NEUROCRINE BIOSCIENCES INC
Form DEF 14A
April 27, 2007

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No.)

Filed by the Registrant þ
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Check the appropriate box:

o Preliminary Proxy Statement
o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
þ Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to §240.14a-12

Neurocrine Biosciences, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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(9) Date Filed:

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NEUROCRINE BIOSCIENCES, INC.
12790 El Camino Real
San Diego, CA 92130

Notice of Annual Meeting of Stockholders

To Be Held on June 1, 2007

TO THE STOCKHOLDERS:

NOTICE IS HEREBY GIVEN that the 2007 Annual Meeting of Stockholders of Neurocrine Biosciences, Inc., a Delaware corporation (the Company), will be held on June 1, 2007, at 8:30 a.m. local time, at the Company s corporate headquarters located at 12790 El Camino Real, San Diego, California 92130 for the following purposes as more fully described in the Proxy Statement accompanying this Notice:

1. To elect three Class II Directors to the Board of Directors to serve for a term of three years;
2. To approve an amendment to the Company s 2003 Incentive Stock Plan, as amended, to increase the number of shares of common stock reserved for issuance thereunder from 4,300,000 to 4,800,000;
3. To consider a stockholder proposal to declassify the Board of Directors;
4. To ratify the appointment of Ernst & Young LLP as the Company s independent registered public accounting firm for the fiscal year ending December 31, 2007; and
5. 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, 2007 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, J.D., Ph.D.
Corporate Secretary

San Diego, California
May 1, 2007

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Neurocrine Biosciences, Inc.

12790 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), for use at its 2007 Annual Meeting of Stockholders to be held on June 1, 2007 beginning at 8:30 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 12790 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 May 1, 2007 to all stockholders entitled to vote at the Annual Meeting.

ABOUT THE ANNUAL MEETING

What is the purpose of the Annual Meeting?

At our 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 three directors, approval of an amendment increasing the number of shares of common stock reserved for issuance under the Company s 2003 Incentive Stock Plan, as amended (2003 Plan) from 4,300,000 to 4,800,000, consideration of a stockholder proposal to declassify the Board of Directors, 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, 2007. 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, 2007 (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 April 2, 2007, 37,919,511 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?

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

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Company to conduct its business at the Annual Meeting. As of April 2, 2007, 37,919,511 shares of common stock, representing the same number of votes, were outstanding. Thus, the presence of the holders of common stock representing at least 18,959,756 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 matters deemed non-routine under applicable regulations.

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 or are a Neurocrine employee who participated in the Employee Stock Purchase Program 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 has retained Innisfree, a professional proxy solicitation firm, at an approximate cost of $10,000, plus certain out-of-pocket expenses. 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 31, 2007.

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. A proxy will also be revoked if the stockholder attends the Annual Meeting and votes in person. Attendance at the Annual Meeting will not by itself revoke a previously granted proxy.

What are the Board s 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 s recommendation is set forth together with the description of each item in this proxy statement. In summary, the Board recommends a vote:

for election of the nominated directors (see Proposal One);
for approval of the amendment to the Company s 2003 Incentive Stock Plan, as amended, to increase the number of shares of common stock reserved for issuance thereunder from 4,300,000 to 4,800,000 (see Proposal Two);

against the stockholder proposal to declassify the Board of Directors (see Proposal Three); and

for ratification of the appointment of Ernst & Young LLP as the Company s independent registered public accounting firm for fiscal 2007 (see Proposal Four).

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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 other 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 may not be permitted to exercise voting discretion with respect to some of the matters to be acted upon. Thus, if you do not give your broker or nominee specific instructions, your shares may not be voted on and will not be counted in determining the number of shares represented in person or by proxy at the Annual Meeting. 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.

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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 February 28, 2007 by (i) each of the current and former 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. A total of 37,919,511 shares of the Company s common stock were issued and outstanding as of February 28, 2007.

Name and Address of Beneficial Owner (1)	Number of Shares of Common Stock Owned (2)	Number of Shares of Common Stock Subject to Options Exercisable Within 60 Days (3)	Total Number of Shares of Common Stock Beneficially Owned (4)	Percent Ownership
FMR Corp. (5) 82 Devonshire Street, Boston, MA 02109	5,242,965		5,242,965	13.8%
Federated Investors, Inc. (6) Federated Investor Towers, Pittsburgh, PA 15222	4,874,100		4,874,100	12.9%
Janus Capital Management LLC (7) 100 Fillmore Street, Denver, CO 80206	2,119,810		2,119,810	5.6%
Timothy P. Coughlin	228	17,066	17,294	*
Kevin C. Gorman, Ph.D.	54,227	239,669	293,896	*
Paul W. Hawran	130,000	191,463	321,463	*
Gary A. Lyons	376,565	694,089	1,070,654	2.8%
Margaret Valeur-Jensen, J.D., Ph.D.	29,491	262,464	291,955	*
Richard Ranieri		38,547	38,547	*
Wendell Wierenga, Ph.D.	6,238	155,207	161,445	*
Adrian Adams		32,000	32,000	*
Corinne H. Lyle		41,000	41,000	*
W. Thomas Mitchell	1,000	65,000	66,000	*
Joseph A. Mollica, Ph.D.		106,250	106,250	*
Richard F. Pops		81,000	81,000	*
Stephen A. Sherwin, M.D.		98,500	98,500	*
Wylie W. Vale, Ph.D.	231,372	86,555	317,927	*
All current executive officers and directors as a group (11 persons)	692,883	1,730,140	2,423,023	6.4%

* Represents beneficial ownership of less than one percent (1%) of the outstanding shares of the Company s common stock as of the Record Date.

(1) The address of each individual named is c/o Neurocrine Biosciences, Inc., 12790 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 Subject to Options Exercisable Within 60 Days, by the named parties as of the Record Date. Vested stock awards that are subject to deferred delivery pursuant to the Company s Nonqualified Deferred Compensation Plan have been excluded from the amounts shown above as the Company has the discretion to settle such awards in cash rather than in stock.

(3) Shares of common stock subject to stock options currently exercisable or exercisable within 60 days of the Record Date, 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 Securities and Exchange Commission 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 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. 6 to Schedule 13G filed by FMR Corp. (FMR) on February 14, 2007, reporting ownership as of December 31, 2006. According to such filing, Fidelity Management & Research Company (Fidelity), a wholly-owned subsidiary of FMR, is the beneficial owner of 5,175,265 shares reported in such filing as a result of acting as an investment adviser to various registered investment companies that own such shares. One such company, Fa Mid Cap Stock Fund, owned 3,578,114 shares as of December 31, 2006. Edward C. Johnson 3d and FMR, through their control of Fidelity, and such investment companies each have sole power to dispose of the shares owned by such companies. Members of Mr. Johnson s family are the predominant owners of FMR s stock, and through such ownership and a related voting agreement, may be deemed to form a controlling group with respect to FMR. Neither FMR nor Mr. Johnson has the sole power to vote or direct the voting of the shares owned directly by such investment companies, which power resides with such companies boards of trustees. Pyramis Global Advisors Trust Company (Pyramis), an indirect wholly-owned subsidiary of FMR, is the beneficial owner of 67,700 shares reported in such filing as a result of acting as investment manager to various institutional accounts that own such shares. Mr. Johnson and FMR, through their control of Pyramis, each have sole dispositive power over, and sole power to vote or to direct the voting of, such shares.

(6) Based on Amendment No. 1 to Schedule 13G filed by Federated Investors, Inc. (Federated) on February 12, 2007, reporting ownership as of January 31, 2007. According to such filing, Federated is the parent holding company, through its wholly-owned subsidiary FII Holdings, Inc., of Federated Equity Management Company of Pennsylvania and Federated Global Investment Management Corp., which act as investment advisers to various registered investment companies and separate accounts that own shares of the Company s common stock. All of Federated s outstanding voting stock is held in the Voting Shares Irrevocable Trust (the Trust) for which John F. Donahue, Rhodora J. Donahue and J. Christopher Donahue act as trustees (collectively, the Trustees). Pursuant to Rule 13d-4 of the Securities Act of 1933, as amended, Federated, the Trust and the Trustees disclaim beneficial ownership of all of these shares.

(7) Based on a Schedule 13G filed by Janus Capital Management LLC (Janus) on February 14, 2007, reporting ownership as of December 31, 2006. According to such filing, Janus is an indirect ownership stake in Enhanced Investment Technologies LLC (Intech) and Perkins, Wolf, McDonnell and Company, LLC (Perkins Wolf), the holdings of which are aggregated with those of Janus for purposes of such filing. Janus, Intech and Perkins Wolf act as investment advisers to various registered investment companies, and therefore Janus may be deemed to be the beneficial owner of the shares reported in such filing. However, Janus does not have the right to receive any dividends from, or the proceeds from the sale of, such shares and disclaims any ownership associated with such rights.

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 own more than ten percent 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% 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% stockholders complied with all Section 16(a) filing requirements applicable to them during the fiscal year ended

December 31, 2006.

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PROPOSAL ONE: ELECTION OF DIRECTORS

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 three directors in Class I (Joseph A. Mollica, Ph.D., Wylie W. Vale, Ph.D. and W. Thomas Mitchell), three directors in Class II (Corinne H. Lyle, Richard F. Pops, and Stephen A. Sherwin, M.D.), and one director in Class III (Gary A. Lyons). Additionally, former Class III director Adrian Adams resigned from the Board of Directors on February 14, 2007. The Nominating/Corporate Governance Committee has initiated a search for a suitable replacement candidate for the vacant Class III director seat and such seat will remain vacant until a candidate is elected or appointed to the Board of Directors. With the exception of Gary A. Lyons, who is President and Chief Executive Officer of Neurocrine Biosciences, Inc., all current members of the Board of Directors and Mr. Adams, meet the definition of independent director under the Nasdaq Stock Market qualification standards.

The directors in Class II hold office until the 2007 Annual Meeting of Stockholders, the directors in Class III hold office until the 2008 Annual Meeting of Stockholders and the directors in Class I hold office until the 2009 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 Corinne H. Lyle, Richard F. Pops, and Stephen A. Sherwin, M.D., will expire at the 2007 Annual Meeting. At the 2007 Annual Meeting, the stockholders will elect three Class II directors for a term of three years.

Vote Required

The nominees receiving the highest number of affirmative votes of the shares present in person or represented by proxy at the 2007 Annual Meeting and entitled to vote on the election of directors will be elected to the Board of Directors.

Votes withheld from any director are counted for purposes of determining the presence or absence of a quorum, but have no other legal effect under Delaware law.

Unless otherwise instructed, the proxy holders will vote the proxies received by them for the Company s nominees named below. If any of the Company s nominees is unable or declines to serve as a director at the time of the Annual Meeting, the proxies will be voted for any nominee who is designated by the present Board of Directors to fill the vacancy. It is not expected that any of the Company s nominees will be unable or will decline to serve as a director. **The Board of Directors recommends that stockholders vote FOR the nominees named below.**

Nominees for Election at the Annual Meeting

All of the nominees (Corinne H. Lyle, Richard F. Pops and Stephen A. Sherwin, M.D.) are currently Class II directors of the Company. All of the nominees, except for Ms. Lyle, were previously elected to the Board of Directors by the Company s stockholders. Ms. Lyle, who was appointed to the Board of Directors in June 2004, was recommended for appointment to the Board by the Nominating/Corporate Governance Committee. Ms. Lyle was recommended to the

Nominating/Corporate Governance Committee by an executive search firm. Information about the nominees is set forth below:

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Name of Director	**Age**	**Position in the Company**	**Director Since**
Corinne H. Lyle (1)	47	Director	2004
Richard F. Pops (1) (2)	45	Director	1998
Stephen A. Sherwin, M.D. (2) (3)	58	Director	1999

(1) Member of the Audit Committee.

(2) Member of the Compensation Committee.

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

Corinne H. Lyle was appointed to the Board of Directors in June 2004. She is a Corporate Vice President of and the President of Global Operations for Edwards Lifesciences, a global leader in products and technologies to treat advanced cardiovascular disease and the leading heart valve company in the world. From 2003 to 2005, she served as Chief Financial Officer and Treasurer for Edwards. From October 1998 until February 2003, she served as Vice President, Chief Financial Officer of Tularik, Inc., a company involved in the discovery and development of drugs based on gene regulation. Prior to joining Tularik, she was Executive Director-Health Care Group at Warburg Dillon Read LLC, an investment bank. She currently serves on the Board of Directors and is a member of the audit committee of Onyx Pharmaceuticals, a biopharmaceutical company that develops small molecule cancer treatments. Ms. Lyle received her undergraduate degree in industrial engineering from Stanford University and her M.B.A. from Harvard Business School.

Richard F. Pops was elected to the Board of Directors in April 1998. Mr. Pops became Chairman of Alkermes, Inc. in April 2007. From February 1991 to April 2007, Mr. Pops had been Chief Executive Officer of Alkermes, Inc. Under his leadership, Alkermes has grown from a privately held company with 25 employees to a publicly traded pharmaceutical company with more than 500 employees in multiple locations in the United States. He currently serves on the Board of Directors of: Alkermes, Inc.; Reliant Pharmaceuticals, LLC, a cardiovascular pharmaceutical products company; CombinatoRx, Inc., a company focused on developing new medicines built from synergistic combinations of approved drugs; Acceleron Pharma, Inc., a biotechnology company focused on musculoskeletal and metabolic therapeutics; Sirtris Pharmaceuticals, Inc, a biotechnology company focused on discovering therapies to combat aging, metabolic and neurological diseases; Expressive Constructs, Inc., a biotechnology company engaged in research and development of new antibody detection technologies; the Biotechnology Industry Organization; the New England Healthcare Institute; Pharmaceutical Research and Manufacturers of America (PhRMA) and Harvard Medical School Board of Fellows. He received a B.A. in economics from Stanford University in 1983.

Stephen A. Sherwin, M.D. was elected to the Board of Directors in April 1999. Since March 1990, Dr. Sherwin has served as Chief Executive Officer and Director of Cell Genesys, Inc., a biotechnology company. In March 1994, he was elected as Chairman of the Board of Cell Genesys. From 1983 to 1990, Dr. Sherwin held various positions at Genentech, Inc., a biotechnology company, most recently as Vice President of Clinical Research. Prior to 1983, Dr. Sherwin held various positions on the staff of the National Cancer Institute. Dr. Sherwin also serves as Chairman of the Board of Ceregene, Inc., a biotechnology company he founded in 2001 focused on developing neurotrophic growth factor treatments for major neurodegenerative disorders and a former subsidiary of Cell Genesys. Dr. Sherwin was also a co-founder of Abgenix, a company focused on the discovery, development and manufacture of human therapeutic antibodies, which was acquired by Amgen in 2006 and was a former subsidiary of Cell Genesys. Dr. Sherwin is a member of the Board of Directors of Rigel Pharmaceuticals, Inc., a biotechnology company focused on developing drugs for inflammatory diseases, cancer and viral diseases, and is also a director and treasurer of the Biotechnology Industry Organization. He holds a B.A. in biology from Yale and an M.D. from Harvard Medical School and is board-certified in internal medicine and medical oncology.

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

The Class I and III directors will remain in office after the 2007 Annual Meeting. The Class I directors are Joseph A. Mollica, Ph.D., Wylie W. Vale, Ph.D. and W. Thomas Mitchell. The Class III director is Gary A. Lyons.

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
Joseph A. Mollica, Ph.D. (3)	66	Chairman of the Board	1997
Wylie W. Vale, Ph.D.	65	Director	1992
W. Thomas Mitchell (1) (3)	61	Director	2002
Gary A. Lyons	56	President, Chief Executive Officer and Director	1993

(1) Member of the Audit Committee.

(2) Member of the Compensation Committee.

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

Joseph A. Mollica, Ph.D. has served as a director of the Company since June 1997 and became Chairman of the Board in April 1998. Dr. Mollica is currently Chairman of the Board of Pharmacopeia Drug Discovery, Inc., a biopharmaceutical company focusing 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, 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, 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. He is currently on the boards of directors of Cytogen Corp., a biotechnology company focused on cancer diagnostics and therapeutics, and Pharmacopeia. 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.

Wylie W. Vale, Ph.D. is one of the Company s two academic co-founders, Chief Scientific Advisor, Neuroendocrinology, and a member of the Company s Founding Board of Scientific and Medical Advisors. Dr. Vale was elected a director of the Company in September 1992. He is The Helen McLoraine Professor of Molecular Neurobiology at The Salk Institute for Biological Studies and is the Senior Investigator and Head of The Clayton Foundation Laboratories for Peptide Biology at The Salk Institute, where he is a member of the Corporation and former member of the Board of Trustees and former Chairman of the Faculty. He is also an Adjunct Professor of Medicine at the University of California, San Diego. In addition, Dr. Vale is recognized for his work on the molecular, pharmacological and biomedical characterization of neuroendocrine peptides, growth factors and their receptors. In recognition of his discoveries, he has received numerous awards and he is a member of the American Academy of Arts and Sciences, the Institute of Medicine and the National Academy of Sciences. Dr. Vale is a co-founder and member of the Board of Directors of Acceleron Pharma, Inc., a biotechnology company focused on musculoskeletal and metabolic therapeutics. He is a past President of both the American Endocrine Society and the International Society of Endocrinology. Dr. Vale received a B.A. in biology from Rice University and a Ph.D. in physiology and biochemistry from the Baylor College of Medicine.

W. Thomas Mitchell was appointed to Neurocrine s Board of Directors in 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. Mr. Mitchell 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 currently serves on the Board of Directors of DJO, Inc. a medical device company, where he is 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. He received his B.S. in chemical engineering from Drexel University. He also completed the Executive Development Program at the University of Michigan.

Gary A. Lyons has served as President, Chief Executive Officer and a director of the Company since joining Neurocrine in February 1993. Prior to joining the Company, Mr. Lyons held a number of senior management positions at Genentech 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 immunology and Vical, Incorporated, a biotechnology company focused on the prevention and treatment of serious or life-threatening diseases. 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.

How often did the Board meet during fiscal 2006?

The Board of Directors of the Company held a total of fifteen meetings and took action by written consent on four occasions during 2006. During 2006, 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 of the Audit, Compensation and Nominating/Corporate Governance Committees have been posted on the Company s website at *www.neurocrine.com.* During 2006, no director attended fewer than 75% of the aggregate of the total number of meetings of the Board of Directors and the total number of meetings held by all committees of the Board of Directors on which each 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 4350(d)(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 current members of the audit committee are Corinne H. Lyle, Richard F. Pops, and W. Thomas Mitchell. The Board of Directors has determined that Corinne H. Lyle and Richard F. Pops are audit committee financial experts within the meaning of item 407(d)(5) of SEC Regulation S-K.

During 2006, the Compensation Committee consisted of directors Adrian Adams, Richard F. Pops and Stephen A. Sherwin, M.D. This committee met five times and took one action by written consent during 2006. The Compensation Committee reviews and recommends to the Board the compensation of executive officers and other employees of the Company. The Compensation Committee is comprised solely of independent directors, as defined by Nasdaq Stock Market Rule 4200(a)(15).

The Company also has a Nominating/Corporate Governance Committee currently comprised of W. Thomas Mitchell, Joseph A. Mollica, Ph.D. and Stephen A. Sherwin, M.D; all independent directors as defined by Nasdaq Stock Market Rule 4200(a)(15). 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 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 three times during 2006 to recommend the slate of directors that was approved at the 2006 Annual Meeting of Stockholders. The committee met in early 2007 to recommend that the Board of Directors nominate Corinne H. Lyle, Richard F. Pops, and Stephen A. Sherwin, M.D. for re-election as Class II directors for the upcoming three-year term.

What is our director nomination process?

Director qualifications

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 for an extended period of time. Directors should offer their resignation in the event of any significant change in their personal circumstances, including a change in their principal job responsibilities. In evaluating director nominees, the Nominating/Corporate Governance Committee considers the following factors: the appropriate size of the Company s Board of Directors; personal and professional integrity, ethics and values; experience in corporate management, such as serving as an officer or former officer of a publicly held company; and experience as a board member of another publicly held company.

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.

Other than the foregoing, there are no stated minimum criteria for director nominees, although 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 Securities and Exchange Commission rules. The Nominating/Corporate Governance Committee also believes it appropriate for certain key members of the Company s management to participate as members of the Board of Directors.

Identification and evaluation of nominees for directors

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.

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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 board members, management or other parties are evaluated.

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

Although the Company has not established a formal process by which stockholders may communicate directly with directors, the Nominating/Corporate Governance Committee has taken note of recent corporate governance developments relating to stockholder communications and intends to consider development and implementation of specific procedures for stockholders to communicate directly with the Board. Until formal procedures are developed and posted on the Company s website, any communications to the Board of Directors should be sent to the Board in care of Neurocrine Biosciences Investor Relations, 12790 El Camino Real, San Diego, CA 92130.

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. Joseph A. Mollica, Ph.D. and Gary A. Lyons represented the Board of Directors at the 2006 Annual Meeting of Stockholders.

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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 or the Securities Exchange Act of 1934, except to the extent the Company specifically incorporates this Report by reference therein.

The Audit Committee is currently comprised of directors Corinne H. Lyle, Richard F. Pops, and W. Thomas Mitchell. All current committee members satisfy the definition of independent director as established in the Nasdaq Stock Market qualification requirements. The Committee met four times during the year ended December 31, 2006.

The 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 systems of internal controls. In fulfilling its oversight responsibilities, the Committee has reviewed and discussed the Company s audited financial statements as of and for the year ended December 31, 2006 with management, 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 Committee also has reviewed and discussed the Company s audited financial statements as of and for the year ended December 31, 2006 with the 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 Committee under the Statement on Auditing Standards No. 61 (Communications with Audit Committees), as currently in effect. 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 Public Company Accounting Oversight Board (United States). In addition, the Committee has discussed the independent registered public accounting firm s independence from management and the Company, including the matters in the written disclosures required by the Independence Standards Board No. 1, Independence Discussions with Audit Committees, and considered the compatibility of non-audit services with the auditors independence.

The Committee discussed with the Company s independent registered public accounting firm the overall scope and plans for their audits. The 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 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, 2006, for filing with the Securities and Exchange Commission. The Committee and the Board are also seeking stockholder ratification of the selection of the Company s independent registered public accounting firm for the year ending December 31, 2007.

Respectfully submitted by:
AUDIT COMMITTEE

Corinne H. Lyle
W. Thomas Mitchell
Richard F. Pops

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:

	2006	2005
Audit fees (1)	$ 509,887	$ 380,826
Audit related fees (2)	40,574	15,785
Tax fees (3)		2,220
All other fees (4)		
Total	$ 550,461	$ 398,831

(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, 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.

(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.

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EXECUTIVE COMPENSATION

EXECUTIVE OFFICERS

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

Name	Age	Position
Gary A. Lyons	56	President, Chief Executive Officer and Director
Timothy P. Coughlin	40	Vice President and Chief Financial Officer
Margaret E. Valeur-Jensen, J.D., Ph.D.	50	Executive Vice President, General Counsel and Corporate Secretary
Richard Ranieri	55	Senior Vice President, Human Resources
Kevin C. Gorman, Ph.D.	49	Executive Vice President and Chief Operating Officer

See above for biographical information concerning Gary A. Lyons.

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, 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.

Margaret E. Valeur-Jensen, J.D., Ph.D. became Executive Vice President, General Counsel and Corporate Secretary of the Company in February 2005 after having served as Senior Vice President, General Counsel and Corporate Secretary since January 2000. She joined the Company as Vice President, General Counsel and Secretary in October 1998. She is responsible for all corporate and patent law practices at the Company and serves as Corporate Secretary. From 1995 to 1998, Dr. Valeur-Jensen served as Associate General Counsel, Licensing and Business Law of Amgen. From 1991 to 1995, she served first as Corporate Counsel and later as Senior Counsel, Licensing for Amgen. Prior to joining Amgen, Dr. Valeur-Jensen practiced law at Davis, Polk & Wardell, a leading corporate law firm. She earned a J.D. degree from Stanford University, a Ph.D. in biochemistry and molecular biology from Syracuse University, and was a Post-Doctoral Fellow at Massachusetts General Hospital and Harvard Medical School.

Richard Ranieri joined the Company in June 2005 as Senior Vice President, Human Resources. From 1993 to 2005, Mr. Ranieri was Senior Vice President, Human Resources for Genencor International, Inc., a diversified biotechnology company. Prior to 1993, Mr. Ranieri spent more than 15 years with GlaxoSmithKline, a worldwide healthcare company, in various human resource positions at the corporate and divisional levels. Mr. Ranieri earned his B.A. in social science and accounting from Villanova University and an M.A. in organizational development from Rider University.

Kevin C. Gorman, Ph.D. has been employed with the Company since 1993. He is a founder of the Company and was appointed Executive Vice President and Chief Operating Officer in September 2006 after having served as Executive Vice President and Chief Business Officer and Senior Vice President of Business Development. Dr. Gorman is responsible for Research and Development, Business Development, Commercial Operations, and Marketing. 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, Metra Biosystems, IDUN and ARIAD Pharmaceuticals. 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.

Paul W. Hawran and Wendell Wierenga, Ph.D., served as executive officers during 2006 and have left the employment of the Company. Mr. Hawran, the former Executive Vice President and Chief Financial Officer, became a Senior Advisor to the Company on September 18, 2006 and retired from full-time status on April 1,

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2007. Dr. Wierenga, the former Executive Vice President, Research and Development resigned from the Company on December 30, 2006.

COMPENSATION DISCUSSION AND ANALYSIS

Overview and Role of the Compensation Committee

The Compensation Committee (Committee) reviews and recommends to the Board of Directors for approval the Company s executive compensation policies. The Committee consists of three independent directors. During 2006, the members of the Committee were Richard F. Pops, Stephen A. Sherwin, M.D., and Adrian Adams. The Committee met six times during 2006. Mr. Adams resigned from the Board, effective February 14, 2007.

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, 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 stock based grants for all other employees of the Company;
- reviewing and approving all promotions to executive officer and all new hires of executive officers;
- managing and reviewing stock option, 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
- preparing and approving this section of the Company s annual proxy statement.

Compensation Philosophy and Objectives

The Committee s philosophy 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 establishing salaries, benefits, and incentive compensation which compare favorably with those for similar positions in other biotechnology companies; and
- align compensation plans to both short-term and long-term goals and objectives of the Company.

In light of the Company s philosophy, the Committee attempts to provide a mix of compensation between base salary and cash bonuses such that approximately 30 to 60% of the executive officer s total cash compensation is at risk, and that non-cash compensation is structured to provide a reward for corporate and individual performance. The Committee believes that this approach provides an appropriate incentive for executive officers to attain the Company s long-term strategic and performance goals, and also retains and motivates key executive officers.

Role of Peer Group, Compensation Surveys and Consultants

In order to evaluate the Company s competitive position in the industry, the Committee reviews and analyzes 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 peer group was selected based on business scope, market capitalization, stage of development, location and with whom the Company competes for talent. The peer group consists of Amylin Pharmaceuticals, Inc., Sepracor, Inc.,

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Vertex Pharmaceuticals Incorporated, Cephalon, Inc., ImClone Systems Incorporated, PDL BioPharma, Inc., ICOS Corporation, OSI Pharmaceuticals, Inc., MGI Pharma, Inc., Nektar Therapeutics, Valeant Pharmaceuticals International, ISIS Pharmaceuticals, Inc., Arena Pharmaceuticals, Inc., Connectics Corporation, Incyte Corporation, Santarus, Inc., and Avanir Pharmaceuticals.

During 2006, the Committee reviewed the Company s executive compensation policies and made recommendations to the Board regarding such policies. The competitive information was obtained directly from proxy statements filed by members of the peer group and from one national survey, the Radford Biotechnology Compensation Survey for establishing compensation levels.

During 2006, the Committee did not retain the services of a third party compensation consultant.

Role of Executive Officers in Compensation Decisions

The Committee makes all final decisions regarding compensation for executive officers (other than the Chief Executive Officer, which is decided by the entire Board of Directors), inclusive of determining equity awards. The Chief Executive Officer and the Senior Vice President of Human Resources annually review the performance of each executive officer (other than themselves), and review competitive market data for base salary, cash bonuses and equity awards. From this review, conclusions and recommendations, including proposed base salary adjustments and annual award amounts, are presented to the Committee for its consideration and approval. The Committee, in its sole discretion, can accept, modify or reject any of the recommendations.

Components of Compensation

The Company s compensation for executive officers consists primarily of six components: base salary, cash bonuses, equity awards, deferred compensation benefits, retirement benefits as provided under the Company s 401(k) plan, and other benefits. Each of these six components 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. The base salaries have been targeted at or above the average rates paid by the peer group to enable the Company to attract, motivate, reward and retain highly skilled executives. As a general matter, the base salary for each executive officer is initially established through negotiation at the time the officer is hired, taking into account such officer s qualifications, experience, prior salary, and competitive salary information. Year-to-year adjustments to each executive officer s base salary are based upon personal performance for the year, 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.

Cash bonuses

The Committee s philosophy in establishing the Company s cash bonus compensation strategy for executive officers and other employees is to provide a mix of compensation between salary and cash such that approximately 30 to 60% of the executive s total cash compensation is at risk. This supports the achievement of Company goals and objectives by basing compensation on a pay-for-performance basis. These discretionary bonus payments are paid on an annual basis as part of the Company s incentive compensation strategy. Bonus payments are linked to the attainment of overall corporate goals established by the Board of Directors and individual goals established for each executive officer. The Board of Directors establishes the maximum potential amount of each officer s bonus payment annually, based upon the recommendation of the Committee. The appropriate weight to be given to each of the various goals used to calculate the amount of each officer s bonus payment is determined by the Committee. The emphasis for 2006 was based on achievement of research & development goals (25%), business development goals (25%), commercial goals (25%) and general administration goals (25%), the sum of which is 100% of target when full achievement of goals occurs. The criteria set forth within each of these areas include many factors with a variety of expected achievement levels. Within research and development, the goal with the highest difficulty to achieve was obtaining FDA approval of indiplon. Failure to receive FDA approval of indiplon also affected many of the commercial goals for 2006. Achievement of the Company s goals determines the initial bonus pool for the Company, and is then factored by the performance of each executive officer against individual goals for the year.

For 2006, executive officers were eligible for the following bonuses as a percentage of annualized base salary:

Officer	Minimum Payout	Target Percentage	Maximum Payout
Chief Executive Officer	0 %	75 %	150 %
Chief Operating Officer	0 %	60 %	120 %
All Other Officers	0 %	50 %	100 %

Actual bonuses paid to executive officers for 2006 are reviewed below.

Equity awards

The Committee provides the Company s executive officers with long-term incentive compensation through grants of stock options, restricted stock units (RSU s) and/or stock bonuses under the Company s equity compensation plans. The Committee believes that these grant programs provide the Company s executive officers with the opportunity to purchase and maintain an equity interest in the Company and to share in the appreciation of the value of the Company s common stock. The Committee believes that these grants directly motivate an executive to maximize long-term stockholder value. The grants also utilize vesting periods that encourage key executives to continue in the employ of the Company. The Committee considers each grant subjectively, considering factors such as the individual performance of the executive officer, the anticipated contribution of the executive officer to the attainment of the Company s long-term strategic performance goals, and to retain and motivate key executives. The Committee also considers stock grants and option packages provided to executive officers of our identified peer group. Long-term incentives granted in prior years are also taken into consideration.

New stock option equity awards typically vest over three years and have a seven year term. Additionally, all stock option equity awards are priced based upon the closing price of the Company s common stock on the date of grant, which is also the approval date, by the Committee. RSU awards typically vest over three years with the exception of an RSU award that was granted to the Chief Executive Officer in 2007. This particular award vests upon achieving specific corporate performance goals. The Committee typically reviews Company and executive performance during the first quarter of each year to determine the amount and types of awards to be granted.

The Company had established an Employee Stock Purchase Plan (ESPP) both to encourage employees, including the Company s executive officers, to continue in the employ of the Company and to motivate employees through an ownership interest in the Company. However, after reviewing the ESPP s competitiveness, impact as a long-term employee retention factor, number of shares available, and the financial impact of Statement of Financial Accounting Standards No. 123R (SFAS 123R) on the Company, the plan was terminated effective July 1, 2006.

Deferred compensation plan

Currently, employees at the Senior Director level or above, inclusive of executives and members of the Board of Directors, are eligible to participate in the Company s Deferred Compensation Plan (NQDC Plan). Under the terms of the NQDC Plan, each eligible participant may elect to defer all or a portion of cash compensation, RSUs and stock bonuses received for services to the Company. Elections must be made by December 31 of each year for compensation that will be deferred during the following year, and are irrevocable once made. Deferral of annual bonuses must be made by December 31 of the year preceding the year in which the bonus is earned. Upon receipt of an eligible participant s deferral election, the Company maintains a deferred compensation investment account on behalf of such participant. Funds so invested are paid to participants based on an elected payout schedule over a period of up to 15 years. Upon death or termination for cause, funds are paid out within 60 days following the event. Funds may also be withdrawn for hardship under certain circumstances.

Retirement benefits

The terms of the Company s 401(k) Savings Plan (401k Plan), provide for executive officer and broad-based employee participation. Under the 401k Plan, all Company employees are eligible to receive matching contributions from the Company that vest three years from date of hire and monthly thereafter. The Company s matching contribution for the 401k Plan for 2006 was $0.50 for each dollar on the first 6% of each participant s pretax contributions, and was calculated on a payroll-by-payroll basis subject to applicable Federal limits. The Company made no profit sharing or discretionary contributions to the 401k Plan in 2006.

Other benefits and perquisites

Executive officers are eligible to participate in the Company s employee benefit plans on the same terms as all other employees. These plans include medical, dental and life insurance. Executive officers are also provided with one annual physical examination. 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 of employment thereafter. Additionally, all executive officers, as well as all other Company employees, are eligible to receive a one-time additional two week vacation benefit after ten years of service. The Company may also provide relocation expense reimbursement and related tax gross-up benefits, and tax preparation and planning services, which are negotiated on an individual basis with executive officers. In addition, executive officers are eligible to receive severance benefits in connection with a termination or a change-in-control as set forth in each of their employment contracts and described more fully below.

Chief Executive Officer Compensation

Mr. Lyons joined the Company in February 1993. His initial salary, potential bonus, and stock grants were determined on the basis of negotiation between the Board of Directors and Mr. Lyons with due regard for his qualifications, experience, prior salary, and competitive salary information. Mr. Lyons compensation is reviewed annually on the same basis as discussed above for all executive officers. Mr. Lyons base salary for 2006 was $600,000. This was a 9.1% increase over Mr. Lyons 2005 base salary. Mr. Lyons base salary for 2006 was established in part by comparing the base salaries of chief executive officers at other biotechnology and pharmaceutical companies of similar size and development. Mr. Lyons has annual and long-term strategic and operational goals established by the Board. Based on Company and individual performance versus 2006 annual goals, Mr. Lyons was not awarded a bonus for 2006, nor did he receive a base salary increase . Therefore, Mr. Lyons base salary will remain $600,000 for 2007. On March 16, 2007, the Board approved and awarded Mr. Lyons performance-based RSUs. In total, Mr. Lyons was awarded 85,000 RSUs of which 50% vest upon FDA approval of indiplon and 50% vest upon indiplon commercial launch and are subject to deferred delivery arrangements. In addition, Mr. Lyons was awarded 85,000 stock options on March 16, 2007 at an option price of $10.98 that vest annually over three years. The RSUs and option awards described above are not eligible for the retirement provision that allows for accelerated vesting based upon certain years of service and age, as normally provided under our 2003 Plan.

Other Executive Officer Compensation

The compensation of all other executive officers is reviewed annually as discussed above.

Base salary

Effective January 1, 2006, Dr. Gorman received a promotion to Executive Vice President and Chief Business Officer and his annualized base salary became $315,000. Also effective January 1, 2006, Dr. Valeur-Jensen s annualized base salary became $335,000 reflecting a merit increase and market adjustment of 11.7%, Dr. Wendell Wierenga s annualized base salary became $385,000 reflecting a merit increase and market adjustment of 10.0%, Mr. Hawran s annualized base salary became $365,000 reflecting a merit increase and market adjustment of 12.3%, and Mr. Ranieri s annualized base salary became $287,000 reflecting a merit increase of 2.5% for a partial year of service.

Effective September 16, 2006, Dr. Gorman was promoted to the position of Executive Vice President and Chief Operating Officer and his annualized base salary became $400,000, and Dr. Valeur-Jensen s annualized base salary was adjusted to $380,000 reflecting her increased responsibilities. Effective September 18, 2006, Mr. Coughlin was promoted to the position of Vice President and Chief Financial Officer and his annualized base salary became $275,000. On September 18, 2006, Mr. Hawran entered into an Amended and Restated Employment Agreement (Amended Employment Agreement), providing for his retirement from full-time status as Executive Vice President and Chief Financial Officer of the Company. Under the Amended Employment Agreement, Mr. Hawran continued as a Senior Advisor to the Company through April 1, 2007 and received a base salary at an annual rate of $365,000. On December 30, 2006, Dr. Wierenga resigned from the Company and entered into a consultant agreement pursuant to which he will provide consulting services to the Company through 2008. The Company will pay Dr. Wierenga $25,000 per year, which is payable in arrears in four bi-annual installments of $12,500 beginning on June 1, 2007 and ending on December 31, 2008 for a maximum retainer of $50,000.

Effective January 1, 2007, Mr. Ranieri s annualized base salary became $300,000, and represents a 4.5% increase over his 2006 annualized salary. Mr. Ranieri was awarded this base salary adjustment for his day-to-day performance and his accomplishments versus 2006 personal goals. Dr. Gorman s, Mr. Coughlin s and Dr. Valeur-Jensen s base salaries were all reviewed and adjusted in September 2006 for the reasons stated above and therefore their respective base salaries were not changed in January 2007.

Cash bonuses

In 2006, the Company established key technical milestones in research and development, business development initiatives, commercial targets based mainly on indiplon s launch and specific administration cost savings and efficiencies as a basis for bonus payments. In reviewing performance for 2006, the Committee took into consideration the FDA action letters on indiplon. In addition, the Committee looked at other accomplishments with the research and development pipeline, and the significant results in administrative efficiencies and corporate savings. As a result of this analysis, no annual bonus payment was awarded to Dr. Gorman or Dr. Wierenga. The Committee did, however, award bonus payments to Dr. Valeur-Jensen, Mr. Ranieri and Mr. Coughlin based on individual performance and contributions. For 2006, bonus awards were as follows: Dr. Valeur-Jensen was awarded $115,000, which correlates to approximately 60% of her annual bonus target percentage; Mr. Coughlin was awarded $75,000, which correlates to approximately 55% of his annual bonus target percentage; and Mr. Ranieri was awarded $120,000, which correlates to approximately 80% of his bonus target percentage.

Long-term incentives

Long-term incentives are awarded to individuals to align the sharing of value creation between shareholders and executive officers. Long-term incentive awards are also used as a key retention and motivational tool. The Committee took into consideration the fact that the majority of past long-term incentive awards had exercise prices that were significantly greater than the current market price of the Company s stock as a result of the stock price decline due primarily to the May 2006 FDA action letters on indiplon. As the Company has worked with the FDA to understand the key questions and topics that the agency had regarding indiplon, the Committee believed it was now important to award executive officers a long-term incentive grant that would retain and encourage each to stay with the Company and continue to work with the FDA to obtain indiplon s approval and if obtained, proceed with its commercialization. As a result, on January 11, 2007, the Committee awarded the following long-term incentive grants: Dr. Valeur-Jensen was granted 58,000 RSUs and 100,000 stock options; Dr. Gorman was granted 63,000 RSUs and 108,000 stock options; Mr. Coughlin was granted 58,000 RSUs and 100,000 stock options; and Mr. Ranieri was granted 58,000 RSUs and 100,000 stock options. These RSUs and stock awards vest annually over three years. The exercise price of the stock options was $11.44 based on the closing price of the Company s common stock on the date of grant.

Deferred compensation plan

For each year of the NQDC Plan, the Company may, but is not required to, make contributions to any of the executive officer s plan accounts. During 2006, the Company did not make any such contributions. Some executive officers did elect to make voluntary contributions to the NQDC Plan during 2006.

Section 162(m)

The Board has considered the potential future effects of Section 162(m) of the Code on the compensation paid to the Company s executive officers. Section 162(m) disallows a tax deduction for any publicly held corporation for individual compensation exceeding $1.0 million in any taxable year for any of the executive officers named in the proxy statement, unless compensation is performance-based. The Company has adopted a policy that, where reasonably practicable, the Company will seek to qualify the variable compensation paid to its executive officers for an exemption from the deductibility limitations of Section 162(m).

In approving the amount and form of compensation for the Company s executive officers, the Committee will continue to consider all elements of the cost to the Company of providing such compensation, including the potential impact of Section 162(m).

REPORT OF THE COMPENSATION COMMITTEE

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
Stephen A. Sherwin, M.D.

Compensation Committee interlocks and insider participation

As of December 31, 2006, the Compensation Committee consisted of Richard F. Pops, Stephen A. Sherwin, M.D., and Adrian Adams. No interlocking relationship exists between any member of the Compensation Committee and any member of any other company s Board of Directors or compensation committee.

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Summary Compensation Table. The following table sets forth the compensation paid by the Company for the fiscal year ended December 31, 2006 to the current and former executive officers named below (the Named Executive Officers):

Summary Compensation Table

e and Title	Year	Salary (1)	Bonus (1)	Stock Awards (2)	Option Awards (3)	All Other (4)	Total Compens
A. Lyons dent and f Executive er	2006	$ 600,000	$	$ 1,237,365	$ 1,642,833	$ 10,470 (5)	$ 3,490,
thy P. hlin (6) President Chief ncial Officer	2006	$ 220,500 (7)	$ 75,000	$	$ 132,420	$ 6,863 (8)	$ 434,
aret ur-Jensen, Ph.D. utive Vice dent, ral Counsel ecretary	2006	$ 348,125	$ 115,000	$ 95,162	$ 375,288	$ 8,611 (9)	$ 942,
ard Ranieri or Vice dent, an urces	2006	$ 287,000	$ 120,000	$ 37,240	$ 370,993	$ 43,811 (10)	$ 859,
n C. nan, Ph.D. utive Vice dent Chief ating er	2006	$ 339,792 (11)	$	$ 102,056	$ 397,508	$ 7,726 (12)	$ 847,
W. Hawran er utive Vice dent and f Financial er	2006	$ 365,000	$	$ 246,091	$ 584,692 (13)	$ 9,392 (14)	$ 1,205,
dell enga, Ph.D. er	2006	$ 385,000	$	$ 128,852	$ 292,178	$ 16,078 (15)	$ 822,

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(1) 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).

(2) Stock awards granted to executive officers consist of restricted stock units and restricted stock and are subject to deferred delivery arrangements. The amounts shown are the share-based compensation costs recognized by Neurocrine in fiscal 2006 for stock awards granted in and prior to 2006 in accordance with SFAS 123R. The assumptions used to calculate the value of stock awards are set forth under Note 6 of the Notes to the Consolidated Financial Statements included in Neurocrine s Annual Report on Form 10-K for the year ended December 31, 2006 filed with the SEC on February 9, 2007. Due to the deferred delivery arrangements, the vested portion of the stock awards is adjusted each period based on the closing market price of the Company s common stock. The Company revalues the awards monthly and adjusts the share-based compensation expense accordingly.

(3) The amounts shown are the compensation costs recognized by Neurocrine in fiscal 2006 for option awards granted in and prior to 2006 as determined pursuant to SFAS 123R. The assumptions used to calculate the value of option awards are set forth under Note 6 of the Notes to the Consolidated Financial Statements included in Neurocrine s Annual Report on Form 10-K for the year ended December 31, 2006 filed with the SEC on February 9, 2007.

(4) Unless otherwise indicated, the amounts in this column consist of (a) matching contributions made by Neurocrine under the tax-qualified 401(k) Plan, which provides for broad-based employee participation, (b) insurance premiums for life and disability paid by Neurocrine on behalf of executive officer and (c) certain relocation expenses.

(5) Represents Company insurance premiums for life and disability of $3,870 and 401(k) contributions of $6,600.

(6) Mr. Coughlin became the Chief Financial Officer on September 18, 2006.

(7) Of this amount, Mr. Coughlin deferred the receipt of $11,025 under the NQDC Plan, as also reported in the Nonqualified Deferred Compensation Table below.

(8) Represents Company insurance premiums for life and disability of $467 and 401(k) contributions of $6,396.

(9) Represents Company insurance premiums for life and disability of $1,153, 401(k) contributions of $6,600 and annual physical exam costs of $858.

(10) Represents Company insurance premiums for life and disability of $1,443, 401(k) contributions of $6,600, tax reimbursement from relocation of $33,181, annual physical exam costs of $887 and tax services of $1,700.

(11) Of this amount, Dr. Gorman deferred the receipt of $84,948 under the NQDC Plan, as also reported in the Nonqualified Deferred Compensation Table below.

(12) Represents Company insurance premiums for life and disability of $1,126 and 401(k) contributions of $6,600.

(13)