

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

Form 10-QSB

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

For the quarterly period ended September 30, 2002

OR

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

For the transition period from _____ to _____

Commission file number 0-28931

BIODELIVERY SCIENCES INTERNATIONAL, INC.

(Name of small business issuer as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

35-2089858
(I.R.S. Employer I.D. No.)

UMDNJ Medical School
185 South Orange Avenue, Bldg #4
Newark, NJ 07103

(Address of Principal Executive Offices) (Zip Code)

(813) 902-8980

(Registrant's telephone number)

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

Title of each Class

Common Stock. \$.001 Par Value

Indicate by check mark whether the issuer (1) 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 No

The Issuer had 7,085,863 shares of common stock issued and outstanding as of November 12, 2002.

BioDelivery Sciences International, Inc.
Form 10-QSB

Index

Item 1. Financial Statements

- Condensed Consolidated Balance Sheets as of September 30, 2002 (unaudited) and December 31, 2001.....2
- Condensed Consolidated Statements of Operations for the three months and nine months ended September 30, 2002 and 2001 and the period January 6, 1997 (date of incorporation) to September 30, 2002 (unaudited).....3
- Condensed Consolidated Statement of Stockholders' Equity (Deficit) for the nine months ended September 30, 2002.....4
- Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2002 and 2001, and the period January 6, 1997 (date of incorporation) to September 30, 2002 (unaudited).....5
- Notes to Condensed Consolidated Financial Statements (unaudited).....6

Item 2. Management's Discussion and Analysis or Plan of Operation.....10

Item 3. Controls and Procedures.....13

Part II. Other Information

Item 1. Legal Proceedings.....14

Item 2. Changes in Securities.....14

Item 6. Exhibits and Reports on Form 8-K.....14

Signatures.....15

PART I. FINANCIAL INFORMATION

Item 1. - Financial Statements

	September 30, 2002	December 31, 2001
	-----	-----
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 6,383,359	\$ 75,513
Grant receivable, prepaid expenses and other assets	330,323	111,684
	-----	-----
Total current assets	6,713,682	187,197
EQUIPMENT, net	173,424	233,562
INTANGIBLES, net	585,254	547,470
DEFERRED OFFERING COSTS	-	365,340
	-----	-----
Total Assets	\$ 7,472,360	\$ 1,333,569
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	\$ 931,023	\$ 814,279
Due to related parties	21,718	74,331
Line of credit	-	282,527
Deferred revenue	-	37,000
Current portion of capital lease payable	12,265	14,804
Current portion of notes payable	-	149,524
	-----	-----
Total current liabilities	965,006	1,372,465
CAPITAL LEASE PAYABLE, less current portion	16,708	18,369
NOTES PAYABLE, less current portion	-	151,733
COMMITMENTS AND CONTINGENCIES		
	-	-
STOCKHOLDERS' EQUITY (DEFICIT):		
preferred stock	-	-
Common stock	7,086	5,001
Additional paid-in capital	13,847,484	4,903,368
Deficit accumulated during development stage	(7,363,924)	(5,117,367)
	-----	-----
Total stockholders' equity (deficit)	6,490,646	(208,998)
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	\$ 7,472,360	\$ 1,333,569
	=====	=====

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

BIODELIVERY SCIENCES INTERNATIONAL, INC.
(A Development Stage Company)

Condensed Consolidated Statements of Operations (Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,		Period From January 6, 1997 (Date of Incorporation) to September 30, 2002
	----- 2002	----- 2001	----- 2002	----- 2001	----- 2002
Sponsored research revenues	\$ 148,000	\$ 8,600	\$ 605,972	\$ 36,385	\$ 1,140,357
Expenses:					
Research and development	519,202	389,563	1,428,755	1,143,736	3,405,423
General and administrative:					
General and administrative	544,210	174,568	945,016	869,980	2,548,838
Stock compensation	526,318	-	526,318	-	2,718,402
	-----	-----	-----	-----	-----
Total expenses	1,589,730	564,131	2,900,089	2,013,716	8,672,663
Interest income (expense), net	28,359	(8,033)	(7,404)	7,527	(7,589)
	-----	-----	-----	-----	-----
Loss before income taxes and minority interest	(1,413,371)	(563,564)	(2,301,521)	(1,969,804)	(7,539,895)
Income tax benefit	-	-	54,964	-	73,499
	-----	-----	-----	-----	-----
Loss before minority interest	(1,413,371)	(563,564)	(2,246,557)	(1,969,804)	(7,466,396)

Minority interest in net loss of subsidiary	-	-	-	-	102,472
Net loss	<u>\$ (1,413,371)</u>	<u>\$ (563,564)</u>	<u>\$ (2,246,557)</u>	<u>\$ (1,969,804)</u>	<u>\$ (7,363,924)</u>
Net loss per common share: Basic and diluted	<u>\$ (.20)</u>	<u>\$ (.14)</u>	<u>\$ (.39)</u>	<u>\$ (.53)</u>	
Weighted average common stock shares outstanding - basic and diluted	<u>7,044,286</u>	<u>3,960,924</u>	<u>5,711,467</u>	<u>3,744,394</u>	

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

3

BIODELIVERY SCIENCES INTERNATIONAL, INC.
(A Development Stage Company)

Condensed Consolidated Statement of Stockholders' Equity (Deficit)

	Preferred Stock		Common Stock		Additional Paid-In Capital	Deficit Accumulated During Development Stage	Total Stockholders' Equity (Deficit)
	Shares	Amount	Shares	Amount			
BALANCE, DECEMBER 31, 2001	-	\$ -	5,000,863	\$ 5,001	\$ 4,903,368	\$ (5,117,367)	\$ (208,998)
Shares issued for cash (unaudited)	-	-	2,085,000	2,085	8,623,062	-	8,625,147
Compensation expense related to forgiveness of shareholder notes (unaudited)	-	-	-	-	321,054	-	321,054
Net loss (unaudited)	-	-	-	-	-	(2,246,557)	(2,246,557)
BALANCE, SEPTEMBER 30, 2002 (unaudited)	-	\$ -	7,085,863	\$ 7,086	\$13,847,484	\$ (7,363,924)	\$ 6,490,646

The accompanying notes are an integral part of this financial statement.

4

BIODELIVERY SCIENCES INTERNATIONAL, INC.
(A Development Stage Company)

Condensed Consolidated Statements of Cash Flows (Unaudited)

	Nine Months Ended		Period From
	September 30, 2002	September 30, 2001	January 6, 1997 (Date of Incorporation) to September 30, 2002
OPERATING ACTIVITIES:			
Net loss	\$ (2,246,557)	\$ (1,969,804)	\$ (7,363,924)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	91,413	73,127	219,711
Loss applicable to minority interest	-	-	(102,472)
Deferred revenue	(37,000)	-	(56,000)
Litigation settlement	-	300,000	425,000
Compensation expense	321,054	-	2,511,449
Changes in assets and liabilities:			
Grants receivable, prepaid expenses and other assets	(218,639)	(93,159)	(237,304)
Accounts payable and accrued liabilities	116,744	127,873	844,067
Due to/from related parties	(52,613)	68,554	178,222
Net cash used in operating activities	(2,025,598)	(1,493,409)	(3,581,251)
INVESTING ACTIVITIES:			

Net cash received with business combination	-	-	380,465
Purchase of equipment	(29,175)	-	(114,037)
Purchase of intangibles	(39,884)	-	(39,884)
Purchase of minority interest	-	(116,375)	(116,375)
	-----	-----	-----
Net cash provided by (used in) investing activities	(69,059)	(116,375)	110,169
FINANCING ACTIVITIES:			
Issuance of Preferred Stock	-	-	1,010,000
Issuance of Common Stock, net of issuance costs	8,990,487	805,000	9,430,147
Net change in line of credit	(282,527)	75,000	-
Payment on capital lease payable	(4,200)	(6,506)	(10,706)
Payment on notes payable	(301,257)	(87,725)	(575,000)
	-----	-----	-----
Net cash provided by financing activities	8,402,503	785,769	9,854,441
NET CHANGE IN CASH	6,307,846	(824,015)	6,383,359
CASH AT BEGINNING OF PERIOD	75,513	950,939	-
	-----	-----	-----
CASH AT END OF PERIOD	\$ 6,383,359	\$ 126,924	\$ 6,383,359
	=====	=====	=====

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

5

BIODELIVERY SCIENCES INTERNATIONAL, INC.
(A Development Stage Company)

Notes to Condensed Consolidated Financial Statements (Unaudited)

September 30, 2002 and the Period From January 6, 1997
(date of incorporation) to September 30, 2002

NOTE 1 - BASIS OF PRESENTATION

The condensed consolidated balance sheets of BioDelivery Sciences International, Inc. and its subsidiary (collectively "the Company") as of September 30, 2002, and the condensed consolidated statements of operations for the three and nine months ended September 30, 2002 and 2001 have been prepared by the Company without audit. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows at September 30, 2002 and for all periods presented, have been made. The condensed consolidated balance sheet at December 31, 2001, has been derived from the Company's audited consolidated financial statements at that date.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America, have been condensed or omitted pursuant to the Securities and Exchange Commission ("SEC") rules and regulations. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2001, included in the Company's 2001 Annual Report on Form 10-KSB filed with the SEC on April 1, 2002 ("2001 Annual Report").

The results of operations for the three and nine months ended September 30, 2002, are not necessarily indicative of results that may be expected for any other interim period or for the full fiscal year.

In March 2002, the Company approved a one for 4.37 reverse stock split. The financial statements have been restated to reflect the reverse stock split.

NOTE 2 - PLAN OF OPERATIONS

Since inception, the Company has financed its operations principally from the sale of equity securities and through a line of credit. Historically, the Company's subsidiary financed its operations principally from funded research arrangements. The Company has not generated revenue from the sale of any product or from any licensing arrangement since inception. The Company intends to finance its research and development efforts and its working capital needs from existing and new sources of financing, primarily licensing agreements. For

instance, in 2001 the Company was granted approximately \$2.7 million from the National Institutes of Health to fund specific research efforts conducted by the Company through June 2004, of which \$1,031,972 has been received to date. It was also awarded a second NIH grant in August 2002, for \$600,000 over two years. In September 2002, the Company completed its public offering, which consisted of 2,085,000 Units, each comprised of one share of common stock and one redeemable Class A common stock purchase warrant. During the three months ended June 30, 2002, the Company sold 2,000,000 units at \$5.25 per unit. During the three months ended September 30, 2002, the Company sold 85,000 units at \$5.25 per unit. The Company intends to finance its research and development efforts and its working capital needs through licensing and joint venture arrangements with pharmaceutical companies, whose own proprietary pharmaceutical products may benefit from delivery using our nanocochleate technology. Moreover,

6

BIODELIVERY SCIENCES INTERNATIONAL, INC.
(A Development Stage Company)

Notes to Condensed Consolidated Financial Statements (Unaudited)

September 30, 2002 and the Period From January 6, 1997
(date of incorporation) to September 30, 2002

NOTE 2 - PLAN OF OPERATIONS - CONTINUED

there is the possibility of licensing income from applications of the Company's technology to over-the-counter drugs, generics, nutraceuticals, processed foods and beverages. To the extent that additional capital needs are required, the Company may raise additional funding from other sources, including debt financing and equity financing. While there can be no assurance that such sources will provide adequate funding for the Company's operations, management believes such sources will be available to the Company.

NOTE 3 - NEW ACCOUNTING PRONOUNCEMENTS

In July 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) 141, Business Combinations, and SFAS 142, Goodwill and Intangible Assets. SFAS 141 is effective for all business combinations completed after June 30, 2001. SFAS 142 is effective for the year beginning January 1, 2002; however certain provisions of that Statement apply to goodwill and other intangible assets acquired between July 1, 2001, and the effective date of SFAS 142. The Company determined that the adoption of SFAS 142 did not have any impact on the Company's financial statements.

In July 2001, the FASB issued SFAS No. 143, Accounting for Asset Retirement Obligations. This statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. This Statement applies to all entities. It applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or the normal operation of a long-lived asset, except for certain obligations of lessees. This Statement is effective for financial statements issued for fiscal years beginning after June 15, 2002. The Company is evaluating the impact of the adoption of this standard and has not yet determined the effect of adoption on its financial position and results of operations.

In August 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. This statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets and supersedes FASB Statement No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of. The provisions of the statement are effective for financial statements issued for fiscal years beginning after December 15, 2001. The Company adopted this standard effective January 1, 2002, which did not have a material impact on the Company's financial statements.

7

BIODELIVERY SCIENCES INTERNATIONAL, INC.
(A Development Stage Company)

Notes to Condensed Consolidated Financial Statements (Unaudited)

September 30, 2002 and the Period From January 6, 1997
(date of incorporation) to September 30, 2002

NOTE 4 - NET LOSS PER COMMON SHARE

The following table reconciles the numerators and denominators of the basic and diluted loss per share computations.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2001	2002	2001
Net loss - (numerator)	\$ (1,413,371)	\$ (563,564)	\$ (2,246,557)	\$ (1,969,804)
Basic:				
Weighted average shares outstanding (denominator)	7,044,286	3,960,924	5,711,467	3,744,394
Net loss per common share - basic	\$ (.20)	\$ (.14)	\$ (.39)	\$ (.53)
Diluted:				
Weighted average shares outstanding	7,044,286	3,960,924	5,711,467	3,744,394
Effect of dilutive securities	-	-	-	-
Adjusted weighted average shares (denominator)	7,044,286	3,960,924	5,711,467	3,744,394
Net loss per common share - diluted	\$ (.20)	\$ (.14)	\$ (.39)	\$ (.53)

The effects of all stock options and warrants outstanding have been excluded from Common Stock equivalents because their effect would be anti-dilutive.

NOTE 5 - COMMITMENTS AND CONTINGENCIES

The Company was the defendant in a lawsuit filed by Michael Pennessi d/b/a SSP Consultants, who is not affiliated with the Company, arising out of an introduction to BioDelivery Sciences, Inc. in 2000. A settlement for \$75,000 in cash payable to the plaintiff, was reached prior to September 30, 2002 and is reflected in selling, general and administrative expense.

NOTE 6 - LINE OF CREDIT

At December 31, 2001, the Company had secured a revolving line of credit from a financial institution, which had an interest rate of prime plus 2.0%. During the six months ended June 30, 2002, the Company continued to draw on the line of credit to fund operations. As of June 30, 2002, the line of credit terminated and was satisfied in full with proceeds from the sale of common stock in our public offering.

(A Development Stage Company)

Notes to Condensed Consolidated Financial Statements (Unaudited)

September 30, 2002 and the Period From January 6, 1997
(date of incorporation) to September 30, 2002

Note 7 - NATIONAL Institutes of Health Grant

In 2001, the National Institutes of Health (NIH) awarded the Company a Small Business Innovation Research Grant (SBIR), which has been and will be utilized in research and development efforts. NIH awarded the Company a 2001 grant of \$883,972 and a 2002 grant of \$814,398. Additionally, this award refers to funding levels of \$989,352 that the Company expects to be awarded in 2003, subject to availability and satisfactory progress of the project. Therefore, the Company expects to receive a total of approximately \$2.7 million related to its initial application for the grant through June 2004. In addition, in August 2002, the NIH awarded a second grant for \$600,000 over two years. The second grant is expected to begin funding in the fourth quarter of 2002.

During the nine-month period ended September 30, 2002, the Company recognized revenue of approximately \$606,000 from the initial grant. As awarded on September 19, 2001, the grant provided for reimbursement of or advances for future research and development efforts. Upon receiving funding under the grant and utilizing the funds as specified, no amounts are refundable.

As of September 30, 2002, the Company has recognized the full funding level of \$883,972 related to the 2001 award and \$148,000 related to the 2002 award.

NOTE 8 - INCOME TAXES

In March 2002, a new tax law changed the carryback period from two to five years. This allowed the Company to carryback its net operating losses to 1997, which resulted in an additional benefit of \$54,964. The Company initially recognized a tax benefit of \$95,843 during the three month period ended March 31, 2002 based on a preliminary evaluation of the new tax law. The Company subsequently revised its estimate of recoverable income taxes, which resulted in the reduction of income tax receivable by \$40,879 during the three month period ended September 30, 2002.

NOTE 9 - STOCK BASED COMPENSATION

Compensation expense of \$526,318 is associated with the forgiveness of employee stock subscription notes receivable and related income tax payable on behalf of the employees. These notes were secured by common stock and were previously included as a reduction of stockholders' equity. This is a non-recurring event and no future costs are expected with regard to this stock based compensation award that was initially granted in 1999.

9

BIODELIVERY SCIENCES INTERNATIONAL, INC.
(A Development Stage Company)

Item 2. Management's Discussion and Analysis
or Plan of Operations

Management's Discussion and Analysis of Financial Condition and Plan of Operations

The following discussion and analysis should be read in conjunction with the Condensed Consolidated Financial Statements and Notes thereto included elsewhere in this Form 10-QSB. This discussion contains certain forward-looking statements that involve risks and uncertainties. The Company's actual results and the timing of certain events could differ materially from those discussed in these forward-looking statements as a result of certain factors, including, but not limited to, those set forth herein and elsewhere in this Form 10-QSB.

The Company is a development-stage company and we expect to continue to perform research and development activities in furtherance of our business strategy and product development.

For the Nine Months Ended September 30, 2002 Compared to the Nine Months Ended September 30, 2001

Sponsored Research Revenue. During the nine-month periods ended September 30, 2002 and 2001, we reported approximately \$606,000 and \$36,000, respectively, of sponsored research revenues. With the exception of grants by the National Institutes of Health and funding provided to us through various collaborative agreements, we have not derived any revenues from our operations, technologies or products.

Research and Development. Research and development expenses of approximately \$1.4 million and \$1.1 million were incurred during the nine-month periods ended September 30, 2002 and 2001, respectively. Research and development expenses generally include: salaries for key scientific personnel, research supplies, facility rent, lab equipment depreciation, a portion of overhead operating expenses and other costs directly related to the development and application of the Bioral(TM) cochleate drug delivery technology.

General and Administrative Expense. General and administrative expenses of approximately \$1.5 million and \$870,000 were incurred in the nine-month periods ended September 30, 2002 and 2001, respectively. These expenses are principally comprised of legal and professional fees and other costs including office supplies, conferences, travel costs, salaries, website update and development, and other business development costs. In addition, the three months ended September 30, 2002, included compensation expense of approximately \$526,000 associated with the forgiveness of employee stock subscription notes receivable and related income tax payable on behalf of the employees. The nine-month period ended September 30, 2002, also includes executive compensation and directors and officers' liability insurance premiums in excess of amounts incurred in 2001. The amount recognized in the period ended September 2001 includes \$384,000 for litigation settlement costs.

Interest Income (Expense). Interest income (expense) for the periods ended September 30, 2002 and 2001 was principally comprised of earnings from invested cash offset by interest expense on the line of credit, notes payable and capital leases payable.

10

BIODELIVERY SCIENCES INTERNATIONAL, INC.
(A Development Stage Company)

Item 2. Management's Discussion and Analysis
or Plan of Operations

Income Taxes. While net operating losses were generated during the nine month period ended September 30, 2002, we did not recognize any benefit associated with these losses, as all related deferred tax assets have been fully reserved for. However, in March 2002, a new tax law changed the carryback period from two to five years, which allowed us to carryback prior losses to 1997, resulting in a tax benefit of \$54,964. Financial Accounting Standards Board Statement No. 109 provides for the recognition of deferred tax assets if realization of such assets is more likely than not. Based upon available data, which includes our historical operating performance and our reported cumulative net losses in prior years, we have provided a full valuation allowance against our net deferred tax assets as the future realization of the tax benefit is not sufficiently assured.

Liquidity and Capital Resources

Since inception, we have financed our operations primarily from the sale of our convertible preferred stock and common stock. From inception through September 30, 2002, we raised approximately \$10.4 million, net of issuance costs, through convertible preferred stock and common stock financings. At December 31, 2001, we had cash and cash equivalents totaling approximately \$76,000. At September

30, 2002, we had approximately \$6.4 million cash and cash equivalents. The operations of BioDelivery Sciences, Inc., prior to our acquisition of a controlling interest on October 10, 2000, were financed primarily through funded research agreements. In 2001, the National Institutes of Health awarded to us a Small Business Innovation Research Grant (SBIR), which will continue to be utilized in our research and development efforts.

NIH has formally awarded us a 2001 grant of \$883,972 (of which we recognized approximately 50% in 2001 and the remainder was recognized through June 2002), and we were awarded a 2002 grant of \$814,398 (of which \$148,000 was recognized in the period ended September 30, 2002, and the balance will be recognized through June 30, 2003). Additionally, this award refers to third-year funding levels of \$989,352 that we expect to be awarded in 2003, subject to availability and satisfactory progress of the project. Therefore, we expect to receive a total of approximately \$2.7 million related to our initial application for the grant through June 2004. The grant is subject to provisions for monitoring set forth in NIH Guide for Grants and Contracts dated February 24, 2000, specifically, the NIAID Policy on Monitoring Grants Supporting Clinical Trials and Studies. If NIH believes that satisfactory progress is not achieved, the 2003 amount noted above may be reduced or eliminated. In August 2002, NIH awarded a second grant for \$600,000 over two years, with expected funding in the fourth quarter of 2002.

Working capital/deficit at December 31, 2001 was \$1,185,268, which reflects our legal claim settlement liability, our line of credit and our liability incurred under our research agreement with the University of Medicine and Dentistry of New Jersey, for which payments were deferred. Working capital at September 30, 2002 was \$5,748,676, which reflects the net proceeds from our June 2002 common stock offering, as well as payment of the line of credit, and settlement of the legal claim of \$75,000.

We used \$2,025,598 of cash for operations in the nine months ended September 30, 2002, which reflects increased research and development and administrative costs. On a pro forma basis (BioDelivery Sciences, Inc. combined with us) we have used approximately \$3.7 million of cash for operations since inception through September 30, 2002, net of sponsored research proceeds received since inception of approximately \$8.3 million.

11

BIODELIVERY SCIENCES INTERNATIONAL, INC.
(A Development Stage Company)

Item 2. Management's Discussion and Analysis
or Plan of Operations

Since our inception through September 30, 2002, we have incurred approximately \$3.4 million of research and development expenses. Additionally, during the period March 28, 1995 (date of BioDelivery Sciences, Inc.'s incorporation) through the acquisition of a controlling interest in BioDelivery Sciences, Inc., BioDelivery Sciences, Inc. incurred approximately \$6.8 million of research and development expenses.

We are in the process of securing financing for the acquisition of certain specialized laboratory equipment, with the expectation that we will purchase approximately \$1.5 million of assets between October 2002 and June 30, 2003. We anticipate financing this equipment through a five-year note for \$1,000,000 to \$1,500,000, depending on lender negotiations and initial equipment equity requirements.

We have incurred significant net losses and negative cash flows from operations since our inception. As of September 30, 2002, we had an accumulated deficit of approximately \$7.4 million.

We anticipate that cash used in operations and our investment in facilities will increase significantly in the future as we research and develop our technology. While we believe further application of our Bioral(TM) cochleate technology to other molecules and nutraceuticals may result in license agreements with manufacturers of ethical generic and over-the-counter drugs, as well as nutraceutical applications, our plan of operations in the next 24 months is focused on our further development of the Bioral cochleate technology itself and

its use in our lead proprietary product, Bioral Amphotericin B. The Company recently identified the processed food and beverage industry as an additional potential opportunity for licensing our technology.

We believe that our existing cash and cash equivalents will be sufficient to finance our planned operations and capital expenditures through at least the next 24 months. We may consume available resources more rapidly than currently anticipated, resulting in the need for additional funding. Accordingly, we may be required to raise additional capital through a variety of sources, including:

- o the public equity market;
- o collaborative arrangements;
- o grants;
- o redemption and exercise of warrants
- o license agreements

There can be no assurance that additional capital will be available on favorable terms, if at all. If adequate funds are not available, we may be required to significantly reduce or refocus our operations or to obtain funds through arrangements that may require us to relinquish rights to certain of our drugs, technologies or potential markets, either of which could have a material adverse effect on our business, financial condition and results of operations. To the extent that additional capital is raised through the sale of equity or convertible debt securities, the issuance of such securities would result in ownership dilution to our existing stockholders.

During June 2002, our existing line of credit terminated and the balance was repaid from the proceeds of our common stock offering.

12

BIODELIVERY SCIENCES INTERNATIONAL, INC.
(A Development Stage Company)

Item 2. Management's Discussion and Analysis
or Plan of Operations

New Accounting Pronouncements

In July 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) 141, Business Combinations, and SFAS 142, Goodwill and Intangible Assets. SFAS 141 is effective for all business combinations completed after June 30, 2001. SFAS 142 is effective for the year beginning January 1, 2002; however, certain provisions of that Statement apply to goodwill and other intangible assets acquired between July 1, 2001, and the effective date of SFAS 142. The Company determined that the adoption of SFAS 142 did not have any impact on the Company's financial statements.

In July 2001, the FASB issued SFAS No. 143, Accounting for Asset Retirement Obligations. This statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. This Statement applies to all entities. It applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or the normal operation of a long-lived asset, except for certain obligations of lessees. This Statement is effective for financial statements issued for fiscal years beginning after June 15, 2002. The Company is evaluating the impact of the adoption of this standard and has not yet determined the effect of adoption on its financial position and results of operations.

In August 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. This statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets and supersedes FASB Statement No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of. The provisions of the statement are effective for financial statements issued for fiscal years beginning after December 15, 2001. The Company adopted this standard effective January 1, 2002, which did not have a material impact on the Company's financial statements.

Item 3. Controls and Procedures

The Company's Chief Executive Officer and Chief Financial Officer (collectively, the "Certifying Officers") are responsible for establishing and maintaining disclosure controls and procedures for the Company. Such officers have concluded (based on their evaluation of these controls and procedures as of a date within 90 days of the filing of this report) that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in this report is accumulated and communicated to the Company's management, including its principal executive officers as appropriate, to allow timely decisions regarding required disclosure.

The Certifying Officers also have indicated that there were no significant changes in the Company's internal controls or other factors that could significantly affect such controls subsequent to the date of their evaluation, and there were no corrective actions with regard to significant deficiencies and material weaknesses.

13

BIODELIVERY SCIENCES INTERNATIONAL, INC.
(A Development Stage Company)

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

A lawsuit was filed by Michael Pennessi d/b/a SSP Consultants, who is not affiliated with us, arising out of an introduction to BioDelivery Sciences, Inc. in 2000. A settlement for \$75,000 in cash was reached prior to September 30, 2002 and recorded in the financial statements. However, the final settlement documents had not been executed prior to September 30, 2002.

Item 2. Changes in Securities

During the three month period ended September 30, 2002, an over allotment of 85,000 units (the "Units") associated with the Company's June 2002 offering were issued. Each Unit consists of (i) one share of Common Stock, par value \$.001 (the "Common Stock") and (ii) one Class A common stock purchase Warrant (the "Warrants"). Each Warrant entitles the owner to purchase one share of Common Stock at a price of \$6.30 for a period of four years commencing on June 24, 2003. Net proceeds of \$394,708 were received from this issuance of 85,000 Units.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

- 10.1 Employment Agreement with Raphael Mannino
- 10.2 Employment Agreement with Susan Gould-Fogerite
- 10.3 Employment Agreement with James A. McNulty
- 99.1 Certification by James A. McNulty
- 99.2 Certification by Francis E. O'Donnell, Jr.

(b) Reports on Form 8-K

NONE

14

BIODELIVERY SCIENCES INTERNATIONAL, INC.
(A Development Stage Company)

Form 10-QSB

(for the quarterly period ended September 30, 2002)

Signatures

Pursuant to the requirements 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.

BIODELIVERY SCIENCES INTERNATIONAL, INC.

Date: November 13, 2002

/s/ James A. McNulty

James A. McNulty, Chief Financial Officer
(Principal Financial Officer)

15

BIODELIVERY SCIENCES INTERNATIONAL, INC.
(A Development Stage Company)

Form 10-QSB

(for the quarterly period ended September 30, 2002)

OFFICER CERTIFICATION

I, James A. McNulty certify that:

1. I have reviewed this quarterly report on Form 10-Q of BioDelivery Sciences International, Inc. (the "Registrant");

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this quarterly report;

4. The Registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our

evaluation as of the Evaluation Date;

5. The Registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the Registrant's auditors and the audit committee of Registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the Registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal controls; and

16

BIODELIVERY SCIENCES INTERNATIONAL, INC.
(A Development Stage Company)

Form 10-QSB

(for the quarterly period ended September 30, 2002)

6. The Registrant's other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 13, 2002

/s/James A. McNulty

James A. McNulty
Chief Financial Officer

17

BIODELIVERY SCIENCES INTERNATIONAL, INC.
(A Development Stage Company)

Form 10-QSB

(for the quarterly period ended September 30, 2002)

OFFICER CERTIFICATION

I, Francis E. O'Donnell, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q of BioDelivery Sciences International, Inc. (the "Registrant");

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial

information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this quarterly report;

4. The Registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The Registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the Registrant's auditors and the audit committee of Registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the Registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal controls; and

18

BIODELIVERY SCIENCES INTERNATIONAL, INC.
(A Development Stage Company)

Form 10-QSB

(for the quarterly period ended September 30, 2002)

6. The Registrant's other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 13, 2002

/s/ Francis E. O'Donnell, Jr.

Francis E. O'Donnell, Jr.
Chief Executive Officer

19

EXECUTIVE EMPLOYMENT AGREEMENT

This Executive Employment Agreement (the "Agreement") is made this 1st day of September, 2002 by and between Raphael J. Mannino, Ph.D. ("Dr. Mannino") and BioDelivery Sciences International, Inc. (the "Company").

WHEREAS, the Company is engaged in the business of researching and developing drug delivery technologies; and

WHEREAS, the Company and Dr. Mannino are willing to continue the employment relationship, on the terms, conditions and covenants set forth in this Agreement;

NOW, THEREFORE, in consideration of Dr. Mannino's continued employment with the Company and other good and valuable consideration, receipt of which Dr. Mannino and the Company hereby acknowledge, Dr. Mannino and the Company agree, as follows:

1. Position. Dr. Mannino agrees to continue his employment as Executive

Vice President, Chief Scientific Officer, and Director of Research and Development of the Company. He further agrees to perform the job duties and to carry out the responsibilities of that position, as determined by the President from time to time. Dr. Mannino's reporting responsibilities are shown in Exhibit A, the Company's organizational chart.

2. Dr. Mannino's Effort. Dr. Mannino agrees to devote his full working time

and best efforts, skill and attention to his position and to the business and interests of the Company.

3. Salary. The Company shall pay Dr. Mannino compensation for services

rendered in the amount of Two Hundred and Ten Thousand Dollars (\$210,000) per annum payable on a biweekly basis. Further, the Company, from time to time, shall pay Dr. Mannino such bonuses, additional compensation or other benefits as may be determined by the Executive Compensation Committee of the Board of Directors. Any changes in Dr. Mannino's duties or compensation, shall not in any way affect the promises of Dr. Mannino as set forth in this Agreement. Furthermore, Dr. Mannino shall be reimbursed for expenses properly documented as per the Company's policy.

4. Termination. This Agreement and the status and obligations of Dr.

Mannino thereunder as an employee of the Company (except for the provisions of paragraph 5 through 9 inclusive, 11 through 14 inclusive) shall cease and terminate effective upon the close of business September 1st, 2005 unless further extended by the parties hereto in writing; provided, that upon such date said termination shall not affect all rights that Dr. Mannino may have pursuant to any of the Company's retirement plans, supplementary retirement plans, profit sharing and savings

plans, healthcare, 401 (k) any other employee benefit plans sponsored by the Company, which, in accordance with its terms, is applicable to Dr. Mannino.

4.1 Death or Disability. This Agreement shall automatically

terminate upon the death of Dr. Mannino and all of his rights hereunder, including the rights to receive compensation and benefits, except as otherwise required by law, shall terminate. The Company may, at its option, terminate this Agreement in the event that Dr. Mannino shall be physically or mentally incapacitated which shall make him unable to perform the duties assigned to him for more than ninety (90) days in any one hundred eighty (180) day period. In the event of a dispute as to whether Dr. Mannino is physically or mentally unable to perform his duties hereunder, the Company shall select an impartial physician to make a determination as to Dr. Mannino's incapacity, if any. Dr. Mannino agrees to submit to appropriate medical examinations

for the purposes of such determination. Such termination shall not affect Dr. Mannino's rights and obligations under paragraphs 5 through 9 inclusive, 11 through 14 inclusive, all of which shall survive the early termination or expiration of this Agreement.

4.2 The Company's Right to Terminate with Notice. The Company

may terminate this Agreement upon twelve months prior notice to Dr. Mannino. In case of termination under this section, the Company may elect to pay Dr. Mannino a base rate of \$210,000 for the notice period in lieu of permitting him to continue working. Aside from payment as herein provided, the Company shall have no further obligations to Dr. Mannino following termination. The period during which Dr. Mannino shall not compete with the Company in the event of termination under this section shall be shortened from three (3) years to one (1) year from date of termination.

4.3 Termination for Cause. Notwithstanding the immediately

preceding paragraph or anything elsewhere herein contained to the contrary, the Company may terminate this Agreement and all of its obligations to Dr. Mannino, provided that written notice of termination allows 60 days for Dr. Mannino to correct the action for cause, in the event that: (i) Dr. Mannino breaches any term of this Agreement; (ii) if Dr. Mannino is convicted of or enters a no contest plead to any felony or crime involving moral turpitude, or if he pleads guilty to a lesser included offence or crime in exchange for withdrawal of a felony indictment, felony charge by information, or is charged with a crime involving moral turpitude, whether the charge arises under the laws of the United States or any other state therein; (iii) Dr. Mannino fails to perform the duties and obligations assigned him by the Board of Directors or Chief Executive Officer of the Company and for which duties the Company has provided reasonable staffing support; (iv) the Company reasonably suspects that he has engaged in illegal drug or substance use or abuse; (v) he wrongfully appropriates for personal use or benefit any property or money of the Company entrusted to him by the Company; (vi) he disregards any legal directions of the Chief Executive Officer or the Board of Directors of the Company; (vii) he materially violates Company policies or procedures; (viii) he takes any actions

that might damage the reputation of the Company or its ability to receive approvals of its drug delivery systems from the Food and Drug Administration (excluding, however, actions protected by "whistleblower" legislation); or (ix) Dr. Mannino resigns his employment. In the event of termination for any of the reasons set forth herein Dr. Mannino shall be bound by all of the terms of this Agreement that survive termination.

5. Confidentiality. Dr. Mannino shall keep confidential for a period of

three years for patented technology and five years for patent-pending technology, except as the Company may otherwise consent in writing, and not disclose, or make any use of except for the benefit of the Company, at any time either during or subsequent to Dr. Mannino's performance of services for the Company, any trade secrets, knowledge, data or other information of the Company relating to products, processes, know how, technical data, designs, formulas, test data, customer lists, business plans, marketing plans and strategies, and product pricing strategies or other subject matter pertaining to any business of the Company or any of its clients, customers, consultants, licensees or affiliates which Dr. Mannino may produce, obtain or otherwise learn of during the course of Dr. Mannino's performance of services and after its termination (collectively "Confidential Information"). Dr. Mannino shall not deliver, reproduce, or in any way allow any such Confidential Information to be delivered to or used by any third parties without the specific direction or consent of a duly authorized representative of the Company. The terms of this paragraph shall survive termination of this Agreement.

6. Return of Confidential Material. Upon the completion or other

termination of Dr. Mannino's services for the Company, Dr. Mannino shall promptly surrender and deliver to the Company all records, materials, equipment,

drawings, documents, lab notes and books and data of any nature pertaining to any invention, trade secret or confidential information of the Company or to Dr. Mannino's services, and Dr. Mannino will not take with him any description containing or pertaining to any Confidential Information, knowledge or data of the Company which Dr. Mannino may produce or obtain during the course of his services. The terms of this paragraph shall survive termination of this Agreement.

7. Assignment of Inventions. Dr. Mannino shall assign and transfer to the

Company his entire right, title and interest in and to all Inventions (as used in this Agreement, "Inventions" shall include, but not be limited to, ideas, improvements, designs and discoveries), whether or not patentable and whether or not reduced to practice, made or conceived by Dr. Mannino (whether made solely by Dr. Mannino or jointly with others) during the period Dr. Mannino performs services for the Company which relate in any manner to cochleate or other forms of delivery technologies or to the actual or anticipated business, work or research and development of the Company or its affiliates, or result from or are suggested by any task assigned to Dr. Mannino or any work performed by Dr. Mannino for or on behalf of the Company or any of its affiliates. All Inventions are the sole property of the Company. The terms of this paragraph shall survive termination of this Agreement.

8. Disclosure of Inventions: Patents. In connection with Inventions:

22

(a) Dr. Mannino will disclose all Inventions promptly in writing to the person to whom Dr. Mannino reports at the Company, with a copy to the President of the Company, in order to permit the Company to enjoy rights to which it may be entitled under this Agreement.

(b) Dr. Mannino will, at the Company's request promptly execute a written assignment of title to the Company for any Invention, and Dr. Mannino will preserve any Invention as confidential information of the Company: and

(c) Upon request, Dr. Mannino will assist the Company or its nominee (at the Company's expense) during and at any time subsequent to Dr. Mannino's performance of services for the Company in every reasonable way in obtaining for its own benefit patents and copyrights' for Inventions in any and all countries, which Inventions shall be and remain the sole and exclusive property of the Company or its nominee, whether or not patented or copyrighted. Dr. Mannino will execute such papers and perform such lawful acts as the Company deems to be necessary to allow it to exercise all rights, title and interest in such patents and copyrights.

The terms of this paragraph shall survive termination of this Agreement.

9. Execution of Documents. In connection with paragraph 8(c), Dr. Mannino

will execute, acknowledge and deliver to the Company or its nominee upon request and at its expense all such documents, including applications for patents and copyrights and assignments of inventions, patents and copyrights to be issued therefore, as the Company may determine necessary or desirable to apply for and obtain letters, patents, and copyrights on Inventions in any and all countries and/or to protect the interest of the Company or its nominee in Inventions, patents and copyrights and to vest title thereto in the Company or its nominee. The terms of this paragraph shall survive termination of this Agreement.

10. Maintenance of Records. Dr. Mannino will keep and maintain adequate and

current written records of all Inventions made by Dr. Mannino (in the form of notes, sketches, drawings and as may be specified by the Company), which records shall be available to and remain the sole property of the Company at all times.

11. Prior Inventions. It is understood that all Inventions, if any,

patented or unpatented which Dr. Mannino made prior to the time the Company and Dr. Mannino began to consider Dr. Mannino's possible performance of services are excluded from the scope of the Agreement. To preclude any possible uncertainty, Dr. Mannino has set forth on Exhibit B attached hereto a complete list of all

such prior inventions, including numbers of all patents and patent applications, and a brief description of all unpatented inventions which are not the property of another party (including, without limitation a current or previous contracting party). The list is complete with the exception of the pre-existing patents which Dr. Mannino has assigned to the Universities and to which the Company is the exclusive licensee and if no items are included on Exhibit B, Dr. Mannino has no such prior inventions. Dr. Mannino will notify the Company in

23

writing before Dr. Mannino makes any disclosure or performs any work on behalf of the Company which appears to threaten or conflict with proprietary rights Dr. Mannino claims in any such invention or idea. In the event of Dr. Mannino's failure to give such notice, Dr. Mannino will make no claim against the Company with respect to any such inventions or ideas. The terms of this paragraph shall survive termination of this Agreement.

12. Competition - For purposes of this Agreement "Competitive Activity"

shall mean the development, manufacturing or sale of any lipid based drug delivery system.

a. Dr. Mannino will not do, or intend to do, any of the following, either directly or indirectly, during Dr. Mannino's employment with the Company and during the period of three (3) years after Dr. Mannino's cessation of employment with the Company, anywhere in the world. In the event that Dr. Mannino improperly competes with the Company, the period during which he engages in such competition shall not be counted in determining the duration of the the three (3) year non-compete restriction.

i. Own, manage, operate, control, consult for, be an officer or director of, work for, or be employed in any capacity by any company, eleemosynary institution or any other business, entity, agency or organization which is in any way involved in the research, development, distribution, sale or commercialization of lipid based drug delivery technologies. Provided, however, that during his employment by the company and during his non-compete period following departure from the company, the employee may serve as a director, consultant, or scientific advisor of an entity that is either a BDSI licensee and for non-licensees for which capacity the employee has the written permission of the Board of BDSI.

ii. Solicit prior or current customers of the Company or any entities with which the Company has undertaken joint studies or developmental activities for any purpose in competition (as defined herein) with the Company; or

iii. Solicit any then current employees employed by the Company without the Company's consent.

Dr. Mannino and Company agree that the phrase "Dr. Mannino's cessation of employment with the Company" as used in this Agreement, refers to any separation from his employment at the Company either voluntarily or involuntarily, either with cause or without cause, or whether the separation is at the behest of the Company or Dr. Mannino (hereinafter referred to and defined as "Dr. Mannino's Cessation of Employment") provided, however, that if Dr. Mannino's employment contract is terminated by the Company without cause pursuant to Section 4.2, Dr. Mannino's non-compete will be limited to a

24

for-profit business and shall be for a period equal to the greater of (i) one year from termination or (ii) correspond to the compensation period for which he

is receiving compensation, in accordance with Section 4.2., which non-compete period can be extended by the Company with the additional payment to Dr. Mannino on a pro rata basis at the rate of \$210,000 per year. Nothing in this agreement shall preclude him from employment at a not-for-profit (University) or governmental institution). Provided that no for-profit business involved in lipid-based drug delivery directly or indirectly derives a benefit from Dr. Mannino's employment.

b. This Agreement expressly authorizes and permits Dr. Mannino to continue his present relationship with the University of Medicine and Dentistry of New Jersey provided Dr. Mannino assign any salary compensation received from the University of Medicine and Dentistry of New Jersey over to the Company. Dr. Mannino's participation in licensing income from the pre-existing exclusive license between the Company and the Universities is specifically excluded from this assignment of income to the Company and said royalty income shall belong to Dr. Mannino.

13. Other Obligations.

(a) Dr. Mannino acknowledges that the Company from time to time may have agreements with other persons or with the U.S. Government, or agencies thereof, which impose obligations or restrictions on the Company regarding inventions made during the course of work thereunder or regarding the confidential nature of such work. Dr. Mannino will be bound by all such obligations and restrictions and will take all action necessary to discharge the obligations of the Company thereunder.

(b) All of Dr. Mannino's obligations under this Agreement shall be subject to any applicable agreements with, and policies issued by the Company to which Dr. Mannino is subject.

14. Trade Secrets of Others. Dr. Mannino represents that Dr. Mannino's performance of all the terms of this Agreement as employee to the Company does not and will not breach any agreement to keep in confidence proprietary information, knowledge or data acquired by Dr. Mannino in confidence or in trust, and Dr. Mannino will not disclose to the Company, or the Company to use, any confidential or proprietary information or material belonging to any other person or entity. Dr. Mannino will not enter into any agreement, either written or oral, which is in conflict with this Agreement.

15. Injunctive Relief. Dr. Mannino acknowledges that any breach or attempted breach by Dr. Mannino of this Agreement or any provision hereof shall cause the Company irreparable harm for which any adequate monetary remedy does

not exist. Accordingly, in the event of any such breach or threatened breach, the Company shall be entitled to obtain injunctive relief, without the necessity of posting a bond or other surety, restraining such breach or threatened breach.

16. Modification. This Agreement may not be changed, modified, released, discharged, abandoned, or otherwise amended, in whole or in part, except by an instrument in writing, signed by Dr. Mannino and by the Company. Any subsequent change or changes in Dr. Mannino's relationship with the Company or Dr. Mannino's compensation shall not affect the validity or scope of this Agreement.

17. Entire Agreement. Dr. Mannino acknowledges receipt of this Agreement, and agrees that with respect to the subject matter thereof, it is Dr. Mannino's entire agreement with the Company, superseding any previous oral or written communications, representations, understandings with the Company or any office or representative thereof.

18. Severability. In the event that any paragraph or provision of this

Agreement shall be held to be illegal or unenforceable, the entire Agreement shall not fall on account thereof, but shall otherwise remain in full force and effect, and such paragraph or provision shall be enforced to the maximum extent permissible.

19. Successors and Assigns. This Agreement shall be binding upon Dr.

Mannino's heirs, executors, administrators or other legal representatives and is for the benefit of the Company, its successors and assigns.

20. Governing Law. This Agreement shall be governed by the laws of the

State of New Jersey except for any conflicts of law rules thereof that might direct the application of the substantive law of another state.

21. Counterparts. This Agreement may be signed in two counterparts, each of

which shall be deemed an original and both of which shall together constitute one agreement.

22. Arbitration. In the event that the Company or Dr. Mannino, his spouse

or any other person claiming benefits on behalf of or through Dr. Mannino, has a dispute or claim based upon this Agreement including the interpretation or application of the terms and provisions of this Agreement, the sole and exclusive remedy is for that party to submit the dispute to binding arbitration in accordance with the rules of arbitration of the American Arbitration Association in New Jersey. Any arbitrator selected to arbitrate any such dispute will have the power to interpret this Agreement. Any determination or decision by the arbitrator shall be binding upon the parties and may be enforced in any

court of law. The expenses of the arbitrator will be paid 50% by the Company and 50% by Dr. Mannino, his spouse or other person, as the case may be. The parties agree that this arbitration provision does not apply to the right of Dr. Mannino to file a charge, testify, assist or participate in any manner in an investigation, hearing or proceeding before the Equal Employment Opportunity Commission or any other agency pertaining to any matters covered by this Agreement and within the jurisdiction of the agency.

23. No Waiver. No waiver by the Company of any breach of this Agreement by

Dr. Mannino shall constitute a waiver of any subsequent breach.

24. Notice. Any notice hereby required or permitted to be given shall be

sufficiently given if in writing and upon mailing by registered or certified mail, postage prepaid, to either party at the address of such party or such other address as shall have been designated by written notice by such party to the other party.

EXECUTED as of the date set forth below.

Dated: September 1, 2002

BIODELIVERY SCIENCES INTERNATIONAL, INC.

By: /s/ Francis E. O'Donnell, Jr.

Name: Francis E. O'Donnell, Jr.
Title: President, CEO

/s/ Raphael J. Mannino

Dr. Raphael J. Mannino, Ph.D.

EXHIBIT A

ORGANIZATIONAL CHART

[GRAPHIC OMITTED]

EXHIBIT B

PRIOR INVENTIONS

BIODELIVERY SCIENCES INTERNATIONAL, INC. (the "Company")

Gentlemen:

The following is a complete list of all inventions or improvements patented or, unpatented, that have been made or conceived or first reduced to practice by the undersigned alone or jointly with others prior to the time the Company and the undersigned first began to consider the undersigned's performance of services for the Company. The undersigned desires to remove the inventions and improvements listed, if any, from the operation of the foregoing Agreement.

Check one:

No inventions or improvements.

X As follows:

United States Patent
Mannino , et al.

6,048,531
April 11, 2000

Immunogenic composites capable of stimulating production of anti-peptide antibodies, pharmaceutical compositions employing these composites and methods of selectively inducing production of anti-peptide antibodies

Additional sheets attached.

Dated: September 1, 2002

/s/Raphael J. Mannino

Raphael J. Mannino, Ph.D.

EXECUTIVE EMPLOYMENT AGREEMENT

This Executive Employment Agreement (the "Agreement") is made this 31 day of August, 2002 by and between Susan Gould-Fogerite, Ph.D. ("Dr. Gould-Fogerite") and BioDelivery Sciences International, Inc. (the "Company").

WHEREAS, the Company is engaged in the business of researching and developing drug delivery technologies; and

WHEREAS, the Company and Dr. Gould-Fogerite are willing to continue the employment relationship, on the terms, conditions and covenants set forth in this Agreement;

NOW, THEREFORE, in consideration of Dr. Gould-Fogerite's continued employment with the Company and other good and valuable consideration, receipt of which Dr. Gould-Fogerite and the Company hereby acknowledge, Dr. Gould-Fogerite and the Company agree, as follows:

1. Position. Dr. Gould-Fogerite agrees to her employment as Vice President

and Director of Innovations and Discovery. She further agrees to perform the job duties and to carry out the responsibilities of that position, as determined by the Chief Executive Officer from time to time.

2. Dr. Gould-Fogerite's Effort. Dr. Gould-Fogerite agrees to devote her

full working time and best efforts, skill and attention to her position and to the business and interests of the Company.

3. Salary. The Company shall pay Dr. Gould-Fogerite compensation for

services rendered in the amount of One Hundred Forty Six Thousand Thirty Dollars (\$146,030) per annum payable on a biweekly basis. Further, the Company, from time to time, shall pay Dr. Gould Fogerite such bonuses, additional compensation or other benefits as may be determined by the Executive Compensation Committee of the Board of Directors. Any changes in Dr. Gould-Fogerite's duties or compensation, shall not in any way affect the promises of Dr. Gould-Fogerite as set forth in this Agreement. Furthermore, Dr. Gould-Fogerite shall be reimbursed for expenses properly documented as per the Company's policy.

4. Termination. This Agreement and the status and obligations of Dr.

Gould-Fogerite thereunder as an employee of the Company (except for the provisions of paragraph 5 through 9 inclusive, 11 through 14 inclusive) shall cease and terminate effective upon the close of business August 31, 2005, unless further extended by the parties hereto in writing; provided, that upon such date

said termination shall not affect all rights that Dr. Gould-Fogerite may have pursuant to any of the Company's retirement plans, supplementary retirement plans, profit sharing and savings plans, healthcare, 401 (k) any other employee benefit plans sponsored by the Company, which, in accordance with its terms, is applicable to Dr. Gould-Fogerite.

4.1 Death or Disability. This Agreement shall automatically terminate

upon the death of Dr. Gould-Fogerite and all of her rights hereunder, including the rights to receive compensation and benefits, except as otherwise required by law, shall terminate. The Company may, at its option, terminate this Agreement in the event that Dr. Gould-Fogerite shall be physically or mentally incapacitated which shall make her unable to perform the duties assigned to her for more than ninety (90) days in any one hundred eighty (180) day period. In the event of a dispute as to whether Dr. Gould-Fogerite is physically or mentally unable to perform her duties hereunder, the Company shall select an impartial physician to make a determination as to Dr. Gould-Fogerite's incapacity, if any. Dr. Gould-Fogerite agrees to submit to appropriate medical examinations for the

purposes of such determination. Such termination shall not affect Dr. Gould-Fogerite's rights and obligations under paragraphs 5 through 9 inclusive, 11 through 14 inclusive, all of which shall survive the early termination or expiration of this Agreement.

4.2 The Company's Right to Terminate with Notice. The Company may

terminate this Agreement upon 30 days written notice to Dr. Gould-Fogerite. In case of termination under this section, the Company may elect to pay Dr. Gould-Fogerite a base rate of \$146,030 for the notice period in lieu of permitting her to continue working. Aside from payment as herein provided, the Company shall have no further obligations to Dr. Gould-Fogerite following termination. The period during which Dr. Gould-Fogerite shall not compete with the Company in the event of termination under this section shall be shortened from three (3) years to one (1) year from date of termination.

4.3 Termination for Cause. Notwithstanding the immediately preceding

paragraph or anything elsewhere herein contained to the contrary, the Company may terminate this Agreement and all of its obligations to Dr. Gould-Fogerite, with notice and effective unless Dr. Gould-Fogerite cures the breach within 60 days, in the event that: (i) Dr. Gould-Fogerite breaches any term of this Agreement; (ii) if Dr. Gould-Fogerite is convicted of or enters a no contest plead to any felony or crime involving moral turpitude, or if she pleads guilty to a lesser included offence or crime in exchange for withdrawal of a felony indictment, felony charge by information, or is charged with a crime involving moral turpitude, whether the charge arises under the laws of the United States or any other state therein; (iii) Dr. Gould-Fogerite fails to perform the duties and obligations assigned her by the Board of Directors of the Company; (iv) the Company reasonably suspects that she has engaged in illegal drug or substance use or abuse; (v) she wrongfully appropriates for personal use or benefit any property or money of the Company entrusted to her by the Company; (vi) she disregards any legal directions of the Chief Executive Officer or the Board of Directors of the Company; (vii) she materially

violates Company policies or procedures; (viii) she takes any actions that might damage the reputation of the Company or its ability to receive approvals of its drug delivery systems from the Food and Drug Administration (excluding, however, actions protected by "whistleblower" legislation); or (ix) Dr. Gould-Fogerite resigns her employment. In the event of termination for any of the reasons set forth herein Dr. Gould-Fogerite shall be bound by all of the terms of this Agreement that survive termination.

5. Confidentiality. Dr. Gould-Fogerite shall keep confidential for a period

of three years for patented technology and five years for patent-pending technology, except as the Company may otherwise consent in writing, and not disclose, or make any use of except for the benefit of the Company, at any time either during or subsequent to Dr. Gould-Fogerite's performance of services for the Company, any trade secrets, knowledge, data or other information of the Company relating to products, processes, know how, technical data, designs, formulas, test data, customer lists, business plans, marketing plans and strategies, and product pricing strategies or other subject matter pertaining to any business of the Company or any of its clients, customers, consultants, licensees or affiliates which Dr. Gould-Fogerite may produce, obtain or otherwise learn of during the course of Dr. Gould-Fogerite's performance of services and after its termination (collectively "Confidential Information"). Dr. Gould-Fogerite shall not deliver, reproduce, or in any way allow any such Confidential Information to be delivered to or used by any third parties without the specific direction or consent of a duly authorized representative of the Company. The terms of this paragraph shall survive termination of this Agreement.

6. Return of Confidential Material. Upon the completion or other

termination of Dr. Gould-Fogerite's services for the Company, Dr. Gould-Fogerite shall promptly surrender and deliver to the Company all records, materials, equipment, drawings, documents, lab notes and books and data of any nature pertaining to any invention, trade secret or confidential information of the

Company or to Dr. Gould-Fogerite's services, and Dr. Gould-Fogerite will not take with her any description containing or pertaining to any Confidential Information, knowledge or data of the Company which Dr. Gould-Fogerite may produce or obtain during the course of her services. The terms of this paragraph shall survive termination of this Agreement.

7. Assignment of Inventions. Dr. Gould-Fogerite shall assign and transfer

to the Company her entire right, title and interest in and to all Inventions (as used in this Agreement, "Inventions" shall include, but not be limited to, ideas, improvements, designs and discoveries), whether or not patentable and whether or not reduced to practice, made or conceived by Dr. Gould-Fogerite (whether made solely by Dr. Gould-Fogerite or jointly with others) during the period Dr. Gould-Fogerite performs services for the Company which relate in any manner to cochleate or other forms of delivery technologies or to the actual or anticipated business, work or research and development of the Company or its affiliates, or result from or are suggested by any task assigned to Dr. Gould-Fogerite or any work performed by Dr. Gould-Fogerite for or on behalf of the Company or any of its affiliates. All Inventions are the sole property of the Company. The terms of this paragraph shall survive termination of this Agreement.

33

8. Disclosure of Inventions: Patents. In connection with Inventions:

(a) Dr. Gould-Fogerite will disclose all Inventions promptly in writing to the person to whom Dr. Gould-Fogerite reports at the Company, with a copy to the President of the Company, in order to permit the Company to enjoy rights to which it may be entitled under this Agreement.

(b) Dr. Gould-Fogerite will, at the Company's request promptly execute a written assignment of title to the Company for any Invention, and Dr. Gould-Fogerite will preserve any Invention as confidential information of the Company: and

(c) Upon request, Dr. Gould-Fogerite will assist the Company or its nominee (at the Company's expense) during and at any time subsequent to Dr. Gould-Fogerite's performance of services for the Company in every reasonable way in obtaining for its own benefit patents and copyrights' for Inventions in any and all countries, which Inventions shall be and remain the sole and exclusive property of the Company or its nominee, whether or not patented or copyrighted. Dr. Gould-Fogerite will execute such papers and perform such lawful acts as the Company deems to be necessary to allow it to exercise all rights, title and interest in such patents and copyrights.

The terms of this paragraph shall survive termination of this Agreement.

9. Execution of Documents. In connection with paragraph 8(c), Dr.

Gould-Fogerite will execute, acknowledge and deliver to the Company or its nominee upon request and at its expense all such documents, including applications for patents and copyrights and assignments of inventions, patents and copyrights to be issued therefore, as the Company may determine necessary or desirable to apply for and obtain letters, patents, and copyrights on Inventions in any and all countries and/or to protect the interest of the Company or its nominee in Inventions, patents and copyrights and to vest title thereto in the Company or its nominee. The terms of this paragraph shall survive termination of this Agreement.

10. Maintenance of Records. Dr. Gould-Fogerite will keep and maintain

adequate and current written records of all Inventions made by Dr. Gould-Fogerite (in the form of notes, sketches, drawings and as may be specified by the Company), which records shall be available to and remain the sole property of the Company at all times.

11. Prior Inventions. It is understood that all Inventions, if any,

patented or unpatented which Dr. Gould-Fogerite made prior to the time the Company and Dr. Gould-Fogerite began to consider Dr. Gould-Fogerite's possible

performance of services are excluded from the scope of the Agreement. To preclude any possible uncertainty, Dr. Gould-Fogerite has set forth on Exhibit A attached hereto a complete list of all such prior inventions, including numbers of all patents and patent applications, and a brief description of all unpatented inventions which are not the property of another party (including, without limitation a current or previous contracting party).

34

The list is complete with the exception of the pre-existing patents which Dr. Gould Fogerite has assigned to the Universities and to which the Company is the exclusive licensee and if no items are included on Exhibit A, Dr. Gould-Fogerite has no such prior inventions. Dr. Gould-Fogerite will notify the Company in writing before Dr. Gould-Fogerite makes any disclosure or performs any work on behalf of the Company which appears to threaten or conflict with proprietary rights Dr. Gould-Fogerite claims in any such invention or idea. In the event of Dr. Gould-Fogerite's failure to give such notice, Dr. Gould-Fogerite will make no claim against the Company with respect to any such inventions or ideas. The terms of this paragraph shall survive termination of this Agreement.

12. Competition - For purposes of this Agreement "Competitive Activity"

shall mean the development, manufacturing or sale of any lipid based drug delivery system.

a. Dr. Gould-Fogerite will not do, or intend to do, any of the following, either directly or indirectly, during Dr. Gould-Fogerite's employment with the Company and during the period of three (3) years after Dr. Gould-Fogerite's cessation of employment with the Company, anywhere in the world. In the event that Dr. Gould-Fogerite improperly competes with the Company, the period during which she engages in such competition shall not be counted in determining the duration of the the three (3) year non-compete restriction.

i. Own, manage, operate, control, consult for, be an officer or director of, work for, or be employed in any capacity by any company, eleemosynary institution or any other business, entity, agency or organization which is in any way involved in the research, development, distribution, sale or commercialization of lipid based drug delivery technologies. During her employment with the Company, and with the prior written consent of the Board of Directors of BDSI, she may engage as a director, consultant, advisor, or reviewer for non-competing companies. In the event of termination and during the relevant non-compete period, Dr. Gould-Fogerite may be employed by a non-for-profit such as a University or governmental agency so long as her work is not funded by or beneficial to another lipid-based drug delivery technology company other than BDSI.

ii. Solicit prior or current customers of the Company or any entities with which the Company has undertaken joint studies or developmental activities for any purpose in competition (as defined herein) with the Company; or

iii. Solicit any then current employees employed by the Company without the Company's consent.

Dr. Gould-Fogerite and Company agree that the phrase "Dr. Gould-Fogerite's cessation of employment with the Company" as used in this Agreement, refers to any separation from her employment at the Company either voluntarily or involuntarily, either with cause or without cause, or whether the separation is

35

at the behest of the Company or Dr. Gould-Fogerite (hereinafter referred to and defined as "Dr. Gould-Fogerite's Cessation of Employment").

b. This Agreement expressly authorizes and permits Dr. Gould-Fogerite to continue her present relationship with the University of Medicine and Dentistry of New Jersey provided Dr. Gould-Fogerite assign any compensation received from the University of Medicine and Dentistry of New Jersey during the term of this Agreement over to the Company. Dr. Gould-Fogerite's participation in income from the pre-existing exclusive license between the Company and the Universities is specifically excluded from this assignment of income to the Company and said royalty or sub-licensing income shall belong to Dr. Gould-Fogerite.

13. Other Obligations.

(a) Dr. Gould-Fogerite acknowledges that the Company from time to time may have agreements with other persons or with the U.S. Government, or agencies thereof, which impose obligations or restrictions on the Company regarding inventions made during the course of work thereunder or regarding the confidential nature of such work. Dr. Gould-Fogerite will be bound by all such obligations and restrictions and will take all action necessary to discharge the obligations of the Company thereunder.

(b) All of Dr. Gould-Fogerite's obligations under this Agreement shall be subject to any applicable agreements with, and policies issued by the Company to which Dr. Gould-Fogerite is subject.

14. Trade Secrets of Others. Dr. Gould-Fogerite represents that Dr.

Gould-Fogerite's performance of all the terms of this Agreement as employee to the Company does not and will not breach any agreement to keep in confidence proprietary information, knowledge or data acquired by Dr. Gould-Fogerite in confidence or in trust, and Dr. Gould-Fogerite will not disclose to the Company, or the Company to use, any confidential or proprietary information or material belonging to any other person or entity. Dr. Gould-Fogerite will not enter into any agreement, either written or oral, which is in conflict with this Agreement.

15. Injunctive Relief. Dr. Gould-Fogerite acknowledges that any breach or

attempted breach by Dr. Gould-Fogerite of this Agreement or any provision hereof shall cause the Company irreparable harm for which any adequate monetary remedy does not exist. Accordingly, in the event of any such breach or threatened breach, the Company shall be entitled to obtain injunctive relief, without the necessity of posting a bond or other surety, restraining such breach or threatened breach.

16. Modification. This Agreement may not be changed, modified, released,

discharged, abandoned, or otherwise amended, in whole or in part, except by an instrument in writing, signed by Dr. Gould-Fogerite and by the Company. Any subsequent change or changes in Dr. Gould-Fogerite's relationship with the Company or Dr. Gould-Fogerite's compensation shall not affect the validity or scope of this Agreement.

17. Entire Agreement. Dr. Gould-Fogerite acknowledges receipt of this

Agreement, and agrees that with respect to the subject matter thereof, it is Dr. Gould-Fogerite's entire agreement with the Company, superseding any previous oral or written communications, representations, understandings with the Company or any office or representative thereof.

18. Severability. In the event that any paragraph or provision of this

Agreement shall be held to be illegal or unenforceable, the entire Agreement shall not fall on account thereof, but shall otherwise remain in full force and effect, and such paragraph or provision shall be enforced to the maximum extent permissible.

19. Successors and Assigns. This Agreement shall be binding upon Dr.

Gould-Fogerite's heirs, executors, administrators or other legal representatives and is for the benefit of the Company, its successors and assigns.

20. Governing Law. This Agreement shall be governed by the laws of the State of New Jersey except for any conflicts of law rules thereof that might direct the application of the substantive law of another state.

21. Counterparts. This Agreement may be signed in two counterparts, each of which shall be deemed an original and both of which shall together constitute one agreement.

22. Arbitration. In the event that either Dr. Gould-Fogerite, her spouse or any other person claiming benefits on behalf of or through Dr. Gould-Fogerite, or the Company has a claim or dispute based upon this Agreement including the interpretation or application of the terms and provisions of this Agreement, the sole and exclusive remedy is for that party to submit the dispute to binding arbitration in accordance with the rules of arbitration of the American Arbitration Association in New Jersey. Any arbitrator selected to arbitrate any such dispute will have the power to interpret this Agreement. Any determination or decision by the arbitrator shall be binding upon the parties and may be enforced in any court of law. The expenses of the arbitrator will be paid 50% by the Company and 50% by Dr. Gould-Fogerite, her spouse or other person, as the case may be. The parties agree that this arbitration provision does not apply to the right of Dr. Gould-Fogerite to file a charge, testify, assist or participate

37

in any manner in an investigation, hearing or proceeding before the Equal Employment Opportunity Commission or any other agency pertaining to any matters covered by this Agreement and within the jurisdiction of the agency.

23. No Waiver. No waiver by the Company of any breach of this Agreement by Dr. Gould-Fogerite shall constitute a waiver of any subsequent breach.

24. Notice. Any notice hereby required or permitted to be given shall be sufficiently given if in writing and upon mailing by registered or certified mail, postage prepaid, to either party at the address of such party or such other address as shall have been designated by written notice by such party to the other party.

EXECUTED as of the date set forth below.

Dated: 8/31/02

BIODELIVERY SCIENCES INTERNATIONAL, INC.

By: /s/Francis E. O'Donnell

Name: Francis E. O'Donnell, Jr.
Title: President, CEO

/s/Susan Gould-Fogerite

Susan Gould-Fogerite, Ph.D.

38

EXHIBIT A

PRIOR INVENTIONS

BIODELIVERY SCIENCES INTERNATIONAL, INC. (the "Company")

Gentlemen:

The following is a complete list of all inventions or improvements patented or, unpatented, that have been made or conceived or first reduced to practice by the undersigned alone or jointly with others prior to the time the Company and the undersigned first began to consider the undersigned's performance of services for the Company. The undersigned desires to remove the inventions and improvements listed, if any, from the operation of the foregoing Agreement.

Check one:

X No inventions or improvements.

As follows:

Additional sheets attached.

Dated: 8/31/02

/s/ Susan Gould-Fogerite

Susan Gould-Fogerite, Ph.D.

39

EXECUTIVE EMPLOYMENT AGREEMENT

This Executive Employment Agreement (the "Agreement") is made this 31 day of August, 2002 by and between James A. McNulty ("Mr. McNulty") and BioDelivery Sciences International, Inc. (the "Company").

WHEREAS, the Company is engaged in the business of researching and developing drug delivery technologies; and

WHEREAS, the Company and Mr. McNulty are willing to continue the employment relationship, on the terms, conditions and covenants set forth in this Agreement;

NOW, THEREFORE, in consideration of Mr. McNulty's continued employment with the Company and other good and valuable consideration, receipt of which Mr. McNulty and the Company hereby acknowledge, Mr. McNulty and the Company agree, as follows:

1. Position. Mr. McNulty agrees to continue his employment as Secretary,

Treasurer and Chief Financial Officer of the Company. He further agrees to perform the job duties and to carry out the responsibilities of that position, as determined by the Chief Executive Officer from time to time.

2. Mr. McNulty's Effort. Mr. McNulty agrees to devote his full working time

and best efforts, skill and attention to his position and to the business and interests of the Company. However, at the discretion of the Board of Directors, Mr. McNulty may be reduced from a full-time employee to a part time employee upon 30 days written notice.

3. Salary. The Company shall pay Mr. McNulty compensation for services

rendered in the amount of One Hundred Eighty Five Thousand Dollars (\$185,000) per annum payable on a monthly basis. Further, the Company, from time to time, shall pay Mr. McNulty such bonuses, additional compensation or other benefits as may be determined by the Executive Compensation Committee of the Board of Directors. In particular, the company shall pay Mr. McNulty a one-time bonus of \$17,500 upon the signing of the first term sheet for a license to the Company's technology exceeding \$1M in up-front payments and another \$17,500 bonus upon the Company receiving the upfront payment of said \$1M license. Any changes in Mr. McNulty's duties or compensation, shall not in any way affect the promises of Mr. McNulty as set forth in this Agreement. Furthermore, Mr. McNulty shall be reimbursed for expenses properly documented as per the Company's policy.

40

Where Mr. McNulty's status is changed from a full-time to a part-time employee pursuant to Section 2 above, Mr. McNulty's salary of \$185,000 will be reduced pro rata assuming a 40 hour work week for a full-time employee.

4. Termination. This Agreement and the status and obligations of Mr.

McNulty thereunder as an employee of the Company (except for the provisions of paragraph 5 through 8 inclusive) shall cease and terminate effective upon the close of business August 31, 2005 unless further extended by the parties hereto in writing; provided, that upon such date said termination shall not affect all rights that Mr. McNulty may have pursuant to any of the Company's retirement plans, supplementary retirement plans, profit sharing and savings plans, healthcare, 401 (k) any other employee benefit plans sponsored by the Company, which, in accordance with its terms, is applicable to Mr. McNulty.

4.1 Death or Disability. This Agreement shall automatically terminate

upon the death of Mr. McNulty and all of his rights hereunder, including

the rights to receive compensation and benefits, except as otherwise required by law, shall terminate. The Company may, at its option, terminate this Agreement in the event that Mr. McNulty shall be physically or mentally incapacitated which shall make him unable to perform the duties assigned to him for more than ninety (90) days in any one hundred eighty (180) day period. In the event of a dispute as to whether Mr. McNulty is physically or mentally unable to perform his duties hereunder, the Company shall select an impartial physician to make a determination as to Mr. McNulty's incapacity, if any. Mr. McNulty agrees to submit to appropriate medical examinations for the purposes of such determination. Such termination shall not affect Mr. McNulty's rights and obligations under paragraphs 5 through 9 inclusive, 11 through 14 inclusive, all of which shall survive the early termination or expiration of this Agreement.

4.2 The Company's Right to Terminate with Notice. The Company may

terminate this Agreement upon 30 days prior notice to Mr. McNulty. In case of termination under this section, the Company may elect to pay Mr. McNulty a base rate of \$185,000, or the part-time status reduced rate pursuant to Sections 2 and 3 of this Agreement, for a period of six months, in lieu of permitting him to continue working. Aside from payment as herein provided, the Company shall have no further obligations to Mr. McNulty following termination.

4.3 Termination for Cause. Notwithstanding the immediately preceding

paragraph or anything elsewhere herein contained to the contrary, the Company may terminate this Agreement and all of its obligations to Mr. McNulty, with notice but effective immediately, in the event that: (a) Mr. McNulty breaches any term of this Agreement; (b) if Mr. McNulty is convicted of or enters a no contest plead to any felony or crime involving moral turpitude, or if he pleads guilty to a lesser included offence or crime in exchange for withdrawal of a felony indictment, felony charge by information, or is charged with a crime involving moral turpitude, whether the charge arises under the laws of the United States or any other state therein; (iii) Mr. McNulty fails to perform the duties and obligations

assigned him by the Board of Directors of the Company; (iv) the Company reasonably suspects that he has engaged in illegal drug or substance use or abuse; (v) he wrongfully appropriates for personal use or benefit any property or money of the Company entrusted to him by the Company; (vi) he disregards any legal directions of the Chief Executive Officer or the Board of Directors of the Company; (vii) he materially violates Company policies or procedures; (viii) he takes any actions that might damage the reputation of the Company or its ability to receive approvals of its drug delivery systems from the Food and Drug Administration (excluding, however, actions protected by "whistleblower" legislation); or (ix) Mr. McNulty resigns his employment. In the event of termination for any of the reasons set forth herein Mr. McNulty shall be bound by all of the terms of this Agreement that survive termination.

5. Confidentiality. Mr. McNulty shall keep confidential, except as the

Company may otherwise consent in writing, and not disclose, or make any use of except for the benefit of the Company, at any time either during or subsequent to Mr. McNulty's performance of services for the Company, any trade secrets, knowledge, data or other information of the Company relating to products, processes, know how, technical data, designs, formulas, test data, customer lists, business plans, marketing plans and strategies, and product pricing strategies or other subject matter pertaining to any business of the Company or any of its clients, customers, consultants, licensees or affiliates which Mr. McNulty may produce, obtain or otherwise learn of during the course of Mr. McNulty's performance of services and after its termination (collectively "Confidential Information"). Mr. McNulty shall not deliver, reproduce, or in any way allow any such Confidential Information to be delivered to or used by any third parties without the specific direction or consent of a duly authorized representative of the Company. The terms of this paragraph shall survive termination of this Agreement.

6. Return of Confidential Material. Upon the completion or other

termination of Mr. McNulty's services for the Company, Mr. McNulty shall promptly surrender and deliver to the Company all records, materials, equipment, drawings, documents, lab notes and books and data of any nature pertaining to any invention, trade secret or confidential information of the Company or to Mr. McNulty's services, and Mr. McNulty will not take with him any description containing or pertaining to any Confidential Information, knowledge or data of the Company which Mr. McNulty may produce or obtain during the course of his services. The terms of this paragraph shall survive termination of this Agreement.

7. Competition - For purposes of this Agreement "Competitive Activity"

shall mean the development, manufacturing or sale of any lipid based drug delivery system.

a. Mr. McNulty will not do, or intend to do, any of the following, either directly or indirectly, during Mr. McNulty's employment with the Company and during the period of three (3) years after Mr. McNulty's cessation of employment with the Company, anywhere in the world. In the event that Mr. McNulty's improperly competes with the Company, the period during which he engages in such competition shall not be counted in determining the duration of the the three (3) year non-compete restriction.

42

i. Own, manage, operate, control, consult for, be an officer or director of, work for, or be employed in any capacity by any company, eleemosynary institution or any other business, entity, agency or organization which is in any way involved in the research, development, distribution, sale or commercialization of lipid based drug delivery technologies; or

ii. Solicit prior or current customers of the Company or any entities with which the Company has undertaken joint studies or developmental activities for any purpose in competition (as defined herein) with the Company; or

iii. Solicit any then current employees employed by the Company without the Company's consent.

Mr. McNulty and Company agree that the phrase "Mr. McNulty's cessation of employment with the Company" as used in this Agreement, refers to any separation from his employment at the Company either voluntarily or involuntarily, either with cause or without cause, or whether the separation is at the behest of the Company or Mr. McNulty (hereinafter referred to and defined as "Mr. McNulty's Cessation of Employment").

b. Should Mr. McNulty's status change from full-time to a part-time basis, this Agreement expressly authorizes and permits Mr. McNulty to continue his relationship with Hopkins Capital.

8. Other Obligations. All of Mr. McNulty's obligations under this Agreement

shall be subject to any applicable agreements with, and policies issued by the Company to which Mr. McNulty is subject.

9. Confidential Information of Others. Mr. McNulty represents that Mr.

McNulty's performance of all the terms of this Agreement as employee to the Company does not and will not breach any agreement to keep in confidence proprietary information, knowledge or data acquired by Mr. McNulty in confidence or in trust, and Mr. McNulty will not disclose to the Company, or the Company to use, any confidential or proprietary information or material belonging to any other person or entity. Mr. McNulty will not enter into any agreement, either written or oral, which is in conflict with this Agreement.

10. Injunctive Relief. Mr. McNulty acknowledges that any breach or

attempted breach by Mr. McNulty of this Agreement or any provision hereof shall cause the Company irreparable harm for which any adequate monetary remedy does not exist. Accordingly, in the event of any such breach or threatened breach, the Company shall be entitled to obtain injunctive relief, without the necessity of posting a bond or other surety, restraining such breach or threatened breach.

43

11. Modification. This Agreement may not be changed, modified, released,

discharged, abandoned, or otherwise amended, in whole or in part, except by an instrument in writing, signed by Mr. McNulty and by the Company. Any subsequent change or changes in Mr. McNulty's relationship with the Company or Mr. McNulty's compensation shall not affect the validity or scope of this Agreement.

12. Entire Agreement. Mr. McNulty acknowledges receipt of this Agreement,

and agrees that with respect to the subject matter thereof, it is Mr. McNulty's entire agreement with the Company, superseding any previous oral or written communications, representations, understandings with the Company or any office or representative thereof.

13. Severability. In the event that any paragraph or provision of this

Agreement shall be held to be illegal or unenforceable, the entire Agreement shall not fall on account thereof, but shall otherwise remain in full force and effect, and such paragraph or provision shall be enforced to the maximum extent permissible.

14. Successors and Assigns. This Agreement shall be binding upon Mr.

McNulty's heirs, executors, administrators or other legal representatives and is for the benefit of the Company, its successors and assigns.

15. Governing Law. This Agreement shall be governed by the laws of the

State of New Jersey except for any conflicts of law rules thereof that might direct the application of the substantive law of another state.

16. Counterparts. This Agreement may be signed in two counterparts, each of

which shall be deemed an original and both of which shall together constitute one agreement.

17. Arbitration. In the event the Mr. McNulty, his spouse or any other

person claiming benefits on behalf of or through Mr. McNulty, has a claim or dispute based upon this agreement including the interpretation or application of the terms and provisions of this Agreement, the sole and exclusive remedy is for that party to submit the dispute to binding arbitration in accordance with the rules of arbitration of the American Arbitration Association in New Jersey. Any arbitrator selected to arbitrate any such dispute will have the power to interpret this Agreement. Any determination or decision by the arbitrator shall be binding upon the parties and may be enforced in any court of law. The expenses of the arbitrator will be paid 50% by the Company and 50% by Mr. McNulty, his spouse or other person, as the case may be. The parties agree that this arbitration provision does not apply to the right of Mr. McNulty to file a charge, testify, assist or participate in any manner in an investigation,

44

hearing or proceeding before the Equal Employment Opportunity Commission or any other agency pertaining to any matters covered by this Agreement and within the jurisdiction of the agency.

18. No Waiver. No waiver by the Company of any breach of this Agreement by -----
Mr. McNulty shall constitute a waiver of any subsequent breach.

19. Notice. Any notice hereby required or permitted to be given shall be -----
sufficiently given if in writing and upon mailing by registered or certified mail, postage prepaid, to either party at the address of such party or such other address as shall have been designated by written notice by such party to the other party.

45

EXECUTED as of the date set forth below.

Dated: August 31, 2002.

BIODELIVERY SCIENCES INTERNATIONAL, INC.

By: /s/ Francis E. O'Donnell

Name: Francis E. O'Donnell, Jr.
Title: President, CEO

/s/ James A. McNulty

James A. McNulty

46

CERTIFICATIONS

I, James A. McNulty, certify that:

1. I have read this quarterly report on Form 10-QSB of BioDelivery Sciences International, Inc.;

2. To my knowledge, the information in this report is true in all important respects as of September 30, 2002; and

3. This report contains all information about the company of which I am aware that I believe is important to a reasonable investor, in light of the subjects required to be addressed in this report, as of September 30, 2002.

For purposes of this certification, information is "important to a reasonable investor" if:

(a) There is a substantial likelihood that a reasonable investor would view the information as significantly altering the total mix of information in the report; and

(b) The report would be misleading to a reasonable investor if the information is omitted from the report.

Date: November 13, 2002

/s/James A. McNulty

James A. McNulty
Chief Financial Officer

CERTIFICATIONS

I, Francis E. O'Donnell, Jr., certify that:

1. I have read this quarterly report on Form 10-QSB of BioDelivery Sciences International, Inc.;

2. To my knowledge, the information in this report is true in all important respects as of September 30, 2002; and

3. This report contains all information about the company of which I am aware that I believe is important to a reasonable investor, in light of the subjects required to be addressed in this report, as of September 30, 2002.

For purposes of this certification, information is "important to a reasonable investor" if:

(a) There is a substantial likelihood that a reasonable investor would view the information as significantly altering the total mix of information in the report; and

(b) The report would be misleading to a reasonable investor if the information is omitted from the report.

Date: November 13, 2002

/s/ Francis E. O'Donnell, Jr.

Francis E. O'Donnell, Jr.
Chief Executive Officer