approved for marketing. A successful product liability claim or series of claims brought against the Company could have a material adverse effect on its business, financial condition and results of operations.

EMPLOYEES

As of December 31, 1997, the Company had 108 employees, consisting of 92 full-time and 16 part-time employees. Of the full-time employees, 39 hold Ph.D., M.D., or equivalent degrees. None of the Company's employees are represented by a collective bargaining arrangement, and the Company believes its relationship with its employees is good. The Company is highly dependent on the principal members of its management and scientific staff. The loss of services of any of these personnel could impede the achievement of the Company's development objectives. Furthermore, recruiting and retaining qualified scientific personnel to

perform research and development work in the future will also be critical to the Company's success. There can be no assurance that the Company will be able 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, the Company relies on members of its Scientific Advisory Board and a significant number of consultants to assist the Company in formulating its research and development strategy.

ITEM 2. PROPERTIES

The Company leases approximately 48,000 square feet of corporate and laboratory facilities at 3050 Science Park Road, San Diego, California. The lease extends through 2006. The Company has sublet 19,000 square feet of this facility to a third party for up to four years. The Company has also leased an additional 2,000 square-foot animal facility for a term of two years. The Company believes that its facilities will be adequate to meet its research and development needs through 1998.

In May 1997, the Company purchased two adjacent parcels of land in San Diego for approximately $5.0 million in cash. The Company sold one parcel to a third party in 1997, but expects to repurchase the land and lease the parcel to Science Park Center LLC, a California limited liability company (the "LLC"), of which the Company owns a minority interest. The LLC will construct an expanded laboratory and office complex which will be leased by the Company under a 15 year operating lease. The Company has the option to purchase the facility at any time during the lease at a predetermined price. The remaining parcel will be held by the Company until such time as the Company's growth requires additional expansion.

ITEM 3. LEGAL PROCEEDINGS

Not applicable.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's Common Stock has been traded on the Nasdaq National Market System under the symbol NBIX since the Company's initial public offering on May 23, 1996. Prior to that time there was no established public trading market for the Company's Common Stock. The following table sets forth for the periods indicated the high and low sale price for the Common Stock.

	HIGH	LOW
FISCAL YEAR 1997		
4th Quarter	11 7/8	7 1/2
3rd Quarter	10 3/4	7 7/8
2nd Quarter	10 1/2	7
1st Quarter	13 1/4	8 5/8
FISCAL YEAR 1996		
4th Quarter	13	9 1/4
3rd Quarter	12 3/8	6 1/2
2nd Quarter (from May 23, 1996)	13 1/4	8 1/8

As of February 28, 1998, there were approximately 234 holders of record of Common Stock.

DIVIDEND POLICY

The Company has not paid any cash dividends on its Common Stock since its inception and does not anticipate paying cash dividends on its Common Stock in the foreseeable future.

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data have been derived from the Financial Statements of the Company, which have been audited by Ernst & Young LLP. The information presented below should be read in conjunction with the Company's Financial Statements and Notes thereto included elsewhere in this Form 10-K. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

SELECTED FINANCIAL DATA

The following tables set forth certain financial data with respect to the Company (in thousands, except net income (loss) per share). The selected financial data should be read in conjunction with the consolidated financial statements and notes thereto.

	YEAR ENDED DECEMBER 31,				
	1997	1996	1995	1994	1993
STATEMENT OF OPERATIONS DATA:					
Revenues:					
Sponsored research	$11,250	$ 7,344	$ 3,000	$ --	$ --
License fees	--	5,000	2,000	--	--
Milestones	10,250	4,000	750	--	--
Other revenues	4,644	2,872	356	162	--
Total revenues	26,144	19,216	6,106	162	--
Operating expenses:					
Research and development	19,888	12,569	7,740	6,231	2,804
General and administrative	5,664	3,697	2,728	2,223	1,550
Total operating expenses	25,552	16,266	10,468	8,454	4,354
Income (loss) from operations	592	2,950	(4,362)	(8,292)	(4,354)
Interest income, net	3,931	2,598	839	627	118
Other income (expense)	818	574	177	(41)	--
Net income (loss) before income taxes	5,341	6,122	(3,346)	(7,706)	(4,236)
Income taxes	214	248	--	--	--
Net income (loss)	$ 5,127	$ 5,874	$ (3,346)	$ (7,706)	$(4,236)
Earnings (loss) per share:					
Basic	$ 0.30	$ 0.39	$ (0.29)	$ (0.70)	$ (0.69)
Diluted	$ 0.28	$ 0.36	$ (0.29)	$ (0.70)	$ (0.69)
Shares used in calculation of earnings (loss) per share					
Basic	16,930	14,971	11,684	10,933	6,123
Diluted	18,184	16,127	11,684	10,933	6,123
BALANCE SHEET DATA:					
Cash, cash equivalents and short-term investments*	$75,092	$ 69,920	$ 18,696	$ 18,228	$21,639
Total assets	91,903	77,957	24,012	22,344	24,436
Long-term debt	722	847	1,631	1,733	758
Accumulated deficit	(4,895)	(10,022)	(15,895)	(12,549)	(4,843)
Total stockholders' equity	83,152	72,767	19,225	18,743	22,137

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* Excludes funds held by NPI, which is available to fund certain of the Company's research and development activities.

ITEM 7. 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 of Neurocrine Biosciences, Inc. ("Neurocrine" or the "Company") contains forward-looking statements which involve risks and uncertainties, pertaining generally to the expected continuation of the Company's 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, and financial results and operations. Actual results could differ materially from those anticipated in such forward-looking statements as a result of various factors, including those set forth below, and those outlined in "Item 1 -- Business" above.

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 are expected to come from its strategic alliances for the next several years.

Results of Operations. Revenues increased to $26.1 million in 1997 compared with $19.2 million in 1996 and $6.1 million in 1995. These increases were primarily due to increased sponsored research, license fees, and milestone revenues recognized under the Janssen, Novartis, and Eli Lilly collaborations.

Research and development expenses increased to $19.9 million in 1997 compared with $12.6 million in 1996 and $7.7 million in 1995. These increases reflect continued additions to scientific personnel and related support expenditures as the Company increased its research, development, and clinical activities primarily in the CRF and Altered Peptide Ligand programs and the recognition of $1.1 million of research and development expenses related to the Company's minority owned investee, NPI.

General and administrative expenses increased to $5.7 million in 1997 compared with $3.7 million in 1996 and $2.7 million in 1995. These increases reflect the additional administrative staff required to support increased research, development and clinical activities, increased facility expenses, increased patent costs and expanded business development activities.

Interest income increased to $4.1 million in 1997 compared with $2.9 million in 1996 and $1.1 million 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 prior financings and corporate collaborators.

Net income decreased to $5.1 million or $0.30 per share ($0.28 assuming dilution) in 1997 compared with net income of $5.9 million or $0.39 per share ($0.36 assuming dilution) for 1996 and increased compared to a net loss of $3.3 million or $0.29 per share in 1995. The decrease in net income from 1996 to 1997 was primarily due to increased research and development expenditures. The increase in net income from 1995 to 1996 was primarily attributable to increased revenues earned under the Company's collaborations. Neurocrine has incurred a cumulative deficit of approximately $4.9 million as of December 31, 1997 and expects to incur additional operating losses in the future which are potentially greater than losses in prior years.

Liquidity and Capital Resources. At December 31, 1997 the Company's cash, cash equivalents, and short-term investments totaled $75.1 million. The Company invests its excess cash primarily in investment grade debt instruments, marketable debt securities of U.S. government agencies, and high grade commercial paper. Management has established guidelines relative to diversification and maturities that maintain safety and liquidity. The primary market risk associated with such investments is vulnerability to changes in short-term and long-term U.S. prime interest rates. See "Notes to Financial Statements -- Notes 1 and 2" below for further information regarding the Company's investments.

Net cash provided by operating activities in 1997 increased to $11.0 million compared with $6.7 million in 1996 and net cash used of $2.4 million in 1995. The 1997 and 1996 increase in cash provided by operating

activities and the 1995 decline in cash used in operating activities was primarily the result of the timing of cash receipts under the Janssen, Novartis and Eli-Lilly collaborations.

Net cash used in investing activities was $7.2 million in 1997 compared with $48.6 million used in 1996 and $933,000 provided by investing activities in 1995. The cash used in investing activities in 1997 and 1996 resulted from the purchase of short-term investments with proceeds from the Company's prior financings and the sale of Common Stock to corporate collaborators. The cash provided by investing activities in 1995 resulted from the timing differences of various investment purchases and sales/maturities, in addition to the fluctuations in the Company's portfolio mix between cash and cash equivalent and short-term investment holdings.

Net cash provided by financing activities was $659,000 in 1997 compared with $46.8 million in 1996 and $3.2 million in 1995. The cash provided in 1997 resulted from issuances of Common Stock upon the exercises of stock options and warrants and proceeds from a note payable used to finance the purchase of land. The 1997 decrease resulted from the decline in outside equity financings during this period. The 1996 increase resulted from proceeds received from the Company's initial public offering and the sale of Common Stock to corporate collaborators in May 1996.

Neurocrine has primarily financed its operations through proceeds from the sale of Common Stock in various private and public offerings as well as to corporate collaborators.

In February 1995, the Company entered into a three year collaborative research and development agreement with Janssen for the development of CRF receptor antagonists for the treatment of anxiety, depression and substance abuse. Janssen paid the Company $3.7 million in 1997 and $3.0 million in 1996 for sponsored research. Milestone payments totaled $1.5 million and $1.0 million for 1997 and 1996, respectively. The collaborative research portion of the agreement was completed as scheduled in 1997 with the selection of a clinical candidate and the commencement of clinical trials in Europe. The Company may continue to receive milestone payments and royalties upon the successful continuation of the development portion of the agreement.

In January 1996, the Company entered into an agreement with Novartis to develop altered peptide ligands for the treatment of multiple sclerosis. Novartis paid the Company $7.2 million in 1997 and $8.5 million in 1996 for license fees and research funding. Milestone payments were $3.8 million and $3.0 million for 1997 and 1996, respectively.

In March 1996, the Company participated in the formation of a research and development company, Neuroscience Pharma, Inc. (NPI), with a group of Canadian investors.

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 central-nervous system disorders, including obesity and dementia, such as that associated with Alzheimer's disease. Lilly paid the Company $4.1 million in 1997 and $1.3 million in 1996 for research. Milestone payments totaled $5.0 million in 1997.

In May 1997, the Company purchased two adjacent parcels of land in San Diego for approximately $5.0 million in cash. The Company sold one parcel to a third party in 1997, but expects to repurchase the land and lease the parcel to Science Park Center LLC, a California limited liability company (the "LLC"), of which the Company owns a minority interest. The LLC will construct an expanded laboratory and office complex which will be leased by the Company under a 15 year operating lease. The Company has the option to purchase the facility at any time during the lease at a predetermined price. The remaining parcel will be held by the Company until such time as the Company's growth requires additional expansion.

In December 1997, the Company issued 600,502 shares of Common Stock upon the exercise of warrants by certain of the original investors in NPI.

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 2000. 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.

Year 2000 Compliance. The Company has implemented systems and software infrastructures which are Year 2000 compliant. Although the Company believes its key financial, information and operational systems are Year 2000 compliant, there can be no assurance that other defects will not be discovered in the future. The Company is unable to control whether the firms and vendors that it does business with currently, and in the future, will have systems that are Year 2000 compliant. The Company's operations could be affected to the extent that the firms and vendors would be unable to provide services and ship products. However, management does not believe that Year 2000 changes will have a material impact on its business, financial condition or results of operations.

The foregoing Management's Discussion and Analysis of Financial Condition and Results of Operations of Neurocrine Biosciences, Inc., as well as the preceding sections of this Annual Report on Form 10-K, contain forward-looking statements which involve risks and uncertainties, pertaining generally to the expected continuation of the Company's 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 and profit-sharing payments, the anticipated dates of commencement of selection of development candidates and the commencement of clinical trials, the successful continuation of the Company's research and development programs and the potential development of future products, the period of time the Company's existing capital resources will meet its funding requirements, and the Company's financial results and operations. Actual results could differ materially from those anticipated in such forward-looking statements as a result of various factors, including those outlined in "Item 1 -- Business" above. The Company's business is subject to significant risks, including but not limited to, the risks inherent in its research and development activities, including uncertainties associated with the successful continuation of the Company's strategic collaborations, uncertainties associated with the successful accomplishment of milestones pursuant to these collaborations, the successful completion of clinical trials, the lengthy, expensive and uncertain process of seeking regulatory approvals, uncertainties associated both with obtaining and enforcing its patents and with patent rights of others, uncertainties regarding government reforms and of product pricing and reimbursement levels, technological change and competition, manufacturing uncertainties, and uncertainties associated with 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.

Neurocrine will require substantial additional funding for the continuation of its research and product development programs, for progress with preclinical testing and clinical trials, for operating expenses, for the pursuit of regulatory approvals for its product candidates, for the costs involved in filing and prosecuting patent applications and enforcing patent claims, if any, the cost of product in-licensing and any possible acquisitions, and may require additional funding for establishing manufacturing and marketing capabilities in the future. 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 adequate 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.

Neurocrine expects to incur substantial additional operating expenses over the next several years as its research, development, preclinical testing and clinical trial activities increase. To the extent that the Company is unable to obtain third-party funding for such expenses, the Company expects that increased expenses will result in increased losses from operations. There can be no assurance that the Company's products under development will be successfully developed or that its products, if successfully developed, will generate revenues sufficient to enable the Company to earn a profit.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA

See the list of the Company's Financial Statements filed with this Form 10-K under Item 14 below.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not Applicable.

PART III

ITEM 10. EXECUTIVE OFFICERS AND DIRECTORS OF THE REGISTRANT

Information required by this item will be contained in the Company's Notice of 1998 Annual Meeting of Stockholders and Proxy Statement, pursuant to Regulation 14A, to be filed with the Securities and Exchange Commission within 120 days after December 31, 1997 and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

Information required by this item will be contained in the Company's Notice of 1998 Annual Meeting of Stockholders and Proxy Statement, pursuant to Regulation 14A, to be filed with the Securities and Exchange Commission within 120 days after December 31, 1997 and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information required by this item will be contained in the Company's Notice of 1998 Annual Meeting of Stockholders and Proxy Statement, pursuant to Regulation 14A, to be filed with the Securities and Exchange Commission within 120 days after December 31, 1997 and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information required by this item will be contained in the Company's Notice of 1998 Annual Meeting of Stockholders and Proxy Statement, pursuant to Regulation 14A, to be filed with the Securities and Exchange Commission within 120 days after December 31, 1997 and is incorporated herein by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) Documents filed as part of this report.

1. List of Financial Statements. The following financial statements of Neurocrine Biosciences, Inc. and Report of Ernst & Young LLP, Independent Accountants, are included in this report:

   Report of Ernst & Young LLP, Independent Auditors
   Balance Sheet as of December 31, 1997 and 1996
   Statement of Operations for the years ended December 31, 1997, 1996 and 1995
   Statement of Stockholders' Equity for the years ended December 31, 1997, 1996 and 1995
   Statement of Cash Flows for the years ended December 31, 1997, 1996 and 1995
   Notes to Financial Statements

2. List of all Financial Statement schedules. All schedules are omitted because they are not applicable or the required information is shown in the Financial Statements or notes thereto.

3. List of Exhibits Required by Item 601 of Regulation S-K. See part (c) below.

(b)Reports on Form 8-K. No reports on Form 8-K were filed during the quarter ended December 31, 1997.

(c)Exhibits. The following exhibits are filed as part of, or incorporated by reference into, this report:

EXHIBIT NUMBER	DESCRIPTION
3.1	Restated Certificate of Incorporation.(1)
3.2	Bylaws.(1)
3.3	Certificate of Amendment of Bylaws.
4.1	Form of Lock-Up Agreement.(1)
4.2	Form of Common Stock Certificate.(1)
4.3	Form of warrant issued to existing warrant holders.(1)
4.4	Form of Series A warrant issued in connection with the execution by the Company of the Unit Purchase Agreement (see below).(1)
4.5	New Registration Rights Agreement dated March 29, 1996 among the Company and the investors signatory thereto.(1)
4.6	Letter of Intent between Northwest NeuroLogic, Inc. and the Company dated February 27, 1998.(2)
10.1	Purchase and Sale Agreement and Escrow Instructions between MS Vickers II, LLC and the Company dated February 13, 1997.(3)
10.2	1992 Incentive Stock Plan, as amended.
10.3	1996 Employee Stock Purchase Plan.(1)
10.4	1996 Director Stock Option Plan and form of stock option agreement.(1)
10.5	Form of Director and Officer Indemnification Agreement.(1)
10.6	Employment Agreement dated March 1, 1997, between the Registrant and Gary A. Lyons, as amended.(4)
10.7	Employment Agreement dated March 1, 1997, between the Registrant and Errol B. De Souza, Ph.D.(4)
10.8	Employment Agreement dated March 1, 1997, between the Registrant and Paul W. Hawran.(4)
10.9	Employment Agreement dated March 1, 1997, between the Registrant and Stephen Marcus, M.D.
10.10	Consulting Agreement dated September 25, 1992, between the Registrant and Wylie A. Vale, Ph.D.(1)
10.11	Consulting Agreement effective as of January 1, 1992, between the Registrant and Lawrence J. Steinman, M.D.(1)
10.12	Lease Agreement dated June 1, 1993, between the Registrant and Hartford Accident and Indemnity Company, as amended.(1)
10.13	Exclusive License Agreement dated as of July 1, 1993, by and between the Beckman Research Institute of the City of Hope and the Registrant covering the treatment of nervous system degeneration and Alzheimer's disease.(1)
10.14	Exclusive License Agreement dated as of July 1, 1993, by and between the Beckman Research Institute of the City of Hope and the Registrant covering the use of Pregnenolone for the enhancement of memory.(1)
10.15	License Agreement dated May 20, 1992, by and between The Salk Institute for Biological Studies and the Registrant.(1)
10.16	License Agreement dated July 17, 1992, by and between The Salk Institute for Biological Studies and the Registrant.(1)

EXHIBIT NUMBER	DESCRIPTION
10.17	License Agreement dated November 16, 1993, by and between The Salk Institute for Biological Studies and the Registrant.(1)
10.18	License Agreement dated October 19, 1992, by and between The Board of Trustees of the Leland Stanford Junior University and the Registrant.(1)
10.19	Agreement dated January 1, 1995, by and between the Registrant and Janssen Pharmaceutica, N.V.(1)
10.20	Letter Agreement dated January 19, 1996, by and between the Registrant and Ciba-Geigy Limited.(1)
10.21+	Unit Purchase Agreement dated March 29, 1996, by and between Neuroscience Pharma (NPI) Inc., the Registrant and the investors signatory thereto.(1)
10.22+	Exchange Agreement dated March 29, 1996, by and between Neurocrine Biosciences (Canada) Inc., the Registrant and the investors signatory thereto.(1)
10.23+	Research and Development Agreement dated March 29, 1996, by and between Neurocrine Biosciences (Canada) Inc. and Neuroscience Pharma (NPI) Inc.(1)
10.24+	Intellectual Property and License Grants Agreement dated March 29, 1996, by and between the Registrant and Neurocrine Biosciences (Canada) Inc.(1)
10.25+	Development and Commercialization Agreement dated December 20, 1996, by and between Ciba-Geigy Ltd. and the Registrant.(5)
10.26+	Letter and Purchase Order dated June 7, 1996, by and between Ciba-Geigy and the Registrant.(5)
10.27	Third Lease Amendment dated June 6, 1996, by and between Talcott Realty I Limited Partnership and the Registrant.(5)
10.28+	Research and License Agreement dated October 15, 1996, between the Registrant and Eli Lilly and Company.(5)
10.29+	Lease between Science Park Center LLC and the Company.(6)
10.30+	Option Agreement between Science Park Center LLC (Optionor) and the Company (Optionee).(6)
10.31+	Construction Loan Agreement.(6)
10.32	Secured Promissory Note.(6)
10.33+	Operating Agreement for Science Park Center LLC.(6)
10.34	Information and Registration Rights Agreement dated September 15, 1992, as amended to date.(1)
10.35	Form of incentive stock option agreement and nonstatutory stock option agreement for use in connection with 1992 Incentive Stock Plan.(1)
21	Subsidiaries of the Company.
23	Consent of Ernst & Young LLP, Independent Auditors.
24	Power of Attorney (reference is made to the following page of this Form 10-K).
27.1	Financial Data Schedule for the fiscal year ended December 31, 1997.
27.2	Financial Data Schedule for the fiscal year ended December 31, 1996.

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(1) Incorporated by reference to the Company's Registration Statement on Form S-1 (Registration No. 333-03172).

(2) Incorporated by reference to the Company's Report on Form 8-K filed on March 13, 1998.

(3) Incorporated by reference to the Company's amended Quarterly Report on Form 10-Q filed on August 15, 1997.

(4) Incorporated by reference to the Company's Quarterly Report on Form 10-Q filed on August 14, 1997.

(5) Incorporated by reference to the Company's Report on Form 10-K for the fiscal year ended December 31, 1996, as amended.

(6) Incorporated by reference to the Company's Quarterly Report on Form 10-Q filed on November 14, 1997.

* Confidential treatment has been requested with respect to certain portions of the exhibit.

\+ Confidential treatment has been granted with respect to certain portions of the exhibit.

(d) Financial Statement Schedules

See Item 14(a)(2) above.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NEUROCRINE BIOSCIENCES, INC.,
a Delaware Corporation

By: /s/ GARY A. LYONS

Gary A. Lyons
President and Chief Executive Officer

Date: March 31, 1998

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Gary A. Lyons and Paul W. Hawran, jointly and severally his attorneys-in-fact, each with the power of substitution, for him in any and all capacities, to sign any amendment to this Report on Form 10-K, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact, or his substitute or substitutes, may or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

SIGNATURE	TITLE	DATE
/s/ GARY A. LYONS Gary A. Lyons	President, Chief Executive Officer and Director (Principal Executive Officer)	March 31, 1998
/s/ PAUL W. HAWRAN Paul W. Hawran	Chief Financial Officer (Principal Financial and Accounting Officer)	March 31, 1998
/s/ HARRY F. HIXSON, JR. Harry F. Hixson, Jr.	Chairman of the Board of Directors	March 31, 1998
/s/ DAVID E. ROBINSON David E. Robinson	Director	March 31, 1998
/s/ JOSEPH A. MOLLICA Joseph A. Mollica	Director	March 31, 1998
/s/ ERROL B. DESOUZA Errol B. DeSouza	Executive Vice President, Research and Development and Director	March 31, 1998
/s/ WYLIE W. VALE Wylie W. Vale	Director	March 31, 1998

NEUROCRINE BIOSCIENCES, INC.

INDEX TO FINANCIAL STATEMENTS

REPORT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

The Board of Directors and Stockholders
Neurocrine Biosciences, Inc.

We have audited the accompanying balance sheet of Neurocrine Biosciences, Inc. as of December 31, 1997 and 1996, and the related statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Neurocrine Biosciences, Inc. at December 31, 1997 and 1996, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles.

/s/ ERNST & YOUNG LLP

ERNST & YOUNG LLP

San Diego, California
February 3, 1998,
except for Note 10,
for which the date is
February 27, 1998

NEUROCRINE BIOSCIENCES, INC.

BALANCE SHEET

ASSETS

	DECEMBER 31,	
	1997	1996
Current assets		
Cash and cash equivalents	$ 15,771,099	$ 11,325,361
Short-term investments, available for sale	59,321,095	58,594,853
Receivable under collaborative agreements	193,784	1,329,513
Other current assets	1,091,653	840,962
Total current assets	76,377,631	72,090,689
Property and equipment, net	8,846,179	3,546,420
Licensed technology and patent application costs, net	1,185,384	1,443,403
Investment in NPI	3,343,740	--
Other assets	2,150,451	876,070
Total assets	$ 91,903,385	$ 77,956,582
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 1,822,173	$ 800,157
Accrued liabilities	2,756,352	1,564,889
Deferred revenue	1,918,750	918,750
Current portion of long-term debt	872,595	783,718
Total current liabilities	7,369,870	4,067,514
Long-term debt	721,894	846,744
Deferred rent	659,146	275,356
Commitments		
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 -- 17,686,802 in 1997 and 16,776,614 in 1996	88,604,106	83,251,404
Deferred compensation	(439,582)	(377,057)
Notes receivable from stockholders	(119,848)	(127,704)
Unrealized gains on short-term investments	2,500	41,870
Accumulated deficit	(4,894,701)	(10,021,545)
Total stockholders' equity	83,152,475	72,766,968
Total liabilities and stockholders' equity	$ 91,903,385	$ 77,956,582

See accompanying notes.

NEUROCRINE BIOSCIENCES, INC.

STATEMENT OF OPERATIONS

	YEAR ENDED DECEMBER 31,		
	1997	1996	1995
Revenues:			
Sponsored research	$11,250,000	$ 7,343,750	$ 3,000,000
License fees	--	5,000,000	2,000,000
Milestones	10,250,000	4,000,000	750,000
Other revenues	4,643,616	2,871,912	355,750
Total revenues	26,143,616	19,215,662	6,105,750
Operating expenses:			
Research and development	19,887,917	12,569,114	7,740,128
General and administrative	5,663,580	3,696,515	2,728,342
Total operating expenses	25,551,497	16,265,629	10,468,470
Income (loss) from operations	592,119	2,950,033	(4,362,720)
Interest income	4,083,552	2,870,407	1,137,004
Interest expense	(152,817)	(272,464)	(297,675)
Other income	818,078	573,627	177,001
Income (loss) before income taxes	5,340,932	6,121,603	(3,346,390)
Income taxes	214,088	247,683	--
Net income (loss)	$ 5,126,844	$ 5,873,920	$(3,346,390)
Earnings (loss) per common share			
Basic	$ 0.30	$ 0.39	$ (0.29)
Diluted	$ 0.28	$ 0.36	$ (0.29)
Shares used in the calculation of earnings (loss) per share			
Basic	16,929,925	14,970,734	11,683,877
Diluted	18,184,458	16,127,034	11,683,877

See accompanying notes.

NEUROCRINE BIOSCIENCES, INC.

STATEMENT OF STOCKHOLDERS' EQUITY

	SHARES	AMOUNT	DEFERRED COMPENSATION	NOTES RECEIVABLE FROM STOCKHOLDERS	UNREALIZED GAINS (LOSSES) ON SHORT-TERM INVESTMENTS	ACCUMULATED DEFICIT	TOTAL STOCKHOLDERS' EQUITY
Balance at December 31, 1994	11,059,426	$31,463,666	$ --	$(148,263)	$(23,535)	$(12,549,075)	$18,742,793
Issuance of Common Stock for cash	659,635	3,730,000	--	--	--	--	3,730,000
Issuances of Common Stock for services	4,040	20,200	--	--	--	--	20,200
Payment on notes receivable	--	--	--	10,086	--	--	10,086
Deferred compensation related to grant of stock options	--	384,075	(384,075)	--	--	--	--
Amortization of deferred compensation	--	--	41,396	--	--	--	41,396
Unrealized gains on short-term investments	--	--	--	--	26,854	--	26,854
Net loss	--	--	--	--	--	(3,346,390)	(3,346,390)
Balance at December 31, 1995	11,723,101	35,597,941	(342,679)	(138,177)	3,319	(15,895,465)	19,224,939
Issuance of Common Stock for cash	5,053,513	47,539,591	--	--	--	--	47,539,591
Payments on notes receivable	--	--	--	10,473	--	--	10,473
Deferred compensation related to grant of stock options	--	113,872	(113,872)	--	--	--	--
Amortization of deferred compensation	--	--	79,494	--	--	--	79,494
Unrealized gains on short-term investments	--	--	--	--	38,551	--	38,551
Net income	--	--	--	--	--	5,873,920	5,873,920
Balance at December 31, 1996	16,776,614	83,251,404	(377,057)	(127,704)	41,870	(10,021,545)	72,766,968
Issuance of Common Stock for warrants	182,467	59,250	--	--	--	--	59,250
Issuance of Common Stock for stock options	105,686	453,301	--	--	--	--	453,301
Issuance of Common Stock under the Employee Stock Purchase Plan	21,533	174,411	--	--	--	--	174,411
Issuance of Common Stock in exchange for investment in NPI	600,502	4,473,740	--	--	--	--	4,473,740
Payments on notes receivable	--	--	--	7,856	--	--	7,856
Deferred compensation related to grant of stock options	--	192,000	(192,000)	--	--	--	--
Amortization of deferred compensation	--	--	129,475	--	--	--	129,475
Unrealized losses on short-term investments	--	--	--	--	(39,370)	--	(39,370)
Net income	--	--	--	--	--	5,126,844	5,126,844
Balance at December 31, 1997	17,686,802	$88,604,106	$(439,582)	$(119,848)	$ 2,500	$ (4,894,701)	$83,152,475

See accompanying notes.

NEUROCRINE BIOSCIENCES, INC.

STATEMENT OF CASH FLOWS

	YEAR ENDED DECEMBER 31,		
	1997	1996	1995
CASH FLOW FROM OPERATING ACTIVITIES:			
Net income (loss)	$ 5,126,844	$ 5,873,920	$ (3,346,390)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	1,322,231	980,833	715,398
Research and development expense related to NPI	1,130,000	--	--
Deferred revenue	1,000,000	418,750	500,000
Deferred rent	383,790	61,431	213,925
Compensation expense recognized for stock options	129,475	79,494	41,396
Common Stock issued for technology	--	--	20,200
Write-off of licensed technology and patent costs	75,762	--	--
Loss on sale of assets	--	25,370	--
Change in operating assets and liabilities:			
Receivable under collaborative agreements	1,135,729	(329,513)	(1,000,000)
Other current assets	(250,691)	(606,628)	67,797
Other assets	(1,274,381)	(486,774)	9,516
Accounts payable and accrued liabilities	2,213,479	664,876	356,429
Net cash flows provided by (used in) operating activities	10,992,238	6,681,759	(2,421,729)
CASH FLOW FROM INVESTING ACTIVITIES:			
Purchases of short-term investments	(113,080,238)	(85,171,207)	(17,854,139)
Sales/maturities of short-term investments	112,314,626	38,918,365	19,098,351
Purchase of licensed technology and patent application costs, net	--	(663,796)	(263,261)
Purchases of property and equipment, net	(6,439,733)	(1,640,337)	(47,657)
Net cash flows (used in) provided by investing activities	(7,205,345)	(48,556,975)	933,294
CASH FLOW FROM FINANCING ACTIVITIES:			
Issuance of Common Stock, net	686,962	47,539,591	3,730,000
Principal payments on obligations under capital leases	(782,763)	(742,236)	(574,954)
Proceeds from note payable	746,790	--	--
Payments received on notes receivable from stockholders	7,856	10,473	10,086
Net cash flows provided by financing activities	658,845	46,807,828	3,165,132
Net increase in cash and cash equivalents	4,445,738	4,932,612	1,676,697
Cash and cash equivalents at beginning of year	11,325,361	6,392,749	4,716,052
Cash and cash equivalents at end of the year	$ 15,771,099	$ 11,325,361	$ 6,392,749
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Interest paid	$ 152,817	$ 272,464	$ 298,332
Taxes paid	$ 250,000	$ 40,000	$ --
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES			
Furniture and equipment financed with obligations under capital leases	$ --	$ --	$ 689,791

See accompanying notes

NEUROCRINE BIOSCIENCES, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1997

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Business Activity: Neurocrine Biosciences, Inc. (the "Company") was incorporated in California on January 17, 1992 and was reincorporated in Delaware in March 1996. The Company is engaged in the discovery and development of therapeutics for the treatment of diseases and disorders of the central nervous and immune systems which includes anxiety, depression, Alzheimer's disease, obesity, stroke and multiple sclerosis.

Cash Equivalents: The Company considers as cash equivalents all highly liquid investments with a maturity of three months or less when purchased.

Short-Term Investments Available-for-Sale: In accordance with Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Debt and Equity Securities," short-term investments are classified as available-for-sale. Available-for-sale securities are carried at fair value, with the unrealized gains and losses reported in a separate component of stockholders' equity. 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 investment 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 investment income. 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.

The Company invests its excess cash primarily in investment grade debt instruments, marketable debt securities of U.S. government agencies, and high grade commercial paper. Management has established guidelines relative to diversification and maturities that maintain safety and liquidity.

Property and Equipment: Furniture, equipment and leasehold improvements are carried at cost. Depreciation and amortization are provided over the estimated useful lives of the assets, ranging from five to seven years, using the straight-line method.

Licensed Technology and Patent Application Costs: Licensed technology consists of exclusive, worldwide, perpetual licenses to patents related to the Company's platform technology which are capitalized at cost and amortized over periods of 7 to 11 years.

Asset Impairment: The Company accounts for its Long-Lived Assets in accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of". There were no material adjustments to the carrying values of these assets during 1997 and 1996.

Research and Development Revenue and Expenses: Revenue under strategic alliances is recognized over the term of the agreement. Advance payments received in excess of amounts earned are classified as deferred revenue and recognized as income in the period earned. Research and development costs are expensed as incurred.

Stock-Based Compensation: The Company has elected to continue to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25) and related Interpretations in accounting for its employee stock options. The alternative fair value accounting provided for under SFAS No. 123, "Accounting for Stock-Based Compensation," requires use of option valuation models that were not developed for use in valuing employee stock options. As a result, deferred compensation is recorded only in the event that the fair market value of the stock on the date of the option grant exceeds the exercise price of the options. Such deferred compensation is amortized over the vesting period of the options. Compensation expense recognized during the years ended December 31, 1997, 1996 and 1995 was $129,475, $79,494 and $41,396, respectively.

Earnings Per Share: In February 1997, the Financial Accounting Standards Board issued SFAS No. 128, "Earnings Per Share" (Statement No. 128). Statement No. 128 is effective for financial statements issued for periods ending after December 15, 1997. Statement No. 128 replaces APB Opinion 15, Earnings per Share ("EPS"). Statement No. 128 requires dual presentation of basic and diluted earnings per share by entities with complex capital structures. Basic EPS includes no dilution and is computed by dividing net income by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution of securities that could share in the earnings of the Company such as common stock which may be issuable upon exercise of outstanding common stock options, warrants and preferred stock.

Comprehensive Income and Segment Information: In June 1997, the Financial Accounting Standards Board issued SFAS No. 130, "Reporting Comprehensive Income" and SFAS No. 131, "Segment Information". Both of these standards are effective for fiscal years beginning after December 15, 1997. SFAS No. 130 requires that all components of comprehensive income, including net income, be reported in the financial statements in the period in which they are recognized. Comprehensive income is defined as the change in equity during a period from transactions and other events and circumstances from non-owner sources. Net income and other comprehensive income, including foreign currency translation adjustments, and unrealized gains and losses on investments, shall be reported net of their related tax effect, to arrive at comprehensive income. The Company does not believe that comprehensive income or loss will be materially different than net income or loss. SFAS No. 131 amends the requirements for public enterprises to report financial and descriptive information about its reportable operating segments. Operating segments, as defined in SFAS No. 131, are components of an enterprise for which separate financial information is available and is evaluated regularly by the Company in deciding how to allocate resources and in assessing performance. The financial information is required to be reported on the basis that is used internally for evaluating the segment performance. The Company believes it operates in one business and operating segment and does not believe adoption of the standard will have a material impact on the Company's financial statements.

Reliance on Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Actual results could differ from those estimates.

2. SHORT-TERM INVESTMENTS

The following is a summary of short-term investments classified as available-for-sale securities:

	DECEMBER 31, 1997				DECEMBER 31, 1996	
	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED FAIR VALUE	AMORTIZED COST	GROSS UNREALIZED GAINS
US Government securities	$11,974,539	$54,201	$ --	$12,028,740	$ 7,973,645	$ 24,706
Certificates of deposit	246,639	--	--	246,639	484,022	--
Commercial paper	9,850,123	--	--	9,850,123	3,972,292	--
Corporate debt securities	37,143,192	3,590	(59,779)	37,087,003	46,123,024	80,288
Other	104,102	4,488	--	108,590	--	--
Total debt securities	$59,318,595	$62,279	$(59,779)	$59,321,095	$58,552,983	$104,994

	DECEMBER 31, 1996	
	GROSS UNREALIZED LOSSES	ESTIMATED FAIR VALUE
US Government securities	$(26,388)	$ 7,971,963
Certificates of deposit	--	484,022
Commercial paper	--	3,972,292
Corporate debt securities	(36,736)	46,166,576
Other	--	--
Total debt securities	$(63,124)	$58,594,853

Gross realized gains and losses were not material for any of the reported periods. The amortized cost and estimated fair value of debt securities by contractual maturity, are shown below.

AT DECEMBER 31, 1997	AMORTIZED COST	ESTIMATED FAIR VALUE
Due in one year or less	$16,181,291	$16,206,592
Due after one year through five years	43,137,304	43,114,503
	$59,318,595	$59,321,095

3. BALANCE SHEET DETAILS

Other current assets at December 31, 1997 and 1996, consist of the following:

	1997	1996
Interest income receivable	$ 779,056	$381,947
Other	312,597	459,015
	$1,091,653	$840,962

Property and equipment at December 31, 1997 and 1996, consist of the following:

	1997	1996
Furniture and fixtures	$ 1,204,534	$ 1,123,956
Equipment	4,955,553	3,738,213
Land	4,985,314	--
Leasehold improvements	717,094	646,939
	11,862,495	5,509,108
Less accumulated depreciation and amortization	(3,016,316)	(1,962,688)
Net property and equipment	$ 8,846,179	$ 3,546,420

Accrued liabilities at December 31, 1997 and 1996 consist of the following:

	1997	1996
Accrued employee benefits	$1,510,476	$ 414,971
Accrued professional fees	470,847	143,407
Accrued clinical trial costs	300,000	256,141
Income taxes payable	195,199	206,883
Other accrued liabilities	279,830	543,487
	$2,756,352	$1,564,889

Long-term debt at December 31, 1997 and 1996 consist of the following:

	1997	1996
Current portion of debt:		
Note payable to bank	$149,358	$ --
Obligations under capital leases	723,237	783,718
	$872,595	$783,718
Long-term portion of debt:		
Note payable to bank	$597,432	$ --
Obligations under capital leases	124,462	846,744
	$721,894	$846,744

During 1997 the Company partially financed the purchase of land under a 5 year note payable for approximately $747,000, which bears interest at a floating rate of prime plus one quarter percent (8.75% at December 31, 1997). The note is repayable in equal monthly installments beginning February 1998.

4. COMMITMENTS

Leases: The Company leases its corporate and laboratory facilities under an operating lease which expires in June 2006. Rent expense and sublease rental revenue was approximately $2,139,000, $1,298,000, $798,000 and $917,000, $598,000, $177,000, for the years ended December 31, 1997, 1996 and 1995, respectively.

Furniture and equipment under capital leases were approximately $3,287,000 and $3,368,000 at December 31, 1997 and 1996, respectively. Accumulated depreciation of furniture and equipment under capital leases totaled approximately $2,226,000 and $1,679,000 at December 31, 1997 and 1996, respectively.

Future minimum payments at December 31, 1997 are as follows:

	CAPITAL LEASES	OPERATING LEASES
1998	$758,411	$ 2,276,327
1999	129,239	3,698,216
2000	--	3,832,587
2001	--	3,971,926
2002	--	4,116,419
Thereafter	--	44,927,206
Total minimum payments	$887,650	$62,822,681
Amount representing interest	39,951	
Present value of net minimum payments	847,699	
Less current portion	723,237	
Long-term obligations under capital leases	$124,462	

In May 1997, the Company purchased two adjacent parcels of land in San Diego for approximately $5.0 million in cash. The Company sold one parcel to a third party in 1997, but expects to repurchase the land and lease the parcel to Science Park Center LLC, a California limited liability company (the "LLC"), of which the Company owns a minority interest. The LLC will construct an expanded laboratory and office complex which will be leased by the Company under a 15 year operating lease. The Company has the option

to purchase the facility at any time during the lease at a predetermined price. The remaining parcel will be held by the Company until such time as the Company's growth requires additional expansion.

Future minimum rental income to be received under non-cancelable subleases at December 31, 1997 will be $512,257, $527,625, $543,453 and $559,757 for the years ending December 31, 1998 through 2001, respectively.

Licensing and Research Agreements: The Company has entered into licensing agreements with various universities and research organizations. Under the terms of these agreements, the Company has received licenses to technology, or technology claimed, in certain patents or patent applications. The Company is required to pay royalties on future sales of products employing the technology or falling under claims of a patent, and, certain agreements require minimum royalty payments. Certain agreements also require the Company to make payments of up to an aggregate of approximately $4.9 million upon the achievement of specified milestones.

5. STOCKHOLDERS' EQUITY

Common Stock Issuances: Since its inception, the Company has issued Common Stock in various private and public offerings as well as to corporate collaborators at prices between $5.00 and $10.50 per share resulting in aggregate net proceeds of approximately $78.6 million.

Options: The Company has reserved 4,100,000 and 100,000 shares of Common Stock for issuance upon exercise of options or stock purchase rights granted under the 1992 Incentive Stock Option Plan ("The Plan") and 1996 Director Option Plan ("The Director Plan"), respectively. These plans provide for the grant of stock options and stock purchase rights to officers, directors, and employees of, and consultants and advisors to, the Company. Options under both plans have terms of up to 10 years from the date of grant and may be designated as incentive stock options or nonstatutory stock options under the Plan, and as nonstatutory options under The Director Plan.

Pro forma information regarding net income (loss) and net income (loss) per share is required by SFAS No. 123, and has been determined as if the Company had accounted for its employee stock options under the fair value method of that Statement. The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model using the following weighted-average assumptions for 1997, 1996 and 1995, respectively: risk-free interest rates of 5.8%, 6.1% and 6.1%; a dividend yield of 0.0% (for all years), volatility factors of the expected market price of the Company's common stock of .43, .41, and .41; and a weighted average expected life of the option of 5 years (for all years).

For purposes of pro forma disclosures, the estimated fair value of the options granted is amortized to expense over the options' vesting period. The Company's pro forma information for the years ended December 31, 1997, 1996 and 1995 follows:

	1997	1996	1995
Pro forma net income (loss) (in thousands).....	$4,364	$5,375	$(3,474)
Pro forma income (loss) per share (diluted).....	$ 0.24	$ 0.33	$ (0.30)

The pro forma effect on net income for 1997 and 1996 and net loss for 1995 is not likely to be representative of the effects on reported income or loss in future years because these amounts reflect less than full vesting for options granted during these periods.

A summary of the Company's stock option activity, and related information for the years ended December 31 follows:

	1997		1996		1995	
	OPTIONS (IN THOUSANDS)	WEIGHTED-AVERAGE EXERCISE PRICE	OPTIONS (IN THOUSANDS)	WEIGHTED EXERCISE PRICE	OPTIONS (IN THOUSANDS)	WEIGHTED-AVERAGE EXERCISE PRICE
Outstanding -- beginning of year	1,739	$4.48	1,415	$3.61	906	$3.22
Granted (below market)	275	$7.43	255	$6.90	638	$4.28
Granted (at market)	797	$8.02	123	$9.30	--	--
Exercised	(100)	$4.10	(11)	$3.60	--	--
Forfeited	(58)	$5.88	(43)	$4.41	(129)	$4.18
Outstanding -- year end	2,653	$5.85	1,739	$4.48	1,415	$3.61

A summary of options outstanding as of December 31, 1997 follows:

OPTIONS OUTSTANDING (IN THOUSANDS)	EXERCISE PRICE RANGE	WEIGHTED-AVERAGE EXERCISE PRICE	WEIGHTED-AVERAGE CONTRACTUAL LIFE	OPTIONS OUTSTANDING (IN THOUSANDS)	EXERCISE PRICE RANGE	WEIGHTED-AVERAGE EXERCISE PRICE
515	$2.50	$2.50	5.6 years	515	$2.50	$2.50
807	$4.25 to $5.95	$4.42	7.2 years	536	$4.25 to $5.95	$4.41
1,331	$6.91 to $10.25	$8.02	9.2 years	218	$6.91 to $10.25	$8.17

Warrants: The Company has outstanding warrants to purchase 531,465 shares of Common Stock at exercise prices of $5.00 and $10.50 per share. The warrants generally expire between 1998 and 2007. At December 31, 1997, all outstanding warrants were exercisable.

Employee Stock Purchase Plan: The Company has reserved 125,000 shares of Common Stock for issuance under the 1996 Employee Stock Purchase Plan (the "Purchase Plan"). The Purchase Plan permits eligible employees to purchase Common Stock through payroll deductions at a purchase price equal to 85% of the lesser of the fair market value per share of Common Stock on the start date of an offering period or on the date on which the shares are purchased. Through December 31, 1997, 21,533 shares had been issued pursuant to the Purchase Plan.

Shares reserved for future issuances:

Stock options	2,640,901
Warrants	531,465
Employee stock purchase plan	103,467
Director option plan	100,000
Total	3,375,833

Of the shares available for future issuance under the Plan, 2,603,174 are outstanding grants and 37,727 remain available for future grant.

6. COLLABORATIVE RESEARCH AND DEVELOPMENT AGREEMENTS

Janssen: In January 1995, the Company entered into a research and development agreement (the "Janssen Agreement") with Janssen, under which Janssen paid the Company $2.0 million in up-front license

fees and $3.7 million, $3.0 million and $3.0 million in sponsored research payments in 1997, 1996 and 1995, respectively.

Under the Janssen Agreement, Neurocrine is entitled to receive up to $10.0 million in milestone payments for the indications of anxiety, depression and substance abuse, and up to $9.0 million in milestone payments for other indications, if certain development milestones are achieved; $1.5 million, $1.0 million and $750,000 was received in 1997, 1996 and 1995, respectively. The Company has granted Janssen an exclusive worldwide license to manufacture and market products developed under the Janssen Agreement. The Company is entitled to receive royalties on product sales throughout the world. The Company has certain rights to co-promote such products in North America. Janssen is responsible for funding all clinical development and marketing activities, including reimbursement to Neurocrine for its promotional efforts, if any.

The collaborative research portion of the agreement was completed as scheduled in 1997 with the selection of a clinical candidate and the commencement of clinical trials in Europe. The Company may continue to receive milestone payments and royalties upon the successful continuation of the development portion of the agreement.

Janssen has the right to terminate the Agreement upon six months notice. However, in the event of termination, other than termination by Janssen for cause or as a result of the acquisition of Neurocrine, all product and technology rights become the exclusive property of Neurocrine.

Novartis: In January 1996, the Company entered into an agreement with Novartis under which Novartis paid the Company $5.0 million in up-front fees and is obligated to provide Neurocrine with $7.0 million in 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. The Company received $7.2 million and $3.5 million of research and development funding in 1997 and 1996, respectively. In addition, the Company is also entitled to receive milestone payments if certain development and regulatory milestones are achieved, of which $3.8 million and $3.0 million was received in 1997 and 1996, respectively. In return, Novartis received manufacturing and marketing rights outside of North America and will receive a percentage of profits on any sales in North America. The Company will receive royalties for all sales which may occur 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. Novartis has the right to terminate the agreement on six months notice.

Eli Lilly: In October 1996, the Company entered into an agreement with Eli Lilly and Company ("Eli Lilly") under which the Company expects to receive $22.0 million in research payments. The Company is also entitled to milestone payments if certain development and regulatory accomplishments are achieved. Eli Lilly paid the Company $9.1 million and $1.3 million in research payments in 1997 and 1996, respectively. The Company will have the option to receive co-promotion rights and share profits from commercial sales of select products, which may result from the collaboration in the U.S. or receive royalties on U.S. product sales. The Company will receive royalties on any product sales for the rest of the world.

7. NEUROSCIENCE PHARMA, INC. (NPI)

In March 1996, the Company established Neuroscience Pharma, Inc. ("NPI") with a group of Canadian institutional investors (the "Canadian Investors"). The Company licensed to NPI certain technology, which had no accounting basis, and Canadian marketing rights to such technology, for 49% of the Common Stock of NPI. The Canadian Investors invested approximately $9.5 million cash in NPI in exchange for Preferred Stock of NPI, as well as a 51% ownership interest in NPI's Common Stock. The Preferred Stock was exchangeable at the option of the Canadian Investors into approximately 1,279,758 shares of the Company's Common Stock, using an exchange ratio based on the assumed fair value of the Company's Common Stock in March 1996. NPI has committed to use these funds for research and clinical development of certain of the Company's programs in exchange for royalties on sales of products developed in these programs as well as exclusive Canadian marketing rights for such products in certain situations. The Company has the right to terminate the agreement under certain conditions by purchasing the shares of NPI Preferred Stock held by the Canadian Investors in exchange for cash or the Company's Common Stock at a predetermined price.

In December 1997, certain of the Canadian Investors exchanged their NPI Preferred Stock into 600,502 shares of the Company's Common Stock. The Company recorded the issuance of its equity at the agreed-upon exchange rate, which approximated the fair market value of the Company's Common Stock at such date, and recorded an investment of $4,473,740 in NPI.

In accordance with the equity method of accounting, the Company has recognized $1,130,000 of research and development expense, representing its share of NPI's losses since inception, of which $970,000 relates to 1997 and $160,000 relates to 1996.

As of December 31, 1997, NPI has total assets of approximately $6.9 million, consisting primarily of cash, cash equivalents and short-term investments. The Company's investment in NPI is carried at approximately $3.3 million.

In connection with their investment in NPI, the Canadian Investors also received warrants exercisable for 383,875 shares of the Company's Common Stock at an exercise price of $10.50 per share and are eligible to receive additional warrants in the future upon attainment of certain Canadian government incentives for research activities.

8. INCOME TAXES

At December 31, 1997, the Company had federal income tax net operating loss and research tax credit carryforwards of approximately $2.8 million and $935,000, respectively, which will begin to expire in 2007 unless utilized. The Company also has federal Alternative Minimum Tax credit carryforwards of approximately $241,000, which will carryforward indefinitely.

Pursuant to Internal Revenue Code Sections 382 and 383, annual use of the Company's net operating loss and credit carryforwards may be limited because of cumulative changes in ownership of more than 50% which occurred during 1992 and 1993. However, the Company does not believe such changes will have a material impact upon the utilization of these carryforwards.

Significant components of the Company's deferred tax assets as of December 31, 1997 and 1996 are shown below. A valuation allowance of $3,474,000 and $4,647,000 at December 31, 1997 and 1996, respectively, have been recognized to offset the net deferred tax assets, as realization of such assets is uncertain.

	1997	1996
Deferred tax assets:		
Net operating loss carryforwards	$ 993,000	$ 3,038,000
Tax credit carryforwards	1,176,000	946,000
Capitalized research and development	525,000	594,000
Other, net	780,000	69,000
Total deferred tax assets	3,474,000	4,647,000
Valuation allowance for deferred tax assets	(3,474,000)	(4,647,000)
Net deferred tax assets	$ --	$ --

The provision for income taxes on earnings subject to income taxes differs from the statutory federal rate at December 31, 1997 and 1996, due to the following:

	1997	1996
Federal income taxes at 34%	$1,816,000	$2,081,000
State income tax, net of federal benefit	86,787	--
Tax effect on non-deductible expenses	21,000	17,000
Benefit of net operating loss carryforwards	(1,837,000)	(2,098,000)
Alternative minimum taxes	127,301	247,683
	$ 214,088	$ 247,683

The provision for taxes based on income at December 31, 1997 and 1996, consists of the following:

	1997	1996
Current		
Federal	$127,301	$247,683
State	86,787	--
Deferred		
Federal	--	--
State	--	--
Total	$214,088	$247,683

9. EARNINGS PER SHARE

The following data show the amounts used in computing earnings per share and the effect on income and the weighted-average number of shares of dilutive potential common stock, as of the years ended December 31.

	1997	1996	1995
Numerator:			
Net income (loss)	$ 5,126,844	$ 5,873,920	$(3,346,390)
Effect of dilutive securities	--	--	--
Numerator for earnings (loss) per share	5,126,844	5,873,920	(3,346,390)
Denominator:			
Denominator for basic earnings (loss) per share	16,929,925	14,970,734	11,683,877
Effect of dilutive securities:			
Employee stock options	909,264	795,697	Antidilutive
Convertible preferred stock	203,998	182,964	Antidilutive
Warrants	141,271	177,639	Antidilutive
Dilutive potential of common shares	1,254,533	1,156,300	--
Denominator for diluted earnings (loss) per share	18,184,458	16,127,034	11,683,877
Basic earnings (loss) per share	$ 0.30	$ 0.39	$ (0.29)
Diluted earnings (loss) per share	$ 0.28	$ 0.36	$ (0.29)

10. SUBSEQUENT EVENT

On February 27, 1998, the Company signed a letter of intent to acquire Northwest NeuroLogic, Inc., an Oregon-based corporation, in a 100% stock transaction valued at approximately $4.0 million.

INDEX OF EXHIBITS

EXHIBIT NUMBER	DESCRIPTION
3.1	Restated Certificate of Incorporation.(1)
3.2	Bylaws.(1)
3.3	Certificate of Amendment of Bylaws.
4.1	Form of Lock-Up Agreement.(1)
4.2	Form of Common Stock Certificate.(1)
4.3	Form of warrant issued to existing warrant holders.(1)
4.4	Form of Series A warrant issued in connection with the execution by the Company of the Unit Purchase Agreement (see below).(1)
4.5	New Registration Rights Agreement dated March 29, 1996 among the Company and the investors signatory thereto.(1)
4.6	Letter of Intent between Northwest NeuroLogic, Inc. and the Company dated February 27, 1998.(2)
10.1	Purchase and Sale Agreement and Escrow Instructions between MS Vickers II, LLC and the Company dated February 13, 1997.(3)
10.2	1992 Incentive Stock Plan, as amended.
10.3	1996 Employee Stock Purchase Plan.(1)
10.4	1996 Director Stock Option Plan and form of stock option agreement.(1)
10.5	Form of Director and Officer Indemnification Agreement.(1)
10.6	Employment Agreement dated March 1, 1997, between the Registrant and Gary A. Lyons, as amended.(4)
10.7	Employment Agreement dated March 1, 1997, between the Registrant and Errol B. De Souza, Ph.D.(4)
10.8	Employment Agreement dated March 1, 1997, between the Registrant and Paul W. Hawran.(4)
10.9	Employment Agreement dated March 1, 1997, between the Registrant and Stephen Marcus, M.D.
10.10	Consulting Agreement dated September 25, 1992, between the Registrant and Wylie A. Vale, Ph.D.(1)
10.11	Consulting Agreement effective as of January 1, 1992, between the Registrant and Lawrence J. Steinman, M.D.(1)
10.12	Lease Agreement dated June 1, 1993, between the Registrant and Hartford Accident and Indemnity Company, as amended.(1)
10.13	Exclusive License Agreement dated as of July 1, 1993, by and between the Beckman Research Institute of the City of Hope and the Registrant covering the treatment of nervous system degeneration and Alzheimer's disease.(1)
10.14	Exclusive License Agreement dated as of July 1, 1993, by and between the Beckman Research Institute of the City of Hope and the Registrant covering the use of Pregnenolone for the enhancement of memory.(1)
10.15	License Agreement dated May 20, 1992, by and between The Salk Institute for Biological Studies and the Registrant.(1)
10.16	License Agreement dated July 17, 1992, by and between The Salk Institute for Biological Studies and the Registrant.(1)

EXHIBIT NUMBER	DESCRIPTION
10.17	License Agreement dated November 16, 1993, by and between The Salk Institute for Biological Studies and the Registrant.(1)
10.18	License Agreement dated October 19, 1992, by and between The Board of Trustees of the Leland Stanford Junior University and the Registrant.(1)
10.19	Agreement dated January 1, 1995, by and between the Registrant and Janssen Pharmaceutica, N.V.(1)
10.20	Letter Agreement dated January 19, 1996, by and between the Registrant and Ciba-Geigy Limited.(1)
10.21+	Unit Purchase Agreement dated March 29, 1996, by and between Neuroscience Pharma (NPI) Inc., the Registrant and the investors signatory thereto.(1)
10.22+	Exchange Agreement dated March 29, 1996, by and between Neurocrine Biosciences (Canada) Inc., the Registrant and the investors signatory thereto.(1)
10.23+	Research and Development Agreement dated March 29, 1996, by and between Neurocrine Biosciences (Canada) Inc. and Neuroscience Pharma (NPI) Inc.(1)
10.24+	Intellectual Property and License Grants Agreement dated March 29, 1996, by and between the Registrant and Neurocrine Biosciences (Canada) Inc.(1)
10.25+	Development and Commercialization Agreement dated December 20, 1996, by and between Ciba-Geigy Ltd. and the Registrant.(5)
10.26+	Letter and Purchase Order dated June 7, 1996, by and between Ciba-Geigy and the Registrant.(5)
10.27	Third Lease Amendment dated June 6, 1996, by and between Talcott Realty I Limited Partnership and the Registrant.(5)
10.28+	Research and License Agreement dated October 15, 1996, between the Registrant and Eli Lilly and Company.(5)
10.29+	Lease between Science Park Center LLC and the Company.(6)
10.30+	Option Agreement between Science Park Center LLC (Optionor) and the Company (Optionee).(6)
10.31+	Construction Loan Agreement.(6)
10.32	Secured Promissory Note.(6)
10.33+	Operating Agreement for Science Park Center LLC.(6)
10.34	Information and Registration Rights Agreement dated September 15, 1992, as amended to date.(1)
10.35	Form of incentive stock option agreement and nonstatutory stock option agreement for use in connection with 1992 Incentive Stock Plan.(1)
21	Subsidiaries of the Company.
23	Consent of Ernst & Young LLP, Independent Auditors.
24	Power of Attorney (reference is made to the following page of this Form 10-K).
27.1	Financial Data Schedule for the fiscal year ended December 31, 1997.
27.2	Financial Data Schedule for the fiscal year ended December 31, 1996.

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(1) Incorporated by reference to the Company's Registration Statement on Form S-1 (Registration No. 333-03172).

(2) Incorporated by reference to the Company's Report on Form 8-K filed on March 13, 1998.

(3) Incorporated by reference to the Company's amended Quarterly Report on Form 10-Q filed on August 15, 1997.

(4) Incorporated by reference to the Company's Quarterly Report on Form 10-Q filed on August 14, 1997.

(5) Incorporated by reference to the Company's Report on Form 10-K for the fiscal year ended December 31, 1996, as amended.

(6) Incorporated by reference to the Company's Quarterly Report on Form 10-Q filed on November 14, 1997.

* Confidential treatment has been requested with respect to certain portions of the exhibit.

\+ Confidential treatment has been granted with respect to certain portions of the exhibit.

Exhibit 3.3

CERTIFICATE OF AMENDMENT OF
BYLAWS OF
NEUROCRINE BIOSCIENCES, INC.
(A Delaware Corporation)

On May 27, 1997, the stockholders of the corporation approved the amendment of Section 3.2 of the Bylaws of the corporation to read as follows:

3.2 NUMBER OF DIRECTORS

The board of directors shall consist of seven (7) members. The number of directors may be changed by an amendment to this bylaw, duly adopted by the board of directors or by the stockholders, or by a duly adopted amendment to the certificate of incorporation. The directors shall be divided into three classes, with the term of office of the first class, which class shall initially consist of two directors, to expire at the first annual meeting of stockholders following the 1996 Annual Meeting of Shareholders; the term of office of the second class, which class shall initially consist of two directors, to expire at the second annual meeting of stockholders following the 1996 Annual Meeting of Shareholders; the term of office of the third class, which class shall initially consist of two directors, to expire at the third annual meeting of stockholders following the 1996 Annual Meeting of Shareholders; and thereafter for each such term to expire at each third succeeding annual meeting of stockholders held after such election.

Exhibit 10.2

NEUROCRINE BIOSCIENCES, INC.

AMENDED 1992 INCENTIVE STOCK PLAN

1. Purpose of the Plan. The purposes of this Incentive Stock Plan are to attract and retain the best available personnel, to provide additional incentive to the employees of Neurocrine Biosciences, Inc. (the "Company") and to promote the success of the Company's business.

Options granted hereunder may be either Incentive Stock Options or Nonstatutory Stock Options, at the discretion of the Board and as reflected in the terms of the written option agreement. The Board also has the discretion to grant Stock Purchase Rights.

2. Definitions.

a. "Board" shall mean the Committee, if one has been appointed, or the Board of Directors of the Company, if no Committee is appointed.

b. "Code" shall mean the Internal Revenue Code of 1986, as amended.

c. "Committee" shall mean the Committee appointed by the Board of Directors in accordance with Section 4(a) of the Plan, if one is appointed.

d. "Common Stock" shall mean the Common Stock of the Company.

e. "Company" shall mean Neurocrine Biosciences, Inc.

f. "Consultant" shall mean any person who is engaged by the Company or any Parent or Subsidiary to render consulting services and is compensated for such consulting services, and any director of the Company whether compensated for such services or not.

g. "Continuous Status as an Employee or Consultant" shall mean the absence of any interruption or termination of service as an Employee or Consultant, as applicable. Continuous Status as an Employee or Consultant shall not be considered interrupted in the case of sick leave, military leave, or any other leave of absence approved by the Board; provided that such leave is for a period of not more than 90 days or reemployment upon the expiration of such leave is guaranteed by contract or statute.

h. "Employee" shall mean any persons, including officers and directors, employed by the Company or any Parent or Subsidiary of the Company. The payment of a director's fee by the Company shall not be sufficient to constitute "employment" by the Company.

i. "Incentive Stock Option" shall mean an Option intended to qualify as an incentive stock option within the meaning of Section 422 of the Code.

j. "Nonstatutory Stock Option" shall mean an Option not intended to qualify as an Incentive Stock Option.

k. "Option" shall mean a stock option granted pursuant to the Plan.

l. "Optioned Stock" shall mean the Common Stock subject to an Option or Stock Purchase Right.

m. "Optionee" shall mean an Employee or Consultant who receives an Option.

n. "Parent" shall mean a "parent corporation," whether now or hereafter existing, as defined in Section 424(e) of the Code.

o. "Plan" shall mean this 1992 Incentive Stock Plan.

p. "Purchaser" shall mean an Employee or Consultant who exercises a Stock Purchase Right.

q. "Share" shall mean a share of the Common Stock, as adjusted in accordance with Section 11 of the Plan.

r. "Stock Purchase Right" shall mean a right to purchase Common Stock pursuant to the Plan or the right to receive a bonus of Common Stock for past services.

s. "Subsidiary" shall mean a "subsidiary corporation," whether now or hereafter existing, as defined in Section 424(f) of the Code.

3. Stock Subject to the Plan. Subject to the provisions of Section 11 of the Plan, the maximum aggregate number of shares under the Plan is 4,100,000 shares of Common Stock. The Shares may be authorized but unissued, or reacquired Common Stock.

If an Option or Stock Purchase Right should expire or become unexercisable for any reason without having been exercised in full, then the unpurchased Shares which were subject thereto shall, unless the Plan shall have been terminated, become available for future grant or sale under the Plan. Notwithstanding any other provision of the Plan, shares issued under the Plan and later repurchased by the Company shall not become available for future grant or sale under the Plan.

4. Administration of the Plan.

a. Procedure.

i. Multiple Administrative Bodies. The Plan may be administered by different Committees with respect to different groups of Employees and Consultants.

ii. Section 162(m). To the extent that the Administrator determines it to be desirable to qualify Options granted hereunder as "performance-based compensation" within the meaning of Section 162(m) of the Code, the Plan shall be administered by a Committee of two or more "outside directors" within the meaning of Section 162(m) of the Code.

iii. Rule 16b-3. To the extent desirable to qualify transactions hereunder as exempt under Rule 16b-3, the transactions contemplated hereunder shall be structured to satisfy the requirements for exemption under Rule 16b-3.

iv. Other Administration. Other than as provided above, the Plan shall be administered by (A) the Board or (B) a Committee, which committee shall be constituted to satisfy applicable laws.

b. Powers of the Board. Subject to the provisions of the Plan, the Board shall have the authority, in its discretion: (i) to grant Incentive Stock Options, Nonstatutory Stock Options or Stock Purchase Rights; (ii) to determine, upon review of relevant information and in accordance with

Section 7 of the Plan, the fair market value of the Common Stock; (iii) to determine the exercise price per share of Options or Stock Purchase Rights, to be granted, which exercise price shall be determined in accordance with Section 7 of the Plan; (iv) to determine the Employees or Consultants to whom, and the time or times at which, Options or Stock Purchase Rights shall be granted and the number of shares to be represented by each Option or Stock Purchase Right; (v) to interpret the Plan; (vi) to prescribe, amend and rescind rules and regulations relating to the Plan; (vii) to determine the terms and provisions of each Option and Stock Purchase Right granted (which need not be identical) and, with the consent of the holder thereof, modify or amend any provisions (including provisions relating to exercise price) of any Option or Stock Purchase Right; (viii) to accelerate or defer (with the consent of the Optionee) the exercise date of any Option, consistent with the provisions of Section 5 of the Plan; (ix) to authorize any person to execute on behalf of the Company any instrument required to effectuate the grant of an Option or Stock Purchase Right previously granted by the Board; (x) to allow Optionees to satisfy withholding tax obligations by electing to have the Company withhold from the Shares to be issued upon exercise of an Option or Stock Purchase Right that number of Shares having a Fair Market Value equal to the amount required to be withheld. The Fair Market Value of the Shares to be withheld shall be determined on the date that the amount of tax to be withheld is to be determined. All elections by an Optionee to have Shares withheld for this purpose shall be made in such form and under such conditions as the Administrator may deem necessary or advisable; and (xi) to make all other determinations deemed necessary or advisable for the administration of the Plan.

c. Effect of Board's Decision. All decisions, determinations and interpretations of the Board shall be final and binding on all Optionees, Purchasers and any other holders of any Options or Stock Purchase Rights granted under the Plan.

5. Eligibility.

a. Options and Stock Purchase Rights may be granted to Employees and Consultants, provided that Incentive Stock Options may only be granted to Employees. An Employee or Consultant who has been granted an Option or Stock Purchase Right may, if such Employee or Consultant is otherwise eligible, be granted additional Option(s) or Stock Purchase Right(s).

b. Each Option shall be designated in the written option agreement as either an Incentive Stock Option or a Nonstatutory Stock Option. However, notwithstanding such designation, to the extent that the aggregate fair market value of the Shares with respect to which Options designated as Incentive Stock Options are exercisable for the first time by any Optionee during any calendar year (under all plans of the Company) exceeds $100,000, such Options shall be treated as Nonstatutory Stock Options.

c. For purposes of Section 5(b), Options shall be taken into account in the order in which they were granted, and the fair market value of the Shares shall be determined as of the time the Option with respect to such Shares is granted.

d. The Plan shall not confer upon any Optionee or holder of a Stock Purchase Right any right with respect to continuation of employment by or the rendition of consulting services to the Company, nor shall it interfere in any way with his or her right or the Company's right to terminate his or her employment or services at any time, with or without cause.

e. The following limitations shall apply to grants of Options to Employees:

i. No Employee shall be granted, in any fiscal year of the Company, Options to purchase more than 250,000 Shares.

ii. In connection with his or her initial employment, an Employee may be granted Options to purchase up to an additional 250,000 Shares which shall not count against the limit set forth in subsection (i) above.

iii. The foregoing limitations shall be adjusted proportionately in connection with any change in the Company's capitalization as described in Section 11.

iv. If an Option is canceled in the same fiscal year of the Company in which it was granted (other than in connection with a transaction described in Section 12), the canceled Option shall be counted against the limit set forth in subsection (i) above. For this purpose, if the exercise price of an Option is reduced, such reduction will be treated as a cancellation of the Option and the grant of a new Option.

6. Term of Plan. The Plan shall become effective upon the earlier to occur of its adoption by the Board of Directors or its approval by vote of holders of a majority of the outstanding shares of the Company entitled to vote on the adoption of the Plan. It shall continue in effect for a term of ten (10) years unless sooner terminated under Section 13 of the Plan.

7. Exercise Price and Consideration.

a. The per Share exercise price for the Shares to be issued pursuant to exercise of an Option or Stock Purchase Right shall be such price as is determined by the Board, but shall be subject to the following:

i. In the case of an Incentive Stock Option;

(1) granted to an Employee who, at the time of grant of such Incentive Stock Option, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the per Share exercise price shall be no less than 110% of the fair market value per Share on the date of grant.

(2) granted to any other Employee, the per Share exercise price shall be no less than 100% of the fair market value per Share on the date of grant.

ii. In the case of a Nonstatutory Stock Option or a Stock Purchase Right, the per Share exercise price shall be no less than 85% of the fair market value per Share on the date of grant. In the case of a Nonstatutory Stock Option intended to qualify as "performance-based compensation" within the meaning of Section 162(m) of the Code, the per Share exercise price shall be no less than 100% of the Fair Market Value per Share on the date of grant.

iii. Notwithstanding the foregoing, Options may be granted with a per Share exercise price of less than 100% of the Fair Market Value per Share on the date of grant pursuant to a merger or other corporate transaction.

For purposes of this Section 7(a), in the event that an Option or Stock Purchase Right is amended to reduce the exercise price, the date of grant of such Option or Stock Purchase Right shall thereafter be considered to be the date of such amendment.

b. The fair market value shall be determined by the Board in its discretion; provided, however, that where there is a public market for the Common Stock, the fair market value per Share shall be the mean of the bid and asked prices (or the closing price per share if the Common Stock is listed on the National Association of Securities Dealers Automated Quotation ("NASDAQ") National Market System) of the Common Stock for the date of grant, as reported in the Wall Street Journal (or, if not so reported, as otherwise reported by the NASDAQ System) or, in the event the Common Stock is listed on a stock exchange, the fair market value per Share shall be the closing price on such exchange on the date of grant of the Option or Stock Purchase Right, as reported in the Wall Street Journal.

c. The consideration to be paid for the Shares to be issued upon exercise of an Option or Stock Purchase Right, including the method of payment, shall be determined by the Board (and in the case of an Incentive Stock Option, shall be determined at the time of grant) and may consist entirely of cash, check, promissory note, other Shares of Common Stock which (i) either have been owned by the Optionee for more than six (6) months on the date of surrender or were not acquired directly or indirectly, from the Company, and (ii) have a fair market value on the date of surrender equal to the aggregate exercise price of the Shares as to which said Option shall be exercised, or any combination of such methods of payment, or such other consideration and method of payment for the issuance of Shares to the extent permitted under Sections 408 and 409 of the California General Corporation Law. In making its determination as to the type of consideration to accept, the Board shall consider if acceptance of such consideration may be reasonably expected to benefit the Company (Section 315(b) of the California General Corporation Law).

8. Options.

a. Term of Option. The term of each Option shall be the term stated in the Option Agreement; provided, however, that the term shall be no more than ten (10) years from the date of grant thereof. In the case of an Incentive Stock Option granted to an Optionee who, at the time the Option is granted, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the term of the Option shall be five (5) years from the date of grant thereof or such shorter term as may be provided in the Option Agreement.

b. Exercise of Option.

i. Procedure for Exercise; Rights as a Shareholder. Any Option granted hereunder shall be exercisable at such times and under such conditions as determined by the Board, including performance criteria with respect to the Company and/or the Optionee, and as shall be permissible under the terms of the Plan, but in no case at a rate of less than 20% per year over five (5) years from the date the Option is granted.

An Option may not be exercised for a fraction of a Share.

An Option shall be deemed to be exercised when written notice of such exercise has been given to the Company in accordance with the terms of the Option by the person entitled to exercise the Option and full payment for the Shares with respect to which the Option is exercised has been received by the Company. Full payment may, as authorized by the Board, consist of any consideration and method of payment allowable under Section 7 of, the Plan. Until the issuance (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company) of the stock certificate evidencing such Shares no right to vote or receive dividends or any other rights as a shareholder shall exist with respect to the Optioned Sock, notwithstanding the exercise of the Option. The Company shall issue (or cause to

be issued) such stock certificate promptly upon exercise of the Option. In the event that the exercise of a Nonstatutory Stock Option pursuant to Section 5(b), the Company shall issue a separate stock certificate evidencing the Shares treated as acquired upon exercise of an Incentive Stock Option and a separate stock certificate evidencing the Shares treated as acquired upon exercise of a Nonstatutory Stock Option and shall identify each such certificate accordingly in its stock transfer records. No adjustment will be made for a dividend or other right for which the record date is prior to the date the stock certificate is issued, except as provided in Section 11 of the Plan.

Exercise of an Option in any manner shall result in a decrease in the number of Shares which thereafter may be available, both for purposes of the Plan and for sale under the Option, by the number of Shares as to which the Option is exercised.

ii. Termination of Status as an Employee or Consultant. In the event of termination of an Optionee's Continuous Status as an Employee or Consultant (as the case may be), such Optionee may, but only within such period of time as is determined by the Board, with such determination in the case of an Incentive Stock Option not exceeding three (3) months and in the case of Nonstatutory Stock Option not exceeding six (6) months after the date of termination, with such determination in the case of an Incentive Stock Option being made at the time of grant of the Option, exercise the Option to the extent that such Employee or Consultant was entitled to exercise it at the date of such termination (but in no event later than the date of expiration of the term of such Option as set forth in the Option Agreement). To the extent that such Employee or Consultant was not entitled to exercise the Option at the date of such termination, or if such Employee or Consultant does not exercise such Option (which such Employee or Consultant was entitled to exercise) within the time specified herein, the Option shall terminate.

iii. Disability of Optionee. Notwithstanding the provisions of Section 8(b)(ii) above, in the event of termination of an Optionee's Continuous Status as an Employee or Consultant as a result of such Employee's or Consultant's total and permanent disability (as defined in Section 22(e)(3) of the Code), such Employee or Consultant may, but only within six (6) months (or such other period of time not exceeding twelve (12) months as in determined by the Board, with such determination in the case of an Incentive Stock Option being made at the time of gant of the Option) from the date of such termination (but in no event later than the date of expiration of the term of such Option as set forth in the Option Agreement), exercise the Option to the extent such Employee or Consultant was entitled to exercise it at the date of such termination. To the extent that such Employee or Consultant was not entitled to exercise the Option at the date of termination, or if such Employee or Consultant does not exercise such Option (which such Employee or Consultant was entitled to exercise) within the time specified herein, the Option shall terminate.

iv. Death of Optionee. In the event of the death of an Optionee:

(1) during the term of the Option who is at the time of his or her death an Employee or Consultant of the Company and who shall have been in Continuous Status as an Employee or Consultant since the date of grant of the Option, the Option may be exercised, at any time within six (6) months (but in no event later than the date of expiration of the term of such Option as set forth in the Option Agreement), by the Optionee's estate or by a person who acquired the right to exercise the Option by bequest or inheritance, but only to the extent that the right to exercise would have accrued had the Optionee continued living and remained in Continuous Status as an Employee or Consultant six (6)

months (or such other period of time as in determined by the Board at the time of grant of the Option) after the date of death; or

(2) within thirty (30) days (or such other period of time not exceeding three (3) months as is determined by the Board, with such determination in the case of an Incentive Stock Option being made at the time of grant of the Option) after the termination of Continuous Status as an Employee or Consultant, the Option may be exercised, at any time within six (6) months (or such other period of time as is determined by the Board at the time of grant of the Option) following the date of death (but in no event later than the date of expiration of the term of such Option as set forth in the Option Agreement), by the Optionee's estate or by a person who acquired the right to exercise the Option by bequest or inheritance, but only to the extent of the right to exercise that had accrued at the date of termination.

9. Stock Purchase Rights.

a. Rights to Purchase. After the Board of Directors determines that it will offer an Employee or Consultant a Stock Purchase Right, it shall deliver to the offeree a stock purchase agreement or stock bonus agreement, as the case may be, setting forth the terms, conditions and restrictions relating to the offer, including the number of Shares which such person shall be entitled to purchase, and the time within which such person must accept such offer, which shall in no event exceed six (6) months from the date upon which the Board of Directors or its Committee made the determination to grant the Stock Purchase Right. The offer shall be accepted by execution of a stock purchase agreement or stock bonus agreement in the from determined by the Board of Directors.

b. Issuance of Shares. Forthwith after payment therefor, the Shares purchased shall be duly issued; provided, however, that the Board may require that the Purchaser make adequate provision for any Federal and State withholding obligations of the Company as a condition to the Purchaser purchasing such Shares.

c. Repurchase Option. Unless the Board determines otherwise, the stock purchase agreement or stock bonus agreement shall grant the Company a repurchase option exercisable upon the voluntary or involuntary termination of the Purchaser's employment with the Company for any reason (including death or disability). If the Board so determines, the purchase price for shares repurchased may be paid by cancellation of any indebtedness of the Purchaser to the Company. The repurchase option shall lapse at such rate as the Board may determine.

d. Other Provisions. The stock purchase agreement or stock bonus agreement shall contain such other terms, provisions and conditions not inconsistent with the Plan as may be determined by the Board of Directors.

10. Non-Transferability of Options and Stock Purchase Rights. Unless determined otherwise by the Administrator, an Option or Stock Purchase Right may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or by the laws of descent or distribution and may be exercised, during the lifetime of the Optionee, only by the Optionee. If the Administrator makes an Option or Stock Purchase Right transferable, such Option or Stock Purchase Right shall contain such additional terms and conditions as the Administrator deems appropriate.

11. Adjustments upon Changes in Capitalization or Merger.

a. Changes in Capitalization. Subject to any required action by the shareholders of the Company, the number of shares of Common Stock covered by each outstanding Option or Stock Purchase Right, and the number of shares of Common Stock which have been authorized for issuance under the Plan but as to which no Options or Stock Purchase Rights have yet been granted or which have been returned to the Plan upon cancellation or expiration of an Option or Stock Purchase Right, as well as the price per share of Common Stock covered by each such outstanding Option or Stock Purchase Right, shall be proportionately adjusted for any increase or decrease in the number of issued shares of Common Stock resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Common Stock, or any other increase or decrease in the number of issued shares of Common Stock effected without receipt of consideration by the Company. The conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." Such adjustment shall be made by the Board, whose determination in that respect shall be final, binding and conclusive. Except as expressly provided herein, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares of Common Stock subject to an Option or Stock Purchase Right.

b. Dissolution or Liquidation. In the event of the proposed dissolution or liquidation of the Company, the Administrator shall notify the Optionee or Purchaser at least fifteen (15) days prior to such proposed action. To the extent it has not been previously exercised, the Option or Stock Purchase Right shall terminate immediately prior to the consummation of such proposed action.

c. Merger or Asset Sale. In the event of a merger, sale of all or substantially all of the assets of the Company, tender offer or other transaction or series of related transactions resulting in a change of ownership of more than 50% of the voting securities of the Company ("Change in Control"), approved by the majority of the members of the Board on the Board prior to the commencement of such Change in Control, each outstanding Option shall be assumed or an equivalent option or right substituted by the successor corporation or a Parent or Subsidiary of the successor corporation; provided however, in the event that within one year of the date of the completion of the Change in Control, the successor corporation or a Parent or Subsidiary of the successor corporation terminates the employment of an Optionee without Cause (as defined below), such Optionee shall fully vest in and have the right to exercise the options assumed or substituted for the Option as to all of the Optioned Stock, including Shares as to which it would not otherwise be exercisable. In the event that the successor corporation refuses to assume or substitute for the Option, the Optionee shall fully vest in and have the right to exercise the Option as to all of the Optioned Stock, including Shares as to which it would not otherwise be exercisable. If an Option becomes fully vested and exercisable in lieu of assumption or substitution in the event of a Change of Control, the Administrator shall notify the Optionee in writing or electronically that the Option shall be fully vested and exercisable for a period of fifteen (15) days from the date of such notice, and the Option shall terminate upon the expiration of such period. For the purposes of this paragraph, the Option shall be considered assumed if, following the Change of Control, the option confers the right to purchase, for each Share of Optioned Stock subject to the Option immediately prior to the Change in Control, the consideration (whether stock, cash, or other securities or property) received in the Change of Control by holders of Common Stock for each Share held on the effective date of the transaction (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding Shares); provided, however, that if such consideration received in the Change of Control is not solely common stock of the successor corporation or its Parent, the Administrator may, with the

consent of the successor corporation, provide for the consideration to be received upon the exercise of the Option, for each Share of Optioned Stock subject to the Option, to be solely common stock of the successor corporation or its Parent equal in fair market value to the per share consideration received by holders of Common Stock in the Change of Control. For purposes of this paragraph, 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 employee which was performed in bad faith and to the material detriment of the successor corporation or its Parent or Subsidiary; (b) employee willfully and habitually neglects the duties of employment; or (c) employee is convicted of a felony crime involving moral turpitude, provided that in the event that any of the foregoing events is capable of being cured, the successor corporation or its Parent or Subsidiary shall provide written notice to the employee describing the nature of such event and the employee shall thereafter have five (5) business days to cure such event.

In the event of a Change in Control which is not approved by the majority of the members of the Board on the Board prior to the commencement of a Change in Control, each Optionee shall fully vest in and have the right to exercise all outstanding Options as to all of the Optioned Stock, including Shares as to which it would not otherwise be exercisable.

12. Date of Granting Options. The date of grant of an Option or Stock Purchase Right shall, for all purposes, be the date on which the Board makes the determination granting such Option or stock Purchase Right. Notice of the determination shall be given to each Employee or Consultant to whom an Option or Stock Purchase Right is so granted within a reasonable time after the date of such grant.

13. Amendment and Termination of the Plan.

a. Amendment and Termination. The Administrator may at any time amend, alter, suspend or discontinue the Plan, but no amendment, alteration, suspension or discontinuation shall be made which would impair the rights of any Optionee under any grant theretofore made, without his or her consent. In addition, to the extent necessary and desirable to comply with Section 422 of the Code (or any other Applicable Laws or regulation, the requirements of the NASD or an established stock exchange), the Company shall obtain shareholder approval of any Plan amendment in such a manner and to such a degree as required.

b. Effect of Amendment or Termination. Any such amendment or termination of the Plan shall not affect Options or Stock Purchase Rights already granted, and such Options and Stock Purchase Rights shall remain in full force and effect as if this Plan had not been amended or terminated, unless mutually agreed otherwise between the Optionee and the Administrator, which agreement must be in writing and signed by the Optionee and the Company.

14. Conditions Upon Issuance of Shares. Shares shall not be issued pursuant to the exercise of an Option or Stock Purchase Rights unless the exercise of such Option or Stock Purchase Rights and the issuance and delivery of such Shares pursuant thereto shall comply with all relevant provisions of law, including, without limitation, the Securities Act of 1933, as amended, the Exchange Act, the rules and regulations promulgated thereunder, and the requirements of any stock exchange upon which the Shares may then be listed, and shall be further subject to the approval of counsel for the Company with respect to such compliance.

As a condition to the exercise of an Option or Stock Purchase Right, the Company may require the person exercising such Option or Stock Purchase Right to represent and warrant at the time of any such exercise that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares if, in the opinion of counsel for the Company, such a representation is required by any of the aforementioned relevant provisions of law.

15. Reservation of Shares. The Company, during the term of this Plan, will at all times reserve and keep available such number of Shares as shall be sufficient to satisfy the requirements of the Plan.

The inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder, shall relieve the Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority shall not have been obtained.

16. Option, Stock Purchase and Stock Bonus Agreements. Options shall be evidenced by written option agreements in such form as the Board shall approve. Upon the exercise of Stock Purchase Rights, the Purchaser shall sign a stock purchase agreement or stock bonus agreement in such form as the Board shall approve.

17. Shareholder Approval. Continuance of the Plan shall be subject to approval by the shareholders of the Company within twelve (12) months before or after the date the Plan is adopted. Such shareholder approval shall be obtained in the degree and manner required under Applicable Laws and the rules of any stock exchange upon which the Common Stock is listed.

18. Information to Optionees and Purchasers. The Company shall provide to each Optionee and Purchaser, during the period for which such Optionee or Purchaser has one or more Options to Stock Purchase Rights outstanding, a balance sheet and an income statement at least annually. The Company shall not be required to provide such information to key employees whose duties in connection with the Company assure there access to equivalent information.

Exhibit 10.9

EMPLOYMENT AGREEMENT

THIS AGREEMENT, dated as of March 1, 1997, is made by and between NEUROCRINE BIOSCIENCES. INC., a Delaware corporation (hereinafter the "Company"), and STEPHEN MARCUS, MD (hereinafter "Executive") and supersedes in its entirety the Letter Agreement dated January 13, 1997.

R E C I T A L S

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 I

TERM OF AGREEMENT

1.1 Commencement Date. Executive's employment with the Company under this Agreement shall commence as of March 1,1997 ("Commencement Date") and this Agreement shall expire after a period of three (3) years from the Commencement Date, unless terminated earlier 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 expiration date of this Agreement 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 at least ninety (90) days prior to a terminate date of this Agreement of an intention to terminate this Agreement or to renew it for a different term of not less than one (1) year.

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 Senior Vice President - Clinical & Regulatory Affairs & Chief Medical Officer. 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 set forth in the annual business plan approved by the Board of Directors.

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 President or Board may reasonably request, provided that Executive may also serve on the Boards of Directors of one or more other companies with the prior written consent of the Board at a regularly scheduled meeting of the Board.

2.3 Other Activities. Except upon the prior written consent of the Board of Directors, 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 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 twenty thousand dollars ($220,000), payable semi-monthly in equal installments in accordance with the Company's normal payroll practices. The Company's Board of Directors shall provide Executive with annual performance reviews, and, thereafter, Executive shall be entitled to such increase in Base Salary as the Board of Directors may from time to time establish in its 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 a bonus payment of up to fifty thousand dollars ($50,000) annually based upon achievement by the Company against six to eight impact goals approved by the Board of Directors annually. For purposes of determining the 1997 bonus payment, the Executive will be considered having been employed for the full year 1997. Such goals shall be set forth in writing by the Board within ninety (90) days after the start of the Company's fiscal year and a copy shall be delivered to Executive within fifteen (15) days thereafter. The Board of Directors shall, in their sole discretion, determine whether such impact goals have been obtained.

3.3 Equity. The Executive has been granted an option under the Company's 1992 Stock Incentive Plan, as amended, to purchase one hundred fifty thousand (150,000) shares of the Company's common stock having an exercise price of $7.86 per share pursuant to a Consulting Agreement dated January 17, 1997, which Consulting Agreement is hereby terminated, provided that such option shall continue to vest over a four-year period with 25% of such vesting occurring on March 1, 1998 and 1/48 per month thereafter.

3.4 Withholdings. All compensation and benefits payable to Executive hereunder 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 employees of the Company as such plans and benefits may be adopted by the Company, provided that Executive shall during the term of this Agreement, be entitled to receive at a minimum standard medical and dental benefits similar to those afforded to other Executive Officers of 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 Relocation.

a. The Company will arrange to purchase the Executive's Home in Maryland ("Maryland Home") through the PH&H Home Equity ("Home Equity") program. Home Equity will arrange the purchase of your Maryland Home at the current fair market value.

b. In the event the fair market value of the Maryland Home as determined by Home Equity, before deducting direct selling expenses or commissions (the "Sales Price"), is less than the Executive's purchase price of such home (the "Purchase Price"), the Company will reimburse the Executive up to $25,000 for such loss.

c. The Company will reimburse the Executive for reasonable and customary out of pocket expenses relating to:

(i) reasonable and customary house hunting and temporary living expenses of up to four months;

(ii) reasonable and customary closing costs and fees, including up to one and one half points (1.5%) of the mortgage financing amount related to the purchase of a new home in the San Diego area;

(iii) reasonable and customary moving expenses of household goods and personal property (including temporary storage) to San Diego, CA;

(iv) up to $15,000 in other miscellaneous documented expenses.

The Company will reimburse the Executive for federal and state income taxes associated with items (i) through (iii), except for those expenses which are: (a) deductible for federal and state income tax purposes, including but not limited to mortgage financing points, travel from Maryland to San Diego and movement of household goods and (b) temporary housing costs following the elimination of the Executive's carrying costs (including but not limited to mortgage payments, tax payments, utilities, etc.) of the Maryland Home.

4.4 Mortgage Equalization. In connection with the purchase of a home in the San Diego area for a price at least equal to the cost of the Maryland Home, the Company will provide an annual mortgage equalization payment over a three year period. Such payments will be based on the interest associated with an amount equal to the difference between your purchase price of your new home in San Diego and the selling price of your existing home. Such annual equalization payments will be as follows from the date of purchase and payable semi-monthly (i) Year One - $16,000; (ii) Year Two - $10,560; (iii) Year Three - $5,280

ARTICLE 5

CONFIDENTIALITY

5.1 Proprietary Information. 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.

ARTICLE 6

TERMINATION

6.1 By Death. The period of employment shall terminate automatically upon the death of Executive. In such event, 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 120 consecutive days, or for 180 days in the aggregate in any 365-day period, then, to the extent permitted by law, the Company may terminate the employment of Executive at such time. In such event, the Company shall pay to Executive all Accrued Compensation, and shall continue to pay to Executive the Base Salary until such time (but not more than 90 days following termination), 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 Board; (c) Executive willfully 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) if Executive's employment terminates in the second half of the Company's fiscal year, 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 divided by 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<, 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 sentence. During the period when such Base Salary 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 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 or adverse change of Executive's position, status or circumstances of employment; or any removal of Executive from or any failure to re-elect Executive to any of such positions, including, but not limited to, Executive's membership on the Board, 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;

(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 non-renewal of this Agreement, a termination without Cause or a Constructive Termination within eighteen (18) months following a Change in Control, Executive shall receive the same benefits package as Executive would have-received upon-a-termination-without-Cause (except that the payment of Base Salary shall be made in the form of a lump sum) and in addition, the vesting of all outstanding stock options held by Executive shall be accelerated so that the options are immediately exercisable in full.

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 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 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-l (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 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 8X 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 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.

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

7.2.2 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.

7.2.3 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 him 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.
3050 Science Park Road
San Diego, CA 92121
Attn.: President & Chief Executive Officer

To Executive:

Dr. Stephen Marcus
13472 Wyngate Point
San Diego, CA 92130

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 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

7.9.1 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.

7.9.2 Exclusive. Both parties agree that the remedy specified in Section 7.9.1 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 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.

EXECUTIVE

By:_____
Stephen Marcus, MD

NEUROCRINE BIOSCIENCES, INC

By:_____
Gary A. Lyons
President & Chief Executive Officer

Exhibit 21

SUBSIDIARIES OF NEUROCRINE BIOSCIENCES, INC.

Name of Subsidiary	Place of Incorporation
Neurocrine Biosciences (Canada), Inc.	Canada

Exhibit 23

CONSENT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 333-14589) pertaining to the 1992 Incentive Stock Option Plan, 1996 Employee Stock Purchase Plan and the 1996 Director Option Plan of Neurocrine Biosciences, Inc. of our report dated February 3, 1998, except for Note 10, for which the date is February 27, 1998, with respect to the financial statements of Neurocrine Biosciences, Inc. included in this Annual Report (Form 10-K) for the year ended December 31, 1997.

/s/ ERNST & YOUNG LLP

ERNST & YOUNG LLP

San Diego, California
April 7, 1998

YEAR	
DEC-31-1997	
JAN-01-1997	
DEC-31-1997	
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	0
	0
	84,130,366
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	26,143,616
	0
	25,551,497
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	152,817
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	0
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	0.28

YEAR	
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	JAN-01-1996
	DEC-31-1996
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	77,956,582
	4,067,514
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	0
	83,251,404
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	77,956,582
	0
	19,215,662
	0
	16,265,629
	(573,627)
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	272,464
	6,121,603
	247,683
	0
	0
	0
	0
	5,873,920
	0.39
	0.36