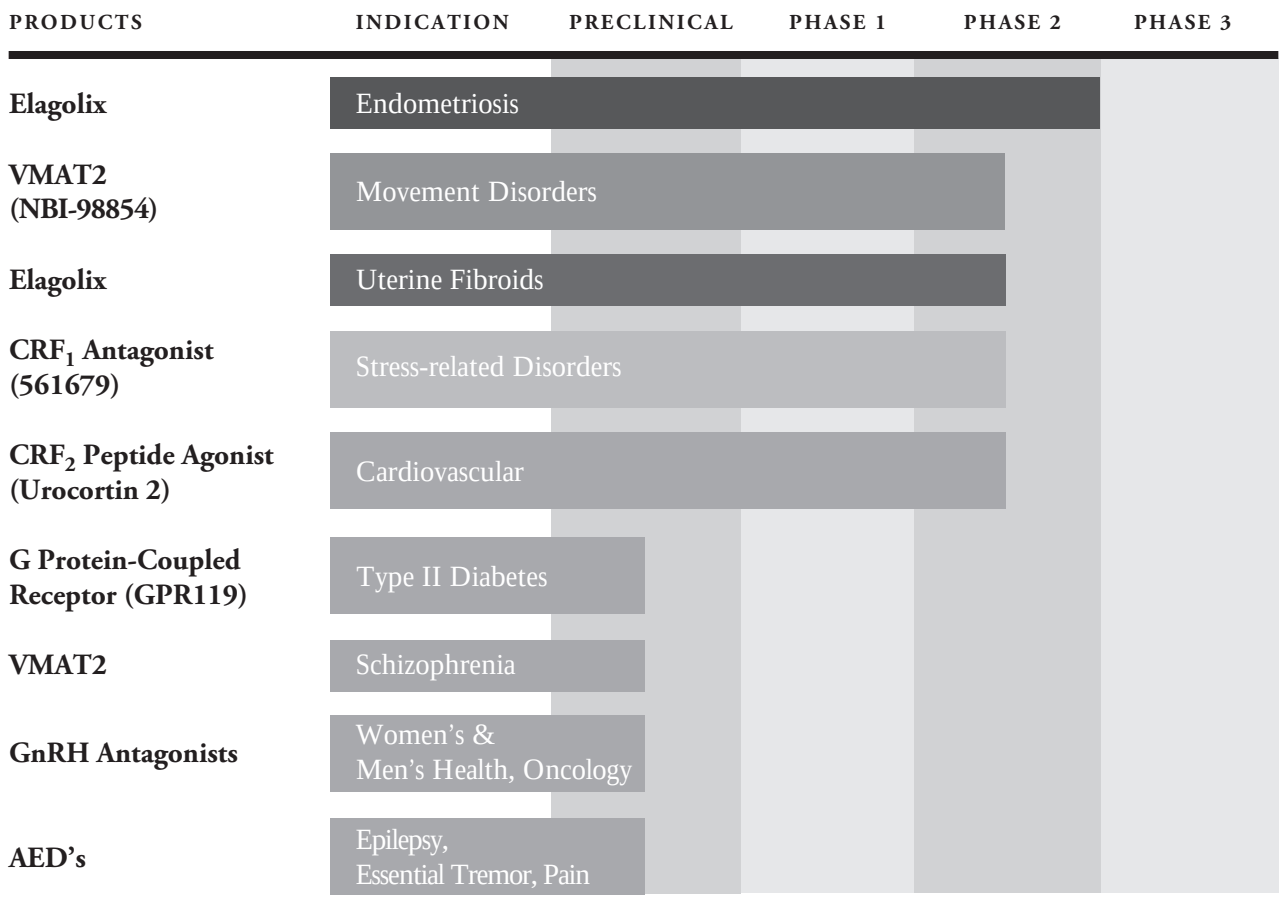
Neurocrine
BIOSCIENCES

2011 ANNUAL REPORT

Working as a team, Neurocrine's R&D and clinical development groups possess the skills and experience to identify, select and optimize new compounds, to screen for therapeutic development, and to advance these compounds e ciently through clinical trials.

Neurocrine's research and development e orts are focused on neurological and endocrine-related diseases and disorders.




We discover, develop and intend to commercialize drugs for the treatment of neurological and endocrine-related diseases and disorders. Our product candidates address some of the largest pharmaceutical markets in the world, including endometriosis, stress-related disorders, pain, tardire dyskinesia, uterine broids, diabetes, insomnia, and other neurological and endocrine-related diseases and disorders. We currently have eleven programs in various stages of research and development, including six programs in clinical development. While we independently develop many of our product candidates, we have entered into collaborations for six of our programs. Our lead clinical development program, elagolix, is a drug candidate for the treatment of endometriosis, and uterine broids that is partnered with Abbott International Luxembourg S.à r.l.

Dear Shareholders,

2011 represented another year of progress for Neurocrine. A year during which our two lead programs underwent multiple clinical investigations and held several successful FDA interactions to allow them to enter late stage development. Elagolix, our orally active Gonadotropin-Releasing Hormone (GnRH) antagonist compound for the treatment of endometriosis and uterine fibroids is being advanced through the clinic by our partner Abbott Pharmaceuticals. We have also moved our wholly owned Vesicular Monoamine Transporter 2 (VMAT2) program through a Phase II proof-of-concept trial.

During the third quarter of 2011, Abbott started a 300 patient Phase II clinical trial of elagolix in uterine fibroids patients. This placebo controlled trial is assessing uterine blood loss in uterine fibroids sufferers who are being treated with one of five doses of elagolix for a three month period. Abbott anticipates concluding this uterine fibroids proof-of-concept trial by year-end 2012.

Abbott is in full control of the elagolix program and has held several discussions with the FDA during 2011, culminating in an agreement on all of the major elements of the pivotal Phase III program for elagolix. Abbott submitted a Special Protocol Assessment with the FDA in January of 2012 to codify these agreements, and plans to commence the Phase III program for endometriosis in the second quarter of 2012. The progress of elagolix in both endometriosis and uterine fibroids resulted in Abbott paying us $30 million in milestones during 2011.

Individually, the indications of endometriosis and uterine fibroids address significant populations. Nearly ten percent of women of child bearing age suffer from endometriosis; this translates to over seven million women in the United States alone. There are even more women in the United States that suffer from uterine fibroids. In 2011, we and Abbott began an extensive market research campaign to further understand the limited treatment options available to sufferers of both diseases which will help in anticipating the needs of patients when elagolix is approved and launched.

We opened the Investigational New Drug Application (IND) in the United States for our VMAT2 inhibitor compound, NBI-98854, during 2011. We had previously completed Phase I studies and a small Phase II study in tardive dyskinesia (TD) sufferers in Canada. Our first United States based clinical study was a Phase II proof-of-concept trial in TD patients. This two week placebo controlled trial utilized two doses of NBI-98854, 12.5mg and 50mg given once daily. These doses were chosen to cover the dose response from minimally/no effect dose to maximally tolerated dose. This trial proved very informative, however it was necessary to exclude data from one of the eight clinical trial sites due to irregular and inappropriate application of the physician reported primary endpoint. The data from this trial showed that the 50mg dose was highly effective, leading to a two-fold decrease in TD symptoms over placebo, a 60 percent reduction in TD symptoms with NBI-98854 versus 30 percent in placebo. NBI-98854 also showed to be safe and very well tolerated.

Notwithstanding data issues at one of our clinical sites, this Phase II trial achieved the major goals we set out to accomplish; guidance on dose and experience with placebo responses in TD sufferers. We are taking the learnings from this trial and applying them to future clinical trials. In 2012, we will be initiating two additional studies in TD patients. These studies will form the basis of an end of Phase II meeting with the FDA in 2013, in support of the start of pivotal trials later that year.

Our research group also made significant progress in 2011 against a number of targets utilizing our proprietary research platform. Several compounds have moved into preclinical development. The strong capital position of Neurocrine will allow the flexibility to exploit each program and rapidly advance them into the clinic, and to continue to build shareholder value.

We made the decision in January of 2012 to complete an equity offering where we raised approximately $80 million. The overwhelming majority of these newly issued shares went into the largest and most well respected long-focused funds who invest in life sciences. This infusion of capital significantly strengthens our balance sheet and positions us to be able to fully exploit our VMAT2 program. Allowing us to accelerate the development of NBI-98854 in TD and move into a second indication while retaining full commercialization rights to North America.

At the turn of the calendar we suffered an enormous loss. Our founder Wylie Vale, passed away in January. Wylie was an integral member of the Board of Directors, a valued mentor and a dear friend. Wylie's impact on Neurocrine far surpassed his scientific insights. His sharp wit and warm nature defined the culture of this company and he will be missed.

While we made substantial strides forward in 2011, we plan to be more aggressive in 2012 in moving our programs forward. We have a long-range target of NDA filings in 2015 for both elagolix and NBI-98854 and 2012 is an important year as Phase III trials begin for elagolix and the final Phase IIb trials start for NBI-98854. Additionally, we look to move another program out of research and into the IND stage during 2012.

In closing I would like to thank our employees and their families, our collaborators, and our shareholders for their trust and support over the past year.

Regards,

Kevin C. Gorman, Ph.D.
President and Chief Executive Officer

**NEUROCRINE BIOSCIENCES, INC.**
**12780 El Camino Real**
**San Diego, CA 92130**

---

**Notice of Annual Meeting of Stockholders**

**To Be Held on May 23, 2012**

TO THE STOCKHOLDERS:

NOTICE IS HEREBY GIVEN that the 2012 Annual Meeting of Stockholders of Neurocrine Biosciences, Inc., a Delaware corporation (the "Company"), will be held on May 23, 2012, at 10:30 a.m. local time, at the Company's corporate headquarters located at 12780 El Camino Real, San Diego, California 92130, for the following purposes as more fully described in the Proxy Statement accompanying this Notice:

1. The election of the two nominees for Class I Director named herein to the Board of Directors to serve for a term of three years;
2. An advisory vote on the compensation paid to the Company's named executive officers;
3. The ratification of the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2012; and
4. To transact such other business as may properly come before the Annual Meeting or any continuation, adjournment or postponement thereof.

Only stockholders of record at the close of business on April 2, 2012 are entitled to receive notice of and to vote at the Annual Meeting.

All stockholders are cordially invited to attend the Annual Meeting in person. However, to assure your representation at the Annual Meeting, you are urged to mark, sign, date and return the enclosed proxy card as promptly as possible in the postage prepaid envelope, or vote by telephone or internet (instructions have been provided on your proxy card). Stockholders attending the Annual Meeting may vote in person even if they have returned a proxy.

By Order of the Board of Directors,

*Margaret Valeur-Jensen, Ph.D., J.D.*
Corporate Secretary

San Diego, California
April 20, 2012

**Important Notice Regarding the Availability of Proxy Materials for the Stockholders' Meeting to be Held on May 23, 2012 at 10:30 a.m. Local Time at 12780 El Camino Real, San Diego, California 92130.**

**The proxy statement and annual report to stockholders are available at www.proxyvote.com. Please have the control number on your proxy card available.**

[THIS PAGE INTENTIONALLY LEFT BLANK]

**NEUROCRINE BIOSCIENCES, INC.**

**12780 El Camino Real**
**San Diego, California 92130**

---

# PROXY STATEMENT

---

The enclosed Proxy is solicited on behalf of Neurocrine Biosciences, Inc., a Delaware corporation (the "Company" or "Neurocrine"), for use at its 2012 Annual Meeting of Stockholders to be held on May 23, 2012 beginning at 10:30 a.m., local time, or at any continuations, postponements or adjournments thereof for the purposes set forth in this proxy statement and the accompanying Notice of Annual Meeting of Stockholders. The Annual Meeting will be held at the Company's corporate headquarters, located at 12780 El Camino Real, San Diego, California 92130. The Company's phone number is (858) 617-7600.

This proxy statement is being first mailed on or about April 20, 2012 to all stockholders entitled to vote at the Annual Meeting.

## ABOUT THE ANNUAL MEETING

***What is the purpose of the Annual Meeting?***

At the Annual Meeting, stockholders will act upon the matters outlined in the Notice of Annual Meeting of Stockholders on the cover page of this proxy statement, including the election of the two nominees for Class I Director named herein, an advisory vote on the compensation paid to the Company's named executive officers, and ratification of the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2012. In addition, management will report on the performance of the Company and respond to questions from stockholders.

***Who can attend the Annual Meeting?***

All stockholders of record at the close of business on April 2, 2012 (the "Record Date"), or their duly appointed proxies, may attend the Annual Meeting. If you attend, please note that you may be asked to present valid picture identification, such as a driver's license or passport. Cameras, recording devices and other electronic devices will not be permitted at the Annual Meeting.

Please also note that if you hold your shares in "street name" (that is, through a broker or other nominee), you will need to bring a copy of a brokerage statement reflecting your stock ownership as of the record date and check in at the registration desk at the Annual Meeting.

***Who is entitled to vote at the Annual Meeting?***

Stockholders of record at the close of business on the Record Date are entitled to receive notice of and to participate in the Annual Meeting. At the close of business on the Record Date, 66,306,302 shares of the Company's common stock, $0.001 par value per share, were issued and outstanding. If you were a stockholder of record on that date, you will be entitled to vote all of the shares that you held on that date at the Annual Meeting, or any postponements or adjournments of the Annual Meeting.

Each outstanding share of the Company's common stock will be entitled to one vote on each proposal considered at the Annual Meeting.

***What constitutes a quorum? What are broker non-votes? What are advisory votes?***

The presence at the Annual Meeting, in person or by proxy, of the holders of a majority of the aggregate voting power of the common stock outstanding on the Record Date will constitute a quorum, permitting the Company to conduct its business at the Annual Meeting. As of the Record Date, 66,306,302 shares of common stock, representing the same number of votes, were outstanding. Thus, the presence of the holders of common stock representing at least 33,153,152 shares will be required to establish a quorum. The presence of a quorum will be determined by the Inspector of Elections (the "Inspector").

Proxies received but marked as abstentions, as well as "broker non-votes," will be included in the calculation of the number of shares considered to be present at the Annual Meeting. Broker non-votes occur when a holder of shares in "street name" does not give instructions to the broker or nominee holding the shares as to how to vote on "non-routine" matters. Under the rules and interpretations of the New York Stock Exchange (the "NYSE"), "non-routine" matters are matters that may substantively affect the rights or privileges of stockholders, such as mergers, stockholder proposals and elections of directors, even if not contested. In addition, as required by Section 957 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, advisory votes on executive compensation is a non-routine matter for which brokers do not have discretionary authority to vote shares held by account holders. Only ratification of our independent registered public accounting firm under Proposal Three is considered a routine matter.

The vote on Proposal Two is advisory, the outcome of which will not be binding on the Company or the Board of Directors and neither will create or imply any change to the fiduciary duties of the Board of Directors. However, the Company and the Board of Directors will consider the results of the advisory vote on Proposal Two in making future decisions about compensation of the Company's named executive officers.

***How do I vote?***

If you complete and properly sign the accompanying proxy card and return it to the Company, it will be voted as you direct. If you are a registered stockholder (that is, if you hold your stock in certificate form and attend the Annual Meeting), you may deliver your completed proxy card in person. "Street name" stockholders who wish to vote at the Annual Meeting will need to obtain a proxy form from the institution that holds their shares.

The cost of solicitation of proxies will be borne by the Company. The Company will reimburse expenses incurred by brokerage firms and other persons representing beneficial owners of shares in forwarding solicitation material to beneficial owners. To assist in soliciting proxies (votes), the Company may retain a professional proxy solicitation firm, at an approximate cost of $10,000. Proxies also may be solicited by certain of the Company's Directors, officers and regular employees, without additional compensation, personally, by telephone or by other appropriate means.

***Can I vote by telephone or electronically?***

If you are a registered stockholder you may vote by telephone, or electronically through the Internet, by following the instructions included with your proxy card. If your shares are held in "street name," please check your proxy card or contact your broker or nominee to determine whether you will be able to vote by telephone or electronically. The deadline for voting by telephone or electronically is 11:59 p.m., Eastern Time, on May 22, 2012.

***Can I change my vote after I return my proxy card?***

Yes. Even after you have submitted your proxy, you may change your vote at any time before the proxy is exercised by filing with the Corporate Secretary of the Company either a notice of revocation or a duly executed proxy bearing a later date. Your proxy will also be revoked if you attend the Annual Meeting and vote in person. Attendance at the Annual Meeting will not by itself revoke a previously granted proxy.

***What are the Board of Directors' recommendations?***

Unless you give other instructions on your proxy card, the persons named as proxy holders on the proxy card will vote in accordance with the recommendations of the Board of Directors. The Board of Directors' recommendation is set forth together with the description of each item in this proxy statement. In summary, the Board of Directors recommends a vote:

- *for* election of the two nominees for Class I Director named herein (see Proposal One);
- *for* the compensation paid to the Company's named executive officers (see Proposal Two);
- *for* ratification of the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2012 (see Proposal Three).

With respect to any other matter that properly comes before the meeting, the proxy holders will vote as recommended by the Board of Directors or, if no recommendation is given, in their own discretion.

***What vote is required to approve each item?***

**Election of Directors.** The affirmative vote of a plurality of the votes cast at the Annual Meeting is required for the election of Directors. A properly executed proxy marked "WITHHOLD AUTHORITY" with respect to the election of one or more Directors will not be voted with respect to the Director or Directors indicated, although it will be counted for purposes of determining whether there is a quorum.

**Other Items.** For each item, the affirmative vote of the holders of a majority of the shares represented in person or by proxy and entitled to vote on the item will be required for approval. A properly executed proxy marked "ABSTAIN" with respect to any such matter will not be voted, although it will be counted for purposes of determining the number of shares represented in person or by proxy at the Annual Meeting. Accordingly, an abstention will have the effect of a negative vote. If you hold your shares in "street name" through a broker or other nominee, your broker or nominee will not be permitted to exercise voting discretion with respect to each of the matters to be acted upon, other than Proposal Three. Thus, if you do not give your broker or nominee specific instructions, your shares will not be voted on and will not be counted. Shares represented by such "broker non-votes" will, however, be counted in determining whether there is a quorum.

***Who counts the votes?***

Votes cast by proxy or in person at the Annual Meeting will be tabulated by the Inspector.

***What proxy materials are available on the Internet?***

The proxy statement and annual report to stockholders are available on the Internet at www.proxyvote.com. Please have the control number on your proxy card available.

***How can I find out the results of the voting at the Annual Meeting?***

Preliminary voting results will be announced at the Annual Meeting. In addition, final voting results will be published in a current report on Form 8-K that we expect to file within four business days after the Annual Meeting. If final voting results are not available to us in time to file a Form 8-K within four business days after the meeting, we intend to file a Form 8-K to publish preliminary results and, within four business days after the final results are known to us, file an amended Form 8-K to publish the final results.

## STOCK OWNERSHIP

***Who are the principal stockholders, and how much stock does management own?***

The following table sets forth the beneficial ownership of the Company's common stock as of March 15, 2012 by (i) each of the executive officers named in the table under the heading "Summary Compensation Table," (ii) each current Director, (iii) all current Directors and executive officers as a group and (iv) all persons known to the Company to be the beneficial owners of more than 5% of the Company's common stock. The table is based upon information supplied by our executive officers, Directors and principal stockholders and a review of Schedules 13D and 13G, if any, filed with the Securities and Exchange Commission (the "SEC"). A total of 66,284,372 shares of the Company's common stock were issued and outstanding as of March 15, 2012.

| Name and Address of Beneficial Owner (1) | Number of Shares of Common Stock Owned (2) | Number of Shares of Common Stock Acquirable Within 60 Days (3) | Total Number of Shares of Common Stock Beneficially Owned (4) | Percent Ownership |
|---|---|---|---|---|
| FMR LLC (5)<br>82 Devonshire Street, Boston, MA 02109 | 8,287,661 | — | 8,287,661 | 12.5% |
| Biotechnology Value Fund Group (6)<br>900 North Michigan Avenue, Suite 1100, Chicago, IL 60611 | 5,928,865 | — | 5,928,865 | 8.9% |
| Perceptive Advisors, Inc. (7)<br>499 Park Ave., 25th Floor, New York, NY 10022 | 3,323,390 | — | 3,323,390 | 5.0% |
| Kevin C. Gorman, Ph.D. | 177,202 | 351,889 | 529,091 | * |
| Timothy P. Coughlin | 96,124 | 292,111 | 388,235 | * |
| Christopher F. O'Brien, M.D. | 94,794 | 263,611 | 358,405 | * |
| Dimitri E. Grigoriadis, Ph.D. | 75,433 | 185,160 | 260,593 | * |
| Haig P. Bozigian, Ph.D. | 76,954 | 187,111 | 264,065 | * |
| Margaret Valeur-Jensen, Ph.D., J.D. | 105,750 | 280,000 | 385,750 | * |
| Gary A. Lyons | 272,495 | 143,744 | 416,239 | * |
| Corinne H. Nevinny | — | 82,744 | 82,744 | * |
| W. Thomas Mitchell | 1,900 | 102,744 | 104,644 | * |
| Joseph A. Mollica, Ph.D. | — | 118,744 | 118,744 | * |
| Richard F. Pops | — | 94,744 | 94,744 | * |
| Stephen A. Sherwin, M.D. | — | 94,744 | 94,744 | * |
| William H. Rastetter, Ph.D. | — | 43,326 | 43,326 | * |
| All current executive officers and Directors as a group (12 persons) | 794,902 | 1,960,672 | 2,755,574 | 4.0% |

* Represents beneficial ownership of less than one percent (1%) of the outstanding shares of the Company's common stock as of March 15, 2012.

(1) The address of each beneficial owner named is c/o Neurocrine Biosciences, Inc., 12780 El Camino Real, San Diego, CA 92130, unless otherwise indicated.

(2) Represents shares of common stock owned, excluding shares of common stock subject to stock options that are listed under the heading "Number of Shares of Common Stock Acquirable Within 60 Days," by the named parties as of March 15, 2012.

(3) Shares of common stock subject to stock options currently exercisable or exercisable within 60 days of March 15, 2012, regardless of exercise price, are deemed to be outstanding for computing the percentage ownership of the person holding such options and the percentage ownership of any group of which the holder is a member, but are not deemed outstanding for computing the percentage of any other person.

(4) Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities. Except as indicated by footnote, and subject to community property laws where applicable, the Company believes that the persons named in the table have sole voting and investment power with respect to all shares of common stock shown as beneficially owned by them.

(5) Based on Amendment No. 2 to Schedule 13G filed by FMR LLC ("FMR") on February 14, 2012, reporting ownership as of December 31, 2011. According to such filing, FMR beneficially owns 8,287,661 shares of common stock and sole voting power as to 1,159,550 shares of common stock. Various persons have the right to receive or the power to direct the receipt of dividends from, or the proceeds from the sale of, the common stock held by FMR. The interest of one entity, Puritan Fund, an investment company registered under the Investment Company Act of 1940, as amended, amounted to 3,731,700 or 6.75% of the total outstanding common stock at December 31, 2011.

(6) Based on Amendment No. 8 to Schedule 13G filed by Biotechnology Value Fund, L.P. ("BVF"), Biotechnology Value Fund II, L.P. ("BVF2"), BVF Investments, L.L.C. ("BVLLC"), Investment 10, L.L.C. ("ILL10"), BVF Partners L.P. ("Partners") and BVF Inc. ("BVF Inc.") on February 10, 2012, reporting ownership as of December 31, 2011. According to such filing, BVF beneficially owned 1,236,665 shares of common stock, BVF2 beneficially owned 757,600 shares of common stock, BVLLC beneficially owned 3,527,700 shares of common stock and ILL10 beneficially owned 406,900 shares of common stock. Beneficial ownership by Partners and BVF Inc. includes 5,928,865 shares of common stock. Pursuant to the operating agreement of BVLLC, Partners is authorized, among other things, to invest the funds of Samana Capital, L.P., the majority member of BVLLC, in shares of the common stock beneficially owned by BVLLC and to vote and exercise dispositive power over those shares of the common stock. Partners and BVF Inc. share voting and dispositive power over shares of the common stock beneficially owned by BVF, BVF2, BVLLC and those owned by ILL10, on whose behalf Partners acts as an investment manager, and accordingly, Partners and BVF Inc. have beneficial ownership of all of the shares of the common stock owned by such parties. Mark N. Lampert, as a Director and officer of BVF Inc., may be deemed to beneficially own the 5,928,865 shares of common stock beneficially owned by BVF Inc.

(7) Based on Schedule 13G filed by Perceptive Advisors, LLC ("Perceptive") on February 10, 2012, reporting ownership as of December 31, 2011. The shares are beneficially owned by Perceptive and Joseph Edelman.

***Section 16(a) Beneficial Ownership Reporting Compliance***

Section 16(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), requires the Company's officers and Directors, and persons who beneficially own 10% or greater of a registered class of the Company's equity securities, to file reports of ownership on Form 3 and reports of changes in ownership on Form 4 or Form 5 with the SEC. Such officers, Directors and 10% or greater stockholders are also required by SEC rules to furnish the Company with copies of all Section 16(a) forms they file. Based solely on its review of the copies of such forms received by it, and written representations from certain reporting persons, the Company believes that its officers, Directors and 10% or greater stockholders complied with all Section 16(a) filing requirements applicable to them during the fiscal year ended December 31, 2011.

## BOARD OF DIRECTORS AND COMMITTEES

### General

The Company's Bylaws provide that the Board of Directors will be comprised of eight Directors. The Company's Certificate of Incorporation provides that the Board of Directors is divided into three classes. There are currently two Directors in Class I (W. Thomas Mitchell and Joseph A. Mollica, Ph.D.), three Directors in Class II (Corinne H. Nevinny, Richard F. Pops and Stephen A. Sherwin, M.D.), and three Directors in Class III (Kevin C. Gorman, Ph.D., Gary A. Lyons and William H. Rastetter, Ph.D.). With the exception of Kevin C. Gorman, Ph.D., who is the President and Chief Executive Officer of Neurocrine, all current members of the Board of Directors meet the definition of "independent director" under the Nasdaq Stock Market qualification standards.

The Directors in Class I hold office until the 2012 Annual Meeting of Stockholders, the Directors in Class II hold office until the 2013 Annual Meeting of Stockholders and the Directors in Class III hold office until the 2014 Annual Meeting of Stockholders (or, in each case, until their earlier resignation, removal from office, or death). After each such election, the Directors in each such case will then serve in succeeding terms of three years and until a successor is duly elected and qualified. Officers of the Company serve at the discretion of the Board of Directors. There are no family relationships among the Company's Directors and executive officers.

The term of office for Directors W. Thomas Mitchell and Joseph A. Mollica, Ph.D., will expire at the 2012 Annual Meeting. At the 2012 Annual Meeting, the stockholders will elect two Class I Directors for a term of three years.

### Director Biographies

***Kevin C. Gorman, Ph.D.*** has been employed with the Company since 1993. He was appointed President and Chief Executive Officer in January 2008 after having served as Executive Vice President and Chief Operating Officer since September 2006 and prior to that, as Executive Vice President and Chief Business Officer and Senior Vice President of Business Development. He has served on the Board of Directors since January 2008. From 1990 until 1993, Dr. Gorman was a principal of Avalon Medical Partners, L.P. where he was responsible for the early stage founding of the Company and several other biotechnology companies such as Onyx Pharmaceuticals, Inc., Metra Biosystems, Inc., Idun Pharmaceuticals, Inc. and ARIAD Pharmaceuticals, Inc. Dr. Gorman received his Ph.D. in immunology and M.B.A. in Finance from the University of California, Los Angeles and did further post-doctoral training at The Rockefeller University.

***William H. Rastetter, Ph.D.*** has served on the Board of Directors since February 2010 and as Chairman of the Board of Directors since May 2011. He has been a partner in the venture capital firm, Venrock, since 2006. Currently, he serves as Chairman and Chief Executive Officer of Fate Therapeutics, a privately held company focused on stem cell research and also serves as the Chairman of the Board of Directors of Receptos, Inc. a privately held company focused on small molecule drug discovery company, both of these companies are in the Venrock portfolio. Dr. Rastetter has also been a Director on the board of Illumina, Inc. since November 1999 and non-executive chairman since January 2005. He was Executive Chairman of Biogen Idec, Inc. from 2003 to 2005. Earlier, he served as Chairman and Chief Executive Officer of IDEC Pharmaceuticals Corporation until its merger with Biogen in 2003; he joined IDEC Corporation as its Chief Executive Officer at the company's founding in 1986. From 1984 to 1986, Dr. Rastetter was Director of Corporate Ventures at Genentech, where from 1982 to 1984 he held scientific positions. He held a series of faculty positions including Associate Professor at the Massachusetts Institute of Technology ("MIT") from 1975 to 1982. Dr. Rastetter has a Bachelor of Science degree in chemistry from MIT, and received Master of Art and doctorate degrees in chemistry from Harvard University.

***Gary A. Lyons*** has served as a Director of the Company since joining Neurocrine in February 1993. Mr. Lyons served as the President and Chief Executive Officer of the Company from February 1993 through

January 2008. Prior to joining the Company, Mr. Lyons held a number of senior management positions at Genentech, Inc., including Vice President of Business Development and Vice President of Sales. Mr. Lyons currently serves on the Boards of Directors for Rigel Pharmaceuticals, Inc., a biotechnology company focused on developing drugs for the treatment of inflammatory/autoimmune and metabolic diseases, Vical Incorporated, a biotechnology company focused on the prevention and treatment of serious or life-threatening diseases, Neurogesx, a biotech company focusing on development and commercialization of pain therapies, and KaloBios Pharmaceuticals, Inc., a company developing patient targeted, first in-class monoclonal antibodies. Mr. Lyons was previously a Director of PDL BioPharma, Inc., Poniard Pharmaceuticals, Inc. and Facet Biotech Corporation. Mr. Lyons holds a B.S. in marine biology from the University of New Hampshire and an M.B.A. from Northwestern University's J.L. Kellogg Graduate School of Management.

***W. Thomas Mitchell*** has served on Neurocrine's Board of Directors since November 2002. He is the former Chairman of the Board and Chief Executive Officer of Genencor International, a biotechnology company. Under his guidance, Genencor's revenues grew from under $30 million to over $325 million. In addition, he successfully managed the acquisition and integration of three major businesses to build the global enterprise that is now Genencor. An industry leader, Mr. Mitchell has participated in a number of important policy initiatives including the 1999 federal executive order that created the national bioenergy initiative. He also served as a member of the Governor's Council on Biotechnology in California, which was responsible for helping to improve the state's competitiveness in the mid-1990's. Mr. Mitchell previously served on the Board of Directors of DJO, Inc., a medical device company, where he was a member of the audit committee. He also served on the Advisory Boards of the Chemical Engineering School at Cornell University and the University of Iowa's School of Engineering. Mr. Mitchell received his B.S. in chemical engineering from Drexel University. He also completed the Executive Development Program at the University of Michigan.

***Joseph A. Mollica, Ph.D.*** has served as a Director of the Company since June 1997 and as Chairman of the Board from 1998 until 2011. From 2004 to 2008, Dr. Mollica served as the Chairman of the Board of Pharmacopeia Drug Discovery, Inc., a biopharmaceutical company focused on drug discovery and development. From 1994 to 2004, Dr. Mollica served as the Chairman of the Board of Directors, President and Chief Executive Officer of Accelrys, Inc., the former parent of Pharmacopeia Drug Discovery. From 1987 to December 1993, Dr. Mollica served as Vice President, Medical Products of DuPont Company and then as President and CEO of DuPont Merck Pharmaceutical Company from 1991 to 1993. At Ciba-Geigy Ltd., where he was employed from 1966 to 1986, he served in a variety of positions of increasing responsibility, rising to Senior Vice President of Ciba-Geigy's Pharmaceutical Division. Dr. Mollica is currently the Chairman of the Board of Celator Pharmaceuticals, Inc., an oncology focused biotechnology company, and was previously a Director of Cytogen Corporation, Redpoint Bio Corporation and Genencor International. He received his B.S. from the University of Rhode Island, his M.S. and Ph.D. from the University of Wisconsin and his Sc.D.h.c. from the University of Rhode Island.

***Corinne H. Nevinny*** has served on the Board of Directors since June 2004. Ms. Nevinny is a General Partner of LMNVC LLC, a privately held venture firm. Since January 2011, she has also served as acting President and Chief Financial Officer of Fight 2 B Fit, Inc., a privately held company focused on fitness. From 2003 to 2010, Ms. Nevinny held various positions at Edwards Lifesciences, Inc., the global leader in the science of heart valves and hemodynamic monitoring. She served as Corporate Vice President and the General Manager of the Cardiac Surgery Systems and Vascular business units, was responsible for Edwards' global operations and served as Chief Financial Officer and Treasurer. Before joining Edwards in 2003, Ms. Nevinny was Vice President, Chief Financial Officer of Tularik, Inc., a company involved in the discovery and development of drugs based on gene regulation, which was sold to Amgen, Inc. in 2004. Prior to joining Tularik, she was Executive Director-Health Care Group at Warburg Dillon Read LLC, an investment bank. Ms. Nevinny is a Director of Onyx Pharmaceuticals, Inc., a biopharmaceutical company focused on the treatment of cancer. Ms. Nevinny received her undergraduate degree in industrial engineering from Stanford University and her Master's degree in business administration from Harvard Business School.

***Richard F. Pops*** has served on the Board of Directors since April 1998. Mr. Pops is Chairman, Chief Executive Officer and President of Alkermes, Inc. He joined Alkermes as Chief Executive Officer in February 1991. Under his leadership, Alkermes has grown from a privately held research based company with 25 employees to a fully integrated publicly traded pharmaceutical company with more than 500 employees. In addition to Alkermes, he currently serves on the Board of Directors of: Acceleron Pharma, Inc., a biotechnology company focused on musculoskeletal and metabolic therapeutics; Epizyme Corporation, a biotechnology company focused on epigenetics; the Biotechnology Industry Organization; the New England Healthcare Institute; Pharmaceutical Research and Manufacturers of America (PhRMA) and Harvard Medical School Board of Fellows. Mr. Pops was previously a Director of CombinatoRx, Incorporated. He received a B.A. in economics from Stanford University in 1983.

***Stephen A. Sherwin, M.D.*** has served on the Board of Directors since April 1999. Dr. Sherwin is currently Chairman of the Board of Ceregene, Inc., a company which he co-founded in 2001, which is developing gene therapies for neurodegenerative diseases. Dr. Sherwin previously served as Chief Executive Officer of Cell Genesys, Inc., from the beginning of company operations in 1990, and also served as Chairman of the Board beginning in 1994, until Cell Genesys merged with BioSante Pharmaceuticals, Inc. in 2009. He was also a co-founder and Chairman of the Board of Abgenix, Inc., an antibody company which was acquired by Amgen, Inc. in 2006. From 1983 to 1990, Dr. Sherwin held various positions at Genentech, Inc., most recently as Vice President of Clinical Research. Prior to 1983, he was on the staff of the National Cancer Institute. Dr. Sherwin also currently serves as a Director of Biogen Idec, Inc., a company developing and commercializing products for neurology and immunology, BioSante Pharmaceuticals, a company developing topical hormonal therapies for female sexual disorders and Rigel Pharmaceuticals, Inc., a biotechnology company developing therapies for inflammatory autoimmune and metabolic diseases. In addition, Dr. Sherwin has been a member of the Board of Directors of the Biotechnology Industry Organization since 2002 and is currently Chairman Emeritus of this Board. Dr. Sherwin holds a B.A. in biology summa cum laude from Yale University and an M.D. from Harvard Medical School and is board-certified in internal medicine and medical oncology. He is currently a Clinical Professor of Medicine at the University of California, San Francisco, and an attending physician in hematology-oncology at San Francisco General Hospital.

## CORPORATE GOVERNANCE

### General

*We have long believed that good corporate governance is important to ensure that Neurocrine is managed for the long-term benefit of its shareholders. We periodically review our corporate governance policies and practices. The Board of Directors has adopted Corporate Governance Guidelines which describe our corporate governance practices and address corporate governance issues such as Board composition, responsibilities and Director qualifications. These guidelines are available at www.neurocrine.com.*

#### *What is the Board's leadership structure?*

It is the Company's policy to separate the roles of Chief Executive Officer and Chairman of the Board. This separation recognizes the independent roles of the Board of Directors, Chairman of the Board and Chief Executive Officer. The Board of Directors sets Company strategy and provides oversight and accountability for the Chief Executive Officer and Company management. The Chairman of the Board presides over the Board of Directors and provides guidance to the Chief Executive Officer. The Chief Executive Officer sets Company goals and provides leadership and day to day oversight in furtherance of those goals. The Company believes that separation of the Board of Directors and Company leadership preserves the independence of these roles and maximizes the Board's performance.

***Are the members of the Board independent?***

The Board of Directors annually reviews the independence of each of the Directors. With the exception of Kevin C. Gorman, Ph.D., who is the President and Chief Executive Officer of Neurocrine, all current members of the Board of Directors meet the definition of "independent director" under the Nasdaq Stock Market qualification standards. Chairman William H. Rastetter, Ph.D. is a partner in Venrock, a venture capital firm. At December 31, 2011, certain investment funds affiliated with Venrock held approximately 2.9 million shares of the Company's common stock. Venrock has implemented an internal disclosure screen designed to prevent the transmission of information related to the Company between Dr. Rastetter and other Venrock personnel, and Dr. Rastetter does not exercise any voting or dispositive power over the Company shares held by Venrock. As a result, the Board of Directors determined Dr. Rastetter to be "independent" within the meaning of the Nasdaq Stock Market qualification standards.

***How often did the Board meet during fiscal 2011?***

The Board of Directors held a total of five meetings during 2011. During 2011, the Board of Directors had an Audit Committee, a Compensation Committee and a Nominating/Corporate Governance Committee. Charters for each of these committees have been established and approved by the Board of Directors and copies of the charters for each of the committees have been posted on the Company's website at *www.neurocrine.com.* During 2011, no Director attended fewer than 75% of the aggregate of the total meetings of the Board of Directors and no Director attended fewer than 75% of the total number of meetings held by all committees of the Board of Directors on which such Director served.

***What are the various committees of the Board and which Directors are on those committees?***

The Company's Audit Committee is comprised entirely of Directors who meet the independence requirements set forth in Nasdaq Stock Market Rule 5605(c)(2)(A). Information regarding the functions performed by the committee, its membership, and the number of meetings held during the fiscal year is set forth in the "Report of the Audit Committee," included in this annual proxy statement. The members of the Audit Committee included Corinne H. Nevinny, Richard F. Pops and Stephen A. Sherwin, M.D. The Board of Directors has determined that Corinne H. Nevinny, Richard F. Pops and Stephen A. Sherwin, M.D. are "audit committee financial experts" within the meaning of item 407(d)(5) of SEC Regulation S-K.

During 2011, the Company's Compensation Committee included Directors Richard F. Pops, W. Thomas Mitchell and Wylie W. Vale, Ph.D. This committee met four times during 2011. In 2012, Joseph A. Mollica, Ph.D. was added to the Compensation Committee to fill the vacancy created by the death of Wylie W. Vale, Ph.D. The Compensation Committee reviews and recommends to the Board of Directors the compensation of executive officers and other employees of the Company. Under its charter, the Compensation Committee may form, and delegate authority to, subcommittees as appropriate. Each of the current members of the Compensation Committee is an "independent director" as defined by Nasdaq Stock Market Rule 5605(a)(2).

The Company also has a Nominating/Corporate Governance Committee currently comprised of W. Thomas Mitchell, Joseph A. Mollica, Ph.D. and Gary A. Lyons, all of whom are "independent directors" as defined by Nasdaq Stock Market Rule 5605(a)(2). The Nominating/Corporate Governance Committee is responsible for developing and implementing policies and practices relating to corporate governance, including administration of the Company's Code of Business Conduct and Ethics, which applies to all of the Company's officers, Directors and employees, is available on the Company's website at *www.neurocrine.com.* The functions of this committee also include consideration of the composition of the Board and recommendation of individuals for election as Directors of the Company. The Nominating/Corporate Governance Committee will consider nominees recommended by stockholders, provided such nominations are made pursuant to the Company's Bylaws and applicable law. The committee met two times during 2011. The committee met in early 2012 to recommend that the Board of Directors nominate Joseph A. Mollica Ph.D. and W. Thomas Mitchell for re-election as Class I Directors for the upcoming three-year term.

***What is our Director nomination process?***

In selecting non-incumbent candidates and reviewing the qualifications of incumbent candidates for the Board of Directors, the Nominating/Corporate Governance Committee considers the Company's corporate governance principles, which include the following:

Directors should possess the highest ethics, integrity and values, and be committed to representing the long-term interest of the stockholders. They also must have experience they can draw upon to help direct the business strategies of the Company together with sound judgment. They must be actively engaged in the pursuit of information relevant to the Company's business and must constructively engage their fellow Board members and management in dialogue and the decision-making process.

Directors must be willing to devote sufficient time to carrying out their duties and responsibilities effectively, and should be committed to serve on the Board of Directors for an extended period of time. Directors should notify the Chairman of the Board and Chairman of the Nominating/Corporate Governance Committee in the event of any significant change in their employment responsibilities or affiliations. Director nominees should meet the Director Qualification requirements set forth in the Company's Corporate Governance Guidelines.

In evaluating Director nominees, the Nominating/Corporate Governance Committee considers the following factors: personal and professional integrity, ethics and values including any potential conflicts of interest; experience in corporate management, such as serving as an officer or former officer of a publicly held company; experience as a board member of another publicly held company; and additionally, for nominees seeking re-election, meeting attendance and participation and compliance with Company policies.

It is the Company's policy to have a diversity of skills, professional experience, education, associations, achievements, training, points of view and individual qualities and attributes represented on the Board of Directors. The Nominating/Corporate Governance Committee considers the diversity of the Board of Directors when evaluating candidates for election or re-election to the Board of Directors.

The Nominating/Corporate Governance Committee's goal is to assemble a Board of Directors that brings to the Company a variety of perspectives and skills derived from high quality business and professional experience. In doing so, the Nominating/Corporate Governance Committee also considers candidates with appropriate non-business backgrounds.

In addition to the foregoing, the Nominating/Corporate Governance Committee Charter and Corporate Governance Guidelines set forth minimum criteria for Director nominees. The Nominating/Corporate Governance Committee may also consider such other facts as it may deem are in the best interests of the Company and its stockholders. The Nominating/Corporate Governance Committee does, however, believe that at least one, and preferably several members of the Board of Directors, meet the criteria for an "audit committee financial expert" as defined by SEC rules.

The following paragraphs provide information as of the date of this proxy statement about the specific experience, qualifications, attributes and skills of each nominee and current member of the Board of Directors that led the Board to conclude that such person should serve as a Director. In addition to the information below regarding each Board member, we also believe that all of our Directors have a reputation for honesty, integrity and highest ethical standards. They each have demonstrated business acumen, an ability to exercise sound judgment and a commitment to serve the Company.

**Class I Directors Nominated for Re-election at the 2012 Annual Meeting**

The nomination of ***W. Thomas Mitchell*** for election to the Company's Board of Directors is based on his proven ability to build companies on a global scale. Under Mr. Mitchell's leadership, Genencor International substantially increased its revenues and through acquisition and integration of businesses grew on an international scale. In addition to his strategic company experience, Mr. Mitchell brings experience in public policy initiatives and finance to the Company's Board of Directors.

The nomination of ***Joseph A. Mollica, Ph.D.*** for election to the Company's Board of Directors is based on his years of experience in the pharmaceutical industry including his wide range of leadership experience, roles and responsibilities with companies such as Pharmacopeia Drug Discovery, Inc., Accelrys, Dupont Company, Dupont Merck Pharmaceutical Company and Ciba-Geigy and his service on a number of life science company Boards. Dr. Mollica contributes a significant history and depth of experience in the biopharmaceutical industry to the Board of Directors.

**Class II Directors Continuing Until 2013 Annual Meeting**

The continued service of ***Corinne H. Nevinny*** on the Company's Board of Directors is based on her global expertise as a prior President for Global Operations of Edward Lifesciences, Inc., her financial background as a prior Chief Financial Officer for Edwards Lifesciences and Tularik, Inc. and her capital markets experience as Executive Director—Health Care Group at Warburg Dillon Read LLC. Her combination of financial, global and capital markets experience has in the past, and will in the future, help guide the Company's financial and capital strategies.

The continued service of ***Richard F. Pops*** on the Company's Board of Directors is based on his leadership experience and track record for growing companies, his strength in business strategy and his financial acumen and capital markets experience. In addition, Mr. Pops is recognized for his service to the biopharmaceutical industry as a member of the Boards of the Biotechnology Industry Organization, Pharmaceutical Research and Manufacturers of America, New England Healthcare Institute and Harvard Medical School Board of Fellows. His breadth and range of industry experience from operations and strategy is a significant contribution to the Board of Directors.

The continued service of ***Stephen A. Sherwin, M.D.*** on the Company's Board of Directors is based on his experience and credentials in the biotechnology industry as the former Chief Executive Officer of Cell Genesys, Inc., the former chairman and co-founder of Abgenix, Inc., the chairman and cofounder of Ceregene, Inc., and his positions at Genentech, Inc. and the National Cancer Institute. Dr. Sherwin is also currently Chairman Emeritus of the Biotechnology Industry Organization. In addition to his biotechnology credentials, Dr. Sherwin's medical expertise in internal medicine and medical oncology provides a unique contribution to the Board of Directors.

**Class III Directors Continuing Until 2014 Annual Meeting**

The continued service of ***Kevin C. Gorman, Ph.D.*** on the Company's Board of Directors is based on the fact that as President and Chief Executive Officer of the Company, Dr. Gorman has extensive knowledge of our product candidates, our employees and the industry in which we operate. Dr. Gorman has also demonstrated exceptional leadership skills, sound business judgment and a strong commitment to the Company.

The continued service of ***Gary A. Lyons*** on the Company's Board of Directors is based on Mr. Lyons' extensive business development experience and, as the Company's former Chief Executive Officer, his in-depth understanding of the Company's product candidates, management and culture. With this history with the Company and management, Mr. Lyons brings a unique perspective and point of view to the Company's Board of Directors.

The continued service of ***William H. Rastetter, Ph.D.*** on the Company's Board of Directors is based on Dr. Rastetter's scientific and technical expertise combined with his business experience in leading rapidly growing companies in the life science industry. The Company's continued growth is dependent on scientific and technical advances, and the Board of Directors believes that Dr. Rastetter offers both strategic and technical insight into the risks and opportunities associated with our business. In addition, Dr. Rastetter's board and executive leadership experience at other life science companies provides valuable strategic and governance insight to the Board of Directors as a whole.

**Identification and Evaluation of Nominees for Director**

The Nominating/Corporate Governance Committee identifies nominees for Director by first evaluating the current members of the Board of Directors willing to continue in service. Current members with qualifications and skills that are consistent with the Nominating/Corporate Governance Committee's criteria for Board of Directors service and who are willing to continue in service are considered for re-nomination, balancing the value of continuity of service by existing members of the Board of Directors with that of obtaining a new perspective. If any member of the Board of Directors does not wish to continue in service, or if the Board of Directors decides not to re-nominate a member for re-election, the Nominating/Corporate Governance Committee identifies the desired skills and experience of a new nominee in light of the criteria above. The Nominating/Corporate Governance Committee generally polls the Board of Directors and members of management for their recommendations and may also seek input from third-party search firms. The Nominating/Corporate Governance Committee may also seek input from industry experts or analysts. The Nominating/Corporate Governance Committee reviews the qualifications, experience and background of the candidates. Final candidates are then interviewed by the Company's independent Directors and executive management. In making its determinations, the Nominating/Corporate Governance Committee evaluates each individual in the context of the Company's Board of Directors as a whole, with the objective of assembling a group that can best perpetuate the success of the Company and represent stockholder interests through the exercise of sound judgment. After review and deliberation of all feedback and data, the Nominating/Corporate Governance Committee makes its recommendation to the Board of Directors.

We have not received Director candidate recommendations from the Company's stockholders and do not have a formal policy regarding consideration of such recommendations. However, any recommendations received from stockholders will be evaluated in the same manner that potential nominees suggested by members of our Board of Directors, management or other parties are evaluated. Accordingly, our Board of Directors believes a formal policy regarding consideration of such recommendations is unnecessary.

***What is our process for stockholder communications with the Board of Directors?***

Stockholders of the Company wishing to communicate with the Company's Board of Directors or an individual Director may send a written communication to the Board of Directors or such Director c/o Neurocrine Biosciences, Inc., 12780 El Camino Real, San Diego, CA 92130, Attn: Corporate Secretary. Each communication must set forth:

- the name and address of the Company stockholder on whose behalf the communication is sent; and
- the number of Company shares that are owned beneficially by such stockholder as of the date of the communication.

Each stockholder communication will be reviewed by the Company's Corporate Secretary to determine whether it is appropriate for presentation to the Board or such Director. Examples of inappropriate communications include advertisements, solicitations or hostile communications.

Communications determined by the Corporate Secretary to be appropriate for presentation to the Board or such Director will be submitted to the Board or such Director on a periodic basis.

***What is the Board's role in risk oversight?***

While the Board of Directors has ultimate oversight responsibility for the risk management process, it has delegated portions of this responsibility to various committees. The Board of Directors and committees oversee risk throughout the business with focus on financial risk, legal/compliance risk and strategic risk. The Audit Committee focuses on financial risk and internal controls and receives an annual financial risk assessment from the Company's independent registered public accounting firm. The Nominating/Corporate Governance

Committee and Audit Committee each focus on legal/compliance risk with the Nominating/Corporate Governance Committee taking the lead on the governance and management process and the Audit Committee taking the lead on SEC reporting and compliance. The Compensation Committee addresses compensation policies and practices as they relate to risk management practices and risk-taking incentives. The participation of the full Board of Directors in setting the Company's business strategy incorporates assessment of strategic risk for the Company overall.

***How do the Company's compensation policies and practices relate to risk management practices and risk-taking incentives?***

During 2011, the Compensation Committee in conjunction with the Board of Directors continued an assessment of how the Company's compensation policies and practices relate to risk management practices and risk-taking incentives. As part of the process, the Compensation Committee engaged the services of an external compensation consulting firm to conduct an independent risk assessment. Based on this assessment, the Compensation Committee concluded that the Company's compensation policies and practices do not create risks that are reasonably likely to have a material adverse effect on the Company.

***What is our policy regarding Board member attendance at the Company's Annual Meeting?***

The Company does not have a formal policy regarding attendance by members of the Board of Directors at the Annual Meeting. Directors Kevin C. Gorman, Ph.D., Joseph A. Mollica, Ph.D. and William H. Rastetter, Ph.D. attended the 2011 Annual Meeting of Stockholders.

## REPORT OF THE AUDIT COMMITTEE

*The following Report of the Audit Committee does not constitute soliciting material and should not be deemed filed or incorporated by reference into any other Company filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent the Company specifically incorporates this Report by reference therein.*

The Audit Committee is currently comprised of Directors Corinne H. Nevinny, Richard F. Pops, and Stephen A. Sherwin, M.D. All current committee members satisfy the definition of "independent director" as established in the Nasdaq Stock Market qualification requirements. The Audit Committee met four times during the year ended December 31, 2011.

The Audit Committee oversees the Company's financial reporting process on behalf of the Board of Directors. Management has the primary responsibility for the Company's financial statements and the reporting process, including the Company's systems of internal controls. In fulfilling its oversight responsibilities, the Audit Committee has reviewed and discussed with management the Company's audited financial statements as of and for the year ended December 31, 2011, including a discussion of the quality, not just the acceptability, of the accounting principles, the reasonableness of significant judgments and the clarity of disclosures in the financial statements.

The Audit Committee also has reviewed and discussed the Company's audited financial statements as of and for the year ended December 31, 2011 with the Company's independent registered public accounting firm, who are responsible for expressing an opinion on the conformity of those audited financial statements with accounting principles generally accepted in the United States, as well as their judgments as to the quality, not just the acceptability, of the Company's accounting principles and such other matters as are required to be discussed with the Audit Committee under Statement on Auditing Standards No. 61, as amended (AICPA, *Professional Standards*, Vol. 1, AU Section 380), as adopted by the Public Company Accounting Oversight Board (United States) (the "PCAOB") in Rule 3200T. The independent registered public accounting firm also is responsible for performing an independent audit of the Company's internal control over financial reporting in accordance with the auditing standards of the PCAOB. In addition, the Audit Committee has discussed the independent registered public accounting firm's independence from management and the Company, including the matters in the written disclosures and the letter from the independent registered public accounting firm required by applicable requirements of the PCAOB and considered the compatibility of non-audit services with the auditors' independence.

The Audit Committee discussed with the Company's independent registered public accounting firm the overall scope and plans for their audits. The Audit Committee meets with the independent registered public accounting firm, with and without management present, to discuss the results of their examinations, their evaluations of the Company's internal controls, and the overall quality of the Company's financial reporting.

In reliance on the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011, for filing with the Securities and Exchange Commission. The Audit Committee and the Board of Directors are also seeking stockholder ratification of the selection of the Company's independent registered public accounting firm for the year ending December 31, 2012.

Respectfully submitted by:
AUDIT COMMITTEE

Corinne H. Nevinny
Richard F. Pops
Stephen A. Sherwin, M.D.

***Audit and non-audit fees***

The aggregate fees billed to the Company by Ernst & Young LLP, the Company's independent registered public accounting firm, for the indicated services for each of the last two fiscal years were as follows:

| | 2011 | 2010 |
|---|---|---|
| Audit fees (1) | $346,657 | $404,357 |
| Audit related fees (2) | — | — |
| Tax fees (3) | 152,500 | 91,797 |
| All other fees (4) | — | — |
| Total | $499,157 | $496,154 |

(1) Audit fees consist of fees for professional services performed by Ernst & Young LLP for the integrated audit of the Company's annual financial statements and internal control over financial reporting and review of financial statements included in the Company's 10-Q filings, review of registration statements on Form S-3 and Form S-8, and services that are normally provided in connection with statutory and regulatory filings or engagements.

(2) Audit related fees consist of fees for assurance and related services performed by Ernst & Young LLP that are reasonably related to the performance of the audit or review of the Company's financial statements.

(3) Tax fees consist of fees for professional services performed by Ernst & Young LLP with respect to tax compliance, tax advice and tax planning. For 2011, these fees included $22,500 for tax preparation services, $15,000 for services related to Section 382 studies for net operating loss utilization and $115,000 for research and development tax credit services for California tax credit utilization. For 2010, these fees included $27,000 for tax preparation services, $30,000 for services related to Section 382 studies for net operating loss utilization and $34,797 for consulting services related to the 48D tax credit (for biotechnology companies).

(4) All other fees consist of fees for other permissible work performed by Ernst & Young LLP that does not meet with the above category descriptions.

The Audit Committee has considered whether the provision of non-audit services is compatible with maintaining the independence of Ernst & Young LLP, and has concluded that the provision of such services is compatible with maintaining the independence of that firm. All of the services rendered by Ernst & Young LLP were pre-approved by the Audit Committee in accordance with the Audit Committee pre-approval policy described below.

***Audit Committee policy regarding pre-approval of audit and permissible non-audit services of our independent registered public accounting firm***

The Company's Audit Committee has established a policy that all audit and permissible non-audit services provided by the Company's independent registered public accounting firm will be pre-approved by the Audit Committee. These services may include audit services, audit-related services, tax services and other services. The Audit Committee considers whether the provision of each non-audit service is compatible with maintaining the independence of the Company's registered public accounting firm. Pre-approval is detailed as to the particular service or category of services and is generally subject to a specific budget. The Company's independent registered public accounting firm and management are required to periodically (at least quarterly) report to the Audit Committee regarding the extent of services provided by the independent registered public accounting firm in accordance with this pre-approval, and the fees for the services performed to date.

## PROPOSAL ONE: ELECTION OF DIRECTORS

The Company's Bylaws provide that the Board of Directors will be comprised of eight Directors. The Company's Certificate of Incorporation provides that the Board of Directors is divided into three classes. There are currently two Directors in Class I (W. Thomas Mitchell and Joseph A. Mollica, Ph.D.), three Directors in Class II (Corinne H. Nevinny, Richard F. Pops and Stephen A. Sherwin, M.D.), and three Directors in Class III (Kevin C. Gorman, Ph.D., Gary A. Lyons and William H. Rastetter, Ph.D.). With the exception of Kevin C. Gorman, Ph.D., who is the President and Chief Executive Officer of Neurocrine, all current members of the Board of Directors meet the definition of "independent director" under the Nasdaq Stock Market qualification standards.

The Directors in Class I hold office until the 2012 Annual Meeting of Stockholders, the Directors in Class II hold office until the 2013 Annual Meeting of Stockholders and the Directors in Class III hold office until the 2014 Annual Meeting of Stockholders (or, in each case, until their earlier resignation, removal from office, or death). After each such election, the Directors in each such case will then serve in succeeding terms of three years and until a successor is duly elected and qualified. Officers of the Company serve at the discretion of the Board of Directors. There are no family relationships among the Company's Directors and executive officers.

The term of office for Directors Thomas Mitchell and Joseph A. Mollica, Ph.D. will expire at the 2012 Annual Meeting. At the 2012 Annual Meeting, the stockholders will elect two Class I Directors for a term of three years.

### Nominees for Election at the Annual Meeting

Both of the nominees (Thomas Mitchell and Joseph A. Mollica, Ph.D.) are currently Class I Directors of the Company. Both of the nominees were previously elected to the Board of Directors by the Company's stockholders. Information about the nominees is set forth below:

| Name of Director | Age | Position in the Company | Director Since |
|---|---|---|---|
| W. Thomas Mitchell (1)(2) | 66 | Director | 2002 |
| Joseph A. Mollica, Ph.D. (1)(2) | 71 | Director | 1997 |

(1) Member of the Nominating/Corporate Governance Committee.

(2) Member of the Compensation Committee.

***Who are the remaining Directors that are not up for election this year?***

The Class II and III Directors will remain in office after the 2012 Annual Meeting. The names and certain other current information about the Directors whose terms of office continue after the Annual Meeting are set forth below:

| Name of Director | Age | Position in the Company | Director Since |
|---|---|---|---|
| Kevin C. Gorman, Ph.D. | 54 | President, Chief Executive Officer and Director | 2008 |
| William H. Rastetter, Ph.D. | 64 | Chairman of the Board | 2010 |
| Corinne H. Nevinny (1) | 52 | Director | 2004 |
| Gary A. Lyons (3) | 61 | Director | 1993 |
| Richard F. Pops (1)(2) | 50 | Director | 1998 |
| Stephen A. Sherwin, M.D. (1) | 63 | Director | 1999 |

will evaluate whether any actions are necessary to address the stockholders' concerns. Approval of this advisory vote requires the affirmative vote of the majority of shares represented in person or by proxy and entitled to vote on the item. **The Board of Directors unanimously recommends voting "FOR" approval of the Company's named executive officer compensation.**

## EQUITY COMPENSATION PLANS

The following table sets forth information regarding all of the Company's equity compensation plans as of December 31, 2011:

| Plan Category | Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights (a) | Weighted Average Exercise Price of Outstanding Options, Warrants and Rights (b) | Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column a) (c) |
|---|---|---|---|
| Equity compensation plans approved by security holders (1) | 5,210,348 | $ 8.27 | 3,995,000 |
| Equity compensation plans not approved by security holders (2) | 103,998 | $36.34 | — |
| Total | 5,314,346 | $ 8.82 | 3,995,000 |

(1) Number of shares remaining available for future issuance under equity compensation plans as of December 31, 2011 are from the Company's 2011 Equity Incentive Plan (the "2011 Plan"). During the first three months of 2012, the Company issued options to purchase approximately 1.3 million shares that vest monthly over a four year period with a strike price of $8.66. The shares available for issuance under the 2011 Plan may be issued in the form of option awards, restricted stock awards, restricted stock unit awards or stock bonus awards subject to limitations set forth in the 2011 Plan. In addition to the above, the Company had restricted stock units covering an aggregate of 50,000 shares outstanding as of December 31, 2011, half of which vested and were issued as shares as of April 2, 2012 and the balance will be issued as shares in August 2012.

(2) Consists of shares of common stock issuable under the Company's 2001 Stock Option Plan, as amended, under which no further awards will be made, and an employment commencement nonstatutory stock option award.

## PROPOSAL THREE: RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

### General

The Audit Committee has selected Ernst & Young LLP to audit the financial statements of the Company for the current fiscal year ending December 31, 2012. Ernst & Young LLP has audited the Company's financial statements since 1992. Representatives of Ernst & Young LLP are expected to be present at the Annual Meeting, will have the opportunity to make a statement if they so desire, and are expected to be available to respond to appropriate questions.

Stockholders are not required to ratify the selection of Ernst & Young LLP as the Company's independent registered public accounting firm. However, the Audit Committee is submitting the selection of Ernst & Young LLP to the stockholders for ratification as a matter of good corporate practice. If the stockholders fail to ratify the selection, the Audit Committee will reconsider whether or not to retain that firm. Even if the selection is ratified, the Audit Committee in their discretion may direct the selection of a different independent registered public accounting firm at any time during the year if they determine that such a change would be in the best interests of the Company and its stockholders.

### Vote Required

The affirmative vote of the holders of a majority of the shares represented in person or by proxy at the Annual Meeting will be required to approve and ratify the Audit Committee's selection of Ernst & Young LLP. **The Board of Directors unanimously recommends voting "FOR" approval and ratification of such selection.** In the event of a negative vote on such ratification, the Audit Committee will reconsider its selection.

## EXECUTIVE OFFICERS

As of the Record Date, the executive officers of the Company were as follows:

| Name | Age | Position |
|---|---|---|
| Kevin C. Gorman, Ph.D. | 54 | President, Chief Executive Officer and Director |
| Timothy P. Coughlin | 45 | Vice President and Chief Financial Officer |
| Christopher F. O'Brien, M.D. | 55 | Senior Vice President and Chief Medical Officer |
| Haig P. Bozigian, Ph.D. | 54 | Senior Vice President of Pharmaceutical and Preclinical Development |
| Dimitri E. Grigoriadis, Ph.D. | 54 | Vice President of Research |

See above for biographical information concerning Kevin C. Gorman, Ph.D.

***Timothy P. Coughlin*** was appointed Vice President and Chief Financial Officer in September 2006 after having served as Vice President, Controller. He is responsible for Accounting, Finance, Information Technology, Operations and Investor Relations. Prior to joining Neurocrine in 2002, he was with CHI, a nationwide integrated healthcare delivery system where he served as Vice President, Financial Services. Mr. Coughlin also served as a Senior Manager in the Health Sciences practice of Ernst & Young LLP, and its predecessors, from 1989 to 1999. Mr. Coughlin holds a Bachelor's degree in Accounting from Temple University and a Master's degree in International Business from San Diego State University. Mr. Coughlin is a certified public accountant in both California and Pennsylvania.

***Christopher F. O'Brien, M.D.*** became Chief Medical Officer in January 2007 after having served as Senior Vice President of Clinical Development since 2005. He is responsible for Clinical Operations, Regulatory Affairs, Drug Safety, Biostatistics and Data Management. Prior to joining Neurocrine, he was Chief Medical Officer at Prestwick Pharmaceuticals, Inc. from 2003 to 2005 and Senior Vice President of Global Medical Affairs at Elan Pharmaceuticals, Inc. from 2000 to 2003. Dr. O'Brien is currently on the Board of Directors of Verifax Corporation, a biometrics company focused on developing a dynamic signature verification system. Dr. O'Brien is a Board Certified Neurologist and obtained his undergraduate degree in Neuroscience from Boston University, his medical degree and residency training from the University of Minnesota and fellowship training from the University of Rochester School of Medicine.

***Haig P. Bozigian, Ph.D.*** was appointed Senior Vice President of Pharmaceutical and Preclinical Development in December 2006 after having served as Vice President of Preclinical Development. He is responsible for all pre-clinical, chemical and pharmaceutical development. Dr. Bozigian joined Neurocrine in 1997. With extensive expertise in CNS related new product development, Dr. Bozigian has participated in research and development for more than 20 years. Prior to joining Neurocrine, Dr. Bozigian served as Director of Pharmaceutical Development at Procyte Corporation, Associate Director of Pharmacokinetics and Drug Metabolism at Sphinx Pharmaceuticals Corporation and as a Clinical Pharmacokineticist at GlaxoSmithKline. Dr. Bozigian earned his B.S. in Microbiology from the University of Massachusetts, his M.S. in Pharmacodynamics and Toxicology from the University of Nebraska Medical Center, and earned his Ph.D. in Pharmaceutical Sciences from the University of Arizona.

***Dimitri E. Grigoriadis, Ph.D.,*** became Vice President of Research in January 2007 and oversees all research functions including drug discovery, biology and chemistry. Dr. Grigoriadis joined Neurocrine in 1993, established the Pharmacology and drug screening groups and was most recently a Neurocrine Fellow and Vice President of Discovery Biology. Prior to joining Neurocrine, he was a Senior Scientist in the Neuroscience group at the DuPont Pharmaceutical Company from 1990 to 1993. Dr. Grigoriadis received his B.Sc. from the University of Guelph in Ontario, Canada, and his M.Sc. and Ph.D. in Pharmacology from the University of Toronto, Ontario, Canada. He conducted his postdoctoral research at the National Institute on Drug Abuse from 1987 to 1990.

## COMPENSATION DISCUSSION AND ANALYSIS

This section discusses the principles underlying our executive compensation decisions. It provides qualitative information on the factors relevant to these decisions and the manner in which compensation is awarded to our Named Executive Officers (NEO).

At the 2011 Annual Meeting of Stockholders, the Company recommended that the stockholders approve an advisory vote on NEO compensation (say-on-pay) on an annual basis. 91% of the shares cast voted for the Company's recommendation. The Company intends to hold an annual advisory say-on-pay vote in accordance with the 2011 vote, until its next advisory vote on the frequency of the say-on-pay vote.

### *Compensation Philosophy and Objectives*

The philosophy of the Compensation Committee (the "Committee") in establishing the Company's compensation policy for executive officers and other employees is to:

- create a structure designed to attract and retain highly skilled individuals by offering compensation that compares favorably to that offered by companies that are competing for available employees;
- provide compensation that offers a mix of meaningful base compensation, bonus amounts based on achievement of defined corporate and personal goals and opportunity to share in long-term growth of the Company through equity compensation;
- reward exceptional performance by individual employees;
- align compensation plans to both short-term and long-term goals and objectives of the Company and with stockholders interests.

The market for talented individuals in the biotechnology industry is highly competitive. The Committee considers peer groups, survey data and advice from independent compensation consultants when setting compensation structure. The Committee has structured compensation between base salary and cash bonuses such that approximately 30% to 40% of the executive officer's total cash compensation is at risk. Non-cash compensation for executive officers is structured to provide a reward for corporate and individual performance. The Committee believes that this approach provides an appropriate incentive that aligns the executive officer compensation with the Company's long-term strategic and performance goals, and also retains and motivates key executive officers.

At our 2011 annual meeting of stockholders, we held a stockholder advisory vote on the compensation of our NEO referred to as a say-on-pay vote. The say-on-pay proposal was approved by approximately 97% of the votes cast. The Committee views this result as strong support that our compensation philosophy, including our emphasis on pay-for-performance, is structured and designed to achieve its stated goals. The Company has applied the same principles and philosophy to emphasize pay-for-performance alignment in formulating its 2012 compensation program for the executive officers, as described below.

### *Overview and Role of the Compensation Committee*

The Compensation Committee reviews and approves the Company's compensation policies.

The specific roles of the Committee include:

- reviewing and, if necessary, revising the compensation philosophy of the Company;
- reviewing and approving corporate goals and objectives relating to the compensation of the Company's executive officers, and evaluating the performance of the Company's executive officers in light of the Company's goals and objectives;

- reviewing and approving all employment agreements and compensation for all executive officers and guidelines for salaries, merit salary increases, bonus payments, stock based grants and performance based stock grants for all other employees of the Company;
- reviewing and approving all promotions to executive officer positions and all new hires of executive officers;
- managing and reviewing equity incentive, employee pension and benefit plans;
- managing and reviewing the grant of perquisite benefits;
- managing and reviewing executive officer and Director indemnification and insurance matters; and
- overseeing the preparation of, and approving, this section of the Company's annual proxy statement.

***Compensation Process***

The implementation of the compensation philosophy is carried out under the supervision of the Committee. The compensation for our President and Chief Executive Officer, Dr. Gorman, is approved by the Board of Directors after the Committee has provided its analysis and recommendation. The compensation for the other executive officers is determined by the Committee. Management, under guidelines and procedures approved by the Committee, makes decisions regarding compensation of non-executive officer employees.

The Committee meets at least four times per year. In the first quarter of the year, executive officer performance reviews for the prior year and peer group compensation data are reviewed and base salary adjustments, bonus payouts and annual equity grants approved. In addition, performance goals for the then current year are finalized. Mid-year meetings review compensation philosophy, policies and procedures. Meetings in the fourth quarter of the year focus on Company goal achievement, selection of the peer group for the following year and the structure of executive officer performance reviews.

Compensation Consultants and Peer Group

The Committee uses the services of independent compensation consultants that are retained by and report directly to the Committee. The Committee selected Radford, an Aon Corporation, as a third party compensation consultant to assist the Committee in establishing 2012 overall compensation levels. Radford conducted analyses and provided advice on, among other things, the appropriate peer group, executive compensation for NEO and compensation trends in the biotechnology industry. For 2011 equity awards, the Committee utilized the services of Compensia as a third party compensation consultant in a role similar to Radford.

In order to evaluate the Company's competitive position in the industry related to executive compensation, the Committee has historically reviewed and analyzed the compensation packages, including base salary levels, cash bonus awards and equity awards, offered by other biotechnology and pharmaceutical companies within a designated peer group. The Committee believes selection of a broad peer group on an annual basis provides the best long-term trend data for companies that compete with the Company for talent. The peer group is established annually by the Committee in conjunction with independent compensation consultants based on various factors including size, market capitalization, and stage of development.

For 2011, the peer group to consisted of: Affymax, Inc., Alnylam Pharmaceuticals, Inc., Arena Pharmaceuticals, Inc., Ariad Pharmaceuticals, Inc., ArQule, Inc., Corcept Therapeutics, Inc., Cytokinetics Incorporated, Cytori Therapeutics, Inc., Dynavax Technologies, Geron Corp., Infinity Pharmaceuticals, Inc., Lexicon Pharmaceuticals, Inc., Novavax, Inc., NPS Pharmaceuticals, Inc., Optimer Pharmaceuticals, Inc., Osiris Therapeutics, Inc., Rigel Pharmaceuticals, Inc., Sangamo Biosciences, Inc., Santarus, Inc., Targacept, Inc., Vical Incorporated and Xenoport, Inc.

For 2012, the peer group consists of: Achillion Pharmaceuticals, Affymax, Inc., Alnylam Pharmaceuticals, Inc., Ardea Biosciences, Inc., Arena Pharmaceuticals, Inc., ArQule, Inc., AVEO Pharmaceuticals, Inc., Corcept

Therapeutics, Inc., DynavaxTechnologies, Geron Corp., Infinity Pharmaceuticals, Inc., Ligand Pharmaceuticals, Inc., MAP Pharmaceuticals, Inc., Micromet, Inc., Novavax, Inc., NPS Pharmaceuticals, Inc., Optimer Pharmaceuticals, Inc., Osiris Therapeutics, Inc., Rigel Pharmaceuticals, Inc., Sangamo Biosciences, Inc., Targacept, Inc., Vical Incorporated and Xenoport, Inc.

***Components of Compensation***

The Company's compensation for executive officers consists of five components: base salary, cash bonuses, equity awards, retirement benefits as provided under the Company's 401(k) plan, and severance agreements and other benefits. The Company uses the peer group established by the Committee as a guideline for establishing base salaries, cash bonuses and equity award components of compensation. The President and Chief Executive Officer annually reviews the performance of each executive officer (other than himself) and reports the results of the reviews to the Committee. The Board of Directors annually reviews the performance of the President and Chief Executive Officer.

Using significant discretion, the Committee considers each executive's performance, contribution to goals, responsibilities, experience, qualifications, and where in the range he/she compares to the peer group when determining the appropriate compensation level for each executive within the guideline percentiles. There is no direct correlation between how amounts paid for one component affect amounts paid under another component. Each of the components of the Company's executive officer compensation is described below.

Base Salary

The base salary component of compensation is designed to compensate executive officers competitively at levels necessary to attract and retain qualified executives in the pharmaceutical and biotechnology industry. As a general matter, the base salary for each executive officer is based on the scope of each executive's responsibilities, as well as their qualifications, breadth of experience, performance record and depth and breadth of applicable functional expertise. The base salary is established and adjusted to be within the range of the applicable peer group, enabling the Company to attract, motivate, reward and retain highly skilled executives. Base salaries of the executive officers are reviewed by the Committee annually in light of personal and Company goal attainment, executive officer performance reviews and peer group data. Year-to-year adjustments to each executive officer's base salary are based upon sustained superior performance, changes in the general level of base salaries of persons in comparable positions within the industry, and the average merit salary increase for such year for all employees of the Company established by the Committee, as well as other factors the Committee judges to be pertinent during an assessment period. In making base salary decisions, the Committee exercises its judgment to determine the appropriate weight to be given to each of these factors. Adjustments may be made during the fiscal year for promotions, highly urgent competitive reasons, superior performance in response to changed or challenging circumstances and similar special circumstances.

The NEO annualized base salaries for 2011 were as follows: Dr. Gorman, Ph.D., President and Chief Executive Officer, $510,000; Mr. Coughlin, Vice President and Chief Financial Officer, $375,000; Dr. O'Brien, M.D., Senior Vice President and Chief Medical Officer, $420,000; Dr. Bozigian, Ph.D., Senior Vice President, Pharmaceutical and Preclinical Development, $307,250; Dr. Grigoriadis, Ph.D., Vice President of Research, $303,000; and Dr. Valeur-Jensen, Executive Vice President, General Counsel and Corporate Secretary, $395,000. On August 31, 2011, Dr. Valeur-Jensen entered into a Separation and Transition Agreement and resigned from her full-time position as Executive Vice President, General Counsel and Corporate Secretary. Pursuant to the Separation and Transition Agreement, Dr. Valeur-Jensen was employed by the Company on a part-time basis as General Counsel and Corporate Secretary of the Company through March 31, 2012.

Effective January 1, 2012, the executive officers' annualized base salaries became as follows: $525,300 for Dr. Gorman, $386,250, for Mr. Coughlin, $432,600, for Dr. O'Brien, $336,000 for Dr. Bozigian, and $312,090

for Dr. Grigoriadis. This adjustment to base salaries for all the officers was established on expected market trends for merit increases and each officer's base salary relative to his peer group. This resulted in a three percent increase in base salary for all officers except Dr. Bozigian whose base salary had an additional increase due to his base salary being significantly below his relative peer group.

Cash Bonuses

To promote a pay-for-performance environment, the Company maintains a discretionary performance-based annual bonus program for its executive officers. The bonus program, including corporate goals and target payouts, are reviewed and approved by the Board of Directors annually and may include individual performance targets for each executive officer. The goals are prepared in an interactive process between Company management and the Board of Directors based on the Company's business plan and budget for the year. Bonus payments are linked to the attainment of overall corporate and personal goals. The Board of Directors establishes the target and maximum potential amount of each officer's bonus payment annually, based upon the recommendation of the Committee.

The Committee's philosophy in establishing the Company's cash bonus compensation strategy for executive officers is to provide a mix of compensation between base salary and total cash compensation such that approximately 30% to 40% of the total target cash compensation is at risk for executives each year. The cash bonus targets are established to be competitive with the applicable peer group enabling the Company to attract, motivate, reward and retain highly skilled executives for short-term performance. This program supports the achievement of annual Company goals and objectives by basing a significant portion of compensation on a pay-for-performance basis

In general, achievement of the Company's goals determines the initial bonus pool for executive officers of the Company, which is then allocated to the executive officers based on the individual performance of each executive officer, if applicable, during the year. As in previous years, the 2011 executive bonuses were discretionary and there were no formulaic calculations for determining the actual amount of the bonus for each executive. Accordingly, the Board or the Committee may, in its sole discretion, eliminate any individual bonus or reduce or increase the amount of compensation payable with respect to any individual bonus. An executive officer must be an employee of the Company on the date of payment to qualify for a bonus. Any executive officer who leaves the employment of the Company, voluntarily or involuntarily, prior to the payment, is ineligible for any bonus. An employee who becomes an executive officer during the fiscal year may be eligible

light of personal and Company goal attainment, executive officer performance reviews and peer group data. Prior year actual gains from the exercise of vested equity grants are not considered in the determination of current year compensation. The Company does not maintain any equity ownership guidelines for its executive officers.

On August 25, 2011, the Board of Directors approved stock option awards to the executive officers under the Company's 2011 Equity Incentive Plan (the "2011 Plan"). The stock option awards were determined based on individual performance and contribution to long-term strategic and performance goals and as well as retention and motivation of the named executive officers. The individual grants of stock options to executive officers were: Dr. Gorman 250,000 stock options; and Mr. Coughlin, Dr. O'Brien, Dr. Bozigian, and Dr. Grigoriadis each 125,000 stock options. Dr. Valeur-Jensen did not receive a stock option grant. These option grants occurred later in the year than is typical (annual option grants have historically been in the first or second quarter of the year) because the options were granted at the Board meeting subsequent to the approval of the 2011 Plan.

On January 12, 2012, the Board of Directors approved stock option awards to the executive officers under the 2011 Plan. The stock option awards were determined based on 2011 individual performance and contribution to long-term strategic and performance goals and as well as retention and motivation of the named executive officers. The individual grants of stock options to executive officers were: Dr. Gorman 240,000 stock options; Mr. Coughlin and Dr. O'Brien each 120,000 stock options; Dr. Bozigian and Dr. Grigoriadis each 100,000 stock options.

The Committee and Board of Directors also determined that for both the August 25, 2011 and January 12, 2012 equity grants that the use of stock options were the appropriate equity compensation vehicle. The Committee and Board of Directors believe that the use of stock options at this time more closely aligns stockholder and management interests.

Retirement Benefits

The terms of the Company's 401(k) Savings Plan (the "401(k) Plan") provide for executive officer and broad-based employee participation on the same general terms. Under the 401(k) Plan, all Company employees were formerly eligible to receive basic matching contributions from the Company that vest three years from date of hire and monthly thereafter. The Company's basic matching contribution for the 401(k) Plan was suspended in April 2009 and reinstated effective January 1, 2011. The Company made no discretionary contributions to the 401(k) Plan in 2011.

Severance Agreements and Other Benefits

Executive officers are eligible to participate in the Company's employee benefit plans on the same terms as all other full-time employees. These plans include medical, dental and life insurance. In addition to the benefits available to all employees, we provide our executive officers with certain additional benefits that we believe reflect market standards and are reasonable and necessary to attract and/or retain each of our executive officers and allow the executive officers to realize the full benefit of the other elements of compensation we provide. These benefits include disability insurance premiums, an annual physical examination, and tax gross-ups in the event of a change in control. Executive officers are eligible for four weeks of vacation from date of hire through ten years of employment, and five weeks of vacation per year thereafter. Additionally, all executive officers, as well as all other full-time employees who were employed as of December 31, 2011, are eligible to receive a one-time additional two week vacation benefit after ten years of service.

In addition, executive officers are eligible to receive severance benefits in connection with terminations of employment due to death, disability, or termination without cause or constructive termination (including following a change-in-control) as set forth below and more fully described in *Potential Payments upon Termination or Change-in-Control* . The Committee believes that the executive severance arrangements reflect

current market standards and severance benefits competitive with those provided by our peer group. The Committee believes that in order to continue to retain the services of our key executive officers, it is important to provide them with some income and benefit protection against an involuntary termination of employment.

Compensation components for executive officers in the event of death include partial stock award acceleration, prorata bonus payment, payments for accrued base salary, any accrued vacation and any accrued benefits under any plans of the Company in which the executive officer is a participant and any appropriate business expenses incurred by the executive officer. In the event of death, there is no base salary continuation.

Compensation components for executive officers in the event of a qualifying long-term disability include partial stock award acceleration, pro-rata bonus payment, limited base salary continuation, payments for accrued base salary, limited Company-paid health insurance benefits, and any accrued vacation and any accrued benefits under any plans of the Company in which the executive officer is a participant.

Compensation components for executive officers in the event of termination by the Company without cause or termination by the executive officer due to constructive termination include payments for accrued base salary, cash compensation payments, partial stock award acceleration, limited Company-paid health insurance benefits, and any accrued vacation and any accrued benefits under any plans of the Company in which the executive officer is a participant. Eligibility for these benefits under either situation requires a signed release agreement by the executive officer.

Compensation components for executive officers in the event of a termination by the Company without cause or termination by the executive officer due to constructive termination following a change-in-control include payments for accrued base salary, a cash compensation payment, cash compensation for the value of all outstanding stock awards, limited Company-paid health insurance benefits, and any accrued vacation and any accrued benefits under any plans of the Company in which the executive officer is a participant. The change-in-control benefits also contain certain tax gross-up provisions. Eligibility for these benefits requires a signed release agreement by the executive officer.

The Committee believes that in order to continue to retain the services of our key executive officers and focus their efforts on stockholder interests when considering strategic alternatives, it is important to provide them with enhanced income and benefit protection against loss of employment in connection with a change-in-control of our company and thereby align the interests of our stockholders and our executive officers. However, the Company does not provide for such benefits solely in the event of a change-in-control because we believe that our executives are materially harmed only if a change in control results in our executives' involuntary loss of employment, reduced responsibilities, reduced compensation, or other adverse change in the nature of the employment relationship.

Pursuant to the terms of the Separation and Transition Agreement entered into in August 2011, Dr. Valeur-Jensen resigned from her full-time position as Executive Vice President, General Counsel and Corporate Secretary. Dr. Valeur-Jensen continued to be employed by the Company on a part-time basis as General Counsel and Corporate Secretary of the Company through March 31, 2012. Pursuant to the terms of the Agreement, Dr. Valeur-Jensen receives a severance payment equal to an aggregate of $740,625 payable in equal installments over a 15 month period commencing on the effective date of the agreement and the Company has agreed to pay the applicable insurance premiums necessary to continue the health insurance coverage in effect for Dr. Valeur-Jensen and her dependents up to a 15 month period following the expiration of Dr. Valeur-Jensen's part-time employment with the Company on March 31, 2012. Pursuant to the Agreement all equity awards previously granted to Dr. Valeur-Jensen immediately accelerated vesting with respect to that number of shares that would have vested over the 15 month period following the effective date of the Agreement, and all such equity awards continued to vest in accordance with their current terms during such time as Dr. Valeur-Jensen continued to be employed by the Company. The Company also granted to Dr. Valeur-Jensen a restricted stock unit award covering 50,000 shares of the Company's common stock, 25,000 shares of which vested on February 25, 2012,

and 25,000 shares of which will vest on August 25, 2012, which such vesting shall occur regardless of whether Dr. Valeur-Jensen is providing services to the Company on such date. The Agreement also contains a general release of claims against the Company. The severance benefits provided for in Dr. Valeur-Jensen's Separation and Transition Agreement are substantially consistent with those provided for in her original Employment Agreement.

***Tax Considerations***

**Internal Revenue Code Section 162(m)**

The Committee considers the potential impact under Internal Revenue Code Section 162(m) whereby we can only deduct up to $1.0 million of the compensation we pay to named executive officers each taxable year unless such compensation is "performance-based compensation" within the meaning of the Internal Revenue Code. The Committee has determined that any gain related to the exercise of a stock option granted under any of our stockholder-approved stock option plans with an exercise price at least equal to the fair value of our common stock on the date of grant qualifies under the Internal Revenue Code as performance-based compensation and therefore is not subject to the $1.0 million limitation. Additionally, any bonuses paid during the year also qualify as performance-based compensation.

However, deductibility is not the sole factor used by the Committee in ascertaining appropriate levels or manner of compensation and corporate objectives may not necessarily align with the requirements for full deductibility under Section 162(m). Accordingly, we may enter into executive compensation arrangements under which payments are not deductible under Section 162(m).

**Internal Revenue Code Section 409A**

Section 409A governs deferred compensation arrangements. The Committee reviewed our deferred compensation programs with the assistance of our external counsel and determined that the programs are compliant with Section 409A.

## COMPENSATION COMMITTEE REPORT

*The following Report of the Compensation Committee does not constitute soliciting material and should not be deemed filed or incorporated by reference into any other Company filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent the Company specifically incorporates this Report by reference therein.*

The Compensation Committee of the Company has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with management and, based on such review and discussions, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Proxy Statement.

Respectfully submitted by:
COMPENSATION COMMITTEE

Richard F. Pops
W. Thomas Mitchell
Joseph A. Mollica

***Compensation Committee interlocks and insider participation***

During 2011, the Compensation Committee consisted of W. Thomas Mitchell, Richard F. Pops and Wylie W. Vale, Ph.D. No interlocking relationship existed between any member of the Compensation Committee and any member of any other company's Board of Directors or compensation committee.

## EXECUTIVE COMPENSATION AND OTHER INFORMATION

***Summary Compensation Table*** The following table sets forth the compensation paid by the Company for the fiscal years ended December 31, 2009, 2010 and 2011 to the executive officers named below (the "Named Executive Officers"). There were no performance based bonus awards for 2009.

### Summary Compensation Table

| Name and Title (1) | Year | Salary (2) | Bonus (2) | Option Awards (3) | Stock Awards (4) | All Other (5) | Total Compensation |
|---|---|---|---|---|---|---|---|
| Kevin C. Gorman, Ph.D. | 2009 | $440,000 | $ — | $ — | $ — | $ 34,583 | $ 474,583 |
| President and Chief Executive Officer | 2010 | $440,000 | $396,000 | $ 325,600 | $ — | $ 31,604 | $1,193,204 |
| | 2011 | $510,000 | $198,900 | $1,025,000 | $ — | $ 44,817 | $1,778,717 |
| Timothy P. Coughlin | 2009 | $300,000 | $ — | $ — | $ — | $ 25,045 | $ 325,045 |
| Vice President and Chief Financial Officer | 2010 | $300,000 | $240,000 | $ 299,200 | $ — | $ 23,596 | $ 862,796 |
| | 2011 | $375,000 | $121,875 | $ 512,500 | $ — | $ 34,021 | $1,043,396 |
| Christopher F. O'Brien, M.D. | 2009 | $375,000 | $ — | $ — | $ — | $ 19,847 | $ 394,847 |
| Senior Vice President, Clinical | 2010 | $375,000 | $300,000 | $ 299,200 | $ — | $ 16,947 | $ 991,147 |
| Development and Chief Medical Officer | 2011 | $420,000 | $136,500 | $ 512,500 | $ — | $ 26,263 | $1,095,263 |
| Dimitri E. Grigoriadis, Ph.D. | 2009 | $285,000 | $ — | $ — | $ — | $ 21,768 | $ 306,768 |
| Vice President of Research | 2010 | $285,000 | $213,750 | $ 264,000 | $ — | $ 20,938 | $ 783,688 |
| | 2011 | $303,000 | $ 98,475 | $ 512,500 | $ — | $ 31,222 | $ 945,197 |
| Haig P. Bozigian, Ph.D. | 2009 | $285,000 | $ — | $ — | $ — | $ 21,518 | $ 306,518 |
| Senior Vice President, Pharmaceutical and | 2010 | $285,000 | $213,750 | $ 264,000 | $ — | $ 20,938 | $ 783,688 |
| Preclinical Development | 2011 | $307,250 | $ 99,856 | $ 512,500 | $ — | $ 31,295 | $ 950,901 |
| Margaret Valeur-Jensen, Ph.D., J.D. (6) | 2009 | $395,000 | $ — | $ — | $ — | $ 27,882 | $ 422,882 |
| Former Executive Vice President, | 2010 | $395,000 | $276,500 | $ 264,000 | $ — | $ 23,246 | $ 958,746 |
| General Counsel, Corporate Secretary | 2011 | $304,068 | $ — | $ — | $294,000 | $842,807 | $1,440,875 |

(1) The titles and capacities set forth in the table above are as of the Record Date, with the exception of Dr. Valeur-Jensen.

(2) Salary and bonus figures represent amounts earned during each respective fiscal year, regardless of whether part or all of such amounts were paid in subsequent fiscal year(s). The Company did not award performance based bonuses for 2009. Bonuses for 2010 and 2011 were awarded pursuant to a Bonus Program.

(3) The amounts shown are the full grant date fair value in accordance with Accounting Standards Codification 718-10, *Compensation—Stock Compensation* (ASC 718). The assumptions used to calculate the grant date fair value of stock awards are set forth under Note 8 of the Notes to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011 filed with the SEC on February 9, 2012. The grant date fair values of option awards for 2010 and 2011 are based on per share Black-Scholes values of $1.76 and $4.10, respectively. The Company did not grant any option awards during 2009. The Company did not grant any stock bonuses in 2009, 2010 or 2011.

(4) Stock awards granted to executive officers consist of RSUs. The amount shown is the full grant date fair value in accordance with ASC 718, which is based on the Nasdaq stock market closing per share price of $5.88 on the date of grant.

(5) Includes all other compensation as described in the table below.

(6) Dr. Valeur-Jensen had an actual severance triggering event in August 2011 in connection with her transition to employment on a part-time basis as General Counsel and Corporate Secretary of the Company.

## All Other Compensation Table

| Name | Year | 401(k) Employer Match | Insurance Premiums (1) | Stock Option Cancellation Fee (2) | Severance (3) | Physical Exams | Total Other |
|---|---|---|---|---|---|---|---|
| Kevin C. Gorman, Ph.D. | 2009 | $5,500 | $28,983 | $100 | $ — | $ — | $ 34,583 |
| | 2010 | $ — | $31,604 | $— | $ — | $ — | $ 31,604 |
| | 2011 | $7,350 | $34,294 | $— | $ — | $3,173 | $ 44,817 |
| Timothy P. Coughlin | 2009 | $4,125 | $20,820 | $100 | $ — | $ — | $ 25,045 |
| | 2010 | $ — | $23,596 | $— | $ — | $ — | $ 23,596 |
| | 2011 | $7,350 | $26,671 | $— | $ — | $ — | $ 34,021 |
| Christopher F. O'Brien, M.D. | 2009 | $5,500 | $14,347 | $— | $ — | $ — | $ 19,847 |
| | 2010 | $ — | $16,947 | $— | $ — | $ — | $ 16,947 |
| | 2011 | $7,350 | $18,913 | $— | $ — | $ — | $ 26,263 |
| Dimitri E. Grigoriadis, Ph.D. | 2009 | $4,125 | $17,643 | $— | $ — | $ — | $ 21,768 |
| | 2010 | $ — | $20,938 | $— | $ — | $ — | $ 20,938 |
| | 2011 | $7,350 | $23,872 | $— | $ — | $ — | $ 31,222 |
| Haig P. Bozigian, Ph.D. | 2009 | $3,875 | $17,643 | $— | $ — | $ — | $ 21,518 |
| | 2010 | $ — | $20,938 | $— | $ — | $ — | $ 20,938 |
| | 2011 | $7,350 | $23,945 | $— | $ — | $ — | $ 31,295 |
| Margaret Valeur-Jensen, Ph.D., J.D. | 2009 | $5,500 | $22,282 | $100 | $ — | $ — | $ 27,882 |
| | 2010 | $ — | $23,246 | $— | $ — | $ — | $ 23,246 |
| | 2011 | $7,350 | $25,579 | $— | $809,878 | $ — | $842,807 |

(1) The amounts in this column represent the costs for medical insurance for the Company wide plans, as well as disability insurance premiums and related tax gross-up amounts.

(2) The amounts in this column represent nominal payments made to the named executive in exchange for the cancellation of certain stock options previously granted by the Company.

(3) The amount in this column represents cash severance amounts pursuant to a Separation and Transition Agreement entered into in August 2011, which consisted of $740,625 for salary and bonus continuation, $46,144 for accrued vacation and sabbatical time, and $23,109 for medical benefits. These amounts are primarily to be paid ratably over a fifteen month period that commenced in September 2011.

### *Grant of Plan Based Awards During the Fiscal Year Ended December 31, 2011*

The following table sets forth certain information regarding option awards granted by the Company pursuant to the 2011 Plan during the year ended December 31, 2011 to the Named Executive Officers below:

| Name | Grant Date | All Other Stock Awards: Number of Units (1) | All Other Option Awards: No. of Securities Underlying Options (2) | Exercise or Base Price of Option Awards (2) | Grant Date Fair Value of Stock and Option Awards (3) |
|---|---|---|---|---|---|
| Kevin C. Gorman, Ph.D. | 08/25/2011 | — | 250,000 | $5.76 | $1,025,000 |
| Timothy P. Coughlin | 08/25/2011 | — | 125,000 | $5.76 | $ 512,500 |
| Christopher F. O'Brien, M.D. | 08/25/2011 | — | 125,000 | $5.76 | $ 512,500 |
| Dimitri E. Grigoriadis, Ph.D. | 08/25/2011 | — | 125,000 | $5.76 | $ 512,500 |
| Haig P. Bozigian, Ph.D. | 08/25/2011 | — | 125,000 | $5.76 | $ 512,500 |
| Margaret Valeur-Jensen, Ph.D., J.D. | 09/08/2011 | 50,000 | — | $ — | $ 294,000 |

(1) Represents restricted stock units granted to Dr. Valeur-Jensen pursuant to a Separation and Transition Agreement entered into in August 2011, half of which vested in February 2012, and the remaining portion of which will vest in August 2012.

(2) All options were granted and approved on the same date with an exercise price equal to the closing market price of the Company's common stock on date of grant. All option awards are time-based awards, which vest annually over three years and have an option term of seven years.

(3) Reflects the grant date per share Black-Scholes value of $4.10 for option awards granted on August 25, 2011 which was calculated in accordance with ASC 718. For restricted stock units, the amount shown ($294,000) is the full grant date fair value in accordance with ASC 718, which is based on the Nasdaq stock market closing per share price of $5.88 on the date of grant.

To assist in understanding the data in the tables above, the following is a description of the employment agreements currently in place between the Company and the Named Executive Officers:

***Agreements with Named Executive Officers***

***Kevin C. Gorman, Ph.D.*** has an employment contract that provides that: (i) Dr. Gorman will serve as the Company's Executive Vice President and Chief Operating Officer commencing on August 1, 2007 at an initial annual salary of $400,000, subject to annual adjustment by the Board of Directors (subsequent to entering into the employment contract, Dr. Gorman was promoted to President and Chief Executive Officer and his annual base salary for 2012 is $525,300); (ii) the agreement terminates upon death, disability, termination by the Company with or without cause, constructive termination or voluntary resignation; (iii) Dr. Gorman is eligible for a discretionary annual bonus as determined by the Board of Directors, based upon achieving certain performance criteria; and (iv) each year starting in 2007 and continuing for the term of the agreement, Dr. Gorman will be eligible to receive stock option awards with the number of shares and exercise price as shall be determined by the Board of Directors.

***Timothy P. Coughlin*** has an employment contract that provides that: (i) Mr. Coughlin will serve as the Company's Vice President and Chief Financial Officer commencing on August 1, 2007 at an initial annual salary of $275,000, subject to annual adjustment by the Board of Directors (Mr. Coughlin's annual base salary for 2012 is $386,250); (ii) the agreement terminates upon death, disability, termination by the Company with or without cause, constructive termination or voluntary resignation; (iii) Mr. Coughlin is eligible for a discretionary annual bonus as determined by the Board of Directors, based upon achieving certain performance criteria; and (iv) each year starting in 2007 and continuing for the term of the agreement, Mr. Coughlin will be eligible to receive stock option awards with the number of shares and exercise price as shall be determined by the Board of Directors.

***Christopher F. O'Brien, M.D.*** has an employment contract that provides that: (i) Dr. O'Brien will serve as the Company's Senior Vice President, Clinical Development and Chief Medical Officer commencing on August 1, 2007 at an initial annual salary of $350,000, subject to annual adjustment by the Board of Directors (Dr. O'Brien's annual base salary for 2012 is $432,600); (ii) the agreement terminates upon death, disability, termination by the Company with or without cause, constructive termination or voluntary resignation; (iii) Dr. O'Brien is eligible for a discretionary annual bonus as determined by the Board of Directors, based upon achieving certain performance criteria; and (iv) Dr. O'Brien is eligible to receive stock option awards with the number of shares and exercise price as shall be determined by the Board of Directors.

***Dimitri E. Grigoriadis, Ph.D.*** has an employment contract that provides that: (i) Dr. Grigoriadis will serve as the Company's Vice President, Research commencing on August 1, 2007 at an initial annual salary of $260,000, subject to annual adjustment by the Board of Directors (Dr. Grigoriadis' annual base salary for 2012 is $312,090); (ii) the agreement terminates upon death, disability, termination by the Company with or without cause, constructive termination or voluntary resignation; (iii) Dr. Grigoriadis is eligible for a discretionary annual

bonus as determined by the Board of Directors, based upon achieving certain performance criteria; and (iv) Dr. Grigoriadis is eligible to receive stock option awards with the number of shares and exercise price as shall be determined by the Board of Directors.

***Haig P. Bozigian, Ph.D.*** has an employment contract that provides that: (i) Dr. Bozigian will serve as the Company's Senior Vice President, Pharmaceutical and Preclinical Development commencing on August 1, 2007 at an initial annual salary of $260,000, subject to annual adjustment by the Board of Directors (Dr. Bozigian's annual base salary for 2012 is $336,000); (ii) the agreement terminates upon death, disability, termination by the Company with or without cause, constructive termination or voluntary resignation; (iii) Dr. Bozigian is eligible for a discretionary annual bonus as determined by the Board of Directors, based upon achieving certain performance criteria; and (iv) Dr. Bozigian is eligible to receive stock option awards with the number of shares and exercise price as shall be determined by the Board of Directors.

***Margaret Valeur-Jensen, Ph.D, J.D.*** has entered into a Separation and Transition Agreement with the Company. For a description of this agreement, see page 29 of this proxy statement under "Compensation Discussion and Analysis-Severance Agreements and Other Benefits"

***Option Cancellation Agreements*** On August 28, 2009, the Company entered into Stock Option Cancellation Agreements with certain of the Company's executive officers and Directors, pursuant to which certain stock options with exercise prices in excess of $35.00, previously granted to each such executive officer or Director were cancelled in exchange for a nominal payment by the Company of $100 in the aggregate.

The Stock Option Cancellation Agreements indicated that other than such nominal payment, the applicable executive officer or Director had not received, and would not receive, any additional consideration in exchange for the cancellation of such options.

Accordingly, while each such executive officer or Director will be eligible to receive future equity grants in connection with the Company's regular grant practices, no such executive officer or Director will receive any future equity award in exchange for the cancellation of such options.

(4) Vests monthly over three years.

(5) Vests monthly over four years, subject to an initial one-year "cliff."

(6) Vests monthly over three years, 15 months of vesting was accelerated pursuant to Dr. Valeur-Jensen's Separation and Transition Agreement.

(7) 25,000 restricted stock units vested on February 28, 2012, the balance will vest in August 2012.

***Option Exercises and Stock Vested*** The following table sets forth stock awards that vested during fiscal 2011 along with their respective values at December 31, 2011 for the Named Executive Officers.

**Option Exercises and Stock Vested Table**

| | Stock Awards (1) | |
|---|---|---|
| Name | Number of Shares Acquired on Vesting | Value Realized on Vesting (2) |
| Kevin C. Gorman, Ph.D. | 41,667 | $284,586 |
| Timothy P. Coughlin | 33,334 | $227,671 |
| Christopher F. O'Brien, M.D. | 33,334 | $227,671 |
| Dimitri E. Grigoriadis, Ph.D. | 33,334 | $227,671 |
| Haig P. Bozigian, Ph.D. | 33,334 | $227,671 |
| Margaret Valeur-Jensen, Ph.D., J.D. | 33,334 | $227,671 |

(1) Information relates to stock awards, which consist of RSUs that vested during 2011.

(2) Calculated by multiplying the number of shares acquired on vesting by the price of the Company's common stock on the vesting date.

***Potential Payments Upon Termination or Change-in-Control*** The following tables set forth the potential severance benefits payable to the Named Executive Officers in the event of a termination prior to or following a change in control, assuming such event occurred on December 31, 2011:

**Potential Payment upon Termination Table***

| Name | Salary (1) | Bonus (2) | Accrued Compensation (3) | Stock Awards (4) | Medical (5) | Total |
|---|---|---|---|---|---|---|
| Kevin C. Gorman, Ph.D. | $637,500 | $382,500 | $61,207 | $1,546,242 | $39,186 | $2,666,635 |
| Timothy P. Coughlin | $468,750 | $234,375 | $48,581 | $1,231,049 | $39,108 | $2,021,863 |
| Christopher F. O'Brien, M.D. | $420,000 | $210,000 | $35,412 | $1,118,788 | $22,034 | $1,806,234 |
| Dimitri E. Grigoriadis, Ph.D. | $303,000 | $151,500 | $36,418 | $1,017,000 | $26,162 | $1,534,080 |
| Haig P. Bozigian, Ph.D. | $320,000 | $160,000 | $41,836 | $1,017,000 | $26,205 | $1,565,041 |
| Margaret Valeur-Jensen, Ph.D., J.D.(6) | $493,750 | $246,875 | $46,144 | $1,265,150 | $23,109 | $2,075,028 |

* Reflects a termination without cause or due to a constructive termination, or deemed termination, prior to a change in control.

(1) Based on salary as of December 31, 2011.

(2) Based on bonus targets established by the Board of Directors for 2011.

(3) Accrued compensation is comprised of vacation pay earned and unpaid as of December 31, 2011 and a one-time additional two week vacation benefit for eligible employees.

(4) Certain options held by the Named Executive Officers at December 31, 2011 had an exercise price greater than the closing price of the Company's common stock at December 31, 2011. The amounts in this column represent the intrinsic value of 'in-the money' vested and outstanding options and the market value of

unvested restricted stock units as of December 31, 2011 that would vest in accordance with the executive officers' employment agreements. Values were derived using the closing price of the Company's common stock on December 30, 2011 of $8.50.

(5) Medical is comprised of health insurance premiums for the period specified in each executive officer's employment contract.

(6) Dr. Valeur-Jensen had an actual severance triggering event in August 2011 in connection with her transition to employment on a part-time basis. The salary, bonus, and accrued compensation figures represent the actual amounts paid or to be paid as a result of this severance event. The stock award and medical amounts were estimated consistent with the methodology of the Company's executive officers listed in this table.

**Potential Payment upon Change-in-Control Table***

| Name | Severance (1) | Bonus (2) | Accrued Compensation (3) | Stock Awards (4) | Medical (5) | Statutory Tax Gross-up (6) | Total |
|---|---|---|---|---|---|---|---|
| Kevin C. Gorman, Ph.D. | $1,020,000 | $612,000 | $61,207 | $1,930,450 | $62,697 | $1,653,989 | $5,340,343 |
| Timothy P. Coughlin | $ 750,000 | $375,000 | $48,581 | $1,448,600 | $62,572 | $1,225,101 | $3,909,854 |
| Christopher F. O'Brien, M.D. | $ 630,000 | $315,000 | $35,412 | $1,448,600 | $33,051 | $1,067,320 | $3,529,383 |
| Dimitri E. Grigoriadis, Ph.D. | $ 454,500 | $227,250 | $36,418 | $1,330,400 | $39,243 | $ 887,884 | $2,975,695 |
| Haig P. Bozigian, Ph.D. | $ 480,000 | $240,000 | $41,836 | $1,330,400 | $39,307 | $ 948,688 | $3,080,231 |

* Reflects benefits to be provided upon a termination without cause, or due to a constructive termination, within a specified time following a change in control. Dr. Valeur-Jensen had an actual severance triggering event in August 2011 in connection with her transition to employment on a part-time basis. Accordingly, her actual severance figures are reported in the "Potential Payment upon Termination Table" above.

(1) Based on salary as of December 31, 2011.

(2) Based on bonus targets established by the Board of Directors for 2011.

(3) Accrued compensation is comprised of vacation pay earned and unpaid as of December 31, 2011 and a one-time additional two week vacation benefit for eligible employees.

(4) Certain options held by the Named Executive Officers at December 31, 2011 had an exercise price greater than the closing price of the Company's common stock at December 31, 2011. The amounts in this column represent the intrinsic value of 'in-the money' vested and outstanding options as of December 31, 2011 that would vest in accordance with the executive officers' employment agreements. Values were derived using the closing price of the Company's common stock on December 30, 2011 of $8.50.

(5) Medical is comprised of health insurance premiums for the period specified in each executive officer's employment contract.

(6) Represents tax gross-up payments if total payments to executive in connection with a change-in-control exceed 2.99 times such executive's base amount by 15% or more.

**Potential Payment upon Termination by Disability Table***

| Name | Base Salary (1) | Bonus (2) | Accrued Compensation (3) | Stock Awards (4) | Medical (5) | Total |
|---|---|---|---|---|---|---|
| Kevin C. Gorman, Ph.D. | $637,500 | $306,000 | $61,207 | $1,546,242 | $39,186 | $2,590,135 |
| Timothy P. Coughlin | $468,750 | $187,500 | $48,581 | $1,231,049 | $39,108 | $1,974,988 |
| Christopher F. O'Brien, M.D. | $420,000 | $210,000 | $35,412 | $1,118,788 | $22,034 | $1,806,234 |
| Dimitri E. Grigoriadis, Ph.D. | $303,000 | $151,500 | $36,418 | $1,017,000 | $26,162 | $1,534,080 |
| Haig P. Bozigian, Ph.D. | $320,000 | $160,000 | $41,836 | $1,017,000 | $26,205 | $1,565,041 |

* Reflects a termination due to disability. Dr. Valeur-Jensen had an actual severance triggering event in August 2011 in connection with her transition to employment on a part-time basis. Accordingly, her actual severance figures are reported in the "Potential Payment upon Termination Table" above.

(1) Based on salary as of December 31, 2011.

(2) Based on bonus targets established by the Board of Directors for 2011.

(3) Accrued compensation is comprised of vacation pay earned and unpaid as of December 31, 2011 and a one-time additional two week vacation benefit for eligible employees.

(4) Certain options held by the Named Executive Officers at December 31, 2011 had an exercise price greater than the closing price of the Company's common stock at December 31, 2011. The amounts in this column represent the intrinsic value of 'in-the money' vested and outstanding options as of December 31, 2011 that would vest in accordance with the executive officers' employment agreements. Values were derived using the closing price of the Company's common stock on December 30, 2011 of $8.50.

(5) Medical is comprised of health insurance premiums for the period specified in each executive officer's employment contract.

**Potential Payment upon Termination by Death Table***

| Name | Bonus (1) | Accrued Compensation (2) | Stock Awards (3) | Total |
|---|---|---|---|---|
| Kevin C. Gorman, Ph.D. | $306,000 | $61,207 | $1,546,242 | $1,913,449 |
| Timothy P. Coughlin | $187,500 | $48,581 | $1,231,049 | $1,467,130 |
| Christopher F. O'Brien, M.D. | $210,000 | $35,412 | $1,118,788 | $1,364,200 |
| Dimitri E. Grigoriadis, Ph.D. | $151,500 | $36,418 | $1,017,000 | $1,204,918 |
| Haig P. Bozigian, Ph.D. | $160,000 | $41,836 | $1,017,000 | $1,218,836 |

* Reflects a termination due to death. Dr. Valeur-Jensen had an actual severance triggering event in August 2011 in connection with her transition to employment on a part-time basis. Accordingly, her actual severance figures are reported in the "Potential Payment upon Termination Table" above.

(1) Based on bonus targets established by the Board of Directors for 2011.

(2) Accrued compensation is comprised of vacation pay earned and unpaid as of December 31, 2011 and a one-time additional two week vacation benefit for eligible employees.

(3) Certain options held by the Named Executive Officers at December 31, 2011 had an exercise price greater than the closing price of the Company's common stock at December 31, 2011. The amounts in this column represent the intrinsic value of 'in-the money' vested and outstanding options as of December 31, 2011 that would vest in accordance with the executive officers' employment agreements. Values were derived using the closing price of the Company's common stock on December 30, 2011 of $8.50.

The following is a description of the arrangements under which the Named Executive Officers may be entitled to potential payments upon a termination without cause or resignation due to a constructive termination (including following a change in control) or upon disability or death. Resignation due to constructive termination may include an executive's resignation following one or more of the following material adverse changes in the nature of executive's employment, as specified in the agreement, that is not cured following notification:

- a significant reduction in the executive or the executive supervisor's duties or responsibilities,
- a material reduction in base salary,
- material relocation, or
- material breach of the executive's employment agreement.

***Dr. Gorman*** is entitled to 1.25 times the amount of his annual base salary and target annual bonus to be paid equally over 15 months, an acceleration of unvested shares that would have vested over the 15 continuous months after the date of termination, and payment of COBRA benefits to continue then-current coverage for a period of 15 months following termination in the event that the Company terminates his employment without cause, or he resigns due to a constructive termination. In the event of such termination within a specified time following a change of control, Dr. Gorman is entitled to 2 times the amount of his annual base salary and annual target bonus to be paid in one lump sum, a cash amount equal to the value of all unvested stock awards and all vested and outstanding stock awards, and payment of COBRA benefits to continue then-current coverage for a period of 24 months following termination. In addition, the Company has agreed to reimburse Dr. Gorman for the increase in federal and state income taxes payable by him by reason of the benefits provided in connection with such a termination in connection with a change in control if the total payment exceeds 2 9 9 of his b a amount by more than 15%In the event of termination due to disability, Dr. Gorman is entitled to 15 months of base salary paid semi-monthly over 15 months, a lump sum amount equal to his target annual bonus multiplied by a fraction the numerator of which is the number of full months of employment by Dr. Gorman in the fiscal year and the denominator of which is 12, an acceleration of unvested shares that would have vested over the 15 continuous months after the date of termination, and payment of COBRA benefits to continue then-current coverage for a period of 15 months following termination. In the event of a termination due to Dr. Gorman's death, his beneficiaries or estate, would be entitled to an acceleration of unvested shares that would have vested over the 15 continuous months after the date of termination, a lump sum amount equal to his target annual bonus multiplied by a fraction the numerator of which is the number of full months of employment by Dr. Gorman in the fiscal year and the denominator of which is 12and any accrued and unpaid compensation on the date of termination.

***Mr. Coughlin*** is entitled to 1.25 times the amount of his annual base salary and target annual bonus to be paid equally over 15 months, an acceleration of unvested shares that would have vested over the 15 continuous months after the date of termination, and payment of COBRA benefits to continue then-current coverage for a period of 15 months following termination in the event that the Company terminates his employment without cause, or he resigns due to a constructive termination. In the event of such termination within a specified time following a change of control, Mr. Coughlin is entitled to 2 times his annual base salary and annual target bonus to be paid in one lump sum, a cash amount equal to the value of all unvested stock awards and all vested and outstanding stock awards, and payment of COBRA benefits to continue then-current coverage for a period of 24 months following termination. In addition, the Company has agreed to reimburse Mr. Coughlin for the increase in federal and state income taxes payable by him by reason of the benefits provided in connection with such a termination in connection with a change in control if the total payment exceeds 2 9 9 of his base an more than 15%In the event of termination due to disability, Mr. Coughlin is entitled to 15 months of base salary paid semi-monthly over 15 months, a lump sum amount equal to his target annual bonus multiplied by a fraction the numerator of which is the number of full months of employment by Mr. Coughlin in the fiscal year and the denominator of which is 12, an acceleration of unvested shares that would have vested over the 15 continuous months after the date of termination, and payment of COBRA benefits to continue then-current coverage for a period of 15 months following termination. In the event of a termination due to Mr. Coughlin's death, his beneficiaries or estate, would be entitled to an acceleration of unvested shares that would have vested over the 15 continuous months after the date of termination, a lump sum amount equal to his target annual bonus multiplied by a fraction the numerator of which is the number of full months of employment by Mr. Coughlin in the fiscal year and the denominator of which is 12and any accrued and unpaid compensation on the date of termination.

***Dr. O'Brien*** is entitled to 1.0 times the amount of his annual base salary and target annual bonus to be paid equally over 12months, an acceleration of unvested shares that would have vested over the 12continuous months after the date of termination, and payment of COBRA benefits to continue then-current coverage for a period of 12months following termination in the event that the Company terminates his employment without cause, or he resigns due to a constructive termination. In the event of such termination within a specified time following a change of control, Dr. O'Brien is entitled to 1.5 times the amount of his annual base salary and annual target bonus to be paid in one lump sum, a cash amount equal to the value of all unvested stock awards

and all vested and outstanding stock awards, and payment of COBRA benefits to continue then-current coverage for a period of 18 months following termination. In addition, the Company has agreed to reimburse Dr. O•Brien for the increase in federal and state income taxes payable by him by reason of the benefits provided in connection with such a termination in connection with a change in control if the total payment exceeds 2.99 of his base amount by more than 15%. In the event of termination due to disability, Dr. O•Brien is entitled to 12 months of base salary paid semi-monthly over 12 months, a lump sum amount equal to his target annual bonus multiplied by a fraction of the numerator of which is the number of full months of employment by Dr. O•Brien in the fiscal year and the denominator of which is 12, an acceleration of unvested shares that would have vested over the 12 continuous months after the date of termination, and payment of COBRA benefits to continue then-current coverage for a period of 12 months following termination. In the event of a termination due to Dr. O•Brien•s death, his beneficiaries or estate, would be entitled to an acceleration of unvested shares that would have vested over the 12 continuous months after the date of termination, a lump sum amount equal to his target annual bonus multiplied by a fraction the numerator of which is the number of full months of employment by Dr. O•Brien in the fiscal year and the denominator of which is 12 and any accrued and unpaid compensation on the date of termination.

Dr. Grigoriadis is entitled to 1.0 times the amount of his annual base salary and target annual bonus to be paid equally over 12 months, an acceleration of unvested shares that would have vested over the 12 continuous months after the date of termination, and payment of COBRA benefits to continue then-current coverage for a period of 12 months following termination in the event that the Company terminates his employment without cause, or he resigns due to a constructive termination. In the event of such termination within a specified time following a change of control, Dr. Grigoriadis is entitled to 1.5 times the amount of his annual base salary and annual target bonus to be paid in one lump sum, a cash amount equal to the value of all unvested stock awards and all vested and outstanding stock awards, and payment of COBRA benefits to continue then-current coverage for a period of 18 months following termination. In addition, the Company has agreed to reimburse Dr. Grigoriadis for the increase in federal and state income taxes payable by him by reason of the benefits provided in connection with such a termination in connection with a change in control if the total payment exceeds 2.99 of his base amount by more than 15%. In the event of termination due to disability, Dr. Grigoriadis is entitled to 12 months of base salary paid semi-monthly over 12 months, a lump sum amount equal to his target annual bonus multiplied by a fraction the numerator of which is the number of full months of employment by Dr. Grigoriadis in the fiscal year and the denominator of which is 12, an acceleration of unvested shares that would have vested over the 12 continuous months after the date of termination, and payment of COBRA benefits to continue then-current coverage for a period of 12 months following termination. In the event of a termination due to Dr. Grigoriadis• death, his beneficiaries or estate, would be entitled to an acceleration of unvested shares that would have vested over the 12 continuous months after the date of termination, a lump sum amount equal to his target annual bonus multiplied by a fraction the numerator of which is the number of full months of employment by Dr. Grigoriadis in the fiscal year and the denominator of which is 12 and any accrued and unpaid compensation on the date of termination.

Dr. Bozigian is entitled to 1.0 times the amount of his annual base salary and target annual bonus to be paid equally over 12 months, an acceleration of unvested shares that would have vested over the 12 continuous months after the date of termination, and payment of COBRA benefits to continue then-current coverage for a period of 12 months following termination in the event that the Company terminates his employment without cause, or he resigns due to a constructive termination. In the event of such termination within a specified time following a change of control, Dr. Bozigian is entitled to 1.5 times the amount of his annual base salary and annual target bonus to be paid in one lump sum, a cash amount equal to the value of all unvested stock awards and all vested and outstanding stock awards, and payment of COBRA benefits to continue then-current coverage for a period of 18 months following termination. In addition, the Company has agreed to reimburse Dr. Bozigian for the increase in federal and state income taxes payable by him by reason of the benefits provided in connection with such a termination in connection with a change in control if the total payment exceeds 2.99 of his base amount by more than 15%. In the event of termination due to disability, Dr. Bozigian is entitled to 12 months of base salary paid semi-monthly over 12 months, a lump sum amount equal to his target annual bonus multiplied

by a fraction the numerator of which is the number of full months of employment by Dr. Bozigian in the fiscal year and the denominator of which is 12, an acceleration of unvested shares that would have vested over the 12 continuous months after the date of termination, and payment of COBRA benefits to continue then-current coverage for a period of 12 months following termination. In the event of a termination due to Dr. Bozigian•s death, his beneficiaries or estate, would be entitled to an acceleration of unvested shares that would have vested over the 12 continuous months after the date of termination, a lump sum amount equal to his target annual bonus multiplied by a fraction the numerator of which is the number of full months of employment by Dr. Bozigian in the fiscal year and the denominator of which is 12 and any accrued and unpaid compensation on the date of termination.

For a description of our arrangement with Dr. Valeur-Jensen in connection with her transition to employment on a part-time basis, see page 29 of this proxy statement under •Compensation Discussion and Analysis-Severance Agreements and Other Benefits.Ž

## DIRECTORS COMPENSATION SUMMARY

### 2011 Compensation

Non-employee Directors are reimbursed for expenses incurred in connection with performing their duties as Directors of the Company. For 2011, Directors who are not employees of the Company received a $30,000 annual retainer and $2,000 for each regular meeting of the Board of Directors. The Company provided the Chairman of the Board an additional $20,000, making his total annual cash retainer $50,000. In addition to the cash compensation set forth above, the Chairman of the Audit Committee, Corinne H. Nevinny, received an additional $19,000 annual cash retainer. The Chairman of the Compensation Committee, Richard F. Pops, received an additional $12,000 annual cash retainer. The Chairman of the Nominating/Corporate Governance Committee, W. Thomas Mitchell, received an additional $9,000 annual cash retainer. Each other Director who was a member of the Audit Committee, the Compensation Committee or the Nominating/Corporate Governance Committee received an annual cash retainer of $12,000, $7,000 and $5,000, respectively, for each Committee on which he or she serves.

Additionally for 2011, each non-employee Director received a grant of a nonstatutory stock option to purchase 15,000 shares of the Company•s common stock (except that the Chairman of the Board received an option to purchase 20,000 shares) at each Annual Meeting of Stockholders, provided that such non-employee Director has been a Director of the Company for at least six months prior to the date of such Annual Meeting. Each new non-employee Director is automatically granted a nonstatutory stock option to purchase 25,000 shares of the Company•s common stock upon the date such person joins the Board of Directors.

All options granted to non-employee Directors under the 2003 Plan were subject to a seven year term and vested monthly over the one-year period following the date of grant and have exercise prices equal to the fair market value of the Company•s common stock on the date of the grant.

### 2012 Compensation

Non-employee Directors are reimbursed for expenses incurred in connection with performing their duties as Directors of the Company. For 2012, Directors who are not employees of the Company will receive a $40,000 annual retainer and not be paid for each regular meeting of the Board of Directors. The Company will provide the Chairman of the Board an additional $20,000, making his total annual cash retainer $60,000. In addition to the cash compensation set forth above, the Chairman of the Audit Committee, Corinne H. Nevinny, will receive an additional $20,000 annual cash retainer. The Chairman of the Compensation Committee, Richard F. Pops, will receive an additional $15,000 annual cash retainer. The Chairman of the Nominating/Corporate Governance Committee, W. Thomas Mitchell, will receive an additional $9,000 annual cash retainer. Each other Director who is a member of the Audit Committee, the Compensation Committee or the Nominating/Corporate Governance Committee will receive an annual cash retainer of $12,000, $7,000 and $5,000, respectively, for each Committee on which he or she serves.

Additionally for 2012, each non-employee Director will receive a grant of a nonstatutory stock option to purchase 15,000 shares of the Company•s common stock (except that the Chairman of the Board will receive an option to purchase 20,000 shares) at each Annual Meeting of Stockholders, provided that such non-employee Director has been a Director of the Company for at least six months prior to the date of such Annual Meeting. Each new non-employee Director will automatically be granted a nonstatutory stock option to purchase 30,000 shares of the Company•s common stock upon the date such person joins the Board of Directors, which will vest over four years.

All new options granted to non-employee Directors will be subject to a ten year term and will vest monthly over the one-year period following the date of grant (except for new Director grants as described above) and all option grants will have exercise prices equal to the fair market value of the Company•s common stock on the date of the grant.

Compensation of Directors. The following table sets forth the compensation paid by the Company for the fiscal year ended December 31, 2011 to the Directors of the Company named below:

Director Compensation Table

| Name | Fees Earned or Paid in Cash (1) | Option Awards (2) | Total |
|---|---|---|---|
| Kevin C. Gorman, Ph.D. (3) | $ „ | $ „ | $ „ |
| William H. Rastetter, Ph.D. (4) | $60,000 | $98,600 | $158,600 |
| Gary A. Lyons (5) | $45,000 | $73,950 | $118,950 |
| Joseph A. Mollica, Ph.D. (6) | $45,000 | $73,950 | $118,950 |
| W. Thomas Mitchell (7) | $54,000 | $73,950 | $127,950 |
| Corinne H. Nevinny (8) | $59,000 | $73,950 | $132,950 |
| Richard F. Pops (9) | $62,000 | $73,950 | $135,950 |
| Stephen A. Sherwin, M.D. (10) | $52,000 | $73,950 | $125,950 |
| Wylie W. Vale, Ph.D. (11) | $47,000 | $73,950 | $120,950 |

(1) Amounts in this column reflect compensation earned in 2011, all of which was paid during 2011.

(2) The amounts shown represent the full grant date fair value of option awards granted in 2011 as determined pursuant to ASC 718. The assumptions used to calculate the value of such awards are set forth under Note 8 of the Notes to the Consolidated Financial Statements included in the Company•s Annual Report on Form 10-K for the year ended December 31, 2011 filed with the SEC on February 9, 2012.

(3) During 2011, Dr. Gorman was an employee of the Company, and as such, did not receive any compensation for service on the Board of Directors. As of December 31, 2011, Dr. Gorman had outstanding options to purchase 623,000 shares of common stock.

(4) As of December 31, 2011, Dr. Rastetter had outstanding options to purchase 45,000 shares of common stock.

(5) As of December 31, 2011, Mr. Lyons had outstanding options to purchase 207,500 shares of common stock.

(6) As of December 31, 2011, Dr. Mollica had outstanding options to purchase 120,000 shares of common stock.

(7) As of December 31, 2011, Mr. Mitchell had outstanding options to purchase 104,000 shares of common stock.

(8) As of December 31, 2011, Ms. Nevinny had outstanding options to purchase 84,000 shares of common stock.

(9) As of December 31, 2011, Mr. Pops had outstanding options to purchase 96,000 shares of common stock.

(10) As of December 31, 2011, Dr. Sherwin had outstanding options to purchase 96,000 shares of common stock.

(11) As of December 31, 2011, Dr. Vale had outstanding options to purchase 96,000 shares of common stock. Dr. Vale ceased to be a member of the Board of Directors upon his passing in January 2012.

***Additional Information***

Executive officers of the Company serve at the discretion of the Board of Directors. There are no family relationships among any of the Directors, executive officers or key employees of the Company. No Director, executive officer, key employee, promoter or control person of the Company has, in the last five years, been subject to bankruptcy proceedings, criminal proceedings or legal proceedings related to the violation of state or federal commodities or securities laws.

## RELATED PERSON TRANSACTIONS

**Review, approval or ratification of related person transactions**

In accordance with the Company•s Audit Committee Charter, the Company•s Audit Committee is responsible for reviewing and approving the terms and conditions of all related person transactions. In connection with its review, approval or ratification of related person transactions, the Company•s Audit Committee takes into account all relevant available facts and circumstances in determining whether such transaction is in the best interests of the Company and its stockholders. Any transaction that would disqualify a Director from meeting the •independent directorŽ standard as defined under the Nasdaq Stock Market rules requires review by the Company•s audit committee prior to entering into such transaction. For all other related person transactions the Company reviews all agreements and payments for related person transactions and based on this review, a report is made to the Company•s Audit Committee quarterly disclosing all related person transactions during that quarter, if any. All related person transactions shall be disclosed in the Company•s applicable filings with the SEC as required under SEC rules.

**Related person transactions during fiscal 2011**

In February 2010, William H. Rastetter, Ph.D. was appointed to the Company•s Board of Directors. Dr. Rastetter is a partner in Venrock, a venture capital firm. At December 31, 2011, certain investment funds affiliated with Venrock owned approximately 2.9 million shares of Neurocrine•s common stock. Venrock has implemented an internal disclosure screen designed to prevent the transmission of information related to Neurocrine between Dr. Rastetter and other Venrock personnel, and Dr. Rastetter does not exercise any voting or dispositive power over the Neurocrine shares held by Venrock.

## OTHER MATTERS

As of the date of this proxy statement, the Company knows of no other matters to be submitted to the stockholders at the Annual Meeting. If any other matters properly come before the Annual Meeting, it is the intention of the persons named in the enclosed proxy card to vote the shares they represent as the Board of Directors may recommend.

## ADDITIONAL INFORMATION

***"Householding" of Proxy Materials.*** The SEC has adopted rules that permit companies and intermediaries such as brokers to satisfy delivery requirements for proxy statements with respect to two or more stockholders sharing the same address by delivering a single proxy statement addressed to those stockholders. This process, which is commonly referred to as •householding,Ž potentially provides extra convenience for stockholders and cost savings for companies. The Company, and some brokers, household proxy materials, delivering a single

# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**Washington, D.C. 20549**

# Form 10-K

**(Mark One)**

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the fiscal year ended December 31, 2011**

**OR**

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

**For the transition period from to**

**Commission file number: 0-22705**

# 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)** |
| **12780 El Camino Real, San Diego, CA** | **92130** |
| **(Address of principal executive offices)** | **(Zip Code)** |

**Registrant's telephone number, including area code: (858) 617-7600**

**Securities registered pursuant to Section 12(b) of the Act:**

| **Title of Each Class** | **Name of Each Exchange on Which Registered** |
|---|---|
| Common Stock, $0.001 par value | The NASDAQ Stock Market |

**Securities registered pursuant to Section 12(g) of the Act: None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☑

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☑

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 ☑ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☑ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of 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. ☑

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐ Accelerated filer ☑ Non-accelerated filer ☐ Smaller reporting company ☐
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☑

The aggregate market value of the common equity held by non-affiliates of the registrant as of June 30, 2011 totaled approximately $374,004,103 based on the closing price for the registrant's Common Stock on that day as reported by the NASDAQ Stock Market. Such value excludes Common Stock held by executive officers, directors and 10% or greater stockholders as of June 30, 2011. The identification of 10% or greater stockholders as of June 30, 2011 is based on Schedule 13G and amended Schedule 13G reports publicly filed before June 30, 2011. This calculation does not reflect a determination that such parties are affiliates for any other purposes.

As of January 31, 2012, there were 66,239,495 shares of the registrant's Common Stock outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

| **Document Description** | **10-K Part** |
|---|---|
| Portions of the registrant's notice of annual meeting of stockholders and proxy statement to be filed pursuant to Regulation 14A within 120 days after registrant's fiscal year end of December 31, 2011 are incorporated by reference into Part III of this report . . . | III |

## TABLE OF CONTENTS


| | | Page |
|---|---|---|
| | **PART I** | |
| Item 1. | Business | 3 |
| Item 1A. | Risk Factors | 18 |
| Item 1B. | Unresolved Staff Comments | 30 |
| Item 2. | Properties | 30 |
| Item 3. | Legal Proceedings | 30 |
| Item 4. | Removed and Reserved | 30 |
| | **PART II** | |
| Item 5. | Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities | 31 |
| Item 6. | Selected Financial Data | 33 |
| Item 7. | Management's Discussion and Analysis of Financial Condition and Results of Operations | 34 |
| Item 7A. | Quantitative and Qualitative Disclosures about Market Risk | 46 |
| Item 8. | Financial Statements and Supplementary Data | 47 |
| Item 9. | Changes in and Disagreements with Accountants on Accounting and Financial Disclosure | 72 |
| Item 9A. | Controls and Procedures | 72 |
| Item 9B. | Other Information | 75 |
| | **PART III** | |
| Item 10. | Directors, Executive Officers and Corporate Governance | 76 |
| Item 11. | Executive Compensation | 76 |
| Item 12. | Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters | 76 |
| Item 13. | Certain Relationships and Related Transactions, and Director Independence | 76 |
| Item 14. | Principal Accountant Fees and Services | 76 |
| | **PART IV** | |
| Item 15. | Exhibits, Financial Statement Schedules | 77 |

## PART I

## FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K and the information incorporated herein by reference contain forward-looking statements that involve a number of risks and uncertainties. Although our forward-looking statements reflect the good faith judgment of our management, these statements can only be based on facts and factors currently known by us. Consequently, these forward-looking statements are inherently subject to risks and uncertainties, and actual results and outcomes may differ materially from results and outcomes discussed in the forward-looking statements.

Forward-looking statements can be identified by the use of forward-looking words such as "believes," "expects," "hopes," "may," "will," "plan," "intends," "estimates," "could," "should," "would," "continue," "seeks," "pro forma," or "anticipates," or other similar words (including their use in the negative), or by discussions of future matters such as the development of new products, technology enhancements, possible changes in legislation and other statements that are not historical. These statements include but are not limited to statements under the captions "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business" as well as other sections in this report. You should be aware that the occurrence of any of the events discussed under the heading "Item 1A. Risk Factors" and elsewhere in this report could substantially harm our business, results of operations and financial condition and that if any of these events occurs, the trading price of our common stock could decline and you could lose all or a part of the value of your shares of our common stock.

The cautionary statements made in this report are intended to be applicable to all related forward-looking statements wherever they may appear in this report. We urge you not to place undue reliance on these forward-looking statements, which speak only as of the date of this report. Except as required by law, we assume no obligation to update our forward-looking statements, even if new information becomes available in the future.

### ITEM 1. *BUSINESS*

We were originally incorporated in California in January 1992 and were reincorporated in Delaware in May 1996.

We discover, develop and intend to commercialize drugs for the treatment of neurological and endocrine-related diseases and disorders. Our product candidates address some of the largest pharmaceutical markets in the world, including endometriosis, stress-related disorders, pain, tardive dyskinesia, uterine fibroids, diabetes, insomnia, and other neurological and endocrine-related diseases and disorders. We currently have eleven programs in various stages of research and development, including six programs in clinical development. While we independently develop many of our product candidates, we have entered into collaborations for six of our programs. Our lead clinical development program, elagolix, is a drug candidate for the treatment of endometriosis and uterine fibroids that is partnered with Abbott International Luxembourg S.à r.l. (Abbott).

## Our Product Pipeline

The following table summarizes our most advanced product candidates currently in clinical development, those currently in research, and those subject to regulatory review, and is followed by detailed descriptions of each program:

| Program | Target Indication(s) | Status | Commercial Rights |
|---|---|---|---|
| ***Product candidates in clinical development:*** | | | |
| Elagolix | Endometriosis | Phase II | Abbott/Neurocrine |
| Vesicular Monoamine Transporter 2 Inhibitor (VMAT2) | Movement Disorders | Phase II | Neurocrine |
| $CRF_2$ Peptide Agonist – urocortin 2 | Cardiovascular | Phase II | Neurocrine |
| $CRF_1$ Antagonist (561679) | Stress-related Disorders | Phase II | GlaxoSmithKline/ Neurocrine |
| Elagolix | Uterine Fibroids | Phase II | Abbott/Neurocrine |
| ***Research programs:*** | | | |
| G Protein-Coupled Receptor 119 (GPR119) | Type II Diabetes | Research | Boehringer Ingelheim/Neurocrine |
| VMAT2 | Schizophrenia | Research | Neurocrine |
| GnRH Antagonists | Men's and Women's Health, Oncology | Research | Abbott/Neurocrine |
| Antiepileptic Drugs | Epilepsy, Essential Tremor, Pain | Research | Neurocrine |
| G Protein-Coupled Receptors | Other Conditions | Research | Neurocrine |
| ***Product candidate subject to regulatory review:*** | | | |
| Indiplon | Insomnia | FDA has deemed Approvable | Neurocrine/Dainippon Sumitomo Pharma Co. |

"Phase II" indicates that we or our collaborators are conducting clinical trials on groups of patients afflicted with a specific disease in order to determine preliminary efficacy, optimal dosages and expanded evidence of safety.

"Phase I" indicates that we or our collaborators are conducting clinical trials with a smaller number of subjects to determine early safety profile, maximally tolerated dose and pharmacological properties of the product in human volunteers.

"Research" indicates identification and evaluation of compound(s) in laboratory and preclinical models.

"$CRF_1$ and $CRF_2$" refer to two CRF receptor subtypes.

## Product Candidates In Clinical Development

### *Elagolix – Gonadotropin-Releasing Hormone (GnRH) Antagonist*

GnRH is a peptide that stimulates the secretion of the pituitary hormones that are responsible for sex steroid production and normal reproductive function. Researchers have found that chronic administration of GnRH agonists, after initial stimulation, reversibly shuts down this transmitter pathway and is clinically useful in treating hormone-dependent diseases such as endometriosis and uterine fibroids. Several companies have developed peptide GnRH agonists on this principle, such as Lupron® and Zoladex®. However, since they are peptides, they must be injected via a depot formulation rather than the preferred oral route of administration. In addition, GnRH agonists can take up to several weeks to exert their desired effect once the initial stimulation has occurred, a factor not seen with the use of GnRH antagonists. More importantly, until the desired effects are

maximal, GnRH agonists have shown a tendency to exacerbate the condition via a hormonal flare. The ultimate profound suppression effect observed with GnRH agonists is similar to that seen after menopause and can be associated with hot flashes and the loss of bone mineral density.

Orally active, nonpeptide GnRH antagonists potentially offer several advantages over injectable GnRH peptide drugs, including rapid onset of hormone suppression without a hormonal flare. Also, injection site reactions commonly observed in peptide depots are avoided and dosing can be rapidly discontinued if necessary – a clinical management option not available with long-acting depot injections. Importantly, by using GnRH antagonists, it may be possible to alter the level of pituitary GnRH suppression thereby titrating circulating estrogen levels. Using this approach, an oral GnRH antagonist may provide patients relief from the painful symptoms of endometriosis while avoiding the need for the active management of bone loss.

*Endometriosis.* Endometriosis is associated with a multitude of symptoms, some of the most common of which include pain related both to menstruation (dysmenorrhea) and sexual intercourse (dyspareunia) as well as chronic pelvic pain throughout the menstrual cycle, infertility, and menorrhagia, among many others. The wide range of symptoms associated with endometriosis serves to complicate and delay diagnosis due to the significant overlap of symptoms with the disease profiles of other conditions. The World Endometriosis Research Foundation estimates that there are over 170 million women worldwide who suffer from endometriosis. Datamonitor (2009) estimates that there are approximately 7.5 million women in the United States who suffer from the symptoms of endometriosis. We believe that the availability of an oral treatment, lacking the side effect profile of the currently available peptide GnRH agonists, may be a desirable alternative to current pharmaceutical therapies and ultimately encourage a significantly higher treatment rate.

During 2008, we completed the first Phase IIb study of elagolix (PETAL or 603 study) in which 252 patients, with a laparoscopic diagnosis of endometriosis, were treated over the initial 6-month period. This multi-center, randomized, double-blind, double-dummy study consisted of three treatment groups, elagolix 150mg once a day, elagolix 75mg twice daily, and an active control, DMPA-SC. The primary purpose of this study was to assess the impact of six months of treatment of elagolix on bone mineral density as measured by a dual energy x-ray absorptiometry (DXA) scan at the conclusion of treatment and at six and 12 months post treatment. This study also assessed, as secondary endpoints, the impact of treatment on endometriosis symptoms as measured by Composite Pelvic Signs and Symptoms Scale (CPSSS), a monthly recall scale that measures dysmenorrhea, non-menstrual pelvic pain, dyspareunia, pelvic tenderness and induration (all elements of endometriosis pain). Top-line results showed that elagolix met the primary endpoint by having minimal impact on bone mineral density at the conclusion of treatment. This study also showed that elagolix had both a statistical and clinically meaningful reduction in endometriosis symptoms as measured by CPSSS with an 86% responder rate in the 150mg once daily elagolix arm of the study. Additionally, elagolix was shown to be non-inferior to DMPA-SC under the CPSSS. Patient follow up both six and 12 months post treatment showed elagolix did not result in a significant reduction in bone mineral density as measured by DXA, with a mean time of return to ovulation of 24 days for elagolix subjects.

Toward the conclusion of the 603 study, the U.S. Food and Drug Administration (FDA) requested that the endpoints for dysmenorrhea and non-menstrual pelvic pain be assessed on a daily basis rather than utilizing the CPSSS monthly recall scale. In addition, the FDA also provided modified wording to assess the dysmenorrhea and non-menstrual pelvic pain scores on a daily basis. Given these new independent co-primary endpoints, we conducted two additional Phase IIb trials of elagoli*x* to evaluate these modified endpoints as proposed by the FDA, to fully explore the elagolix dose range utilizing both 150mg and 250mg doses. These two trials were designed to assess elagolix for an initial three months, with the non-elagolix treatment arms re-randomized after three months into treatment groups of either 150mg or 250mg of elagolix once daily for an additional three months.

The first additional Phase IIb trial (Lilac PETAL or 702 study) consisted of three arms, elagolix 150mg once daily, elagolix 250mg once daily, and placebo. We randomized 155 subjects with a laparoscopic diagnosis of

endometriosis in this trial. The three-month placebo controlled portion of the 702 study showed that elagoli*x* provided endometriosis sufferers with clinical improvement of symptoms, coupled with an excellent safety and tolerability profile. However, the FDA-proposed non-menstrual pelvic pain daily scale had a low baseline score and was relatively insensitive to treatment effects. There were no treatment related serious adverse events in the 702 study and the two most common adverse events were headache and nausea, which were typically mild and transient and consistent with our previous studies.

The second additional Phase IIb trial (Tulip PETAL or 703 study) consisted of four arms, elagolix 150mg once daily, elagolix 250mg once daily, Prostap® SR 3.75mg (leuprorelin), and placebo. We enrolled 174 subjects with a laparoscopic diagnosis of endometriosis in this trial. The three-month placebo controlled portion of the 703 study confirmed that elagolix and leuprorelin are associated with reductions in dysmenorrhea and non-menstrual pelvic pain daily scores when compared to placebo. However, the FDA proposed non-menstrual pelvic pain daily scale numeric changes and dynamic range were both small. Although the adverse events reported in the 703 study as occurring more often with elagolix than with placebo were nausea and headache ($\leq$12%), consistent with previous clinical studies of elagolix, these events were generally mild or moderate, transient and not generally associated with study discontinuation. There were no treatment related serious adverse events.

In August 2009, we held a Type C meeting with the FDA to discuss the non-menstrual pelvic pain scale as proposed by the FDA and used in the 702 and 703 studies. Based on this meeting, we modified the wording of the non-menstrual pain and dysmenorrhea daily scale and launched a new clinical trial, the Daisy PETAL Study (901 study). This double-blind placebo-controlled clinical trial was designed to provide an assessment of the modified scale over an eight- week treatment period of 150mg elagolix, followed by sixteen weeks of open-label treatment. This trial commenced in September 2009 and randomized approximately 130 subjects. In May 2010, we announced the results of this trial which showed the symptoms of dysmenorrhea and non-menstrual pelvic pain, as measured by the modified daily scale, both improved significantly in the elagolix treated arms ($p<0.001$ and $<0.01$, respectively). Daily dysmenorrhea pain scores were a 2.1 at baseline (0-3 scale) with a 1.13 reduction in the elagolix arm compared to a 0.37 reduction in the placebo arm at eight weeks. Daily non-menstrual pelvic pain scores were a 1.4 at baseline (0-3 scale) with a 0.47 reduction in the elagolix arm compared to a 0.19 reduction in the placebo arm at eight weeks. There were no treatment related serious adverse events in the 901 study and the two most common adverse events were headache and nausea, which were typically mild and transient and consistent with our previous studies.

In June 2010, we entered into a worldwide collaboration with Abbott International Luxembourg S.à r.l. (Abbott) to develop and commercialize elagolix and all next-generation non-peptide GnRH antagonists for women's and men's health indications. We completed the final transfer of the Investigational New Drug (IND) application for elagolix to Abbott during the fourth quarter of 2010. Abbott now has primary responsibility for all regulatory interactions with the FDA related to elagolix and the next-generation GnRH antagonists covered by the collaboration.

We and Abbott held an end of Phase II meeting with the FDA in March 2011, and several Type C meetings during 2011. Abbott is currently pursuing a Special Protocol Assessment (SPA) with the FDA, the purpose of which would be to agree with the FDA on the design of the pivotal Phase III program for elagolix in endometriosis. Subject to finalizing the SPA, we expect elagolix to enter Phase III clinical trials for endometriosis in the first half of 2012.

*Uterine Fibroids.* Uterine Fibroids are benign hormonally responsive tumors that form in the wall of the uterus. They are the most common solid tumor in women with a prevalence rate of at least 25% (American College of Obstetricians and Gynecologists). While many women do not have symptoms, depending on the size, location and number, uterine fibroids can cause pelvic pain, reproductive problems, and severe bleeding that can lead to anemia. Due to the severity of symptoms, treatment sometimes requires surgery, including the removal of the uterus. In fact, uterine fibroids is a leading indication for hysterectomy in the United, with

approximately 250,000 hysterectomies performed each year related to uterine fibroids (Whiteman *et al AJOG* 2008, *198,* e1). We believe that a safe and effective oral therapy would be a preferred treatment regimen rather than surgical intervention.

During 2011, Abbott initiated a randomized, double-blind, placebo controlled, Phase II study of 300 women to assess the safety and efficacy of elagolix in the treatment of uterine fibroids. The primary endpoint in this study is an assessment of blood loss after three months of treatment with elagolix. The study is a dose ranging study designed to evaluate various doses of elagolix compared to placebo. Additional efficacy endpoints being evaluated are change in uterine volume, fibroid volume, and change in menstrual patterns. This study is expected to be completed in late 2012.

***Vesicular Monoamine Transporter 2 Inhibitor (VMAT2)***

VMAT2 is a protein concentrated in the human brain that is essential for the transmission of nerve impulses between neurons. VMAT2 is primarily responsible for re-packaging and transporting monoamines (dopamine, norepinephrine, serotonin, and histamine) among nerve cells. Specifically, dopamine enables neurotransmission among nerve cells that are involved in voluntary and involuntary motor control.

We have identified a highly selective VMAT2 inhibitor (NBI-98854) that is effective in preclinical testing in regulating the levels of dopamine release during nerve communication, while at the same time having minimal impact on the other monoamines thereby reducing the likelihood of “off target” side effects.

In September 2011, we began a second Phase II study in tardive dyskinesia patients. This 32 patient placebo controlled, double-blind, randomized, cross-over study, uses a within-subject comparison for safety and efficacy evaluation. Patients are randomized to either 12.5mg or 50mg doses of NBI-98854 for a two week dosing period, and also have a two week placebo dosing period. The primary efficacy endpoint of the study will be a comparison of placebo versus active AIMS scores at the end of the two dosing periods. Data from this study will be used to guide the dosing selection for larger Phase IIb studies in tardive dyskinesia patients that are expected to begin in 2012.

Tardive dyskinesia (TD) is defined by hyperkinetic involuntary movements which arise after months or years of treatment with dopamine receptor antagonist therapeutics (DRBA), e.g. antipsychotics for schizophrenia, bipolar disorder, and depression, and metoclopramide for nausea and vomiting and gastric emptying in patients with gastroparesis. Features of the disorder may include grimacing, tongue protrusion, lip smacking, puckering and pursing of the lips, and rapid eye blinking. Rapid movements of the extremities may also occur. The impact on daily function and the quality of life for individuals suffering from TD can be substantial. While the prevalence rates of TD can vary greatly in accordance with the population being studied, it is estimated that nearly 500,000 individuals are affected by TD in the United States alone (Kantar Health).

To address the unmet medical needs of patients suffering from TD. Neurocrine is developing NBI-98854. NBI-98854 is a potent, highly selective, VMAT2 inhibitor that is effective in regulating pre-synaptic release of dopamine, while at the same time having minimal impact on the other monoamines, e.g. norepinephrine and serotonin. This selectivity may reduce the likelihood of "off target" side effects. Additionally, Neurocrine has designed this novel compound to provide low, sustained, plasma and brain concentrations of the active drug to minimize the potential side effects associated with excessive dopamine depletion. With these features, NBI-98854 should be well tolerated in patients. NBI-98854 has been evaluated in several Phase I studies and a two Phase II studies to assess its safety, tolerability and efficacy and to establish a treatment regimen to be used in future clinical trials. Neurocrine believes that the potential efficacy and safety profile of NBI-98854 will address many of the shortcomings of current off-label treatments. Finally, NBI-98854 may well be useful in other disorders, such as Huntington's chorea, schizophrenia, Tourette's Syndrome, and tardive dystonia.

***$CRF_2$ Receptor Peptide Agonist (Urocortin 2)***

Congestive heart failure (CHF) is a condition where the heart cannot pump enough blood to supply all of the body's organs. It is a result of narrowing of the arteries combined with high blood pressure, which results in increased respiration as well as edema from water retention. In the case of acute symptomology, CHF patients will eventually experience a rapid deterioration and require urgent treatment in the hospital. According to 2011 data from the American Heart Association, over 6 million people experience CHF and about 670,000 new cases are diagnosed each year in the United States. CHF becomes more prevalent with age and the number of cases is expected to grow as the overall age of the population increases. Current treatment options include a cocktail of drugs consisting of diuretics to remove excess water, beta blockers and digitalis to improve heart muscle contraction, and/or ACE inhibitors, Angiotensin Receptor Blockers, and vasodilators to expand blood vessels. According to the American Heart Association (2012), there are approximately one million hospital discharges each year in the United States for CHF.

Urocortin 2 is an endogenous peptide ligand of the $CRF_2$ receptor present in the cardiovascular system, notably the heart and cerebral arterial system. Urocortin 2 plays a role in the control of the hormonal, cardiovascular, gastrointestinal, and behavioral responses to stress, and has an array of effects on the cardiovascular system and metabolism. Based on preclinical efficacy and safety data, together with its known role in human physiology, we believe that urocortin 2 may have positive hemodynamic effects on cardiac output and blood pressure which may benefit patients with acute CHF.

We completed a Phase II placebo controlled dose-escalation study in 2005 to evaluate the safety, pharmacokinetics and pharmacodynamics of two dose levels of urocortin 2 in patients with stable CHF. Results

of this study demonstrated a dose-related increase in cardiac output of up to 50% with only a modest increase (6%) in heart rate. We completed an additional Phase II study evaluating urocortin 2 over four-hour infusions in patients with stable CHF in the first half of 2006. The treatments were generally well tolerated without serious adverse events, abnormalities in electrocardiograms or significant changes in renal function. Positive hemodynamic effects were noted in virtually all patients with increases in cardiac output ranging from 6% to 54%.

We have also completed the necessary preclinical work to allow for periods of infusion of urocortin 2 up to 14 days. This substantially completes all of the preclinical toxicology work required by the FDA. Further development of urocortin 2 for CHF and other acute care cardiovascular diseases is highly dependent upon partnering of this program.

During 2009, The Christchurch Cardioendocrine Research Group at University of Otago, Christchurch School of Medicine and Health Sciences, New Zealand, began a pilot study of urocortin 2 in at least 50 patients with Acute Decompensated Heart Failure through a grant from the Health Research Council of New Zealand. In this blinded study, standard-of-care treatment (i.e., diuretics and vasodilators) are compared to standard of care treatment plus a four hour infusion of urocortin 2; enrollment of subjects is was completed in December 2011. A subset of 15 subjects also underwent right heart catheterization for more detailed evaluation of their cardiac status and response to treatment. We anticipate having the results of this study in the first quarter of 2012.

Additional urocortin 2 studies are being conducted by the Centre for Cardiovascular Sciences at The University of Edinburgh through a British Heart Foundation grant. A total of nine studies are to be conducted in both healthy volunteers and patients with stable CHF to determine the impact of urocortin 2 infusions on biomarkers of cardiovascular function and dysfunction. These studies began in 2010, and are expected to take several years to complete.

***Corticotropin-Releasing Factor (CRF) Receptor$_1$ Antagonist***

Researchers have identified what they believe to be the central mediator of the body's stress responses or stress-induced disorders. This mediator is a brain chemical known as CRF. CRF is overproduced in clinically depressed patients and may be dysregulated in individuals with anxiety disorders. Current research indicates that clinically depressed patients and patients with anxiety experience dysfunction of the hypothalamic-pituitary-adrenal axis, the system that manages the body's overall response to stress. This amplifies production of CRF, and induces the physical effects that are associated with stress that can lead to stress-related disorders such as posttraumatic stress disorder and acute stress disorder. According to Datamonitor (2008), there are approximately 7.8 million post-traumatic stress disorder sufferers in the United States. We believe the novelty and specificity of the CRF mechanism of action and the prospect of improving upon selective serotonin reuptake inhibitor therapy represents a market opportunity both to better serve patients and expand the overall treatment of stress-related disorders.

We have a strategic position in the CRF field through our intellectual property portfolio and relationship with experts in the neuropsychiatric field. We have further characterized the CRF receptor system and have identified additional members of the CRF receptor family. We have patent rights on two receptor subtypes termed $CRF_1$ and $CRF_2$, and we have pending patent applications on small molecule organic compounds modulating the CRF receptors.

In July 2001, we announced a worldwide collaboration with GlaxoSmithKline (GSK), to develop and commercialize CRF antagonists for psychiatric, neurological and gastrointestinal diseases. Under the terms of this agreement, GSK sponsored and we jointly conducted a research program and collaborated in the development of our current lead compounds, as well as novel back-up candidates and second generation compounds identified through the collaborative research. The sponsored research portion of the collaboration was completed in 2005.

GSK advanced one of the lead $CRF_1$ receptor antagonist compounds, 561679, into a Phase II depression study during 2008. This multicenter randomized, double-blind, placebo-controlled trial was designed to assess the safety and efficacy of 561679 in approximately 150 women with Major Depressive Disorder over six weeks of treatment. The primary endpoint was a change from baseline in the Bech melancholia scale at Week 6 and a key secondary endpoint was a change from baseline in the HAMD-17 scale at Week 6. Results of the statistical analysis using the intent-to-treat population revealed no benefit of 561679 compared to placebo on either scale.

Emory University of Atlanta and Mt. Sinai Medical Center in New York, in conjunction with GSK, through a grant from the National Institute of Mental Health, has been conducting a Phase II clinical trial evaluating 561679 in women with post-traumatic stress disorder. This randomized, double-blind, placebo-controlled trial is expected to enroll approximately 150 patients for a six-week treatment period. This study began in late 2009 and is expected to take several years to complete. Additionally, the National Institute on Alcohol Abuse and Alcoholism, in conjunction with GSK, is planning to initiate a Phase II clinical trial evaluating 561679 in stress-induced craving in alcoholic women with high anxiety. This randomized, double-blind, placebo-controlled trial is expected to enroll 50 patients for a four-week treatment period. This study is expected to take several years to complete.

**Research Programs**

Our research and development focus is on addressing diseases and disorders of the central nervous and endocrine systems, which include therapeutic categories ranging from diabetes to stress-related disorders and neurodegenerative diseases. Central nervous system and endocrinology drug therapies are among the largest therapeutic categories, accounting for $100 billion in worldwide drug sales according to MedAdNews (2011).

***G Protein-Coupled Receptor 119 (GPR119)***

Type II diabetes is growing at epidemic proportions world-wide. This disease is characterized by reduced ability to secrete and respond to insulin. Drugs which can enhance the secretion of insulin in response to rising blood glucose levels can improve blood glucose control without increased risk of hypoglycemia. Nearly 25 million suffer from diabetes in the United States alone with a worldwide prevalence in excess of 300 million. Recent estimates put the total direct and indirect costs of diabetes at $174 billion.

GPR119 has been identified as a novel target for the treatment of Type II diabetes. GPR119 is expressed predominantly in the pancreas and gastrointestinal tract. The activation of GPR119 receptors located in the gastrointestinal tract stimulates incretins, resulting in increased insulin production, while activation of GPR119 receptors located on pancreatic islet beta cells can stimulate insulin secretion directly.

In June 2010, we entered into a worldwide collaboration with Boehringer Ingelheim International GmBH (Boehringer Ingelheim) to research and develop small molecule GPR119 agonists for the treatment of Type II diabetes and other indications. We will work jointly with Boehringer Ingelheim to identify and advance candidates into preclinical development. Boehringer Ingelheim will then be responsible for the global development and commercialization of potential GPR119 agonist products.

***VMAT2***

VMAT2 inhibition results in the modulation of dopamine pathways which may also be useful for patients suffering from schizophrenia. Approximately 2.2 million people in the Unites States suffer from schizophrenia at an estimated annual cost of $62 billion. Our discovery efforts around VMAT2 inhibitors also focuses on developing novel therapies for schizophrenia sufferers.

***GnRH Antagonists***

As previously mentioned, GnRH antagonists may be useful in treating certain hormone dependent diseases. Our discovery work in nonpeptide GnRH antagonists continues to focus on endometriosis, uterine fibroids and oncology indications as we continue to explore additional drug candidates with our collaboration partner Abbott.

### *Antiepileptic Drugs*

Antiepileptic drugs are utilized in the treatment of epileptic seizures by suppressing the rapid firing of neurons that initiate a seizure. Antiepileptics also have additional effects within the central nervous system that have proven beneficial in bipolar disease, neuropathic pain and essential tremor. According to Datamonitor, in 2008, worldwide sales of anticonvulsants totaled approximately $13 billion.

### *G Protein-Coupled Receptors (GPCR)*

GPCR are the largest known gene superfamily of the human genome. Greater than thirty percent of all marketed prescription drugs act on GPCR; which makes this class of proteins the historically most successful therapeutic target family. However, only a small fraction of the GPCR gene superfamily has been exploited. Next generation therapies derived from GPCR will be discovered through the understanding of the complex relationships of drug/receptor interactions and their subsequent impact on efficacy, downstream signaling networks and regulation.

Our GPCR research platform has met this requirement by integrating drug discovery research efforts with a suite of assays and assay systems and automated analytical techniques. This process provides a profile of GPCR pharmacological receptor/ligand interactions capable of predicting in vivo efficacy allowing for rapid discovery of initial leads and advancement into preclinical and clinical development. Importantly, this design cycle is not limited to GPCR targets, but can be utilized for other proteins that play a role in human disease where current treatments or therapies are either inadequate or nonexistent.

## Product Candidate Subject to Regulatory Review

### *Indiplon*

Indiplon is a non-benzodiazepine $GABA_A$ receptor agonist for the treatment of insomnia which acts via the same mechanism as the currently marketed non-benzodiazepine therapeutics. We obtained the rights to indiplon through an exclusive worldwide sublicense agreement that we entered into with DOV Pharmaceutical, Inc. (DOV) in June 1998.

Based on the results of preclinical studies and Phase I, Phase II and Phase III clinical trials on indiplon, as well as a non-clinical data package related to indiplon manufacturing, formulation and commercial product development, we assembled and filed NDAs with the FDA for both indiplon capsules and indiplon tablets. On May 15, 2006, we received two complete responses from the FDA regarding our indiplon capsule and tablet NDAs. These responses indicated that indiplon 5mg and 10mg capsules were approvable (2006 FDA Approvable Letter) and that the 15mg tablets were not approvable.

We resubmitted our NDA for indiplon 5mg and 10mg capsules seeking clearance to market indiplon capsules for the treatment of insomnia. In December 2007, we received an action letter from the FDA stating the indiplon 5mg and 10mg capsules were approvable (2007 FDA Approvable Letter). The 2007 FDA Approvable Letter acknowledged that the resubmitted NDA had addressed the issues raised in the 2006 FDA Approvable Letter, but set forth new requirements. The new requirements set forth in the 2007 FDA Approvable Letter are the following: (i) an objective/subjective clinical trial in the elderly, (ii) a safety study assessing the rates of adverse events occurring with indiplon when compared to a marketed product, and (iii) a preclinical study to evaluate indiplon administration during the third trimester of pregnancy.

After receipt of the 2007 FDA Approvable Letter, we ceased all indiplon clinical development activities in the United States as well as all pre-commercialization activities. We continue to evaluate various alternatives for the indiplon program.

**Our Business Strategy**

Our goal is to become the leading biopharmaceutical company focused on neurological and endocrine-related diseases and disorders. The following are the key elements of our business strategy:

*Continuing to Advance and Build Our Product Portfolio Focused on Neurological and Endocrine-Related Diseases and Disorders.* We believe that by continuing to advance and build our product pipeline, we can mitigate some of the clinical development risks associated with drug development. We currently have eleven programs in various stages of research and development, including six programs in clinical development. We take a portfolio approach to managing our pipeline that balances the size of the market opportunities with clear and defined clinical and regulatory paths to approval. We do this to ensure that we focus our internal development resources on innovative therapies with improved probabilities of technical and commercial success.

*Identifying Novel Drugs to Address Unmet Market Opportunities.* We seek to identify and validate novel drugs on characterized targets for internal development or collaboration. For example, GnRH antagonists, compounds designed to reduce the secretions of sex steroids, may represent the first novel non-peptide, non-injectible means of treatment of endometriosis. The creativity and productivity of our discovery research group will continue to be a critical component for our continued success. Research and development costs were $31.0 million, $31.2 million and $33.7 million for the years ended December 31, 2011, 2010 and 2009, respectively.

*Selectively Establishing Corporate Collaborations with Global Pharmaceutical Companies to Assist in the Development of Our Products and Mitigate Financial Risk while Retaining Significant Commercial Upside.* We leverage the development, regulatory and commercialization expertise of our corporate collaborators to accelerate the development of certain of our potential products, while typically retaining co-promotional rights, and at times commercial rights, in North America. We intend to further leverage our resources by selectively entering into additional strategic alliances to enhance our internal development and commercialization capabilities by licensing our technology.

*Acquiring Rights to Complementary Drug Candidates and Technologies.* We plan to continue to selectively acquire rights to products in various stages of development to take advantage of our drug development capabilities.

**Our Corporate Collaborations and Strategic Alliances**

One of our business strategies is to utilize strategic alliances to enhance our development and commercialization capabilities. The following is a summary of our significant collaborations/alliances:

*Abbott International Luxembourg S.à r.l. (Abbott).* In June 2010, we announced an exclusive worldwide collaboration with Abbott to develop and commercialize elagolix and all next-generation gonadotropin-releasing hormone (GnRH) antagonists (collectively, GnRH Compounds) for women's and men's health. Under the terms of our agreement with Abbott, we and Abbott will work jointly to advance GnRH Compounds towards commercialization. Abbott made an upfront payment of $75 million and agreed to make additional development and regulatory event based payments of up to $480 million and up to an additional $50 million in commercial event based payments. Under the terms of the agreement, Abbott is responsible for all development, marketing and commercialization costs. We will receive funding for certain internal collaboration expenses which includes reimbursement from Abbott for internal and external expenses related to the GnRH Compounds, which reimbursement includes up to approximately $24 million in personnel funding through the end of 2012. We will be entitled to a percentage of worldwide sales of GnRH Compounds for the longer of ten years or the life of the related patent rights. Under the terms of our agreement with Abbott, the collaboration effort between the parties to advance GnRH compounds towards commercialization is governed by a joint development committee with representatives from both Neurocrine and Abbott; provided, however, that final decision making authority rests with Abbott. Abbott may terminate the collaboration at its discretion upon 180 days written notice to us. In such event, we would be entitled to specified payments for ongoing clinical development and related activities and all GnRH Compound product rights would revert to us. Since the inception of the agreement, we have recorded revenues of $46.0 million related to the amortization of up-front license fees, $30.0 million in milestone revenue,

$10.0 million of which was related to advancing elagolix into Phase II clinical trials for uterine fibroids and $20.0 million of which was related to the outcome of an elagolix pre-Phase III meeting with the FDA for endometriosis, and $19.2 million in sponsored development revenue consisting of reimbursement of internal and external expenses. In addition, at December 31, 2011, we had $29.0 million of deferred revenue related to the Abbott agreement, which is being amortized over the estimated remaining term of the collaborative development period.

*Boehringer Ingelheim International GmbH (Boehringer Ingelheim).* In June 2010, we announced a worldwide collaboration with Boehringer Ingelheim to research, develop and commercialize small molecule GPR119 agonists for the treatment of Type II diabetes and other indications. Under the terms of the agreement, we and Boehringer Ingelheim are working jointly to identify and advance GPR119 agonist candidates into preclinical development. Boehringer Ingelheim will then be responsible for the global development and commercialization of potential GPR119 agonist products. We received a $10 million upfront payment and we are currently receiving research funding to support discovery efforts. We are eligible to receive up to approximately $3 million in additional preclinical milestone payments and payments of up to approximately $223 million in clinical development and commercial event based payments. We will be entitled to a percentage of any future worldwide sales of GPR119 agonists resulting from the collaboration. Under the terms of the agreement, the collaboration effort between the parties to identify and advance GPR119 agonist candidates into preclinical development is governed by a steering committee with representatives from both Neurocrine and Boehringer Ingelheim; provided, however, that the final decision making authority rests with Boehringer Ingelheim. Boehringer Ingelheim may terminate the agreement at its discretion upon prior written notice to us. In such event, we may be entitled to specified payments and product rights would revert to us. Since the inception of the agreement, we have recorded revenues of $7.7 million related to amortization of up-front license fees and $2.1 million in sponsored research. At December 31, 2011, we had $2.3 million of deferred license fees that will be amortized over the estimated remaining term of the collaborative research period of the agreement.

*Dainippon Sumitomo Pharma Co. Ltd. (DSP).* In October 2007, we announced an exclusive license agreement with DSP to develop and commercialize indiplon in Japan. Under the terms of the agreement, DSP made an up-front payment to us of $20 million and is responsible for all future development, marketing and commercialization costs of indiplon in Japan. We will be eligible to receive additional event based payments upon specified future events related to the development and commercialization of indiplon in Japan. Should all event based payments be achieved, we may be entitled to additional payments totaling up to $115 million. We are also entitled to royalties from DSP on future sales of indiplon in Japan. As of December 31, 2011, we had recorded revenues of $12.2 million in license fees from DSP over the life of the agreement.

*GlaxoSmithKline (GSK).* In July 2001, we announced a worldwide collaboration with an affiliate of GSK to develop and commercialize CRF antagonists for psychiatric, neurological and gastrointestinal diseases. Under the terms of this agreement, we and GSK conducted a collaborative research program and collaborate in the development of our current lead compounds, as well as novel back-up candidates and second generation compounds identified through the collaborative research. The sponsored research portion of this collaboration agreement concluded in 2005. In addition, we will be eligible to receive event based payments as compounds progress through the research and development process, royalties on future product sales and co-promotion rights in the U.S. in some circumstances. GSK may terminate the agreement at its discretion upon 90 days prior written notice to us. In such event, we may be entitled to specified payments and all product rights would revert to us.

**Intellectual Property**

We seek to protect our lead compounds, compound libraries, expressed proteins, synthetic organic processes, formulations, assays, cloned targets, screening technology and other technologies by filing, or by causing to be filed on our behalf, patent applications in the United States and abroad. Additionally, we have licensed from institutions such as The Salk Institute, DOV, Research Development Foundation and others the rights to issued United States patents, pending United States patent applications, and issued and pending foreign filings. We face the risk that one or more of the above patent applications may be denied. We also face the risk that issued patents that we own or license may be challenged or circumvented or may otherwise not provide protection for any commercially viable products we develop.

**Marketing and Sales**

We currently have limited experience in marketing or selling pharmaceutical products. Under our collaboration agreement with GSK, we may have the opportunity to co-promote any products resulting from the collaboration in the United States. To market any of our other products independently would require us to develop a sales force with technical expertise along with establishing commercial infrastructure and capabilities.

**Government Regulation**

Regulation by government authorities in the United States and foreign countries is a significant factor in the development, manufacture and marketing of our proposed products and in our ongoing research and product development activities. All of our products will require regulatory approval by government agencies prior to commercialization. In particular, human therapeutic products are subject to rigorous preclinical studies 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 compliance with appropriate federal and state statutes and regulations require the expenditure of substantial time and financial resources.

Preclinical studies generally are conducted in laboratory animals to evaluate the potential safety and efficacy of a product. Drug developers submit the results of preclinical studies to the FDA as a part of an IND application before clinical trials can begin in humans. Typically, clinical evaluation involves a time consuming and costly three-phase process.

| | |
|---|---|
| Phase I | Clinical trials are conducted with a small number of subjects to determine the early safety profile, maximum tolerated dose and pharmacological properties of the product in human volunteers. |
| 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. |
| Phase III | Large-scale, multi-center, comparative clinical trials are conducted with patients afflicted with a specific disease in order to determine safety and efficacy as primary support for regulatory approval by the FDA to market a product candidate for a specific disease. |

The FDA closely monitors the progress of each of the three phases of clinical trials that are conducted in the United States and may, at its discretion, reevaluate, alter, suspend or terminate the testing based upon the data accumulated to that point and the FDA's assessment of the risk/benefit ratio to the patient. To date, we have also conducted some of our clinical trials in Europe, Canada, Oceania, and South Africa. Clinical trials conducted in foreign countries are also subject to oversight by regulatory authorities in those countries.

Once Phase III trials are completed, drug developers submit the results of preclinical studies and clinical trials to the FDA in the form of an NDA or a biologics licensing application for approval to commence commercial sales. In response, the FDA may grant marketing approval, request additional information or deny the application if the FDA determines that the application does not meet regulatory approval criteria. FDA approvals may not be granted on a timely basis, or at all. Furthermore, the FDA may prevent a drug developer from marketing a product under a label for its desired indications, which may impair commercialization of the product.

If the FDA approves the NDA, the drug becomes available for physicians to prescribe in the United States. After approval, the drug developer must submit periodic reports to the FDA, including descriptions of any adverse reactions reported. The FDA may request additional studies, known as Phase IV, to evaluate long-term effects. The FDA may also require a Risk Evaluation and Mitigation Strategy (REMS) safety plan upon approval.

We will also have to complete an approval process similar to that in the United States in virtually every foreign target market for our products in order to commercialize our product candidates in those countries. The

approval procedure and the time required for approval vary from country to country and may involve additional testing. Foreign approvals may not be granted on a timely basis, or at all. In addition, regulatory approval of prices is required in most countries other than the United States. The resulting prices may not be sufficient to generate an acceptable return to us or our corporate collaborators.

**Competition**

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

- other drug development technologies;
- methods of preventing or reducing the incidence of disease, including vaccines; and
- new small molecule or other classes of therapeutic agents.

Developments by others may render our product candidates or technologies obsolete or noncompetitive. We are performing research on or developing products for the treatment of several disorders including endometriosis, stress-related disorders, pain, tardive dyskinesia, uterine fibroids, diabetes, insomnia, and other neurological and endocrine-related diseases and disorders.

Lupron Depot®, marketed by Abbott Laboratories, and Synarel® and Depo-Provera®, marketed by Pfizer, are products that have been approved for the treatment of endometriosis, infertility, and central precocious puberty. These drugs, and any generic alternatives, may compete with any small molecule non-peptide GnRH antagonists we develop for these indications.

We, in conjunction with our collaborative partner Abbott, are developing elagolix for the treatment of uterine fibroids. There are no current pharmaceutical therapies approved in the United States for the chronic treatment of uterine fibroids. Lupron Depot® is approved for short-term use to improve the outcome of uterine fibroid surgery. However, approximately 250,000 hysterectomies are performed annually in the United States as a direct result of uterine fibroids, as well as myomectomies (surgery) to remove the fibroids. Our oral small molecule pharmaceutical agent, elagolix, would compete directly with these current invasive standards of care.

Our VMAT2 inhibitor is designed for the treatment of movement disorders, specifically tardive dyskinesia. At present there are no approved drug therapies for tardive dyskinesia; however, treatment regimens consist of utilizing various atypical antipsychotic medications (e.g., Clozapine), benzodiazepines (off-label) or botulinum toxin injections to treat the movements associated with tardive dyskinesia. Other potential indications for our VMAT2 inhibitor are Tourette's syndrome, Huntington's disease and tardive dystonia. Currently, Xenazine®, marketed by Lundbeck, is approved for the chorea associated with Huntington's disease. Generic neuroleptic medications (pimozide and haloperidol) are generally utilized to control the tics associated with Tourette's syndrome.

A potential indication currently being explored for our small molecule CRF antagonists is the area of post-traumatic stress disorders, for which there are no current approved drug therapies. However, clinicians utilize anxiolytics and anti-depressants such as Cymbalta®, marketed by Eli Lilly, Xanax®, marketed by Pfizer, Lexapro®, marketed by Forest Laboratories, Zoloft®, marketed by Pfizer, Paxil®, marketed by GSK and Pristiq®, marketed by Pfizer, among others, as well as any generic alternatives for each of these products.

In the area of insomnia, competitive products include Ambien®, Sonata®, Lunesta®, Intermezzo®, and Rozerem®, which are currently marketed by Sanofi-Aventis, King Pharmaceuticals, Inc., Sunovion Pharmaceuticals, Inc., Transcept Pharmaceuticals, Inc. and Takeda Pharmaceutical Company, respectively. During 2006, Sanofi-Aventis launched a controlled-release formulation of Ambien® called Ambien CR® and during 2007 generic Ambien®, or zolpidem, also entered the insomnia market.

If one or more of these products or programs are successful, it may reduce or eliminate the market for our products.

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

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

Any of these competitive factors could harm our business, prospects, financial condition and results of operations, which could negatively affect our stock price.

**Employees**

As of December 31, 2011, we had approximately 71 full-time employees, of which 15 hold Ph.D., M.D. or equivalent degrees, and 12 others hold an M.S., M.B.A., or equivalent degrees. Of these full-time employees, 53 were engaged in, or directly support, research and development activities, and 18 were in general and administrative positions. None of our employees are represented by a collective bargaining arrangement, and we believe our relationship with our employees is good. In addition, we rely on a number of consultants to assist us in formulating our research and development strategies.

**Insurance**

We maintain product liability insurance for our clinical trials. We intend to expand our 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 we may not be able to maintain insurance coverage at a reasonable cost or in sufficient amounts to protect us against losses due to liability. In addition, we may not be able to obtain commercially reasonable product liability insurance for any products approved for marketing.

**Available Information**

Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to reports filed pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended, are available free of charge on our website at *www.neurocrine.com*, as soon as reasonably practicable after such reports are available on the Securities and Exchange Commission website at *www.sec.gov*.

Additionally, copies of our annual report will be made available, free of charge, upon written request.

## ITEM 1A. *RISK FACTORS*

The following information sets forth risk factors that could cause our actual results to differ materially from those contained in forward-looking statements we have made in this Annual Report on Form 10-K and those we may make from time to time. If any of the following risks actually occur, our business, operating results, prospects or financial condition could be harmed. Additional risks not presently known to us, or that we currently deem immaterial, may also affect our business operations.

### Risks Related to Our Company

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

Before obtaining regulatory approval for the sale of any of our potential products, we must subject these product candidates to extensive preclinical and clinical testing to demonstrate their safety and efficacy for humans. Clinical trials are expensive, time-consuming and may take years to complete.

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

- the U.S. Food and Drug Administration (FDA) or similar foreign regulatory authority may not approve an Investigational New Drug (IND) or foreign equivalent filings required to initiate human clinical studies for our drug candidates or may require additional time consuming preclinical studies prior to such approval;
- the product candidate may not prove to be effective or as effective as other competing product candidates;
- we may discover that a product candidate may cause harmful side effects;
- the results may not replicate the results of earlier, smaller trials;
- the FDA or similar foreign regulatory authorities may require use of new or experimental endpoints that may prove insensitive to treatment effects;
- we or the FDA or similar foreign regulatory authorities may suspend the trials;
- the results may not be statistically significant;
- patient recruitment may be slower than expected;
- patients may drop out of the trials; and
- regulatory requirements may change.

These risks and uncertainties impact all of our clinical programs. Specifically, with respect to our gonadotropin-releasing hormone (GnRH) program with Abbott International Luxembourg S.à r.l. (Abbott), any of the clinical, regulatory or operational events described above could delay timelines for the completion of our Phase III endometriosis program or our Phase II uterine fibroids program, prevent the completion of these programs and/or prevent the ultimate filings for regulatory approvals. Similarly, our VMAT2 inhibitor program and urocortin 2 programs may be delayed if any of the events above lead to delayed enrollment in, or completion of, the Phase II clinical trials of our lead candidates in those programs. Specifically, our VMAT2 inhibitor program will be delayed if the results of the Phase II study with our lead candidate (NBI-98854) do not support advancing the lead candidate to later stage clinical trials or if toxicology studies required by the FDA are not acceptable to the FDA. With respect to our lead Corticotropin Releasing Factor (CRF1) receptor antagonist, 561679, while academic collaborative clinical trials are ongoing to evaluate its effects in post-traumatic stress disorder, anxiety and alcoholism, the top-line efficacy and safety results from a Phase II clinical trial utilizing 561679 in patients experiencing a major depressive episode revealed no benefit of 561679 compared with

placebo. Uncertainty regarding future development of indiplon is described below under the risk factor entitled •There is uncertainty regarding future development of our product candidate, indiplon, which may never receive regulatory approval or be commercialized.Ž

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. Any failure or substantial delay in completing clinical trials for our product candidates may severely harm our business.

### We depend on continuing our current collaborations and developing additional collaborations to develop and commercialize our product candidates.

Our strategy for fully developing and commercializing our products is dependent upon maintaining our current arrangements and establishing new arrangements with research collaborators, corporate collaborators and others. We have active collaboration agreements with Abbott, Boehringer Ingelheim International GmbH, GlaxoSmithKline and Dainippon Sumitomo Pharma Co. Ltd. and previously have had collaborations with Pfizer, Wyeth, Johnson & Johnson, Novartis, Taisho and Eli Lilly and Company. We historically have been dependent upon these corporate collaborators to provide adequate funding for a number of our programs, and our collaboration agreements with Abbott and Boehringer Ingelheim provide for, among other things, significant future payments should certain development, regulatory and commercial milestones be achieved. Under these arrangements, our corporate collaborators are typically responsible for:

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

Because we expect to continue to rely heavily on our current corporate collaborators and to enter into new collaborations in the future, the development and commercialization of our programs would be substantially delayed, and our ability to receive future funding would be substantially impaired if one or more of our current or future collaborators:

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

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

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

All of our product candidates are in research, clinical development or subject to review by the FDA. Only a small number of research and development programs ultimately result in commercially successful drugs. Potential products that appear to be promising at early stages of development may not reach the market for a number of reasons. These reasons include the possibilities that the potential products may:

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

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

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

We may require additional funding to continue our research and product development programs, to conduct preclinical studies and clinical trials, for operating expenses and to pursue regulatory approvals for product candidates, for the costs involved in filing and prosecuting patent applications and enforcing or defending patent claims, if any, product in-licensing and any possible acquisitions, and we may require additional funding to establish manufacturing and marketing capabilities in the future. We believe that our existing capital resources, together with investment income, and future payments due under our strategic alliances, will be sufficient to satisfy our current and projected funding requirements for at least the next 12 months. However, these resources might be insufficient to conduct research and development programs to the full extent currently planned. If we cannot obtain adequate funds, we may be required to curtail significantly one or more of our research and development programs or obtain funds through additional arrangements with corporate collaborators or others that may require us to relinquish rights to some of our technologies or product candidates.

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

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

We intend to seek additional funding through strategic alliances, and may seek additional funding through public or private sales of our securities, including equity securities. For example, we have an effective shelf registration statement on file with the Securities and Exchange Commission (SEC) which allows us to issue

shares of our common stock from time to time for an aggregate initial offering price of up to $125 million, and we have a Committed Equity Financing Facility (CEFF) with Kingsbridge Capital Limited (Kingsbridge) covering the potential sale of shares of our common stock for up to $75 million in gross proceeds. As of January 31, 2012, we have used approximately $88 million under the shelf registration statement and have approximately $37 million still available. In addition, we have previously financed capital purchases and may continue to pursue opportunities to obtain additional debt financing in the future. In the past few years, the credit markets and the financial services industry have experienced a period of unprecedented turmoil and upheaval characterized by the bankruptcy, failure, collapse or sale of various financial institutions and an unprecedented level of intervention from the United States federal government. These events have generally made equity and debt financing more difficult to obtain. Accordingly, additional equity or debt financing might not be available on reasonable terms, if at all. Any additional equity financings, including funds raised under the CEFF, will be dilutive to our stockholders and any additional debt financings may involve operating covenants that restrict our business.

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

Since our inception, we have incurred significant net losses and negative cash flow from operations. As a result of historical operating losses, we had an accumulated deficit of $724.7 million as of December 31, 2011. While we were profitable for the year ended December 31, 2011, we did not generate positive cash flow from operations in 2011. We do not expect to remain profitable, nor do we expect to become cash flow positive, for the foreseeable future.

We have not yet obtained regulatory approvals of any products and, consequently, have not generated revenues from the sale of products. Even if we succeed in developing and commercializing one or more of our drugs, we may not be profitable. We also expect to continue to incur significant operating and capital expenditures as we:

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

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

The CEFF that we entered into with Kingsbridge may not be available to us if we elect to make a draw down, may require us to make additional •blackoutŽ or other payments to Kingsbridge, could cause our stock price to decline and may result in dilution to our stockholders.

The CEFF entitles us to sell and obligates Kingsbridge to purchase, from time to time until September 15, 2012, newly issued shares of our common stock up to the lesser of an aggregate of approximately 7.8 million shares or $75 million, subject to certain conditions and restrictions. Kingsbridge will not be obligated to purchase shares under the CEFF unless certain conditions are met, which include a minimum price for our common stock;

the accuracy of representations and warranties made to Kingsbridge; compliance with laws; effectiveness of the registration statement filed by us with the SEC with respect to the CEFF; and the continued listing of our stock on the NASDAQ Global Select Market or other specified markets. In addition, Kingsbridge is permitted to terminate the CEFF if it obtains actual knowledge that a material and adverse event has occurred affecting our business, operations, properties or financial condition. If we are unable to access funds through the CEFF, or if the CEFF is terminated by Kingsbridge, we may be unable to access capital on favorable terms or at all.

We are entitled, in certain circumstances, to deliver a blackout notice to Kingsbridge to suspend the registration statement filed by us with the SEC with respect to the CEFF and prohibit Kingsbridge from selling shares. If we deliver a blackout notice in the 15 calendar days following the settlement of a draw down, or if the registration statement is not effective in circumstances not permitted by the registration rights agreement, then we must make a payment to Kingsbridge, calculated on the basis of the number of shares held by Kingsbridge acquired by way of the most recent drawdown prior to the blackout notice and actually held by Kingsbridge multiplied by the change in the market price of our common stock during the period in which the use of the registration statement is suspended. If the trading price of our common stock declines during a suspension of the registration statement, the blackout or other payment could be significant.

Should we sell shares to Kingsbridge under the CEFF, or issue shares in lieu of a blackout payment, it will have a dilutive effect on the holdings of our current stockholders, and may result in downward pressure on the price of our common stock. If we draw down under the CEFF, we will issue shares to Kingsbridge at a discount of up to 10 percent from the volume weighted average price of our common stock. If we draw down amounts under the CEFF when our share price is decreasing, we will need to issue more shares to raise the same amount than if our stock price was higher. Issuances in the face of a declining share price will have an even greater dilutive effect than if our share price were stable or increasing, and may further decrease our share price.

***There is uncertainty regarding future development of our product candidate, indiplon, which may never receive regulatory approval or be commercialized.***

In December 2007, we received an action letter from the FDA stating that indiplon 5mg and 10mg capsules are approvable (2007 FDA Approvable Letter). The 2007 FDA Approvable Letter acknowledged that our resubmitted NDA for indiplon 5mg and 10mg capsules had addressed the issues raised in a previous approvable letter, but set forth new requirements. The new requirements set forth in the 2007 FDA Approvable Letter are the following: (i) an objective/subjective clinical trial in the elderly, (ii) a safety study assessing the rates of adverse events occurring with indiplon when compared to a marketed product and (iii) a preclinical study to evaluate indiplon administration during the third trimester of pregnancy. After receipt of the 2007 FDA Approvable Letter, we ceased all indiplon clinical development activities in the United States as well as all pre-commercialization activities. We met with the FDA in July 2008 to discuss the 2007 FDA Approvable Letter. We have not received the final minutes of this meeting. We continue to evaluate various alternatives for the indiplon program.

The process of preparing and resubmitting the NDA for indiplon would require significant resources and could be time consuming and subject to unanticipated delays and cost. As a result of the 2007 FDA Approvable Letter, there is a significant amount of uncertainty regarding the future development of indiplon. Should the NDA be refiled, the FDA could again refuse to approve the NDA, or could still require additional data analysis or clinical trials, which would require substantial expenditures by us and would further delay the approval process. Even if our indiplon NDA is approved, the FDA may determine that our data do not support elements of the labeling we have requested. In such a case, the labeling actually granted by the FDA could limit the commercial success of the product. The FDA could require Phase IV, or post-marketing, trials to study the long-term effects of indiplon and could withdraw its approval based on the results of those trials. The FDA could also require a Risk Evaluation and Mitigation Strategy program for indiplon that could limit the commercial success of the product. We face the risk that for any of the reasons described above, as well as other reasons set forth herein, indiplon may never be approved by the FDA or commercialized anywhere in the world.

***The price of our common stock is volatile.***

The market prices for securities of biotechnology and pharmaceutical companies historically have been highly volatile, and the market has from time to time experienced significant price and volume fluctuations that are unrelated to the operating performance of particular companies. Over the course of the last 12 months, the price of our common stock has ranged from approximately $5.00 per share to approximately $9.00 per share. The market price of our common stock may fluctuate in response to many factors, including:

- the results of our clinical trials;
- developments concerning new and existing collaboration agreements;
- announcements of technological innovations or new therapeutic products by us or others;
- general economic and market conditions;
- developments in patent or other proprietary rights;
- developments related to the FDA;
- future sales of our common stock by us or our stockholders (or Kingsbridge, if we elect to draw down under our CEFF with Kingsbridge);
- comments by securities analysts;
- fluctuations in our operating results;
- government regulation;
- health care reimbursement;
- failure of any of our product candidates, if approved, to achieve commercial success; and
- public concern as to the safety of our drugs.

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

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

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

We are dependent on licenses from third parties for some of our key technologies. These licenses typically subject us to various commercialization, reporting and other obligations. If we fail to comply with these obligations, we could lose important rights. For example, we have licensed indiplon from DOV Pharmaceuticals, Inc. In addition, we license some of the core technologies used in our research and development activities and collaborations from third parties, including the CRF receptor we license from The Salk Institute and use in our $CRF_1$ program, urocortin 2 which we license from Research Development Foundation, and the GnRH receptor we license from Mount Sinai School of Medicine and use in our elagolix program. If we were to default on our obligations under any of our licenses, we could lose some or all of our rights to develop, market and sell products covered by these licenses. Likewise, if we were to lose our rights under a license to use proprietary research tools, it could adversely affect our existing collaborations or adversely affect our ability to form new

collaborations. We also face the risk that our licensors could, for a number of reasons, lose patent protection or lose their rights to the technologies we have licensed, thereby impairing or extinguishing our rights under our licenses with them.

***We have limited marketing experience, sales force or distribution capabilities, and if our products are approved, we may not be able to commercialize them successfully.***

Although we do not currently have any marketable products, our ability to produce revenues ultimately depends on our ability to sell our products if and when they are approved by the FDA. We currently have limited experience in marketing and selling pharmaceutical products. If we fail to establish successful marketing and sales capabilities or fail to enter into successful marketing arrangements with third parties, our product revenues will suffer.

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

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

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

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

- contract manufacturers may encounter difficulties in achieving volume production, quality control and quality assurance, and also may experience shortages in qualified personnel. As a result, our contract manufacturers might not be able to meet our clinical schedules or adequately manufacture our products in commercial quantities when required;
- switching manufacturers may be difficult because the number of potential manufacturers is limited. It may be difficult or impossible for us to find a replacement manufacturer quickly on acceptable terms, or at all;
- our contract manufacturers may not perform as agreed or may not remain in the contract manufacturing business for the time required to successfully produce, store or distribute our products; and

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

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

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

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

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

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

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

The continuing efforts of government and third-party payors to contain or reduce the costs of health care through various means may reduce our potential revenues. These payors' efforts could decrease the price that we receive for any products we may develop and sell in the future. In addition, third-party insurance coverage may not be available to patients for any products we develop. If government and third-party payors do not provide adequate coverage and reimbursement levels for our products, or if price controls are enacted, our product revenues will suffer.

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

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

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

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

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

***Compliance with changing regulation of corporate governance and public disclosure may result in additional expenses.***

Changing laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002, new SEC regulations and NASDAQ rules, are creating uncertainty for companies such as ours. These laws, regulations and standards are subject to varying interpretations in some cases due to their lack of specificity, and as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies, which could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. We are committed to maintaining high standards of corporate governance and public disclosure. As a result, our efforts to comply with evolving laws, regulations and standards have resulted in, and are likely to continue to result in, increased general and administrative expenses and management time related to compliance activities. In particular, our efforts to comply with Section 404 of the Sarbanes-Oxley Act of 2002 and the related regulations regarding our required assessment of our internal controls over financial reporting requires, and we expect to continue to require, the commitment of significant financial and managerial resources. If we fail to comply with these laws, regulations and standards, our reputation may be harmed and we might be subject to sanctions or investigation by regulatory authorities, such as the SEC. Any such action could adversely affect our financial results and the market price of our common stock.

**Risks Related to Our Industry**

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

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

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

***Health care reform measures could adversely affect our business.***

The business and financial condition of pharmaceutical and biotechnology companies are affected by the efforts of governmental and third-party payers to contain or reduce the costs of health care. In the United States,

comprehensive health care reform legislation was enacted by the Federal government and we expect that there will continue to be a number of federal and state proposals to implement government control over the pricing of prescription pharmaceuticals. In addition, increasing emphasis on reducing the cost of health care in the United States will continue to put pressure on the rate of adoption and pricing of prescription pharmaceuticals. Moreover, in some foreign jurisdictions, pricing of prescription pharmaceuticals is already subject to government control. We are currently unable to predict what additional legislation or regulation, if any, relating to the health care industry or third-party coverage and reimbursement may be enacted in the future or what effect the recently enacted Federal healthcare reform legislation or any such additional legislation or regulation would have on our business. The pendency or approval of such proposals or reforms could result in a decrease in our stock price or limit our ability to raise capital or to enter into collaboration agreements for the further development and commercialization of our programs and products.

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

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

Competition may also arise from, among other things:

- other drug development technologies;
- methods of preventing or reducing the incidence of disease, including vaccines; and
- new small molecule or other classes of therapeutic agents.

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

We are performing research on or developing products for the treatment of several disorders including endometriosis, stress-related disorders, pain, diabetes, insomnia, and other neurological and endocrine-related diseases and disorders, and there are a number of competitors to products in our research pipeline. If one or more of our competitors' products or programs are successful, the market for our products may be reduced or eliminated.

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

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

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

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

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

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

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

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

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

We cannot assure you that third parties will not assert patent or other intellectual property infringement claims against us or our collaborators with respect to technologies used in potential products. If a patent infringement suit were brought against us or our collaborators, we or our collaborators could be forced to stop or delay developing, manufacturing or selling potential products that are claimed to infringe a third party's intellectual property unless that party grants us or our collaborators rights to use its intellectual property. In such cases, we could be required to obtain licenses to patents or proprietary rights of others in order to continue to commercialize our products. However, we may not be able to obtain any licenses required under any patents or proprietary rights of third parties on acceptable terms, or at all. Even if our collaborators or we were able to obtain rights to the third party's intellectual property, these rights may be non-exclusive, thereby giving our competitors access to the same intellectual property. Ultimately, we may be unable to commercialize some of our potential products or may have to cease some of our business operations as a result of patent infringement claims, which could severely harm our business.

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

The use of any of our potential products in clinical trials, and the sale of any approved products, may expose us to liability claims. These claims might be made directly by consumers, health care providers, pharmaceutical companies or others selling our products. We have obtained limited product liability insurance coverage for our clinical trials in the amount of $10 million per occurrence and $10 million in the aggregate. However, our

insurance may not reimburse us or may not be sufficient to reimburse us for any expenses or losses we may suffer. Moreover, insurance coverage is becoming increasingly expensive, and we may not be able to maintain insurance coverage at a reasonable cost or in sufficient amounts to protect us against losses due to liability. We intend to expand our insurance coverage to include the sale of commercial products if we obtain marketing approval for product candidates in development, but we may be unable to obtain commercially reasonable product liability insurance for any products approved for marketing. On occasion, juries have awarded large judgments in class action lawsuits based on drugs that had unanticipated side effects. A successful product liability claim or series of claims brought against us would decrease our cash reserves and could cause our stock price to fall.

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

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

**ITEM 1B.** ***UNRESOLVED STAFF COMMENTS***

None.

**ITEM 2.** ***PROPERTIES***

We lease our corporate headquarters which consists of approximately 140,000 square feet of laboratory and office space located at 12780 El Camino Real in San Diego, California. The lease expires in December 2019, however we have options to extend the term of the lease for up to two consecutive ten year periods.

We believe that our property and equipment are generally well maintained and in good operating condition.

**ITEM 3.** ***LEGAL PROCEEDINGS***

We are not currently a party to any material legal proceedings.

**ITEM 4.** ***REMOVED AND RESERVED***

## PART II

### ITEM 5. *MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES*

Our common stock is traded on the NASDAQ Global Select Market under the symbol "NBIX." The following table sets forth for the periods indicated the high and low sale price for our common stock. These prices do not include retail markups, markdowns or commissions.

| | High | Low |
|---|---|---|
| **Year Ended December 31, 2011** | | |
| 1st Quarter | $8.40 | $6.41 |
| 2nd Quarter | 8.60 | 6.77 |
| 3rd Quarter | 8.44 | 5.49 |
| 4th Quarter | 8.75 | 5.42 |
| **Year Ended December 31, 2010** | | |
| 1st Quarter | $2.85 | $2.12 |
| 2nd Quarter | 6.23 | 2.30 |
| 3rd Quarter | 6.64 | 4.98 |
| 4th Quarter | 9.30 | 5.80 |

As of January 31, 2012, there were approximately 68 stockholders of record of our common stock. We have not paid any cash dividends on our common stock since inception and do not anticipate paying cash dividends in the foreseeable future.

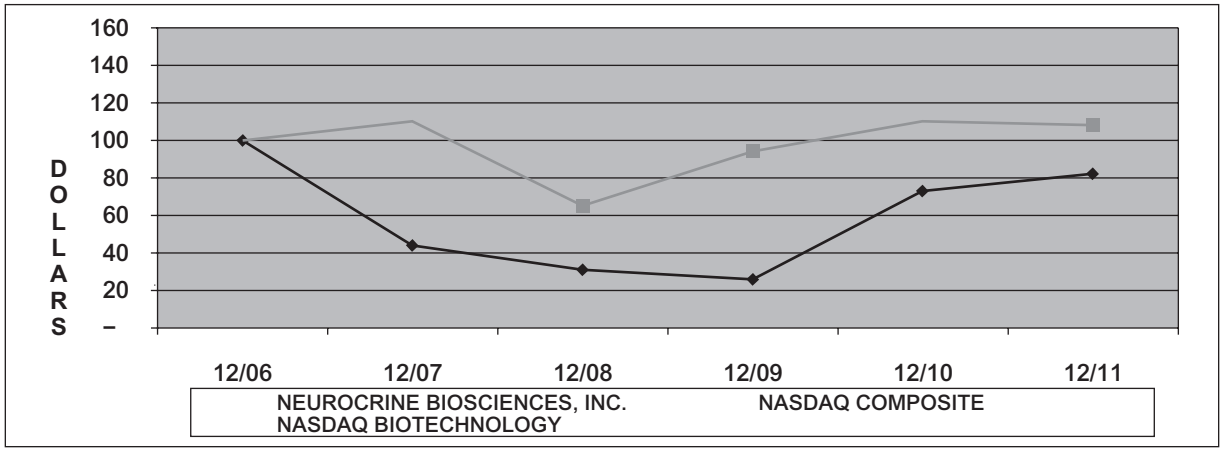
Information about our equity compensation plans is incorporated herein by reference to Item 12 of Part III of this Annual Report on Form 10-K.

#### Recent Sales of Unregistered Securities

There were no unregistered sales of equity securities during fiscal 2011.

**Stock Performance Graph and Cumulative Total Return**

The graph below shows the cumulative total stockholder return assuming the investment of $100 on December 31, 2006 (and the reinvestment of dividends thereafter) in each of (i) Neurocrine Biosciences, Inc.'s common stock, (ii) the NASDAQ Composite Index and (iii) the NASDAQ Biotechnology Index. The comparisons in the graph below are based upon historical data and are not indicative of, or intended to forecast, future performance of our common stock or Indexes.



## ITEM 6. *SELECTED FINANCIAL DATA*

The following selected financial data have been derived from our audited financial statements. The information set forth below is not necessarily indicative of our results of future operations and should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the financial statements and notes thereto appearing elsewhere in this Annual Report on Form 10-K.

| | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| | (In thousands, except for income (loss) per share data) | | | | |
| **STATEMENT OF OPERATIONS DATA** | | | | | |
| Revenues: | | | | | |
| Sponsored research and development | $ 10,462 | $ 10,938 | $ 34 | $ 47 | $ 139 |
| Milestones and license fees | 66,951 | 22,563 | 2,919 | 3,919 | 986 |
| Grant income and other revenues | — | — | — | 9 | 99 |
| Total revenues | 77,413 | 33,501 | 2,953 | 3,975 | 1,224 |
| Operating expenses: | | | | | |
| Research and development | 30,951 | 31,151 | 33,722 | 55,544 | 77,108 |
| General and administrative | 12,458 | 13,273 | 14,360 | 17,936 | 35,434 |
| Cease-use expense | 82 | 2,799 | 5,984 | 15,742 | — |
| Restructuring expenses | — | — | 2,557 | 2,051 | 6,924 |
| Asset impairment | — | — | — | — | 94,000 |
| Total operating expenses | 43,491 | 47,223 | 56,623 | 91,273 | 213,466 |
| Income (loss) from operations | 33,922 | (13,722) | (53,670) | (87,298) | (212,242) |
| Other income and (expense): | | | | | |
| Gain on sale/disposal of assets | 3,195 | 3,161 | 3,626 | 3,570 | 129 |
| Other income (expense), net | 454 | 2,593 | (994) | (4,885) | 4,814 |
| Total other income and (expense) | 3,649 | 5,754 | 2,632 | (1,315) | 4,943 |
| Net income (loss) | $ 37,571 | $ (7,968) | $ (51,038) | $ (88,613) | $(207,299) |
| Net income (loss) per common share: | | | | | |
| Basic | $ 0.68 | $ (0.15) | $ (1.30) | $ (2.30) | $ (5.45) |
| Diluted | $ 0.67 | $ (0.15) | $ (1.30) | $ (2.30) | $ (5.45) |
| Shares used in calculation of net income (loss) per common share: | | | | | |
| Basic | 55,176 | 52,820 | 39,137 | 38,449 | 38,009 |
| Diluted | 56,347 | 52,820 | 39,137 | 38,449 | 38,009 |
| **BALANCE SHEET DATA** | | | | | |
| Cash, cash equivalents and short-term investments | $ 129,103 | $ 126,865 | $ 53,464 | $ 80,473 | $ 179,385 |
| Working capital | 85,366 | 80,274 | 35,426 | 55,329 | 153,041 |
| Total assets | 138,368 | 144,424 | 70,818 | 118,182 | 276,654 |
| Long-term debt | — | — | — | — | — |
| Accumulated deficit | (724,698) | (762,269) | (754,301) | (703,263) | (614,650) |
| Total stockholders' equity | 60,081 | 19,345 | 3,954 | 36,774 | 118,697 |

## 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 section contains forward-looking statements pertaining to, among other things, the expected continuation of our collaborative agreements, the receipt of research and development payments thereunder, the future achievement of various milestones in product development and the receipt of payments related thereto, the potential receipt of royalty payments, preclinical testing and clinical trials of potential products, the period of time that our existing capital resources will meet our funding requirements, and our financial results of operations. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various risks and uncertainties, including those set forth in this Annual Report on Form 10-K under the heading "Item 1A. Risk Factors." See "Forward-Looking Statements" in Part I of this Annual Report on Form 10-K.*

### Overview

We discover, develop and intend to commercialize drugs for the treatment of neurological and endocrine-related diseases and disorders. Our product candidates address some of the largest pharmaceutical markets in the world, including endometriosis, stress-related disorders, pain, diabetes, insomnia, and other neurological and endocrine-related diseases and disorders. To date, we have not generated any revenues from the sale of products. We have funded our operations primarily through private and public offerings of our common stock and payments received under research and development collaboration agreements. We are developing certain products with corporate collaborators and intend to rely on existing and future collaborators to meet funding requirements. We expect to generate future operating cash flow losses as product candidates are advanced through the various stages of clinical development. As of December 31, 2011, we had an accumulated deficit of $724.7 million and expect to incur operating cash flow losses for the foreseeable future, which may be greater than losses in prior years. We currently have eleven programs in various stages of research and development, including six programs in clinical development. While we independently develop several of our product candidates, we have entered into collaborations for six of our programs. Our lead clinical development program, elagolix, is a drug candidate for the treatment of endometriosis and uterine fibroids that is partnered with Abbott.

### Critical Accounting Policies

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

#### *Revenue Recognition*

Revenues under collaborative research and development agreements are recognized as costs are incurred over the period specified in the related agreement or as the services are performed. These agreements are on a best-efforts basis, and do not require scientific achievement as a performance obligation, and provide for payment to be made when costs are incurred or the services are performed. All fees are nonrefundable to the collaborators. Prior to the revised multiple element guidance adopted by us on January 1, 2011, upfront, nonrefundable payments for license fees and advance payments for sponsored research revenues received in

excess of amounts earned were classified as deferred revenue and recognized as income over the contract or development period. Estimating the duration of the development period includes continual assessment of development stages and regulatory requirements. If we enter into a new collaboration agreement or materially modify an existing collaboration agreement, we will be required to apply the revised multiple element guidance. Milestone payments are recognized as revenue upon achievement of pre-defined scientific events, which requires substantive effort, and for which achievement of the milestone was not readily assured at the inception of the agreement. In 2010, we entered into collaboration agreements for our gonadotropin-releasing hormone (GnRH) antagonist program and our GPR119 agonist program.

*Abbott International Luxembourg S.à r.l. (Abbott).* In June 2010, we announced an exclusive worldwide collaboration with Abbott to develop and commercialize elagolix and all next-generation GnRH antagonists (collectively, GnRH Compounds) for women's and men's health. Under the terms of our agreement with Abbott, we and Abbott will work jointly to advance GnRH Compounds towards commercialization. Abbott made an upfront payment of $75 million and agreed to make additional development and regulatory event based payments of up to $480 million and up to an additional $50 million in commercial event based payments. We have assessed event based payments under the revised authoritative guidance for research and development milestones and determined that the event based payments prior to commencement of a Phase III clinical study, as defined in the agreement, meet the definition of a milestone as they are 1) events that can only be achieved in part on our past performance, 2) there is substantive uncertainty at the date the arrangement is entered into that the event will be achieved and 3) they result in additional payments being due to us. Development and regulatory event based payments subsequent to the commencement of a Phase III clinical study, however, currently do not meet this criteria as their achievement is based on the performance of Abbott. As of December 31, 2011, there are no further milestones, that meet the definition of a milestone, in accordance with authoritative guidance.

Under the terms of the agreement, Abbott is responsible for all development, marketing and commercialization costs. We will receive funding for certain internal collaboration expenses which includes reimbursement from Abbott for internal and external expenses related to the GnRH Compounds, which reimbursement includes up to approximately $24 million in personnel funding through the end of 2012. We will be entitled to a percentage of worldwide sales of GnRH Compounds for the longer of ten years or the life of the related patent rights. Under the terms of our agreement with Abbott, the collaboration effort between the parties to advance the GnRH compounds toward commercialization is governed by a joint development committee with representatives from both Neurocrine and Abbott; provided, however, that final decision making authority rests with Abbott. Abbott may terminate the collaboration at its discretion upon 180 days' written notice to us. In such event, we would be entitled to specified payments for ongoing clinical development and related activities and all GnRH Compound product rights would revert to us. Our participation in the joint development committee has been determined to be a substantive deliverable under the contract, and therefore, the upfront payment has been deferred and is being recognized over the estimated term of the joint development committee, which is expected to be through the end of 2012. For the years ended December 31, 2011 and 2010, we recorded revenues of $29.0 million and $16.9 million in amortization of up-front license fees, respectively, and $9.1 million and $10.1 million in sponsored development revenue, respectively, under the Abbott collaboration agreement. Additionally, during 2011 we recorded $30.0 million in milestone revenue, $10.0 million of which was related to advancing elagolix into Phase II clinical trials for uterine fibroids and $20.0 million of which was related to the outcome of an elagolix pre-Phase III meeting with thefo340((termie)-3(t)-3ine)-g for nenal Wmmit(re89(8(fo348(eenu2890g)-29289(

approximately $3 million in additional preclinical milestone payments and $223 million in clinical development and commercial event based payments. We have assessed milestones under the revised authoritative guidance for research and development milestones and determined that the preclinical milestone payments, as defined in the agreement, meet the definition of a milestone as they are 1) events that can only be achieved in part on our past performance or upon the occurrence of a specific outcome resulting from our performance, 2) there is substantive uncertainty at the date the arrangement is entered into that the event will be achieved and 3) they result in additional payments being due to us. Clinical development and commercial milestone payments, however, currently do not meet this criteria as their achievement is solely based on the performance of Boehringer Ingelheim. No milestone payments have been recognized to date. We will be entitled to a percentage of any future worldwide sales of GPR119 agonists resulting from the collaboration. Under the terms of the agreement, the collaboration effort between the parties to identify and advance GPR119 agonist candidates into preclinical development is governed by a steering committee with representatives from both Neurocrine and Boehringer Ingelheim; provided, however, that the final decision making authority rests with Boehringer Ingelheim. Boehringer Ingelheim may terminate the agreement at its discretion upon prior written notice to us. In such event, we may be entitled to specified payments and product rights would revert to us. Our participation in the steering committee has been determined to be a substantive deliverable under the contract, and therefore, the upfront payment has been deferred and is being recognized over the estimated term of the steering committee, which is expected to be through June 2012. For the years ended December 31, 2011 and 2010, we recorded revenues of $5.0 million and $2.7 million in amortization of up-front license fees and $1.3 million and $0.8 million in sponsored research related to the Boehringer Ingelheim agreement, respectively. At December 31, 2011, we had $2.3 million of deferred license fees that will be amortized over the estimated remaining collaborative research period of the agreement.

***Research and Development Expense***

Research and development (R&D) expenses consists primarily of salaries, payroll taxes, employee benefits, and share-based compensation charges, for those individuals involved in ongoing research and development efforts; as well as scientific contractor fees, preclinical and clinical trial costs, research and development facilities costs, laboratory supply costs, and depreciation of scientific equipment. All such costs are charged to R&D expense as incurred. These expenses result from our independent R&D efforts as well as efforts associated with collaborations and in-licensing arrangements. In addition, we fund R&D and clinical trials at other companies and research institutions under agreements, which are generally cancelable. We review and accrue clinical trials expense based on work performed, which relies on estimates of total costs incurred based on patient enrollment, completion of studies and other events. We follow this method since reasonably dependable estimates of the costs applicable to various stages of a research agreement or clinical trial can be made. Accrued clinical costs are subject to revisions as trials progress to completion. Revisions are charged to expense in the period in which the facts that give rise to the revision become known. Historically, revisions have not resulted in material changes to R&D expenses, however a modification in the protocol of a clinical trial or cancellation of a trial could result in a charge to our results of operations.

***Share-Based Compensation***

We grant stock options to purchase our common stock to our employees and directors under our 2011 Equity Incentive Plan (the 2011 Plan) and grant stock options to certain employees pursuant to Employment Commencement Nonstatutory Stock Option Agreements. We also grant certain employees stock bonuses and restricted stock units under the 2011 Plan. Additionally, we have outstanding options that were granted under previous option plans from which we no longer make grants. Share-based compensation expense recognized in accordance with authoritative guidance for the years ended December 31, 2011, 2010, and 2009 was $2.9 million, $3.1 million, and $5.5 million, respectively.

Stock option awards and restricted stock units generally vest over a three to four year period and expense is ratably recognized over those same time periods. However, due to certain retirement provisions in our

2003 Incentive Stock Plan, share-based compensation expense may be recognized over a shorter period of time, and in some cases the entire share-based compensation expense may be recognized upon grant of the share-based compensation award. Employees who are age 55 or older and have five or more years of service with us are entitled to accelerated vesting of certain unvested share-based compensation awards upon retirement. This retirement provision leads to variability in the quarterly expense amounts recognized in accordance with authoritative guidance, and therefore individual share-based compensation awards may impact earnings disproportionately in any individual fiscal quarter.

For purposes of calculating share-based compensation, we estimate the fair value of share-based compensation awards using a Black-Scholes option-pricing model. The determination of the fair value of share-based compensation awards utilizing the Black-Scholes model is affected by our stock price and a number of assumptions, including but not limited to expected stock price volatility over the term of the awards and the expected term of stock options. Our stock options have characteristics significantly different from those of traded options, and changes in the assumptions can materially affect the fair value estimates.

If factors change and we employ different assumptions, share-based compensation expense may differ significantly from what we have recorded in the past. If there is a difference between the assumptions used in determining share-based compensation expense and the actual factors which become known over time, specifically with respect to anticipated forfeitures, we may change the input factors used in determining share-based compensation expense for future grants. These changes, if any, may materially impact our results of operations in the period such changes are made. If actual forfeitures vary from our estimates, we will recognize the difference in compensation expense in the period the actual forfeitures occur or at the time of vesting.

***Real Estate***

In December 2007, we closed the sale of our facility and associated real property for a purchase price of $109 million. Concurrent with the sale we retired the entire $47.7 million in mortgage debt previously outstanding with respect to the facility and associated real property, and received cash of $61.0 million net of transaction costs and debt retirement.

Upon the closing of the sale of the facility and associated real property, we entered into a lease agreement (Lease) with DMH Campus Investors, LLC (DMH) whereby we leased back for an initial term of 12 years our corporate headquarters comprised of two buildings located at 12790 El Camino Real (Front Building) and 12780 El Camino Real (Rear Building) in San Diego, California. We entered into a series of lease amendments (Amendments), beginning in late 2008, through which we vacated the Front Building, but continue to occupy the Rear Building. At December 31, 2011 and 2010, the liability related to vacating the Front Building was $0 and $7.5 million, respectively.

The ultimate result of this real estate sale was a net gain of $39.1 million which was deferred in accordance with authoritative guidance in 2008. For the year ended 2011, 2010 and 2009, we recognized $3.0 million, $2.9 million and $2.8 million, respectively, of the deferred gain and will recognize the remaining $27.0 million of the deferred gain over the initial Lease term which will expire at the end of 2019.

Under the terms of the Lease and the Amendments, we pay base annual rent (subject to an annual fixed percentage increase), plus a 3.5% annual management fee, property taxes and other normal and necessary expenses associated with the Lease such as utilities, repairs and maintenance. In lieu of a cash security deposit under the Lease, Wells Fargo Bank, N.A. issued on our behalf a letter of credit in the amount of $4.2 million. The letter of credit is secured by a deposit of $4.2 million with the same bank. We have the right to extend the Lease for two consecutive ten-year terms.

In December 2010, we entered into a sublease agreement (Sublease) for approximately 16,000 square feet of the Rear Building. The Sublease is expected to result in approximately $0.6 million of rental income per year

over the three year term of the Sublease and is recorded as an offset to rent expense. The Sublease provides the subtenant with an option to extend the term for two one-year renewal periods. The income generated under the Sublease is lower than our financial obligation under our Lease for the Rear Building as determined on a per square foot basis. Consequently, at December 31, 2010, we were required to record a cease use liability for the net present value estimated difference between the expected income to be generated under the Sublease and future subleases and the Lease obligation over the remaining term of the Lease for the space that is occupied by the subtenant. This transaction resulted in $2.5 million of gross cease use expense, and a reversal of associated deferred rent of $173,000.

In September 2011, we entered into a second sublease agreement (Second Sublease) for approximately 3,300 square feet of space in the Rear Building. The Second Sublease is expected to result in approximately $0.1 million in rental income per year over the three year term and is recorded as an offset to rent expense. The Second Sublease provides the subtenant with an option to extend the term for a one-year renewal period. Similar to the Sublease, this Second Sublease resulted in $0.3 million of gross cease use expense, and a reversal of associated deferred rent of $47,000.

At December 31, 2011 and 2010, we had recorded in our consolidated balance sheet a cease use liability related to both the Sublease and the Second Sublease of $2.6 million and $2.5 million, respectively.

***Asset Impairment***

In accordance with authoritative accounting guidance, if indicators of impairment exist, we assess the recoverability of the affected long-lived assets by determining whether the carrying value of such assets can be recovered through undiscounted future operating cash flows. If impairment is indicated, we measure the amount of such impairment by comparing the carrying value of the asset to the estimated fair value of the related asset, which is generally determined based on the present value of the expected future cash flows.

**Results of Operations for Years Ended December 31, 2011, 2010 and 2009**

***Revenue***

The following table summarizes our primary sources of revenue during the periods presented:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2011 | 2010 | 2009 |
| | (In millions) | | |
| Revenues under collaboration agreements: | | | |
| Abbott International Luxembourg S.à r.l. (Abbott) | $68.1 | $27.0 | $— |
| GlaxoSmithKline (GSK) | 0.1 | 0.1 | 0.1 |
| Dainippon Sumitomo Pharma Co. Ltd. (DSP) | 2.9 | 2.9 | 2.9 |
| Boehringer Ingelheim International GmbH (Boehringer Ingelheim) | 6.3 | 3.5 | — |
| Total revenues | $77.4 | $33.5 | $ 3.0 |

The increase in revenues from the year ended December 31, 2010 to the year ended December 31, 2011 was primarily due to two milestones recognized under the Abbott collaboration agreement. During 2011, we recorded an aggregate of $30.0 million in milestone revenue, $10.0 million of which was related to advancing elagolix into Phase II clinical trials for uterine fibroids and $20.0 million of which was related to the outcome of an elagolix pre-Phase III meeting with the FDA for endometriosis. Additionally, 2011 represented the first full year under the Abbott and Boehringer Ingelheim collaboration agreements and revenue recognized from the amortization of up-front license fees increased from $19.6 million in 2010 to $34.0 million in 2011.

The increase in revenues from the year ended December 31, 2009 to the year ended December 31, 2010 was primarily due to executing collaboration agreements with Abbott and Boehringer Ingelheim, for our GnRH

(including elagolix) and GPR119 programs, respectively. During 2010, we recognized revenue of $19.6 million from amortization of up-front license fees and $10.9 million resulting from sponsored research and development reimbursement under these two collaboration agreements.

During each of the three years ended December 31, 2011, 2010 and 2009, we recognized $2.9 million in revenue under our collaboration agreement with DSP from amortization of up-front licensing fees.

We expect revenue to decrease significantly during 2012, primarily due to lower milestone revenue under the Abbott collaboration agreement. In 2011, we recognized an aggregate of $30 million in milestone revenue. We do not expect to recognize any milestone revenue in 2012.

***Operating Expenses***

*Research and Development*

Our research and development expenditures include costs related to preclinical and clinical trials, scientific personnel, equipment, consultants, sponsored research, share-based compensation and allocated facility costs. We do not track fully burdened research and development costs separately for each of our drug candidates. We review our research and development expenses by focusing on four categories: external development, personnel, facility and depreciation, and other. External development expenses consist of costs associated with our external preclinical and clinical trials, including pharmaceutical development and manufacturing. Personnel expenses include salaries and wages, share-based compensation, payroll taxes and benefits for those individuals involved in ongoing research and development efforts. Other research and development expenses mainly represent lab supply expenses, scientific consulting expenses and other expenses. We currently have eleven programs in various stages of research and development, including six programs in clinical development.

The following table presents our total research and development expenses by category during the periods presented:

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2011 | 2010 | 2009 |
| | (In millions) | | |
| External development expense: | | | |
| Elagolix | $ 4.0 | $ 7.9 | $ 8.9 |
| VMAT2 | 4.4 | 1.8 | 0.6 |
| Other | 0.1 | — | 0.3 |
| Total external development expense | 8.5 | 9.7 | 9.8 |
| R&D personnel expense | 11.6 | 11.3 | 11.8 |
| R&D facility and depreciation expense | 6.2 | 7.0 | 8.8 |
| Other R&D expense | 4.7 | 3.2 | 3.3 |
| Total research and development expense | $31.0 | $31.2 | $33.7 |

R&D expense decreased from $31.2 million in 2010 to $31.0 million in 2011. The increase in VMAT2 external development expense, due to Phase II clinical trial activity, was offset by a decrease in elagolix external development expenses as responsibility for that program has been shifted to Abbott. Other R&D expense increased from 2010 to 2011, primarily attributable to outside consultants who advise us on research and clinical projects. The $2.5 million decrease in research and development expense from 2009 to 2010 was primarily due to our restructuring program in 2009 coupled with lower depreciation expense which decreased by $1.5 million due to asset sales and assets reaching the end of their depreciable lives.

The funding necessary to bring a drug candidate to market is subject to numerous uncertainties, which may adversely affect our liquidity and capital resources. Once a drug candidate is identified, the further development of that drug candidate can be halted or abandoned at any time due to a number of factors. These factors include, but are not limited to, funding constraints, safety or a change in market demand.

The nature and efforts required to develop our drug candidates into commercially viable products include research to identify a clinical candidate, preclinical development, clinical testing, FDA approval and commercialization. For each drug candidate that successfully completes all stages of research and development, and is commercialized, total research and development spending in the pharmaceutical industry may exceed $1 billion. Additionally, the stages of research and development can take in excess of ten years to complete for each drug candidate.

For each of our drug candidate programs, we periodically assess the scientific progress and merits of the programs to determine if continued research and development is economically viable. Certain of our programs have been terminated due to the lack of scientific progress and lack of prospects for ultimate commercialization. Because of the uncertainties associated with research and development of these programs, we may not be successful in achieving commercialization. As such, the ultimate timeline and costs to commercialize a product cannot be accurately estimated. Additionally, due to the uncertainty inherent in drug development, research and development costs are subject to considerable variation.

We expect research and development expenses to increase from 2011 levels primarily due to increased clinical efforts related to our VMAT2 program.

*General and Administrative*

General and administrative expenses decreased to $12.5 million in 2011 compared to $13.3 million during 2010 and $14.4 million during 2009. The $0.8 million decrease from 2010 to 2011 and the $1.1 million decrease in expenses from 2009 to 2010 resulted primarily from the restructuring program enacted in the second quarter of 2009 coupled with company-wide cost containment efforts.

We expect general and administrative expenses to remain at 2011 levels during 2012.

*Cease-use Expense*

During 2011, 2010 and 2009, we recognized $0.1 million, $2.8 million and $6.0 million, respectively, in cease-use expense, related to our corporate headquarters, under the amendment of the Lease and the two subleases discussed above.

*Restructuring Expense*

In May 2009, we announced a restructuring program to implement cost containment measures and to focus research and development efforts. As a result, we reduced our research and development and general and administrative staff in San Diego by approximately 65 employees and incurred a net restructuring charge of approximately $2.6 million which was comprised of salary continuation, outplacement services, and other miscellaneous costs related to this reduction in force. Substantially all of these expenses were paid during 2009.

***Other income***

Other income was $3.6 million in 2011, $5.8 million in 2010 and $2.6 million during 2009. The decrease in other income from 2010 to 2011 resulted primarily from a one-time realized gain of $1.3 million on the disposal of auction rate securities in 2010, overall lower investment returns due to interest rates in short-term debt instruments, and $1.0 million in Qualified Therapeutic Discovery Project Program funding received in 2010. The increase in other income from 2009 to 2010 resulted primarily from a $1.4 million loss from an other-than-temporary impairment recognized on auction rate securities in 2009, coupled with a realized gain of $1.3 million on the disposal of auction rate securities in 2010 and the $1.0 million in Qualified Therapeutic Discovery Project Program funding received in 2010.

*Net Income*

Our net income for 2011 was $37.6 million or $0.67 income per fully diluted share, our net loss for 2010 was $8.0 million, or $0.15 loss per share, compared to a loss of $51.0 million, or $1.30 loss per share, in 2009.

The change to net income in 2011 from a net loss position in 2010 was primarily the result of revenue recognized under our Abbott collaboration agreement. During 2011, we recorded an aggregate of $30.0 million in milestone revenue under our Abbott collaboration agreement, $10.0 million of which was related to advancing elagolix into Phase II clinical trials for uterine fibroids and $20.0 million of which was related to the outcome of an elagolix pre-Phase III meeting with the FDA for endometriosis. Additionally, 2011 represented the first full year under the Abbott and Boehringer Ingelheim collaboration agreements and the amortization of up-front license fees increased from $19.6 million in 2010 to $34.0 million in 2011.

The decrease in net loss from 2009 to 2010 was a result of the revenue recognized under the above mentioned collaboration agreements, our restructuring program implemented during the second quarter of 2009, and expense management efforts during 2010.

We expect to have a net loss in 2012, primarily due to lack of anticipated milestone revenue in 2012.

Liquidity and Capital Resources

At December 31, 2011, our cash, cash equivalents, and investments totaled $129.1 million compared with $130.6 million at December 31, 2010.

Net cash used in operating activities during 2011 was $0.7 million compared to net cash provided of $49.9 million during 2010. The $50.6 million change in cash provided by operating activities was primarily due to upfront payments from Abbott and Boehringer Ingelheim of $75 million and $10 million received in 2010 related to our partnering of our GnRH and GPR119 programs, respectively, offset by milestone payments of $30.0 million in 2011 under the Abbott collaboration agreement.

Net cash provided by operating activities during 2010 was $49.9 million compared to net cash used of $53.1 million during 2009. The $103.0 million change in cash provided by operating activities was primarily due to upfront payments from Abbott and Boehringer Ingelheim related to our partnering of our GnRH and GPR119 programs of $75 million and $10 million, respectively. Net loss for 2010 was $8.0 million compared to $51.0 million for 2009. This decrease in net loss was primarily due to our restructuring program implemented during the second quarter of 2009 and ongoing expense management efforts during 2010, as well as the above mentioned Abbott and Boehringer Ingelheim partnerings.

Net cash used in investing activities during 2011 was $3.5 million compared to $54.7 million and net cash provided of $12.1 million in 2010 and 2009, respectively. The fluctuation in net cash provided by (used in) investing activities resulted primarily from the timing differences in investment purchases, sales and maturities, and the fluctuation of our portfolio mix between cash equivalents and short-term investment holdings. The average term to maturity in our investment portfolio is less than one year.

Net cash provided by financing activities during 2011 was $0.3 million compared to $21.5 million and $9.9 million in 2010 and 2009, respectively. The decrease of $21.2 million in cash provided by financing activities was due to the net proceeds of $21.4 million received from our public offering of shares of common stock in March 2010. During 2009, we sold common stock for net cash proceeds of approximately $9.9 million. We had no outstanding debt at December 31, 2011.

Equity Financing In January 2012, we completed a public offering of common stock in which we sold 10.9 million shares our common stock at an offering price of $8.10 per share. The shares were sold pursuant to

our effective shelf registration statement with the Securities and Exchange Commission (SEC). The net proceeds generated from this transaction, after underwriting discounts and commissions and offering costs, were approximately $82.8 million.

In March 2010, we completed a public offering of common stock in which we sold approximately 10.5 million shares of our common stock at an offering price of $2.20 per share. The shares were sold pursuant to an effective shelf registration statement with the SEC. The net proceeds generated from this transaction, after underwriting discounts and commissions and offering costs, were approximately $21.4 million.

In December 2009, we entered into a privately negotiated transaction to sell approximately 4.8 million shares of our common stock to an institutional investor at a price of $2.09 per share. The shares were sold pursuant to our effective shelf registration statement with the SEC. The net proceeds generated from this transaction were approximately $9.9 million.

Committed Equity Financing Facility. In September 2009, we entered into a Committed Equity Financing Facility (CEFF) with Kingsbridge Capital Limited (Kingsbridge) pursuant to which Kingsbridge committed to purchase, subject to certain conditions, up to the lesser of 7.8 million newly issued shares of our common stock or an aggregate of $75 million newly issued shares over the three-year term of the CEFF. We may access capital under the CEFF by making draw downs up to a maximum of the lesser of (i) $15 million and (ii) the greater of (x) 1.75% of our market capitalization as of the date of delivery of the draw down notice once per calendar quarter and up to 1.25% of our market capitalization as of the date of delivery of the draw down notice for any additional draw downs during such calendar quarter and (y) the lesser of (a) 2.75% of our market capitalization as of the date of delivery of the draw down notice and (b) a number of shares determined by a formula based in part on the average trading volume and trading price of our common stock prior to the delivery of the draw down notice issued by us with respect to that draw down pricing period, subject to certain conditions, including a minimum share price threshold of $1.00. Kingsbridge may purchase shares of common stock pursuant to the CEFF at discounts ranging from 5 to 10 percent, depending on the average market price of our common stock during the applicable pricing period for a draw down. As of December 31, 2011, we had not issued any shares under the CEFF.

Shelf Registration Statement. In December 2010, the SEC declared effective a shelf registration statement filed by us earlier that month. The shelf registration statement allows us to issue shares of our common stock from time to time for an aggregate initial offering price of up to $125 million. The specific terms of offerings, if any, under the shelf registration statement would be established at the time of such offerings. As of January 31, 2012, we had approximately $37 million still available under the shelf registration statement.

Factors That May Affect Future Financial Condition and Liquidity

We anticipate increases in expenditures as we continue to expand our research and development activities. Because of our limited financial resources, our strategies to develop some of our programs include collaborative agreements with major pharmaceutical companies and sales of our common stock in both public and private offerings. Our collaborative agreements typically include a partial recovery of our research costs through license fees, contract research funding and milestone revenues. Our collaborators are also financially and managerially responsible for clinical development and commercialization. In these cases, the estimated completion date would largely be under the control of the collaborator. We cannot forecast, with any degree of certainty, which other proprietary products or indications, if any, will be subject to future collaborative arrangements, in whole or in part, and how such arrangements would affect our capital requirements.

Our license, research and clinical development agreements are generally cancelable with written notice within 180 days or less. In addition to the minimum payments due under our license and research agreements, we may be required to pay approximately $13 million in milestone payments, plus sales royalties, in the event that all scientific research under these agreements is successful.

From time to time, we may be subject to legal proceedings and claims in the ordinary course of business. We are not aware of any such proceedings or claims that we believe will have, individually or in the aggregate, a material adverse effect on our business, financial condition or results of operations.

We lease our office and research laboratories under an operating lease with an initial term that expires at the end of 2019. Additionally, our facility lease agreement calls for us to maintain $50 million in cash and investments at all times, or to increase our security deposit by $5 million.

As of December 31, 2011, the total estimated future annual minimum lease payments under our non-cancelable operating lease obligations are as follows (*in thousands*):

| | Payment Amount |
|---|---|
| Year ending: | |
| 2012 | $ 6,758 |
| 2013 | 6,961 |
| 2014 | 7,169 |
| 2015 | 7,385 |
| 2016 | 7,606 |
| Thereafter | 24,215 |
| Total future minimum lease payments | $60,094 |

The funding necessary to execute our business strategies is subject to numerous uncertainties, which may adversely affect our liquidity and capital resources. Completion of clinical trials may take several years or more, but the length of time generally varies substantially according to the type, complexity, novelty and intended use of a product candidate. It is also important to note that if a clinical candidate is identified, the further development of that candidate can be halted or abandoned at any time due to a number of factors. These factors include, but are not limited to, funding constraints, safety or a change in market demand.

An important element of our business strategy is to pursue the research and development of a diverse range of product candidates for a variety of disease indications. We pursue this goal through proprietary research and development as well as searching for new technologies for licensing opportunities. This allows us to diversify against risks associated with our research and development spending. To the extent we are unable to maintain a diverse and broad range of product candidates, our dependence on the success of one or a few product candidates would increase.

The nature and efforts required to develop our product candidates into commercially viable products include research to identify a clinical candidate, preclinical development, clinical testing, FDA approval and commercialization. For each drug candidate that successfully completes all stages of research and development, and is commercialized, total research and development spending in the pharmaceutical industry may exceed $1 billion. Additionally, the stages of research and development can take in excess of ten years to complete for each drug candidate.

We test our potential product candidates in numerous preclinical studies to identify disease indications for which our product candidates may show efficacy. We may conduct multiple clinical trials to cover a variety of indications for each product candidate. As we obtain results from trials, we may elect to discontinue clinical trials for certain product candidates or for certain indications in order to focus our resources on more promising product candidates or indications. The duration and the cost of clinical trials may vary significantly over the life of a project as a result of differences arising during the clinical trial protocol, including, among others, the following:

- we or the FDA or similar foreign regulatory authorities may suspend the trials;

- we may discover that a product candidate may cause harmful side effects;
- patient recruitment may be slower than expected; and
- patients may drop out of the trials.

For each of our programs, we periodically assess the scientific progress and merits of the programs to determine if continued research and development is economically viable. Certain of our programs have been terminated due to the lack of scientific progress and lack of prospects for ultimate commercialization. Because of the uncertainties associated with research and development of these programs, we may not be successful in achieving commercialization. As such, the ultimate timeline and costs to commercialize a product cannot be accurately estimated.

Our product candidates have not yet achieved FDA regulatory approval, which is required before we can market them as therapeutic products in the United States. In order to proceed to subsequent clinical trial stages and to ultimately achieve regulatory approval, the FDA must conclude that our clinical data establish safety and efficacy. We must satisfy the requirements of similar regulatory authorities in foreign countries in order to market products in those countries. The results from preclinical testing and early clinical trials may not be predictive of results in later clinical trials. It is possible for a candidate to show promising results in clinical trials, but subsequently fail to establish sufficient safety and efficacy data necessary to obtain regulatory approvals.

As a result of the uncertainties discussed above, among others, the duration and completion costs of our research and development projects are difficult to estimate and are subject to considerable variation. Our inability to complete our research and development projects in a timely manner or our failure to enter into collaborative agreements, when appropriate, could significantly increase our capital requirements and could adversely impact our liquidity. These uncertainties could force us to seek additional, external sources of financing from time to time in order to continue with our business strategy. Our inability to raise additional capital, or to do so on terms reasonably acceptable to us, would jeopardize the future success of our business.

We also may be required to make further substantial expenditures if unforeseen difficulties arise in other areas of our business. In particular, our future capital requirements will depend on many factors, including:

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

We believe that our existing capital resources, together with investment income and future payments due under our strategic alliances, will be sufficient to satisfy our current and projected funding requirements for at least the next 12 months. However, we cannot guarantee that our existing capital resources and anticipated revenues will be sufficient to conduct and complete all of our research and development programs as planned.

We will require additional funding to continue our research and product development programs, to conduct preclinical studies and clinical trials, for operating expenses, to pursue regulatory approvals for our product candidates, for the costs involved in filing and prosecuting patent applications and enforcing or defending patent

claims, if any, for the cost of product in-licensing and for any possible acquisitions, and we may require additional funding to establish manufacturing and marketing capabilities in the future. We may seek to access the public or private equity markets whenever conditions are favorable. For example, we have an effective shelf registration statement on file with the SEC which allows us to issue shares of our common stock from time to time for an aggregate initial offering price up to an additional $125 million. As of January 31, 2012, we have used approximately $88 million under this shelf registration statement and have approximately $37 million still available. We may also seek additional funding through strategic alliances and other financing mechanisms such as our CEFF with Kingsbridge. We cannot assure you that adequate funding will be available on terms acceptable to us, if at all. Any additional equity financings will be dilutive to our stockholders and any additional debt may involve operating covenants that may restrict our business. If adequate funds are not available through these means, we may be required to curtail significantly one or more of our research or development programs or obtain funds through arrangements with collaborators or others. This may require us to relinquish rights to certain of our technologies or product candidates. To the extent that we are unable to obtain third-party funding for such expenses, we expect that increased expenses will result in increased cash flow losses from operations. We cannot assure you that we will successfully develop our products under development or that our products, if successfully developed, will generate revenues sufficient to enable us to earn a profit.

**Interest Rate Risk**

We are exposed to interest rate risk on our short-term investments. The primary objective of our investment activities is to preserve principal while at the same time maximizing yields without significantly increasing risk. To achieve this objective, we invest in highly liquid and high quality government and other debt securities. To minimize our exposure due to adverse shifts in interest rates, we invest in short-term securities and ensure that the maximum average maturity of our investments does not exceed 36 months. If a 10% change in interest rates were to have occurred on December 31, 2011, this change would not have had a material effect on the fair value of our investment portfolio as of that date. Due to the short holding period of our investments, we have concluded that we do not have a material financial market risk exposure.

**New Accounting Pronouncements**

In October 2009, the Financial Accounting Standards Board (FASB) issued an Accounting Standard Update which replaced the concept of allocating revenue consideration amongst deliverables in a multiple-element revenue arrangement according to fair value with an allocation based on selling price. The amended guidance also establishes a hierarchy for determining the selling price of revenue deliverables sold in multiple element revenue arrangements. The selling price used for each deliverable will be based on vendor-specific objective evidence (VSOE) if available, third-party evidence if VSOE is not available, or management's estimate of an element's stand-alone selling price if neither VSOE nor third-party evidence is available. The amendments in this update also require an allocation of selling price amongst deliverables be performed based upon each deliverable's relative selling price to total revenue consideration, rather than on the residual method previously permitted. The updated guidance is effective for the first annual reporting period beginning on or after June 15, 2010, and may be applied retrospectively for all periods presented or prospectively to arrangements entered into or materially modified after the adoption date. We prospectively adopted the updated guidance on January 1, 2011 and will apply the amended guidance to revenue arrangements containing multiple deliverables that are entered into or significantly modified on or after January 1, 2011. We now allocate revenue consideration, excluding contingent consideration, based on the relative selling prices of the separate units of accounting contained within an arrangement containing multiple deliverables. Selling prices are determined using fair value, when available, or our estimate of selling price when fair value is not available for a given unit of accounting. As we did not enter into any new collaboration agreements or materially modify any existing collaboration agreements during the year, adoption of this guidance had no impact on our results of operations for the year ended December 31, 2011.

Effective January 1, 2011, we adopted the FASB's revised authoritative guidance for research and development milestone recognition. The revised guidance is not required and does not represent the only

acceptable method of revenue recognition. Milestones, as defined per the revised guidance, are (1) events that can only be achieved in whole or in part on either the entity's performance or on the occurrence of a specific outcome resulting from the entity's performance, (2) for which there is substantive uncertainty at the date the arrangement is entered into that the event will be achieved and (3) that would result in additional payments being due to Neurocrine. We evaluate events under this guidance at the inception of an arrangement to determine the existence of milestones and if they are substantive. The adoption of the revised guidance has not had, and is not expected to have, a material impact on our results of operations as it is consistent with its historical practice of milestone revenue recognition.

In May 2011, the FASB issued updated accounting guidance related to fair value measurements and disclosures that result in common fair value measurements and disclosures between U.S. generally accepted accounting principles and International Financial Reporting Standards. This guidance includes amendments that clarify the intent about the application of existing fair value measurements and disclosures, and change a principle or requirement for fair value measurements or disclosures. This guidance is effective for interim and annual periods beginning after December 15, 2011. We do not believe the adoption of this guidance will have a material impact on its consolidated financial statements

## ITEM 7A. *QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK*

Information required by this item is contained in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Interest Rate Risk." Such information is incorporated herein by reference.

**ITEM 8.** ***FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA***

**NEUROCRINE BIOSCIENCES, INC.**
**INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS**


| | Page |
|---|---|
| Report of Independent Registered Public Accounting Firm | 48 |
| Consolidated Balance Sheets as of December 31, 2011 and 2010 | 49 |
| Consolidated Statements of Operations for the years ended December 31, 2011, 2010 and 2009 | 50 |
| Consolidated Statements of Stockholders' Equity for the years ended December 31, 2011, 2010 and 2009 | 51 |
| Consolidated Statements of Cash Flows for the years ended December 31, 2011, 2010 and 2009 | 52 |
| Notes to the Consolidated Financial Statements | 53 |

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of
Neurocrine Biosciences, Inc.

We have audited the accompanying consolidated balance sheets of Neurocrine Biosciences, Inc. as of December 31, 2011 and 2010, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2011. 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 the standards of the Public Company Accounting Oversight Board (United States). 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 consolidated financial position of Neurocrine Biosciences, Inc. at December 31, 2011 and 2010, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2011, in conformity with U.S. generally accepted accounting principles.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Neurocrine Biosciences, Inc.'s internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 9, 2012 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

San Diego, CA
February 9, 2012

**NEUROCRINE BIOSCIENCES, INC.**

**Consolidated Balance Sheets**
**(In thousands, except for par value and share totals)**

| | December 31, 2011 | December 31, 2010 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 50,107 | $ 54,051 |
| Short-term investments, available-for-sale | 78,996 | 72,814 |
| Receivables under collaborative agreements | 1,903 | 4,470 |
| Other current assets | 1,470 | 1,716 |
| Total current assets | 132,476 | 133,051 |
| Property and equipment, net | 1,586 | 1,532 |
| Long-term investments | — | 3,739 |
| Restricted cash | 4,306 | 6,102 |
| Total assets | $ 138,368 | $ 144,424 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Current liabilities: | | |
| Accounts payable | $ 1,111 | $ 810 |
| Accrued liabilities | 8,451 | 8,603 |
| Current portion of deferred revenues | 34,242 | 37,026 |
| Current portion of cease-use liability | 264 | 3,385 |
| Current portion of deferred gain on sale of real estate | 3,042 | 2,953 |
| Total current liabilities | 47,110 | 52,777 |
| Deferred revenues | 2,919 | 37,162 |
| Deferred gain on sale of real estate | 24,005 | 27,046 |
| Deferred rent | 1,800 | 1,413 |
| Cease-use liability | 2,328 | 6,580 |
| Other liabilities | 125 | 101 |
| Total liabilities | 78,287 | 125,079 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Preferred stock, $0.001 par value; 5,000,000 shares authorized; no shares issued and outstanding | — | — |
| Common stock, $0.001 par value; 110,000,000 shares authorized; issued and outstanding shares were 55,262,734 and 54,882,129 at December 31, 2011 and 2010, respectively | 55 | 55 |
| Additional paid-in capital | 784,811 | 781,607 |
| Accumulated other comprehensive loss | (87) | (48) |
| Accumulated deficit | (724,698) | (762,269) |
| Total stockholders' equity | 60,081 | 19,345 |
| Total liabilities and stockholders' equity | $ 138,368 | $ 144,424 |

See accompanying notes.

**NEUROCRINE BIOSCIENCES, INC.**

**Consolidated Statements of Operations**
**(In thousands, except income (loss) per share data)**

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2011 | 2010 | 2009 |
| Revenues: | | | |
| Sponsored research and development | $10,462 | $ 10,938 | $ 34 |
| Milestones and license fees | 66,951 | 22,563 | 2,919 |
| Total revenues | 77,413 | 33,501 | 2,953 |
| Operating expenses: | | | |
| Research and development | 30,951 | 31,151 | 33,722 |
| General and administrative | 12,458 | 13,273 | 14,360 |
| Cease-use expense | 82 | 2,799 | 5,984 |
| Restructuring expenses | — | — | 2,557 |
| Total operating expenses | 43,491 | 47,223 | 56,623 |
| Income (loss) from operations | 33,922 | (13,722) | (53,670) |
| Other income: | | | |
| Gain on sale/disposal of assets | 242 | 294 | 841 |
| Deferred gain on real estate | 2,953 | 2,867 | 2,785 |
| Investment income and (expense) | 418 | 1,538 | (1,451) |
| Other income | 36 | 1,055 | 457 |
| Total other income | 3,649 | 5,754 | 2,632 |
| Net income (loss) | $37,571 | $ (7,968) | $(51,038) |
| Net income (loss) per common share: | | | |
| Basic | $ 0.68 | $ (0.15) | $ (1.30) |
| Diluted | $ 0.67 | $ (0.15) | $ (1.30) |
| Shares used in the calculation of net income (loss) per common share: | | | |
| Basic | 55,176 | 52,820 | 39,137 |
| Diluted | 56,347 | 52,820 | 39,137 |

See accompanying notes.

**NEUROCRINE BIOSCIENCES, INC.**

**Consolidated Statements of Stockholders' Equity**
**(In thousands)**

| | Common Stock | | Additional Paid in Capital | Accumulated Other Comprehensive Income (Loss) | Accumulated Deficit | Total Stockholders' Equity |
|---|---|---|---|---|---|---|
| | Shares | Amount | | | | |
| BALANCE AT DECEMBER 31, 2008 | 38,599 | $39 | $741,568 | $(1,570) | $(703,263) | $ 36,774 |
| Net loss | — | — | — | — | (51,038) | (51,038) |
| Unrealized gain on investments | — | — | — | 2,779 | — | 2,779 |
| Comprehensive loss | | | | | | (48,259) |
| Share-based compensation | — | — | 5,539 | — | — | 5,539 |
| Issuance of common stock for restricted share units vested | 608 | — | — | — | — | — |
| Issuance of common stock, net of offering costs | 4,785 | 5 | 9,895 | — | — | 9,900 |
| BALANCE AT DECEMBER 31, 2009 | 43,992 | 44 | 757,002 | 1,209 | (754,301) | 3,954 |
| Net loss | — | — | — | — | (7,968) | (7,968) |
| Unrealized loss on investments | — | — | — | (1,257) | — | (1,257) |
| Comprehensive loss | | | | | | (9,225) |
| Share-based compensation | — | — | 3,133 | — | — | 3,133 |
| Issuance of common stock for restricted share units vested | 383 | 1 | — | — | — | 1 |
| Issuance of common stock for option exercises | 42 | — | 124 | — | — | 124 |
| Issuance of common stock, net of offering costs | 10,465 | 10 | 21,348 | — | — | 21,358 |

**NEUROCRINE BIOSCIENCES, INC.**

**Consolidated Statements of Cash Flows**
**(In thousands)**

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2011 | 2010 | 2009 |
| CASH FLOW FROM OPERATING ACTIVITIES | | | |
| Net income (loss) | $ 37,571 | $ (7,968) | $(51,038) |
| Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities: | | | |
| Depreciation and amortization | 694 | 1,436 | 3,179 |
| Gain on sale of assets | (3,195) | (3,161) | (3,626) |
| Fair value adjustment for auction rate security rights | — | — | 815 |
| Loss on sale of investments | 17 | 186 | 1,086 |
| Fair value adjustment of auction rate securities | — | — | (1,047) |
| Realized gain on sale of auction rate securities | — | (1,320) | (124) |
| Other-than-temporary impairment for auction rate securities | — | — | 1,431 |
| Cease-use expense | 82 | 2,799 | 5,984 |
| Deferred revenues | (37,027) | 62,490 | (2,914) |
| Deferred rent | 434 | 680 | 796 |
| Amortization of premiums on investments | 2,341 | 833 | — |
| Non-cash share-based compensation expense | 2,918 | 3,133 | 5,539 |
| Change in operating assets and liabilities: | | | |
| Accounts receivable and other assets | 2,813 | (4,278) | 2,449 |
| Cease-use liability | (7,502) | (4,537) | (9,851) |
| Other liabilities | 24 | (1,335) | (1,698) |
| Accounts payable and accrued liabilities | 149 | 985 | (4,076) |
| Net cash (used in) provided by operating activities | (681) | 49,943 | (53,095) |
| CASH FLOW FROM INVESTING ACTIVITIES | | | |
| Purchases of investments | (139,099) | (89,787) | (16,800) |
| Sales/maturities of investments | 134,259 | 34,839 | 27,615 |
| Deposits and restricted cash | 1,796 | 223 | 84 |
| Proceeds from sales of property and equipment | 245 | 336 | 1,193 |
| Purchases of property and equipment | (750) | (315) | (35) |
| Net cash (used in) provided by investing activities | (3,549) | (54,704) | 12,057 |
| CASH FLOW FROM FINANCING ACTIVITIES | | | |
| Issuance of common stock | 286 | 21,483 | 9,900 |
| Net cash provided by financing activities | 286 | 21,483 | 9,900 |
| Net (decrease) increase in cash and cash equivalents | (3,944) | 16,722 | (31,138) |
| Cash and cash equivalents at beginning of the year | 54,051 | 37,329 | 68,467 |
| Cash and cash equivalents at end of the year | $ 50,107 | $ 54,051 | $ 37,329 |
| SUPPLEMENTAL DISCLOSURES | | | |
| Interest paid on debt obligations | $ — | $ — | $ — |
| Taxes paid | $ — | $ — | $ — |

See accompanying notes.

**NEUROCRINE BIOSCIENCES, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
**December 31, 2011**

## NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

***Business Activities.*** Neurocrine Biosciences, Inc. (the Company or Neurocrine) was incorporated in California in 1992 and reincorporated in Delaware in 1996. The Company discovers, develops and intends to commercialize drugs for the treatment of neurological and endocrine-related diseases and disorders. The Company's product candidates address some of the largest pharmaceutical markets in the world, including endometriosis, stress-related disorders, pain, tardive dyskinesia, uterine fibroids, diabetes, insomnia, and other neurological and endocrine-related diseases and disorders. While the Company independently develops many of its product candidates, it has entered into collaborations for six of its programs. The Company's lead clinical development program, elagolix, is a drug candidate for the treatment of endometriosis and uterine fibroids that is partnered with Abbott International Luxembourg S.à r.l. (Abbott).

Neurocrine Continental, Inc. (formerly Neurocrine Commercial Operations, Inc.), is a Delaware corporation and a wholly owned subsidiary of the Company which is inactive.

***Principles of Consolidation.*** The consolidated financial statements include the accounts of Neurocrine as well as its wholly owned subsidiary. The Company does not have any significant interests in any variable interest entities. All intercompany transactions and balances have been eliminated in consolidation.

***Use of Estimates.*** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) 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.

***Cash Equivalents.*** The Company considers all highly liquid investments that are readily convertible into cash and have an original maturity of three months or less at the time of purchase to be cash equivalents.

***Short-Term Investments Available-for-Sale.*** Certain short-term investments are classified as available-for-sale and, in accordance with authoritative guidance, are carried at fair value, with the unrealized gains and losses reported in other comprehensive income (loss). 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 other income or expense. The cost of securities sold is based on the specific identification method. Interest and dividends on securities classified as available-for-sale are included in investment income.

***Concentration of Credit Risk.*** Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash, cash equivalents and investments. The Company has established guidelines to limit its exposure to credit risk by placing investments with high credit quality financial institutions, diversifying its investment portfolio and placing investments with maturities that maintain safety and liquidity.

***Collaboration Agreements.*** During the years ended December 31, 2011, 2010 and 2009, collaborative research and development agreements accounted for all of the Company's revenue.

***Property and Equipment.*** Property and equipment are stated at cost and depreciated over the estimated useful lives of the assets using the straight-line method. Equipment is depreciated over an average estimated useful life of three to seven years. Leasehold improvements are depreciated over the shorter of their estimated useful lives or the remaining lease term.

***Industry Segment and Geographic Information.*** The Company operates in a single industry segment – the discovery and development of therapeutics for the treatment of neurological and endocrine-related diseases and disorders. The Company had no foreign based operations for the years ended December 31, 2011, 2010 and 2009.

***Impairment of Long-Lived Assets.*** The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If indicators of impairment exist, the Company assesses the recoverability of the affected long-lived assets by determining whether the carrying value of such assets can be recovered through undiscounted future operating cash flows. If the carrying amount is not recoverable, the Company measures the amount of any impairment by comparing the carrying value of the asset to the present value of the expected future cash flows associated with the use of the asset.

***Fair Value of Financial Instruments.*** Financial instruments, including cash and cash equivalents, accounts receivable, accounts payable, and accrued liabilities, are carried at cost, which management believes approximates fair value because of the short-term maturity of these instruments.

***Comprehensive Income (Loss).*** Comprehensive income (loss) is defined as the change in equity during a period from transactions and other events and circumstances from non-owner sources. Comprehensive income (loss) includes unrealized gains and losses on available-for-sale investments and the Company's net income (loss). The Company has disclosed comprehensive income (loss) as a component of stockholders' equity.

***Research and Development Expenses.*** Research and development (R&D) expenses consists primarily of salaries, payroll taxes, employee benefits, and share-based compensation charges, for those individuals involved in ongoing research and development efforts; as well as scientific contractor fees, preclinical and clinical trial costs, research and development facilities costs, laboratory supply costs, and depreciation of scientific equipment. All such costs are charged to R&D expense as incurred. These expenses result from the Company's independent R&D efforts as well as efforts associated with collaborations and in-licensing arrangements. In addition, the Company funds R&D at other companies and research institutions under agreements, which are generally cancelable. The Company reviews and accrues clinical trial expenses based on work performed, which relies on estimates of total costs incurred based on patient enrollment, completion of patient studies and other events. The Company follows this method since reasonably dependable estimates of the costs applicable to various stages of a research agreement or clinical trial can be made. Accrued clinical costs are subject to revisions as trials progress. Revisions are charged to expense in the period in which the facts that give rise to the revision become known.

***Restructuring.*** During 2009, the Company announced a restructuring program to implement cost containment measures and to focus research and development efforts. As a result, the Company reduced its research and development and general and administrative staff in San Diego by approximately 65 employees. In accordance with authoritative guidance issued by the Financial Accounting Standards Board (FASB), the Company incurred a net restructuring charge of approximately $2.6 million. Substantially all of these expenses were paid in cash during 2009.

***Share-Based Compensation.*** The Company estimates the fair value of stock options using a Black-Scholes option pricing model on the date of grant. Restricted stock units are valued based on the closing price of the Company's common stock on the date of grant. The fair value of equity instruments expected to vest are recognized and amortized on a straight-line basis over the requisite service period of the award, which is generally three to four years; however, certain provisions in the Company's equity compensation plans provide for shorter vesting periods under certain circumstances.

***Investment Income and (Expense).*** Investment income and (expense) is comprised of interest and dividends earned on cash, cash equivalents and investments as well as gains and losses realized from activity in the Company's investment portfolio. The following table presents certain information related to the components of investment income and (expense) (*in thousands*):

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2011 | 2010 | 2009 |
| Interest income | 435 | 397 | 691 |
| Dividends | — | 7 | 37 |
| Realized gains/(losses), net | (17) | 1,134 | (2,179) |
| Total | $418 | $1,538 | $(1,451) |

***Net Income (Loss) Per Share.*** The computation of basic earnings per share is based upon the weighted-average number of common shares outstanding. The computation of diluted earnings per share is based upon the weighted-average number of common shares and dilutive potential common shares outstanding. Dilutive potential common shares outstanding, determined using the treasury stock method, principally include shares that may be issued under the Company's stock option agreements and restricted stock unit awards. At December 31, 2011, the Company had approximately 1.2 million additional dilutive potential common shares as computed under the treasury method, yielding a total of 56.3 million diluted common shares outstanding. For the years ended December 31, 2011, 2010 and 2009, there were employee stock options, calculated on a weighted average basis, to purchase 1.3 million, 0.5 million and 0.1 million shares of our common stock for these periods that are not included in the computation of diluted EPS as their impact would have been anti-dilutive.

***Impact of Recently Issued Accounting Standards.*** In October 2009, the Financial Accounting Standards Board (the FASB) issued an Accounting Standard Update which replaced the concept of allocating revenue consideration amongst deliverables in a multiple-element revenue arrangement according to fair value with an allocation based on selling price. The amended guidance also establishes a hierarchy for determining the selling price of revenue deliverables sold in multiple element revenue arrangements. The selling price used for each deliverable will be based on vendor-specific objective evidence (VSOE) if available, third-party evidence if VSOE is not available, or management's estimate of an element's stand-alone selling price if neither VSOE nor third-party evidence is available. The amendments in this update also require an allocation of selling price amongst deliverables be performed based upon each deliverable's relative selling price to total revenue consideration, rather than on the residual method previously permitted. The updated guidance is effective for the first annual reporting period beginning on or after June 15, 2010, and may be applied retrospectively for all periods presented or prospectively to arrangements entered into or materially modified after the adoption date. The Company prospectively adopted the updated guidance on January 1, 2011 and will apply the amended guidance to revenue arrangements containing multiple deliverables that are entered into or materially modified on or after January 1, 2011. The Company now allocates revenue consideration, excluding contingent consideration, based on the relative selling prices of the separate units of accounting contained within an arrangement containing multiple deliverables. Selling prices are determined using fair value, when available, or the Company's estimate of selling price when fair value is not available for a given unit of accounting. As the Company did not enter into any new collaboration agreements or materially modify any existing collaboration agreements during the year, adoption of this guidance had no impact on the Company's results of operations for the year ended December 31, 2011.

Effective January 1, 2011, the Company adopted the FASB's revised authoritative guidance for research and development milestone recognition. The revised guidance is not required and does not represent the only acceptable method of revenue recognition. Milestones, as defined in the revised guidance, are (1) events that can only be achieved in whole or in part on either the entity's performance or on the occurrence of a specific outcome resulting from the entity's performance, (2) for which there is substantive uncertainty at the date the arrangement is entered into that the event will be achieved and (3) that would result in additional payments being due to the

Company. The Company evaluates events under this guidance at the inception of an arrangement to determine the existence of milestones and if they are substantive. The adoption of the revised guidance has not had, and is not expected to have, a material impact on the Company's results of operations as it is consistent with its historical practice of milestone revenue recognition.

In May 2011, the FASB issued updated accounting guidance related to fair value measurements and disclosures that result in common fair value measurements and disclosures between GAAP and International Financial Reporting Standards. This guidance includes amendments that clarify the intent about the application of existing fair value measurements and disclosures, and change a principle or requirement for fair value measurements or disclosures. This guidance is effective for interim and annual periods beginning after December 15, 2011. The Company does not believe the adoption of this guidance will have a material impact on its consolidated financial statements.

**NOTE 2. REVENUE RECOGNITION AND SIGNIFICANT COLLABORATIVE RESEARCH AND DEVELOPMENT AGREEMENTS**

***Revenue Recognition Policy.*** Revenues under collaborative agreements and grants are recognized as research costs are incurred over the period specified in the related agreement or as the services are performed. These agreements are on a best-efforts basis, do not require scientific achievement as a performance obligation and provide for payment to be made when costs are incurred or the services are performed. All fees are nonrefundable to the collaborators. Prior to the revised multiple element guidance adopted by the Company on January 1, 2011, upfront, nonrefundable payments for license fees, grants, and advance payments for sponsored research revenues received in excess of amounts earned were classified as deferred revenue and recognized as income over the contract or development period. Estimating the duration of the development period includes continual assessment of development stages and regulatory requirements. If and when the Company enters into a new collaboration agreement or materially modifies an existing collaboration agreement, the Company will be required to apply the new multiple element guidance. Milestone payments are recognized as revenue upon achievement of pre-defined scientific events, which require substantive effort, and for which achievement of the milestone was not readily assured at the inception of the agreement.

***Abbott International Luxembourg S.à r.l.*** In June 2010, the Company announced an exclusive worldwide collaboration with Abbott to develop and commercialize elagolix and all next-generation gonadotropin-releasing hormone (GnRH) antagonists (collectively GnRH Compounds) for women's and men's health. Under the terms of the Company's agreement with Abbott, the Company and Abbott will work jointly to advance GnRH Compounds towards commercialization. Abbott made an upfront payment of $75 million and agreed to make additional development and regulatory event based payments of up to $480 million and up to an additional $50 million in commercial event based payments. The Company has assessed event based payments under the revised authoritative guidance for research and development milestones and determined that event based payments prior to commencement of a Phase III clinical study, as defined in the agreement, meet the definition of a milestone in accordance with authoritative guidance as they are 1) events that can only be achieved in part on the Company's past performance, (2) there is substantive uncertainty at the date the arrangement is entered into that the event will be achieved and (3) they result in additional payments being due to the Company. Development and regulatory event based payments subsequent to the commencement of a Phase III clinical study, however, currently do not meet this criteria as their achievement is based on the performance of Abbott. As of December 31, 2011, there are no further milestones that meet the definition of a milestone in accordance with authoritative guidance.

Under the terms of the agreement, Abbott is responsible for all third-party development, marketing and commercialization costs. The Company will receive funding for certain internal collaboration expenses which includes reimbursement from Abbott for internal and external expenses related to the GnRH Compounds, which reimbursement includes up to approximately $24 million in personnel funding through the end of 2012. The Company will be entitled to a percentage of worldwide sales of GnRH Compounds for the longer of ten years or the life of the related patent rights. Under the terms of the Company's agreement with Abbott, the collaboration

effort between the parties to advance GnRH Compounds towards commercialization is governed by a joint development committee with representatives from both the Company and Abbott; provided, however, that final decision making authority rests with Abbott. Abbott may terminate the collaboration at its discretion upon 180 days' written notice to the Company. In such event, the Company would be entitled to specified payments for ongoing clinical development and related activities and all GnRH Compound product rights would revert to the Company. The Company's participation in the joint development committee has been determined to be a substantive deliverable under the contract, and therefore, the upfront payment has been deferred and is being recognized over the estimated term of the joint development committee, which is expected to be through the end of 2012. For the years ended December 31, 2011 and 2010, the Company recorded revenues of $29.0 million and $16.9 million in amortization of up-front license fees, respectively. The Company also recorded $9.1 million and $10.1 million in sponsored development revenue related to the Abbott agreement during the years ended December 31, 2011 and 2010, respectively. During the year ended December 31, 2011, the Company recognized $30.0 million in milestone revenue under the Abbott collaboration, $10.0 million of which was related to advancing elagolix into Phase II clinical trials for uterine fibroids and $20.0 million of which was related to the outcome of an elagolix pre- Phase III meeting with the U.S. Food and Drug Administration (FDA) for endometriosis. In addition, at December 31, 2011 and 2010, the Company had $29.0 million and $58.1 million, respectively, of deferred revenue related to the Abbott agreement, which is being amortized over the remaining collaborative development period.

***Boehringer Ingelheim International GmbH.*** In June 2010, the Company announced a worldwide collaboration with Boehringer Ingelheim International GmbH (Boehringer Ingelheim) to research, develop and commercialize small molecule GPR119 agonists for the treatment of Type II diabetes and other indications. Under the terms of the Company's agreement with Boehringer Ingelheim, the Company and Boehringer Ingelheim are working jointly to identify and advance GPR119 agonist candidates into preclinical development. Boehringer Ingelheim will then be responsible for the global development and commercialization of potential GPR119 agonist products. The Company received a $10 million upfront payment, and is currently receiving research funding to support discovery efforts. Boehringer Ingelheim agreed to make payments of up to approximately $3 million in additional preclinical milestone payments and payments of up to approximately $223 million in clinical development and commercial event based payments. The Company has assessed milestones under the revised authoritative guidance for research and development milestones and determined that the preclinical milestone payments, as defined in the agreement, meet the definition of a milestone as they are 1) events that can only be achieved in part on the Company's performance or upon the occurrence of a specific outcome resulting from the Company's performance, (2) there is substantive uncertainty at the date the arrangement is entered into that the event will be achieved and (3) they result in additional payments being due to the Company. Clinical development and commercial milestone payments, however, currently do not meet this criteria as their achievement is solely based on the performance of Boehringer Ingelheim. No milestone payments were recognized during the periods presented. The Company will be entitled to a percentage of any future worldwide sales of GPR119 agonists. Under the terms of the agreement, the collaboration effort between the parties to identify and advance GPR119 agonist candidates into preclinical development is governed by a steering committee with representatives from both the Company and Boehringer Ingelheim; provided, however, that final decision making authority rests with Boehringer Ingelheim. Boehringer Ingelheim may terminate the agreement at its discretion upon prior written notice to the Company. In such event, the Company may be entitled to specified payments and product rights would revert to the Company. The Company's participation in the steering committee has been determined to be a substantive deliverable under the contract, and therefore, the upfront payment has been deferred and is being recognized over the estimated term of the steering committee, which is expected to be through June 2012. During the year ended December 31, 2011 and 2010, the Company recorded revenues of $5.0 million and $2.7 million in amortization of up-front license fees, respectively. The Company also recorded $1.3 million and $0.8 million in sponsored research revenue related to the Boehringer Ingelheim agreement during the years ended December 31, 2011 and 2010, respectively. In addition, at December 31, 2011 and 2010, the Company had $2.3 million and $7.3 million, respectively, of deferred license fees related to the Boehringer Ingelheim agreement, which is being amortized over the remaining collaborative research period of the agreement.

***Dainippon Sumitomo Pharma Co., Ltd.*** On October 31, 2007, the Company entered into an exclusive license agreement with Dainippon Sumitomo Pharma Co. Ltd. (DSP), under which the Company licensed rights to indiplon to DSP and agreed to collaborate with DSP on the development and commercialization of indiplon in Japan. Pursuant to the license agreement, among other things, the Company received an up-front license fee of $20 million. The Company is also eligible to receive additional event based payments upon specified future events related to the development and commercialization of indiplon in Japan. Should all event based payments be achieved, the Company may be entitled to payments totaling an additional $115 million. Event based payments under the DSP agreement do not meet the criteria of a milestone in accordance with the authoritative guidance as they are based on the performance of DSP. Additionally, the Company is entitled to royalties from DSP on future sales of indiplon in Japan. For each of the years ending December 31, 2011, 2010 and 2009, the Company amortized annually into revenue $2.9 million of the upfront license fee under the DSP agreement.

***GlaxoSmithKline.*** In July 2001, the Company announced a worldwide collaboration with GlaxoSmithKline (GSK) to develop and commercialize CRF antagonists for psychiatric, neurological and gastrointestinal diseases. Under the terms of this agreement, the Company and GSK conducted a collaborative research program and collaborated in the development of Neurocrine's current lead CRF compounds, as well as novel back-up candidates and second generation compounds identified through the collaborative research. In addition, the Company will be eligible to receive event based payments as compounds progress through the research and development process, royalties on future product sales and co-promotion rights in the U.S. under some conditions. GSK may terminate the agreement at its discretion upon prior written notice to the Company. In such event, the Company may be entitled to certain payments and all product rights would revert to Neurocrine. The Company recognized $0.1 million in revenue under the GSK agreement in each of the years ended December 31, 2011, 2010 and 2009. The sponsored research portion of this collaboration agreement ended in 2005.

## NOTE 3. INVESTMENTS

Available-for-sale securities are carried at fair value, with the unrealized gains and losses reported in comprehensive income (loss). 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 other income or expense. The cost of securities sold is based on the specific identification method. Interest and dividends on securities classified as available-for-sale are included in investment income.

The following table presents information about available-for-sale investments in an unrealized loss position (*in thousands*):

| | Less Than 12 Months | | 12 Months or Greater | | Total | |
|---|---|---|---|---|---|---|
| | Estimated Fair Value | Unrealized Losses | Estimated Fair Value | Unrealized Losses | Estimated Fair Value | Unrealized Losses |
| **December 31, 2011:** | | | | | | |
| Certificates of deposit | $ 4,312 | $ (8) | $— | $— | $ 4,312 | $ (8) |
| Commercial paper | 5,980 | (11) | — | — | 5,980 | (11) |
| Securities of government-sponsored enterprises | — | — | — | — | — | — |
| Corporate debt securities | 54,974 | (76) | — | — | 54,974 | (76) |
| Total | $65,266 | $(95) | $— | $— | $65,266 | $(95) |
| **December 31, 2010:** | | | | | | |
| Certificates of deposit | $ 2,157 | $ (3) | $— | $— | $ 2,157 | $ (3) |
| Commercial paper | 25,150 | (8) | — | — | 25,150 | (8) |
| Securities of government-sponsored enterprises | 1,998 | (2) | — | — | 1,998 | (2) |
| Corporate debt securities | 35,166 | (43) | — | — | 35,166 | (43) |
| Total | $64,471 | $(56) | $— | $— | $64,471 | $(56) |

**NOTE 4. FAIR VALUE MEASUREMENTS**

Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, a three-tier fair value hierarchy has been established, which prioritizes the inputs used in measuring fair value as follows:

Level 1: Observable inputs such as quoted prices in active markets;

Level 2: Inputs include quoted prices for similar instruments in active markets and/or quoted prices for identical or similar instruments in markets that are not active near the measurement date; and

Level 3: Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

The Company classifies its cash equivalents and available for sale investments within Level 1 or Level 2. This is because cash equivalents and available for sale investments can be valued using quoted market prices or alternative pricing sources and models using market observable inputs.

The Company's assets which are measured at fair value on a recurring basis as of December 31, 2011 and 2010 were determined using the inputs described above (*in millions*):

| | Carrying Value | Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| **December 31, 2011:** | | | | |
| Classified as current assets: | | | | |
| Cash and money market funds | $ 50.5 | $ 50.5 | $ — | $— |
| Certificates of deposit | 5.2 | 5.2 | — | — |
| Commercial paper | 12.5 | — | 12.5 | — |
| Corporate bonds | 65.2 | — | 65.2 | — |
| Total | 133.4 | 55.7 | 77.7 | — |
| Less cash, cash equivalents and restricted cash | (54.4) | (51.1) | (3.3) | — |
| Total investments | $ 79.0 | $ 4.6 | $74.4 | $— |
| **December 31, 2010:** | | | | |
| Cash and money market funds | $ 56.4 | $ 56.4 | $ — | $— |
| Certificates of deposit | 2.4 | 2.4 | — | — |
| Commercial paper | 27.6 | — | 27.6 | — |
| Securities of government-sponsored entities | 4.5 | — | 4.5 | — |
| Corporate bonds | 45.8 | — | 45.8 | — |
| Total | 136.7 | 58.8 | 77.9 | — |
| Less cash, cash equivalents and restricted cash | (60.2) | (56.4) | (3.8) | — |
| Total investments | $ 76.5 | $ 2.4 | $74.1 | $— |

## NOTE 5. PROPERTY AND EQUIPMENT

Property and equipment, net, at December 31, 2011 and 2010 consisted of the following (*in thousands*):

| | 2011 | 2010 |
|---|---|---|
| Tenant improvements | 1,118 | 1,118 |
| Furniture and fixtures | 966 | 1,217 |
| Equipment | 34,389 | 35,747 |
| | 36,473 | 38,082 |
| Less accumulated depreciation | (34,887) | (36,550) |
| Property and equipment, net | $ 1,586 | $ 1,532 |

For the years ended December 31, 2011, 2010 and 2009, depreciation expense was $0.7 million, $1.4 million and $3.2 million, respectively. During 2011, 2010 and 2009, the Company recognized a gain of approximately $242,000, $294,000 and $841,000, respectively, related to disposal of capital equipment.

## NOTE 6. ACCRUED LIABILITIES

Accrued liabilities at December 31, 2011 and 2010 consist of the following (*in thousands*):

| | 2011 | 2010 |
|---|---|---|
| Accrued employee related costs | $3,842 | $4,237 |
| Accrued development costs | 1,475 | 1,528 |
| Other accrued liabilities | 3,134 | 2,838 |
| | $8,451 | $8,603 |

## NOTE 7. COMMITMENTS AND CONTINGENCIES

***Real Estate.*** In December 2007, the Company closed the sale of its facility and associated real property for a purchase price of $109 million. Concurrent with the sale, the Company retired the entire $47.7 million in mortgage debt previously outstanding with respect to the facility and associated real property, and received cash of $61.0 million net of transaction costs and debt retirement.

Upon the closing of the sale of the facility and associated real property, the Company entered into a lease agreement (Lease) with DMH Campus Investors, LLC (DMH) whereby it leased back for an initial term of 12 years its corporate headquarters comprised of two buildings located at 12790 El Camino Real (Front Building) and 12780 El Camino Real (Rear Building) in San Diego, California. The Company also entered into a series of lease amendments (Amendments), beginning in late 2008, through which it vacated the Front Building, but continues to occupy the Rear Building. At December 31, 2011 and 2010, the liability related to vacating the Front Building was $0 and $7.5 million, respectively.

The ultimate result of this real estate sale was a net gain of $39.1 million which was deferred in accordance with authoritative guidance in 2008. For the years ended December 31, 2011, 2010 and 2009, the Company recognized $3.0 million, $2.9 million and $2.8 million, respectively, of the deferred gain and will recognize the remaining $27.0 million of the deferred gain over the initial Lease term which will expire at the end of 2019.

Under the terms of the Lease and the Amendments, the Company pays base annual rent (subject to an annual fixed percentage increase), plus a 3.5% annual management fee, property taxes and other normal and necessary expenses associated with the Lease such as utilities, repairs and maintenance. In lieu of a cash security deposit under the Lease, Wells Fargo Bank, N.A. issued on the Company's behalf a letter of credit in the amount of $4.2 million. The letter of credit is secured by a deposit of $4.2 million with the same bank. The Company also has the right to extend the Lease for two consecutive ten-year terms.

In December 2010, the Company entered into a sublease agreement (Sublease) for approximately 16,000 square feet of the Rear Building. The Sublease is expected to result in approximately $0.6 million of rental income per year over the three year term of the sublease and is recorded as an offset to rent expense. The Sublease provides an option to extend for two one-year renewal periods. The income generated under the Sublease is lower than the Company's financial obligation under our Lease for the Rear Building with DMH, as determined on a per square foot basis. Consequently, at December 31, 2010 the Company was required to record a cease use liability for the net present value estimated difference between the expected income to be generated under the Sublease and future subleases and the Lease obligation over the remaining term of the Lease for the space that is occupied by the subtenant. This transaction resulted in $2.5 million of gross cease use expense, and a reversal of associated deferred rent of $173,000, being recorded in December 2010.

In September 2011, the Company entered into a second sublease agreement (Second Sublease) for approximately 3,300 square feet of space in the Rear Building. The Second Sublease is expected to result in approximately $0.1 million in rental income per year over the three year term and is recorded as an offset to rent expense. The Second Sublease provides an option to extend for a one-year renewal period. Similar to the Sublease, this Second Sublease resulted in $0.3 million of gross cease use expense, and a reversal of associated deferred rent of $47,000.

At December 31, 2011 and 2010, the Company had recorded in its consolidated balance sheet a cease use liability related to both the Sublease and the Second Sublease of $2.6 million and $2.5 million, respectively.

The following table sets forth changes to the accrued cease-use liability during 2011 and in 2010 (thousands):

| | Years Ended December 31, | |
|---|---|---|
| | 2011 | 2010 |
| Beginning balance | $ 9,965 | $ 11,530 |
| Accreted cease use costs | 277 | 506 |
| Impact of sublease cease-use charge(1) | 324 | 2,466 |
| Change in estimate | (472) | — |
| Payments | (7,502) | (4,537) |
| Ending balance | $ 2,592 | $ 9,965 |

(1) Total sublease cease-use expense was offset by a related adjustment to deferred rent of approximately $47,000 during 2011 and $173,000 in 2010.

***Rent Expense.*** Rent expense was $6.2 million, $6.4 million and $6.5 million for the years ended December 31, 2011, 2010 and 2009, respectively. For financial reporting purposes, the Company recognizes rent expense on a straight-line basis over the term of the lease. Accordingly, rent expense recognized in excess of rent paid is reflected as a liability in the accompanying consolidated balance sheets.

***Lease Commitments.*** The Company leases its office and research laboratories under an operating lease with an initial term of twelve years, expiring at the end of 2019. Additionally, the Company•s facility lease agreement calls for it to maintain $50 million in cash and investments at all times, or to increase the security deposit by $5 million.

As of December 31, 2011, the total estimated future annual minimum lease payments under the Company•s non-cancelable building lease for the years ending after December 31, 2011 are as follows (thousands):

| | Payment Amount |
|---|---|
| 2012 | $ 6,758 |
| 2013 | 6,961 |
| 2014 | 7,169 |
| 2015 | 7,385 |
| 2016 | 7,606 |
| Thereafter | 24,215 |
| Total future minimum lease payments | $ 60,094 |

***Product Liability.*** The Company•s business exposes it to liability risks from its potential drug products. A successful product liability claim or series of claims brought against the Company could result in payment of significant amounts of money and divert management•s attention from running the business. The Company may not be able to maintain insurance on acceptable terms, or the insurance may not provide adequate protection in the case of a product liability claim. To the extent that product liability insurance, if available, does not cover potential claims, the Company would be required to self-insure the risks associated with such claims. The Company believes that it carries reasonably adequate insurance for product liability claims.

***Licensing and Research Agreements.*** The Company has entered into licensing agreements with various universities and research organizations, which are generally cancelable at the option of the Company with terms

ranging from 0-180 days written notice. Under the terms of these agreements, the Company has received licenses to research tools, know-how and technology claimed, in certain patents or patent applications. The Company is required to pay fees, milestones and/or royalties on future sales of products employing the technology or falling under claims of a patent, and some of the agreements require minimum royalty payments. Some of the agreements also require the Company to pay expenses arising from the prosecution and maintenance of the patents covering the licensed technology. The Company continually reassesses the value of the license agreements and cancels them when research efforts are discontinued on these programs. If all licensed and research candidates are successfully developed, the Company may be required to pay milestone payments of approximately $13 million over the lives of these agreements, in addition to royalties on sales of the affected products at rates ranging up to 5%. Due to the uncertainties of the development process, the timing and probability of the milestone and royalty payments cannot be accurately estimated.

***Litigation.*** From time to time, the Company may be subject to legal proceedings and claims in the ordinary course of business. The Company is not aware of any such proceedings or claims that it believes will have, individually or in the aggregate, a material adverse effect on its business, financial condition or results of operations.

## NOTE 8. SHARE-BASED COMPENSATION

***Share-Based Compensation Plans.*** In May 2011, the Company adopted the Neurocrine Biosciences, Inc. 2011 Equity Incentive Plan (the 2011 Plan) pursuant to which 5,500,000 shares of Company common stock were reserved for future issuance. The 2011 Plan is the successor to the Company's 2003 Incentive Stock Plan (the 2003 Plan), 2001 Stock Option Plan (the 2001 Plan), 1997 Incentive Stock Plan, 1996 Director Stock Option Plan and 1992 Incentive Stock Plan (the 1992 Plan) (together, the Prior Plans). Although the Company no longer grants equity awards under the Prior Plans, all outstanding stock awards granted under the Prior Plans will continue to be subject to the terms and conditions as set forth in the agreements evidencing such stock awards and the terms of the Prior Plans, as applicable.

The 2011 Plan provides for the grant of stock options that qualify as incentive stock options under Section 422 of the Internal Revenue Code of 1986, as amended (the Code), nonstatutory stock options, restricted stock awards, restricted stock unit awards, stock appreciation rights, performance stock awards and other forms of equity compensation, as well as performance cash awards.

Since 1992, the Company has authorized approximately 20.7 million shares of common stock for issuance pursuant to the Prior Plans, several Employment Commencement Nonstatutory Stock Option Agreements and the 2011 Plan, (collectively, the Option Plans). The Option Plans provide for the grant of stock options, restricted stock awards, restricted stock unit awards, and stock bonuses to officers, directors, employees, and consultants of the Company. Currently, all new grants of stock options are made from the 2011 Plan or through Employment Commencement Nonstatutory Stock Option Agreements. As of December 31, 2011, of the 20.7 million shares originally reserved for issuance under the Option Plans, 3.5 million of these shares were originally reserved for issuance pursuant to the terms of the Prior Plans and would currently be available for issuance but for the Company's determination not to make further grants under these plans; 7.8 million were issued upon exercise of stock options previously granted or pursuant to restricted stock or stock bonus awards; 5.4 million were subject to outstanding options and restricted stock units; and 4.0 million remained available for future grant under the 2011 Plan. Share awards made under the 2011 Plan that are later cancelled due to forfeiture or expiration return to the pool available for future grants.

The Company issues new shares upon the exercise of stock options, the issuance of stock bonus awards and vesting of restricted stock units.

***Vesting Provisions of Share-Based Compensation.*** Stock options granted under the Option Plans have terms from seven to ten years from the date of grant, and generally vest over a three to four-year period.

Restricted stock units granted under the Option Plans generally have vesting periods of three years. However, certain retirement provisions in the 2003 Option Plan provide that employees who are age 55 or older, and have five or more years of service with the Company, will be entitled to accelerated vesting of all of the unvested stock option awards upon retirement from the Company. In these cases, share-based compensation expense may be recognized over a shorter period of time, and in some cases the entire share-based compensation expense may be recognized upon grant of the share-based compensation award. The maximum contractual term for all options granted from the 2011 Plan is ten years.

***Share-Based Compensation.*** The compensation cost that has been included in the statement of operations for all share-based compensation arrangements was as follows (*in thousands*):

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2011 | 2010 | 2009 |
| General and administrative expense | $1,760 | $1,573 | $3,193 |
| Research and development expense | 1,158 | 1,560 | 2,346 |
| Share-based compensation expense | $2,918 | $3,133 | $5,539 |

Authoritative guidance requires that cash flows resulting from tax deductions in excess of the cumulative compensation cost recognized for options exercised be classified as cash inflows provided by financing activities and cash outflows used in operating activities. Due to the Company's net tax loss position, no tax benefits have been recognized in the consolidated statements of cash flows.

***Stock Options.*** The exercise price of all options granted during the years ended December 31, 2011, 2010 and 2009 was equal to the market value on the date of grant. The estimated fair value of each option award granted was determined on the date of grant using the Black-Scholes option-pricing valuation model with the following weighted-average assumptions for option grants during the three years ended December 31, 2011:

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2011 | 2010 | 2009 |
| Risk-free interest rate | 1.4% | 2.2% | 2.3% |
| Expected volatility of common stock | 82% | 90% | 83% |
| Dividend yield | 0.0% | 0.0% | 0.0% |
| Expected option term | 6.2 years | 4.6 years | 5.4 years |

The Company estimates the fair value of stock options using a Black-Scholes option-pricing model on the date of grant. The fair value of equity instruments that are ultimately expected to vest, net of estimated forfeitures, are recognized and amortized on a straight-line basis over the requisite service period. The Black-Scholes option-pricing model incorporates various and highly sensitive assumptions including expected volatility, expected term and interest rates. The expected volatility is based on the historical volatility of the Company's common stock over the most recent period commensurate with the estimated expected term of the Company's stock options. The expected option term is estimated based on historical experience as well as the status of the employee. For example, Directors and Officers have a longer expected option term than all other employees. The risk-free rate for periods within the contractual life of the option is based upon observed interest rates appropriate for the expected term of the Company's employee stock options. The Company has never declared or paid dividends and has no plans to do so in the foreseeable future.

Authoritative guidance requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Pre-vesting forfeitures for awards with monthly vesting terms were estimated to be 0% in 2011 based on historical experience. The effect of pre-vesting forfeitures for awards with monthly vesting terms has historically been negligible on the Company's recorded expense. Pre-vesting forfeitures for awards with annual vesting terms were estimated at 0% in 2011 based on

Company's common stock on the NASDAQ Global Select Market on the date of issuance. The total number of restricted stock awards expected to vest is adjusted by estimated forfeiture rates, which has been based on historical experience of restricted stock awards. As of December 31, 2011, all compensation cost related to outstanding restricted stock units had been recognized. For the year ended December 31, 2011, share-based compensation expense related to restricted stock units was $0.5 million. The total intrinsic value of restricted stock units converted into common shares during the years ended December 31, 2011, 2010, and 2009 was $1.9 million, $1.0 million and $2.0 million, respectively. The total intrinsic value of restricted stock units outstanding at December 31, 2011 was $0.4 million based on the Company's closing stock price on that date.

A summary of the status of the Company's restricted stock units as of December 31, 2011, 2010, and 2009 and of changes in restricted stock units outstanding under the plan for the three years ended December 31, 2011 is as follows (*in thousands, except for weighted average grant date fair value per unit*):

| | 2011 | | 2010 | | 2009 | |
|---|---|---|---|---|---|---|
| | Number of Units | Weighted Average Grant Date Fair Value per Unit | Number of Units | Weighted Average Grant Date Fair Value per Unit | Number of Units | Weighted Average Grant Date Fair Value per Unit |
| Restricted stock units outstanding at January 1 | 287 | $5.08 | 681 | $5.88 | 1,450 | $6.58 |
| Restricted stock units granted | 50 | 5.88 | — | — | — | — |
| Restricted stock units cancelled | — | — | (11) | 5.62 | (175) | 6.48 |
| Restricted stock units converted into common shares | (287) | 5.08 | (383) | 6.49 | (594) | 7.42 |
| Restricted stock units outstanding at December 31 | 50 | $5.88 | 287 | $5.08 | 681 | $5.88 |

***Warrants.*** As of December 31, 2011, the Company had outstanding warrants to purchase 3,940 shares of common stock at $52.05 per share that expire in December 2012.

The following shares of common stock are reserved for future issuance at December 31, 2011 (*in thousands*):

| | |
|---|---|
| Share-based compensation plans | 9,359 |
| Warrants | 4 |
| Total | 9,363 |

## NOTE 9. STOCKHOLDERS' EQUITY

### *Equity Financing*

In March 2010, the Company completed a public offering of common stock in which it sold approximately 10.5 million shares of its common stock at an offering price of $2.20 per share. The shares were sold pursuant to the Company's effective shelf registration statement with the Securities and Exchange Commission. The net proceeds generated from this transaction, after underwriting discounts and commissions and offering costs, were approximately $21.4 million.

In December 2009, the Company entered into a privately negotiated transaction to sell approximately 4.8 million shares of its common stock to an institutional investor at a price of $2.09 per share, raising total gross proceeds of approximately $10.0 million. The shares were sold pursuant to the Company's effective shelf registration statement with the Securities and Exchange Commission. Total stock issuance costs related to this financing were approximately $100,000.

***Shelf Registration Statement***

In December 2010, the Securities and Exchange Commission declared effective a shelf registration statement filed by the Company earlier in that month. The shelf registration statement allows the Company to issue shares of its common stock from time to time for an aggregate initial offering price of up to $125 million. As January 31, 2012, the Company had approximately $37 million still available under this shelf registration statement. The specific terms of future offerings, if any, under the shelf registration statement would be established at the time of such offerings.

***Committed Equity Financing Facility***

In September 2009, the Company entered into a Committed Equity Financing Facility (CEFF) with Kingsbridge Capital Limited (Kingsbridge) pursuant to which Kingsbridge committed to purchase, subject to certain conditions, up to the lesser of 7.8 million newly issued shares of the Company's common stock or an aggregate of $75.0 million newly issued shares over the three-year term of the CEFF. The Company may access capital under the CEFF by making draw downs up to a maximum of the lesser of (i) $15 million and (ii) the greater of (x) 1.75% of its market capitalization as of the date of delivery of the draw down notice once per calendar quarter and up to 1.25% of its market capitalization as of the date of delivery of the draw down notice for any additional draw downs during such calendar quarter and (y) the lesser of (a) 2.75% of its market capitalization as of the date of delivery of the draw down notice and (b) a number of shares determined by a formula based in part on the average trading volume and trading price of the Company's common stock prior to the delivery of the draw down notice issued by the Company with respect to that draw down pricing period, subject to certain conditions, including a minimum share price threshold of $1.00. Kingsbridge may purchase shares of common stock pursuant to the CEFF at discounts ranging from 5 to 10 percent, depending on the average market price of the Company's common stock during the applicable pricing period for a draw down. The CEFF will expire on September 15, 2012 unless otherwise terminated pursuant to the terms of the CEFF. As of December 31, 2011, the Company had not issued any shares under the CEFF.

**NOTE 10. SEPARATION AND TRANSITION AGREEMENT**

On August 31, 2011, the Company entered into a Separation and Transition Agreement (the Agreement) with an executive officer of the Company. Pursuant to the Agreement, the Company recorded a one-time charge totaling approximately $1.0 million, which included $0.3 million in stock-based compensation related expense. This charge was included as a general and administrative expense in the Company's Consolidated Statement of Operations. During 2011, approximately $0.2 million was paid to the executive and approximately $0.5 million remained as a short-term liability in the Company's Consolidated Balance Sheet as of December 31, 2011.

**NOTE 11. INCOME TAXES**

On January 1, 2007, the Company adopted the provisions of the FASB's authoritative accounting guidance, which, among other things, related to uncertain tax positions. Under the accounting guidance, the impact of an uncertain income tax position on the income tax return must be recognized at the largest amount that is more-likely-than-not to be sustained upon audit by the relevant taxing authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. Additionally, the guidance provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

There were no unrecognized tax benefits as of the date of adoption. As a result of the implementation of the guidance, the Company did not recognize an increase in the liability for unrecognized tax benefits and did not have any unrecognized tax benefits included in the balance sheet that would, if recognized, affect the effective tax rate. The adoption of the guidance did not impact the Company's financial condition, results of operations or cash flows.

The Company's practice is to recognize interest and/or penalties related to income tax matters in income tax expense. The Company had no accrual for interest or penalties on the Company's Consolidated Balance Sheets at December 31, 2011 or December 31, 2010, and has not recognized interest and/or penalties in the statement of operations for the year ended December 31, 2011.

The Company is subject to taxation in the United States and various state jurisdictions. The Company's tax years for 1995 and forward are subject to examination by the United States and California tax authorities due to the carry forward of unutilized net operating losses and R&D credits.

At December 31, 2011, the Company had net deferred tax assets of $325.3 million. Due to uncertainties surrounding the Company's ability to generate future taxable income to realize these assets, a full valuation has been established to offset the net deferred tax asset. Additionally, the future utilization of the Company's net operating loss and research and development credit carry forwards to offset future taxable income may be subject to an annual limitation, pursuant to Internal Revenue Code Sections 382 and 383, as a result of ownership changes that could occur in the future. The Company has determined that no ownership changes have occurred through December 31, 2011. As a result of this analysis, the Company has re-established its deferred tax assets for net operating losses of $238.0 million and research and development credits of $26.3 million through 2011, with a corresponding increase to its valuation allowance. Due to the existence of the valuation allowance, future changes in the Company's unrecognized tax benefits will not impact the Company's effective tax rate.

At December 31, 2011, the Company had Federal and California income tax net operating loss carry forwards of approximately $602.2 million and $598.8 million, respectively. The Federal and California tax loss carry forwards will begin to expire in 2015 and 2016, respectively, unless previously utilized. In addition, the Company has Federal and California research and development tax credit carry forwards of $30.2 million and $20.8 million, respectively. The Federal research and development tax credit carry forwards began expiring in 2007 and will continue to expire unless utilized. There were $842,000 of Federal research and development tax credit carryforwards that have expired through 2011. The California research and development tax credit carryforwards carry forward indefinitely. The Company also has Federal Alternative Minimum Tax credit carryforwards of approximately $257,000, which will carry forward indefinitely. At December 31, 2011, approximately $17.5 million of the net operating loss carry forwards relate to stock option exercises, which will result in an increase to additional paid-in capital and a decrease in income taxes payable at the time when the tax loss carryforwards are utilized.

Significant components of the Company's deferred tax assets as of December 31, 2011 and 2010 are listed below. A valuation allowance of $325.3 million and $76.4 million at December 31, 2011 and 2010, respectively, has been recognized to offset the deferred tax assets as realization of such assets is uncertain. Amounts are shown as of December 31 as of each respective year (*in thousands*):

| | 2011 | 2010 |
|---|---|---|
| Deferred tax assets: | | |
| Net operating losses | $ 238,000 | $ — |
| Research and development credits | 26,300 | — |
| Capitalized research and development | 6,000 | 1,100 |
| Share-based compensation expense | 4,500 | 4,400 |
| Deferred revenue | 16,000 | 31,000 |
| Deferred gain on sales leaseback | 11,000 | 12,200 |
| Intangibles | 18,400 | 21,000 |
| Cease-use expense | 1,100 | 4,100 |
| Fixed assets | 200 | 200 |
| Other | 3,800 | 2,400 |
| Total deferred tax assets | 325,300 | 76,400 |
| Valuation allowance | (325,300) | (76,400) |
| Net deferred tax assets | $ — | $ — |

The provision for income taxes on earnings subject to income taxes differs from the statutory Federal rate at December 31, 2011, 2010 and 2009, due to the following (*in thousands*):

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| Federal income taxes at 35% | $ 13,150 | $ (2,789) | $(17,863) |
| State income tax, net of Federal benefit | 2,230 | (177) | (2,935) |
| Tax effect on non-deductible expenses | 428 | 5,212 | 1,586 |
| (Re-established)/removal of net operating losses and R&D credits | (282,173) | (16,937) | 26,002 |
| Change in valuation allowance | 248,803 | 14,521 | (7,923) |
| Uncertain tax positions | 17,432 | — | — |
| Other | 130 | 170 | 1,133 |
| | $ — | $ — | $ — |

The following table summarizes the activity related to our unrecognized tax benefits (in thousands):

| | |
|---|---|
| Balance as of December 31, 2010 | $ — |
| Increases related to prior year tax positions | 19,922 |
| Increases related to current year tax positions | 395 |
| Expiration of the statue of limitations for the assessment of taxes | (80) |
| Balance as of December 31, 2011 | $20,237 |

During the current year, the Company concluded that an ownership change did not occur in the current or prior years. Since it was determined that no ownership change occurred, the Company has re-established its deferred tax assets related to net operating losses and research and development credits. However, the Company, under authoritative guidance, excluded those deferred tax assets that are not more likely than not to be sustained under the technical merits of the tax position. These unrecognized tax benefits total $19.9 million and $0.4 million for prior year tax positions and current year tax positions, respectively, as reflected in the tabular rollforward above.

As of December 31, 2011, the Company has $17.4 million of unrecognized tax benefits that, if recognized and realized, would effect the effective tax rate.

The Company's practice is to recognize interest and/or penalties related to income tax matters in income tax expense. The Company had no accrual for interest or penalties on the Company's balance sheets at December 31, 2011 or December 31, 2010, and has not recognized interest and/or penalties in the statement of operations for the year ended December 31, 2011.

In the next twelve months it is reasonably possible that the amount of unrecognized tax benefits will decrease by approximately $0.2 million as a result of the expiration of the statute of limitations.

The Company is subject to taxation in the United States and various state jurisdictions. The Company's tax years for 1995 and forward are subject to examination by the United States and California tax authorities due to the carry forward of unutilized net operating losses and R&D credits.

**NOTE 12. RETIREMENT PLAN**

The Company has a 401(k) defined contribution savings plan (401(k) Plan). The 401(k) Plan is for the benefit of all qualifying employees and permits voluntary contributions by employees up to 60% of base salary limited by the IRS-imposed maximum. Prior to July 1, 2009, the Company matched 50% of employee contributions up to 6% of eligible compensation, with cliff vesting of the employer match after three years. Effective July 1, 2009, the Company cancelled the matching contribution on the 401(k) Plan. The Company has reinstated the employer match effective January 1, 2011 on the same terms as prior to July 1, 2009. Employer contributions were $0.2, $0 million and $0.2 million for the years ended December 31, 2011, 2010 and 2009, respectively.

**NOTE 13. SUBSEQUENT EVENTS**

The Company evaluated all subsequent events that have occurred after the date of the accompanying financial statements and determined that there were no events or transactions occurring during this subsequent event reporting period which require recognition or disclosure in the Company's financial statements, other than as disclosed below.

In January 2012, the Company completed a public offering of common stock in which they sold 10.9 million shares of their common stock at an offering price of $8.10 per share. The shares were sold pursuant to an effective shelf registration statement with the SEC. The net proceeds generated from this transaction, after underwriting discounts and commissions and offering costs, were approximately $82.8 million.

**NOTE 14. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)**

The following is a summary of the quarterly results of operations of the Company for the years ended December 31, 2011 and 2010 (*unaudited, in thousands, except for per share data*):

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter | Year Ended December 31 |
| **2011:** | | | | | |
| Revenues | $12,512 | $12,157 | $41,634 | $11,110 | $77,413 |
| Operating expenses | 10,573 | 11,061 | 11,194 | 10,663 | 43,491 |
| Net income | 2,882 | 1,976 | 31,382 | 1,331 | 37,571 |
| Net income per share: | | | | | |
| Basic | $ 0.05 | $ 0.04 | $ 0.57 | $ 0.02 | $ 0.68 |
| Diluted | $ 0.05 | $ 0.04 | $ 0.56 | $ 0.02 | $ 0.67 |
| Shares used in the calculation of net income per share: | | | | | |
| Basic | 54,983 | 55,209 | 55,248 | 55,259 | 55,176 |
| Diluted | 56,114 | 56,434 | 56,378 | 56,461 | 56,347 |

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter | Year Ended December 31 |
| **2010:** | | | | | |
| Revenues | $ 753 | $ 4,643 | $14,448 | $13,657 | $33,501 |
| Operating expenses | 10,922 | 10,533 | 11,982 | 13,786 | 47,223 |
| Net (loss) income | (8,636) | (5,152) | 3,333 | 2,487 | (7,968) |
| Net (loss) income per share: | | | | | |
| Basic | $ (0.19) | $ (0.09) | $ 0.06 | $ 0.05 | $ (0.15) |
| Diluted | $ (0.19) | $ (0.09) | $ 0.06 | $ 0.04 | $ (0.15) |
| Shares used in the calculation of net (loss) income per share: | | | | | |
| Basic | 46,618 | 54,836 | 54,844 | 54,869 | 52,820 |
| Diluted | 46,618 | 54,836 | 55,723 | 56,245 | 52,820 |

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

Not applicable.

## ITEM 9A. *CONTROLS AND PROCEDURES*

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

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

## Management's Report on Internal Control Over Financial Reporting

Internal control over financial reporting refers to the process designed by, or under the supervision of, our Chief Executive Officer and Chief Financial Officer, and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles, and includes those policies and procedures that:

**ITEM 9B.** ***OTHER INFORMATION***

None.

## PART III

### ITEM 10. *DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE*

Information required by this item will be contained in our Definitive Proxy Statement for our 2012 Annual Meeting of Stockholders, to be filed pursuant to Regulation 14A with the Securities and Exchange Commission within 120 days of December 31, 2011. Such information is incorporated herein by reference.

We have adopted a code of ethics that applies to our Chief Executive Officer, Chief Financial Officer, and to all of our other officers, directors, employees and agents. The code of ethics is available at the Corporate Governance section of the Investors page on our website at *www.neurocrine.com*. We intend to disclose future amendments to, or waivers from, certain provisions of our code of ethics on the above website within four business days following the date of such amendment or waiver.

### ITEM 11. *EXECUTIVE COMPENSATION*

Information required by this item will be contained in our Definitive Proxy Statement for our 2012 Annual Meeting of Stockholders, to be filed pursuant to Regulation 14A with the Securities and Exchange Commission within 120 days of December 31, 2011. Such information is incorporated herein by reference.

### ITEM 12. *SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS*

Information required by this item will be contained in our Definitive Proxy Statement for our 2012 Annual Meeting of Stockholders, to be filed pursuant to Regulation 14A with the Securities and Exchange Commission within 120 days of December 31, 2011. Such information is incorporated herein by reference.

### ITEM 13. *CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE*

Information required by this item will be contained in our Definitive Proxy Statement for our 2012 Annual Meeting of Stockholders, to be filed pursuant to Regulation 14A with the Securities and Exchange Commission within 120 days of December 31, 2011. Such information is incorporated herein by reference.

### ITEM 14. *PRINCIPAL ACCOUNTANT FEES AND SERVICES*

Information required by this item will be contained in our Definitive Proxy Statement for our 2012 Annual Meeting of Stockholders, to be filed pursuant to Regulation 14A with the Securities and Exchange Commission within 120 days of December 31, 2011. Such information is incorporated herein by reference.

## PART IV

**ITEM 15.** ***EXHIBITS, FINANCIAL STATEMENT SCHEDULES***

***(a) Documents filed as part of this report.***

1. List of Financial Statements. The following are included in Item 8 of this report:

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets as of December 31, 2011 and 2010

Consolidated Statements of Operations for the years ended December 31, 2011, 2010 and 2009

Consolidated Statements of Stockholders' Equity for the years ended December 31, 2011, 2010 and 2009

Consolidated Statements of Cash Flows for the years ended December 31, 2011, 2010 and 2009

Notes to the Consolidated Financial Statements (includes unaudited Selected Quarterly Financial Data)

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 (b) below.

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

| Exhibit Number | Description |
|---|---|
| 3.1 | Certificate of Incorporation(1) |
| 3.2 | Certificate of Amendment to Certificate of Incorporation(13) |
| 3.3 | Bylaws(1) |
| 3.4 | Certificate of Amendment of Bylaws(7) |
| 3.5 | Certificate of Amendment to Bylaws(14) |
| 3.6 | Certificate of Amendment to Bylaws(21) |
| 4.1 | Form of Common Stock Certificate(1) |
| 10.1** | Amended 1992 Incentive Stock Plan(5) |
| 10.2** | 1996 Director Option Plan, as amended, and form of stock option agreement(16) |
| 10.3* | Research and License Agreement dated October 15, 1996, between the Company and Eli Lilly and Company(2) |
| 10.4** | Form of incentive stock option agreement and nonstatutory stock option agreement for use in connection with Amended 1992 Incentive Stock Plan(16) |
| 10.5* | Sub-License and Development Agreement dated June 30, 1998, by and between DOV Pharmaceutical, Inc. and the Company(3) |
| 10.6* | Collaboration and License Agreement dated January 1, 1999, by and between American Home Products Corporation acting through its Wyeth Laboratories Division and the Company(4) |
| 10.7* | Collaboration and License Agreement between the Company and Glaxo Group Limited dated July 20, 2001(6) |

| Exhibit Number | Description |
|---|---|
| 10.8** | 2001 Stock Option Plan, as amended August 6, 2002 and October 15, 2002(8) |
| 10.9** | Neurocrine Biosciences, Inc. 2003 Incentive Stock Plan, as amended and form of stock option agreement and restricted stock unit agreement(18) |
| 10.10** | Form of Indemnity Agreement entered into between the Company and its officers and directors(12) |
| 10.11 | Assignment and License Agreement dated February 26, 2004 by and among Wyeth Holdings Corporation and the Company(9) |
| 10.12 | Consent Agreement and Amendment dated February 25, 2004 by and among Wyeth Holdings Corporation, the Company and DOV Pharmaceutical, Inc.(9) |
| 10.13 | License Agreement dated February 25, 2004 by and among Wyeth Holdings Corporation and DOV Pharmaceutical, Inc.(9) |
| 10.14** | Employment Commencement Nonstatutory Stock Option Agreement dated October 31, 2005 between the Company and Christopher O'Brien(11) |
| 10.15* | Amendment dated February 7, 2006 to Collaboration and License Agreement between the Company and Glaxo Group Limited(15) |
| 10.16* | License Agreement dated October 31, 2007 between the Company and Dainippon Sumitomo Pharma Co. Ltd.(17) |
| 10.17* | Amendment dated October 29, 2007 to Sub-License and Development Agreement dated June 30, 1998, by and between DOV Pharmaceutical, Inc. and the Company(17) |
| 10.18 | Amended and Restated Lease dated November 1, 2011 between Neurocrine Biosciences, Inc. and DMH Campus Investors, LLC.(22) |
| 10.19 | Letter of Credit dated December 3, 2007, issued by Wells Fargo Bank, N.A. for the benefit of DMH Campus Investors, LLC, as amended on November 3, 2011. (22) |
| 10.20** | Amended and Restated Employment Agreement effective August 1, 2007 between the Company and Kevin C. Gorman, Ph.D.(10) |
| 10.21** | Transition and Separation Agreement dated August 31, 2011 between the Company and Margaret E. Valeur-Jensen, Ph.D., J.D.(23) |
| 10.22** | Amended and Restated Employment Agreement effective August 1, 2007 between the Company and Timothy P. Coughlin(10) |
| 10.23** | Amended and Restated Employment Agreement effective August 6, 2007 between the Company and Christopher F. O'Brien M.D.(17) |
| 10.24** | Amended and Restated Employment Agreement effective August 23, 2007 between the Company and Dimitri E. Grigoriadis, Ph.D.(17) |
| 10.25** | Amended and Restated Employment Agreement effective August 14, 2007 between the Company and Haig Bozigian, Ph.D.(17) |
| 10.26** | 2011 Equity Incentive Plan, Form of Stock Option Grant Notice and Option Agreement for use thereunder, and Form of Restricted Stock Unit Grant Notice and Restricted Stock Unit Agreement for use thereunder(24) |
| 10.27* | First Amendment to Collaboration and License Agreement dated August 31, 2011 between the Company and Abbott International Luxembourg S.à r.l.(23) |

| Exhibit Number | Description |
|---|---|
| 10.28 | Common Stock Purchase Agreement dated September 15, 2009 between the Company and Kingsbridge Capital Limited(19) |
| 10.29 | Registration Rights Agreement dated September 15, 2009 between the Company and Kingsbridge Capital Limited(19) |
| 10.30* | Collaboration and License Agreement dated June 16, 2010 by and between Boehringer Ingelheim International GmbH and the Company(20) |
| 10.31* | Collaboration Agreement dated June 15, 2010 by and between Abbott International Luxembourg S.a.r.l. and the Company(20) |
| 10.32** | Form of Amendment to Employment Agreement for executive officers(25) |
| 21.1 | Subsidiaries of the Company |
| 23.1 | Consent of Independent Registered Public Accounting Firm |
| 31.1 | Certification of Chief Executive Officer pursuant to Rules 13a-14 and 15d-14 promulgated under the Securities Exchange Act of 1934 |
| 31.2 | Certification of Chief Financial Officer pursuant to Rules 13a-14 and 15d-14 promulgated under the Securities Exchange Act of 1934 |
| 32*** | Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 101.INS**** | XBRL Instance Document. |
| 101.SCH**** | XBRL Taxonomy Extension Schema Document. |
| 101.CAL**** | XBRL Taxonomy Extension Calculation Linkbase Document. |
| 101.DEF**** | XBRL Taxonomy Extension Definition Linkbase Document. |
| 101.LAB**** | XBRL Taxonomy Extension Label Linkbase Document. |
| 101.PRE**** | XBRL Taxonomy Extension Presentation Linkbase Document. |

(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 Annual Report on Form 10-K filed on March 31, 1997 (Commission File No. 333-03172)
(3) Incorporated by reference to the Company's Quarterly Report on Form 10-Q filed on August 14, 1998
(4) Incorporated by reference to the Company's Annual Report on Form 10-K filed on March 31, 1999
(5) Incorporated by reference to the Company's Registration Statement on Form S-8 filed on July 16, 2001 (Commission File No. 333-65198)
(6) Incorporated by reference to the Company's Quarterly Report on Form 10-Q filed on August 14, 2001
(7) Incorporated by reference to the Company's Annual Report on Form 10-K filed on April 10, 1998
(8) Incorporated by reference to the Company's Annual Report on Form 10-K filed on March 4, 2003
(9) Incorporated by reference to the Company's Current Report on Form 8-K filed on March 17, 2004
(10) Incorporated by reference to the Company's Quarterly Report on Form 10-Q filed on August 3, 2007
(11) Incorporated by reference to the Company's Current Report on Form 8-K filed on November 1, 2005
(12) Incorporated by reference to the Company's Current Report on Form 8-K filed on September 1, 2009
(13) Incorporated by reference to the Company's Quarterly Report on Form 10-Q filed on August 9, 2006
(14) Incorporated by reference to the Company's Quarterly Report on Form 10-Q filed on August 9, 2004
(15) Incorporated by reference to the Company's Current Report on Form 8-K filed on February 13, 2006

(16) Incorporated by reference to the Company's Registration Statement on Form S-8 filed on June 26, 1998 (Commission File No. 333-57875)
(17) Incorporated by reference to the Company's Annual Report on Form 10-K filed on February 11, 2008
(18) Incorporated by reference to the Company's Quarterly Report on Form 10-Q filed on July 30, 2009
(19) Incorporated by reference to the Company's Current Report on Form 8-K filed on September 15, 2009
(20) Incorporated by reference to the Company's Quarterly Report on Form 10-Q filed on July 29, 2010
(21) Incorporated by reference to the Company's Current Report on Form 8-K filed on February 9, 2010
(22) Incorporated by reference to the Company's Current Report on Form 8-K filed on January 18, 2012
(23) Incorporated by reference to the Company's Quarterly Report on Form 10-Q filed on October 31, 2011
(24) Incorporated by reference to the Company's Quarterly Report on Form 10-Q filed on July 29, 2011
(25) Incorporated by reference to the Company's Annual Report on Form 10-K filed on February 10, 2011

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

** Management contract or compensatory plan or arrangement.

*** These certifications are being furnished solely to accompany this annual report pursuant to 18 U.S.C. Section 1350, and are not being filed for purposes of Section 18 of the Securities Exchange Act of 1934 and are not to be incorporated by reference into any filing of Neurocrine Biosciences, Inc., whether made before or after the date hereof, regardless of any general incorporation language in such filing.

**** Pursuant to applicable securities laws and regulations, we are deemed to have complied with the reporting obligation relating to the submission of interactive data files in such exhibits and are not subject to liability under any anti-fraud provisions of the federal securities laws as long as we have made a good faith attempt to comply with the submission requirements and promptly amend the interactive data files after becoming aware that the interactive data files fail to comply with the submission requirements. Users of this data are advised that, pursuant to Rule 406T, these interactive data files are deemed not filed and otherwise are not subject to liability.

Except as specifically noted above, the Company's Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K have a Commission File Number of 000-22705.

***(c) Financial Statement Schedules.*** See Item 15(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/ Kevin C. Gorman
Kevin C. Gorman
President and Chief Executive Officer

Date: February 9, 2012

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/ Kevin C. Gorman<br>Kevin C. Gorman | President, Chief Executive Officer and Director (Principal Executive Officer) | February 9, 2012 |
| /s/ Timothy P. Coughlin<br>Timothy P. Coughlin | Vice President and Chief Financial Officer (Principal Financial and Accounting Officer) | February 9, 2012 |
| /s/ William H. Rastetter<br>William H. Rastetter | Chairman of the Board of Directors | February 9, 2012 |
| /s/ Gary A. Lyons<br>Gary A. Lyons | Director | February 9, 2012 |
| /s/ W. Thomas Mitchell<br>W. Thomas Mitchell | Director | February 9, 2012 |
| /s/ Joseph A. Mollica<br>Joseph A. Mollica | Director | February 9, 2012 |
| /s/ Corinne H. Nevinny<br>Corinne H. Nevinny | Director | February 9, 2012 |
| /s/ Richard F. Pops<br>Richard F. Pops | Director | February 9, 2012 |
| /s/ Stephen A. Sherwin<br>Stephen A. Sherwin | Director | February 9, 2012 |

[THIS PAGE INTENTIONALLY LEFT BLANK]

[THIS PAGE INTENTIONALLY LEFT BLANK]

[THIS PAGE INTENTIONALLY LEFT BLANK]

12780 EL CAMINO REAL, SAN DIEGO, CA 92130 (858) 617-7600

WWW.NEUROCRINE.COM