

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2002

OR

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

For the transition period from _____ to _____

Commission file number 0-28150

NEUROCRINE BIOSCIENCES, INC.

(Exact name of registrant as specified in its charter)

DELAWARE

(State or other jurisdiction of
incorporation or organization)

33-0525145

(IRS Employer Identification No.)

10555 SCIENCE CENTER DRIVE
SAN DIEGO, CALIFORNIA 92121

(Address of principal executive offices)

(858) 658-7600

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days:

Yes No

The number of outstanding shares of the registrant's common stock, par value \$0.001 per share, was 30,477,096 as of July 31, 2002.

NEUROCRINE BIOSCIENCES, INC FORM 10-Q INDEX

PART I.	FINANCIAL INFORMATION	PAGE
ITEM 1:	Financial Statements	3
	Condensed Balance Sheets as of June 30, 2002 and December 31, 2001	3
	Condensed Statements of Operations for the three and six months ended June 30, 2002 and 2001	4
	Condensed Statements of Cash Flows for the six months ended June 30, 2002 and 2001	5
	Notes to the Condensed Financial Statements	6
ITEM 2:	Management's Discussion and Analysis of Financial Condition and Results of Operations	7
ITEM 3:	Quantitative and Qualitative Disclosures About Market Risk	11
PART II.	OTHER INFORMATION	

ITEM 4: Submission of Matters to a Vote of Security Holders	11
ITEM 6: Exhibits and Reports on Form 8-K	12
SIGNATURES	12

PART I. FINANCIAL INFORMATION

ITEM 1: FINANCIAL STATEMENTS

NEUROCRINE BIOSCIENCES, INC.
CONDENSED BALANCE SHEETS
(in thousands, except for share information)

	June 30, 2002	December 31, 2001
	<i>(unaudited)</i>	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 47,856	\$ 163,888
Short-term investments, available-for-sale	239,614	156,094
Receivables under collaborative agreements	2,722	9,949
Other current assets	4,406	1,584
	294,598	331,515
Property and equipment, net	13,037	12,088
Licensed technology and patent applications costs, net	121	188
Other non-current assets	3,611	2,559
	\$ 311,367	\$ 346,350
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 1,445	\$ 1,539
Accrued liabilities	17,604	15,753
Deferred revenues	2,623	5,382
Current portion of long-term debt	75	149
Current portion of capital lease obligations	1,881	1,938
	23,628	24,761
Capital lease obligations, net of current portion	3,635	3,600
Deferred rent	2,438	2,196
Deferred revenues	3,259	4,417
Other liabilities	1,176	983
	34,136	35,957
Stockholders' equity:		
Preferred stock, \$0.001 par value; 5,000,000 shares authorized; no shares issued and outstanding	-	-
Common stock, \$0.001 par value; 50,000,000 shares authorized; issued and outstanding shares were 30,471,621 as of June 30, 2002 and 30,347,744 as of December 31, 2001	30	30
Additional paid-in capital	421,507	420,018
Deferred compensation	(1,481)	(1,815)
Notes receivable from stockholders	(381)	(381)
Accumulated other comprehensive income (loss)	461	(69)
Accumulated deficit	(142,905)	(107,390)

Total stockholders' equity	277,231	310,393
Total liabilities and stockholders' equity	\$ 311,367	\$ 346,350

See accompanying notes to the condensed financial statements.

3

NEUROCRINE BIOSCIENCES, INC.
CONDENSED STATEMENTS OF OPERATIONS
(in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
	<i>(unaudited)</i>		<i>(unaudited)</i>	
Revenues:				
Sponsored research and development	\$ 3,180	\$ 2,879	\$ 7,138	\$ 5,844
License fees	583	229	1,166	458
Grant income	464	220	880	514
Total revenues	4,227	3,328	9,184	6,816
Operating expenses:				
Research and development	23,096	16,066	43,143	31,256
General and administrative	3,151	2,854	5,882	5,231
Total operating expenses	26,247	18,920	49,025	36,487
Loss from operations	(22,020)	(15,592)	(39,841)	(29,671)
Other income and (expenses):				
Interest income	2,282	2,106	4,327	4,711
Interest expense	(91)	(72)	(192)	(144)
Other income and (expenses), net	78	214	191	297
Total other income and (expenses)	2,269	2,248	4,326	4,864
Net loss	\$ (19,751)	\$ (13,344)	\$ (35,515)	\$ (24,807)
Net loss per common share:				
Basic and diluted	\$ (0.65)	\$ (0.52)	\$ (1.17)	\$ (0.97)
Shares used in the calculation of net loss per common share:				
Basic and diluted	30,433	25,498	30,408	25,452

See accompanying notes to the condensed financial statements.

4

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

	Six Months Ended June 30,	
	2002	2001
	<i>(unaudited)</i>	
CASH FLOW FROM OPERATING ACTIVITIES		

Net loss	\$	(35,515)	\$	(24,807)
Adjustments to reconcile net loss to net cash				
used in operating activities:				
Loss on abandonment of assets		-		51
Depreciation and amortization		1,405		1,231
Deferred revenues		(3,917)		(2)
Deferred expenses		495		396
Non-cash compensation expense		427		1,349
Change in operating assets and liabilities:				
Accounts receivable and other current assets		4,405		3,204
Other non-current assets		(870)		(298)
Accounts payable and accrued liabilities		1,697		(1,768)
Net cash used in operating activities		(31,873)		(20,644)
CASH FLOW FROM INVESTING ACTIVITIES				
Purchases of short-term investments		(231,409)		(41,329)
Sales/maturities of short-term investments		148,419		66,101
Purchases of property and equipment		(2,469)		(2,212)
Net cash (used in) provided by investing activities		(85,459)		22,560
CASH FLOW FROM FINANCING ACTIVITIES				
Issuance of common stock		1,396		2,143
Proceeds from capital lease financing		1,052		1,011
Principal payments on long-term obligations		(1,148)		(717)
Net cash provided by financing activities		1,300		2,437
Net (decrease) increase in cash and cash equivalents		(116,032)		4,353
Cash and cash equivalents at beginning of the period		163,888		21,078
Cash and cash equivalents at end of the period	\$	47,856	\$	25,431

See accompanying notes to the condensed financial statements.

NEUROCRINE BIOSCIENCES, INC.
NOTES TO THE CONDENSED FINANCIAL STATEMENTS
(unaudited)

1. BASIS OF PRESENTATION

The condensed financial statements included herein are unaudited. These statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions of the Securities and Exchange Commission (SEC) on Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and disclosures required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, these financial statements include all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the financial position, results of operations, and cash flows for the periods presented.

The results of operations for the interim periods shown in this report are not necessarily indicative of results expected for the full year. The financial statements should be read in conjunction with the audited financial statements and notes for the year ended December 31, 2001, included in our Annual Report on Form 10-K filed with the SEC.

2. USE OF ESTIMATES

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

3. SHORT-TERM INVESTMENTS AVAILABLE-FOR-SALE

Available-for-sale securities are carried at fair value, with the unrealized gains and losses reported in comprehensive income. The amortized cost of debt securities in this category is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization is included in interest income. Realized gains and losses and declines in value judged to be other-than-temporary, if any, on available-for-sale securities are in interest income. The cost of securities sold is based on the specific identification method. Interest and dividends on securities classified as available-for-sale are included in interest income.

4. LOSS PER COMMON SHARE

The Company computes net loss per share in accordance with Statement of Financial Accounting Standard (SFAS) No. 128, "Earnings Per Share." Under the provisions of SFAS No. 128, basic net loss per share is computed by dividing the net loss for the period by the weighted average number of common shares outstanding during the period. Diluted net loss per share is computed by dividing the net loss for the period by the weighted average number of common and common equivalent shares outstanding during the period. Potentially dilutive securities composed of incremental common shares issuable upon the exercise of stock options and warrants, were excluded from historical diluted loss per share because of their anti-dilutive effect.

5. COMPREHENSIVE INCOME (LOSS)

Comprehensive income (loss) is calculated in accordance with SFAS No. 130, "Comprehensive Income." SFAS No. 130 requires the disclosure of all components of comprehensive income (loss), including net income (loss) and changes in equity during a period from transactions and other events and circumstances generated from non-owner sources. The Company's other comprehensive income (loss) consists of gains and losses on short-term investments and is reported in the statements of stockholders' equity. For the three months ended June 30, 2002 and 2001, comprehensive loss was \$17.8 million and \$13.0 million, respectively. For the six months ended June 30, 2002 and 2001 comprehensive loss was \$36.0 million and \$24.8 million, respectively.

6

6. REVENUE RECOGNITION

In accordance with Staff Accounting Bulletin (SAB) No. 101, "Revenue Recognition in Financial Statements," revenues under collaborative research agreements and grants are recognized as research costs are incurred over the period specified in the related agreement or as the services are performed. These agreements are on a best-efforts basis and do not require scientific achievement as a performance obligation and provide for payment to be made when costs are incurred or the services are performed. All fees are nonrefundable to the collaborators. Up-front, nonrefundable payments for license fees and advance payments for sponsored research revenues received in excess of amounts earned are classified as deferred revenue and recognized as income over the period earned. Milestone payments are recognized as revenue upon achievement of pre-defined scientific events. Revenues from government grants are recognized based on a percentage-of-completion basis as the related costs are incurred. The Company recognizes revenue only on payments that are nonrefundable and when the work is performed.

7. RESEARCH AND DEVELOPMENT EXPENSE

Research and development (R&D) expenses include related salaries, contractor fees, facilities costs, administrative expenses and allocations of corporate costs. All such costs are charged to R&D expense as incurred. These expenses result from our independent R&D efforts as well as efforts associated with collaborations, grants and in-licensing arrangements. In addition, we fund R&D at other companies and research institutions under agreements, which are generally cancelable. We review and accrue clinical trials expense based on work performed, which relies on estimates of total hours incurred and completion of certain events. We follow this method since reasonably dependable estimates of the costs applicable to various stages of a research agreement or clinical trial can be made. Accrued clinical costs are subject to revisions as trials progress to completion. Revisions are charged to expense in the period in which the facts that give rise to the revision become known.

8. NEW ACCOUNTING PRONOUNCEMENTS

In April 2002, the Financial Accounting Standards Board (FASB) issued SFAS No. 145, which rescinds FASB Statement No. 4, "Reporting Gains and Losses from Extinguishment of Debt," and an amendment of that Statement, FASB Statement No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements." This Statement also rescinds FASB Statement No. 44, "Accounting for Intangible Assets of Motor Carriers." This Statement amends FASB Statement No. 13, "Accounting for Leases," to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. This Statement also amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. The Company is required to adopt SFAS No. 145 in the first quarter of 2003 and management has determined that such adoption will not have a material impact on the financial statements.

ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management's Discussion and Analysis of Financial Condition and Results of Operations section contains forward-looking statements which involve risks and uncertainties, pertaining generally to the expected continuation of our collaborative agreements, the receipt of research payments thereunder, the future achievement of various milestones in product development and the receipt of payments related thereto, the potential receipt of royalty payments, pre-clinical testing and clinical trials of potential products, the period of time that our existing capital resources will meet our funding requirements, and our financial results and operations. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth below.

7

OVERVIEW

We incorporated in California in 1992 and reincorporated in Delaware in 1996. Since we were founded, we have been engaged in the discovery and development of novel pharmaceutical products for neurologic and endocrine diseases and disorders. Our product candidates address some of the largest pharmaceutical markets in the world including insomnia, anxiety, depression, cancer and diabetes. To date, we have not generated any revenues from the sale of products, and we do not expect to generate any product revenues until the FDA approves a drug candidate. Our lead drug candidate is in early stage phase III clinical trials, which we believe will be completed in 2003. We have funded our operations primarily through private and public offerings of our common stock and payments received under research and development agreements. We are developing a number of products with corporate collaborators and will rely on existing and future collaborators to meet funding requirements. We expect to generate future net losses in anticipation of significant increases in operating expenses as product candidates are advanced through the various stages of clinical development. As of June 30, 2002, we have incurred a cumulative deficit of \$142.9 million and expect to incur operating losses in the future, which may be greater than losses in prior years.

RESULTS OF OPERATIONS

Revenues for the second quarter of 2002 were \$4.2 million compared with \$3.3 million for the same period last year. The increase in revenues for the three months ended June 30, 2002, compared with the respective period in 2001, is primarily from revenues received under the GlaxoSmithKline (GSK) agreement offset by a decline in revenues received under the Taisho Pharmaceutical Co., Ltd. (Taisho) agreement. The GSK agreement started in Q3 of 2001 and provides for license fees, milestones and sponsored research & development funding. We recognized \$1.8 million in revenues this quarter under the GSK agreement. Revenues under the Taisho agreement, which provides for license fees, milestones and sponsored research & development funding, decreased to \$1.6 million this quarter from \$2.3 million for the same quarter last year. The decrease in revenue under the Taisho agreement is primarily due to timing of reimbursable development expenses and a potential restructuring of the collaboration agreement and licensed territories. The agreement, as amended in April 2002, provides that should Taisho terminate development of NBI-6024 prior to September 30, 2002, Taisho's monetary and development obligations under the agreement would terminate on September 30, 2002.

Research and development expenses increased to \$23.1 million for the second quarter of 2002 compared with \$16.1 million for the respective period in 2001. Increased expenses primarily reflect higher costs associated with expanding development activities, in particular the Indiplon phase III program (for insomnia). We expect to incur significant increases in future periods as later phases of development typically involve an increase in the scope of studies, the number of patients treated and the number of scientific personnel required to manage the trials.

General and administration expenses increased to \$3.2 million for the second quarter of 2002 compared with \$2.9 million during the same period last year. We expect general and administrative costs to increase moderately this year to provide continued support on research and clinical development efforts.

Interest income increased to \$2.3 million during the second quarter of 2002 compared to \$2.1 million for the same period last year. The increase is primarily due to higher investment balances, partially offset by declining interest rate yields during the second quarter of 2002 compared to the same period last year. Investment balances in 2002 were increased by the sale of 4.0 million shares of our common stock in a December 2001 public offering. Net proceeds received from the offering were \$175.6 million. Due to lower interest rates, we expect interest income for this year to be similar to that of last year.

Net loss for the second quarter of 2002 was \$19.8 million, or \$0.65 per share, compared to \$13.3 million, or \$0.52 per share, for the same period in 2001. The increase in net loss resulted primarily from the expanded clinical programs, primarily our insomnia program. Net losses are expected to increase this year as our programs continue to advance through the various stages of the research and clinical development processes.

To date, the Company's revenues have come from funded research and achievements of milestones under corporate collaborations. The nature and amount of these revenues from period to period may lead to substantial fluctuations in the results of quarterly revenues and earnings. Accordingly, results and earnings of one period are not predictive of future periods. Revenues from collaborations accounted for 89% and 93% for the quarters ended June 30, 2002 and 2001, respectively.

SIX MONTHS ENDED JUNE 30, 2002 AND 2001

Revenues for the six months ended June 30, 2002 were \$9.2 million compared with \$6.8 million in 2001. The increase in revenues for the six months ended June 30, 2002 resulted primarily from revenues received under the GSK agreement offset by a decline in revenues received under the Taisho and Wyeth agreements. Under the GSK agreement, effective July 2001, we recognized \$3.7 million in revenue for the six months ended June 30, 2002. Revenue under the Taisho agreement decreased to \$3.9 million from \$4.4 million for the six months ended June 30, 2002 and 2001, respectively. The decrease in revenue under the Taisho agreement is primarily due to timing of reimbursable development expenses and a potential restructuring of the collaboration agreement and licensed territories. The agreement, as amended in April 2002, provides that should Taisho terminate development of NBI-6024 prior to September 30, 2002, Taisho's monetary and development obligations under the agreement would terminate on September 30, 2002. Revenue under the Wyeth agreement decreased to \$758,000 this period compared to \$1.5 million during the same period last year. The three-year sponsored research portion of the Wyeth agreement was completed on schedule in December 2001 and was subsequently extended on a smaller scale through December 2002.

Research and development expenses increased to \$43.1 million for the first six months of 2002 compared with \$31.3 million for the respective period in 2001. Increased expenses primarily reflect higher costs associated with expanding development activities, in particular the Indiplon Phase III program (for insomnia). We expect to incur significant increases in future periods as later phases of development typically involve an increase in the scope of studies, the number of patients treated and the number of scientific personnel required to manage the clinical trials.

General and administration expenses increased to \$5.9 million for the six months ended June 30, 2002 compared with \$5.2 million during the same period last year. We expect general and administration costs to increase moderately this year as we continue to expand our support in research and clinical development.

Interest income decreased to \$4.3 million for the six months ended June 30, 2002 compared to \$4.7 million for the same period last year. The decrease is primarily due to declining interest rate yields, partially offset by higher investment balances during the first half of 2002 compared to the same period last year. Investment balances in 2002 were increased by the sale of 4.0 million shares of our common stock in a December 2001 public offering. Net proceeds received from the offering were \$175.6 million. Due to lower interest rates, we expect interest income for this year to be similar to that of last year.

Net loss for the first six months of 2002 was \$35.5 million, or \$1.17 per share, compared to \$24.8 million, or \$0.97 per share, for the same period in 2001. The increase in net loss resulted primarily from the expanded testing of our seven clinical programs and the addition of scientific and clinical development personnel. Net losses are expected to increase this year as our programs continue to advance through the various stages of the research and clinical development processes.

To date, the Company's revenues have primarily come from funded research and achievements of milestones under corporate collaborations. The nature and amount of these revenues from period to period may lead to substantial fluctuations in the results of quarterly revenues and earnings. Accordingly, results and earnings of one period are not predictive of future periods. Revenues from collaborations accounted for 90% and 92% for the six months ended June 30, 2002 and 2001, respectively.

At June 30, 2002, our cash, cash equivalents, and short-term investments totaled \$287.5 million compared with \$320.0 million at December 31, 2001. The decrease in cash balances at June 30, 2002 resulted primarily from the funding of research and development efforts, in particular, the support of multiple products in late phases of clinical development.

Net cash used in operating activities during the six months ended June 30, 2002 was \$31.9 million compared with \$20.6 million during the same period last year. The increase in cash used in operations resulted primarily from the increase in clinical development activities.

Net cash used in investing activities during the six months ended June 30, 2002 was \$85.5 million compared to net cash provided by investing activities of \$22.6 million for the same period last year. This fluctuation resulted primarily from the timing differences in the investment purchases, sales, maturities and the fluctuations in our portfolio mix between cash equivalents and short-term investment holdings. We expect similar fluctuations to continue in future periods. Capital equipment purchases for 2002 are expected to be approximately \$6.9 million and will be financed primarily through leasing arrangements.

Net cash provided by financing activities during the first six months of 2002 was \$1.3 million compared with \$2.4 million for the respective period last year. Cash proceeds from the issuance of common stock under option and employee purchase programs was \$1.4 million and \$2.1 million in the six months ended June 30, 2002 and 2001, respectively. We expect similar fluctuations to occur throughout the year, as the amount and frequency of stock-related transactions are dependent upon the market performance of our common stock.

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, we cannot guarantee that these capital resources and payments will be sufficient to conduct our research and development programs as planned. The amount and timing of expenditures will vary depending upon a number of factors, including progress of our research and development programs.

We will require additional funding to continue our research and product development programs, to conduct pre-clinical studies and clinical trials, for operating expenses, to pursue regulatory approvals for our product candidates, for the costs involved in filing and prosecuting patent applications and enforcing or defending patent claims, if any, the cost of product in-licensing and any possible acquisitions, and we may require additional funding to establish manufacturing and marketing capabilities in the future. We may seek to access the public or private equity markets whenever conditions are favorable. We may also seek additional funding through strategic alliances and other financing mechanisms. We cannot assure you that adequate funding will be available on terms acceptable to us, if at all. If adequate funds are not available, we may be required to curtail significantly one or more of our research or development programs or obtain funds through arrangements with collaborators or others. This may require us to relinquish rights to certain of our technologies or product candidates.

We expect to incur operating losses over the next several years as our research, development, pre-clinical studies and clinical trial activities increase. To the extent that we are unable to obtain third party funding for such expenses, we expect that increased expenses will result in increased losses from operations. We cannot assure you that we will be successful in the development of our product candidates, or that, if successful, any products marketed will generate sufficient revenues to enable us to earn a profit.

INTEREST RATE RISK

We are exposed to interest rate risk on our short-term investments. The primary objective of our investment activities is to preserve principal while at the same time maximizing yields without significantly increasing risk. To achieve this objective, we invest in highly liquid and high quality government and other debt securities. To minimize our exposure due to adverse shifts in interest rates, we invest in short-term securities and ensure that the maximum average maturity of our investments does not exceed 40 months. If a 10% change in interest rates were to have occurred on June 30, 2002, this change would not have had a material effect on the fair value of our investment portfolio as of that date. Due to the short holding period of our investments, we have concluded that we do not have a material financial market risk exposure.

CAUTION ON FORWARD-LOOKING STATEMENTS

Our business is subject to significant risks, including but not limited to, the risks inherent in our research and development activities, including the successful continuation of our strategic collaborations, the successful completion of clinical trials, the lengthy, expensive and uncertain process of seeking regulatory approvals, uncertainties associated both with the potential infringement of patents and other intellectual property rights of third parties, and with obtaining and enforcing our own patents and patent rights, uncertainties regarding government reforms and of product pricing and reimbursement levels, technological change and competition, manufacturing uncertainties and dependence on third parties. Even if our product candidates appear promising at an early stage of development, they may not reach the market for numerous reasons. Such reasons include the possibilities that the product will be ineffective or unsafe during clinical trials, will fail to receive necessary regulatory approvals, will be difficult to manufacture on a large scale, will be uneconomical to market or will be precluded from commercialization by proprietary rights of third parties. For more information about the risks we face, see "Risk Factors" included in Part I of our Form 10-K filed with the SEC.

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

A discussion of the Company's exposure to, and management of, market risk appears in Part I, Item 2 of this Quarterly Report on Form 10-Q under the heading "Interest Rate Risk."

PART II. OTHER INFORMATION

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

- A. The Company's Annual Meeting of Stockholders was held on May 23, 2002 (the "Annual Meeting").
- B. The following Class III Directors were elected at the Annual Meeting:

<u>Name</u>	<u>Position</u>	<u>Term Expires</u>
Gary A. Lyons	Class III Director	2005

The following Class I and II Directors continue to serve their respective terms which expire on the Company's Annual Meeting of Stockholders in the year as noted:

<u>Name</u>	<u>Position</u>	<u>Term Expires</u>
Joseph A. Mollica	Class I Director	2003
Wylie W. Vale	Class I Director	2003
Stephen A. Sherwin	Class II Director	2004
Richard F. Pops	Class II Director	2004

11

C. At the Annual Meeting, stockholders voted on five matters: (i) the election of two Class III Directors for a term of three years expiring in 2005, (ii) the amendment of the 1992 Incentive Stock Plan to increase the number of shares of common stock reserved for issuance thereunder from 6,800,000 to 7,500,000 shares, (iii) the amendment of the 1996 Employee Stock Purchase Plan to increase the number of shares of common stock reserved for issuance from 525,000 to 625,000 shares, (iv) the amendment of the 1996 Director Option Plan to increase the number of shares of common stock reserved for issuance from 300,000 to 400,000 shares, and (v) the ratification of the appointment of Ernst & Young LLP as the Company's independent auditors for the fiscal year ending December 31, 2002. The voting results were as follows:

i.	The election of two Class III Directors for a term of three years:		
	Gary A. Lyons	For 25,442,429	Withhold 611,968
	Lawrence Steinman	For 25,418,129	Withhold 636,268
ii.	Approval to amend the Company's 1992 Incentive Stock Plan, increasing the number of shares of common stock reserved for issuance from 6,800,000 to 7,500,000 shares:		
	For 19,679,326	Against 6,338,759	Abstain 36,312
iii.	Approval to amend the Company's 1996 Employee Stock Purchase Plan, increasing the number of shares of common stock reserved for issuance from 525,000 to 625,000 shares:		
	For 25,611,033	Against 414,269	Abstain 29,095
iv.	Approval to amend the Company's 1996 Director Option Plan, increasing the number of shares of common stock reserved for issuance from 300,000 to 400,000 shares:		
	For 23,504,682	Against 2,411,674	Abstain 138,041
v.	Ratification of the appointment of Ernst & Young LLP as independent auditors for the fiscal year ending December 31, 2002:		
	For 25,605,956	Against 435,296	Abstain 13,145

ITEM 6: EXHIBITS AND REPORTS ON FORM 8-K

A. EXHIBITS. The following exhibit is filed as part of this report:

Exhibit Number

4.1 Neurocrine Biosciences, Inc. 2001 Stock Option Plan, as amended

B. Reports on Form 8-K. There were no current reports on Forms 8-K filed this quarter.

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: August 14, 2002

/s/Paul W. Hawran

Paul W. Hawran
Executive Vice President and
Chief Financial Officer
(Duly authorized Officer and
Principal Financial Officer)

12

2001 STOCK OPTION PLAN

1. **Purpose of the Plan.** The purposes of this Incentive Stock Plan are to attract and retain the best available personnel, to provide additional incentive to the employees of Neurocrine Biosciences, Inc. (the "Company") and to promote the success of the Company's business.
2. **Definitions.**
 - a. "Board" shall mean the Committee, if one has been appointed, or the Board of Directors of the Company, if no Committee is appointed.
 - b. "Code" shall mean the Internal Revenue Code of 1986, as amended.
 - c. "Committee" shall mean the Committee appointed by the Board of Directors in accordance with Section 4(a) of the Plan, if one is appointed.
 - d. "Common Stock" shall mean the common stock, \$.001 per share, of the Company.
 - e. "Company" shall mean Neurocrine Biosciences, Inc.
 - f. "Consultant" shall mean any person who is engaged by the Company or any Parent or Subsidiary to render consulting services and is compensated for such consulting services, and any director of the Company whether compensated for such services ; provided that (i) such person renders bona fide services to the Company, (ii) the services rendered by such person are not in connection with the offer or sale of securities in a capital-raising transaction and do not directly or indirectly promote or maintain a market for the Company's securities, and (iii) such person is a natural person who has contracted directly with the Company to render such services. However, the term "Consultant" shall not include members of the Board of Directors of the Company who are either not compensated by the Company for their services as directors or who are merely paid a fee by the Company for their services as directors.
 - g. "Continuous Status as an Employee or Consultant" shall mean the absence of any interruption or termination of service as an Employee or Consultant, as applicable. Continuous Status as an Employee or Consultant shall not be considered interrupted in the case of sick leave, military leave, or any other leave of absence approved by the Board; provided that such leave is for a period of not more than ninety (90) days or reemployment upon the expiration of such leave is guaranteed by contract or statute. Continuous Service shall not be deemed to have terminated merely because of a change in the capacity in which the Optionee renders service to the Company as an Employee or Consultant, provided that the Optionee's service is continuous.
 - h. "Employee" means any person employed by the Company. Mere service as a member of the Board of Directors or payment of a director's fee by the Company shall not be sufficient to constitute "employment" by the Company.
 - i. "Fair Market Value" means, as of any date, the value of the Common Stock determined as follows:
 - i. If the Common Stock is listed on any established stock exchange or traded on the Nasdaq National Market or the Nasdaq SmallCap Market, the Fair Market Value of a share of Common Stock shall be the closing sales price for such stock (or the closing bid, if no sales were reported) as quoted on such exchange or market (or the exchange or market with the greatest volume of trading in the Common Stock) on the last market trading day prior to the day of determination, as reported by The Nasdaq Stock Market or such other source as the Board deems reliable.
 - ii. In the absence of such markets for the Common Stock, the Fair Market Value shall be determined in good faith by the Board.
 - j. "Nonstatutory Stock Option" shall mean an Option not intended to qualify as an incentive stock option within the meaning of Section 422 of the Code.
 - k. "Officer" means a President, Secretary, Treasurer, Chairman of the Board, Vice President, Assistant Secretary or Assistant Treasurer of the Company, as such positions are described in the Company's Bylaws, any other person designated an "officer" of the Company by the Board of Directors in accordance with the Company's Bylaws or any person who is an "officer" within the meaning of Rule 16a-1(f) under the Securities Exchange Act of 1934, as amended, or Nasdaq Marketplace Rule 4350(i)(1)(A).
 - l. "Option" shall mean a stock option granted pursuant to the Plan.
 - m. "Optioned Stock" shall mean the Common Stock subject to an Option or Stock Purchase Right.
 - n. "Optionee" shall mean an Employee or Consultant who receives an Option.
 - o. "Parent" shall mean a "parent corporation," whether now or hereafter existing, as defined in Section 424(e) of the Code.
 - p. "Plan" shall mean this 2001 Incentive Stock Plan.
 - q. "Purchaser" shall mean an Employee or Consultant who exercises a Stock Purchase Right.

r. "Share" shall mean a share of the Common Stock, as adjusted in accordance with Section 12 of the Plan.

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

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

3. **Stock Subject to the Plan.** Subject to the provisions of Section 12 of the Plan, the maximum aggregate number of shares that may be issued upon exercise of Options and Stock Purchase Rights under the Plan is seven hundred fifty thousand (750,000) shares of Common Stock. The Shares may be authorized but unissued, or reacquired Common Stock. If an Option or Stock Purchase Right should expire or become unexercisable for any reason without having been exercised in full, then the unpurchased Shares which were subject thereto shall, unless the Plan shall have been terminated, become available for future grant or sale under the Plan. Notwithstanding any other provision of the Plan, shares issued under the Plan and later repurchased by the Company shall not become available for future grant or sale under the Plan.

4. **Administration of the Plan.**

a. **Procedure.**

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

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

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

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

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

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

5. **Eligibility.**

a. Options and Stock Purchase Rights may be granted to Employees and Consultants. An Employee or Consultant who has been granted an Option or Stock Purchase Right may, if such Employee or Consultant is otherwise eligible, be granted additional Option(s) or Stock Purchase Right(s). Notwithstanding anything herein to the contrary, the aggregate number of shares issued or reserved for issuance pursuant to Options granted to persons other than Officers must exceed fifty percent (50%) of the total number of shares issued or reserved for issuance pursuant to Options granted under the Plan as determined on the three-year anniversary of the adoption of the Plan by the Board and on each yearly anniversary of the adoption of the Plan thereafter.

b. Each Option shall be designated in the written option agreement as a Nonstatutory Stock Option.

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

d. A Consultant shall not be eligible for the grant of an Option if, at the time of grant, a Form S-8 Registration Statement under the Securities Act ("Form S-8") is not available to register either the offer or the sale of the Company's securities to such Consultant because of the nature of the

services that the Consultant is providing to the Company, or because the Consultant is not a natural person, or as otherwise provided by the rules governing the use of Form S-8, unless the Company determines both (i) that such grant (A) shall be registered in another manner under the Securities Act (e.g., on a Form S-3 Registration Statement) or (B) does not require registration under the Securities Act in order to comply with the requirements of the Securities Act, if applicable, and (ii) that such grant complies with the securities laws of all other relevant jurisdictions

6. **Term of Plan.** The Plan shall become effective upon the earlier to occur of its adoption by the Board of Directors. It shall continue in effect for a term of ten (10) years unless sooner terminated under Section 14 of the Plan.

7. **Exercise Price and Consideration.**

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

i. the per Share exercise price shall be no less than the par value per Share on the date of grant.

b. The consideration to be paid for the Shares to be issued upon exercise of an Option or Stock Purchase Right, including the method of payment, shall be determined by the Board and may consist entirely of cash, check, promissory note bearing a market rate of interest, other Shares of Common Stock which (i) either have been owned by the Optionee for more than six (6) months on the date of surrender or were not acquired directly or indirectly, from the Company, and (ii) have a Fair Market Value on the date of surrender equal to the aggregate exercise price of the Shares as to which said Option shall be exercised, or any combination of such methods of payment, or such other consideration and method of payment for the issuance of Shares as may be permitted under applicable law.

8. **Term of Option.** The term of each Option shall be the term stated in the Option Agreement; provided, however, that the term shall be no more than ten (10) years from the date of grant thereof.

9. **Exercise of Option.**

a. **Procedure for Exercise; Rights as a Shareholder.**

i. Any Option granted hereunder shall be exercisable at such times and under such conditions as determined by the Board, including performance criteria with respect to the Company and/or the Optionee, and as shall be permissible under the terms of the Plan.

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

iii. An Option shall be deemed to be exercised when written notice of such exercise has been given to the Company in accordance with the terms of the Option by the person entitled to exercise the Option and full payment for the Shares with respect to which the Option is exercised has been received by the Company. Full payment may, as authorized by the Board, consist of any consideration and method of payment allowable under Section 7 of, the Plan. Until the issuance (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company) of the stock certificate evidencing such Shares no right to vote or receive dividends or any other rights as a shareholder shall exist with respect to the Optioned Stock, notwithstanding the exercise of the Option. The Company shall issue (or cause to be issued) such stock certificate promptly upon exercise of the Option. No adjustment will be made for a dividend or other right for which the record date is prior to the date the stock certificate is issued, except as provided in Section 12 of the Plan.

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

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

c. **Disability of Optionee.** Notwithstanding the provisions of Section 8(b)(ii) above, in the event of termination of an Optionee's Continuous Status as an Employee or Consultant as a result of such Employee's or Consultant's total and permanent disability (as defined in Section 22(e)(3) of the Code), such Employee or Consultant may, but only within six (6) months (or such other period of time as is determined by the Board) from the date of such termination (but in no event later than the date of expiration of the term of such Option as set forth in the Option Agreement), exercise the Option to the extent the right to exercise would have accrued had the Optionee continued Continuous Status as an Employee or Consultant for a period of six (6) months following termination of Continuous Status by reason of disability. To the extent that such Employee or Consultant was not entitled to exercise an Option in this period, or if such Employee or Consultant does not exercise such Option (which such Employee or Consultant was entitled to exercise) within the time specified herein, the Option shall terminate.

d. **Retirement of Optionee.** Notwithstanding the provisions of Section 8(b)(ii) above, in the event of termination of an Employee Optionee's Continuous Status as an Employee as a result of such Employee's retirement from the Company at age fifty five (55) or greater after having Continuous Status for (5) years or more, all Options held by such Optionee shall vest and such Employee may, but only within three (3) years from the date of such termination (but in no event later than the date of expiration of the term of such Option as set forth in the Option Agreement),

exercise the Option to the extent such Employee was entitled to exercise it at the date of such termination.

e. **Death of Optionee.** In the event of the death of an Optionee:

- i. during the term of the Option who is at the time of his or her death an Employee or Consultant of the Company and who shall have been in Continuous Status as an Employee or Consultant since the date of grant of the Option, the Option may be exercised, at any time within six (6) months (or at such later time as may be determined by the Board but in no event later than the date of expiration of the term of such Option as set forth in the Option Agreement), by the Optionee's estate or by a person who acquired the right to exercise the Option by bequest or inheritance, but only to the extent that the right to exercise would have accrued had the Optionee continued living and remained in Continuous Status as an Employee or Consultant six (6) months (or such other period of time as is determined by the Board) after the date of death; or
- ii. within thirty (30) days (or such other period of time as is determined by the Board), after the termination of Continuous Status as an Employee or Consultant, the Option may be exercised, at any time within six (6) months (or such other period of time as is determined by the Board at the time of grant of the Option) following the date of death (but in no event later than the date of expiration of the term of such Option as set forth in the Option Agreement), by the Optionee's estate or by a person who acquired the right to exercise the Option by bequest or inheritance, but only to the extent that the right to exercise that had accrued at the date of termination.

10. **Stock Purchase Rights.**

- a. **Rights to Purchase.** After the Board of Directors determines that it will offer an Employee or Consultant a Stock Purchase Right, it shall deliver to the offeree a stock purchase agreement or stock bonus agreement, as the case may be, setting forth the terms, conditions and restrictions relating to the offer, including the number of Shares which such person shall be entitled to purchase, and the time within which such person must accept such offer, which shall in no event exceed six (6) months from the date upon which the Board of Directors or its Committee made the determination to grant the Stock Purchase Right. The offer shall be accepted by execution of a stock purchase agreement or stock bonus agreement in the form determined by the Board of Directors.
- b. **Issuance of Shares.** Forthwith after payment therefor, the Shares purchased shall be duly issued; provided, however, that the Board may require that the Purchaser make adequate provision for any Federal and State withholding obligations of the Company as a condition to the Purchaser purchasing such Shares.
- c. **Repurchase Option.** Unless the Board determines otherwise, the stock purchase agreement or stock bonus agreement shall grant the Company a repurchase option exercisable upon the voluntary or involuntary termination of the Purchaser's employment with the Company for any reason (including death or disability). If the Board so determines, the purchase price for shares repurchased may be paid by cancellation of any indebtedness of the Purchaser to the Company. The repurchase option shall lapse at such rate as the Board may determine.
- d. **Other Provisions.** The stock purchase agreement or stock bonus agreement shall contain such other terms, provisions and conditions not inconsistent with the Plan as may be determined by the Board of Directors.

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

12. **Adjustments upon Changes in Capitalization or Merger.**

- a. **Changes in Capitalization.** Subject to any required action by the shareholders of the Company, the number of shares of Common Stock covered by each outstanding Option or Stock Purchase Right, and the number of shares of Common Stock which have been authorized for issuance under the Plan but as to which no Options or Stock Purchase Rights have yet been granted or which have been returned to the Plan upon cancellation or expiration of an Option or Stock Purchase Right, as well as the price per share of Common Stock covered by each such outstanding Option or Stock Purchase Right, shall be proportionately adjusted for any increase or decrease in the number of issued shares of Common Stock resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Common Stock, or any other increase or decrease in the number of issued shares of Common Stock effected without receipt of consideration by the Company. The conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." Such adjustment shall be made by the Board, whose determination in that respect shall be final, binding and conclusive. Except as expressly provided herein, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares of Common Stock subject to an Option or Stock Purchase Right.
- b. **Dissolution or Liquidation.** In the event of the proposed dissolution or liquidation of the Company, the Administrator shall notify the Optionee or Purchaser at least fifteen (15) days prior to such proposed action. To the extent it has not been previously exercised, the Option or Stock Purchase Right shall terminate immediately prior to the consummation of such proposed action.
- c. **Merger or Asset Sale.** In the event of a merger, sale of all or substantially all of the assets of the Company, tender offer or other transaction or series of related transactions resulting in a change of ownership of more than fifty percent (50%) of the voting securities of the Company ("Change in Control"), approved by the majority of the members of the Board on the Board prior to the commencement of such Change in Control, each outstanding Option shall be assumed or an equivalent option or right substituted by the successor corporation or a Parent or Subsidiary of the successor corporation; provided however, in the event that within one year of the date of the completion of the Change in Control, the successor corporation or a Parent or Subsidiary of the successor corporation terminates the employment of an Optionee without Cause (as defined below),

such Optionee shall fully vest in and have the right to exercise the options assumed or substituted for the Option as to all of the Optioned Stock, including Shares as to which it would not otherwise be exercisable. In the event that the successor corporation refuses to assume or substitute for the Option, the Optionee shall fully vest in and have the right to exercise the Option as to all of the Optioned Stock, including Shares as to which it would not otherwise be exercisable. If an Option becomes fully vested and exercisable in lieu of assumption or substitution in the event of a Change of Control, the Administrator shall notify the Optionee in writing or electronically that the Option shall be fully vested and exercisable for a period of fifteen (15) days from the date of such notice, and the Option shall terminate upon the expiration of such period. For the purposes of this paragraph, the Option shall be considered assumed if, following the Change of Control, the option confers the right to purchase, for each Share of Optioned Stock subject to the Option immediately prior to the Change in Control, the consideration (whether stock, cash, or other securities or property) received in the Change of Control by holders of Common Stock for each Share held on the effective date of the transaction (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding Shares); provided, however, that if such consideration received in the Change of Control is not solely common stock of the successor corporation or its Parent, the Administrator may, with the consent of the successor corporation, provide for the consideration to be received upon the exercise of the Option, for each Share of Optioned Stock subject to the Option, to be solely common stock of the successor corporation or its Parent equal in fair market value to the per share consideration received by holders of Common Stock in the Change of Control. For purposes of this paragraph, termination shall be for "Cause" in the event of the occurrence of any of the following: (a) any intentional action or intentional failure to act by employee which was performed in bad faith and to the material detriment of the successor corporation or its Parent or Subsidiary; (b) employee willfully and habitually neglects the duties of employment; or (c) employee is convicted of a felony crime involving moral turpitude, provided that in the event that any of the foregoing events is capable of being cured, the successor corporation or its Parent or Subsidiary shall provide written notice to the employee describing the nature of such event and the employee shall thereafter have five (5) business days to cure such event.

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

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

14. **Amendment and Termination of the Plan.**

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

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

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

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

16. **Reservation of Shares.** The Company, during the term of this Plan, will at all times reserve and keep available such number of Shares as shall be sufficient to satisfy the requirements of the Plan. The inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder, shall relieve the Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority shall not have been obtained.

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

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