NEUROCRINE BIOSCIENCES INC
Form 424B5
December 04, 2001

This filing is made pursuant
to Rule 424(b)(5) under
the Securities Act of
1933 in connection with
Registration No. 333-73216

Prospectus Supplement
(To Prospectus dated November 20, 2001)

3,500,000 Shares

Common Stock

This is a public offering of common stock of Neurocrine Biosciences, Inc. We are offering 3,500,000 shares of our common stock. Our common stock is traded on the Nasdaq National Market under the symbol NBIX. On December 3, 2001, the last reported sale price of our common stock was $47.34 per share.

Investing in the common stock involves risk. See Risk Factors beginning on page S-7.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus supplement or the prospectus to which it relates. Any representation to the contrary is a criminal offense.

	Per Share	Total
Public offering price	$46.75	$163,625,000
Underwriting discounts and commissions	$ 2.80	$ 9,800,000
Proceeds, before expenses, to Neurocrine	$43.95	$153,825,000

We have granted the underwriters the right to purchase up to 525,000 additional shares of common stock to cover over-allotments.

Joint Bookrunning Managers

Deutsche Banc Alex. Brown **Credit Suisse First Boston**

CIBC World Markets **Lehman Brothers** **UBS Warburg**

The date of this prospectus supplement is December 4, 2001.

ABOUT THIS PROSPECTUS SUPPLEMENT

This prospectus supplement is a supplement to the accompanying prospectus that is also a part of this document. This prospectus supplement and the accompanying prospectus are part of a registration statement that we filed with the Securities and Exchange Commission using a shelf registration process. Under the shelf registration process, we may sell any combination of the securities described in the accompanying prospectus up to a total dollar amount of $200,000,000, of which this offering is a part. In this prospectus supplement, we provide you with specific information about the terms of this offering and certain other information.

Both this prospectus supplement and the accompanying prospectus include important information about us, our common stock and other information you should know before investing in our common stock. This prospectus supplement and the accompanying prospectus also incorporate important business and financial information about Neurocrine Biosciences, Inc. and its subsidiaries that is not included in or delivered with these documents. You should read both this prospectus supplement and the accompanying prospectus as well as the additional information described under the heading Where You Can Find More Information beginning on page S-63 of this prospectus supplement before investing in our common stock. This prospectus supplement adds, updates and changes information contained in the accompanying prospectus and the information incorporated by reference. To the extent that any statement that we make in this prospectus supplement is inconsistent with the statements made in the accompanying prospectus or the information incorporated by reference, the statements made in the accompanying prospectus are deemed modified or superseded by the statements made or incorporated by reference in this prospectus supplement.

SUMMARY

This summary highlights selected information contained in greater detail elsewhere in this prospectus supplement. This summary may not contain all of the information that you should consider before investing in our common stock. You should carefully read the entire prospectus supplement, the accompanying prospectus and the documents incorporated by reference therein.

Our Business

Neurocrine Biosciences, Inc. develops and intends to commercialize drugs for the treatment of neurologic and endocrine system-related diseases and disorders. Our product candidates address some of the largest pharmaceutical markets in the world, including insomnia, anxiety, depression, cancer, diabetes and multiple sclerosis. We currently have 15 programs in various stages of research and development, including seven programs in clinical development and one program in advanced preclinical development. Our lead clinical development program is a drug for the treatment of insomnia currently being evaluated in Phase III clinical trials.

While we independently develop the majority of our product candidates, we have entered into collaborations for five of our 15 programs. We have entered into collaboration agreements with GlaxoSmithKline, Wyeth-Ayerst, a division of American Home Products, Taisho Pharmaceutical, Janssen Pharmaceutica, a subsidiary of Johnson & Johnson, and Eli Lilly.

Our Product Candidates

Our clinical development programs address large potential markets in a broad range of disease. These are summarized as follows:

Insomnia. Our most advanced product candidate, NBI-34060, is currently being evaluated in Phase III clinical trials for insomnia. Insomnia is a prevalent neurological disorder, with approximately one-half of the U.S. adult population reporting trouble sleeping a few nights per week or more, according to the National Sleep Foundation. According to Med Ad News, worldwide sedative sales in 2000 totaled approximately $2.0 billion. However, many sedatives have side effects, including next day residual sedation effects. In addition, existing drugs are restricted to short term use and are not approved for dosing in the middle of the night or to maintain sleep throughout the night. As a result, we believe there is a significant unmet medical need for an improved sedative.

We have completed 19 Phase I and Phase II clinical trials of NBI-34060 for efficacy and safety involving more than 1,100 subjects. Results from these trials demonstrate that NBI-34060 significantly decreases time to sleep onset in both transient and chronic insomnia subjects without evidence of increased unwanted side effects or next day residual sedation as compared to placebo. In several of these studies, we observed that NBI-34060 increased sleep duration and reduced the number of nighttime awakenings. The compound was also shown in Phase II trials to be safe when used in the middle of the night.

Based upon the positive results from these Phase II trials, we have planned a comprehensive Phase III clinical program involving approximately 2,200 subjects in seven large

clinical trials to confirm the safety and efficacy of NBI-34060 and to differentiate the compound from other sleep medicines. In November 2001, we initiated our first Phase III clinical trial of NBI-34060 in approximately 500 patients to evaluate two doses of an immediate release formulation of NBI-34060 for long-term treatment of chronic insomnia.

Depression and Anxiety. Our product candidate, NBI-34041, is currently being evaluated in Phase I clinical trials for depression and anxiety. Depression and anxiety are two of the most common psychiatric disorders. Researchers believe that a chemical known as a corticotropin-releasing factor, or CRF, is overproduced in the brains of individuals with clinical depression and anxiety. NBI-34041 is one of a new class of compounds that functions by attaching to the receptors for CRF, thereby antagonizing, or blocking, its activity.

We have intellectual property rights to two receptors for CRF and have developed numerous classes of novel small molecule drugs to block these receptors. In August 2001, we began a collaboration with GlaxoSmithKline, or GSK, to develop and commercialize a new class of CRF antagonists, including NBI-34041. We have completed two Phase I safety trials of NBI-34041 and together with GSK expect to initiate further safety and efficacy trials in 2002. We also have a backup CRF antagonist in preclinical development, which we expect will advance into Phase I trials in 2002.

Cancer. Our product candidate, NBI-3001, is in Phase II clinical trials for malignant glioma, an aggressive form of brain cancer, and is currently being evaluated in a Phase I safety trial for kidney, lung and breast cancer. Interleukin-4, or IL-4, is a natural substance that modulates cell growth. Cell surface proteins that bind to IL-4, known as IL-4 receptors, are highly concentrated on the cells of malignant brain tumors as well as many other cancers, including some types of kidney, lung and breast cancer. By attaching a toxic agent to the IL-4 protein, we may preferentially target the IL-4 receptors and thus selectively kill cancer cells.

In malignant glioma, we have completed two Phase II clinical trials. In the first trial, completed in February 2000, NBI-3001 demonstrated an acceptable safety and tolerability profile. In addition, of the 27 patients who completed therapy, 63% showed complete or partial reduction in tumor size at least once during follow-up. In the second Phase II clinical trial, we tested the compound in 18 patients to confirm the optimum dosing schedule for Phase III trials. We expect to meet with the FDA in early 2002 to discuss the requirements for our Phase III trials. In addition, if the Phase I safety trial in the U.S. for kidney, lung and breast cancer proves successful, we expect to move into Phase II efficacy trials in the second half of 2002. The FDA has awarded fast track and orphan drug status for this drug candidate for treatment of a certain type of glioma. We have maintained worldwide commercial rights to NBI-3001 for oncology uses and an exclusive option for all other therapeutic uses.

Multiple Sclerosis. We have completed two Phase II safety and preliminary efficacy trials for our product candidate, NBI-5788, in patients with a recurring form of multiple sclerosis. In autoimmune diseases such as multiple sclerosis, T cells, which ordinarily target infectious agents, may mistake normally occurring proteins in the central nervous system as foreign. In multiple sclerosis, this protein is called myelin, and destruction of the myelin which surrounds the nerve fibers in the brain and spinal cord leads to neurologic dysfunction and degeneration of the central nervous system. By altering the structure of this protein using our altered peptide ligand technology, we believe that NBI-5788 may prevent T cells from destroying healthy tissue.

We have maintained worldwide commercial rights to NBI-5788. We are currently in the process of preparing a clinical development plan for confirmatory Phase II trials for this product candidate to determine optimal dose and frequency of administration.

Diabetes. Our drug candidate, NBI-6024, is currently being tested in a Phase II clinical trial in patients with Type I diabetes. In Type I diabetes, as in multiple sclerosis, the immune system erroneously targets healthy tissue in this case the pancreatic cells responsible for the production of insulin. By altering the structure of certain proteins in these cells, we believe that NBI-6024 may prevent the destruction of insulin-secreting cells, allowing patients to delay or avoid chronic insulin therapy.

We have completed several safety trials in approximately 100 diabetic patients, which have demonstrated that our compound was safe and well tolerated. We recently initiated a 386-patient Phase II efficacy trial and expect to initiate a second 300-patient Phase II trial in early 2002. We are developing this drug candidate in worldwide collaboration with Taisho Pharmaceutical.

Hormone dependent disease. Gonadotropin-releasing hormone is a hormone that regulates sex steroid production and normal reproductive function. Researchers have linked elevated levels of this hormone to diseases such as prostate cancer and endometriosis, a common uterine disease. We have developed antagonists of the receptors for this hormone, and initiated Phase I safety trials in November of this year. Current treatments for these diseases are large molecule drugs administered by injection. Our drug candidates, if successfully commercialized, would be administered orally.

Research. We have seven additional research programs in areas such as neurodegenerative disease, obesity, and gastrointestinal, sleep and eating disorders. We believe that these research programs will supply clinical development candidates in the future.

Our Business Strategy

Our strategy is to build a large and diversified product portfolio, which we believe maximizes our commercial opportunity and reduces overall clinical and technical risk. We focus on drug candidates that we believe address large unmet market opportunities. We pursue this strategy through internal drug development efforts, through collaborations with global pharmaceutical companies and by acquiring rights to complementary drugs. In conducting our drug development efforts, we collaborate with platform technology companies to supplement our research capabilities, and we generally outsource capital intensive, non-strategic activities.

Other Information

We were incorporated in California in 1992 and reincorporated in Delaware in 1996. Our common stock began trading publicly in May 1996. Our headquarters are located at 10555 Science Center Drive, San Diego, California 92121. Our telephone number is (858) 658-7600. Our website is www.neurocrine.com, but the information on this website does not constitute a part of this prospectus supplement.

The Offering

Common stock offered by Neurocrine	3,500,000 shares
Common stock to be outstanding after this offering	29,726,218 shares
Use of proceeds	For research and product development, potential technology acquisitions, working capital and general corporate purposes.
Nasdaq National Market symbol	NBIX

The number of shares of our common stock outstanding after the offering is based on the number of shares outstanding as of November 16, 2001. This number does not include:

- 3,952,380 shares of common stock reserved for the exercise of options outstanding at a weighted average exercise price of $18.34 per share;
- 430,504 shares of common stock reserved for the exercise of warrants outstanding at a weighted average exercise price of $14.72 per share;
- 174,524 shares of common stock reserved for issuance under our employee stock purchase plan; and
- 874,735 shares of common stock reserved for issuance under our other stock incentive plans.

Unless otherwise indicated, the information in this prospectus supplement assumes no exercise of the underwriters over-allotment option.

Summary Consolidated Financial Data
(in thousands, except per share data)

The following table is a summary of our consolidated financial data for the periods presented. You should read this data along with Management s Discussion and Analysis of Financial Condition and Results of Operations included in this prospectus supplement, and our financial statements and related notes in our most recent Annual Report on Form 10 K and Quarterly Report on Form 10 Q, each filed with the Securities and Exchange Commission and incorporated by reference in this prospectus supplement and the accompanying prospectus. The summary financial data for the nine months ended September 30, 2000 and 2001 have been derived from unaudited financial statements. Historical results are not necessarily indicative of results to be expected for any future period.

	Years Ended December 31,					Nine Months Ended September 30,	
	1996	1997	1998	1999	2000	2000(1)	2001
						(unaudited)	
Statement of Operations Data:							
Revenues:							
Sponsored research and development	$ 9,092	$14,985	$ 8,751	$12,171	$ 6,881	$ 4,943	$10,948
Sponsored research and development from related party			3,610	491			
Milestones and license fees	9,000	10,250	2,500	3,000	6,345	2,152	16,459
Grant income and other revenues	1,124	909	1,176	1,129	1,362	1,050	1,002
Total revenues	19,216	26,144	16,037	16,791	14,588	8,145	28,409
Operating expenses:							
Research and development	12,569	18,758	21,803	29,169	40,227	28,404	49,583
General and administrative	3,697	5,664	6,594	7,476	9,962	6,930	7,304
Write-off of acquired in-process research and development and licenses			4,910				
Total operating expenses	16,266	24,422	33,307	36,645	50,189	35,334	56,887
Income (loss) from operations	2,950	1,722	(17,270)	(19,854)	(35,601)	(27,189)	(28,478)
Interest income, net	2,598	3,931	4,000	2,851	6,048	4,293	5,742
Other income	574	818	504	1,066	1,047	973	550
Equity in NPI net losses and other adjustments, net		(1,130)	(7,188)	(885)		(47)	(114)
Net income (loss) before income taxes	6,122	5,341	(19,954)	(16,822)	(28,506)	(21,970)	(22,300)
Income taxes	248	214	1		302	302	
Net income (loss)	$ 5,874	$ 5,127	$(19,955)	$(16,822)	$(28,808)	$(22,272)	$(22,300)
Earnings (loss) per share(2):							
Basic	$ 0.39	$ 0.30	$ (1.10)	$ (0.88)	$ (1.30)	$ (1.02)	$ (0.87)
Diluted	$ 0.36	$ 0.28	$ (1.10)	$ (0.88)	$ (1.30)	$ (1.02)	$ (0.87)
Shares used in calculation of earnings (loss) per share(2):							
Basic	14,971	16,930	18,141	19,072	22,124	21,900	25,575
Diluted	16,127	18,184	18,141	19,072	22,124	21,900	25,575

	September 30, 2001	
	Actual	As Adjusted(3)

Balance Sheet Data:		**(unaudited)**
Cash, cash equivalents and short-term investments	$141,255	$294,880
Working capital	140,259	293,884
Total assets	177,954	331,579
Long-term debt and capital lease obligations, net of current portion	2,042	2,042
Accumulated deficit	(92,780)	(92,780)
Total stockholders equity	145,533	299,158

(1) During the fourth quarter of 2000, we adopted, as required, the SEC s Staff Accounting Bulletin No. 101, Revenue Recognition in Financial Statements, effective January 1, 2000 (see Note 5, Revenue Recognition, in the notes to the unaudited condensed financial statements included in our Quarterly Report on Form 10-Q for the period ended September 30, 2001).

(2) Computed on the basis described for earnings per share in Note 3, Net Earnings or Loss Per Common Share, in the notes to the unaudited condensed financial statements included in our Quarterly Report on Form 10-Q for the period ended September 30, 2001.

(3) The As Adjusted Balance Sheet Data summarized above reflects the application of the net proceeds from the sale of the 3,500,000 shares of common stock offered by us at the public offering price of $46.75 per share and after deducting the underwriting discounts and commissions and our estimated offering expenses.

RISK FACTORS

Investing in our common stock involves a high degree of risk. You should carefully consider the following risk factors and all other information contained in this prospectus supplement and accompanying prospectus before purchasing our common stock. The risks and uncertainties described below are not the only ones facing us. Additional risks and uncertainties that we are unaware of, or that we currently deem immaterial, also may become important factors that affect us. If any of the following risks occur, our business, financial condition or results of operations could be materially and adversely affected. In that case, the trading price of our common stock could decline, and you may lose some or all of your investment.

Risks Related to our Business

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

Since our inception, we have incurred significant net losses, including net losses of $22.3 million in the period from January 1, 2001 through September 30, 2001. As a result of ongoing operating losses, we had an accumulated deficit of $92.8 million as of September 30, 2001. We do not expect to be profitable in 2001. We have not yet completed the development, including obtaining regulatory approvals, of any products and, consequently, have not generated revenues from the sale of products. Even if we succeed in developing and commercializing one or more of our drugs, we expect to incur substantial losses for the foreseeable future. We also expect to continue to incur significant operating and capital expenditures and anticipate that our expenses will increase substantially in the foreseeable future as we:

- seek regulatory approvals for our product candidates;
- develop, formulate, manufacture and commercialize our drugs;
- implement additional internal systems and infrastructure; and
- hire additional clinical and scientific personnel.

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

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

We may require additional funding in order to continue our research and product development programs, including preclinical testing and clinical trials of our product candidates, for operating expenses, and to pursue regulatory approvals for product

candidates. We also may require additional funding to establish manufacturing and marketing capabilities in the future. We believe that our existing capital resources, together with interest income and future payments due under our strategic alliances, will be sufficient to satisfy our current and projected funding requirements for at least the next 12 months. However, these resources might

be insufficient to conduct research and development programs as planned. If we cannot obtain adequate funds, we may be required to curtail significantly one or more of our research and development programs or obtain funds through additional arrangements with corporate collaborators or others that may require us to relinquish rights to some of our technologies or product candidates.

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

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

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

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

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

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

If any of these potential problems occurs, we may never successfully market any products.

In November 2001, we began enrolling subjects in a Phase III clinical trial for NBI-34060, our insomnia product under development. Since this is our most advanced product program, our business and reputation would be particularly harmed if the product does not prove to be efficacious in our late stage clinical trials or we fail to receive necessary regulatory approvals on a timely basis or achieve market acceptance.

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 have a material adverse effect on our business. The process of obtaining these approvals and the subsequent substantial compliance with appropriate federal and state statutes and regulations require spending substantial time and financial resources. If we fail or our collaborators or licensees fail to obtain or maintain, or encounter delays in obtaining or maintaining, regulatory approvals, it could adversely affect the marketing of any products we develop, our ability to receive product or royalty revenues and our liquidity and capital resources. All of our products are in research and development and we have not yet requested or received regulatory approval to commercialize any product from the United States Food and Drug Administration 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, safely, 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.

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

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

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

we or the FDA may suspend the trials;

we may discover that a product candidate may cause harmful side effects;

the results may not replicate the results of earlier, smaller trials;

the results may not be statistically significant;

patient recruitment may be slower than expected; and

patients may drop out of the trials.

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

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

We depend on independent clinical investigators and contract research organizations, or CROs, to conduct our clinical trials under their agreements with us. The investigators are not our employees and we cannot control the amount or timing of resources that they devote to our programs. If independent investigators fail to devote sufficient time and resources to our drug development

programs, or if their performance is substandard, it will delay the approval of our FDA applications and our introductions of new drugs. The CROs we contract with for execution of our clinical trials play a significant role in the conduct of the trials and the subsequent collection and analysis of data. Failure of the CROs to meet their obligations could adversely affect clinical development of our products. Moreover, these independent investigators and CROs may also have relationships with other commercial entities, some of which may compete with us. If independent investigators and CROs assist our competitors at our expense, it could harm our competitive position.

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

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

selecting compounds for subsequent development as drug candidates;

conducting preclinical studies and clinical trials and obtaining required regulatory approvals for these drug candidates; and

manufacturing and commercializing any resulting drugs.

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

fail to select a compound we have discovered for subsequent development into marketable products;

fail to gain the requisite regulatory approvals of these products;

do not successfully commercialize products that we originate;

do not conduct their collaborative activities in a timely manner;

do not devote sufficient time and resources to our partnered programs or potential products;

terminate their alliances with us;

develop, either alone or with others, products that may compete with our products;

dispute our respective allocations of rights to any products or technology developed during our collaborations; or

merge with a third party that may wish to terminate the collaboration.

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

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

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

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

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 will 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 will also be critical to our success. We may be unable to attract and retain personnel on acceptable terms given the competition among biotechnology, pharmaceutical and health care companies, universities and non-profit research institutions for experienced scientists. In addition, we rely on members of our Scientific Advisory Board and a significant number of consultants to assist us in formulating our research and development strategy. All of our consultants and members of the Scientific Advisory Board are employed by employers other than us. They may have commitments to, or advisory or consulting agreements with, other entities that may limit their availability to us.

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

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

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

Although we do not currently have any marketable products, our ability to produce revenues ultimately depends on our ability to sell our products if and when they are approved by the FDA. We currently have no experience in marketing or selling pharmaceutical products and we do not have a marketing and sales staff or distribution capabilities. 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.

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

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

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

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

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

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

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

Risks Related to Our Industry

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

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

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

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

We are performing research on or developing products for the treatment of several disorders including anxiety, depression, insomnia, malignant glioma, other forms of cancer and multiple sclerosis, and there are a number of competitors to products in our research pipeline. If one or more of these products or programs are successful, the market for our products may be reduced or eliminated.

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

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

Any of these competitive factors could reduce demand for our products. For more specific information about the competition we face, please see the section Business under the subheading Competition beginning on page S-48.

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

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

obtain patent protection for our products;

preserve our trade secrets;

prevent third parties from infringing upon our proprietary rights; and

operate without infringing upon the proprietary rights of others, both in the United States and internationally.

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

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

In addition, although we own a number of patents, the issuance of a patent is not conclusive as to its validity or enforceability, and third parties may challenge the validity or enforceability of our patents. We cannot assure you how much protection, if any, will be given to our patents if we attempt to enforce them, and they are challenged in court or in other proceedings. It is possible that a competitor may successfully challenge our patents or that challenges will result in limitations of their coverage. Moreover, competitors may infringe our patents or successfully avoid them through design innovation. To prevent infringement or unauthorized use, we may need to file infringement claims, which are expensive and time-consuming. In addition, in an infringement proceeding a court may decide that a patent of ours is not valid or is unenforceable, or may refuse to stop the other party from using the technology at issue on the ground that our patents do not cover its technology. Two of our European patents are subject to opposition proceedings which, if successful, could reduce the breadth of some of our proprietary rights. These proceedings relate to our broad patent covering immune therapeutics in diabetes and multiple sclerosis. In addition, interference proceedings declared by the United States Patent and Trademark Office may be necessary to determine the priority of inventions with respect to 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 unintentionally infringe the patents or violate the proprietary rights of third parties. We cannot

assure you that third parties will not assert patent or other intellectual property infringement claims against us or our collaboration partners with respect to technologies used in potential products. Any claims that might be brought against us relating to infringement of patents may cause us to incur significant expenses and, if successfully asserted against us, may cause us to pay substantial damages. Even if we were to prevail, any litigation could be costly and time-consuming and could divert the attention of our management and key personnel from our business operations. Furthermore, as a result of a patent infringement suit brought against us or our collaboration partners, we or our collaboration partners may be forced to stop or delay developing, manufacturing or selling potential products that are claimed to infringe a third party s intellectual property unless that party grants us or our collaboration partners rights to use its intellectual property. In such cases, we may be required to obtain licenses to patents or

proprietary rights of others in order to continue to commercialize our products. However, we may not be able to obtain any licenses required under any patents or proprietary rights of third parties on acceptable terms, or at all. Even if our collaboration partners or we were able to obtain rights to the third party s intellectual property, these rights may be non-exclusive, thereby giving our competitors access to the same intellectual property. Ultimately we may be unable to commercialize some of our potential products or may have to cease some of our business operations as a result of patent infringement claims, which could severely harm our business.

For more information about our intellectual property, please see the section Business under the subheading Intellectual Property beginning on page S-43.

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

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

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

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

Risks Related to this Offering

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 $14.25 per share to $48.90 per share. The market price of our common stock may fluctuate in response to many factors, including:

- the results of our clinical trials;
- developments concerning our strategic alliance agreements;
- announcements of technological innovations or new therapeutic products by us or others;
- developments in patent or other proprietary rights;
- future sales of our common stock by existing stockholders;
- comments by securities analysts;
- changes in the structure of health care payment systems;
- general conditions in the pharmaceutical and biotechnology industry;
- general market conditions;
- actual or anticipated variations in our quarterly operating results;

government regulation;

public concern as to the safety of our drugs; and

failure of any of our product candidates, if approved, to achieve commercial success.

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

We have broad discretion in how we use the net proceeds of this offering, and we may not use these proceeds effectively.

We have not designated the amount of net proceeds we will use for any particular purpose. Accordingly, our management will have broad discretion as to the application of the net proceeds and could use them for purposes other than those contemplated at the time of this offering. Our stockholders may not agree with the manner in which our management chooses to allocate and spend the net proceeds. Moreover, our management may use the net proceeds for corporate purposes that may not increase our profitability or our market value.

FORWARD-LOOKING STATEMENTS

This prospectus supplement, the accompanying prospectus and the information incorporated 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, 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, w plan, intends, estimates, could, should, would, continue, seeks, pro forma or anticipates, or other similar words (in 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 prospectus supplement and the accompanying prospectus. You should be aware that the occurrence of any of the events discussed under Risk Factors and elsewhere in this prospectus supplement and the accompanying prospectus 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 prospectus supplement are intended to be applicable to all related forward-looking statements wherever they may appear in this prospectus supplement, the accompanying prospectus or in documents incorporated by reference. We urge you not to place undue reliance on these forward-looking statements, which speak only as of the date of this prospectus supplement.

USE OF PROCEEDS

Our net proceeds from the sale of shares of common stock we are offering are estimated to be $153.6 million, or $176.7 million if the underwriters exercise their over-allotment option in full, at a public offering price of $46.75 per share and after deducting the underwriting discounts and commissions and the estimated offering expenses payable by us.

We expect to use the net proceeds from this offering for research and product development, including late-stage clinical trials, potential acquisitions of technologies that complement our business and working capital and general corporate purposes. The amounts and timing of our actual expenditures will depend significantly upon a number of factors, including future revenues from licensing and corporate collaborations. As a result, we will retain broad discretion in determining how we will allocate the net proceeds from this offering. Pending these uses, we intend to invest the net proceeds in interest-bearing, investment-grade corporate and government securities.

PRICE RANGE OF COMMON STOCK

Our common stock is traded on the Nasdaq National Market under the symbol NBIX. The following table sets forth, for the periods indicated, the high and low sales prices per share of our common stock as reported on the Nasdaq National Market:

	Price Range of Common Stock	
	High	Low
Year Ended December 31, 1999:		
First Quarter	$ 7.50	$ 4.88
Second Quarter	5.88	4.00
Third Quarter	5.94	3.75
Fourth Quarter	29.63	5.38
Year Ended December 31, 2000:		
First Quarter	$47.50	$20.75
Second Quarter	39.75	13.94
Third Quarter	46.00	29.13
Fourth Quarter	44.88	25.50
Year Ended December 31, 2001:		
First Quarter	$36.50	$14.25
Second Quarter	39.99	16.75
Third Quarter	40.71	27.93
Fourth Quarter (through December 3, 2001)	48.90	30.36

On December 3, 2001, the last reported sale price of our common stock on the Nasdaq National Market was $47.34 per share. As of November 16, 2001, there were approximately 123 stockholders of record of our common stock.

DIVIDEND POLICY

We have not declared or paid any cash dividends since our inception. We currently intend to retain our future earnings, if any, for use in the operation and expansion of our business and do not anticipate paying any cash dividends in the foreseeable future.

CAPITALIZATION

The following table sets forth:

our capitalization at September 30, 2001; and

our capitalization as adjusted to give effect to the sale of 3,500,000 shares of common stock offered hereby at the public offering price of $46.75 per share and the application of the net proceeds.

	September 30, 2001	
	Actual	As Adjusted
	(dollars in thousands)	
Long-term debt and capital lease obligations, net of current portion	$ 2,042	$ 2,042
Stockholders equity:		
Preferred stock, $0.001 par value, 5,000,000 shares authorized; no shares issued and outstanding		
	26	30

Common stock, $0.001 par value, 50,000,000 shares authorized; 26,187,852 shares issued and outstanding, actual; 29,687,852 shares issued and outstanding, as adjusted		
Additional paid-in capital	238,880	392,501
Deferred stock compensation	(444)	(444)
Notes receivable from stockholders	(104)	(104)
Accumulated other comprehensive loss	(45)	(45)
Accumulated deficit	(92,780)	(92,780)
Total stockholders equity	145,533	299,158
Total capitalization	$147,575	$301,200

This information excludes, as of November 16, 2001:

3,952,380 shares of common stock reserved for the exercise of options outstanding at a weighted average exercise price of $18.34 per share;

430,504 shares of common stock reserved for the exercise of warrants outstanding at a weighted average exercise price of $14.72 per share;

174,524 shares of common stock reserved for issuance under our employee stock purchase plan; and

874,735 shares of common stock reserved for issuance under our other stock incentive plans.

DILUTION

If you invest in our common stock, your interest will be diluted by an amount equal to the difference between the public offering price and the net tangible book value per common share after this offering. We calculate net tangible book value per common share by dividing the net tangible book value (total assets less intangible assets and total liabilities) by the number of outstanding common shares.

Our net tangible book value as of September 30, 2001 was $145.3 million or approximately $5.55 per share. After the sale of the 3,500,000 shares of common stock offered by us at the public offering price of $46.75 per share and after deducting the underwriting discount and estimated offering expenses payable by us, our net tangible book value at September 30, 2001 would have been $298.9 million or approximately $10.07 per share. This represents an immediate increase in net tangible book value of $4.52 per share to existing stockholders and an immediate dilution of $36.68 per share to new investors in this offering. The following table illustrates this dilution on a per share basis:

Public offering price per share		$46.75
Net tangible book value per share as of September 30, 2001	$5.55	
Increase per share attributable to new investors	4.52	
Net tangible book value per share after this offering		10.07
Dilution per share to new investors		$36.68

The outstanding share information in the table above excludes, as of November 16, 2001:

3,952,380 shares of common stock reserved for the exercise of options outstanding at a weighted average exercise price of $18.34 per share;

430,504 shares of common stock reserved for the exercise of warrants outstanding at a weighted average exercise price of $14.72 per share;

174,524 shares of common stock reserved for issuance under our employee stock purchase plan; and

874,735 shares of common stock reserved for issuance under our other stock incentive plans.

SELECTED CONSOLIDATED FINANCIAL DATA
(in thousands, except per share data)

The following selected consolidated financial data should be read in conjunction with our consolidated financial statements and the related notes and Management s Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this prospectus supplement or incorporated by reference. The selected consolidated statement of operations and balance sheet data for the years ended December 31, 1996, 1997, 1998, 1999 and 2000 are derived from our audited consolidated financial statements. The selected statement of operations data for the nine months ended September 30, 2000 and 2001 and the selected balance sheet data as of September 30, 2001 are derived from our unaudited financial statements. In the opinion of our management, our unaudited financial statements include all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of this information. The operating results for the nine months ended September 30, 2001 are not necessarily indicative of results that may be expected for the year ended December 31, 2001 or any other interim period or future year.

	Years Ended December 31,					Nine Months Ended September 30,	
	1996	1997	1998	1999	2000	2000(1)	2001
						(unaudited)	
Statement of Operations Data:							
Revenues:							
Sponsored research and development	$ 9,092	$14,985	$ 8,751	$12,171	$ 6,881	$ 4,943	$10,948
Sponsored research and development from related party			3,610	491	-		
Milestones and license fees	9,000	10,250	2,500	3,000	6,345	2,152	16,459
Grant income and other revenues	1,124	909	1,176	1,129	1,362	1,050	1,002
Total revenues	19,216	26,144	16,037	16,791	14,588	8,145	28,409
Operating expenses:							
Research and development	12,569	18,758	21,803	29,169	40,227	28,404	49,583
General and administrative	3,697	5,664	6,594	7,476	9,962	6,930	7,304
Write-off of acquired in-process research and development and licenses			4,910				
Total operating expenses	16,266	24,422	33,307	36,645	50,189	35,334	56,887
Income (loss) from operations	2,950	1,722	(17,270)	(19,854)	(35,601)	(27,189)	(28,478)
Interest income, net	2,598	3,931	4,000	2,851	6,048	4,293	5,742
Other income	574	818	504	1,066	1,047	973	550
Equity in NPI net losses and other adjustments, net		(1,130)	(7,188)	(885)		(47)	(114)
Net income (loss) before income taxes	6,122	5,341	(19,954)	(16,822)	(28,506)	(21,970)	(22,300)
Income taxes	248	214	1		302	302	

Net income (loss)	$ 5,874	$ 5,127	$(19,955)	$(16,822)	$(28,808)	$(22,272)	$(22,300)
Earnings (loss) per share(2):							
Basic	$ 0.39	$ 0.30	$ (1.10)	$ (0.88)	$ (1.30)	$ (1.02)	$ (0.87)
Diluted	$ 0.36	$ 0.28	$ (1.10)	$ (0.88)	$ (1.30)	$ (1.02)	$ (0.87)
Shares used in calculation of earnings (loss) per share(2):							
Basic	14,971	16,930	18,141	19,072	22,124	21,900	25,575
Diluted	16,127	18,184	18,141	19,072	22,124	21,900	25,575