SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2000

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

For the transition period from _____ to _____

Commission File Number 000-28782

NEOTHERAPEUTICS, INC.
(Name of Registrant as Specified in its Charter)

DELAWARE (State or other jurisdiction of incorporation or organization)	93-0979187 (I.R.S. Employer Identification No.)
157 TECHNOLOGY DRIVE IRVINE, CALIFORNIA (Address of principal executive offices)	92618 (Zip Code)
Registrant's telephone number, including area code:	(949) 788-6700

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT: None

SECURITIES REGISTERED PURSUANT TO SECTION 12 (g) OF THE ACT:

Common Stock, $.001 par value
Common Stock Purchase Warrants

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 past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

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

The aggregate market value of the voting common equity held by non-affiliates of the registrant as of March 30, 2001 was $78,389,809.

As of March 30, 2001, there were 17,255,319 shares of the registrant's common stock outstanding.

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This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified. The Company's actual results may differ materially from the results projected in the forward-looking statements. Factors that might cause such a difference include, but are not limited to, those discussed in "ITEM 1 - Business," including the section therein entitled "Risk Factors," and in "ITEM 7 - - Management's Discussion and Analysis of Financial Condition and Results of Operations." Forward-looking statements generally can be identified by the use of forward-looking terminology such as "believes," "may," "will," "expects," "intends," "estimates," "anticipates," "plans," "seeks," or "continues," or the negative thereof or variations thereon or similar terminology.

PART I

ITEM 1. BUSINESS

GENERAL

NeoTherapeutics, Inc. is a development stage biopharmaceutical company engaged in the discovery and development of novel therapeutic drugs intended to treat neurological diseases such as memory deficits associated with Alzheimer's disease and aging, spinal cord injuries, Parkinson's disease, and other neurodegenerative and psychiatric diseases. We have also recently become engaged in research involving functional genomics and the development of oncology drugs. Our lead product candidate, Neotrofin(TM) (AIT-082, leteprinim potassium), and other compounds under development, are based on our patented technology. This technology uses small synthetic molecules to create non-toxic compounds, intended to be administered orally or by injection, that are capable of passing through the blood-brain barrier to rapidly act upon specific target cells in specific locations in the central nervous system, including the brain. Animal and laboratory tests have shown that Neotrofin(TM) appears to selectively increase the production of certain neurotrophic factors, a type of large protein, in selected areas of the brain and in the spinal cord. These neurotrophic factors regulate nerve cell growth and function. Our technology has been developed to capitalize on the beneficial effects of these proteins, which have been widely acknowledged to be closely involved in the early formation and differentiation of the central nervous system. We believe that Neotrofin(TM) could have therapeutic and regenerative effects.

Our developmental activities to date have benefited from a close association with the National Institutes of Health ("NIH"). The NIH's National Institute on Aging ("NIA") contracted for, and funded a portion of, the pre-clinical studies on our Neotrofin(TM) compound, including toxicity studies. The NIA also funded and conducted two Phase 1 clinical trials under the auspices of its Alzheimer's Disease Cooperative Study ("ADCS"), a consortium of approximately 35 highly regarded clinical centers throughout the United States. The NIH's National Institute for Mental Health ("NIMH") also supported our development efforts by contracting and providing funds, along with the NIA, for the production of sufficient quantities of the Neotrofin(TM) compound to conduct some pre-clinical toxicity testing and the two Phase 1 human clinical trials conducted by the ADCS.

In June 1997, an Investigational New Drug Application ("IND") for Neotrofin(TM) was approved by the U.S. Food and Drug Administration ("FDA") and Phase 1 human clinical testing in the United States for the treatment of Alzheimer's disease began. We have since received regulatory approval to conduct human clinical trials in additional countries. We believe that Neotrofin(TM) is the first orally active drug to enter human clinical trials that is specifically designed to address the issue of nerve regeneration. In pre-clinical studies in animals, Neotrofin(TM) has been shown to induce the production of multiple neurotrophic factors in the brain and spinal cord. These factors have been reported to induce the multiplication and functional maturation, in the brain, of cholinergic neurons, those neurons known to die in patients with Alzheimer's disease. We believe that Neotrofin(TM) was the first compound in human clinical trials that has activated, in animals, multiple genes to produce multiple neurotrophic factors in the specific areas of the brain associated with memory loss or other deficits.

In September 1999, we entered into a collaborative research agreement with the University of California, Irvine. This agreement grants us the exclusive right to all technology developed by Dr. Olivier Civelli through his research into functional genomics and orphan receptors, in exchange for royalty payments for the use of such technology. Dr. Civelli's research and technology complement our own research and development efforts and may enable us to offer a greater number of drugs that more effectively address a broad array of neurological diseases and conditions.

In November 2000, we formed a subsidiary, NeoOncoRx, Inc., under the direction of a leader in oncology drug development, Luigi Lenaz, M.D., for the purpose of in-licensing late-stage oncology products. We intend to use Dr. Lenaz's experience to complete development and to commercialize these products.

We were incorporated in Colorado in December 1987. On August 7, 1996, we changed our name from Americus

Funding Corporation to NeoTherapeutics, Inc. In June 1997, our stockholders approved the reincorporation of NeoTherapeutics, Inc. as a Delaware corporation. Our wholly-owned subsidiary, Advanced ImmunoTherapeutics, Inc. ("AIT"), was incorporated as a California corporation in June 1987. In July 1989, in a transaction accounted for as a reverse acquisition, all of the stockholders of AIT exchanged all of their shares of AIT common stock for shares of our common stock, and AIT became our wholly-owned subsidiary. In April 1997, we established NeoTherapeutics GmbH ("NEOT GmbH"), as our wholly-owned subsidiary in Switzerland, for the purpose of conducting future licensing and other related activities in the international market. Our third subsidiary, NeoGene Technologies, Inc. ("NeoGene") was incorporated in California in October, 1999, for the purpose of commercializing functional genomics technologies being developed with the University of California, Irvine. Our fourth subsidiary, NeoOncoRx, Inc. ("NeoOncoRx") was incorporated in California in November, 2000 for the purpose of commercializing drugs for the treatment of cancer. At March 30, 2001, NeoGene and NeoOncoRx were 76% and 90% owned by NeoTherapeutics, Inc., respectively. Unless the context otherwise requires, all references to the "Company", "We", "Our", "Us" and "NeoTherapeutics" refer to NeoTherapeutics, Inc., a Delaware corporation, AIT, NEOT GmbH, NeoGene, and NeoOncoRx as a consolidated entity.

INTRODUCTION TO THE CENTRAL NERVOUS SYSTEM

The human brain contains some 10 billion nerve cells, or neurons, each of which has connections with many other neurons. Sensory, motor and cognitive activities are all governed by this complex network of neurons, each member of which communicates with other neurons across junctions known as "synapses." Communication between neurons involves chemical "messengers" known as neurotransmitters, which are released by the sending neuron, diffuse across a small gap, and bind to corresponding receptors on the receiving neuron. Abnormal neuronal communication has been implicated in a range of psychiatric and neurological disorders, including memory deficits, schizophrenia, depression, anxiety, Parkinson's disease and eating disorders.

The treatment of many diseases is facilitated by cell regeneration, a natural component of human healing. However, in the highly complex realm of neurological diseases, treatment is more difficult because neurons may not naturally regenerate efficiently after maturity. Currently available drugs for the treatment of such significant neurological disorders as Alzheimer's and Parkinson's diseases act by increasing or replacing supplies of critical neurotransmitters, but provide time-limited benefits at best. These benefits are limited because the eventual loss of neuronal cells without regeneration means there are eventually few nerve cells for those neurotransmitters to activate.

Much of neuroscience-oriented biotechnology research centers on the investigation of certain proteins, known as neurotrophic factors, which are necessary to the early development of neurons, as well as their long-term maintenance and survival. These substances are involved in the fundamental formation and shaping of the nervous system. Given their role in the early neuron development and maintenance, it has been hypothesized that these neurotrophic factors could be used in the treatment of neurodegenerative diseases.

Since neurons do not naturally regenerate completely following damage or disease, substantial research has been conducted by academic researchers and by the pharmaceutical industry in developing these factors as possible treatments for a variety of neurological disorders. To date, the usefulness of these factors has been limited by their inability to pass the blood-brain barrier, which serves as a "filter" to keep molecules larger than a certain size from leaving the bloodstream and entering the brain and spinal cord. Therefore, neurotrophic factors, which are large protein molecules, cannot be administered orally or through injection into the bloodstream for the treatment of diseases of the central nervous system.

The approach NeoTherapeutics has taken is to find small molecules which can pass through the blood-brain barrier and which can be administered orally or through injection. Our small-molecule approach, if successful, could lead to the development of compounds which can either mimic the actions of the larger molecule neurotrophic factors or stimulate the production of such factors within the brain, after administration either orally or through injection. We believe that such a development could represent a major advance in the treatment of neurological disorders.

OUR DRUG DEVELOPMENT STRATEGY

We are engaged in research that has primarily focused on the development of new drugs that act on the nervous system to treat neurological and psychiatric diseases and conditions, such as memory deficits associated with Alzheimer's disease and aging, spinal cord injuries and Parkinson's disease, and other neurodegenerative and psychiatric conditions.

Our scientific strategy is the synthesis of proprietary chemical molecules that modify specific biological processes in the body. The methods by which the molecules are synthesized are proprietary and we have patented specific molecules and their methods of use. Our first drug discovery platform was based upon the use of hypoxanthine, a natural non-toxic purine compound which is contained in the genetic material of all living matter. Hypoxanthine is chemically linked to a variety of other molecules in order to produce our proprietary series of compounds. The various molecules that are linked to hypoxanthine are selected from known drugs or naturally-occurring molecules that have established therapeutic activity, producing a potentially bi-functional compound. These compounds exhibit certain functional features of both

hypoxanthine and the linked therapeutic compounds. Chemical and behavioral studies have given us reason to believe that this compound synthesis and selection process increases the probability that our new compounds will retain the actions exhibited by their "parent" molecules. We have also initiated additional platforms of new drugs based on other purine compounds.

We synthesize new compounds and conduct the early testing to establish therapeutic potential necessary to obtain patents on new compounds. We have conducted pre-clinical testing of the safety and efficacy of certain of our compounds and intend to file an IND for each such compound which shows therapeutic potential. With respect to our Neotrofin compound, some clinical trials have been completed, others are in progress, and we intend to conduct additional clinical trials. We intend to seek out established pharmaceutical companies as partners for the development, manufacture and marketing of certain of our compounds.

PRODUCTS IN DEVELOPMENT

The table below summarizes the primary or possible indications and development status for some of our current research and development programs.

PRODUCT	POSSIBLE INDICATIONS	DEVELOPMENT STATUS	
Neotrofin(TM) (AIT-082)	Alzheimer's Disease	Phase 1:	Nine clinical trials completed and additional Phase 1 studies to be conducted in 2001
		Phase 2:	Four Phase 2 clinical trials completed and one in progress
	Spinal Cord Injury	Phase 2:	Phase 2 study initiated March 2001
	Parkinson's disease	Phase 2:	Phase 2 study initiated March 2001
	Peripheral Neuropathy	Pre-clinical	
	Other neurodegenerative diseases	Pre-clinical	
AIT-034	Dementia	Pre-clinical: IND to be filed in 2001	
Neoquin(TM)	Bladder cancer	Phase 2:	Clinical trial to be conducted in 2001 pending completion of license agreement

We cannot guarantee that any of our compounds will effectively treat the indicated diseases or conditions, or that any such compounds will receive FDA approval.

Neotrofin(TM)

Neotrofin is our most extensively studied compound and has been the primary focus of our research efforts. Neotrofin has been shown in animal studies to enhance working (or recent) memory, the type of memory which is deficient in patients suffering from Alzheimer's disease. In addition, we believe that Neotrofin may help treat memory impairments in the aged, in stroke patients and in patients with traumatic brain injuries. Neotrofin may also help treat patients with nerve damage such as stroke, spinal cord injury and peripheral neuropathy and in neurodegenerative diseases such as Parkinson's disease and Huntington's disease.

Pre-clinical testing involving laboratory animals has indicated that Neotrofin exhibits the following properties and/or effects:

- Shown to reduce, delay and prevent memory deficits in aged animals; shown to enhance memory function in young and aged animals.
- Shown to protect brain cells against neurotoxic injury.
- Induces production of numerous neurotrophic growth factors.
- Induces sprouting of nerve cells in culture and in animals.
- Induces proliferation of neural stem cells.
- Reduces the level of the toxic protein beta-amyloid in cell culture.
- Shown to be non-toxic at high oral dosage levels in dogs and rats after up to nine months of administration.
- Effective over a wide range of doses in animals.
- Active both orally and through injection.

Until completion of the entire human clinical trial process, there can be no assurance that these properties and/or effects can be replicated in humans.

We have shown that when administered to neurons in tissue culture, Neotrofin can induce the same neurite outgrowth effects as NGF (nerve growth factor). We have also shown that Neotrofin causes the production of mRNA (messenger ribonucleic acid) for multiple neurotrophic factors in tissue culture. In addition, we have demonstrated that oral administration of Neotrofin increases the levels of mRNA and protein for multiple neurotrophic factors in the central nervous systems of rats and mice. Other researchers have shown, in animals, that administration of multiple neurotrophic factors may be more effective as a treatment method for neurodegenerative diseases than the administration of a single factor. We believe that Neotrofin's mechanism of action involves activating the genes that lead to the production of a number of different neurotrophic factors. Neurotrophic factors themselves are not orally active and do not pass the blood-brain barrier. Therefore, should Neotrofin prove to be an effective treatment for neurological disorders, it could have two distinct practical advantages over neurotrophic factors administered alone directly into the brain as a treatment for such disorders: (i) it can be administered orally; and (ii) it induces the production of multiple neurotrophic factors in those areas of the brain associated with a variety of deficits.

An IND was allowed for Neotrofin by the U.S. FDA in June 1997. The first clinical trial of Neotrofin(TM) in the United States began in July 1997 and was completed in 1998. Additional Phase 1 clinical trials evaluating safety and pharmacokinetic parameters have been conducted with Neotrofin. The results from the Phase 1 clinical trials indicate that Neotrofin is rapidly absorbed after oral administration and produces no serious side effects at high doses.

The first Phase 2 clinical trial of Neotrofin (28 days of dosing) was initiated in July 1998 and completed in the first quarter of 1999. The results from this study confirmed the observations seen in the Phase 1 trials and also indicated improved memory performance. In the first quarter of 1999, we initiated a larger Phase 2 clinical trial (90 days of dosing) in Canada, Australia and the Republic of South Africa. The results from this study indicated that, at the highest tested dose of Neotrofin(TM), 500 mg/day, statistically significant improvements in the behavioral aspects of Alzheimer's disease were seen and there was a trend toward improvement in cognitive improvement in the ADAS-cog test, a standardized test that measures cognitive function. These effects were more pronounced in patients with more moderate Alzheimer's disease. Another Phase 2 clinical trial was initiated in the United States in the third quarter of 1999 to study the effects of oral Neotrofin in the brain using PET (Positron Emission Tomography) imaging technology. The results of this study indicated that higher doses of Neotrofin(TM) (500 and 1000 mg/day) demonstrated positive effects on cognition in psychometric tests and positive effects on PET and EEG (electroencephalogram) parameters. In the third quarter of 1999 we initiated a Phase 2 clinical trial in the United States to study the effects of a single dose level of Neotrofin compared to placebo when administered for 90 days. This study did not demonstrate any statistically significant effects of 150 mg of Neotrofin(TM) versus placebo. We also initiated, in the first quarter of 2000 and discontinued in the fourth quarter of 2000, a large multinational (excluding the United States) low dose-ranging Phase 2/3 study of Neotrofin. We initiated additional studies of Neotrofin(TM), for Alzheimer's disease, spinal cord injury and Parkinson's disease, in the first half of 2001.

We expect that we will have to conduct and fund additional animal and human studies that may possibly include Phase 3 human clinical studies prior to submitting Neotrofin to the FDA, or regulatory agencies in other countries, for marketing approval. We cannot guarantee, however, that ongoing or future clinical trials of Neotrofin will be successful, that the marketing of Neotrofin will be approved by regulatory agencies, or that Neotrofin can be marketed successfully to its targeted population. See "Drug Approval Process and Government Regulation."

Other Compounds in Development

Due to the historically limited resources available to us and our decision to focus those resources on the development of Neotrofin, our other compounds are in earlier stages of development. These compounds include:

AIT-034: AIT-034 is a distinct chemical analog of hypoxanthine and pyrollidone that has been demonstrated in animal studies to enhance memory and to reverse memory deficits in severely impaired animals that do not respond to Neotrofin. AIT-034 does not induce the production of NGF, and its mechanism of action is therefore believed to be different than Neotrofin. We believe that AIT-034 could complement Neotrofin as a treatment for Alzheimer's disease and dementia.

NeoTherapeutics drug discovery program has accelerated its process of synthesizing and testing new compounds. Currently all compounds from this program are still in the discovery phase and have not yet become development candidates. We anticipate that several compounds from this endeavor may become development candidates during 2001.

Until extensive further development and testing is completed, which will take many years, if undertaken at all, the therapeutic and other effects of these compounds cannot be established.

PRIMARY THERAPEUTIC TARGETS

Alzheimer's Disease. Alzheimer's disease is a neurodegenerative brain disorder that leads to progressive memory loss and dementia. Alzheimer's disease generally follows a course of deterioration over eight years or more, with the earliest symptom being impairment of short-term memory. Alzheimer's disease is now recognized as the most common cause of severe intellectual impairment in persons over the age of 65 in the United States, with approximately four million Americans diagnosed as suffering from Alzheimer's disease. The number of patients with Alzheimer's disease is expected to reach 14 million by 2050. Alzheimer's disease is the fourth leading cause of death in the United States with approximately 100,000 deaths per year. The Alzheimer's Association has estimated that the overall care costs required for the treatment and care of the estimated four million U.S. patients with Alzheimer's disease are $100 billion per year. There are currently four drugs approved for the treatment of Alzheimer's disease in the United States: Cognex(R) (Warner Lambert), Aricept(R) (Pfizer and Eisai), Exelon(R) (Novartis) and Reminyl(R) (Janssen and Shire). Cognex(R) is no longer actively marketed in the United States and Reminyl(R) was just approved in the first quarter of 2001 and therefore there are no sales from these two drugs at this time. We have two compounds in development, Neotrofin and AIT-034, which have shown potential to treat Alzheimer's disease.

Dementia and Memory Impairment Associated with Aging. Because the populations of developed countries are aging, the costs and social burden of medical care and housing of aged persons suffering from mentally deteriorative diseases are increasing. The availability of a drug to reduce the memory impairments associated with aging would not only have a significant economic impact but would also greatly improve the quality of life for the elderly population. Both Neotrofin and AIT-034 have shown to be effective in improving memory loss associated with aging in mice. Clinical trials indicate that Neotrofin also improves memory performance in patients with Alzheimer's disease.

Spinal Cord Injury. There are an estimated 200,000 severely disabled survivors of spinal cord trauma in the United States with approximately 10,000 new injuries each year. The cost of care and services for these individuals is estimated to exceed $10 billion per year. Significant research efforts are currently being focused on the neurotrophic factors that can initiate and support new cell development, guide new or damaged nerves to appropriate targets and maintain neuronal function. Animal studies have shown that functional restorations are possible with appropriate neurotrophic factors. A major obstacle to the effective use of these neurotrophic factors is the delivery of the appropriate neurotrophic factors to the site of damage. Neotrofin has been shown in mice to cause the production of several neurotrophic factors in the spinal cord after oral administration, demonstrating that it can effectively penetrate the blood-brain barrier. We believe that Neotrofin potentially could be used to stimulate the regeneration of nerves damaged by spinal cord injury. We have paid $50,000 and have committed an additional $50,000 to establish a NeoTherapeutics Fellowship as part of the Reeve-Irvine Research Center for spinal cord injury at the University of California, Irvine. We initiated a clinical trial in March 2001 to study the effects of Neotrofin(TM) on spinal cord injury.

Parkinson's disease. An estimated 1-1.5 million Americans suffer from Parkinson's disease. Parkinson's disease is a neurodegenerative disease that results as a consequence of the death of dopaminergic neurons in the substantia nigra of the brain. These cells are responsible for producing and responding to the neurotransmitter dopamine which is deficient in patients with Parkinson's disease. This dopamine deficiency leads to a variety of movement disorders including rigidity, tremor, slowness of movement, poor balance and walking problems. Dementia is also common in the later stages of the disease. Current therapy consists primarily of dopamine analogs to increase dopamine levels and drugs to alleviate the various movement symptoms. We initiated a clinical trial in March 2001 to study the effects of Neotrofin(TM) on this disease.

Peripheral Neuropathy. An estimated 60% of the 13 million diabetic patients in the United States suffer from some damage to their peripheral nerves leading to numbness and tingling of fingers, hands, toes and feet; weakness in hands and feet; and pain and/or burning sensation in the hands and feet. Peripheral neuropathy is also a major problem in patients undergoing cancer chemotherapy. Many chemotherapeutic agents are neurotoxic leading to the same symptoms described for peripheral diabetic neuropathy. The current market for drugs for the diabetic peripheral neuropathy alone is more than $16 billion per year.

Stroke. Among older Americans, stroke ranks as the third leading cause of death. An estimated 500,000 people in the United States suffer strokes each year. The costs associated with the treatment and care of stroke patients are estimated to be approximately $25 billion per year. Most therapeutic approaches to treating strokes are directed towards correcting the circulatory deficit or to blocking the toxic effects of chemicals released in the brain at the time of the stroke. Since Neotrofin has the potential to be neuroprotective in addition to enhancing nerve regeneration, we believe that it may prove useful in treating stroke.

Functional Genomics. In 2000, under the auspices of the Human Genome Project of the National Institutes of Health, the entire sequence of the human genetic blueprint was deciphered. Knowledge of the sequence of a gene does not tell what the function and purpose of that gene is in the body. Understanding the function and purpose of each of the

human genes in the body is a process called "functional genomics." Of the approximately 35,000 human genes which control all of the body's functionality, approximately 1,000 are in a class called G-protein-coupled receptors ("GPCRs"), which regulate key cell functions. The purpose and function of approximately 140 GPCRs remains unknown today. They are called the "orphan receptor" genes.

Using genetic engineering techniques, it has been possible to deduce the function of certain orphan receptor genes, but the process is difficult, labor intensive and expensive. Of the 20 orphan receptor genes whose functions have been established, six have been discovered as a result of research conducted by Dr. Olivier Civelli, the most discovered by a single group. Among them is the MCH receptor, which is associated with obesity control, and Urotensin II, a potent controller of blood pressure.

In September 1999, we entered into a collaborative research agreement with the University of California, Irvine which grants us the exclusive right to all technology and products developed by Dr. Civelli and his colleagues in exchange for research funding support in the amount of $2.0 million over three years. While it may be several years before therapeutic product candidates are identified, this technology platform complements our current technology base and product pipeline and should provide us with the next generation of potential products.

Oncology. In 1999, an estimated 552,200 Americans were expected to die of cancer, more than 1,500 people a day. Cancer is the second leading cause of death in the U.S., exceeded only by heart disease. In the U.S., 1 of 4 deaths is from cancer. In 2000, approximately 1,220,100 new cancer cases were expected to be diagnosed. The cost of treating and caring for patients with cancer in 1999 was estimated at $107 billion; $37 billion for direct medical costs (total of all health expenditures), $11 billion for indirect morbidity costs (cost of lost productivity due to illness), and $59 billion for indirect mortality costs (cost of lost productivity due to premature death).

In early 2000, we signed a Letter of Intent with the Netherlands-based NDDO Research Foundation to in-license Neoquin(TM) ("EO9") and 80 related anti-cancer compounds. Pending completion of a licensing agreement, Neoquin(TM) will enter Phase 2 clinical trials in bladder cancer.

BUSINESS STRATEGY

Marketing and Sales

We do not currently sell any products and therefore have no marketing, sales, or distribution organization. We intend to complete a series of strategic alliances with multinational or large regional pharmaceutical companies having substantial financial capacity, marketing capability and clinical development expertise, who can assist us in the development, marketing and sale of Neotrofin and our potential other products. However, we may seek to retain rights to co-market our products in the United States.

We believe the support of the NIA and the NIMH, along with the Alzheimer's Disease Cooperative Study, the clinical arm of the NIA's research on Alzheimer's disease, could contribute significantly to the future marketing and educational efforts directed to physicians who treat Alzheimer's disease patients. We believe that this exposure to the leaders in the field of neurodegenerative diseases may reduce the time and marketing costs required to introduce our potential products when and if they are approved by the FDA.

Strategic Alliances

We believe that our patented technology platforms provide a major commercial opportunity for developing strategic alliances with larger pharmaceutical companies. We believe that any such alliance would enable us to focus on our inherent strength; namely exploitation of the technology platform to develop additional novel therapies.

The most common phase in which industry collaborations are completed is the discovery stage, since a license for early stage discoveries generally cost a large pharmaceutical company much less than licensing later stage products. We chose to postpone the structuring of a corporate sponsored licensing agreement for Neotrofin in favor of an early stage, government-assisted development program. By completing strategic alliances later in the development cycle, we hope to increase value for our stockholders that may be reflected in the enhanced terms of any licensing agreement.

From time to time we engage in licensing discussions with one or more multinational or regional pharmaceutical companies. We anticipate that the terms of any strategic alliance that we enter into for our lead compound, Neotrofin, will include an up-front payment, milestone payments, royalties on product sales, and agreements requiring the licensee to purchase drug compounds from us. We cannot guarantee that any such discussions will result in a commercial transaction on favorable terms.

In March 2001, NeoGene entered into a licensing agreement with Pfizer, Inc. Under the terms of the agreement, NeoGene has received an initial payment of $100,000 and can receive milestone payments on potential products arising from research on one of NeoGene's proprietary orphan G-protein-coupled receptors. The initial payment and milestone payments have a

potential to reach $12.0 million. However, there can be no assurance that the development project will be successful and result in our receiving any further milestone payments.

Research Collaborations

We currently have several proprietary compounds in various stages of pre-clinical development. From time to time, we evaluate these compounds for efficacy in specialized assays or test models. We locate expert academic researchers to perform the desired tests and provide them, through their respective academic institutions, with grants and/or contracts to perform the designated tests while we maintain proprietary rights to the compounds. We monitor these studies to ensure that these studies are performed to the highest research standards.

Production

We currently have our compounds manufactured in large scale by third party vendors and have no plans to establish our own manufacturing facilities. In connection with any licensing arrangements we may enter into, we intend to retain the rights to control the manufacturing and sale of our compounds to our licensees. Preliminary estimates indicate that Neotrofin can be manufactured cost effectively.

DRUG APPROVAL PROCESS AND OTHER GOVERNMENT REGULATION

The production and marketing of our products and our research and development activities are subject to regulation for safety, efficacy and quality by numerous governmental authorities in the United States and other countries. In the United States, drugs are subject to rigorous regulation. The Federal Food, Drug and Cosmetics Act, as amended, and the regulations promulgated thereunder, as well as other federal and state statutes and regulations, govern, among other things, the testing, manufacture, safety, efficacy, labeling, storage, record keeping, approval, advertising and promotion of our proposed products. Product development and approval within this regulatory framework take a number of years and involve the expenditure of substantial resources. In addition to obtaining FDA approval for each product, each drug manufacturing establishment must be registered with, and approved by, the FDA. Domestic manufacturing establishments are subject to regular inspections by the FDA and must comply with Good Manufacturing Practices ("GMP"). To supply products for use in the United States, foreign manufacturing establishments must also comply with GMP and are subject to periodic inspection by the FDA or by regulatory authorities in certain of such countries under reciprocal agreements with the FDA. Drug product and drug substance manufacturing establishments located in California also must be licensed by the State of California in compliance with local regulatory requirements.

New Drug Development and Approval

The United States system of new drug approval is one of the most rigorous in the world. According to a June 2000 report by the Pharmaceutical Research and Manufacturers of America, it costs an average of $500 million and takes an average of 12 to 15 years from discovery of a compound to bring a single new pharmaceutical product to market. Approximately one in 1,000 compounds that enter the pre-clinical testing stage eventually makes it to human testing and only one-fifth of those are ultimately approved for commercialization. In recent years, societal and governmental pressures have created the expectation that drug discovery and development costs can be reduced without sacrificing safety, efficacy and innovation. The need to significantly improve or provide alternative strategies for successful pharmaceutical discovery, research and development remains a major health care industry challenge.

Drug Discovery

In the initial stages of drug discovery before a compound reaches the laboratory, typically thousands of potential compounds are randomly screened for activity in an assay assumed to be predictive of a particular disease process. This drug discovery process can take several years. Once a "screening lead" or starting point for drug development is found, isolation and structural determination is initiated. Numerous chemical modifications are made to the screening lead in an attempt to improve the drug properties of the lead. After a compound emerges from the above process, it is subjected to further studies on the mechanism of action, further in vitro screening against particular disease targets and finally, in vivo animal screening. If the compound passes these evaluation points, animal toxicology is performed to begin to analyze the potential toxic effects of the compound, and if the results indicate acceptable toxicity findings, the compound emerges from the basic research mode and moves into the pre-clinical phase.

Pre-clinical Testing

During the pre-clinical testing stage, laboratory and animal studies are conducted to show biological activity of the compound against the targeted disease, and the compound is evaluated for safety. These tests can take up to three years or more to complete.

Investigational New Drug Application (IND)

After pre-clinical testing, an IND is submitted to the FDA to begin human testing of the drug. The IND becomes effective if the FDA does not reject it within 30 days. The IND must indicate the results of previous experiments, how, where and by whom the studies were conducted, how the chemical compound is manufactured, the method by which it is believed to work in the human body, and any toxic effects of the compound found in the animal studies. In addition, the IND clinical protocol must be reviewed and approved by an Institutional Review Board comprised of physicians and lay people at the hospital or clinic where the proposed studies will be conducted. Progress reports detailing the results of both animal studies and human clinical trials must be submitted at least annually to the FDA.

Phase 1 Clinical Trials

After an IND becomes effective, Phase 1 human clinical trials can begin. These studies, involving small numbers of healthy volunteers or patients, can take up to one year or more to complete. The studies determine a drug's safety profile, including the safe dosage range. The Phase 1 clinical studies also determine how a drug is absorbed, distributed, metabolized and excreted by the body. Additional Phase 1 clinical trials, which may be conducted at any time during the clinical development of a new drug, evaluate interactions between the test drug and drugs commonly used in the target population and safety in patients with compromised organ systems.

Phase 2 Clinical Trials

In Phase 2 clinical trials, controlled studies of volunteer patients with the targeted disease assess the drug's effectiveness. These studies are designed primarily to determine the appropriate dose levels and to evaluate the effectiveness of the drug on the volunteer patients, as well as to determine if there are any side effects on these patients. These studies can take up to two years or more.

Phase 3 Clinical Trials

This phase can last up to three years or more and usually involves large numbers of patients with the targeted disease. During the Phase 3 clinical trials, physicians monitor the patients to determine efficacy and to observe and report any adverse reactions that may result from long-term and more widespread use of the drug.

New Drug Application (NDA)

After completion of all three clinical trial phases, the data is analyzed and, if the data indicates that the drug is safe and effective, an NDA is filed with the FDA. The NDA must contain all of the information on the drug that has been gathered to date, including data from the clinical trials. NDAs are often over 100,000 pages in length. After passage of the Prescription Drug User Fee Act, average review times for new medicine applications dropped from nearly 30 months in 1992 to less than 12 months at this time.

Fast Track Review

In September 1998, the FDA clarified procedures for accelerating the approval of drugs to be marketed for serious diseases for which the manufacturer can demonstrate the potential to address unmet medical needs. We do not know whether Neotrofin will fulfill this requirement for the treatment of Alzheimer's disease as there are drugs currently approved and available for such treatment. However, Neotrofin might qualify for "fast track" classification in a different disease indication. At this time, we have not requested fast track designation for Neotrofin.

The FDA has also made provisions for priority review of drugs. A drug will qualify for priority review if it provides a significant improvement compared to marketed products in the treatment, diagnosis or prevention of a disease regardless if the indication is serious or life-threatening. We believe that Neotrofin may qualify for priority review.

Approval

If the FDA approves the NDA, the drug becomes available for physicians to prescribe. We must continue to submit periodic reports to the FDA, including descriptions of any adverse reactions reported. For certain drugs which are administered on a long-term basis, the FDA may request additional clinical studies (Phase 4) after the drug has begun to be marketed to evaluate long-term effects. The marketing of a drug after FDA approval is subject to substantial continuing regulation by the FDA, including regulation of manufacturing practices and the advertising and promotion of the drug.

In addition to regulations enforced by the FDA, we are also subject to regulation under the Occupational Safety and Health Act, the Environmental Protection Act, the Toxic Substances Control Act, the Resource Conservation and Recovery Act and other present and future federal, state or local regulations. Our research and development activities involve the controlled use of hazardous materials, chemicals, biological materials and various radioactive compounds. Although we believe that our safety procedures for handling and disposing of such materials comply with the standards prescribed by state and federal regulations, the risk of accidental contamination or injury from these materials cannot be completely eliminated. In the event of such an accident, we could be held liable for any damages that result, and any such

liability could exceed our resources.

For marketing outside the United States, we, or our prospective licensees, are subject to foreign regulatory requirements governing human clinical trials and marketing approval for drugs and devices in the respective countries. The requirements governing the conduct of clinical trials, product licensing, pricing and reimbursement vary widely from country to country.

RESEARCH AND DEVELOPMENT

Since our inception, we have devoted substantially all of our efforts to research and development. Research and development expenditures were $8,542,034 in 1998, $20,057,687 in 1999 and $38,766,884 in 2000.

PATENTS AND PROPRIETARY RIGHTS

Patents and other proprietary rights are vital to our business. Our policy is to seek patent protection for our proprietary compounds and technology, and we intend to protect our technology, inventions and improvements to inventions that are commercially important to the development of our business. We also intend to rely on trade secrets, know-how, continuing technology innovations and licensing arrangements to develop and maintain our competitive position. In addition, we have applied for registration of several trademarks, including the name of the Company, NeoTherapeutics, and our potential products.

We are the assignee of the following four patents issued to Alvin J. Glasky, our Chairman, Chief Executive Officer and Chief Scientific Officer.

(1) On February 25, 1992, Dr. Alvin Glasky, our Chairman, Chief Executive Office and Chief Scientific Officer, was issued a United States patent (No. 5,091,432) which establishes proprietary rights for a series of compounds whose chemistry is based upon a purine, hypoxanthine, and for the use of these compounds in the treatment of neuroimmunologic disorders. This patent expires on February 25, 2009. These compounds are bi-functional drugs that combine the ability of hypoxanthine to be absorbed rapidly into the body with the pharmacological activity of a second molecular component. These second components were selected to provide a wide variety of potential therapeutic applications that act on the central nervous system to treat neurological or psychiatric diseases or conditions associated with Alzheimer's disease, impairment associated with aging, Parkinson's disease, stroke, spinal cord injuries, migraine and depression.

(2) On September 5, 1995, a second United States patent (No. 5,447,939) was issued to Dr. Glasky which covers the treatment of neurological and neurodegenerative diseases through modification of certain biochemical processes in cells. This patent expires on July 25, 2014. This second patent also incorporates certain technology developed under the auspices of, and belonging to, McMaster University in Ontario, Canada.

(3) On September 1, 1998, Dr. Glasky was issued a third United States patent (No. 5,801,184) which relates to the control of neural activity and the treatment of neurological disorders by controllably inducing the in vivo genetic expression of naturally occurring protein molecules including neurotrophic factors. This patent expires on September 1, 2015. This third patent also incorporates certain technology developed under the auspices of, and belonging to, McMaster University in Ontario, Canada.

(4) On February 22, 2000, a fourth United States patent (No. 6,027,936) was issued to Dr. Glasky which covers the use of certain purine-containing compounds to induce the production of naturally occurring neural growth factors for the purpose of stimulating neuritogenesis, or sprouting of nerve cells. This patent expires on July 25, 2014.

All four patents have been assigned to NeoTherapeutics by Dr. Glasky. In connection with these assignments, Dr. Glasky has been granted a royalty of two percent of all revenues derived by NeoTherapeutics from the use and sale by us of any products which are covered by any of the aforementioned patents or any subsequent derivative patents, in each case for the life of the patent. However, Dr. Glasky will not receive any royalties with respect to sales of products which utilize patent rights licensed to us by McMaster University. In the event NeoTherapeutics terminates Dr. Glasky's employment without cause, the royalty rate shall be increased to five percent, and in the event Dr. Glasky dies, his estate or family shall be entitled to continue to receive royalties at the rate of two percent.

With respect to the second United States patent described above, we have entered into a license agreement whereby McMaster University has licensed to NeoTherapeutics all patent rights belonging to McMaster University contained in such patent. This agreement calls for annual minimum royalty payments of $25,000 per year to McMaster University, with the first payment due in July of 1997 until expiration of the related patent rights, and for us to pay to McMaster University a royalty of five percent of the net sales of all products sold by NeoTherapeutics which incorporate the patent rights licensed to us by McMaster University. The third and fourth U.S. patents are covered under this agreement.

On February 16, 2001, a United States patent application issued to Dr. Glasky which covers the use of certain

compounds containing both purine and serotonin moieties for treatment of anxiety, has been allowed. Dr. Glasky has assigned his rights in this patent to the Company.

In addition to a number of foreign patents, which have been granted corresponding to the first and third United States patents described above, we also currently have thirteen additional United States patent applications and a number of corresponding foreign patent applications on file. There can be no assurance, however, that the scope of the coverage claimed in our patent applications will not be significantly reduced prior to a patent being issued.

NeoGene also maintains a patent portfolio with five applications currently on file in the United States and corresponding applications in foreign countries. The same issues pertaining to NeoTherapeutics patent portfolio also apply to the NeoGene portfolio.

The patent positions of pharmaceutical and drug development companies are generally uncertain and involve complex legal and factual issues. There can be no assurance that third parties will not assert patent or other intellectual property infringement claims against us with respect to our products or technology or other matters. There may be third-party patents and other intellectual property relevant to our products and technology of which we are not aware.

Patent litigation is becoming more common in the biopharmaceutical industry. Litigation may be necessary to defend against or assert claims of infringement, to enforce our patents, to protect trade secrets we own or to determine the scope and validity of proprietary rights of third parties. Although no third party has asserted that we are infringing upon their patent rights or other intellectual property, there can be no assurance that litigation asserting such claims will not be initiated, that we would prevail in any such litigation or that we would be able to obtain any necessary licenses on reasonable terms, if at all. Any such claims against us, whether meritorious or not, as well as claims initiated by us against third parties, can be time consuming and expensive to defend or prosecute and to resolve. If our competitors prepare and file patent applications in the United States that claim technology we also claim, we may have to participate in interference proceedings declared by the Patent and Trademark Office to determine priority of invention, which could result in substantial costs, even if we ultimately prevailed. The results of such proceedings are highly unpredictable and, as a result of such proceedings, we may have to obtain licenses in order to continue to conduct clinical trials, manufacture or market certain of our products. No assurance can be made that we will be able to obtain any such licenses on favorable terms, if at all.

We also rely upon unpatented trade secrets and improvements, unpatented know-how and continuing technological innovation to develop and maintain our competitive position. We protect such information with confidentiality agreements with our employees and consultants and with corporate partners and/or collaborators as such relationships are formed. The agreements provide that all confidential information developed or made known to an individual during the course of the employment or consulting relationship shall be kept confidential and not disclosed to third parties except in specified circumstances. Agreements with employees provide that all inventions conceived by the individual while employed by NeoTherapeutics are our exclusive property. We cannot guarantee that these agreements will be honored, that we will have adequate remedies for breach, or that our trade secrets will not otherwise become known or be independently discovered by competitors.

COMPETITION

The pharmaceutical industry is characterized by rapidly evolving technology and intense competition. Many companies of all sizes, including a number of large pharmaceutical companies as well as several specialized biotechnology companies, are engaged in activities similar to that of NeoTherapeutics. Our competitors that have a product on the market within our clinical focus include Amgen, Inc., Bayer AG, Eli Lilly and Co., Novartis, Bristol-Myers Squibb Company, Glaxo SmithKline, Regeneron Pharmaceuticals, Inc., Vertex Pharmaceuticals, Inc., Guilford Pharmaceuticals, Inc., Cephalon, Inc., Aventis, Elan Corporation, Pfizer, Inc. and Janssen and Shire, among others. Competitors that have a similar strategic and clinical focus as us include Axonyx, Cortex, Curis, Diacrin, Genset, Interneuron, Neurobiological Technologies, Neurocrine Biosciences, Neurogen, NPS Pharmaceuticals Inc., StemCells, Inc., Synaptic and Titan Pharmaceuticals. In addition, colleges, universities, governmental agencies and other public and private research institutions will continue to conduct research and are becoming more active in seeking patent protection and licensing arrangements to collect license fees, milestone payments and royalties in exchange for license rights to technologies that they have developed, some of which may directly compete with our technologies. These companies and institutions also compete with us in recruiting highly qualified scientific personnel. Many of our competitors have substantially greater financial, research and development, human and other resources than we do. Furthermore, large pharmaceutical companies have significantly more experience than we do in pre-clinical testing, human clinical trials and regulatory approval procedures.

Although we have begun to conduct clinical trials with respect to Neotrofin, we have not conducted clinical trials with respect to any of our other compounds under development nor have we sought the approval of the FDA for any product based on such compounds. Furthermore, if we are permitted to commence commercial sales of products based on compounds we develop, including Neotrofin, and decide to manufacture and sell such products ourselves, then we will

also be competing with respect to manufacturing efficiency and marketing capabilities, which are areas in which we have no prior experience.

Any product for which we obtain FDA approval must also compete for market acceptance and market share. A number of drugs intended for the treatment of Alzheimer's disease, memory loss associated with aging, stroke and other neurodegenerative diseases and disorders are on the market or in the later stages of clinical testing. Four drugs are currently approved for the treatment of Alzheimer's disease in the United States and both are cholinesterase inhibitors: Cognex(R) (tacrine), formerly marketed by Warner-Lambert Co., Aricept(R) (donepezil), marketed by Pfizer, Inc. and Eisai Co., Ltd., Exelon(R) (rivastigmine), marketed by Novartis, and Reminyl(R) (galantamine), marketed by Janssen and Shire.

Certain technologies under development by other pharmaceutical companies could result in treatments for Alzheimer's disease and other diseases and disorders for which we are developing our own treatments. Several other companies are engaged in research and development of compounds which use neurotrophic factors in a manner similar to that of our compounds. In the event that one or more of these programs are successful, the market for our products could be reduced or eliminated.

We expect technological developments in the field of neuropsychopharmacology to continue to occur at a rapid rate and expect competition will remain intense as advances continue to be made. Although we believe, based on the preliminary pre-clinical test results involving certain of our compounds, that we will be able to continue to compete in the discovery and early clinical development of compounds for neurological and psychiatric disorders, we cannot guarantee that we will be able to do so. At present, we do not have sufficient resources to compete with major pharmaceutical companies in the areas of later-stage clinical testing, manufacturing and marketing.

EMPLOYEES

As of December 31, 2000, we had fifty-three full-time employees, of which ten hold Ph.D. degrees, four hold M.D. degrees and eight part-time employees. There can be no assurance that we will be able to attract and retain qualified personnel in sufficient numbers to meet its needs. Our employees are not subject to any collective bargaining agreements, and we regard our relations with our employees to be good.

RISK FACTORS

Your investment in our common stock involves a high degree of risk. You should consider the risks described below and the other information contained in this prospectus carefully before deciding to invest in our common stock. If any of the following risks actually occur, our business, financial condition and operating results would be harmed. As a result, the trading price of our common stock could decline, and you could lose a part or all of your investment.

OUR LOSSES WILL CONTINUE TO INCREASE AS WE EXPAND OUR DEVELOPMENT EFFORTS, AND OUR EFFORTS MAY NEVER RESULT IN PROFITABILITY.

Our cumulative losses during the period from our inception in 1987 through December 31, 2000 were approximately $96.2 million, almost all of which consisted of research and development and general and administrative expenses. We lost approximately $11.6 million in 1998, $26.0 million in 1999 and approximately $46.4 million in 2000. We expect our losses to decrease in the year 2001, but to increase in the future as we expand our clinical trials and increase our research and development activities. We currently do not sell any products and we may never achieve significant revenues or become profitable. Even if we eventually generate revenues from sales, we nevertheless expect to incur significant operating losses over the next several years.

OUR POTENTIAL DRUG PRODUCTS ARE IN AN EARLY STAGE OF CLINICAL AND PRECLINICAL DEVELOPMENT AND MAY NOT PROVE SAFE OR EFFECTIVE ENOUGH TO OBTAIN REGULATORY APPROVAL TO SELL ANY OF THEM.

We currently are testing our first potential drug product in human clinical trials. Our other proposed products are in preclinical development. We cannot be certain that any of our potential or proposed products will prove to be safe or effective in treating disorders of the central nervous system or any other diseases. All of our potential drugs will require additional research and development, testing and regulatory clearance before we can sell them. We cannot be certain that we will receive regulatory approval to sell any of our potential drugs. We do not expect to have any products commercially available for at least two years, if at all.

IF WE ARE UNABLE TO OBTAIN SUBSTANTIAL ADDITIONAL FUNDING ON ACCEPTABLE TERMS, WE MAY HAVE TO DELAY OR ELIMINATE ONE OR MORE OF OUR DEVELOPMENT PROGRAMS.

We currently are spending cash at a rate in excess of approximately $2.3 million per month, and we expect this rate of spending to continue for at least the following 12 months. We believe that, together with periodic sales of common

stock such as the $3.5 million and the $5.0 million sales in February and March 2001, respectively, the ability to draw down a $25 million credit line entered into with a major investment bank in April 2001, and, assuming that the holders of our Class B Warrants continue to exercise our Class B Warrants in response to our call notices, our existing cash and capital resources will satisfy our current funding requirements for at least the next twelve months. Should we not be able to continue periodic sales of our common stock or to utilize our credit line, and if the market price of our common stock is less than $5.00 per share, we may not be able to use our Class B Warrants as a financing source, and we may have to seek additional funding. We may not be able to obtain additional funds on acceptable terms or at all. If adequate funds are not available, we will have to delay or eliminate one or more of our development programs.

We expect that we will need substantial additional funds to complete development and clinical trials of Neotrofin(TM), our lead drug candidate, before we will be able to submit it to the FDA for approval for commercial sale, and to support the continued development of Neoquin(TM), our lead anti-cancer drug candidate. Our capital requirements will depend on many factors, including:

- continued scientific progress in research and development;
- the progress of preclinical and clinical testing;
- the cost involved in filing, prosecuting and enforcing patent claims;
- the effect of competing technological developments;
- the cost of manufacturing scale-up;
- the cost of commercialization activities;
- the time and cost involved in obtaining regulatory approvals; and
- our ability to establish collaborative and other arrangements with third parties, such as licensing and manufacturing agreements.

We expect to seek additional funding through public or private financings or collaborative or other arrangements with third parties. We may not obtain additional funds on acceptable terms, if at all. If adequate funds are not available, we will have to delay or eliminate one or more of our development programs.

COMPETITION FOR PATIENTS IN CONDUCTING CLINICAL TRIALS AND EXTENSIVE REGULATIONS GOVERNING THE CONDUCT OF CLINICAL TRIALS MAY PREVENT OR DELAY APPROVAL OF A DRUG CANDIDATE AND STRAIN OUR LIMITED FINANCIAL RESOURCES.

Many pharmaceutical companies are conducting clinical trials in patients with Alzheimer's disease. As a result, we must compete with them for clinical sites, physicians and the limited number of patients with Alzheimer's disease who fulfill the stringent requirements for participation in clinical trials. This competition may increase costs of our clinical trials and delay the introduction of our potential products.

ANY FAILURE TO COMPLY WITH EXTENSIVE GOVERNMENTAL REGULATION COULD PREVENT OR DELAY PRODUCT APPROVAL OR CAUSE GOVERNMENTAL AUTHORITIES TO DISALLOW OUR PRODUCTS AFTER APPROVAL AND SUBJECT US TO CRIMINAL OR CIVIL LIABILITIES.

The U.S. Food and Drug Administration, or FDA, and comparable agencies in foreign countries impose many requirements on the introduction of new drugs through lengthy and detailed clinical testing procedures, and other costly and time consuming compliance procedures. These requirements make it difficult to estimate when Neotrofin(TM) or any other potential product will be available commercially, if at all.

Our proprietary compounds will require substantial clinical trials and FDA review as new drugs. Even if we successfully enroll patients in our clinical trials, patients may not respond to our potential drug products. We think it is prudent to expect setbacks. Failure to comply with the regulations applicable to such testing may delay, suspend or cancel our clinical trials, or the FDA might not accept the test results. The FDA, or any comparable regulatory agency in another country, may suspend clinical trials at any time if it concludes that the trials expose subjects participating in such trials to unacceptable health risks. Further, human clinical testing may not show any current or future product candidate to be safe and effective to the satisfaction of the FDA or comparable regulatory agencies or the data derived therefrom may be unsuitable for submission to the FDA or other regulatory agencies.

We cannot predict with certainty when we might submit any of our proposed products currently under development for regulatory review. Once we submit a proposed product for review, the FDA or other regulatory agencies may not issue their approvals on a timely basis, if at all. If we are delayed or fail to obtain such approvals, our business

may be damaged. If we fail to comply with regulatory requirements, either prior to approval or in marketing our products after approval, we could be subject to regulatory or judicial enforcement actions. These actions could result in:

- product recalls or seizures;
- injunctions;
- civil penalties;
- criminal prosecution;
- refusals to approve new products and withdrawal of existing approvals; and
- enhanced exposure to product liabilities.

THE LOSS OF KEY RESEARCHERS OR MANAGERS COULD HINDER OUR DRUG DEVELOPMENT PROCESS SIGNIFICANTLY AND MIGHT CAUSE OUR BUSINESS TO FAIL.

Our success depends upon the contributions of our key management and scientific personnel, especially Dr. Alvin Glasky, our Chief Executive Officer and Chief Scientific Officer. Our loss of the services of Dr. Glasky or any other key personnel could delay or preclude us from achieving our business objectives. Although we currently have key-man life insurance on Dr. Alvin Glasky in the face amount of $2 million, the loss of Dr. Glasky's services would damage our research and development efforts substantially.

We also will need substantial additional expertise in finance and marketing and other areas in order to achieve our business objectives. Competition for qualified personnel among pharmaceutical companies is intense, and the loss of key personnel, or the inability to attract and retain the additional skilled personnel required for the expansion of our business, could damage our business.

IF WE CANNOT PROTECT OR ENFORCE OUR INTELLECTUAL PROPERTY RIGHTS ADEQUATELY, THE VALUE OF OUR RESEARCH COULD DECLINE AS OUR COMPETITORS APPROPRIATE PORTIONS OF OUR RESEARCH.

We actively pursue patent protection for our proprietary products and technologies. We hold four U.S. patents and currently have thirteen U.S. patent applications pending. In addition, we have numerous foreign patents issued and patent applications pending corresponding to our U.S. patents. However, our patents may not protect us against our competitors. We may have to file suit to protect our patents or to defend our use of our patents against infringement claims brought by others. Because we have limited cash resources, we may not be able to afford to pursue or defend against litigation in order to protect our patent rights.

We also rely on trade secret protection for our unpatented proprietary technology. However, trade secrets are difficult to protect. While we enter into proprietary information agreements with our employees and consultants, these agreements may not successfully protect our trade secrets or other proprietary information.

WE ARE A SMALL COMPANY RELATIVE TO OUR PRINCIPAL COMPETITORS AND OUR LIMITED FINANCIAL AND RESEARCH RESOURCES MAY LIMIT OUR ABILITY TO DEVELOP AND MARKET NEW PRODUCTS.

Many companies, both public and private, including well-known pharmaceutical companies, are developing products to treat Alzheimer's disease and certain of the other applications we are pursuing. Most of these companies have substantially greater financial, research and development, manufacturing and marketing experience and resources than we do. As a result, our competitors may develop additional drugs that are more effective or less costly than any drug which we may develop.

OUR LACK OF EXPERIENCE AT CONDUCTING CLINICAL TRIALS OURSELVES MAY DELAY THE TRIALS AND INCREASE OUR COSTS

We intend to conduct some future clinical trials ourselves rather than hiring outside contractors. We believe this conversion may reduce the costs associated with the trials and give us more control over the trials. However, while some of our management has had experience at conducting clinical trials, we have never done so as a company. Our lack of experience may delay the trials and increase our costs. We think it is prudent to expect setbacks as we make this transition.

OUR MANAGEMENT HAS LIMITED MANUFACTURING AND MARKETING EXPERIENCE AND MAY BE UNABLE TO MANAGE OUR GROWTH OR MANUFACTURE AND MARKET OUR PRODUCTS SUCCESSFULLY.

To date, we have engaged exclusively in the development of pharmaceutical technology and products. Our management has substantial experience in pharmaceutical company operations, but has limited experience in manufacturing or procuring products in commercial quantities or in marketing pharmaceutical products. Our management has only limited experience in negotiating, establishing and maintaining strategic relationships, conducting clinical trials and other later-stage phases of the regulatory approval process.

If we receive FDA approval of any of our potential products, we may decide to establish a commercial-scale manufacturing facility for our products. The establishment of such a facility will require substantial additional funds and personnel, and we will need to comply with extensive regulations applicable to such a facility. These requirements and the associated growth would strain our existing management and operations. Our ability to manage such growth

depends upon

the ability of our officers and key employees to:

- broaden our management team;
- develop additional expertise among existing management personnel;
- attract, hire and retain skilled employees; and
- implement and improve our operational, management information and financial control systems.

FAILURE TO OBTAIN ADEQUATE REIMBURSEMENT FROM GOVERNMENT HEALTH ADMINISTRATION AUTHORITIES, PRIVATE HEALTH INSURERS AND OTHER ORGANIZATIONS COULD MATERIALLY ADVERSELY AFFECT OUR FUTURE BUSINESS, RESULTS OF OPERATIONS AND FINANCIAL CONDITION.

Our ability to market and sell our products will depend in part on the extent to which reimbursement for the cost of our products and related treatments will be available from government health administration authorities, private health insurers and other organizations. Third party payers are increasingly challenging the price of medical products and services.

Significant uncertainty exists as to the reimbursement statements of newly approved health care products. We cannot be certain that any products approved for marketing will be considered cost effective or that reimbursement will be available or that allowed reimbursement will be adequate. In addition, payers' reimbursement policies could adversely affect our ability to sell our products on a profitable basis.

HOLDERS OF OUR CONVERTIBLE PREFERRED STOCK AND WARRANTS COULD ENGAGE IN SHORT SELLING TO INCREASE THE NUMBER OF SHARES OF COMMON STOCK ISSUABLE UPON CONVERSION OR EXERCISE OF THE SECURITIES AND DECREASE THE EXERCISE PRICE OF THE WARRANTS. IF THIS OCCURS, THE MARKET PRICE OF OUR COMMON STOCK MAY DECLINE.

The holders of shares of preferred stock issued by our subsidiary, NeoGene Technologies, Inc., have rights to exchange those shares for shares of our convertible preferred stock or for NeoGene's Series A Preferred Stock. If we hold less than $5 million in cash and cash equivalents at the time of the exchanges, the holders have the right to exchange those shares into our convertible debentures. If those exchange rights are exercised, the number of shares of common stock issuable upon conversion of the convertible preferred stock or debentures will vary with the market price of our common stock. The shares of our convertible preferred stock or debentures will generally be convertible into common stock at a conversion price equal to 101% or 100% of the average of either the lowest ten or the lowest seven, respectively, closing bid prices of our common stock in the previous 30 trading days, and subject to caps of either 120% or 150% of the market price of our common stock at the time of the exchange, in each case depending upon the series of NeoGene preferred stock exchanged. Consequently, the number of shares of common stock issuable upon conversion of the convertible preferred stock or debentures will vary with the market price of our stock. A greater number of shares of our common stock are issuable the lower the price of our common stock. Increased sales volume of our common stock could put downward pressure on the market price of the shares. This fact could encourage holders of the securities to sell short our common stock prior to conversion of the securities, thereby potentially causing the market price to decline and a greater number of shares to become issuable upon conversion of the preferred stock or debentures. The holders of the securities could then convert their securities and use the shares of common stock received upon conversion to cover their short positions. The holders of the securities could thereby profit by the decline in the market price of the common stock caused by their short selling.

Similarly, the exercise price of our outstanding Class B Warrants, if we deliver a redemption notice, is equal to the lesser of $33.75 per share (subject to adjustment for stock splits, reverse splits and combinations) and 97% of the closing bid price of our common stock on the trading day after the redemption notice is delivered. This fact could give the holders of our Class B Warrants incentive to sell short our common stock after receipt of a redemption notice, which could cause the market price to decline. The holders of the Class B Warrants could then exercise their Class B Warrants and use the shares of common stock received upon exercise to cover their short positions and thereby profit by the decline in the market price of the common stock caused by their short selling.

Additionally, it is important to note that a significant amount of the NeoGene preferred stock and our warrants are owned by three investors. This fact gives these investors greater influence over the market price of our stock.

THE TRADING PRICE OF OUR COMMON STOCK AND THE TERMS OF OUR CONVERTIBLE SECURITIES AND WARRANTS MUST COMPLY WITH THE LISTING REQUIREMENTS OF THE NASDAQ NATIONAL MARKET OR WE COULD BE DELISTED AND THE LIQUIDITY OF OUR COMMON STOCK WOULD DECLINE.

Our common stock is listed on the Nasdaq National Market. To remain listed on this market, we must meet Nasdaq's listing maintenance standards and abide by Nasdaq's rules governing listed companies. If the price of our

common stock falls below $1.00 per share for an extended period, or if we fail to meet other Nasdaq standards or violate Nasdaq rules, our common stock could be delisted from the Nasdaq National Market.

Nasdaq has established certain rules regarding the issuance of "future priced securities." These rules may apply to the preferred stock or debentures we may issue in exchange for NeoGene preferred stock because the number of shares of our common stock issuable upon conversion of these securities is based upon a future price of our common stock. Nasdaq's concerns regarding these securities include the following:

Stockholders must approve significant issuances of listed securities at a discount to market or book value. Nasdaq rules prohibit an issuer of listed securities from issuing 20% or more of its outstanding capital stock at less than the greater of book value or then current market value without obtaining prior stockholder consent. We did not obtain stockholder consent prior to issuing the NeoGene preferred stock and granting the exchange right to the holders of the NeoGene preferred stock. We anticipate, but are not assured of, obtaining this approval at our Annual Meeting of Stockholders to be held on June 11, 2001. Should the stockholders not approve this financing, we would be required to refund the sale proceeds and pay significant penalties.

Public interest concerns. Nasdaq may terminate the listing of a security if necessary to prevent fraudulent and manipulative acts and practices or to protect investors and the public interest. With respect to future priced securities, Nasdaq has indicated that it may delist a security if the returns with respect to the future priced security become excessive compared to the returns being earned by public investors in the issuer's securities.

Furthermore, certain requirements for continued listing, such as the $1.00 minimum bid price requirement, are outside of our control. Accordingly, there is a risk that Nasdaq may delist our common stock.

If our common stock is delisted, we likely would seek to list our common stock on the Nasdaq SmallCap Market or for quotation on the American Stock Exchange or a regional stock exchange. However, listing or quotation on such market or exchange could reduce the market liquidity for our common stock. If our common stock were not listed or quoted on another market or exchange, trading of our common stock would be conducted in the over-the-counter market on an electronic bulletin board established for unlisted securities or in what are commonly referred to as the "pink sheets." As a result, an investor would find it more difficult to dispose of, or to obtain accurate quotations for the price of, our common stock. In addition, delisting from the Nasdaq National Market and failure to obtain listing or quotation on such other market or exchange would subject our common stock to so-called "penny stock" rules. These rules impose additional sales practice and market-making requirements on broker-dealers who sell and/or make a market in such securities. Consequently, if our common stock is delisted from the Nasdaq National Market and we fail to obtain listing or quotation on another market or exchange, broker-dealers may be less willing or able to sell and/or make a market in our common stock and purchasers of our common stock may have more difficulty selling such common stock in the secondary market. In either case, the market liquidity of our common stock would decline.

THERE ARE A SUBSTANTIAL NUMBER OF SHARES OF OUR COMMON STOCK ELIGIBLE FOR FUTURE SALE IN THE PUBLIC MARKET. THE SALE OF THESE SHARES COULD CAUSE THE MARKET PRICE OF OUR COMMON STOCK TO FALL.

There were 17,255,319 shares of our common stock outstanding as of March 30, 2001. In addition, security holders held options and warrants as of March 30, 2001 which, if exercised, would obligate us to issue up to an additional 11,905,617 shares of common stock. A substantial number of those shares, when we issue them upon exercise, will be available for immediate resale in the public market. In addition, we have the ability to sell up to approximately $41 million of our common stock pursuant to a shelf registration that will be eligible for immediate resale in the market. Furthermore, these numbers do not include the number of shares of common stock that may become issuable upon conversion of the securities that we may be required to issue in exchange for shares of NeoGene preferred stock. While this number of shares cannot be accurately determined at this time, assuming an average conversion price of $5.00 per share, 1,790,000 shares would be issuable and available for resale upon conversion of these securities. The market price of our common stock could fall as a result of such resales.

ANY FUTURE EQUITY ISSUANCES BY US MAY HAVE DILUTIVE AND OTHER EFFECTS ON OUR EXISTING STOCKHOLDERS.

We have financed our operations, and we expect to continue to finance our operations, by issuing and selling equity securities. Any issuances by us of equity securities may have a dilutive impact on our other stockholders. Additionally, such issuances would cause our net income or loss per share to decrease in future periods. As a result, the market price of our common stock could drop. In addition, if we issue common stock upon the exercise or conversion of our warrants and other convertible securities, it may be issued at a discount to its then-prevailing market price. These discounted sales could cause the market price of our common stock to drop.

WE MAY BE SUBJECT TO PRODUCT LIABILITY CLAIMS, AND MAY NOT HAVE SUFFICIENT PRODUCT LIABILITY INSURANCE.

Although we currently carry product liability insurance, it is possible that the amounts of such coverage will be

insufficient to protect us from future claims. Further, we cannot be certain that we will be able to obtain or maintain additional insurance on acceptable terms for our clinical and commercial activities or that such additional insurance would be sufficient to cover any potential product liability claim or recall. Failure to maintain sufficient insurance coverage could have a material adverse effect on our business and results of operations.

THE USE OF HAZARDOUS MATERIALS IN OUR RESEARCH AND DEVELOPMENT EFFORTS IMPOSES CERTAIN COMPLIANCE COSTS ON US AND MAY SUBJECT US TO LIABILITY FOR CLAIMS ARISING FROM THE USE OR MISUSE OF THESE MATERIALS.

Our research and development efforts involve the use of hazardous materials. We are subject to federal, state and local laws and regulations governing the storage, use and disposal of such materials and certain waste products. We believe that our safety procedures for handling and disposing of such materials comply with the standards prescribed by federal, state and local regulations. However, we cannot completely eliminate the risk of accidental contamination or injury from these materials. If there was an accident, we could be held liable for any damages that result. Such liability could exceed our resources. We may incur substantially increased costs to comply with environmental regulations if we develop our own commercial manufacturing facility.

THE MARKET PRICE AND VOLUME OF OUR COMMON STOCK FLUCTUATE SIGNIFICANTLY AND COULD RESULT IN SUBSTANTIAL LOSSES FOR INDIVIDUAL INVESTORS.

The stock market from time to time experiences significant price and volume fluctuations that are unrelated to the operating performance of particular companies. These broad market fluctuations may cause the market price of our common stock to drop. In addition, the market price of our common stock is highly volatile. Factors that may cause the market price of our common stock to drop include fluctuations in our results of operations, timing and announcements of our technological innovations or new products or those of our competitors, FDA and foreign regulatory actions, developments with respect to patents and proprietary rights, public concern as to the safety of products developed by us or others, changes in health care policy in the United States and in foreign countries, changes in stock market analyst recommendations regarding our common stock, the pharmaceutical industry generally and general market conditions. In addition, the market price of our common stock may drop if our results of operations fail to meet the expectations of stock market analysts and investors.

OUR DIRECTORS AND EXECUTIVE OFFICERS OWN A SUBSTANTIAL PERCENTAGE OF OUR COMMON STOCK. THEIR OWNERSHIP COULD ALLOW THEM TO EXERCISE SIGNIFICANT CONTROL OVER CORPORATE DECISIONS AND TO IMPLEMENT CORPORATE ACTS THAT ARE NOT IN THE BEST INTERESTS OF OUR STOCKHOLDERS AS A GROUP.

Our directors and executive officers beneficially own approximately 12.6% of our outstanding common stock as of March 30, 2001. In addition, several of our stockholders, including Montrose Investments Ltd. and Strong River Investments, Inc. and Societe Generale have agreed that they will vote any and all shares of our common stock that they own as recommended by our board of directors in any meeting of our stockholders. Therefore, our directors and executive officers, if they acted together, could exert substantial influence over matters requiring approval by our stockholders. These matters would include the election of directors and the approval of mergers or other business combination transactions. This concentration of ownership and voting power may discourage or prevent someone from acquiring our business.

EFFECT OF CERTAIN CHARTER AND BYLAWS PROVISIONS AND STOCKHOLDER RIGHTS PLAN.

Certain provisions of our Certificate of Incorporation and Bylaws may make it more difficult for someone to acquire control of us. These provisions may make it more difficult for stockholders to take certain corporate actions and could delay or discourage prevent someone from acquiring our business. These provisions could limit the price that certain investors might be willing to pay for shares of our common stock.

On December 13, 2000, we adopted a Stockholder Rights Plan pursuant to which we have distributed rights to purchase units of our capital Series B Junior Participating Preferred Stock. The rights become exercisable upon the earlier of ten days after a person or group of affiliated or associated persons has acquired 20% or more of the outstanding shares of our common stock or ten days after a tender offer has commenced that would result in a person or group beneficially owning 20% or more of our outstanding common stock. These rights could delay or discourage someone from acquiring our business.

ITEM 2. PROPERTIES

During June 1997, we relocated our research and development and corporate administrative offices to a new 34,000 square foot facility constructed for us in Irvine, California. The facility is suitable and adequate to undertake our current research effort. However, we anticipate leasing additional space for our clinical and administrative support staff in 2001. The facility is occupied under a non-cancelable lease for seven years and contains two five-year options to renew.

The base monthly rent for the Irvine facility is currently $41,710 which amount is subject to minimum cost of living increases each July, plus taxes, insurance and common area maintenance. We also maintain a small administrative office in Zurich, Switzerland on an expense-sharing basis. We recently entered into a five-year sub-lease with the University of California, Irvine for a 10,000 square foot laboratory and administrative facility for our genomics subsidiary, NeoGene Technologies, Inc. Under its terms, sublease payments are at the rate of 50% of the basic rent charge, subject to certain conditions, and will commence upon completion of the facility which is expected during June 2001. The lease requires a basic monthly rate of $13,032 during the initial year, plus taxes, insurance, common area maintenance and scheduled rent increases for succeeding years over the five year term of the sublease.

ITEM 3. LEGAL PROCEEDINGS

We are involved in several matters of litigation and threatened litigation that we consider normal to our business. It is our policy to accrue for amounts related to these legal matters if it is probable that a liability has been incurred and an amount is reasonably determinable. Although it is impossible to predict with any certainty the ultimate outcome of any such litigation, in the opinion of management, such litigation and threatened litigation currently pending will not materially affect our consolidated financial statements.

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

No matters were submitted to a vote of security holders during the fourth quarter of the year ended December 31, 2000.

PART II

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

COMMON STOCK

As of March 30, 2001, there were 17,255,319 shares of common stock outstanding held of record by 320 stockholders.

MARKET FOR SECURITIES

Our common stock is currently listed on the Nasdaq National Market and trades under the symbol "NEOT." For each of the calendar quarters indicated, the high and low trades of our common stock, as reported by NASDAQ, were as follows:

Year Ended December 31, 1999: Quarter Ended	High	Low
March 31, 1999	$13-3/4	$ 7-3/8
June 30, 1999	$14-1/2	$ 8
September 30, 1999	$16-1/4	$ 9-1/8
December 31, 1999	$14-1/2	$10-3/8

Year Ended December 31, 2000: Quarter Ended		
March 31, 2000	$17-12/16	$16-13/16
June 30, 2000	$10-14/16	$10-11/16
September 29, 2000	$8-13/16	$7-6/16
December 29, 2000	$4-7/16	$3-14/16

The foregoing bid quotations reflect inter-dealer prices, without retail mark-ups, mark-downs or commissions, and may not represent actual transactions.

DIVIDENDS

We have never paid cash dividends on our common stock and we do not intend to pay dividends in the foreseeable future.

RECENT SALES OF UNREGISTERED SECURITIES

The following is a summary of transactions between December 31, 2000, and March 30, 2001, involving sales of our securities that were not registered under the Securities Act of 1933 (the "Securities Act"). Exemption from registration was relied upon under Section 4(2) of the Securities Act for all transactions listed.

1. On October 27, 2000 and October 31, 2000 we sold to two private investors 80,000 shares of common stock for cash proceeds of approximately $636,562 as a result of the exercise of an equal number of warrants by the investors under a callable warrant agreement entered into on April 6, 2000. On November 1, 2000 and November 2, 2000 the Company sold to two private investors 80,000 shares of common stock for cash proceeds of approximately $705,675 as a result of the exercise of an equal number of warrants by the investors under a callable warrant agreement entered into on April 6, 2000.

2. Brighton Capital, Ltd, ("Brighton") acted as a finder with respect to the negotiation and execution of the agreement described above. As consideration for the services provided by Brighton in connection with the agreement, we paid Brighton a cash commission of $46,978, representing 3 1/2% of the gross sale proceeds realized from sale of the common stock plus five year warrants to purchase 8,053 shares of common stock at $15.00 per share.

3. On December 18, 2000, our subsidiary NeoGene sold 44,445 shares Series B preferred stock for $2 million in cash. The preferred stock is convertible into an equal number of shares of common stock, representing approximately 4% ownership of NeoGene, and is also convertible into our convertible preferred stock. The investors also received five year warrants to purchase up to 9,387 shares of NeoGene common stock at

$45.00 per share and five-year warrants to purchase 30,000 shares of NeoTherapeutics common stock at an exercise price of $6.10 per share.

4. Brighton Capital, Ltd. ("Brighton") acted as a finder with respect to the negotiation and execution of the agreement described in number 3. above. As consideration for services provided by Brighton in connection with the agreement, we paid Brighton a cash commission of $105,000 representing 5.25% of the principal plus five year warrants to purchase 10,000 shares of NeoGene at $45.00 per share.

5. On January 30, 2001, we issued to two investors 1,070,336 shares of common stock under the reset agreement pursuant to the September 29, 2000, sale of $8.0 million common stock. The second and final reset expired March 14, 2001, and we are obligated to issue an additional 840,974 shares of common stock to the two investors. We received no consideration as a result of issuing shares pursuant to these reset provisions.

ITEM 6. SELECTED FINANCIAL DATA

The following table presents our selected financial data. Certain of this financial data has been derived from our audited financial statements included in this Annual Report on Form 10-K and should be read in conjunction with those financial statements and accompanying notes and in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operation."

	Years Ended December 31,				
	2000	1999	1998	1997	1996
		(In thousands, except per share data)			
STATEMENT OF OPERATIONS DATA:					
Revenues, from grants	$ --	$ --	$ --	$ --	$ --
Operating expenses:					
Research and development	38,767	20,058	8,542	4,508	615
General and administrative	5,107	3,465	3,123	2,342	660
Settlement of litigation	--	2,458	--	--	--
Loss from operations	(43,874)	(25,981)	(11,665)	(6,850)	(1,275)
Other income (expense)	(1,090)	(9)	60	688	236
Minority interest in consolidated subsidiaries' net loss	(1,463)	--	--	--	--
Net loss	$(46,427)	$(25,990)	$(11,605)	$ (6,162)	$ (1,039)
Basic and diluted loss per share	$ (4.37)	$ (3.68)	$ (2.07)	$ (1.14)	$ (0.32)
BALANCE SHEET DATA AT DECEMBER 31:					
Cash, cash equivalents and marketable securities	$ 11,470	$ 9,681	$ 2,867	$ 9,132	$ 17,444
Property and equipment, net	3,416	3,161	3,252	3,475	133
Total assets	15,781	13,174	6,826	13,198	17,979
Current liabilities	5,110	4,757	2,364	2,478	1,357
Long-term debt, less current portion	474	637	1,126	177	--
Minority interest in consolidated subsidiaries	7,280	--	--	--	--
Total stockholders' equity	2,830	7,705	3,290	10,543	16,622

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

You should read the following discussion of our financial condition and results of operations together with the financial statements and the notes to financial statements included elsewhere in this report. This discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those anticipated in these forward-looking statements.

Overview

From our inception in June 1987 through December 31, 2000, we have devoted our resources primarily to fund research and development, and incurred a cumulative net loss of approximately $96.2 million. During this period, we had only limited revenues from grants, and had no revenues from the sale of products or other sources. We expect our operating expenses to decrease in the immediate future, but to increase over the next several years as we expand our research and development and commercialization activities and operations. We expect to incur significant additional operating losses for at least the next several years unless such operating losses are offset, if at all, by licensing revenues under strategic alliances with larger pharmaceutical companies, which we are currently seeking. Through December 31, 2000, the operations of our NeoGene and NeoOncoRx subsidiary corporations were not material and, accordingly, no segment information is presented herein.

Year ended December 31, 2000 compared to Year ended December 31, 1999

We had no revenues for the twelve-month periods ended December 31, 2000 or 1999.

Research and development expenses for the twelve months ended December 31, 2000 increased by approximately $18.7 million or 93% over the previous year. This increase was due primarily to the costs and the expenses associated with the conduct of clinical and preclinical trials as we accelerated our program to commercialize our lead product candidate, Neotrofin TM. These costs and expenses were due primarily to the increased number and length of our clinical trials and manufacturing and formulation of drug compound, all of which were conducted by outside organizations. Internally, research and development expenses increased in the categories of salaries due to additional personnel, salary increases and related benefits. In November 2000, we terminated our contract with an outside clinical research organization and cancelled a major international clinical trial for Alzheimer's disease involving over 1,500 patients. The decision to cancel this trial was based on indeterminate efficacy at the same and lower doses in patients who participated in several other trials which were completed during 2000, and the positive results shown in a higher dose trial with a limited group of Alzheimer's patients. In March and April 2001, we began new Phase 2 clinical trials of Neotrofin(TM) in Alzheimer's disease and other indications at higher dose levels than administered in the previous trials. These new trials will be managed internally and we have increased the number of our employees and consultants for that purpose. In the immediate future we expect our research and development costs to decrease due to the net savings expected from internally managing our clinical trial program, as compared to the higher cost of using an outside clinical research organization. Thereafter, we expect that such expenses will again increase as we expand our clinical trials on Neotrofin(TM) and other drug candidates, as well as our research activities at our NeoGene subsidiary. Depending on the results of our planned clinical trials for Neotrofin(TM) and the outcome of the regulatory approval process, we will expand our manufacturing capabilities as we approach commercialization of our lead product, Neotrofin(TM).

General and administrative expenses increased approximately $1.6 million, or 47% over the previous year. This increase is due primarily to increases in personnel, salary increases and related benefits, recruiting, relocation, travel, and depreciation and amortization.

Interest income increased by $0.6 million, or 290% in 2000 over 1999 as a result of the full year utilization of invested funds. We expect interest earnings to decrease over the next year due to our use of the funds in current operations. Interest expense increased by $1.6 million, or 663% in 2000 over 1999, due principally to a non-cash interest charge related to amortization of discount and debt issuance costs of our convertible debentures. These securities were issued and converted into common stock during 2000.

We expect the above-mentioned general and administrative expenses to increase in the immediate future due to expected increases in administrative support and sales and marketing activities associated with our change in strategy and continued focus on bringing one or more of our products to market.

Year ended December 31, 1999 compared to Year ended December 31, 1998

We had no revenues for the twelve-month periods ended December 31, 1999 or 1998.

Research and development expenses for the twelve months ended December 31, 1999 increased by approximately $11.5 million, or 135% over the previous year. This increase was due primarily to the costs and expenses associated with the conduct of clinical and preclinical trials as we accelerated our program to commercialize our lead compound, Neotrofin(TM). These costs and expenses were due primarily to the increased number and length of our clinical trials and manufacturing and formulation of drug compound, all of which were conducted by outside organizations. Internally, research and development expenses increased in the categories of salaries due to additional personnel and salary increases, research grants, professional fees due to increased patent activity, rent (due principally to the re-allocation from general and administrative expense as a result of research and development utilizing a higher proportion of our facility) and depreciation of property and equipment.

General and administrative expenses increased approximately $0.3 million, or 11%, for the year ended December 31, 1999, over the year ended December 31, 1998. General and administrative expenses for 1999 reflect increased

expenses related to increases in salaries due principally to added personnel, investor relations, regulatory agency fees and licenses and printing, offset by the re-allocation of rent to research and development.

In 1999 the Company entered into a non-recurring, non-cash settlement of a matter of litigation and recorded a charge to general and administrative expense of $2,458,359.

Year ended December 31, 1998, compared to Year ended December 31, 1997

We had no revenues for the twelve-month periods ended December 31, 1998 or 1997.

Research and development expenses for the twelve months ended December 31, 1998, increased by approximately $4.0 million, or 90% over the previous year. This increase was due primarily to the costs and expenses associated with the conduct of clinical and preclinical trials as we accelerated our program to commercialize our lead compound, Neotrofin(TM). These costs and expenses were primarily in the categories of salaries due to additional personnel, rent, contract manufacturing and formulation of drug compounds, outside preclinical testing and the increased number and length of clinical trials.

General and administrative expenses increased approximately $0.8 million, or 33%, for the year ended December 31, 1998, over the year ended December 31, 1997. General and administrative expenses for 1998 reflect increased expenses related to additional personnel, insurance, professional and consulting fees, commissions, facilities rent and travel. We expect general and administrative expenses to continue to increase in future periods due to expected increases in both research and development support and sales and marketing activities associated with attempting to bring one or more of our products to market.

Interest income decreased by approximately $0.5 million, or 68%, in 1998 over 1997 due to increased use of cash to fund current operations.

LIQUIDITY AND CAPITAL RESOURCES

From inception through December 31, 2000, we financed our operations primarily through sales of securities, borrowings, grants and deferred payment of salaries and other expenses from related parties. During September and October 1996, we sold a total of 2,700,000 units of our common stock and attached warrants to the public. Each unit consisted of one share of common stock and one warrant to purchase one share of common stock. We realized net cash proceeds of approximately $18.2 million from the sale. On March 27, 1998, we executed an agreement with a private investor (the "Equity Line Agreement") which provides for us, at our sole discretion, subject to certain restrictions, to sell ("put") to the investor up to $15 million of our common stock. In addition, we issued to the investor five-year warrants to purchase 25,000 shares of common stock at $11.62 per share. Under the Equity Line Agreement, we received proceeds of approximately $3.55 million from sales of 506,049 shares of common stock in 1998, $1.95 million from sales of 211,393 shares of common stock in 1999 and an additional $2.0 million in January 2000 from the sale of 186,961 shares of common stock. On February 13, 2001, the Equity Line Agreement expired. On May 31, 1999 we sold to a group of private investors 400,000 shares of common stock for approximately $4.0 million. The investors also received five year warrants to purchase 80,000 shares of common stock at an exercise price of $15 per share. On July 29, 1999 we completed a secondary public offering and sold 1,150,000 shares of common stock, realizing approximately $8.7 million in net cash proceeds from the sale. On November 19, 1999 we sold to two private investors 845,594 shares of common stock for approximately $10.0 million and five year warrants to purchase 126,839 shares of common stock at $14.24 per share. On March 22, 2000 we issued to the investors an additional 43,383 shares of common stock for no further consideration, pursuant to a reset formula contained in the agreement.

We also entered into the following financing transactions from January 1, 2000 through April 17, 2001.

(1) On February 25, 2000 we sold to two private investors 520,324 shares of common stock for $8.0 million. The investors also received five-year warrants to purchase 104,000 shares of common stock at an exercise price of $21.00 per share.

(2) On April 6, 2000, we entered into a financing transaction with two private investor groups. The transaction consists of (a) $10 million in 5% subordinated convertible debentures due April 6, 2005, (b) redeemable warrants to purchase up to 4 million shares of common stock over a two-year period (the "B" warrants) and (c) five-year warrants to purchase from 115,000 shares up to 265,000 shares of our common stock (the "A" warrants) at an exercise price of $19.67 per share. The B warrants can be redeemed in part by us as frequently as several times per week and when called for redemption can be exercised by the investors at 97% of the per share closing market price (i.e. a discount of 3%) and are exercisable at the sole option of the investors at the price of $33.75 per share. The number of B warrants that are exercisable at each redemption are subject to average daily volume restrictions and are callable only if the market price of our common stock is above $5.00 per share. At various times during 2000 we called and the investors exercised

586,400 of our class B Warrants, resulting in the issuance of 586,400 shares of common stock for net proceeds of $5,120,654.

The debentures were convertible into common stock at the lesser of $20.25 per share or 101% of the market price of the common stock as determined under the agreement. At various times through December 31, 2000, all $10,000,000 of the debentures plus $248,625 of accrued interest were converted into an aggregate of 1,594,177 shares of common stock.

(3) On May 1, 2000, we completed a private placement of 500,000 shares of common stock for $7.0 million cash with an institutional investor. The investor also received five year warrants to purchase 125,000 shares of common stock at $17.50 per share.

(4) On September 21, 2000, our subsidiary, NeoGene, sold 111,110 shares of Series A preferred stock for $5 million in cash to two private investors. The preferred stock is initially convertible into an equal number of shares of common stock, representing approximately 10% ownership of NeoGene. The investors also received five year warrants to purchase up to (i) 80,000 shares of NeoTherapeutics common stock at an exercise price of $10.47 per share and (ii) 22,676 shares of NeoGene common stock at an exercise price of $45.00 per share. 5% dividends on the preferred stock are cumulative and payable in NeoGene common stock or cash at our option. The preferred stock is automatically convertible into NeoGene common stock upon the closing of an initial public offering meeting certain criteria. As a result of our common stock price per share recently being less than $5.00 for five consecutive days, the investors have the right to exchange their NeoGene preferred shares for our similar securities, which are convertible into our common stock, within five years at a conversion price equal to the lesser of (i) 120% of the average closing bid price of our common stock for the five trading days immediately preceding the first date of issuance of our shares of preferred stock and (ii) 101% of the average of the lowest ten closing bid prices of our common stock, during the thirty trading days immediately preceding the conversion.

(5) On September 29, 2000, we sold 968,524 shares of common stock to two private investors for $8 million cash. The investors also received five year warrants to purchase 193,706 shares of common stock at $10.13 per share. The agreement contained a reset formula which provided for the investor to obtain at nominal cost, additional shares of common stock based on the market price of the common stock determined thirty and sixty days after the effective date of the registration statement to be filed for this transaction. On January 30, 2001, the first vested period ended which resulted under the reset formula in the issuance of 1,070,336 shares of our common stock to the investors. On March 14, 2001, an additional 840,974 shares of our common stock was owed to the investors under the second and final reset under the agreement. We received no consideration as a result of issuing shares pursuant to these reset provisions.

(6) On December 18, 2000, our subsidiary, NeoGene, entered into an agreement with an institutional investor for the issuance and sale of preferred stock and warrants for aggregate consideration of $2.0 million. Under the provisions of the agreement, NeoGene issued and sold to the investor a total of 44,445 shares of its Series B Convertible Preferred Stock, at a purchase price of $45 per share, and issued a five-year warrant to purchase a total of 9,387 shares of NeoGene common stock, at an exercise price of $45 per share. The Series B Preferred is convertible into shares of NeoGene common stock on a one-to-one basis, subject to certain antidilution adjustments, and automatically converts upon the earlier to occur of December 18, 2005 or the closing of an initial public offering of NeoGene common stock meeting certain criteria. The investor also received a five year warrant to purchase an aggregate of 30,000 shares of our common stock, at an exercise price of $6.10 per share. We also granted an exchange right to the investor which will allow the investor to exchange its shares of NeoGene Series B Preferred for our convertible preferred stock. The exchange right grants the investor the right, at its option, at any time and from time to time after June 18, 2001, to exchange all or a portion of the Series B Preferred shares then held by the investor for a number of shares of our designated convertible preferred stock, equal to (i) the aggregate liquidation preference of the Series B Preferred shares surrendered for exchange plus any accrued but unpaid dividends thereon, divided by (ii) the stated value per share of our preferred stock. Our preferred stock will be convertible into shares of common stock at a conversion price equal to the lesser of (i) 150% of the average of the closing bid prices of our common stock for the five trading days immediately preceding the first date of issuance of any shares of our preferred stock and (ii) 100% of the average of the lowest seven closing bid prices of the common stock during the thirty trading days immediately preceding the conversion.

(7) On February 2, 2001, we sold 1,627,756 shares of common stock to a private investor for $3.5 million in cash.

(8) On March 8, 2001, we sold 1,250,000 shares of common stock to a private investor for $5.0 million in cash.

The investor also received five year warrants to purchase up to 125,000 shares of common stock at the exercise price of $5.00 purchase price per share.

(9) On April 17, 2001, we entered into a financing transaction with two private investor groups which provide, among other things, for (a) the sale of approximately 1,176,000 shares of our common stock for $6.0 million cash, (b) an option to place with the investor groups two tranches of convertible debenture notes of $10 and $8 million within approximately 30 days and seven months, of the initial closing, respectively, and (c) five year warrants exercisable at 125% of the market price on the date of the respective closing for 20% of the gross proceeds of each of the aforementioned common stock and debenture issuances.

At December 31, 2000, we had working capital of approximately $7.2 million which included cash and equivalents of approximately $6.2 million and short-term investments of approximately $5.3 million. In comparison, at December 31, 1999, we had working capital of approximately $5.2 million which included cash and cash equivalents of approximately $6.7 million and short-term investments of approximately $3.0 million. The $2.0 million increase in working capital is attributable primarily to the net proceeds of equity transactions entered into during 2000, aggregating approximately $47.1 million, less the funding of the $43.9 million operating loss for the year ended December 31, 2000, equipment purchases of $0.8 million and repayment of debt principal of $0.6 million. In 2001, we intend to spend approximately $2.5 million for additional equipment, including equipment for our new genomics-based subsidiary, as we further expand our research and development laboratories. We expect to partially finance these capital equipment acquisitions by utilizing our existing capital lease.

During March 2001 we entered into a number of agreements, which are cancelable at any time with written notice, with approximately 50 different clinical sites in the United States to conduct a 500 patient Alzheimer's clinical trial which began in April 2001. We expect to spend approximately $8.2 million towards this clinical trial over the course of approximately one year. In addition, in March 2001, we began smaller scale clinical trials in spinal cord injury and Parkinson's disease. The cost of these trials will aggregate approximately $1.5 million over a one year period from their commencement date. The above trials will be managed internally and are estimated to cost an aggregate of approximately $9.7 million over an eighteen-month period.

Since our inception, we have been in the development stage and therefore devote substantially all of our efforts to research and development. We have incurred cumulative losses of approximately $96.2 million through December 31, 2000, and expect to incur substantial losses over the next several years. We received $8.5 million in new funding in February and March 2001. In April 2001, we entered into an agreement with two private investor groups to provide equity and financing, aggregating approximately $24.0 million over approximately a one year period. Our future capital requirements and availability of capital will depend upon many factors, including continued scientific progress in research and development programs, the scope and results of preclinical studies and clinical trials, the time and costs involved in obtaining regulatory approvals, the cost involved in filing, prosecuting and enforcing patent claims, competing technological developments, the cost of manufacturing scale-up, the cost of commercialization activities and other factors which may not be within our control. Assuming that the aforementioned additional funding is available, we believe that our existing capital resources will be adequate to fund our capital needs for at least 12 months of operations. We also believe that, if these funds are not available, we may be required to scale-back or possibly cancel certain clinical trial activities or obtain additional financing elsewhere. Ultimately, we will require substantial additional funds in order to complete the research and development activities currently contemplated and to commercialize our proposed products. If we are successful in obtaining additional equity funding, our existing stockholders could experience substantial dilution to their shares of stock.

Without additional funding, we may be required to delay, reduce the scope of or eliminate one or more of our research and development projects, or obtain funds through arrangements with collaborative partners or others which may require us to relinquish rights to certain technologies, product candidates or products that we otherwise would seek to develop or commercialize on our own, and which could be on terms unfavorable to us.

Our principal research and administrative facilities are located in the State of California which is currently experiencing an energy crisis. The continuation of this crisis could seriously disrupt or impair our ability to operate due to shortages of heat and power and/or the escalation of our operating costs.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

QUANTITATIVE DISCLOSURES

We are exposed to certain market risks associated with interest rate fluctuations on our marketable securities and borrowing arrangements. All investments in marketable securities and borrowing arrangements are entered into for purposes other than trading. We are not subject to material risks from currency rate fluctuations, nor do we utilize hedging contracts or similar instruments.

Our exposure to interest rate risk arises from financial instruments entered into in the normal course of business. Certain of our financial instruments are fixed rate, short-term investments in government and corporate notes and bonds, which are available for sale (and have been marked to market in the accompanying financial statements). Changes in interest rates generally affect the fair value of these investments, however, because these financial instruments are considered "available for sale," all such changes are reflected in the financial statements in the period affected.

Our borrowings bear interest at fixed annual rates. Changes in interest rates generally affect the fair value of such debt, but do not have an impact on earnings or cash flows. Because of the relatively short-term nature of our borrowings, fluctuations in fair value are not deemed to be material.

QUALITATIVE DISCLOSURES

Our primary exposures relate to (1) interest rate risk on borrowings, (2) our ability to pay or refinance our borrowings at maturity at market rates, (3) interest rate risk on the value of our investment portfolio and rate of return, (4) the impact of interest rate movements on our ability to obtain adequate financing to fund future cash requirements. We manage interest rate risk on our investment portfolio by matching scheduled investment maturities with our cash requirements. We manage interest rate risk on our outstanding borrowings by using fixed rate debt. While we cannot predict or manage our ability to refinance existing borrowings and investment portfolio, we evaluate our financial position on an ongoing basis.

ITEM 8. FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors and Stockholders of NeoTherapeutics, Inc.:

We have audited the accompanying consolidated balance sheets of NeoTherapeutics, Inc. (a Delaware corporation in the development stage) and subsidiaries as of December 31, 2000 and 1999, and the related consolidated statements of operations, stockholders' equity (deficit) and cash flows for each of the three years in the period ended December 31, 2000 and for the period from inception (June 15, 1987) to December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of NeoTherapeutics, Inc. and subsidiaries as of December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000 and for the period from inception (June 15, 1987) to December 31, 2000, in conformity with accounting principles generally accepted in the United States.

/ S / ARTHUR ANDERSEN LLP

Orange County, California
April 17, 2001

NEOTHERAPEUTICS, INC. AND SUBSIDIARIES
(A DEVELOPMENT STAGE ENTERPRISE)

CONSOLIDATED BALANCE SHEETS

ASSETS	DECEMBER 31, 1999	DECEMBER 31, 2000
CURRENT ASSETS:		
Cash and equivalents	$ 6,726,220	$ 6,158,375
Marketable securities and short-term investments	2,955,212	5,311,215
Other receivables	148,034	424,059
Prepaid expenses and refundable deposits	130,202	418,010
Total current assets	9,959,668	12,311,659
PROPERTY AND EQUIPMENT, at cost:		
Equipment	2,607,741	3,412,932
Leasehold improvements	1,814,167	1,853,227
Accumulated depreciation and amortization	(1,261,220)	(1,850,076)
Property and equipment, net	3,160,688	3,416,083
OTHER ASSETS - Prepaid expenses and deposits	53,641	53,242
Total assets	$ 13,173,997	$ 15,780,984
LIABILITIES, MINORITY INTEREST AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 3,613,680	$ 3,708,244
Accrued payroll and related taxes	111,822	265,383
Note payable to related party	558,304	285,574
Current portion of long-term debt	472,938	850,871
Total current liabilities	4,756,744	5,110,072
LONG-TERM DEBT, net of current portion	637,308	474,004
DEFERRED RENT	75,121	86,532
Total liabilities	5,469,173	5,670,608
COMMITMENTS AND CONTINGENCIES (NOTE 7)		
MINORITY INTEREST IN CONSOLIDATED SUBSIDIARIES	--	7,280,111
STOCKHOLDERS' EQUITY:		
Preferred Stock, par value $0.001 per share, 5,000,000 shares authorized: Issued and outstanding, none at December 31, 1999 and 2000	--	--
Common Stock, par value $0.001 per share, 25,000,000 shares authorized: Issued and outstanding, 8,778,370 and 13,307,227 shares, respectively	58,139,327	100,612,570
Deferred compensation expense	--	(959,850)
Unrealized (losses) gains on available-for-sale securities	(38,572)	763
Deficit accumulated during the development stage	(50,395,931)	(96,823,218)
Total stockholders' equity	7,704,824	2,830,265
Total liabilities, minority interest and stockholders' equity	$ 13,173,997	$ 15,780,984

The accompanying notes are an integral part of these consolidated balance sheets.

NEOTHERAPEUTICS, INC. AND SUBSIDIARIES
(A DEVELOPMENT STAGE ENTERPRISE)

CONSOLIDATED STATEMENTS OF OPERATIONS

	YEARS ENDED DECEMBER 31,			PERIOD FROM JUNE 15, 1987 (INCEPTION) THROUGH DECEMBER 31,
	1998	1999	2000	2000
REVENUES, from grants	$ --	$ --	$ --	$ 497,128
OPERATING EXPENSES:				
Research and development	8,542,034	20,057,687	38,766,884	74,841,672
General and administrative	3,122,506	3,465,443	5,106,812	17,465,143
Settlement of litigation	--	2,458,359	--	2,458,359
	11,664,540	25,981,489	43,873,696	94,765,174
LOSS FROM OPERATIONS	(11,664,540)	(25,981,489)	(43,873,696)	(94,268,046)
OTHER INCOME (EXPENSE):				
Interest income	235,265	199,267	776,348	2,232,832
Interest expense	(156,016)	(243,410)	(1,857,640)	(2,793,621)
Other income (expense)	(19,265)	35,727	(8,702)	54,460
Total other income (expense)	59,984	(8,416)	(1,089,994)	(506,329)
NET LOSS BEFORE MINORITY INTEREST IN CONSOLIDATED SUBSIDIARIES	(11,604,556)	(25,989,905)	(44,963,690)	(94,774,375)
MINORITY INTEREST IN CONSOLIDATED SUBSIDIARIES' NET LOSS	--	--	(1,463,597)	(1,463,597)
NET LOSS	$(11,604,556)	$(25,989,905)	$(46,427,287)	$(96,237,972)
BASIC AND DILUTED LOSS PER SHARE	$ (2.07)	$ (3.68)	$ (4.37)	
BASIC AND DILUTED WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	5,615,449	7,105,041	10,629,408	

The accompanying notes are an integral part of these consolidated financial statements.

NEOTHERAPEUTICS, INC. AND SUBSIDIARIES
(A DEVELOPMENT STAGE ENTERPRISE)

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)

	COMMON STOCK		REVENUE PARTICIPATION UNITS AND OTHER	UNREALIZED GAINS (LOSSES) FROM SECURITIES	DEFICIT ACCUMULATED DURING THE DEVELOPMENT STAGE	TOTAL
	SHARES	AMOUNT				
BALANCE, Inception (June 15, 1987)	--	$ --	$ --	$ --	$ --	$ --
Common stock issued	465,902	2,100	--	--	--	2,100
Net loss	--	--	--	--	(31,875)	(31,875)
BALANCE, December 31, 1987	465,902	2,100	--	--	(31,875)	(29,775)
Common stock issued	499,173	2,250	--	--	--	2,250
Revenue Participation Units issuance	--	--	594,000	--	--	594,000
Net loss	--	--	--	--	(556,484)	(556,484)
BALANCE, December 31, 1988	965,075	4,350	594,000	--	(588,359)	9,991
Revenue Participation Units issuance	--	--	82,000	--	--	82,000
Net effect of acquisition	145,000	354,316	--	--	--	354,316
Net loss	--	--	--	--	(934,563)	(934,563)
BALANCE, December 31, 1989	1,110,075	358,666	676,000	--	(1,522,922)	(488,256)
Exercise of warrants	31,108	136,402	--	--	--	136,402
Common stock issued in exchange for accrued salaries	402,518	503,144	--	--	--	503,144
Net loss	--	--	--	--	(859,172)	(859,172)
BALANCE, December 31, 1990	1,543,701	998,212	676,000	--	(2,382,094)	(707,882)
Net Loss	--	--	--	--	(764,488)	(764,488)
BALANCE, December 31, 1991	1,543,701	998,212	676,000	--	(3,146,582)	(1,472,370)
Net loss	--	--	--	--	(423,691)	(423,691)
BALANCE, December 31, 1992	1,543,701	998,212	676,000	--	(3,570,273)	(1,896,061)
Common stock issued in exchange for investment banking services	40,000	54,000	--	--	--	54,000
Common stock issued in exchange for accrued salaries	255,476	638,694	--	--	--	638,694
Common stock issued in exchange for note payable to President	200,000	500,000	--	--	--	500,000
Common stock issued in exchange for accrued expenses	20,842	52,104	--	--	--	52,104
Stock options issued in exchange for accrued professional fees	--	108,000	--	--	--	108,000
Stock options issued in exchange for future services	--	39,750	--	--	--	39,750
Stock options issued for services ..	--	--	(93,749)		--	-- (93,749)
Net loss	--	--	--	--	(237,815)	(237,815)
BALANCE, December 31, 1993	2,060,019	2,390,760	582,251	--	(3,808,088)	(835,077)
Common stock issued for cash	13,000	32,500	--	--	--	32,500
Amortization of deferred compensation	--	--	93,749	--	--	93,749
Net loss	--	--	--	--	(312,342)	(312,342)

NEOTHERAPEUTICS, INC. AND SUBSIDIARIES
(A DEVELOPMENT STAGE ENTERPRISE)

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT) - (CONTINUED)

	COMMON STOCK		REVENUE PARTICIPATION UNITS AND OTHER	UNREALIZED GAINS (LOSSES) FROM SECURITIES	DEFICIT ACCUMULATED DURING THE DEVELOPMENT STAGE	TOTAL
	SHARES	AMOUNT				
BALANCE, December 31, 1994	2,073,019	$ 2,423,260	$ 676,000	$ --	$ (4,120,430)	$ (1,021,170)
Common stock issued for cash .	22,000	55,000	--	--	--	55,000
Common stock forfeiture	(678,836)	(1,193,943)	--	--	--	(1,193,943)
Common stock reissued	678,836	1,697,090	--	--	--	1,697,090
Stock options issued for services	--	105,000	--	--	--	105,000
Net loss	--	--	--	--	(895,378)	(895,378)
BALANCE, December 31, 1995	2,095,019	3,086,407	676,000	--	(5,015,808)	(1,253,401)
Common stock issued for cash .	266,800	633,650	--	--	--	633,650
Stock options issued for services	--	103,950	--	--	--	103,950
Cash paid out for fractional shares	(12)	(25)	--	--	--	(25)
Conversion of revenue participation units into common stock	300,000	1,125,000	(676,000)	--	(449,000)	--
Common stock and warrants issued for cash, net of costs of public offering ...	2,700,000	18,176,781	--	--	--	18,176,781
Net loss	--	--	--	--	(1,038,875)	(1,038,875)
BALANCE, December 31, 1996	5,361,807	23,125,763	--	--	(6,503,683)	16,622,080
Stock options exercise	104,000	2,600	--	--	--	2,600
Stock options issued for services	--	60,000	--	--	--	60,000
Unrealized gains on available-for-sale securities	--	--	--	20,256	--	20,256
Net loss	--	--	--	--	(6,161,541)	(6,161,541)
BALANCE, December 31, 1997	5,465,807	23,188,363	--	20,256	(12,665,224)	10,543,395
Common stock and warrants issued for cash under Line of Equity Agreement, net of issuance costs	506,049	3,451,782	--	--	--	3,451,782
Stock options exercised by employees, directors and consultants	134,000	340,560	--	--	--	340,560
Exercise of underwriters' warrant	41,000	373,920	--	--	--	373,920
Notes receivable for exercise of stock options	--	(286,560)	--	--	--	(286,560)
Stock options issued for services	--	422,264	--	--	--	422,264
Warrant to purchase common stock issued in connection with equipment financing ...	--	45,000	--	--	--	45,000
Fractional shares adjustment upon conversion of pre-split shares	(2)	--	--	--	--	--
Unrealized gains on available-for-sale securities	--	--	--	3,951	--	3,951
Net loss	--	--	--	--	(11,604,556)	(11,604,556)

NEOTHERAPEUTICS, INC. AND SUBSIDIARIES
(A DEVELOPMENT STAGE ENTERPRISE)

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT) - (CONTINUED)

	COMMON STOCK		UNREALIZED REVENUE PARTICIPATION UNITS AND OTHER	DEFICIT GAINS (LOSSES) FROM SECURITIES
	SHARES	AMOUNT		
BALANCE, December 31, 1998	6,146,854	$ 27,535,329	$ --	$ 24,207
Sale of common stock to Private Equity Line investor, net of costs of issuance	211,393	1,918,152	--	--
Sale of shares of 5% Series A Preferred Stock, net of offering costs and allocated warrants	--	--	3,608,788	--
Conversion of preferred stock into common stock	347,334	3,608,788	(3,608,788)	--
Common stock and warrants issued for cash under an exempt private sale agreement, net of offering costs	400,000	3,982,716	--	--
Sale of common stock pursuant to a secondary public offering, net of offering costs	1,150,000	8,706,660	--	--
Common stock issued to legal counsel for services	12,500	70,000	--	--
Fair value of warrants issued as compensation to investment advisor	--	204,280	--	--
Exercise of underwriters' warrants	9,000	82,080	--	--
Stock options exercised by employees	1,900	12,489	--	--
Stock options and warrants issued for legal and consulting services	--	119,471	--	--
Sale of common stock to private investors	845,594	9,441,003	--	--
Common stock forfeiture in settlement of litigation	(678,836)	(1,697,090)	--	--
Common stock and warrants issued in settlement of litigation	332,630	4,155,449	--	--
Fractional share adjustment upon conversion of pre-split shares	1	--	--	--
Unrealized losses on available-for-sale securities	--	--	--	(62,779)
Dividends paid on preferred stock	--	--	--	--
Net loss	--	--	--	--

	ACCUMULATED DURING THE DEVELOPMENT STAGE	TOTAL
BALANCE, December 31, 1998	$(24,269,780)	$ 3,289,756
Sale of common stock to Private Equity Line investor, net of costs of issuance	--	1,918,152
Sale of shares of 5% Series A Preferred Stock, net of offering costs and allocated warrants	--	3,608,788
Conversion of preferred stock into common stock	--	--
Common stock and warrants issued for cash under an exempt private sale agreement, net of offering costs	--	3,982,716
Sale of common stock pursuant to a secondary public offering, net of offering costs	--	8,706,660
Common stock issued to legal counsel for services	--	70,000
Fair value of warrants issued as compensation to investment advisor	--	204,280
Exercise of underwriters' warrants	--	82,080
Stock options exercised by employees	--	12,489
Stock options and warrants issued for legal and consulting services	--	119,471
Sale of common stock to private investors	--	9,441,003

Common stock forfeiture in settlement of litigation	--	(1,697,090)
Common stock and warrants issued in settlement of litigation	--	4,155,449
Fractional share adjustment upon conversion of pre-split shares	--	--
Unrealized losses on available-for-sale securities	--	(62,779)
Dividends paid on preferred stock	(136,246)	(136,246)
Net loss	(25,989,905)	(25,989,905)

NEOTHERAPEUTICS, INC. AND SUBSIDIARIES
(A DEVELOPMENT STAGE ENTERPRISE)

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT) - (CONTINUED)

	COMMON STOCK		REVENUE PARTICIPATION UNITS AND OTHER	UNREALIZED GAINS (LOSSES) FROM SECURITIES
	SHARES	AMOUNT		
BALANCE, December 31, 1999	8,778,370	$ 58,139,327	$ --	$ (38,572)
Sale of common stock to Private Equity Line investor, net of costs of issuance	2,805,592	29,025,377	--	--
Sale of common stock and warrants sold with 5% convertible debentures	1,594,177	9,387,321	--	--
Allocation of discounts on convertible securities including beneficial conversion feature	--	1,675,463	--	--
Fair value of warrants sold in subsidiary offerings	--	512,740	--	--
Common stock to be issued to vendor for services	--	105,000	--	--
Fair value of warrants to be issued to vendor for services	--	131,250	--	--
Common stock issued to consultants for services	2,000	23,500	--	--
Public warrant exercise	4,490	51,186	--	--
Stock options exercised by employees	92,598	539,246	--	--
Stock options exercised by consultants	30,000	750	--	--
Equity increase from compensation arising from employee stock options	--	959,850	--	--
Deferred compensation from employee stock options	--	--	(959,850)	--
Repayment of notes to officers and directors for exercise of stock options	--	61,560	--	--
Unrealized gains on available-for-sale securities	--	--	--	39,335
Net loss	--	--	--	--
BALANCE, December 31, 2000	13,307,227	$100,612,570	$ (959,850)	$ 763

	DEFICIT ACCUMULATED DURING THE DEVELOPMENT STAGE	TOTAL
BALANCE, December 31, 1999	$(50,395,931)	$ 7,704,824
Sale of common stock to Private Equity Line investor, net of costs of issuance	--	29,025,377
Sale of common stock and warrants sold with 5% convertible debentures	--	9,387,321
Allocation of discounts on convertible securities including beneficial conversion feature	--	1,675,463
Fair value of warrants sold in subsidiary offerings	--	512,740
Common stock to be issued to vendor for services	--	105,000
Fair value of warrants to be issued to vendor for services	--	131,250
Common stock issued to consultants for services	--	23,500
Public warrant exercise	--	51,186
Stock options exercised by employees	--	539,246
Stock options exercised by consultants	--	750
Equity increase from compensation arising from employee stock options	--	959,850
Deferred compensation from employee stock options	--	(959,850)
Repayment of notes to officers and directors for exercise of stock options	--	61,560
Unrealized gains on available-for-sale securities	--	39,335
Net loss	(46,427,287)	(46,427,287)
BALANCE, December 31, 2000	$(96,823,218)	$ 2,830,265

The accompanying notes are an integral part of these consolidated financial statements.

NEOTHERAPEUTICS, INC. AND SUBSIDIARIES
(A DEVELOPMENT STAGE ENTERPRISE)

CONSOLIDATED STATEMENTS OF CASH FLOWS

	YEARS ENDED DECEMBER 31,			PERIOD FROM JUNE 15, 1987 (INCEPTION) THROUGH DECEMBER 31,
	1998	1999	2000	2000
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net loss	$(11,604,556)	$(25,989,905)	$(46,427,287)	$(96,237,972)
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation and amortization	460,500	519,875	588,856	1,974,633
Issuance of common stock options and warrants for compensation	422,264	393,751	775,496	1,860,461
Issuance of common stock in settlement of litigation	--	2,458,359	--	2,458,359
Amortization of deferred compensation	--	--	--	93,749
Amortization of discount on convertible debentures including beneficial conversion feature	--	--	539,277	539,277
Compensation expense for extension of Debt Conversion Agreements, net	--	--	--	503,147
Gain on sale of assets	--	--	--	(5,299)
Minority interest in consolidated subsidiaries' beneficial conversion feature and net loss	--	--	1,463,597	1,463,597
Changes in assets and liabilities:				
(Increase) decrease in other receivables	109,277	(35,482)	(276,025)	(423,813)
(Increase) decrease in prepaid expenses and refundable deposits	(180,715)	412,376	(287,808)	(375,717)
Increase in accounts payable and accrued expenses	303,615	2,334,726	94,564	3,868,344
Increase in accrued payroll and related taxes	81,370	30,452	153,561	904,077
Increase in deferred rent	46,308	28,812	11,411	86,531
Increase in accrued interest to related parties	--	--	--	300,404
Net cash used in operating activities	(10,361,937)	(19,847,036)	(43,364,358)	(82,990,222)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchases of property and equipment	(236,785)	(429,861)	(844,251)	(5,346,462)
Redemptions (purchases) of marketable securities and short-term investments	364,027	(1,185,864)	(2,356,003)	(5,311,215)
Unrealized gain (loss) on available-for-sale securities	3,951	(62,779)	39,335	763
Payment of organization costs	--	--	--	(66,093)
Proceeds from sale of equipment	--	--	--	29,665
Issuance of notes receivable	--	--	--	100,000
Net cash provided by (used in) investing activities	131,193	(1,678,504)	(3,160,919)	(10,593,342)

NEOTHERAPEUTICS, INC. AND SUBSIDIARIES
(A DEVELOPMENT STAGE ENTERPRISE)

CONSOLIDATED STATEMENTS OF CASH FLOWS - (CONTINUED)

	YEARS ENDED DECEMBER 31,			PERIOD FROM JUNE 15, 1987 (INCEPTION) THROUGH DECEMBER 31,
	1998	1999	2000	2000
CASH FLOWS FROM FINANCING ACTIVITIES:				
Proceeds from long-term debt	1,500,000	36,333	797,490	2,660,448
Repayment of long-term debt	(114,964)	(497,557)	(582,861)	(1,335,571)
Proceeds from preferred stock issuance, net of offering costs	--	3,608,788	--	3,608,788
Proceeds from issuance of common stock and warrants, net of related offering costs and expenses	3,451,782	24,048,532	30,002,724	77,720,841
Proceeds from sale of convertible debentures, net of issuance cost	--	--	9,387,321	9,387,321
Proceeds from sales of preferred stock of consolidated subsidiary net of issuance costs	--	--	6,488,493	6,488,493
Proceeds from exercise of stock options and warrants	714,480	94,569	75,436	887,085
Proceeds from (issuance of) notes receivables from officers and directors for exercise of stock options	(286,560)	--	61,560	(225,000)
(Repayment of) proceeds from notes payable to related parties, net	--	--	(272,731)	485,168
Dividends paid to preferred stockholders	--	(136,246)	--	(136,246)
Cash at acquisition	--	--	--	200,612
Net cash provided by financing activities	5,264,738	27,154,419	45,957,432	99,741,939
Net (decrease) increase in cash and equivalents	(4,966,006)	5,628,879	(567,845)	6,158,375
Cash and equivalents, beginning of period	6,063,347	1,097,341	6,726,220	--
Cash and equivalents, end of period	$ 1,097,341	$ 6,726,220	$ 6,158,375	$ 6,158,375
SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:				
Conversion of accrued payroll into shares of common stock	$ --	$ --	$ --	$ 1,141,838
Conversion of notes payable to related parties into shares of common stock	$ --	$ --	$ --	$ 500,000
Conversion of accrued interest into notes payable to related parties	$ --	$ --	$ --	$ 300,404
Conversion of preferred stock and convertible debentures into shares of common stock	$ --	$ 3,608,788	$ 1,675,463	$ 5,532,876
Conversion of Revenue Participation Units into shares of common stock	$ --	$ --	$ --	$ 676,000
Issuance of stock options and warrants for services	$ 422,264	$ 393,751	$ 775,496	$ 1,860,461
Issuance of common stock and warrants in connection with settlement of litigation	$ --	$ 2,458,359	$ --	$ 2,458,359
Issuance of warrants in connection with equity and debt financings	$ 45,000	$ 344,610	$ 512,740	$ 2,330,251
Conversion of other accrued liabilities to shares of no par value common stock	$ --	$ --	$ --	$ 300,729
Dividends on preferred stock payable in shares of common stock	$ --	$ 82,312	$ --	$ 82,312

The accompanying notes are an integral part of these consolidated financial statements.

NEOTHERAPEUTICS, INC. AND SUBSIDIARIES
(A DEVELOPMENT STAGE ENTERPRISE)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2000

1. BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Business

NeoTherapeutics, Inc. (the "Company") was incorporated in Colorado as Americus Funding Corporation ("AFC") in December 1987. In August 1996, AFC changed its name to NeoTherapeutics, Inc. and in June 1997, the Company was reincorporated in the state of Delaware. At December 31, 2000, the Company had four controlled subsidiaries, Advanced ImmunoTherapeutics, Inc. ("AIT"), incorporated in California in June 1987, NeoTherapeutics GmbH ("NEOT GmbH"), incorporated in Switzerland in April 1997, NeoGene Technologies, Inc. ("NeoGene"), incorporated in California in October 1999 and NeoOncoRx ("NeoOncoRx") Inc., incorporated in California in November 2000. AIT became a wholly owned subsidiary of AFC in July 1989 in a transaction accounted for as a reverse acquisition. All references to the "Company" hereinafter refer to the Company, AIT, NEOT GmbH, NeoGene and NeoOncoRx as a consolidated entity.

The Company is a development stage biopharmaceutical enterprise principally engaged in the discovery and development of novel therapeutic drugs intended to treat neurological and psychiatric diseases and conditions, such as memory deficits associated with Alzheimer's disease, aging, stroke, spinal cord injuries, Parkinson's disease, migraine, depression and obesity. The Company has recently expanded its clinical development program to include anti-cancer drugs. The Company is also engaged in research involving functional genomics. The accompanying consolidated financial statements include the results of the Company and its subsidiaries.

Development Stage Enterprise

The Company is in the development stage and, therefore, devotes substantially all of its efforts to research and development activities. Since its inception, the Company has incurred cumulative losses of approximately $96.2 million through December 31, 2000, and expects to incur substantial losses over the next several years. The Company believes that its existing capital resources, including the total of $8.5 million raised from sales of common stock in February and March 2001, and the $25 million of committed funds from a major investment bank pursuant to several agreements entered into during April 2001, will be adequate to fund its capital needs for at least 12 months of operations.

The Company also believes that, ultimately, it will require substantial additional funds in order to complete the research and development activities currently contemplated and to commercialize its proposed products. The Company's future capital requirements and availability of capital will depend upon many factors including, but not limited to, continued scientific progress in research and development programs, the scope and results of preclinical studies and clinical trials, the time and costs involved in obtaining regulatory approvals, the costs involved in filing, prosecuting and enforcing patent claims, competing technological developments, the cost of manufacturing scale-up, the cost of commercialization activities and other factors which may not be within the Company's control. Without additional funding, the Company may be required to delay, reduce the scope of or eliminate one or more of its research and development projects, or obtain funds through arrangements with collaborative partners or others which may require the Company to relinquish rights to certain technologies, product candidates or products that the Company would otherwise seek to develop or commercialize on its own. Other factors impacting the future success of the Company are the ability to develop products which will be safe and effective in treating targeted diseases, the ability to obtain government approval and to retain key personnel.

Principles of Consolidation

The consolidated financial statements include accounts of the Company and its subsidiaries. The Company accounts separately for the minority interest in net loss of subsidiaries that are not wholly-owned. All significant intercompany accounts and transactions have been eliminated.

Cash and Equivalents

Cash and equivalents consist of cash and highly liquid investments of commercial paper and demand notes with original maturities of 90 days or less.

Marketable Securities and Short-Term Investments

Investments in debt and equity securities are classified among three categories as follows: held-to-maturity, trading and available-for-sale. As of December 31, 2000, all securities held by the Company were considered as available-for-sale. Available-for-sale securities are carried at fair value, with unrealized gains and losses reported as a separate component of stockholders' equity. Quoted market prices have been used in determining the fair value of these investments.

Prepaid Expenses and Refundable Deposits

Prepaid expenses and refundable deposits are capitalized and amortized over the period benefited, or as the related services are rendered.

Property and Equipment

Property and equipment are carried at cost, less accumulated depreciation and amortization. When property and equipment are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in income. Depreciation and amortization are computed using principally the straight-line method over the following estimated useful lives:

Equipment	5 to 7 years
Leasehold Improvements	The shorter of the estimated useful life or lease term

Research and Development

All costs related to research and development activities are expensed in the period incurred.

Grant Revenue

Revenue consists of amounts earned from grants which are recognized in accordance with the terms of the related agreements.

Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. A valuation allowance is provided for the Company's net deferred tax asset.

Stock-Based Compensation

The Financial Accounting Standards Board ("FASB") issued SFAS No. 123, "Accounting for Stock-Based Compensation" in October 1995. SFAS 123 encourages companies to adopt a fair value approach to valuing stock options that would require compensation cost to be recognized based on the fair value of stock options granted. The Company has elected, as permitted by the standard, to continue to follow its intrinsic value based method of accounting for stock options issued to employees consistent with Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees." Under the intrinsic method, compensation cost for stock options is measured as the excess, if any, of the quoted market price of the Company's common stock at the measurement date over the exercise price.

Basic and Diluted Net Loss Per Share

Basic and diluted net loss per share is calculated using the weighted average number of common shares outstanding for the period. Net loss used in the calculation of net loss per share includes preferred stock dividends. Common stock options and warrants are excluded from the computation as their effect would be antidilutive.

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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

New Accounting Pronouncements

In June 1998, the FASB issued SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities", which is effective for fiscal years beginning after June 15, 2000 as amended by SFAS No. 137 and SFAS No. 138. SFAS No. 133 establishes accounting and reporting standards for derivative instruments. The statement requires that every derivative instrument be recorded in the balance sheet as either an asset or liability measured at its fair value, and that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. The Company did not have any derivative instruments as of December 31, 1999 and 2000 and believes that the adoption of SFAS No. 133 will not have a material impact on its consolidated financial statements.

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition in Financial Statements." SAB 101 provides guidance on the recognition, disclosure and presentation of revenue in financial statements. SAB 101, as amended by SAB 101A and SAB101B, is required to be implemented no later than the fourth fiscal quarter of fiscal years beginning after December 15, 1999. The Company did not have any revenue as of December 31, 1999 and 2000 and believes that the adoption of SAB 101 will have no material impact on its financial position or the results of operations.

In March 2000, the FASB issued interpretation No. 44, "Accounting For Certain Transactions Involving Stock Compensation - an Interpretation of APB Opinion NO. 25." The Interpretation clarifies the application of APB Opinion No.

25 in certain situations, as defined. The Interpretation is effective July 1, 2000, but covers certain events occurring during the period after December 15, 1998, but before the effective date. To the extent that events covered by the effective date, the effects of applying this Interpretation would be recognized on a prospective basis from the effective date. Accordingly, upon initial application of the final Interpretation, (a) no adjustments would be made to the financial statements for periods before the effective date and (b) no expense would be recognized for any additional compensation cost measured that is attributable to periods before the effective date. The adoption of this new Interpretation had no impact on the Company's consolidated financial statements, based on its current structure and operations.

2. RELATED PARTY TRANSACTIONS

During 1987 and 1988, the Company's Chief Executive Officer, who is also a major stockholder of the Company, loaned a total of $270,650 to the Company for working capital purposes, of which $250,000 plus $2,000 of accrued interest was canceled in December 1988 in exchange for the issuance of 28 Revenue Participation Units ("RPU's"). The RPU's, in turn, were converted into 112,000 shares of common stock.

From 1989 through 1993, the Company borrowed an additional $757,900 from the Chief Executive Officer which, together with accrued interest of $300,404, aggregated $1,058,304 on December 31, 1993, at which time the Company issued 200,000 shares of common stock to the Chief Executive Officer in exchange for cancellation of $500,000 of loans made to the Company. The remaining $257,900 in principal and accrued interest of $300,404 were converted to a $558,304 promissory note which, as amended from time to time, is currently unsecured, and is payable upon demand. Interest is payable monthly at the annual rate of 9%. The note was partially repaid in 2000 when the Company advanced, on his behalf, payroll taxes arising from the officer's exercise in August 2000, of a warrant for 88,173 shares of common stock at $3.75 per share. The note balance at December 31, 2000 was $285,574.

In October 2000, the Company's President and Chief Operating Officer borrowed $90,000 from the Company. The note is collateralized by 10,000 shares of the Company's common stock and is personally guaranteed by him. The principal note is due October 2002 together with accrued interest of 9%.

Assignment of Patents by Chief Executive Officer

The Chief Executive Officer of the Company has assigned all of his rights in the following four patents to the Company:

1. U.S. Patent No. 5,091,432 issued on February 25, 1992;

2. U.S. Patent No. 5,447,939 issued on September 5, 1995;

3. U.S. Patent No. 5,801,184 issued on September 1, 1998; and

4. U.S. Patent No. 6,027,936 issued on February 22, 2000.

In connection with the assignment of these patents to the Company, the Chief Executive Officer and the Company entered into royalty agreements, which expire concurrently with the expiration of the underlying patents and any patents derived therefrom. Under each of the Agreements, as amended, the Company is obligated to pay the Chief Executive Officer a royalty of two percent (2%) of all revenues derived by the Company from the use and sale by the Company of any products or methods included in the patents. Further, in the event that the Chief Executive Officer's employment is terminated by the Company without cause, the royalty rate under each Agreement was to be increased to five percent (5%). Finally, in the event of the Chief Executive Officer's death, the family or estate is entitled to continue to receive under each Agreement royalties at a rate of two percent (2%) for the duration of the respective Agreement.

McMaster University Agreement

On July 10, 1996, the Company entered into a license agreement with McMaster University (the "University") which allows the Company use of certain chemical compounds developed by the University covered in the patents filed jointly by the Company and the University. Under the agreement, the Company paid a one time licensing fee of $15,000 and is obligated to pay an annual royalty of five percent (5%) on net sales of products containing compounds developed by the University. The Company commenced payment of annual minimum royalties of $25,000 beginning July 1997 and has continued such annual payments through 2000. The third and fourth patent noted above were also jointly filed by the Company and the University and are subject to the same royalty agreement.

3. MARKETABLE SECURITIES AND SHORT-TERM INVESTMENTS

A summary of marketable securities and short-investments at December 31, 1999 and 2000 are as follows:

Type of Investment	Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Market Value
December 31, 1999:				
Available-for-Sale:				
U.S. Government Treasury Notes and Bonds	$ 403,357	$ --	$ (11,433)	$ 391,924
U.S. Government guaranteed securities	295,060	1,996	(503)	296,553
Corporate Bonds	2,295,367	--	(28,632)	2,266,735
Total Investments	$2,993,784	$ 1,996	$ (40,568)	$2,955,212
December 31, 2000:				
Available-for-Sale:				
U.S. Government Treasury Notes and Bonds	1,643,758	2,421	--	1,646,179
U.S. Government guaranteed securities	246,493	4,185	--	250,678
Corporate Bonds	3,420,201	4,822	(10,665)	3,414,358
Total Investments	$5,310,452	$ 11,428	$ (10,665)	$5,311,215

For the years ended December 31, 1999 and 2000, sales of securities aggregated $2,230,139 and $848,202, and the Company realized a net gain of $35,727 and a net loss of $9,669, respectively.

4. DEBT

In September 1998, the Company entered into a $2 million Master Note and Security Agreement (the "Note") with a finance company affiliated with its bank. Through December 31, 1999, the Company borrowed $1.5 million under the Note for equipment and computer software purchases. Borrowings are collateralized by substantially all of the Company's assets, exclusive of its patents and other intellectual properties. The note requires monthly repayments of $41,277, bears interest at approximately 12% and is due March 2002, at which time a final principal installment of $150,000 is due. The Company has also granted to the finance company a warrant to purchase up to 13,459 shares of its common stock at $7.43 a share which was valued at $45,000 using the Black-Scholes option-pricing model with the following assumptions: Risk-free interest rate of 5.02 percent; expected life of three years; expected volatility of 75.3 percent. The warrant was recorded as a prepaid expense and is being amortized using the effective interest method over the life of the note.

In September 2000, the Company financed the premium amounting to $322,000 for a three-year insurance policy through a borrowing from the insurer. The loan is payable through August 2001 in monthly installments of $30,556 including principal and 8.57% interest per annum.

On September 22, 2000 the Company signed an agreement to lease up to $2.5 million in equipment financing from a major equipment leasing and remarketing company ("lessor"). Under the terms of the agreement, the Company is required to make quarterly payments over three years on cumulative advances drawn by the Company. The Company has drawn $324,091 as of December 31, 2000 under the lease agreement. The lease is collateralized by the underlying equipment. At the conclusion of the lease term the equipment may be purchased for fair value, re-marketed by the lessor, or re-leased by the Company.

In October 2000, the Company financed $151,249 of laboratory equipment through an equipment vendor under a capital lease agreement. Under the terms of the agreement, the Company is required to make monthly payments of $4,839 over three years, including effective interest at approximately 9% per annum.

Future installments of debt principal are as follows:

Year Ending December 31:	Amount
2001	$ 850,871
2002	356,446
2003	117,558
	$1,324,875

5. REVENUE FROM GRANTS

From 1991 to 1995, the Company received funding in the form of two Small Business Innovative Research Grants ("SBIR") from the National Institutes of Health. A Phase 1 grant was initiated in September 1991 and a Phase 2 grant was initiated in August 1993. In July 1995, both grants were completed and no additional funds were due or collected. The Company has received an aggregate of $497,128 from the two SBIR grants. No additional grants have been received.

6. PROVISION FOR INCOME TAXES

No provision for federal or state income taxes has been recorded, as the Company has incurred cumulative net

operating losses through December 31, 2000. At December 31, 2000, the Company and its domestic subsidiaries had approximately $62.1 million of federal net operating loss carryforwards available to offset future United States taxable income, if any. Such carryforwards expire on various dates beginning 2009 through 2019. In addition, the Company has available to offset future federal income tax liabilities, if any, research credits of approximately $1.5 million. Under the Tax Reform Act of 1986, the amounts of, and benefits from, net operating losses carried forward may be impaired or limited in certain circumstances. Events which may cause limitations in the amount of net operating losses that the Company may utilize in any one year include, but are not limited to, a cumulative ownership change of more than 50 percent over a three year period. At December 31, 2000, the effect of such limitation, if imposed, has not been determined. The Company's foreign subsidiary has a loss carryforward of approximately $28.3 million at December 31, 2000, resulting principally from the transfer of licensing rights by the Parent to the foreign subsidiary and from the Parent Company's allocation of research and development costs to the foreign subsidiary during the period from April 1997 through December 2000. The Company has recognized a valuation allowance for the full amount of the Company's net deferred tax asset due to the uncertainty of its realization.

7. COMMITMENTS AND CONTINGENCIES

Facility Leases

The Company leases certain facilities for its research and development, administrative functions and its subsidiaries. Certain leases also require scheduled annual fixed rent increases, payments of property taxes, insurance and maintenance. In addition, the Company leases certain office and telephone equipment under non-cancelable operating leases expiring in 2002.

Minimum lease requirements for each of the next five years and thereafter under the aforementioned property and equipment leases assuming a commencement date of June 2001, for the aforementioned NeoGene laboratories are as follows:

Year ending December 31:	Amount
2001	$ 614,900
2002	718,300
2003	740,400
2004	481,600
2005	206,200
Thereafter	85,600
	$2,847,000

Rent expense for the years ended December 31, 1998, 1999 and 2000 aggregated approximately, $572,400, $601,100, $637,003 respectively.

Research and Fellowship Grants

At December 31, 2000, the Company has committed to pay, principally in the year 2001, approximately $700,000 to a number of universities to conduct general scientific research programs. Grant expense for 1998, 1999 and 2000 amounted to approximately $465,900, $617,000, and $1,309,000 respectively, and is included in research and development.

Joint Venture

In September 1999, the Company entered into a three-year joint venture agreement with University of California, Irvine ("UCI") to assist in the marketing and commercialization of discoveries made by certain members of its functional genomics science department. The Company is obligated under the agreement to fund the joint venture for three years with minimum payments of $2.0 million over the life of the agreement. The agreement is cancelable by either party upon giving thirty days notice. The Company has the right of first refusal to acquire the licensing rights to any new discoveries and UCI retains ownership rights to all discoveries under the agreement.

Major Clinical Trials

In 1998 and 1999, the Company entered into agreements with a contract research organization to conduct multiple clinical trials in a number of countries involving approximately 2,500 patients. The agreements were cancelable by either party upon thirty days notice. On November 6, 2000 the Company

terminated the above stated clinical trials. The Company has accrued the total cost of termination in the year 2000. Commencing April 2001, the Company is starting a 500 patient trial for Alzheimer's disease and two smaller trials for spinal cord injury and Parkinson's disease. The trials will be managed internally and are estimated to cost an aggregate of approximately $9.7 million over an eighteen-month period.

Employment Agreements

On December 1, 2000, the Company entered into an employment agreement with the Chief Executive Officer. The agreement provides for an annual base salary of $300,000, with annual increases and periodic bonuses as determined by the Board of Directors. The agreement ends on December 31, 2003, and may be terminated by the Company, with or without cause as defined in the agreement. The agreement also provides for guaranteed severance payments equal to the officer's annual base salary upon the termination of employment without cause or upon a change in control for the greater of two years or the remaining life of the agreement.

On December 1, 2000, the Company entered into an employment agreement with the Senior Vice President, Finance, Chief Financial Officer, Secretary and Treasurer. The agreement provides for an annual base salary of $200,000, with annual increases and periodic bonuses and stock options as determined by the Board of Directors. The agreement ends on December 31, 2002 and may be terminated by the Company, with or without cause as defined in the agreement. The agreement also provides for guaranteed severance payments equal to two years of annual base salary paid out monthly or in one lump sum payment upon the termination of employment without cause or upon a change in control.

Litigation

The Company is involved in several matters of litigation and threatened litigation considered normal to its business. It is the Company's policy to accrue for amounts related to these legal matters if it is probable that a liability has been incurred and an amount is reasonably determinable. Management believes that the outcome of these matters will not materially impact the Company's financial position.

In December 1998, the Company was served with a lawsuit initiated by four of its former employees. The lawsuit also named Dr. Alvin J. Glasky, the Company's founder and Chief Executive Officer, as a defendant. The lawsuit arises from a dispute concerning the termination, as of December 31, 1997, of agreements entered into as of June 1990 and December 1993 between the Company and each of the former employees, pursuant to which the employees agreed to accept an aggregate of 278,590 shares of our common stock, subject to forfeiture provisions, in exchange for the cancellation of indebtedness owed to them by the Company arising from unpaid compensation and expenses in the total amount of $458,411. Pursuant to these agreements, the employees were not entitled to keep the shares unless the Company achieved certain revenue goals by a specified date, as determined by its independent auditors in accordance with generally accepted accounting principles. The revenue goals were not met and the Company demanded that the forfeited shares be returned pursuant to the terms of the agreements. In the lawsuit the plaintiffs alleged, among other things, that the Company's cumulative revenues were met and that the defendants fraudulently induced the plaintiffs into entering into the agreements and the subsequent amendments to the agreements.

On December 15, 1999, the Company entered into a settlement agreement with the plaintiffs. The agreement provided that each of the parties pay their own legal fees and that the plaintiffs forfeit 51%, or 142,081 of their shares of common stock. In addition, the plaintiffs received three-year warrants to purchase an aggregate of 6,826 shares of common stock at $13.00 per share. Pursuant to the settlement terms of the litigation and in accordance with the terms of their agreement with the Company, Dr. and Mrs. Glasky forfeited 204,125 shares of their common stock and received identical warrants to purchase 9,806 shares of common stock. Accordingly, of the 678,836 total number of shares in dispute, the Company cancelled 346,206 shares and retained as outstanding 332,630 shares of common stock. The Company recorded a charge to operations in the fourth quarter of 1999 in the net amount of $2,458,359, representing the increase from 1995, the date of the previous reissuance of shares of common stock under this transaction, in the market value of the shares that remained outstanding ($2,357,005) plus the value of the warrants issued ($101,355).

8. MINORITY INTEREST IN CONSOLIDATED SUBSIDIARIES

The Minority Interest in Consolidated Subsidiaries shown in the accompanying balance sheet represents the investments by outside parties in convertible preferred stock of the Company's consolidated subsidiaries (see Note 9). The minority interest in consolidated subsidiaries' net loss amounting to $1,463,597 in the accompanying consolidated statements of operations consists primarily of the amortization of beneficial conversion feature and dividends on convertible preferred stock issued by the Company's consolidated subsidiaries.

9. STOCKHOLDERS' EQUITY

Revenue Participation Units

In 1988 and 1989, AIT raised private placement funds via a financial instrument specified as a RPU. The Company raised an aggregate of $676,000 from the issuance of seventy-five RPU's at prices ranging from $9,000 to $10,000 per RPU. The RPU's entitled holders to cash payments based on stipulated percentages of revenues. Holders of RPU's were entitled to convert to common stock at any time and AIT had the option to redeem the RPU's subject to certain conditions by paying cash or in exchange for common stock.

In July 1996, the Company offered, and all RPU holders accepted, an option to convert each RPU unit into 4,000 shares of common stock (300,000 shares in the aggregate) in exchange for waiving all rights as an RPU holder.

Reverse Stock Split

In June 1996, the Board of Directors authorized, with stockholder approval, a reverse split of the Company's outstanding common stock on the basis of 1 share for each 2.5 shares of then outstanding common stock. The Board of Directors also authorized, with stockholder approval, an increase in the authorized common stock from 10 million to 25 million shares and the creation of a new class of preferred stock with the authorization to issue up to 5 million shares of such preferred stock. All references to common stock amounts and loss per share in the accompanying financial statements give effect to the reverse stock split.

Re-incorporation

During June 1997, the stockholders of the Company approved the re-incorporation of the Company as a Delaware corporation. In connection therewith, a par value of $0.001 per share was assigned to the common stock of the Company. The total number of authorized and issued shares remained unchanged.

Deferred compensation expense

During 2000, the Company granted stock options to employees with exercise prices less than the fair value of the Company's common stock at the measurement date. The intrinsic value of the grants was recorded as deferred compensation and is being amortized to expense over the vesting period, in accordance with APB Opinion No. 25.

Common Stock

During 1993, the Company issued to a financial consultant in exchange for investment banking services, 40,000 shares of common stock at $1.35 per share, the market value on issuance date, for an aggregate amount of $54,000.

During 1994, three investors bought 13,000 shares of restricted (restrictions as to transferability) common stock at $2.50 per share, for an aggregate amount of $32,500, through a private placement. During 1995, six investors bought 22,000 shares of restricted common stock at $2.50 per share, for an aggregate amount of $55,000, through a private placement.

From January 1, 1996, to June 20, 1996, 266,800 shares of restricted (restrictions as to transferability) common stock were issued at $2.50 per share, for an aggregate amount of $633,650 (net of commission), through a private placement.

In June 1996, the Company filed a registration statement with the Securities and Exchange Commission offering to the public 2,500,000 units (the "Units"), each Unit consisting of one share of the Company's common stock (the "common stock"), and one warrant to purchase one share of common stock (the "warrants"). The registration statement became effective on September 26, 1996, and on October 1, 1996, the Company realized $17,363,003 in net proceeds from the sale of the 2,500,000 Units.

On October 11, 1996, the principal underwriter of the offering exercised a portion of its overallotment option and purchased 200,000 Units for net cash of $1,389,280. The Units separated immediately following issuance and the common stock and warrants that made up the Units trade as separate securities.

On March 27, 1998, the Company executed a $15 million Private Equity Line of Credit Agreement (the "Equity Line Agreement") with a private investor, which provides for minimum and maximum puts ranging from $250,000 to $2.0 million, depending on the Company's stock price and trading volume. At the time of each put, the investor receives a discount of 12% from the then current average market price, as determined under the Equity Line Agreement. Pursuant to the Equity Line Agreement, the Company also issued to the investor warrants to purchase 25,000 shares of common stock at an exercise price of $11.62 per share. Under the Equity Line Agreement, the Company received proceeds of approximately $3.45 million from sales of 506,049 shares of common stock in 1998, $1.9 million from sales of 211,393 shares of common stock in 1999, and during January 2000, the Company received $2.0 million from the sale of 186,961 shares of common stock. The agreement expired in February 2001.

On August 31, 1998, certain officers and directors of the Company exercised non-qualified stock options and purchased 62,000 shares of common stock. The exercise price of the stock options was at $4.50 per share for 50,000 shares and $5.13 per share for 12,000 shares for an aggregate purchase price of $286,560, represented by notes issued by the purchasers. The notes are full recourse promissory notes bearing interest at 7% per annum, and are collateralized by the stock issued upon the exercise of the stock options. Interest and principal are payable two years after the issue dates. The notes have been offset against the underlying common stock in the accompanying financial statements.

On May 31, 1999, the Company sold to a group of private investors 400,000 shares of common stock for proceeds of $4.0 million. The investors also received five year warrants to purchase 80,000 shares of common stock at an exercise price of $15 per share.

On July 27, 1999, the Company completed a secondary public offering and sold 1,150,000 shares of common stock (including the underwriters overallotment), realizing approximately $8.7 million in net cash proceeds from the sale.

On November 30, 1999, the Company sold to two private investors, one of whom had invested in the below mentioned preferred stock transaction, 845,594 shares of common stock, for net proceeds of $9.4 million, and warrants to purchase 126,839 shares of common stock at $14.24 per share. Based on a reset formula contained in the agreement, in March 2000 the Company issued to the investors 43,383 additional shares of common stock for no additional consideration. A second reset was waived by the investors as consideration for entering into the April 2000 financing transaction.

On February 25, 2000 the Company sold to two private investors 520,324 shares of common stock for $8.0 million. The investors also received five year warrants to purchase 104,000 shares of common stock at the price of $21.00 per share.

On April 6, 2000, the Company entered into a financing transaction with two private investor groups. The transaction consisted of (a) $10 million in 5% subordinated convertible debentures due April 6, 2005, (b) redeemable warrants to purchase up to 4 million shares of common stock over a two year period and (c) five year warrants to purchase from 115,000 shares up to 265,000 shares of common stock at an exercise price of $19.67 per share. The redeemable warrants can be redeemed in part by the Company as frequently as several times per week, subject to average daily volume restrictions and if the market price of the common stock is above $5.00 per share and, when called for redemption, can be exercised by the investor at 97% of the per share closing market price (i.e., a discount of 3%) and are exercisable at the sole option of the investors at the price of $33.75 per share. Between September 14, 2000 and October 26, 2000 the $10 million of debentures were converted into 1,555,409 shares of common stock plus 38,768 shares of common stock in payment of accrued interest. From June 2000 to November 2000 the Company called and the investors exercised 586,400 of the Company's redeemable warrants, resulting in issuance of 586,400 shares of common stock for net proceeds of $5,120,654. At December 31, 2000, there were 3,413,600 redeemable warrants outstanding.

On May 1, 2000 the Company completed a private placement of 500,000 shares of common stock for $7.0 million cash. The investors also received five year warrants to purchase 125,000 shares of common stock at an exercise price of $17.50 per shares.

On September 21, 2000, the Company's subsidiary, NeoGene, sold 111,110 shares of Series A preferred stock for $5 million. The preferred stock is initially convertible into an equal number of shares of common stock, representing approximately 10% ownership of NeoGene. The investors also received five year warrants to purchase up to (i) 80,000 shares of the Company's common stock at an exercise price of $10.47 per share and (ii) 22,676 shares of NeoGene common stock at an exercise price of $45.00 per share. The fair value of the warrant was estimated at $411,040 on the date of issuance using the Black-Scholes option pricing model with the following assumptions: dividend yield of 0 percent; expected volatility of 74.97 percent; risk free interest rate of 6.01 percent; and an expected life of five years. The fair value of the warrant was estimated at $540,301 on the date of issuance using the Black-Scholes option pricing model with the following assumptions: dividend yield of 0 percent; expected volatility of 74.97 percent; risk free interest rate of 5.93 percent; and an expected life of three years. 5% cumulative dividends on the preferred stock are payable in common stock or cash at the option of the Company. The preferred stock is automatically convertible into NeoGene common stock upon the closing of an initial public offering meeting certain criteria. As a result of the Company's common stock price per share recently being less than $5.00 for five consecutive days, the investors have the right to exchange their NeoGene preferred shares for similar securities of the Company, which is convertible into common stock of the Company, within five years at a conversion price equal to the lesser of (i) 120% of the average of the closing bid prices of the Company's common stock for the five trading days immediately preceding the first date of issuance of any shares of the Company's preferred stock and (ii) 101% of the average of the lowest ten closing bid prices of the common stock, during the thirty trading days immediately preceding the conversion.

On September 29, 2000, the Company entered into an agreement to sell 968,524 shares of its common stock to two private investors for $8 million cash. The investors also received five year warrants to purchase 193,706 shares of common stock at $10.13 per share. The fair value of the warrant was estimated at $847,657 on the date of issuance using the Black-Scholes option pricing model with the following assumptions: dividend yield of 0 percent; expected volatility of 74.97 percent; risk free interest rate of 5.88 percent; and an expected life of five years. The agreement contains a reset formula which provides for the investor to obtain at nominal cost, additional shares of common stock based on the market price of the common stock determined thirty and sixty days after the effective date of the registration statement to be filed for this transaction. On January 30, 2001, the first vested period ended which resulted under the reset formula in the issuance of 1,070,336 shares of the Company's common stock to the investors and on March 14, 2001, an additional 840,974 shares of the Company's common stock was owed to the investors under the

second and final reset under the agreement. No significant proceeds were received by the Company upon exercise of the resets.

On December 18, 2000, the Company's subsidiary, NeoGene, entered into an agreement with an institutional investor for the issuance and sale of Series B preferred stock and warrants for aggregate consideration of $2.0 million. Under the provisions of the agreement, NeoGene issued and sold to the investor a total of 44,445 shares of its Series B Convertible Preferred Stock, at a purchase price of $45 per share, and issued a five year warrant to purchase a total of 9,387 shares of NeoGene common stock, at an exercise price of $45 per share. The fair value of the warrant was estimated at $250,351 on the date of issuance using the Black-Scholes option pricing model with the following assumptions: dividend yield of 0 percent; expected volatility of 88.96 percent; risk free interest rate of 5.14 percent; and an expected life of three years. The Series B Preferred is convertible into shares of NeoGene common stock on a one-to-one basis, subject to certain antidilution adjustments, and automatically converts upon the earlier to occur of December 18, 2005 or the closing of an initial public offering of NeoGene common stock meeting certain criteria. The investor also received a five year warrant to purchase an aggregate of 30,000 shares of the Company's common stock, at an exercise price of $6.10 per share. The fair value of the warrant was estimated at $101,700 on the date of issuance using the Black-Scholes option pricing model with the following assumptions: dividend yield of 0 percent; expected volatility of 88.96 percent; risk free interest rate of 5.10 percent; and an expected life of five years. The Company also granted an exchange right to the investor which will allow the investor to exchange its shares of Series B Preferred for preferred stock of the Company. The exchange right grants the investor the right, at its option, at any time and from time to time after June 18, 2001, to exchange all or a portion of the Series B Preferred shares then held by the investor for a number of shares of the Company designated convertible preferred stock, equal to (i) the aggregate liquidation preference of the Series B Preferred shares surrendered for exchange plus any accrued but unpaid dividends thereon, divided by (ii) the stated value per share of the Company preferred stock. The Company preferred stock will be convertible into shares of common stock at a conversion price equal to the lesser of (i) 150% of the average of the closing bid prices of the Company's common stock for the five trading days immediately preceding the first date of issuance of any shares of the Company's preferred stock and (ii) 100% of the average of the lowest seven closing bid prices of the common stock during the thirty trading days immediately preceding the conversion.

10. STOCK OPTIONS AND WARRANTS

The Company has two stock option plans: the 1991 Stock Incentive Plan (the "1991 Plan") and the 1997 Stock Incentive Plan (the "1997 Plan") (collectively, the "Plans"). The Plans were adopted by the Company's stockholders and Board of Directors in May 1991 and June 1997, respectively, and provide for the granting of incentive and nonqualified stock options as well as other stock-based compensation. The 1991 Plan, as amended, authorizes for issuance up to 401,430 shares of the Company's common stock. Options which have been granted under the 1991 Plan contain vesting provisions determined by the Board of Directors which range from one to four years. The 1997 Plan, as amended, authorizes for issuance up to 2,000,000 shares of the Company's common stock. As of December 31, 2000 there was outstanding 2,153,175 options to employees and directors under the 1997 Plan. Under the Plans, shares of the Company's common stock may be granted to directors, officers and employees of the Company, except that incentive stock options may not be granted to non-employee directors.

The Plans provide for issuance of incentive stock options having exercise prices equal to the fair market values of the stock on the date of grant of the options or, in certain circumstances, at option prices at least equal to 110 percent of the fair market value of the stock on the date the options are granted. Options granted under the Plans are exercisable in such a manner and within such period, not to exceed ten years from the date of the grant, as shall be set forth in a stock option agreement between the director, officer or employee and the Company.

Stock options have also been issued outside of the aforementioned plans to various consultants. During the period from December 1993 through December 1996, the Company issued a total of 194,000 options to purchase common stock to two scientific consultants and a financial consultant in exchange for past and future services. The options are exercisable through December 31, 2001, at an exercise price of $0.025 per share. As the exercise price was lower than the fair market value of the stock on the date the options were granted, compensation expense was recorded for the difference between the option exercise price and the estimated fair market value of the stock as determined by the Board of Directors on the grant date. All options and warrants issued outside of the Plan were vested and exercisable upon issuance. In September 1990, the Company issued a warrant to the Chief Executive Officer of the Company to purchase 88,173 shares of common stock at $3.75 per share. The warrant was exercised during August 2000.

In January 1997, the Company issued to a financial consultant, 10-year options to purchase 180,000 shares of the Company's common stock at the exercise price of $3.875 per share, of which 30,000 options vested immediately. In November 1998, the Company issued to the same financial consultant additional 10-year options to purchase 25,000 shares of the Company's common stock at an exercise price of $8.5625 per share, all of which vested immediately. The Company recognized $422,264, $393,751 and 775,496 of compensation expense for these options in 1998, 1999 and 2000, respectively. Compensation expense was determined in accordance with SFAS No. 123, with the fair values determined using the Black-Scholes option pricing model at the original grant dates. Management believes that the fair value results using calculations over the respective vesting periods of these options would not have been materially different.

A summary of stock option activities are as follows:

	1998		1999		2000	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	658,173	$ 4.66	853,873	$ 5.78	1,389,373	$ 6.77
Granted	331,300	8.03	543,500	10.76	1,358,000	7.04
Exercised	(134,000)	2.54	(1,900)	6.57	(122,598)	2.85
Forfeited	(1,600)	8.88	(6,100)	8.08	(134,600)	8.78
Outstanding, at end of year	853,873	$ 5.78	1,389,373	$ 6.77	2,490,175	$ 8.34
Exercisable, at end of year	391,048	$ 1.95	662,823	$ 3.23	745,758	$ 3.80

The following table summarizes information about stock options outstanding at December 31, 2000:

Range of Exercise Prices	Options Outstanding at 12/31/00	Weighted Average Remaining Life	Weighted Average Options Exercise Price	Weighted Average Exercisable 12/31/00	Exercise Price
$3.65 to 5.625	1,048,600	8.27	4.15	211,500	4.81
5.626 to 8.875	492,075	8.37	6.85	219,350	8.00
8.876 to 13.00	949,500	8.86	11.13	314,908	11.77

As of December 31, 2000, there were 2,153,175 options outstanding under the 1997 Plan and 126,000 options outstanding under the 1991 Plan. The remaining 211,000 outstanding options were granted outside of option plans.

The Company applies APB Opinion No. 25 and related interpretations in accounting for stock options granted to employees, and does not recognize compensation expense when the exercise price of the options equals the fair market value of the underlying shares at the date of grant. Directors' stock options are treated in the same manner as employee stock options for accounting purposes. Under SFAS No. 123, the Company is required to present certain pro forma earnings information determined as if employee stock options were accounted for under the fair value method of that statement.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions used for grants in 1998, 1999 and 2000, respectively: risk-free interest rates of 4.96 percent (1998); 5.80 percent (1999) and 5.90 percent (2000), zero expected dividend yields; expected lives of 5 years; expected volatility of 75.26 percent in 1998, 75.44 percent in 1999 and 90.72 percent in 2000.

For purposes of the following required pro forma information, the weighted average fair value of stock options granted in 1998, 1999 and 2000 was $4.96, $7.57 and $5.31, respectively. The total estimated fair value is amortized to expense over the vesting period.

	1998	1999	2000
Pro forma net loss	$ (12,395,411)	$ (27,414,976)	$ (49,050,557)
Pro forma basic and diluted loss per share	$ (2.21)	$ (3.82)	$ (4.61)

Warrants are typically issued by the Company to investors as part of a financing transaction, or in connection with services rendered by outside consultants and expire at varying dates ranging from September 2001 through November 2004. A summary of warrant activity follows:

	1998		1999		2000	
	Common Shares	Range of Exercise Prices	Common Shares	Range of Exercise Prices	Common Shares	Range of Exercise Prices
Outstanding, at beginning of year	2,700,000(1)	$ 11.40	2,697,459		3,217,123	
Granted	38,459	7.43 to 11.618	528,664	11.00 to 20.625	927,556	10.13 to 21.0
Exercised	(41,000)	11.40	(9,000)	11.40	(4,490)	11.40
Outstanding, at end of year	2,697,459		3,217,123		4,140,189	

(1) Public warrants issued at time of initial public offering.

11. SALARY DEFERRAL PLAN

The Company established a 401(k) Salary Deferral Plan on January 1, 1990. The Plan allows eligible employees to defer part of their income on a tax-free basis. Contributions by the Company to the Plan are discretionary upon approval by the Board of Directors. To date, the Company has not made any contributions into the Plan.

12. EMPLOYEE STOCK PURCHASE PLAN

In January 2001, the Company adopted the NeoTherapeutics Employee Stock Purchase Plan (the "Plan"). The Plan

is subject to the provisions of Section 423 of the Internal Revenue Code. The Plan offers to eligible employees of the Company, on a tax-advantaged basis, the opportunity to purchase shares of the Company's common stock, at a discount, through payroll deductions. The Plan allows the participant to deduct up to a specified maximum percentage of their gross income each pay period. The Company's common stock will be offered during the six month offering periods commencing on each June and December. The per share purchase price of shares of the Company's common stock purchased on the last trading day of an offering period will be the lesser of 85% of the fair market value of a share on the first trading day of the period, and 85% of the fair market value of a share on the last trading day of the period. The Plan limits the purchase of shares by each employee of the Company's common stock to a maximum number of shares per offering period and to $25,000 fair market value of the purchased shares of the Company's common stock in the calendar year. Any payroll deductions not applied because of these limitations will be refunded to the participant.

13. RESEARCH ACTIVITIES

During 1995, the National Institute on Aging (NIA) and the National Institute for Mental Health (NIMH) issued contracts to an independent subcontractor of theirs to manufacture Neotrofin(TM) for animal and human testing programs. The NIA also issued an additional contract to one of its subcontractors to conduct the subchronic animal toxicity studies required by the U.S. Food and Drug Administration as a part of an Investigational New Drug (IND) application for Neotrofin(TM). The entire cost of these two contracts was funded by the NIA and NIMH directly to the subcontractors.

14. UNAUDITED QUARTERLY FINANCIAL INFORMATION

The following is a summary of the unaudited quarterly results of operations for fiscal 1998, 1999 and 2000 (in thousands, except per share data):

Fiscal 1998	March 31	June 30	September 30	December 31
Revenues	$ --	$ --	$ --	$ --
Total operating expenses	2,528	2,643	2,984	3,509
Net loss	$ (2,508)	$ (2,581)	$ (3,000)	$ (3,515)
Basic and diluted loss per share	$ (0.46)	$ (0.47)	$ (0.54)	$ (0.60)
Shares used in calculation	5,467	5,493	5,570	5,918

Fiscal 1999	March 31	June 30	September 30	December 31
Revenues	$ --	$ --	$ --	$ --
Total operating expenses	4,404	4,006	5,425	12,146
Net loss	$ (4,419)	$ (4,056)	$ (5,329)	$(12,186)
Basic and diluted loss per share	$ (0.71)	$ (0.63)	$ (0.70)	$ (1.47)
Shares used in calculation	6,204	6,444	7,583	8,387

Fiscal 2000	March 31	June 30	September 30	December 31
Revenues	$ --	$ --	$ --	$ --
Total operating expenses	9,455	11,387	11,778	11,253
Net loss	$ (9,332)	$(12,346)	$(13,223)	$(11,526)
Basic and diluted loss per share	$ (1.02)	$ (1.29)	$ (1.27)	$ (0.88)
Shares used in calculation	9,135	9,536	10,383	13,077

15. SUBSEQUENT EVENTS

On January 24, 2001, the Company filed with the Securities and Exchange Commission a "shelf" registration statement permitting the sale of securities with a maximum aggregate public offering price of $50 million. At April 16, 2001, $41.5 million remain available.

On February 2, 2001, the Company sold 1,627,756 shares of common stock to a private investor for $3.5 million.

On March 8, 2001, the Company sold 1,250,000 shares of common stock to a private investor for $5.0 million. The investor also received five year warrants to purchase up to 125,000 shares of common stock at the exercise price of $5.00 per share. The fair value of the warrant was estimated at $563,750 on the date of issuance using the Black-Scholes option pricing model with the following assumptions: dividend yield of 0 percent; expected volatility of 91.05 percent; risk free interest rate of 4.73 percent; and an expected life of five years.

On March 15, 2001, the Company's subsidiary, NeoGene, entered into a licensing agreement with Pfizer Inc. Under the terms of the agreement, Pfizer will make use of NeoGene's technology to screen potential drug candidates. In return, NeoGene received an initial payment of $100,000 and is entitled to receive milestone payments which could total $12 million if Pfizer receives final market approval from the FDA for a drug candidate identified using NeoGene's technology under the agreement; however, there can be no assurance that the development project will be successful and result in the Company receiving any further milestone payments.

On April 6, 2001, in a special meeting called for this purpose, the stockholders of the Company approved the increase in authorized common stock from 25 million to 50 million shares.

On April 17, 2001, we entered into a financing transaction with two private investor groups which provide, among other things, for (a) the sale of approximately 1,176,000 shares of our common stock for $6.0 million cash, (b) an option to place with the investor groups two tranches of convertible debenture notes of $10 and $8 million within approximately 30 days and seven months, of the initial closing, respectively, and (c) five year warrants exercisable at 125% of the market price on the date of the respective closing for 20% of the gross proceeds of each of the aforementioned common stock and debenture issuances.

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

Not applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information concerning directors and executive officers of NeoTherapeutics, Inc. required under this item is incorporated herein by reference from our definitive proxy statement, to be filed pursuant to Regulation 14A, related to our 2001 Annual Meeting of Stockholders to be held on June 11, 2001 (the "2001 Proxy Statement").

ITEM 11. EXECUTIVE COMPENSATION

The information required under this item is incorporated herein by reference from our 2001 Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required under this item is incorporated herein by reference from our 2001 Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required under this item is incorporated herein by reference from our 2001 Proxy Statement.

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

(a)1. CONSOLIDATED FINANCIAL STATEMENTS:

The following are included herein under Item 8:

Report of Independent Public Accountants.

Consolidated Balance Sheet as of December 31, 1999 and 2000.

Consolidated Statement of Operations for the period ended December 31, 1998, 1999 and 2000.

Consolidated Statement of Stockholders' Equity for the period from inception through December 31, 2000.

Consolidated Statement of Cash Flow for the period ended December 31, 1998, 1999 and 2000.

Notes to Consolidated Financial Statement.

(a)2. FINANCIAL STATEMENT SCHEDULES:

None. All financial statement schedules are omitted because they are not applicable or the required information is included in the Consolidated Financial Statements or notes thereto.

(a)3. EXHIBITS.

EXHIBIT NO.	DESCRIPTION
3.1	Certificate of Incorporation of the Registrant, as filed on May 7, 1997. (Filed as Exhibit B to the Definitive Proxy Statement dated May 8, 1997, for the Annual Meeting of Shareholders of NeoTherapeutics Colorado, the predecessor to Registrant, held on June 17, 1997, as filed with the Securities and Exchange Commission on May 9, 1997, and incorporated herein by reference.)
3.2	Certificates of Amendment to the Bylaws of the Registrant.
4.1	Form of Registration Rights Agreement dated as of July 23, 1996, entered into between the Registrant and certain investors named therein. (Filed as Exhibit 4.1 to the Registration Statement on Form SB-2 as amended (No. 333-05342-LA), and incorporated herein by reference.)

EXHIBIT NO.	DESCRIPTION
4.2	Form of Registration Rights Agreement dated December 30, 1993, entered into between the Registrant and each of Alvin J. Glasky, Sanford J. Glasky, Joanne Law, Luana M. Kruse, Rosalie H. Glasky and John W. Baldridge. (Filed as Exhibit 4.2 to the Registration Statement on Form SB-2 as amended (No. 333-05342-LA), and incorporated herein by reference.)
4.3	Form of Representatives' Warrant Agreement dated as of September 25, 1996, entered into in connection with the public offering of the Company's securities on September 26, 1996. (Filed as Exhibit 4.3 to the Registration Statement on Form SB-2 as amended (No. 333-05342-LA), and incorporated herein by reference.)
4.4	Form of Stock Purchase Agreement dated December 30, 1993, including amendment effective December 30, 1995, between the Registrant and each of Alvin J. Glasky, Sanford Glasky, Joanne Law, Luana Kruse, Rosalie Glasky and John Baldridge. (Filed as Exhibit 4.4 to the Registration Statement on Form SB-2 as amended (No. 333-05342-LA), and incorporated herein by reference.)
4.5	Form of Stock Purchase Agreement dated June 30, 1990, as amended on May 27, 1992, June 30, 1993, and December 30, 1993, and amendment thereto effective December 30, 1995, between the Registrant and each of Alvin J. Glasky, Sanford Glasky, Joanne Law, Luana Kruse, Rosalie Glasky and John Baldridge. (Filed as Exhibit 4.5 to the Registration Statement on Form SB-2 as amended (No. 333-05342-LA), and incorporated herein by reference.)
4.6	Warrant Agreement entered into between NeoTherapeutics, Inc. and U.S. Stock Transfer Corporation dated as of September 25, 1996. (Filed as Exhibit 4.6 to the Registration Statement on Form SB-2 as amended (No. 333-05342-LA), and incorporated herein by reference.)
4.7	Private Equity Line of Credit Agreement between Registrant and Kingsbridge Capital Limited dated as of March 27, 1998. (Filed as Exhibit 4.1 to the Registrant's Registration Statement on form S-3 (No. 333-52331), and incorporated herein by reference.)
4.8	Registration Rights Agreement between Registrant and Kingsbridge Capital Limited dated as of March 27, 1998. (Filed as Exhibit 4.2 to the Registrant's Registration Statement on form S-3 (No. 333-52331), and incorporated herein by reference.)
4.9	Warrant to Purchase up to 25,000 shares of common stock of Registrant, issued to Kingsbridge Capital Limited as of March 27, 1998. (Filed as Exhibit 4.3 to the Registrant's Registration Statement on Form S-3 (No. 333-52331), and incorporated herein by reference.)
4.10	Certificate of Designation of 5% Series A Preferred Stock with Conversion Features. (Filed as Exhibit 4.1 to Form 8-K, as filed with the Securities and Exchange Commission on February 9, 1999, and incorporated herein by reference.)
4.11	Preferred Stock Purchase Agreement dated as of January 29, 1999, by and among Registrant, Westover Investments L.P. and Montrose Investments Ltd. (Filed as Exhibit 4.2 to Form 8-K, as filed with the Securities and Exchange Commission on February 9, 1999, and incorporated herein by reference.)
4.12	Registration Rights Agreement dated as of January 29, 1999, by and among Registrant, Westover Investments L.P. and Montrose Investments Ltd. (Filed as Exhibit 4.3 to Form 8-K, as filed with the Securities and Exchange Commission on February 9, 1999, and incorporated herein by reference.)
4.13	Form of warrant issued by Registrant to Westover Investments L.P. and Montrose Investments Ltd. dated as of January 29, 1999. (Filed as Exhibit 4.4 to Form 8-K, as filed with the Securities and Exchange Commission on February 9, 1999, and incorporated herein by reference.)

EXHIBIT NO.	DESCRIPTION
4.14	Securities Purchase Agreement dated as of November 19, 1999, by and among Registrant, Strong River Investments, Inc. and Montrose Investments Ltd. (Filed as Exhibit 4.1 to Form 8-K as filed with the Securities and Exchange Commission on November 19, 1999, and incorporated herein by reference.)
4.15	Registration Rights Agreement dated as of November 19, 1999, by and among Registrant, Strong River Investments, Inc. and Montrose Investments Ltd. (Filed as Exhibit 4.1 to Form 8-K as filed with the Securities and Exchange Commission on November 19, 1999, and incorporated herein by reference.)
4.16	Closing Warrant issued by Registrant to Montrose Investments Ltd., dated as of November 19, 1999. (Filed as Exhibit 4.1 to Form 8-K as filed with the Securities and Exchange Commission on November 19, 1999, and incorporated herein by reference.)
4.17	Closing Warrant issued by Registrant to Strong River Investments, Inc., dated as of November 19, 1999. (Filed as Exhibit 4.1 to Form 8-K as filed with the Securities and Exchange Commission on November 19, 1999, and incorporated herein by reference.)
4.18	Adjustable Warrant issued by Registrant to Montrose Investments Ltd., dated as of November 19, 1999. (Filed as Exhibit 4.1 to Form 8-K as filed with the Securities and Exchange Commission on November 19, 1999, and incorporated herein by reference.)
4.19	Adjustable Warrant issued by Registrant to Strong River Investments, Inc., dated as of November 19, 1999. (Filed as Exhibit 4.1 to Form 8-K as filed with the Securities and Exchange Commission on November 19, 1999, and incorporated herein by reference.)
4.20	Securities Purchase Agreement dated as of February 25, 2000, by and among Registrant, Montrose Investments Ltd. and Strong River Investments, Inc. (Filed as Exhibit 4.1 to Form 8-K as filed with the Securities and Exchange Commission on April 3, 2000, and incorporated herein by reference.)
4.21	Registration Rights Agreement dated as of February 25, 2000, by and among Registrant, Montrose Investments Ltd. and Strong River Investments, Inc. (Filed as Exhibit 4.2 to Form 8-K as filed with the Securities and Exchange Commission on April 3, 2000, and incorporated herein by reference.)
4.22	Closing Warrant issued by Registrant to Montrose Investments Ltd., dated as of February 25, 2000. (Filed as Exhibit 4.3 to Form 8-K as filed with the Securities and Exchange Commission on April 3, 2000, and incorporated herein by reference.)
4.23	Closing Warrant issued by Registrant to Strong River Investments, Inc., dated as of February 25, 2000. (Filed as Exhibit 4.4 to Form 8-K as filed with the Securities and Exchange Commission on April 3, 2000, and incorporated herein by reference.)
4.24	Securities Purchase Agreement dated as of April 28, 2000, by and between Registrant and Royal Canadian Growth Fund. (Filed as Exhibit 4.1 to Form 8-K as filed with the Securities and Exchange Commission on May 25, 2000, and incorporated herein by reference.)
4.25	Registration Rights Agreement dated as of April 28, 2000, by and among Registrant, Royal Canadian Growth Fund and Dlouhy Investments Inc. (Filed as Exhibit 4.2 to Form 8-K as filed with the Securities and Exchange Commission on May 25, 2000, and incorporated herein by reference.)

EXHIBIT NO.	DESCRIPTION
4.26	Warrant issued by Registrant to Royal Canadian Growth Fund, dated as of May 1, 2000. (Filed as Exhibit 4.3 to Form 8-K as filed with the Securities and Exchange Commission on May 25, 2000, and incorporated herein by reference.)
4.27	Warrant issued by Registrant to Dlouhy Investments Inc., dated as of May 1, 2000. (Filed as Exhibit 4.4 to Form 8-K as filed with the Securities and Exchange Commission on May 25, 2000, and incorporated herein by reference.)
4.28	Letter Agreement dated as of May 1, 2000, by and between Registrant and Royal Canadian Growth Fund. (Filed as Exhibit 4.5 to Form 8-K as filed with the Securities and Exchange Commission on May 25, 2000, and incorporated herein by reference.)
4.29	Convertible Debenture Purchase Agreement dated as of April 6, 2000, by and among Registrant, Strong River Investments, Inc. and Montrose Investments Ltd. (Filed as Exhibit 4.1 to Form 8-K as filed with the Securities and Exchange Commission on April 21, 2000, and incorporated herein by reference.)
4.30	Registration Rights Agreement dated as of April 6, 2000, by and among Registrant, Strong River Investments, Inc. and Montrose Investments Ltd. (Filed as Exhibit 4.2 to Form 8-K as filed with the Securities and Exchange Commission on April 21, 2000, and incorporated herein by reference.)
4.31	Form of 5% Subordinated Convertible Debenture issued by Registrant, dated as of April 6, 2000. (Filed as Exhibit 4.3 to Form 8-K as filed with the Securities and Exchange Commission on April 21, 2000, and incorporated herein by reference.)
4.32	Class A Warrant issued by Registrant to Montrose Investments Ltd., dated as of April 6, 2000. (Filed as Exhibit 4.4 to Form 8-K as filed with the Securities and Exchange Commission on April 21, 2000, and incorporated herein by reference.)
4.33	Class A Warrant issued by Registrant to Strong River Investments, Inc., dated as of April 6, 2000. (Filed as Exhibit 4.5 to Form 8-K as filed with the Securities and Exchange Commission on April 21, 2000, and incorporated herein by reference.)
4.34	Class B Warrant issued by Registrant to Montrose Investments Ltd., dated as of April 6, 2000. (Filed as Exhibit 4.6 to Form 8-K as filed with the Securities and Exchange Commission on April 21, 2000, and incorporated herein by reference.)
4.35	Class B Warrant issued by Registrant to Strong River Investments, Inc., dated as of April 6, 2000. (Filed as Exhibit 4.7 to Form 8-K as filed with the Securities and Exchange Commission on April 21, 2000, and incorporated herein by reference.)
4.36	Registration Rights Agreement dated as of September 21, 2000, by and among NeoGene Technologies, Inc., Strong River Investments, Inc. and Montrose Investments Ltd. (Filed as Exhibit 4.3 to Form 8-K as filed with the Securities and Exchange Commission on November 13, 2000, and incorporated herein by reference.)
4.37	Registration Rights Agreement dated as of September 21, 2000, by and among Registrant, Strong River Investments, Inc. and Montrose Investments Ltd. (Filed as Exhibit 4.4 to Form 8-K as filed with the Securities and Exchange Commission on November 13, 2000, and incorporated herein by reference.)

EXHIBIT NO.	DESCRIPTION
4.38	Warrant issued by NeoGene Technologies, Inc., to Montrose Investments Ltd., dated as of September, 21, 2000. (Filed as Exhibit 4.5 to Form 8-K as filed with the Securities and Exchange Commission on November 13, 2000, and incorporated herein by reference.)
4.39	Warrant issued by NeoGene Technologies, Inc., to Strong River Investments, Inc., dated as of September 21, 2000. (Filed as Exhibit 4.6 to Form 8-K as filed with the Securities and Exchange Commission on November 13, 2000, and incorporated herein by reference.)
4.40	Warrant issued by Registrant to Montrose Investments Ltd., dated as of September 21, 2000. (Filed as Exhibit 4.7 to Form 8-K as filed with the Securities and Exchange Commission on November 13, 2000, and incorporated herein by reference.)
4.41	Warrant issued by Registrant to Strong River Investments, Inc., dated as of September 21, 2000. (Filed as Exhibit 4.8 to Form 8-K as filed with the Securities and Exchange Commission on November 13, 2000, and incorporated herein by reference.)
4.42	Form of Registrant Terms of Preferred. (Filed as Exhibit 4.9 to Form 8-K as filed with the Securities and Exchange Commission on November 13, 2000, and incorporated herein by reference.)
4.43	Form of Registrant 5% Subordinated Convertible Debenture. (Filed as Exhibit 4.10 to Form 8-K as filed with the Securities and Exchange Commission on November 13, 2000, and incorporated herein by reference.)
4.44	Securities Purchase Agreement dated as of September 29, 2000, by and among Registrant, Strong River Investments, Inc. and Montrose Investments Ltd. (Filed as Exhibit 4.11 to Form 8-K as filed with the Securities and Exchange Commission on November 13, 2000, and incorporated herein by reference.)
4.45	Registration Rights Agreement dated as of September 29, 2000, by and among Registrant, Strong River Investments, Inc. and Montrose Investments Ltd. (Filed as Exhibit 4.12 to Form 8-K as filed with the Securities and Exchange Commission on November 13, 2000, and incorporated herein by reference.)
4.46	Closing Warrant issued by Registrant to Montrose Investments, Ltd., dated as of September, 29, 2000. (Filed as Exhibit 4.13 to Form 8-K as filed with the Securities and Exchange Commission on November 13, 2000, and incorporated herein by reference.)
4.47	Closing Warrant issued by Registrant to Strong River Investments, Inc., dated as of September, 29, 2000. (Filed as Exhibit 4.14 to Form 8-K as filed with the Securities and Exchange Commission on November 13, 2000, and incorporated herein by reference.)
4.48	Adjustable Warrant issued by Registrant to Montrose Investments, Ltd., dated as of September 29, 2000. (Filed as Exhibit 4.15 to Form 8-K as filed with the Securities and Exchange Commission on November 13, 2000, and incorporated herein by reference.)
4.49	Adjustable Warrant issued by Registrant to Strong River Investments, Inc., dated as of September 29, 2000. (Filed as Exhibit 4.16 to Form 8-K as filed with the Securities and Exchange Commission on November 13, 2000, and incorporated herein by reference.)
4.50	Certificate of Designation of Rights, Preferences and Privileges of Series B Junior Participating Preferred Stock of NeoTherapeutics, Inc. (Filed as Exhibit 3.1 to Form 8-A12G as filed with the Securities and Exchange Commission on December 26, 2000, and incorporated herein by reference.)

EXHIBIT NO.	DESCRIPTION
4.51	Rights Agreement, dated as of December 13, 2000, between NeoTherapeutics, Inc. and U.S. Stock Transfer Corporation, as Rights Agent, which includes as Exhibit A thereto the form of Certificate of Designation for the Series B Junior Participating Preferred Stock, as Exhibit B thereto the Form of Rights Certificate and as Exhibit C thereto a Summary of Terms of Stockholder Rights Plan. (Filed as Exhibit 4.1 to Form 8-A12G as filed with the Securities and Exchange Commission on December 26, 2000, and incorporated herein by reference.)
4.52	Securities Purchase Agreement dated as of December 18, 2000, by and among Registrant, NeoGene Technologies, Inc. and Societe Generale. (Filed as Exhibit 4.1 to Form 8-K as filed with the Securities and Exchange Commission on December 28, 2000, and incorporated herein by reference.)
4.53	Certificate of Determination of NeoGene Technologies, Inc. (Filed as Exhibit 4.2 to Form 8-K as filed with the Securities and Exchange Commission on December 28, 2000, and incorporated herein by reference.)
4.54	Registration Rights Agreement dated as of December 18, 2000, by and between NeoGene Technologies, Inc. and Societe Generale. (Filed as Exhibit 4.3 to Form 8-K as filed with the Securities and Exchange Commission on December 28, 2000, and incorporated herein by reference.)
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4.57	Warrant issued by Registrant to Societe Generale, dated as of December 18, 2000. (Filed as Exhibit 4.6 to Form 8-K as filed with the Securities and Exchange Commission on December 28, 2000, and incorporated herein by reference.)
4.58	Form of Registrant Terms of Preferred. (Filed as Exhibit 4.7 to Form 8-K as filed with the Securities and Exchange Commission on December 28, 2000, and incorporated herein by reference.)
4.59	Stock Purchase Agreement dated as of January 31, 2001, by and between Registrant and Amro International S.A. (Filed as Exhibit 10.1 to Form 8-K as filed with the Securities and Exchange Commission on February 16, 2001, and incorporated herein by reference.)
4.60	Securities Purchase Agreement dated as of March 8, 2001, by and between Registrant and IAT ReInsurance Syndicate Ltd. (Filed as Exhibit 10.1 to Form 8-K as filed with the Securities and Exchange Commission on March 14, 2001, and incorporated herein by reference.)
4.61	Warrant issued by Registrant to IAT ReInsurance Syndicate Ltd. dated as of March 8, 2001. (Filed as Exhibit 10.2 to Form 8-K as filed with the Securities and Exchange Commission on March 14, 2001, and incorporated herein by reference.)
4.62	Certificate of Determination of NeoGene Technologies, Inc. (Filed as Exhibit 4.2 to Form 8-K as filed with the Securities and Exchange Commission on November 13, 2000, and incorporated herein by reference.)
10.1*	1991 Stock Incentive Plan. (Filed as Exhibit 10.2 to the Registration Statement on Form SB-2 as amended (No. 333-05342-LA), and incorporated herein by reference.)

EXHIBIT NO.	DESCRIPTION
10.2*	Employment Agreement between the Registrant and Alvin J. Glasky, Ph.D. (Filed as Exhibit 10.3 to the Registration Statement on Form SB-2 as amended (No. 333-05342-LA), and incorporated herein by reference.)
10.3	Note dated June 21, 1996, between the Registrant and Alvin J. Glasky and related Security Agreement dated August 31, 1990. (Filed as Exhibit 10.4 to the Registration Statement on Form SB-2 as amended (No. 333-05342-LA), and incorporated herein by reference.)
10.4	Warrant to purchase common stock of the Registrant dated August 31, 1990, held by Alvin J. Glasky. (Filed as Exhibit 10.6 to the Registration Statement on Form SB-2 as amended (No. 333-05342-LA), and incorporated herein by reference.)
10.5	Agreement dated as of June 6, 1991, as amended on July 26, 1996, by and between the Registrant and Alvin J. Glasky. (Filed as Exhibit 10.7 to the Registration Statement on Form SB-2 as amended (No. 333-05342-LA), and incorporated herein by reference.)
10.6	Agreement dated as of June 30, 1991, as amended on July 26, 1996, by and between the Registrant and Alvin J. Glasky. (Filed as Exhibit 10.8 to the Registration Statement on Form SB-2 as amended (No. 333-05342-LA), and incorporated herein by reference.)
10.7*	Form of Indemnification Agreement between the Registrant and each of its officers and directors. (Filed as Exhibit 10.10 to the Registration Statement on Form SB-2 as amended (No. 333-05342-LA), and incorporated herein by reference.)
10.8	Underwriting Agreement dated as of September 25, 1996, among the Company, Paulson Investment Company, Inc. and First Colonial Securities Group, Inc. (Filed as Exhibit 1.1 to the Registration Statement on Form SB-2 as amended (No. 333-05342-LA), and incorporated herein by reference.)
10.9	Industrial Lease Agreement dated January 16, 1997, between the Company and the Irvine Company. (Filed as Exhibit 10.11 to the Form 10-KSB for the fiscal year ended December 31, 1996, as filed with the Securities and Exchange Commission on March 31, 1997, and incorporated herein by reference.)
10.10	Addendum to Note dated June 21, 1996, between the Registrant and Alvin J. Glasky. (Filed as Exhibit 10.12 to the Form 10-KSB for fiscal year ended December 31, 1996, as filed with the Securities and Exchange Commission on March 31, 1997, and incorporated herein by reference.)
10.11*	1997 Stock Incentive Plan. (Filed as Exhibit D to the Definitive Proxy Statement dated May 8, 1997, for the Annual Meeting of Shareholders of NeoTherapeutics Colorado, the predecessor to Registrant, held on June 17, 1997, as filed with the Securities and Exchange Commission on May 9, 1997, and incorporated herein by reference.)
10.12	Master Note and Security Agreement between the Registrant and Leasing Technologies, Inc. dated as of July 10, 1998. (Filed as Exhibit 4 to Form 10-QSB for the quarter ended September 30, 1998, as filed with the Securities and Exchange Commission on November 9, 1998, and incorporated herein by reference.)
10.13	Employment Agreement entered into as of May 6, 1999 between Alvin J. Glasky, Ph.D. and NeoTherapeutics, Inc. (Filed as Exhibit 10.14 to the Registration Statement on form S-1 (No. 333-79935), and incorporated herein by reference.)

EXHIBIT NO.	DESCRIPTION
10.14	Form of Financial Consulting Agreement between the Registrant and Joseph Charles & Associates, Inc. entered into in connection with the public offering of the Registrant's securities on July 27, 1999. (Filed as Exhibit 1.4 to the Registration Statement on Form S-1 (No. 333-79935), and incorporated herein by reference.)
10.15	Underwriting Agreement between the Registrant and Joseph Charles & Associates, Inc. entered into in connection with the public offering of the Registrant's securities on July 27, 1999. (Filed as Exhibit 1.1 to the Registration Statement on Form S-1, as amended (No. 333-79935), and incorporated herein by reference.)
10.16	Master Lease Agreement dated as of September 22, 2000 by and between NeoTherapeutics, Inc. and Comdisco Laboratory and Scientific Group.
10.17	Amendment No. 1 to Master Lease Agreement dated as of September 22, 2000 by and between NeoTherapeutics, Inc. and Comdisco Laboratory and Scientific Group.
10.18	Equipment Schedule No. S-01 dated as of September 22, 2000 by and between NeoTherapeutics, Inc. and Comdisco Laboratory and Scientific Group.
10.19	Addendum to Equipment Schedule No. SG-01 dated as of September 22, 2000 by and between NeoTherapeutics, Inc. and Comdisco Laboratory and Scientific Group.
21	Subsidiaries of Registrant.
23	Consent of Arthur Andersen LLP.

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* Indicates a management contract or compensatory plan or arrangement.

(b) Reports on Form 8-K. The Registrant filed a Report on Form 8-K dated April 3, 2000, April 21, 2000, May 25, 2000, November 13, 2000, December 26, 2000, December 28, 2000, February 16, 2001 and March 14, 2001 to report financing transactions. The Registrant filed a Report on Form 8-K on January 5, 2001 and March 20, 2001, to report press releases issued on January 4, 2001 and March 19, 2001, respectively.

SIGNATURES

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

NEOTHERAPEUTICS, INC.

Date: April 17, 2001 By: /s/ ALVIN J. GLASKY
Alvin J. Glasky, Ph.D.
Chief Executive Officer

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

SIGNATURE	TITLE	DATE
/s/ ALVIN J. GLASKY Alvin J. Glasky, Ph.D.	Chairman of the Board, Chief Executive Officer and Director (Principal Executive Officer)	April 17, 2001
/s/ SAMUEL GULKO Samuel Gulko	Senior Vice President Finance, Chief Financial Officer, Secretary, Treasurer and Director (Principal Accounting and Financial Officer)	April 17, 2001
/s/ MARK J. GLASKY Mark J. Glasky	Director	April 17, 2001
/s/ ANN C. KESSLER Ann C. Kessler, Ph.D.	Director	April 17, 2001
/s/ ARMIN M. KESSLER Armin M. Kessler	Director	April 17, 2001
/s/ CAROL O'CLEIREACAIN Carol O'Cleireacain, Ph.D.	Director	April 17, 2001
/s/ PAUL H. SILVERMAN Paul H. Silverman Ph.D., D.Sc.	Director	April 17, 2001
/s/ ERIC L. NELSON Eric L. Nelson, Ph.D.	Director	April 17, 2001
/s/ JOSEPH RUBINFELD Joseph Rubinfeld, Ph.D.	Director	April 17, 2001

EXHIBIT INDEX

EXHIBIT NO.	DESCRIPTION
3.1	Certificate of Incorporation of the Registrant, as filed on May 7, 1997. (Filed as Exhibit B to the Definitive Proxy Statement dated May 8, 1997, for the Annual Meeting of Shareholders of NeoTherapeutics Colorado, the predecessor to Registrant, held on June 17, 1997, as filed with the Securities and Exchange Commission on May 9, 1997, and incorporated herein by reference.)
3.2	Certificates of Amendment to the Bylaws of the Registrant.
4.1	Form of Registration Rights Agreement dated as of July 23, 1996, entered into between the Registrant and certain investors named therein. (Filed as Exhibit 4.1 to the Registration Statement on Form SB-2 as amended (No. 333-05342-LA), and incorporated herein by reference.)

EXHIBIT NO.	DESCRIPTION
4.2	Form of Registration Rights Agreement dated December 30, 1993, entered into between the Registrant and each of Alvin J. Glasky, Sanford J. Glasky, Joanne Law, Luana M. Kruse, Rosalie H. Glasky and John W. Baldridge. (Filed as Exhibit 4.2 to the Registration Statement on Form SB-2 as amended (No. 333-05342-LA), and incorporated herein by reference.)
4.3	Form of Representatives' Warrant Agreement dated as of September 25, 1996, entered into in connection with the public offering of the Company's securities on September 26, 1996. (Filed as Exhibit 4.3 to the Registration Statement on Form SB-2 as amended (No. 333-05342-LA), and incorporated herein by reference.)
4.4	Form of Stock Purchase Agreement dated December 30, 1993, including amendment effective December 30, 1995, between the Registrant and each of Alvin J. Glasky, Sanford Glasky, Joanne Law, Luana Kruse, Rosalie Glasky and John Baldridge. (Filed as Exhibit 4.4 to the Registration Statement on Form SB-2 as amended (No. 333-05342-LA), and incorporated herein by reference.)
4.5	Form of Stock Purchase Agreement dated June 30, 1990, as amended on May 27, 1992, June 30, 1993, and December 30, 1993, and amendment thereto effective December 30, 1995, between the Registrant and each of Alvin J. Glasky, Sanford Glasky, Joanne Law, Luana Kruse, Rosalie Glasky and John Baldridge. (Filed as Exhibit 4.5 to the Registration Statement on Form SB-2 as amended (No. 333-05342-LA), and incorporated herein by reference.)
4.6	Warrant Agreement entered into between NeoTherapeutics, Inc. and U.S. Stock Transfer Corporation dated as of September 25, 1996. (Filed as Exhibit 4.6 to the Registration Statement on Form SB-2 as amended (No. 333-05342-LA), and incorporated herein by reference.)
4.7	Private Equity Line of Credit Agreement between Registrant and Kingsbridge Capital Limited dated as of March 27, 1998. (Filed as Exhibit 4.1 to the Registrant's Registration Statement on form S-3 (No. 333-52331), and incorporated herein by reference.)
4.8	Registration Rights Agreement between Registrant and Kingsbridge Capital Limited dated as of March 27, 1998. (Filed as Exhibit 4.2 to the Registrant's Registration Statement on form S-3 (No. 333-52331), and incorporated herein by reference.)
4.9	Warrant to Purchase up to 25,000 shares of common stock of Registrant, issued to Kingsbridge Capital Limited as of March 27, 1998. (Filed as Exhibit 4.3 to the Registrant's Registration Statement on Form S-3 (No. 333-52331), and incorporated herein by reference.)
4.10	Certificate of Designation of 5% Series A Preferred Stock with Conversion Features. (Filed as Exhibit 4.1 to Form 8-K, as filed with the Securities and Exchange Commission on February 9, 1999, and incorporated herein by reference.)
4.11	Preferred Stock Purchase Agreement dated as of January 29, 1999, by and among Registrant, Westover Investments L.P. and Montrose Investments Ltd. (Filed as Exhibit 4.2 to Form 8-K, as filed with the Securities and Exchange Commission on February 9, 1999, and incorporated herein by reference.)
4.12	Registration Rights Agreement dated as of January 29, 1999, by and among Registrant, Westover Investments L.P. and Montrose Investments Ltd. (Filed as Exhibit 4.3 to Form 8-K, as filed with the Securities and Exchange Commission on February 9, 1999, and incorporated herein by reference.)
4.13	Form of warrant issued by Registrant to Westover Investments L.P. and Montrose Investments Ltd. dated as of January 29, 1999. (Filed as Exhibit 4.4 to Form 8-K, as filed with the Securities and Exchange Commission on February 9, 1999, and incorporated herein by reference.)

EXHIBIT NO.	DESCRIPTION
4.14	Securities Purchase Agreement dated as of November 19, 1999, by and among Registrant, Strong River Investments, Inc. and Montrose Investments Ltd. (Filed as Exhibit 4.1 to Form 8-K as filed with the Securities and Exchange Commission on November 19, 1999, and incorporated herein by reference.)
4.15	Registration Rights Agreement dated as of November 19, 1999, by and among Registrant, Strong River Investments, Inc. and Montrose Investments Ltd. (Filed as Exhibit 4.1 to Form 8-K as filed with the Securities and Exchange Commission on November 19, 1999, and incorporated herein by reference.)
4.16	Closing Warrant issued by Registrant to Montrose Investments Ltd., dated as of November 19, 1999. (Filed as Exhibit 4.1 to Form 8-K as filed with the Securities and Exchange Commission on November 19, 1999, and incorporated herein by reference.)
4.17	Closing Warrant issued by Registrant to Strong River Investments, Inc., dated as of November 19, 1999. (Filed as Exhibit 4.1 to Form 8-K as filed with the Securities and Exchange Commission on November 19, 1999, and incorporated herein by reference.)
4.18	Adjustable Warrant issued by Registrant to Montrose Investments Ltd., dated as of November 19, 1999. (Filed as Exhibit 4.1 to Form 8-K as filed with the Securities and Exchange Commission on November 19, 1999, and incorporated herein by reference.)
4.19	Adjustable Warrant issued by Registrant to Strong River Investments, Inc., dated as of November 19, 1999. (Filed as Exhibit 4.1 to Form 8-K as filed with the Securities and Exchange Commission on November 19, 1999, and incorporated herein by reference.)
4.20	Securities Purchase Agreement dated as of February 25, 2000, by and among Registrant, Montrose Investments Ltd. and Strong River Investments, Inc. (Filed as Exhibit 4.1 to Form 8-K as filed with the Securities and Exchange Commission on April 3, 2000, and incorporated herein by reference.)
4.21	Registration Rights Agreement dated as of February 25, 2000, by and among Registrant, Montrose Investments Ltd. and Strong River Investments, Inc. (Filed as Exhibit 4.2 to Form 8-K as filed with the Securities and Exchange Commission on April 3, 2000, and incorporated herein by reference.)
4.22	Closing Warrant issued by Registrant to Montrose Investments Ltd., dated as of February 25, 2000. (Filed as Exhibit 4.3 to Form 8-K as filed with the Securities and Exchange Commission on April 3, 2000, and incorporated herein by reference.)
4.23	Closing Warrant issued by Registrant to Strong River Investments, Inc., dated as of February 25, 2000. (Filed as Exhibit 4.4 to Form 8-K as filed with the Securities and Exchange Commission on April 3, 2000, and incorporated herein by reference.)
4.24	Securities Purchase Agreement dated as of April 28, 2000, by and between Registrant and Royal Canadian Growth Fund. (Filed as Exhibit 4.1 to Form 8-K as filed with the Securities and Exchange Commission on May 25, 2000, and incorporated herein by reference.)
4.25	Registration Rights Agreement dated as of April 28, 2000, by and among Registrant, Royal Canadian Growth Fund and Dlouhy Investments Inc. (Filed as Exhibit 4.2 to Form 8-K as filed with the Securities and Exchange Commission on May 25, 2000, and incorporated herein by reference.)

EXHIBIT NO.	DESCRIPTION
4.26	Warrant issued by Registrant to Royal Canadian Growth Fund, dated as of May 1, 2000. (Filed as Exhibit 4.3 to Form 8-K as filed with the Securities and Exchange Commission on May 25, 2000, and incorporated herein by reference.)
4.27	Warrant issued by Registrant to Dlouhy Investments Inc., dated as of May 1, 2000. (Filed as Exhibit 4.4 to Form 8-K as filed with the Securities and Exchange Commission on May 25, 2000, and incorporated herein by reference.)
4.28	Letter Agreement dated as of May 1, 2000, by and between Registrant and Royal Canadian Growth Fund. (Filed as Exhibit 4.5 to Form 8-K as filed with the Securities and Exchange Commission on May 25, 2000, and incorporated herein by reference.)
4.29	Convertible Debenture Purchase Agreement dated as of April 6, 2000, by and among Registrant, Strong River Investments, Inc. and Montrose Investments Ltd. (Filed as Exhibit 4.1 to Form 8-K as filed with the Securities and Exchange Commission on April 21, 2000, and incorporated herein by reference.)
4.30	Registration Rights Agreement dated as of April 6, 2000, by and among Registrant, Strong River Investments, Inc. and Montrose Investments Ltd. (Filed as Exhibit 4.2 to Form 8-K as filed with the Securities and Exchange Commission on April 21, 2000, and incorporated herein by reference.)
4.31	Form of 5% Subordinated Convertible Debenture issued by Registrant, dated as of April 6, 2000. (Filed as Exhibit 4.3 to Form 8-K as filed with the Securities and Exchange Commission on April 21, 2000, and incorporated herein by reference.)
4.32	Class A Warrant issued by Registrant to Montrose Investments Ltd., dated as of April 6, 2000. (Filed as Exhibit 4.4 to Form 8-K as filed with the Securities and Exchange Commission on April 21, 2000, and incorporated herein by reference.)
4.33	Class A Warrant issued by Registrant to Strong River Investments, Inc., dated as of April 6, 2000. (Filed as Exhibit 4.5 to Form 8-K as filed with the Securities and Exchange Commission on April 21, 2000, and incorporated herein by reference.)
4.34	Class B Warrant issued by Registrant to Montrose Investments Ltd., dated as of April 6, 2000. (Filed as Exhibit 4.6 to Form 8-K as filed with the Securities and Exchange Commission on April 21, 2000, and incorporated herein by reference.)
4.35	Class B Warrant issued by Registrant to Strong River Investments, Inc., dated as of April 6, 2000. (Filed as Exhibit 4.7 to Form 8-K as filed with the Securities and Exchange Commission on April 21, 2000, and incorporated herein by reference.)
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10.2*	Employment Agreement between the Registrant and Alvin J. Glasky, Ph.D. (Filed as Exhibit 10.3 to the Registration Statement on Form SB-2 as amended (No. 333-05342-LA), and incorporated herein by reference.)
10.3	Note dated June 21, 1996, between the Registrant and Alvin J. Glasky and related Security Agreement dated August 31, 1990. (Filed as Exhibit 10.4 to the Registration Statement on Form SB-2 as amended (No. 333-05342-LA), and incorporated herein by reference.)
10.4	Warrant to purchase common stock of the Registrant dated August 31, 1990, held by Alvin J. Glasky. (Filed as Exhibit 10.6 to the Registration Statement on Form SB-2 as amended (No. 333-05342-LA), and incorporated herein by reference.)
10.5	Agreement dated as of June 6, 1991, as amended on July 26, 1996, by and between the Registrant and Alvin J. Glasky. (Filed as Exhibit 10.7 to the Registration Statement on Form SB-2 as amended (No. 333-05342-LA), and incorporated herein by reference.)
10.6	Agreement dated as of June 30, 1991, as amended on July 26, 1996, by and between the Registrant and Alvin J. Glasky. (Filed as Exhibit 10.8 to the Registration Statement on Form SB-2 as amended (No. 333-05342-LA), and incorporated herein by reference.)
10.7*	Form of Indemnification Agreement between the Registrant and each of its officers and directors. (Filed as Exhibit 10.10 to the Registration Statement on Form SB-2 as amended (No. 333-05342-LA), and incorporated herein by reference.)
10.8	Underwriting Agreement dated as of September 25, 1996, among the Company, Paulson Investment Company, Inc. and First Colonial Securities Group, Inc. (Filed as Exhibit 1.1 to the Registration Statement on Form SB-2 as amended (No. 333-05342-LA), and incorporated herein by reference.)
10.9	Industrial Lease Agreement dated January 16, 1997, between the Company and the Irvine Company. (Filed as Exhibit 10.11 to the Form 10-KSB for the fiscal year ended December 31, 1996, as filed with the Securities and Exchange Commission on March 31, 1997, and incorporated herein by reference.)
10.10	Addendum to Note dated June 21, 1996, between the Registrant and Alvin J. Glasky. (Filed as Exhibit 10.12 to the Form 10-KSB for fiscal year ended December 31, 1996, as filed with the Securities and Exchange Commission on March 31, 1997, and incorporated herein by reference.)
10.11*	1997 Stock Incentive Plan. (Filed as Exhibit D to the Definitive Proxy Statement dated May 8, 1997, for the Annual Meeting of Shareholders of NeoTherapeutics Colorado, the predecessor to Registrant, held on June 17, 1997, as filed with the Securities and Exchange Commission on May 9, 1997, and incorporated herein by reference.)
10.12	Master Note and Security Agreement between the Registrant and Leasing Technologies, Inc. dated as of July 10, 1998. (Filed as Exhibit 4 to Form 10-QSB for the quarter ended September 30, 1998, as filed with the Securities and Exchange Commission on November 9, 1998, and incorporated herein by reference.)
10.13	Employment Agreement entered into as of May 6, 1999 between Alvin J. Glasky, Ph.D. and NeoTherapeutics, Inc. (Filed as Exhibit 10.14 to the Registration Statement on form S-1 (No. 333-79935), and incorporated herein by reference.)

EXHIBIT NO.	DESCRIPTION
10.14	Form of Financial Consulting Agreement between the Registrant and Joseph Charles & Associates, Inc. entered into in connection with the public offering of the Registrant's securities on July 27, 1999. (Filed as Exhibit 1.4 to the Registration Statement on Form S-1 (No. 333-79935), and incorporated herein by reference.)
10.15	Underwriting Agreement between the Registrant and Joseph Charles & Associates, Inc. entered into in connection with the public offering of the Registrant's securities on July 27, 1999. (Filed as Exhibit 1.1 to the Registration Statement on Form S-1, as amended (No. 333-79935), and incorporated herein by reference.)
10.16	Master Lease Agreement dated as of September 22, 2000 by and between NeoTherapeutics, Inc. and Comdisco Laboratory and Scientific Group.
10.17	Amendment No. 1 to Master Lease Agreement dated as of September 22, 2000 by and between NeoTherapeutics, Inc. and Comdisco Laboratory and Scientific Group.
10.18	Equipment Schedule No. S-01 dated as of September 22, 2000 by and between NeoTherapeutics, Inc. and Comdisco Laboratory and Scientific Group.
10.19	Addendum to Equipment Schedule No. SG-01 dated as of September 22, 2000 by and between NeoTherapeutics, Inc. and Comdisco Laboratory and Scientific Group.
21	Subsidiaries of Registrant.
23	Consent of Arthur Andersen LLP.

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* Indicates a management contract or compensatory plan or arrangement.

EXHIBIT 3.2

CERTIFICATE OF AMENDMENT
OF THE BYLAWS
OF
NEOTHERAPEUTICS INC.,
A DELAWARE CORPORATION

I, Samuel Gulko, hereby certify that:

1. I am the duly elected and acting Secretary of NeoTherapeutics, Inc., a Delaware corporation;

2. Article II, Section 4 of the Bylaws of this corporation was amended by a resolution duly adopted by the Board of Directors of this corporation on March 24, 2000, to read in full as follows:

"SECTION 4. NOTIFICATION OF BUSINESS TO BE TRANSACTED AT MEETING. At any meeting of the stockholders, only such business shall be conducted as shall have been properly brought before such meeting. To be brought properly before an annual meeting of stockholders, business must be (a) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors, (b) otherwise properly brought before the meeting by or at the direction of the Board of Directors or the chairman of the meeting, or (c) otherwise properly brought before the meeting by a stockholder. For business to be properly brought before an annual meeting by a stockholder, the stockholder must have given timely notice thereof in writing to the Secretary of the Corporation. To be timely, a stockholder's notice must be received no less than sixty days nor more than ninety days prior to the first anniversary of the preceding year's annual meeting of stockholders; provided, however, that in the event that the date of the annual meeting is advanced by more than thirty days or delayed by more than sixty days from such anniversary, notice by the stockholder, to be timely, must be received not earlier than the ninetieth day prior to such annual meeting of stockholders and not later than the close of business on the later of (a) the sixtieth day prior to such annual meeting or (b) the tenth day following the date on which notice of the date of the annual meeting was mailed or public disclosure thereof was made, whichever first occurs. Each such notice shall set forth as to each matter the stockholder proposes to bring before the annual meeting of stockholders: (a) a brief description of the business desired to be brought before the annual meeting of stockholders and the reasons for conducting such business at such meeting, (b) the name and address, as they appear on the Corporation's books, of the stockholder proposing such business, (c) the class, series, and number of shares of the Corporation that are beneficially owned by the stockholder, and (d) any material interest of the stockholder or any Affiliate of the stockholder in such business. The stockholder also shall comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this Section 4.

To be properly brought before a special meeting, business must be (a) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors or (b) otherwise properly brought before the meeting by or at the direction of the Board of Directors or the chairman of the meeting. No other business may be brought before a special meeting by stockholders.

No business shall be conducted at any meeting of the stockholders except in accordance with the procedures set forth in this Section 4. The chairman of the meeting shall, if the facts warrant, determine and declare to the meeting that business was not properly brought before the meeting and in accordance with the provisions of this Section 4, and if he or she should so determine, any such business not properly brought before the meeting shall not be transacted. Nothing herein shall be deemed to affect any rights of stockholders to request inclusion of proposals in the Corporation's proxy statement pursuant to Rule 14a-8 under the Exchange Act or any successor provision."

3. Article II, Section 15 of the Bylaws of this corporation was amended by a resolution duly adopted by the Board of Directors of this corporation on March 24, 2000, to read in full as follows:

"SECTION 15. NOMINATION AND ELECTION OF DIRECTORS. Subject to the rights of holders of any class or series of stock having a preference over the Common Stock as to dividends or upon liquidation, dissolution or winding up of the Corporation, nominations for the election of directors shall be made by a nominating committee of the Board of Directors if then constituted pursuant to these Bylaws, or if no nominating committee has been constituted, by the Board of Directors. In addition, any stockholder entitled to vote in the election of directors generally may nominate one or more persons for election as directors at an annual meeting of stockholders, but only if written notice of such stockholder's intent to make such nomination or nominations has been received by the Secretary of the Corporation not less than sixty nor more than ninety days prior to the first anniversary of the preceding year's annual meeting of stockholders. In the event that the date of the annual meeting of stockholders is advanced by more than thirty days or delayed by more than sixty days from such anniversary, notice by the stockholder to be timely must be received by the Secretary of the Corporation not earlier than the ninetieth day prior to such annual meeting and not later than the close of business on the later of (a) the sixtieth day prior to such annual meeting or (b) the tenth day following the day on which notice of the date of the annual meeting was mailed or public disclosure thereof was made by the Corporation, whichever first occurs. Each such notice by a stockholder shall set forth: (a) the name and address of the stockholder who intends to make the nomination and of the person or persons to be nominated; (b) a representation that the stockholder is a holder of record of stock of the Corporation entitled to vote at such meeting and intends to appear in person or by proxy at a meeting to nominate the person or persons specified in the notice; (c) a description of all arrangements or understandings between the stockholder or any person that directly or

indirectly through one or more intermediaries controls, or is controlled by, or is under common control with, such stockholder (an "Affiliate" of such stockholder) and each nominee and any other person or persons (naming such person or persons) relating to the nomination or nominations; (d) the class and number of shares of the Corporation that are beneficially owned by such stockholder and the person to be nominated as of the date of such stockholder's notice and by any other stockholders known by such stockholder to be supporting such nominees as of the date of such stockholder's notice; (e) such other information regarding each nominee proposed by such stockholder as would be required to be included in a proxy statement filed pursuant to the proxy rules of the Securities and Exchange Commission; and (f) the written consent of each nominee to serve as a director of the Corporation if so elected. The stockholder also shall comply with all applicable requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the rules and regulations thereunder, with respect to the matters set forth in this Section 15.

In addition, in the event the Corporation calls a special meeting of stockholders for the purpose of electing one or more directors, any stockholder entitled to vote in the election of directors generally may nominate one or more persons for election as directors at a special meeting only if written notice of such stockholder's intent to make such nomination or nominations, setting forth the information and complying with the form described in the immediately preceding paragraph, has been received by the Secretary of the Corporation not earlier than the ninetieth day prior to such special meeting and not later than the close of business on the later of (i) the sixtieth day prior to such special meeting or (ii) the tenth day following the day on which notice of the date of the special meeting was mailed or public disclosure thereof was made by the Corporation, whichever comes first. The stockholder also shall comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this Section 15.

No person shall be eligible for election as a director of the Corporation unless nominated in accordance with the procedures set forth in this Section 15. The chairman of the meeting shall, if the facts warrant, determine and declare to the meeting that a nomination was not made in accordance with the procedures prescribed by this Section 15, and if he or she should so determine, the defective nomination shall be disregarded."

IN WITNESS WHEREOF, I have signed my name hereto as of March 24, 2000.

Samuel Gulko, Secretary

CERTIFICATE OF AMENDMENT
OF THE BYLAWS
OF
NEOTHERAPEUTICS, INC.
A DELAWARE CORPORATION

I, Samuel Gulko, hereby certify that:

1. I am the duly elected and acting Secretary of NeoTherapeutics, Inc., a Delaware corporation; and

2. Section 2 and Section 3 of the Bylaws of this corporation were amended by a resolution duly adopted by the Board of Directors of this corporation on June 12, 2000, to read in their entirety as follows:

SECTION 2. NUMBER AND ELECTION OF DIRECTORS. Subject to any limitations in the Certificate of Incorporation, the authorized number of directors of the Corporation shall be fixed from time to time by the Board of Directors pursuant to a resolution duly adopted by a majority of the entire Board of Directors, but no decrease in the number of directors constituting the Board of Directors shall shorten the term of any incumbent director. Until changed in the foregoing manner, the number of directors shall be nine (9). Directors shall be elected at each annual meeting of the stockholders to replace directors whose terms then expire, and, subject to the provisions of Section 3 of this Article III, each director elected shall hold office for a term of three(3) years or until his or her successor is duly elected and qualified, or until his or her earlier death, resignation or removal. Any director may resign at any time effective upon giving written notice to the Board of Directors, unless the notice specifies a later time for such resignation to become effective. If the resignation of a director is effective at a future time, the Board of Directors may elect a successor prior to such effective time to take office when such resignation becomes effective. Directors need not be stockholders.

SECTION 3. CLASSIFIED BOARD OF DIRECTORS. The Board of Directors shall be divided into three (3) classes, as nearly equal in number as possible, designated Class I, Class II and Class III. The number of directors constituting each Class shall be fixed from time to time by a resolution duly adopted by a majority of the entire Board of Directors. Class I directors shall hold office for a full term expiring at the 2003 annual meeting of stockholders. Class II directors shall hold office for a continuing term expiring at the 2001 annual meeting of stockholders. Class III directors shall hold office for an initial term expiring at the 2002 annual meeting of stockholders. At each annual meeting of stockholders held thereafter, directors shall be elected for a full term of office to succeed the directors of the Class whose terms then expire.

IN WITNESS WHEREOF, I have hereunto subscribed my name and affixed the seal of said corporation as of June 12, 2000.

Samuel Gulko, Secretary

CERTIFICATE OF AMENDMENT
OF THE BYLAWS
OF
NEOTHERAPEUTICS, INC.
A DELAWARE CORPORATION

I, Samuel Gulko, hereby certify that:

1. I am the duly elected and acting Secretary of NeoTherapeutics, Inc., a Delaware corporation; and

2. Section 2 and Section 3 of the Bylaws of this corporation were amended by a resolution duly adopted by the Board of Directors of this corporation on April 21, 1998, to read in their entirety as follows:

SECTION 2. NUMBER AND ELECTION OF DIRECTORS. Subject to any limitations in the Certificate of Incorporation, the authorized number of directors of the Corporation shall be fixed from time to time by the Board of Directors pursuant to a resolution duly adopted by a majority of the entire Board of Directors, but no decrease in the number of directors constituting the Board of Directors shall shorten the term of any incumbent director. Until changed in the foregoing manner, the number of directors shall be nine (9). Directors shall be elected at each annual meeting of the stockholders to replace directors whose terms then expire, and, subject to the provisions of Section 3 of this Article III, each director elected shall hold office for a term of two (2) years or until his or her successor is duly elected and qualified, or until his or her earlier death, resignation or removal. Any director may resign at any time effective upon giving written notice to the Board of Directors, unless the notice specifies a later time for such resignation to become effective. If the resignation of a director is effective at a future time, the Board of Directors may elect a successor prior to such effective time to take office when such resignation becomes effective. Directors need not be stockholders.

SECTION 3. CLASSIFIED BOARD OF DIRECTORS. The Board of Directors shall be divided into two (2) classes, as nearly equal in number as possible, designated Class I and Class II. The number of directors constituting each Class shall be fixed from time to time by a resolution duly adopted by a majority of the entire Board of Directors. Class I directors shall hold office for an initial term expiring at the 1998 annual meeting of stockholders. Class II directors shall hold office for a full term expiring at the 1999 annual meeting of stockholders. At each annual meeting of stockholders held thereafter, directors shall be elected for a full term of office to succeed the directors of the Class whose terms then expire.

IN WITNESS WHEREOF, I have hereunto subscribed my name and affixed the seal of said corporation as of the 19th day of March, 1999.

/s/ Samuel Gulko

Samuel Gulko, Secretary

MASTER LEASE AGREEMENT dated as of SEPTEMBER 22, 2000 by and between COMDISCO LABORATORY AND SCIENTIFIC GROUP, A DIVISION OF COMDISCO, INC. ("Lessor), and NEOTHERAPEUTICS, INC. ("Lessee").

IN CONSIDERATION of the mutual agreements described below, the parties agree as follows (all capitalized terms are defined in Section 14.12):

1. PROPERTY LEASED.

Lessor leases to Lessee all of the Equipment described on each Schedule. In the event of a conflict, the terms of a Schedule prevail over this Master Lease.

2. TERM.

On the Commencement Date Lessee will be deemed to accept the Equipment, will be bound to its rental obligations for each item of Equipment and the term of a Schedule will begin and continue through the Initial Term and thereafter until terminated by either party upon prior written notice received during the Notice Period. No termination may be effective prior to the expiration of the Initial Term.

3. RENT AND PAYMENT.

Rent is due and payable in advance, in immediately available funds, on the first day of each Rent Interval to the payee and at the. location specified in Lessor's invoice. Interim Rent is due and payable when Invoiced. If any payment Is not made when due, Lessee will pay interest at the Overdue Rate.

4. SELECTION AND WARRANTY AND DISCLAIMER OF WARRANTIES.

4.1 Selection. Lessee acknowledges that it has selected the Equipment and disclaims any reliance upon statements made by the Lessor.

4.2 Warranty and Disclaimer of Warranties. Lessor warrants to Lessee that, so long as Lessee is not in default, Lessor will not disturb Lessee's quiet and peaceful possession, and unrestricted use of the Equipment. To the extent permitted by the manufacturer, Lessor assigns to Lessee during the term of the Schedule any manufacturers warranties for the Equipment. LESSOR MAKES NO OTHER WARRANTY, EXPRESS OR IMPLIED AS TO ANY MATTER WHATSOEVER, INCLUDING, WITHOUT LIMITATION, THE MERCHANTABILITY OF THE EQUIPMENT OR ITS FITNESS FOR A PARTICULAR PURPOSE. Lessor is not responsible for any liability, claim, loss, damage or expense of any kind (including strict liability in tort) caused by the Equipment except for any loss or damage caused by the negligent acts of Lessor. In no event is Lessor responsible for special, incidental or consequential damages.

5. TITLE AND ASSIGNMENT.

5.1 Title. Lessee holds the Equipment subject and subordinate to the rights of the Owner, Lessor, any Assignee and any Secured Party. Lessee authorizes Lessor, as Lessee's agent to prepare, execute and file in Lessee's name precautionary Uniform Commercial Code financing statements showing the interest of the Owner, Lessor, and any Assignee or Secured Party in the Equipment and to insert serial numbers in Schedules as appropriate. Except as provided in Sections 5.2 and 7.2. Lessee will, at its expense, keep the Equipment free and clear from any liens or encumbrances of any kind (except any caused by Lessor) and will indemnify and hold Lessor, Owner, any Assignee and Secured Party harmless from and against any loss caused by Lessee's failure to do so.

5.2 Relocation or Sublease. Upon prior written notice, Lessee may relocate the Equipment to any location within the continental United States provided (i) the Equipment will not be used by an entity exempt from federal income tax, (ii) all additional costs (including any administrative fees, additional taxes and insurance coverage) are reconciled and promptly paid by Lessee. Lessee may sublease the Equipment upon the reasonable consent of the Lessor and the Secured Party and provided Lessee meets the requirements under (i) and (ii) above. No relocation or sublease will relieve Lessee from any of its obligations under this Master Lease and the applicable Schedule.

5.3 Assignment by Lessor. The terms and conditions of each Schedule have been fixed by Lessor in order to permit Lessor to sell and/or assign or transfer its interest or grant a security interest in each Schedule and/or the Equipment to a Secured Party or Assignee. In that event the term Lessor *11 mean the Assignee and any Secured Party. However, any assignment sale, or other transfer by Lessor will not relieve Lessor of its obligations to Lessee and will not materially change Lessee's duties or materially increase the burdens or risks imposed on Lessee. The Lessee consents to and will acknowledge such assignments in a written notice given to Lessee. Lessee also agrees that:

(a) The Secured Party will be entitled to exercise all of Lessor's rights, but will not be obligated to perform any of the obligations of Lessor. The Secured Party will not disturb Lessee's quiet and peaceful possession and unrestricted use of the Equipment so long as Lessee is not In default and the Secured Party continues to receive all Rent payable under the Schedule;

(b) Lessee will pay all Rent and all other amounts payable to the Secured Party, despite any defense or claim which it has against Lessor. Lessee reserves its right to have recourse directly against Lessor for any defense or claim; and

(c) Subject to and without impairment of Lessee's leasehold rights in the Equipment, Lessee holds the Equipment for the Secured Party to the extent of the Secured Party's rights in that Equipment.

6. NET LEASE AND TAXES AND FEES.

6.1 Net Lease. Each Schedule constitutes a net lease. Lessee's obligation to pay Rent and all other amounts is absolute and unconditional and is not subject to any abatement reduction, set-off, defense, counterclaim, interruption, deferment or recoupment for any reason whatsoever.

6.2 Taxes and Fees. Lessee will pay when due or reimburse Lessor for all taxes, fees or any other charges (together with any related interest, or penalties not arising from the negligence of Lessor) accrued for or arising during the term of each Schedule against Lessor, Lessee or the Equipment by any governmental authority (except only Federal, state and local taxes on the capital or the net income of Lessor). Lessor will file all personal property tax returns for the Equipment and pay all property taxes due. Lessee will reimburse Lessor for property taxes within thirty (30) days of receipt of an invoice.

7. CARE, USE AND MAINTENANCE, ATTACHMENTS AND RECONFIGURATIONS, AND INSPECTION BY LESSOR.

7.1 Care, Use and Maintenance. Lessee will operate the Equipment in accordance with all laws and regulations and maintain the Equipment in good operating order and appearance, protect the Equipment from deterioration, other than normal wear and tear, and will not use the Equipment for any purpose other than that for which it was designed. If commercially available, Lessee will maintain in force a standard maintenance contract with the manufacturer of the Equipment and upon request will provide Lessor with a complete copy of that contract. With Lessor's prior written consent Lessee may have the Equipment maintained by a party other than the manufacturer. Lessee agrees to pay any costs necessary for the manufacturer to bring the Equipment to original Equipment specifications at origination of lease, normal wear and tear excepted, and to re-certify the Equipment as eligible for manufacturer's maintenance at the expiration of lease term. The lease term will continue upon the same terms and conditions until recertification has been obtained.

7.2 Attachments and Reconfigurations. Upon Lessor's prior written consent, Lessee may reconfigure and install Attachments on the Equipment. In the event of such a Reconfiguration or Attachment, Lessee shall, upon return of the Equipment, at Ks expense, restore the Equipment to the original configuration specified on the Schedule in accordance with the manufacturer's specifications and in the same operating order, repair and appearance as when installed (normal wear and tear excluded). Alternatively, with Lessor's prior written consent which will not be unreasonably withheld, Lessee may return the Equipment with any Attachment or upgrade.

7.3 Inspection by Lessor. Upon request, Lessee, during reasonable business hours and subject to Lessee's security requirements, will make the Equipment and its related log and maintenance records, instruction manuals, published statements of capabilities and technical specifications and certification, qualification and calibration reports available to Lessor for inspection.

8. REPRESENTATIONS AND WARRANTIES OF LESSEE.

Lessee represents and warrants that for the Master Lease and each Schedule:

(a) The execution, delivery and performance of the Lessee have been duly authorized by all necessary corporate action;

(b) The individual executing was duly authorized to do so;

(c) The Master Lease and each Schedule constitute legal, valid and binding agreements of the Lessee enforceable in accordance with their terms;

(d) The Equipment is personal property and when subjected to use by the Lessee will not be or become fixtures under applicable law, and

(e) The Equipment will be for laboratory use only and will not be used in a clinical environment on patients.

9. DELIVERY AND RETURN OF EQUIPMENT

Lessee assumes the full expense of transportation of the Equipment to its initial location, Installation. deinstallation, and return to a location within the continental United States (including without limitation the expense of in-transit Insurance) all pursuant to Lessor's instructions and manufacturer's specifications. Regarding deinstallation, Lessee will assure that the Equipment Is deinstalled by the manufacturer in accordance with the manufacturer's recommended procedures and decontaminated for transport In accordance with any Environmental Law. and returned with a Verification of Decontamination In the same operating order. repair, condition and appearance as when originally installed (less normal wear and tear and depreciation) meeting all original equipment manufacturers specifications for continued manufacturer's maintenance, and accompanied by all associated documents, manuals (including, but not limited to, those listed in Section 7.3), spare parts and accessories and maintenance records for the duration of the Schedule. In connection with deinstallation, Lessee will assure that any Contaminant removed from the Equipment will be removed and transported by a licensed waste removal transporter.

10. LABELING.

Upon request, Lessee will mark the Equipment indicating Lessor's interest. Lessee will keep all Equipment free from any other marking or labeling which might be interpreted as a claim of ownership.

11. INDEMNITY.

Lessee will indemnify and hold Lessor, any Assignee and any Secured Party harmless from and against any and all claims, costs, expenses, damages and liabilities, Including reasonable attorneys' fees, arising out of the ownership (for strict liability in tort only), selection, possession, leasing, operation, control, use, maintenance, delivery, return or other disposition of the Equipment Including the handling or disposal of the Contaminants. However, Lessee is not responsible to a party indemnified hereunder for any claims, costs, expenses, damages and liabilities occasioned by the negligent acts of such Indemnified party. Lessee agrees to carry death, bodily injury and property damage liability insurance during the term of the Master Lease in amounts and against risks customarily insured against by the Lessee on similar equipment owned by It Any amounts received by Lessor under that insurance will be credited against Lessee's obligations under this Section.

12. RISK OF LOSS.

Effective upon delivery and until the Equipment is returned, Lessee relieves Lessor of responsibility for all risks of physical damage to or loss or destruction of the Equipment. Lessee will carry casualty insurance for each item of Equipment In an amount not less than the Casualty Value. All policies for such insurance will name the Lessor and any Secured Party as additional insured and as loss payee, and will provide for at least thirty (30) days prior written notice to the Lessor of cancellation or expiration. The Lessee will furnish appropriate evidence of such insurance. Lessee shall promptly repair any damaged item of Equipment unless such Equipment has offered a Casualty Loss. Within fifteen (15) days of a Casualty Loss, Lessee will provide written notice of that loss to Lessor and Lessee will, at Lessors option, either (a) replace the item of Equipment with Like Equipment and marketable title to the Like Equipment will automatically vest in Lessor or (b) pay the Casualty Value and after that payment and the payment of all other amounts due and owing, Lessee's obligation to pay further Rent for the item of Equipment will cease.

13. DEFAULT, REMEDIES AND MITIGATION.

13.1 Default. The occurrence of any one or more of the following Events of Default constitutes a default under a Schedule:

(a) Lessee's failure to pay Rent or other amounts payable by Lessee when due If that failure continues for ten (10) days after written notice; or

(b) Lessee's failure to perform any other term or condition of the Schedule or the material inaccuracy of any representation or

warranty made by the Lessee in the Schedule or in any document or certificate furnished to the Lessor hereunder if that failure or inaccuracy continues for fifteen (15) days after written notice; or

(c) An assignment by Lessee for the benefit of its creditors, the failure by Lessee to pay Its debts when due, the insolvency of Lessee, the filing by Lessee or the filing against Lessee of any petition under any bankruptcy or Insolvency law or for the appointment of a trustee or other officer with similar powers, the adjudication of Lessee as Insolvent, the liquidation of Lessee, or the taking of any action for the purpose of the foregoing; or

(d) The occurrence of an Event of Default under any Schedule or other agreement between Lessee and Lessor or its Assignee or Secured Party.

13.2 Remedies. Upon the occurrence of any of the above Events of Default, Lessor, at its option, may:

(a) enforce Lessee's performance of the provisions of the applicable Schedule by appropriate court action in law or in equity;

(b) recover from Lessee any damages and or expenses, Including Default Costs;

(c) with notice and demand, recover all sums due and accelerate and recover the present value of the remaining payment stream of all Rent due under the defaulted Schedule (discounted at the same rate of interest at which such defaulted Schedule was discounted with a Secured Party plus any prepayment fees charged to Lessor by the Secured Party or, if there is no Secured Party, then discounted at 6%) together with all Rent and other amounts currently due as liquidated damages and not as a penalty;

(d) with notice and process of law and in compliance with Lessee's security requirements, Lessor may enter on Lessee's premises to remove and repossess the Equipment without being liable to Lessee for damages due to the repossession, except those resulting from Lessor's. its assignees', agents' or representatives' negligence; and

(e) pursue any other remedy permitted by law or equity.

The above remedies, In Lessors discretion and to the extent permitted by law, are cumulative and may be exercised successively or concurrently.

13.3 Mitigation. Upon return of the Equipment pursuant to the terms of Section 13.2, Lessor will use its best efforts in accordance with its normal business procedures (and without obligation to give any priority to such Equipment) to mitigate Lessors damages as described below. EXCEPT AS

SET FORTH IN THIS SECTION, LESSEE HEREBY WAIVES ANY RIGHTS NOW OR HEREAFTER CONFERRED BY STATUTE OR OTHERWISE WHICH MAY REQUIRE LESSOR TO MITIGATE ITS DAMAGES OR MODIFY ANY OF LESSOR'S RIGHTS OR REMEDIES STATED HEREIN. Lessor may sell, lease or otherwise dispose of all or any part of the Equipment at a public or private sale for cash or credit with the privilege of purchasing the Equipment. The proceeds from any sale, lease or other disposition of the Equipment are defined as either

(a) if sold or otherwise disposed of, the cash proceeds less the Fair Market Value of the Equipment at the expiration of the Initial Term less the Default Costs; or

(b) if leased, the present value (discounted at three points over the prime rate as referenced in the Wall Street Journal at the time of the mitigation) of the rentals for a term not to exceed the Initial Term, less the Default Costs.

Any proceeds will be applied against liquidated damages and any other sums due to Lessor from Lessee. However. Lessee is liable to Lessor for, and Lessor may recover, the amount by which the proceeds are less than the liquidated damages and other sums due to Lessor from Lessee.

14. ADDITIONAL PROVISIONS.

14.1 Entire Agreement. This Master Lease and associated Schedules supersede all other oral or written agreements or understandings between the parties concerning the Equipment including, for example, purchase orders. ANY AMENDMENT OF THIS MASTER LEASE OR A SCHEDULE, MAY ONLY BE ACCOMPLISHED BY A WRITING SIGNED BY THE PARTY AGAINST WHOM THE AMENDMENT IS SOUGHT TO BE ENFORCED.

14.2 No Waiver. No action taken by Lessor or Lessee shall be deemed to constitute a waiver of compliance with any representation, warranty or covenant contained in this Master Lease or a Schedule. The waiver by Lessor or Lessee of a breach of any provision of this Master Lease or a Schedule will not operate or be construed as a waiver of any subsequent breach.

14.3 Binding Nature. Each Schedule Is binding upon, and inures to the benefit of Lessor and its assigns. LESSEE MAY NOT ASSIGN ITS RIGHTS OR OBLIGATIONS.

14.4 Survival of Obligations. All agreements, obligations including, but not limited to those arising under Section 6.2, representations and warranties contained in this Master Lease, any Schedule or in any document delivered In connection with those agreements are for the benefit of Lessor and any Assignee or Secured Party and survive the execution, delivery, expiration or termination of this Master Lease.

14.5 Notices. Any notice, request or other communication to either party by the other will be given in writing and deemed received upon the earlier of actual receipt or three days after mailing if mailed postage prepaid by regular or airmail to Lessor (to the attention of `Lease Administrator) or Lessee, at the address set out in the Schedule or, one day after It is sent by courier or facsimile transmission if receipt is verified by the receiving party.

14.6 Applicable Law. THIS MASTER LEASE HAS BEEN, AND EACH SCHEDULE WILL HAVE BEEN MADE, EXECUTED AND DELIVERED IN THE STATE OF ILLINOIS AND WILL BE GOVERNED AND CONSTRUED FOR ALL PURPOSES IN ACCORDANCE WITH THE LAWS OF THE STATE OF ILLINOIS WITHOUT GIVING EFFECT TO CONFLICT OF LAW PROVISIONS. NO RIGHTS OR REMEDIES REFERRED TO IN ARTICLE 2A OF THE UNIFORM COMMERCIAL CODE WILL BE CONFERRED ON LESSEE UNLESS EXPRESSLY GRANTED IN THIS MASTER LEASE OR A SCHEDULE.

14.7 Severability. If any one or more of the provisions of this Master Lease or any Schedule Is for any reason held Invalid, illegal or unenforceable, the remaining provisions of this Master Lease and any such Schedule will be unimpaired, and the invalid, illegal or unenforceable provision replaced by a mutually acceptable valid, legal and enforceable provision that is closest to the original intention of the parties.

14.8 Counterparts. This Master Lease and any Schedule may be executed in any number of counterparts, each of which will be deemed an original, but all such counterparts together constitute one and the same instrument. If Lessor grants a security Interest in all or any part of a Schedule, the Equipment or sums payable thereunder, only that counterpart Schedule marked "Secured Party's Original" can transfer Lessor's rights and all other counterparts will be marked "Duplicate".

14.9 Licensed Products. Lessee shall obtain no Ube to Licensed Products which will at all times remain the property of the owner of the Licensed Products. A license from the owner may be required and it Is Lessee's responsibility to obtain any required license before the use of the Licensed Products. Lessee agrees to treat the Licensed Products as confidential Information of the owner, to observe all copyright restrictions, and not to reproduce or sell the Licensed Products.

14.10 Additional Documents. Lessee will, upon execution of this Master Lease and as may be requested thereafter, provide Lessor with a secretary's certificate of incumbency and authority and any other documents reasonably requested by Lessor. Upon the execution of each Schedule with an aggregate Rent in excess of $2,000,000, Lessee will provide Lessor with an opinion from Lessee's counsel regarding the representations and warranties in Section 8. Lessee will furnish, upon request, audited financial statements for the most recent period.

14.11 Electronic Communications. Each of the parties may communicate with the other by electronic means under mutually agreeable terms.

14.12 Definitions.

ASSIGNEE - means an entity to whom Lessor has sold or assigned its rights as owner and Lessor of Equipment.

ATTACHMENT - means any accessory, equipment or device and the installation thereof that does not impair the original function or use of the Equipment and is capable of being removed without causing material damage to the Equipment and is not an accession to the Equipment.

CASUALTY LOSS - means the irreparable loss or destruction of Equipment.

CASUALTY VALUE - means the amount equal to the present value of the aggregate Rent remaining for the balance of the current term, plus the present value of the Fair Market Value (determined as of the expiration of the current term) of Like Equipment computed using an interest rate equal to the rate for Treasury Securities having a comparable term to the current term. However, if a Casualty Value Table is attached to the relevant Schedule its terms will control.

COMMENCEMENT CERTIFICATE - means the Lessor provided certificate which must be signed by Lessee within ten days of the Commencement Date as requested by Lessor.

COMMENCEMENT DATE - is defined in each Schedule.

CONTAMINANT - means any material, substance or waste regulated or otherwise covered under any Environmental Law or other material or substance which has in the past or could in the future constitute a health, safety or environmental hazard to any person, property or natural resources.

DEFAULT COSTS - means reasonable attorney's fees and remarketing costs resulting from a Lessee default or Lessors enforcement of its remedies.

ENVIRONMENTAL LAW - means any federal, foreign, state or local law, rule or regulation pertaining to the protection of the environment, including, but not limited to, the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA") (42 U.S.C. Section 9601 et seq.), the Federal Water Pollution Control Act (33 U.S.C. 1251 et seq.), the Resource Conservation and Recovery Act (42 U.S.C. 6901 et seq.). the Clean Air Act (42 U.S.C. 7401 et seq.), the Toxic Substances Control Act (15 U.S.C. 2601 et seq.), the Federal Insecticide, Fungicide and Rodenticide Act (7 U.S.C. 1361 et seq.), and the Occupational Safety and Health Act (10 U.S.C. 651 et seq.), as these laws have been amended or supplemented, and any analogous foreign, state or local statutes, and the regulations promulgated pursuant thereto.

EQUIPMENT - means the property described on a Schedule and any replacement for that property required or permitted by this Master Lease or a Schedule but not including any Attachment.

EVENT OF DEFAULT - means the events described in Subsection 13.1.

FAIR MARKET VALUE - means the aggregate amount which would be obtainable in an arm's-length transaction between an informed and willing buyer/user purchasing the Equipment in place for its originally intended use and an informed and willing seller under no compulsion to sell.

INITIAL TERM - means the period of time beginning on the first day of the first full Rent Interval following the Commencement Date for all items of Equipment and continuing for the number of Rent Intervals indicated on a Schedule.

INSTALLATION DATE - means the day on which the Equipment is Installed and qualified for a commercially available manufacturers standard maintenance contract or warranty coverage, If available.

INTERIM RENT - means the pro-rata portion of Rent due for the period from the Commencement Date through but not including the first day of the first full Rent Interval included In the Initial Term.

LICENSED PRODUCTS - means any software or other licensed products attached to the Equipment.

LIKE EQUIPMENT - means replacement Equipment which is lien free and of the same model, type, configuration and manufacture as Equipment.

NOTICE PERIOD - means the time period described in a Schedule during which Lessee may give Lessor notice of the termination of the term of that Schedule.

OVERDUE RATE - means the lesser of 18% percent or the maximum rate permitted by the law of the state where the Equipment is located.

OWNER - means the owner of Equipment.

RECONFIGURATION - means any change to Equipment that would upgrade or downgrade the performance capabilities of the Equipment in any way.

RENT - means the rent, including Interim Rent, Lessee will pay for each item of Equipment expressed in a Schedule either as a specific amount or an amount equal to the amount which Lessor pays for an item of Equipment multiplied by a lease rate factor plus all other amounts due to Lessor under this Master Lease or a Schedule.

RENT INTERVAL -- means a full calendar month or quarter as indicated on a Schedule.

SCHEDULE - means an Equipment Schedule which incorporates all of the terms and conditions of this Master Lease and, for purposes of Section 14.8, its associated Commencement Certificate(s).

SECURED PARTY - means an entity to whom Lessor has granted a security interest in a Schedule and related Equipment for the purpose of securing a loan.

VERIFICATION OF DECONTAMINATION - means a letter from the party performing the decontamination, staling that such party is licensed by the Occupational Safety and Health Agency or the appropriate officials and that the actual decontamination was completed both In accordance with manufacturers specifications and procedures, and any governmental permit required for the operation of the Equipment and the disposal of any Contaminants.

IN WITNESS WHEREOF, the parties hereto have executed this Master Lease on or as of the day and year first above written.

NEOTHERAPEUTICS, INC. as Lessee	COMDISCO LABORATORY AND SCIENTIFIC GROUP, A DIVISION OF COMDISCO, INC. as Lessor
By: ----------	By: ----------
Title: ----------	Title: ----------

rev. 12/99

AMENDMENT NO. 1
TO
MASTER LEASE AGREEMENT
DATED SEPTEMBER 22, 2000 (THE "LEASE")
BY AND BETWEEN
NEOTHERAPEUTICS, INC. ("LESSEE")
AND
COMDISCO LABORATORY AND SCIENTIFIC GROUP,
A DIVISION OF COMDISCO, INC. ("LESSOR")

WHEREAS, Lessor and Lessee desire to enter into the Lease; and

WHEREAS, Lessor and Lessee desire to amend certain provisions of the Lease as hereafter provided; and

WHEREAS, the Amendment shall be deemed to have been entered into contemporaneously with and integrated into the terms and conditions of the Lease.

NOW THEREFORE, for good and valuable consideration, Lessor and Lessee hereby agree to amend the Lease as follows:

1 Lessee agrees to maintain a financial status of all of the following during the term of the Lease and any extension or renewal thereof.

A. Cash or equivalents of not less than $5,000,000.00;

2. In addition, Lessee agrees to provide Lessor with quarterly financial statements within forty-five (45) days after the end of each fiscal quarter and audited annual financial statements within one hundred twenty (120) days of the end of each fiscal year.

3. Failure of Lessee to maintain any one of the above at any time during the Lease term and any extension or renewal thereof or the failure to make any payment due under the Lease is an Event of Default under the Lease which Lessee must, within ten (10) days, provide a Letter of Credit from a bank acceptable to Lessor for one hundred percent (100%) of all rent then due or to become due under the lease as of the date of the default. Along with the Letter of Credit, Lessee shall also execute a Letter of Credit Agreement with Lessor. The Letter of Credit and Letter of Credit Agreement shall be in a form identical to Exhibits A & B attached and incorporated herein.

4. Lessor shall also be entitled to any or all remedies or actions in the event of default, as provided in the Lease, and this Amendment shall not be construed to limit Lessor's rights in any way.

Except as set out herein, Lessor and Lessee hereby agree that the terms and conditions of the Lease shall remain in full force and effect as entered into by the parties on or prior to the date hereof.

NEOTHERAPEUTICS, INC. as Lessee	COMDISCO LABORATORY AND SCIENTIFIC GROUP, A DIVISION OF COMDISCO, INC. as Lessor
By: _____	By: _____
Title: _____	Title: _____
Date: _____	Date: _____

EXHIBIT A

(ON BANK LETTERHEAD)

{DATE)

BENEFICIARY:
Comdisco Laboratory and Scientific Group,
a division of Comdisco, Inc., or Transferee
6111 N. River Road
Rosemont, IL 60018

Gentlemen:

We hereby establish our Irrevocable Standby Letter of Credit No. in your favor for account of , for a sum not to exceed AND /100 DOLLARS ($) available by your draft drawn at sight on us -

Draft must be accompanied by: Your statement signed by an officer of Comdisco Laboratory and Scientific Group, a division of Comdisco Inc. certifying that NeoTherapeutics, Inc. has defaulted under that certain Master Lease Agreement dated September 22, 2000 between NeoTherapeutics, Inc. and Comdisco Laboratory and Scientific Group, a division of Comdisco, Inc., and the original of this Letter of Credit.

This Letter of Credit expires _____. All drafts drawn hereunder must be present for payment at
_____ our office at on or before that date.

It is a condition of this Irrevocable Standby Letter of Credit that it shall be deemed automatically extended without amendment for one (1) year from the present or any future expiration date hereof but not beyond end of lease term. Should we elect not to renew this Standby Letter of Credit, we shall notify you of such election 45 days prior to any such date. All notices shall be in writing, sent by certified mail, return receipt requested and addressed to you at the above address, ATTENTION: Credit Manager. Notwithstanding receipt by you of such notice, you may draw hereby by means of your draft on us at sight accompanied by the documents required herein, until such expiration date.

This Letter of Credit may be transferred by you at any time and such transfer shall be deemed effective and binding on us upon receipt of written notice of such transfer from you when accompanied by the original of this Letter of Credit.

We hereby agree that drafts drawn strictly in compliance with the terms of this credit and any amendments thereto shall meet with due honor upon presentation at our office at

---
Title

EXHIBIT B

LETTER OF CREDIT
AGREEMENT

Stand-by Letter of Credit Agreement dated _____, by and between NeoTherapeutics, Inc. ("Lessee") located at 157 Technology Drive, Irvine, CA 92618 and Comdisco Laboratory and Scientific Group, a division of Comdisco, Inc. ("Lessor") with offices at 6111 N. River Road, Rosemont, IL 60018.

WHEREAS, Lessee has requested that Lessor lease various equipment, as further described in the Lease (the "Equipment"), to Lessee; and

WHEREAS, Lessor has agreed to lease the Equipment to Lessee upon the condition that an Irrevocable Stand-by Letter of Credit shall be outstanding for the full term of the Master Lease Agreement to additionally secure Lessee's performance under the Lease.

NOW THEREFORE, in consideration of and as an inducement to Lessor to lease the Equipment to Lessee, the parties hereto agree as follows:

1. Lessee and Lessor have entered or shall enter into a Master Lease Agreement and one or more Schedules thereunder for leasing the Equipment, (together the "Lease"), all of which shall be covered by the terms of this Agreement.

2. Concurrently with the execution for this Agreement, Lessee shall cause to be delivered to Lessor in the form attached hereto as Exhibit A, an Irrevocable Stand-by Letter of Credit issued by a bank acceptable to Lessor, which Letter of Credit shall been the amount of AND /100 dollars ($) ("Letter of Credit") and shall be outstanding until _____, with annual renewals until end of lease term.

3. Receipt by Lessor of notice that the Letter of Credit will not be renewed on any expiration date, as provided therein, shall constitute a material default by Lessee under the terms and conditions of the Lease. Lessor shall then have the right to draw upon the Letter of Credit up to its full amount and to apply the proceeds as set out in paragraph 4, below, unless at least thirty (30) days prior to said expiration date Lessee replaces the Letter of Credit with a Letter of Credit which has been issued by a bank acceptable to Lessor and has the same terms and conditions as the replaced Letter of Credit.

4. Upon the occurrence of any Event of Default under the Lease which shall include Amendment 00 1, and at any time while a default is continuing, Lessor shall have the right to draw upon the Letter of Credit up to its full amount and to apply the proceeds thereof first to any reasonable costs and expenses incurred by Lessor in the enforcement of the terms of the Lease and the exercise of its rights and remedies, then to the unpaid balance of all sums payable under the Lease, whether by acceleration or otherwise, with any excess proceeds being refundable to Lessee, and Lessee remaining liable for any deficiency.

5. Waiver by Lessor of a default shall not constitute a continuing waiver of default, of the same provision or any other provision of the Lease. Additionally, failure of Lessor to draw upon the Letter of Credit at any time shall not be construed as a waiver of Lessor's right to draw upon the Letter of Credit as herein set forth at any other time.

6. The exercise by Lessor of its rights under this Agreement shall be deemed to be in addition to and not in lieu of any other rights and remedies of Lessor under the Lease, or any other document relating to the Lease and shall not be construed in any manner to represent satisfaction of the obligations of Lessee under or with respect to the Lease.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed as of the date set forth above.

NEOTHERAPEUTICS, INC. as Lessee	COMDISCO LABORATORY AND SCIENTIFIC GROUP, A DIVISION OF COMDISCO, INC. as Lessor
By: ----------	By: ----------
Title: ----------	Title: ----------
Date: ----------	Date: ----------

DRAW REQUEST

Letter of Credit No.

[date]

Attention: Letter of Credit Department

Gentlemen:

The undersigned hereby draws on Irrevocable Standby Letter of Credit No. dated (the "Letter of Credit") issued by you in our favor. Any capitalized term used herein and not defined shall have its respective meaning as set forth in the Letter of Credit.

In connection with the drawing, the undersigned hereby certifies that:

(1) Pursuant to Equipment Schedule No. SG-0 1, an Event of Default has occurred thereunder and we are making this drawing under the Letter of Credit pursuant to the Schedule.

(2) The amount of this request is $, which amount does not exceed the current Letter of Credit amount.

(3) The date here is not after the Expiration Date.

IN WITNESS WHEREOF, the undersigned has executed and delivered this request on this day of.

COMDISCO LABORATORY AND SCIENTIFIC GROUP,
A DIVISION OF COMDISCO, INC.

By:

Title:

17-SL40544-00

EQUIPMENT SCHEDULE NO. SG01

DATED AS OF SEPTEMBER 22, 2000

TO MASTER LEASE AGREEMENT DATED AS OF SEPTEMBER 22,2000 ("MASTER LEASE")

LESSEE: NEOTHERAPEUTICS, INC.

ADDRESS FOR LEGAL NOTICES:

157 Technology Drive
Irvine, California 92618

ATTN: Corporate Secretary

ADDRESS FOR ADMINISTRATIVE CORRESPONDENCE:

157 Technology Drive
Irvine, California 92618

ATTN: Sam Gulko
PHONE: 949/788-6700 ext. 209
FAX: 949/

LOCATION OF EQUIPMENT:

157 Technology Drive
Irvine, California 92618

ATTN: Sam Gulko
PHONE: 949/788-670 ext. 209

LESSOR: COMDISCO LABORATORY AND SCIENTIFIC GROUP, A DIVISION OF COMDISCO, INC.

ADDRESS FOR ALL NOTICES:

6111 North River Road
Rosemont, Illinois 60018

Attn: Contracts Administration

ADDRESS FOR INVOICES:

157 Technology Drive
Irvine, California 92618

ATTN: Sam Gulko

LESSEE REFERENCE NO:

(24 digits maximum)

INITIAL TERM/
RENT INTERVAL: 12 Quarters
LEASE RATE FACTOR: 1st Qtr @ .28
2nd-12th Qtr @ .0707

EQUIPMENT (AS DEFINED BELOW):

ITEM NO.	QTY.	MFG.	MACHINE TYPE	MODEL/ FEATURE	DESCRIPTION	SERIAL NUMBER

GROUP I EQUIPMENT: Installed Laboratory and Scientific Equipment described on Attachment A.

GROUP II EQUIPMENT: New Laboratory and Scientific Equipment comprised of equipment types described under Group I Equipment, which are supplied from outside vendors.

GROUP III EQUIPMENT: Laboratory and Scientific Equipment comprised of equipment types described under Group I Equipment, which are supplied, from Lessor's inventory pursuant to Section 7 hereof.

NOTICE PERIOD: The Notice Period will be not less than one hundred eighty (180) days nor more than twelve (12) months prior to the expiration of the Initial Term, or any extension thereof. In order for the notice to be effective, a notification by Lessee to Lessor must be accompanied by a letter from the manufacturer representing that when the Equipment is returned to Lessor it will be eligible for continued maintenance by a new end user. If Lessee gives proper written notice of termination but fails to return the Equipment on the expiration date of the Initial Term, or any extension thereof, the Schedule will continue in full force and effect and Lessee will be required to provide an additional sixty (60) days written notice of termination. Such termination will be effective at the end of the quarter in which the last day of the sixty (60) day notice requirement occurs. The Rent will continue at the current rate until the effective date of written notice of termination and the Equipment is properly returned.

SPECIAL TERMS: The following additional terms are a part of this Equipment Schedule. The terms and conditions of the Master Lease Agreement as they pertain to this Equipment Schedule are modified and amended as follows:

1. EQUIPMENT - MULTIPLE DELIVERY

It is understood that the Equipment to be leased is a combination of (i) Equipment purchased from Lessee and leased back to Lessee ("Group I Equipment'); (ii) Equipment purchased from the Equipment manufacturer or retail vendor ("Group II Equipment'); and (iii) Equipment supplied from Lessor's inventory ("Group III Equipment'). For purposes of this Schedule the terms "Group I Equipment", "Group II Equipment" and "Group III Equipment') are collectively referred to as the "Equipment".

Lessor's obligation to lease the Equipment under this Schedule applies to Group I Equipment, Group II Equipment and Group III Equipment (but not to attachments or upgrades to the Equipment, leasehold improvements, construction costs, implementation fees, and application software fees) up to an aggregate `purchase price of $2,500,000.00.

During the period from August 25, 2000 to January 31, 2001 ("Commitment Period'), (a) Lessee will provide to Lessor for each item of Group H Equipment and Group III Equipment, either Commencement Certificates or vendor invoices approved for payment by Lessee ("Invoices"), and (b) Lessor will make payment to Lessee for each item of Group I Equipment to be leased hereunder.

With respect to Group I and Group H Equipment, Lessee acknowledges it is entitled to the warranties and indemnities, remedies and limitations provided by the Equipment manufacturer or vendor and may communicate directly with such manufacturer or vendor to receive an accurate and complete copy thereof. If the cost or configuration of the Equipment changes, Lessor may adjust the Lease Rate Factors to reflect these additional costs or related expenses.

2. COMMITMENT FEE

In consideration of Lessor entering into this Schedule with Lessee, Lessee agrees to pay to Lessor a commitment fee in the amount of $11,250.00 ("Commitment Fee") based upon the aggregate purchase price of the Equipment from Equipment Group I and 11 to be leased under this Schedule. The Commitment Fee will be due and payable upon receipt of Lessor's invoice. Lessor will apply the Commitment Fee to the first quarterly rental payment under each Summary Schedule for this Schedule, and such allocation will be equal to one percent (II/o) of the total purchase price of the Equipment leased under a Summary Schedule.

3. COMMENCEMENT DATE

The Commencement Date for each item of Group II Equipment and Group HI Equipment will be the day on which the Equipment is installed and qualified for a commercially available manufacturer's standard maintenance contract or warranty coverage, if available. Lessee agrees to confirm the Commencement Date by providing Lessor with either the Invoices containing the Equipment location, description, serial number. and cost, the Commencement Date and Lessee's signature. or a Commencement Certificate in the form provided by Lessor, within ten (10) days of the Commencement Date. The Commencement Date for

each item of Group I Equipment will be the date Lessor tenders payment of the purchase price for the Group I Equipment. Lessee will be deemed to accept the Group H Equipment on the Commencement Date.

Notwithstanding anything to the contrary contained herein, during the interim period from the Commencement Date through but not including the first day of the start of the Initial Term, Lessee's rental obligations for each item of Equipment shall be equal to the daily Lease Rate Factor of .001012% multiplied by the acquisition cost for such item of Equipment multiplied by the number of days in the interim period.

4. SUMMARY SCHEDULE

Lessor will summarize all Invoices and/or Commencement Certificates received for the Group II Equipment, and all payments made by Lessor for the Group I Equipment, in the same calendar quarter into a Summary Schedule in the form attached to this Equipment Schedule as Exhibit I. Lessor will summarize all Commencement Certificates received for the Group III Equipment in the same calendar quarter into a separate Summary Schedule. The Initial Term for all items of Equipment will begin on the first day of the calendar quarter following the Commencement Date. Lessee agrees that for administrative purposes, including without limitation, invoicing of Rent and taxes and assignment of an identifying lease number, Lessor may administer the Summary Schedule as if it constituted a separate Equipment Schedule. Alternatively, if Lessor requests Lessee to execute a Summary Schedule, Lessee will have an appropriate official of Lessee execute and promptly return the Summary Schedule to Lessor. Executed Summary Schedules will incorporate the terms and conditions of the Master Lease and this Equipment Schedule and will constitute a separate Equipment Schedule.

5. ADVERSE CHANGE

If Lessee defaults or there is a material adverse change as reported by the Lessee in an 8K filing with the Securities and Exchange Commission ("SEC'), for subsequent Summary Schedules, Lessor, at its option with prior written notice to Lessee, will be relieved of its obligations to lease Equipment for which Lessor has not received Invoices or Commencement Certificates from Lessee prior to the date of such, notice.

6. INTEREST RATE ADJUSTMENT

In the event the Commencement Date for all items of Equipment to be leased hereunder is after August 31, 2000, the following will apply. The Lease Rate Factors set forth in this Schedule have been calculated, in part, based on the 3-year U.S. Treasury Constant Maturity of 6.06% as set forth in the Federal Reserve Statistical Release H. 15 ("Treasury Rate"). If on the last Commencement Date for all items of Equipment to be leased hereunder, there is a change in Treasury Rate in excess of 10 basis points, the effective lease rate of % will be adjusted one basis point for each basis point change in the Treasury Rate. Additionally, if there is an adverse change in Lessee's credit standing prior to the Commencement Date for all items of Equipment to be leased hereunder, the Lease Rate Factors may be adjusted accordingly.

7. GROUP III EQUIPMENT - SUPPLIED FROM LESSOR'S INVENTORY

It is anticipated by Lessor and Lessee that at least fifty-five percent (55%) of the acquisition cost of the Equipment to be leased hereunder will be comprised of Group III Equipment. Lessee will provide Lessor with a ninety (90) day forecast of proposed Equipment acquisitions, with updates provided to Lessor every thirty (30) days. Lessor agrees it will use commercially reasonable best efforts to supply Group III Equipment, and Lessee agrees it will use commercially reasonable best efforts to accept Lessor's offer to supply Group III Equipment hereunder. Lessor will notify Lessee of Group III Equipment availability and the pricing of such Group III Equipment via facsimile transmission. Lessee will respond to Lessor's offer within a reasonable time frame via facsimile transmission by accepting or rejecting Lessor's offer. If Lessor's offer is accepted, the Group III Equipment will be supplied to Lessee in accordance with the terms of the offer and this Schedule. For purposes of determining the Quarterly Rent for an item of Group III Equipment, the Lease Rate Factor(s) set forth in this Schedule will be applied to the acquisition cost of the Group III Equipment as set forth in Lessor's offer.

8. EQUIPMENT PROCUREMENT CHARGES (PROGRESS PAYMENTS)

It is the agreement of the parties that due to the Equipment vendor's requirement that progress payments be paid prior to the Commencement Date ("Progress Payments"), all terms and conditions of this Equipment Schedule will be applicable to the Equipment except the Lessee's rental obligations. Notwithstanding the foregoing, Lessee agrees to pay Lessor "Equipment Procurement Charges" equal to a daily lease rate factor of .001012 multiplied by the aggregate of the Progress Payments paid by Lessor for each day from the date Progress Payments are made by Lessor until the Commencement Date. Lessee will authorize each Progress Payment prior to Lessor's payment by acknowledging such approval on the face of the invoice(s). Accrued Equipment Procurement Charges are payable within 30 days of the date of Lessor's invoice.

If Lessee rejects the Equipment prior to the Commencement Date pursuant to the purchase agreement with the Equipment vendor or if Lessee is in default of this Equipment Schedule, then this Equipment Schedule will terminate and Lessee will (i) reimburse Lessor for all amounts paid by Lessor for the purchase of the Equipment and (ii) pay all Equipment Procurement Charges due through the date of termination. Upon payment of all amounts due and owing by Lessee, Lessor will transfer to Lessee all of Lessor's interest in the Equipment and under any purchase agreement.

9. RENEWAL OPTION (FAIR MARKET RENTAL VALUE)

So long as no Event of Default shall have occurred, Lessee shall have the right to extend the Initial Term of this Schedule by giving Lessor at least one hundred eighty (180) days written notice prior to the expiration of the Initial Term, provided, however, this Schedule shall continue in effect following the extended period until terminated by either party upon not less than one hundred eighty (180) days prior written notice, which notice shall be effective the first of the month following receipt. The rent required to be paid during the extended period shall be based on the Fair Market Rental Value of the Equipment. Unless otherwise agreed in writing between the parties, this option shall not apply to add-ons or upgrades to the Equipment leased hereunder. Fair Market Rental Value shall be defined as the amount which would be obtainable at the commencement of the extended Initial Term in an arm's-length transaction between an informed and willing lessee/user leasing the Equipment in place for its originally intended use for the proposed lease term, and an informed and willing lessor/dealer under no compulsion to lease.

10. PURCHASE OPTION (FAIR MARKET VALUE)

So long as no Event of Default shall have occurred and is continuing hereunder, and upon at least one hundred eighty (180)days prior written notice to Lessor, Lessee will have the option at the expiration of the Initial Term of this Schedule to purchase all, but not less than all, of the Equipment for an amount equal to the Fair Market Value of the Equipment (plus any taxes applicable at time of purchase) on the date of the expiration of the Initial Term (the "Purchase Date"), payable to Lessor by the Purchase Date. Title to the Equipment will automatically pass to Lessee on the Purchase Date, provided Lessee has paid the full purchase price.

11. RETURN OPTION

In the event that Lessee does not elect the "Purchase Option" or "Renewal Option" contained herein, Lessee will return the Equipment to Lessor upon termination of the Schedule in accordance with the "Delivery and Return of Equipment" provision.

12. ELECTRONIC FUNDS DEBIT AUTHORIZATION

This Equipment Schedule is contingent upon Lessee authorizing Lessor, or Lessor's assigns, to institute electronic funds transfer debit instructions against Lessee's bank account using the Automated Clearing House funds-transfer systems in order to make payment to Lessor, or Lessor's assigns, for any and all of Lessee's payment obligations when due under the Master Lease Agreement and this Equipment Schedule. Lessee agrees to accurately complete, execute, and return to Lessor an Electronic Funds Debit Authorization Agreement provided by Lessor substantially in the form of Attachment I hereto. Lessor and Lessee agree that Lessor's electronic debit amount will not exceed amount stated on Lessor's Invoice.

13. RENT ADJUSTMENT

If Lessee fails to give the proper written notification to terminate this Equipment Schedule, or if the Equipment has not been returned to Lessor in accordance with the terms of the Master Lease, the Initial Term will automatically extend on a quarter to quarter basis at a quarterly lease rate factor .091036 until proper written notification of termination is received by Lessor and the Equipment is returned in accordance with the terms of the Master Lease.

14. LESSOR'S ELECTION

Lessee represents that it has paid all California sales tax due on the cost of that portion of the Equipment to be installed in California and agrees to provide evidence of such payment to, Lessor. As a result of the election, Lessor agrees that it will not invoice Lessee for use tax on the monthly rental payments for the Equipment. Lessee understands that this is an irrevocable election to measure the tax by the Equipment cost and cannot be changed except prior to installation of the Equipment.

MASTER LEASE: This Equipment Schedule is issued pursuant to the Master Lease identified on page 1 of this Equipment Schedule. All of the terms and conditions of the Master Lease are incorporated in and made a part of this Equipment Schedule as if they were expressly described in this Equipment Schedule, and this Equipment Schedule constitutes a separate lease for the Equipment. The parties reaffirm all of the terms and conditions of the Master Lease (including, without limitation, the representations and warranties set forth in the Master Lease) except as modified by this Equipment Schedule. This Equipment Schedule may not be amended or rescinded except by a writing signed by both parties.

NEOTHERAPEUTICS, INC. as Lessee	COMDISCO LABORATORY AND SCIENTIFIC GROUP, A DIVISION OF COMDISCO, INC. as Lessor
By: ----------	By: ----------
Title: ----------	Title: ----------
Date: ----------	Date: ----------

CER
CLSG-ES (NML) form 07/00

ADDENDUM TO EQUIPMENT SCHEDULE NO. SG-0 1
DATED SEPTEMBER 22, 2000
TO MASTER LEASE AGREEMENT DATED SEPTEMBER 22, 2000
BETWEEN NEOTHERAPEUTICS, INC., AS LESSEE
AND COMDISCO LABORATORY AND SCIENTIFIC GROUP
a DIVISION OF COMDISCO, INC., AS LESSOR

CALIFORNIA CERTIFICATE OF EXEMPTION

NeoTherapeutics, Inc. ("Lessee") certifies that it holds California Seller's Permit Number _____. With respect to the machinery and equipment leased by Comdisco Laboratory and Scientific Group, a division of Comdisco, Inc. ("Lessor") to Lessee on the above referenced Equipment Schedule, Lessee claims exemption from the payment of California sales or use taxes on the monthly lease payments for the following reason:

The above referenced lease qualifies as an exempt acquisition sale and leaseback transaction as defined under California Revenue and Taxation Code Section 6010.65(a) which states that:

> "`Sale' and `purchase' for the purpose of this part, do not include any transfer to title to, nor any lease of, tangible personal property pursuant to an acquisition sales and leaseback. An acquisition sale and leaseback is a sale by a person and leaseback to that person of tangible personal property where both of the following conditions are satisfied:
>
> (1) That person has paid sales tax reimbursement or use tax with respect to that person's purchase of the property.
>
> (2) The acquisition sale and leaseback is consummated within 90 days of that person's first functional use of the property."

Lessee certifies that it has paid sales tax reimbursement or use tax with respect to its purchase of tangible property leased under the above referenced equipment schedule, and agrees to provide evidence of such payment(s) to Lessor.

Based on Lessee's claim for exemption under Section 6010.65, Lessor agrees that it will not invoice Lessee for use tax on the monthly rental rate.

NEOTHERAPEUTICS, INC. as Lessee	COMDISCO LABORATORY AND SCIENTIFIC GROUP, A DIVISION OF COMDISCO, INC. as Lessor
By: _____	By: _____
Title: _____	Title: _____
Date: _____	Date: _____

EXHIBIT 21

SCHEDULE 21 SUBSIDIARIES OF REGISTRANT

SUBSIDIARY NAME	INCORPORATION	DATE
Advanced ImmunoTherapeutics, Inc.	California	06-15-87
NeoTherapeutics GmbH	Switzerland	04-26-97
NeoGene Technologies, Inc.	California	10-01-99
NeoOncoRx, Inc.	California	11-16-00
NeoTravel, Inc.	California	04-05-01

EXHIBIT 23

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation by reference into the Company's previously filed Registration Statements on Forms S-1 (Nos. 333-89153, 333-79935), Forms S-3 (Nos. 333-53108, 333-51388, 333-42852, 333-38710, 333-37180, 333-92855, 333-73009, 333-52331, 333-37585) and Forms S-8 (Nos. 333-54246, 333-30345, 333-30321), of our report dated April 17, 2001, included in NeoTherapeutics, Inc.'s Form 10-K for the year ended December 31, 2000.

/s/ Arthur Andersen LLP
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ARTHUR ANDERSEN LLP
Irvine, California
April 17, 2001