BCB BANCORP INC
Form 424B5
October 28, 2015
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The information in this preliminary prospectus supplement and the accompanying prospectus is not complete and may be changed. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell these securities and are not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.
Filed Pursuant to Rule 424(b)(5)
Registration file No. 333-199424
Subject to Completion,
Preliminary Prospectus Supplement dated October 27, 2015
PROSPECTUS SUPPLEMENT
(To prospectus dated November 4, 2014)
$20 Million

Common Stock

We are offering shares of our common stock at the public offering price of $ per share. Our common stock is l the NASDAQ Global Market under the symbol “BCBP.” On October 26, 2015, the last reported sale price of our common stock as reported on the NASDAQ Global Market was $10.55 per share.
Investing in our common stock involves a high degree of risk. Before buying shares of our common stock, you should carefully consider the risks described under the caption “Risk Factors” beginning on page S-10 of this prospectus supplement and in the documents incorporated by reference into this prospectus supplement.

	Per Share	Total
Public offering price	$	$
Underwriting discount(1)	$	$
Proceeds, before expenses, to us	$	$

(1)
The underwriters will be reimbursed for certain expenses in this offering. See “Underwriting” for details.

The underwriters also have the option to purchase up to an additional shares in the aggregate from us at the public offering price, less the underwriting discount, within 30 days from the date of this prospectus supplement.
Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.
These securities are not deposits or obligations of our bank and non-bank subsidiaries and are not insured or guaranteed by the Federal Deposit Insurance Corporation, the Deposit Insurance Fund or any other governmental agency.
The underwriters expect to deliver the shares against payment on or about , 2015.

Book-Running Manager

Co-Managers

The date of this prospectus supplement is , 2015

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ABOUT THIS PROSPECTUS SUPPLEMENT

This document is in two parts. The first part is this prospectus supplement, which describes the specific terms of this offering of our common stock and also adds to, updates and otherwise changes the information contained in the accompanying prospectus or incorporated by reference into the accompanying prospectus. The second part, the accompanying prospectus, provides more general information. Generally, when we refer to this prospectus, we are referring to both parts of this document combined. To the extent there is a conflict between the information contained in this prospectus supplement and the information contained in the accompanying prospectus or any document incorporated by reference therein, you should rely on the information in this prospectus supplement. If any statement in one of these documents is inconsistent with a statement in another document having a later date, the statement in the document having the later date will apply and will supersede the earlier statement.

This prospectus supplement and the accompanying prospectus are part of a registration statement on Form S-3 that we filed with the Securities and Exchange Commission, or SEC, utilizing a “shelf” registration process for the delayed offering and sale of securities pursuant to Rule 415 under the Securities Act of 1933, as amended, or the Securities Act. Under the shelf registration process, we may, from time to time, sell the securities described in the accompanying prospectus in one or more offerings up to a total amount of $50,000,000. The shelf registration statement went effective on November 4, 2014.

You should rely only on the information contained in or incorporated by reference in this prospectus supplement, the accompanying prospectus or any free writing prospectus that we have prepared which relates to a particular offering. We and the underwriters have not authorized anyone else to provide you with different or additional information. If anyone provides you with different or additional information, you should not rely on it. Neither we nor the underwriters are making an offer to sell or soliciting an offer to buy these securities in any jurisdiction where the offer or solicitation is not permitted. You should assume that the information contained in this prospectus supplement, the accompanying prospectus or any free writing prospectus that we have prepared is accurate only as of the date of the respective document in which the information appears, and that any information in documents that we have incorporated by reference is accurate only as of the date of the document incorporated by reference, regardless of the time of delivery of this prospectus or any prospectus supplement or any sale of a security. Our business, financial condition, results of operations and prospects may have changed since those dates.

Unless otherwise indicated or unless the context requires otherwise, all references in this prospectus to the “Company,” “we,” “us,” “our” or similar references mean BCB Bancorp, Inc. and its subsidiaries on a consolidated basis.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus supplement, the accompanying prospectus, and the information incorporated by reference herein or therein, may not be based on historical facts and constitute "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995, or the PSLRA. Such forward-looking statements, in addition to historical information, involve risks and uncertainties, and are based on the beliefs, assumptions and expectations of our management team. Words such as "expects," "believes," "should," "plans," "anticipates," "will," "potential," "could," "intend," "outlook," "predict," "project," "would," "estimated," "assumes," "likely," and variations of such similar expressions are intend identify such forward-looking statements. Forward-looking statements speak only as of the date they are made.

Because forward-looking statements are subject to assumptions and uncertainties, actual results or future events could differ, possibly materially, from those that we anticipated in our forward-looking statements and future results could differ materially from historical performance.

Factors that could cause future results to vary from current management expectations as reflected in our forward looking statements include, but are not limited to:

- unfavorable economic conditions in the United States generally and particularly in our primary market area;
- the effects of declines in housing markets and real estate values that may adversely impact the collateral underlying our loans;
- increase in unemployment levels and slowdowns in economic growth;
- our level of non-performing assets and the costs associated with resolving any problem loans including litigation and other costs;
- the impact of changes in interest rates and the credit quality and strength of underlying collateral and the effect of such changes on the market value of our loan and investment securities portfolios;
- the credit risk associated with our loan portfolio;
- changes in the quality and composition of the Bank's loan and investment portfolios;
- changes in our ability to access cost-effective funding;
- deposit flows;
- legislative and regulatory changes, including increases in Federal Deposit Insurance Corporation, or FDIC, insurance rates;
- monetary and fiscal policies of the federal government;

- changes in tax policies, rates and regulations of federal, state and local tax authorities;
- inflation;
- demands for our loan products;
- demand for financial services;
- competition;
- changes in the securities or secondary mortgage markets;
- changes in management's business strategies;
- our ability to enter new markets successfully;
- our ability to successfully integrate acquired businesses;
- changes in consumer spending;
- our ability to retain key employees;

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- the effects of any reputational, credit, interest rate, market, operational, legal, liquidity or regulatory changes;

- expanded regulatory requirements as a result of the Dodd-Frank Wall Street Reform and Consumer Protection Act, which could adversely affect operating results; and

- other factors discussed elsewhere in this prospectus supplement and the accompanying prospectus, and in our periodic and current reports filed with the SEC, including under “Risk Factors” in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2014 and under “Risk Factors” in Part II, Item 1A of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2015.

You should not place undue reliance on these forward-looking statements, which reflect our expectations only as of the date of this prospectus supplement. We do not assume any obligation to revise forward-looking statements except as may be required by law.

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PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in, or incorporated by reference into, this prospectus supplement. Because this is a summary, it may not contain all the information that may be important to you. Therefore, before making a decision to invest in our common stock you should read the entire prospectus supplement and accompanying prospectus carefully, including the risk factors and financial statements and notes thereto that are included or incorporated by reference herein or therein. See "Where You Can Find Additional Information."

Company Overview

We are a New Jersey bank holding company headquartered in Bayonne, New Jersey, and the parent of BCB Community Bank, or the Bank. Our primary markets are Hudson, Bergen, Essex and Middlesex Counties in New Jersey and the five boroughs of New York City, served by our 14 branches in New Jersey, one branch in Staten Island, New York and our three loan production offices in Freehold and Bayonne, New Jersey, and Manhattan, New York. Our Bank's primary county of operations, Hudson County, is a densely populated, highly diverse market with a large concentration of wealth. The area is marked with desirable commercial, industrial and residential space along the Hudson River and throughout the county, and acts as a central transportation hub for both commuter and freight traffic. At June 30, 2015, we had approximately $1.498 billion in consolidated assets, $1.178 billion in deposits and $106.0 million in consolidated stockholders' equity.

We are committed to being a premier community bank in Northern New Jersey and New York metropolitan area. We believe that our primary markets are characterized by attractive demographics and favorable competitive dynamics, thereby offering long-term opportunities for growth. We have a history of building long-term customer relationships and attracting new customers through what we believe is our superior customer service and our ability to deliver our product offerings in an efficient manner. In addition, we believe that our extensive local ownership, coupled with a respected and experienced executive management team and board of directors, give us credibility with our existing and potential new customers. Our focus is on building a franchise with meaningful market share and consistent revenue growth complemented by operational efficiencies that we believe will produce attractive risk-adjusted returns for our shareholders.

Our business is to offer FDIC-insured deposit products and to invest those funds, together with funds generated from operations, in loans and investment securities. We offer our customers loans, including commercial and multi-family real estate loans, one- to four-family residential mortgage loans, home equity loans, construction loans, consumer loans and commercial business loans. In recent years the primary growth in our loan portfolio has been in loans secured by commercial real estate and multi-family properties.

Our History and Market Growth Strategy

BCB Community Bank opened for business on November 1, 2000, as Bayonne Community Bank, a New Jersey state-chartered commercial bank, with the goal of providing premier community banking services to the communities in which we operate. Bayonne Community Bank changed its name to BCB Community Bank in April 2007.

Our strategy is to grow organically by building long-term relationships with our customers, thereby creating cross-selling opportunities, and to expand opportunistically in our primary markets or new markets with attractive economic characteristics and market demographics. We complement our organic growth by pursuing strategic acquisitions in our primary markets or in markets that are complementary to our existing markets. More specifically our growth strategies involve:

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Capitalizing on market dynamics and creating a responsive, customer-centric community bank. The consolidation of the banking industry in northeast New Jersey and the greater metropolitan New York area has provided a unique opportunity for a customer-focused banking institution to attract local customers. This consolidation has moved decision-making away from local, community-based banks to much larger banks headquartered outside of the New York

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metropolitan area. We believe our local roots, community focus and customer-centric model provides the Bank with continuing opportunities to capitalize on the consolidation in our markets. Our organic growth strategy is based on offering a broad array of products and services which we customize to focus on building long-term relationships with our customers. By focusing on the entire customer relationship and being responsive to customers' needs, we build trust which leads to long-term customer relationships and cross-selling opportunities. In addition, we are committed to meeting the needs of the communities we serve. Many of our directors and officers are Hudson County, New Jersey natives, and many are well-established local professionals and business leaders. As a result, customers and potential customers within our primary markets frequently interact with our directors, officers and employees.

- Attracting highly experienced and qualified personnel. An important part of our strategy is to continue to hire bankers who have experience in our primary markets, as well as pre-existing business relationships. In an effort to continually improve the strength of our team, over the last two years we have hired experienced bankers in key roles, including our Chief Financial Officer, Chief Credit Officer and Chief Risk Officer. Our management team averages over 20 years of banking experience, while our lenders and branch personnel have significant experience in and around our markets. We believe that our management's knowledge of our markets has allowed us to develop a highly focused and disciplined approach to lending, and has enabled the Bank to attract a high percentage of low cost deposits to fund our asset growth.

- Strengthening our balance sheet. Management remains committed to strengthening the Bank's asset quality and increasing profitability by diversifying the products, pricing and services we offer and through expansion in geographic lending. As a result of our efforts, total past due loans have decreased from $38.7 million at June 30, 2012 to $34.3 million at June 30, 2015, while gross loans increased from $837.2 million at June 30, 2012 to $1.407 billion at June 30, 2015. During this same time period, nonaccrual loans have decreased from $34.5 million at June 30, 2012 to $19.4 million at June 30, 2015 while the Bank's net interest margin has expanded from 3.47% for the six months ending June 30, 2012 to 3.87% for the six months ending June 30, 2015.

- Strategic Acquisitions. To complement our organic growth, we focus on strategic acquisitions in or around our existing markets which we believe will enhance our growth strategy. We believe there are many banking institutions that continue to face credit challenges, capital constraints and liquidity issues, while also lacking the scale and management expertise to manage the increasing regulatory burdens faced by many institutions. Since our founding, we have completed two acquisitions. The first was our acquisition of Pamrapo Bancorp, Inc., in July 2010, which had approximately $590 million in assets. The second was the acquisition of Allegiance Community Bank in October 2011, which had approximately $120 million in assets. These acquisitions greatly increased our size and operating footprint. We intend to continue to seek and evaluate other potential acquisitions which can provide meaningful financial benefits, long-term organic growth opportunities and expense reductions without compromising our risk profile or our commitment to extraordinary customer service.

- Organic Branching Initiative. Beginning in July 2014, we commenced an organic branching initiative in order to expand our primary markets, reduce any potential risk of our strong Hudson County concentration and to fill in and grow our branch footprint. To this end, we opened a full-service branch in Colonia, New Jersey, in July 2014, a full-service branch in Fairfield, New Jersey, in November 2014, and full-service branches in both Staten Island, New York, and Rutherford, New Jersey, in February 2015. We are seeking additional opportunities to open branches in strategic market areas and expect to open one branch each quarter during the next 12 months.

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We believe that our growth strategies have allowed us to achieve significant growth even in a challenging economic environment, including the following:

- Solidifying our presence in Hudson County, in particular with the completion of our merger with Pamrapo Bancorp, Inc., in July 2010; expanding our footprint into Essex and Middlesex Counties with the acquisition of Allegiance Community Bank in October 2011; the expansion of our branch network into Bergen County and Staten Island, New York; and establishing a loan production office in midtown Manhattan.

- Growing our total assets to approximately $1.498 billion at June 30, 2015, from $1.107 billion at December 31, 2010 (the first year end following the completion of our acquisition of Pamrapo Bancorp, Inc.), representing a 7.0% compound annual growth rate, and growing our deposits to approximately $1.178 billion at June 30, 2015, from $886.3 million at December 31, 2010, representing a compound annual growth rate of 6.5%.

- Growing our total loans outstanding to approximately $1.407 billion at June 30, 2015, from $787.1 million at December 31, 2010, representing a 13.8% compound annual growth rate. Commercial real estate loans at June 30, 2015, comprised 45.4% of the total loan portfolio, compared to 21.8% at December 31, 2010, representing a 34.1% compound annual growth rate.

Our Competitive Strengths

We believe that we are especially well-positioned to create value for our shareholders as a result of the following competitive strengths:

- Experienced Management Team. Our executive management team is comprised of seasoned professionals with significant banking experience, a history of high performance at regional financial institutions, and success in operating, acquiring and integrating financial institutions. Collectively, our executive officers have over 90 years of commercial banking experience, primarily in the markets in which we currently operate. Our senior management team includes Thomas Coughlin, Chief Executive Officer and President, Thomas Keating, Chief Financial Officer, Joseph Javitz, Senior Vice President and Chief Lending Officer and Sandra Sievewright, Chief Risk Officer and Chief Compliance Officer. In addition to our experienced executive management team, we have a demonstrated ability to grow organically through the recruitment of high quality bankers. We have hired bankers with significant in-market experience, in order to complement and enhance our existing business. Below is certain biographical information regarding our executive officers.

Thomas M. Coughlin is the Chief Executive Officer and President of BCB Bancorp, Inc. and BCB Community Bank, and is the Corporate Secretary of BCB Bancorp, Inc. Mr. Coughlin has been in the banking industry for 28 years. He was formerly Vice President of Chatham Savings Bank. Prior to that, he was the Controller and Corporate Secretary of First Savings Bank of New Jersey.

Thomas P. Keating, CPA, is the Chief Financial Officer of BCB Bancorp, Inc., and BCB Community Bank. Prior to joining the Company and the Bank in March 2014, Mr. Keating served as the Chief Financial Officer and Chief Operating Officer of Enterprise National Bank in Kenilworth, New Jersey, for approximately three years. Mr. Keating had previously worked in various capacities at both BCB and Pamrapo Savings Bank. He also served as Chief Financial Officer of AES Red Oak, LLC, for six years.

Joseph Javitz is a Senior Vice President and Chief Lending Officer of BCB Community Bank. He has been in the banking and financial services industry for more than 31 years. He joined BCB Community Bank in June 2014 as Chief Lending Officer for the Bank. Prior to joining BCB Community Bank, he was the Chief Lending Officer of Abacus Federal Savings Bank, a federally-chartered savings bank in New York City. His career began at Roosevelt Savings Bank, located in Garden City, New York, and has included positions as Senior Vice President

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and Mortgage Division Executive at the institutions he has served. Mr. Javitz's diverse experience includes more than 30 years in developing residential, mixed-use, commercial, multi-family and consumer lending business platforms for regional and national lenders.

Sandra Sievewright is the Chief Compliance and Chief Risk Officer of BCB Community Bank. Ms. Sievewright has been in the banking industry for approximately 25 years. Prior to joining the Bank in May 2014, she was the Senior Vice President of a commercial bank in Ocean County, New Jersey and previous to that worked for a community bank in Bergen County as Senior Vice President, Compliance Officer for approximately eight years. Ms. Sievewright's career began at Central Jersey Savings Bank and has included positions as Assistant Vice President of Lending, Compliance Officer, Community Reinvestment Act Officer, Bank Secrecy Act Officer, Security Officer and Branch Administrator at both community and commercial banks in New Jersey.

- Dedicated Board of Directors with Strong Community Involvement. Our board of directors is comprised of a group of local business leaders with strong ties to the communities that we serve and who understand the need for a locally-based and strong community bank with a focus on serving the financial needs of its customers. By capitalizing on the close community ties and business relationships of our executive management team and directors, we are positioned to continue to take advantage of the market opportunities in our markets. In addition, the interests of our executive management team and directors are aligned with those of our shareholders through common stock ownership. At June 30, 2015, our directors and officers beneficially owned approximately 17.9% of our outstanding common stock. Certain of our directors and officers have indicated an interest in purchasing an aggregate of approximately $4.0 million in shares of our common stock in this offering at the public offering price.

- Scalable Operating Platform. We provide banking technology, including remote deposit capture, internet banking and mobile banking, to provide our customers with a large array of convenient choices to create a scalable platform to accommodate our future growth aspirations. We believe that our advanced technology, combined with responsive and personal service, provides our customers with a superior banking experience. Moreover, we believe that we have a scalable platform and organizational infrastructure that position us to grow our revenue more rapidly than our operating expenses without significant additional investment in our infrastructure.

- Strong Market Demographics. Our primary markets are defined as the greater Hudson County area, specifically the cities of Bayonne, Hoboken and Jersey City. The market area includes numerous affluent areas and suburban communities of professionals who work in New York metropolitan area and Northern New Jersey. The market area is home to a many small to mid-sized businesses which support these communities as well as large employers, ranging from manufacturing, financial services, transportation and logistics, and retail companies to government, education, and hospital services. We believe that these markets have economic and competitive dynamics that are favorable to executing our growth strategy.

Recent Developments

The financial information for the three and nine months ended September 30, 2015, that is contained in this prospectus supplement is preliminary unaudited financial data and, as a result, during the course of our preparation of our complete consolidated financial statements as of and for the nine months ended September 30, 2015, we may identify items that would require us to make adjustments to the preliminary financial results presented in this prospectus supplement. In addition, our independent registered public accounting firm has not performed review procedures of this financial information.

Financial Results

Our total assets increased by $253.0 million, or 19.4%, to $1.555 billion at September 30, 2015 from $1.302 billion at December 31, 2014. Deposit liabilities increased by $204.7 million, or 19.9%, to $1.233 billion at September 30, 2015

from $1.029 billion at December 31, 2014.
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Operations for the three months ended September 30, 2015 compared with the three months ended September 30, 2014

For the quarter ended September 30, 2015, we recorded net income of $2.3 million compared to $1.1 million for the three months ended September 30, 2014. The increase in net income was primarily related to an increase in non-interest income, a lower provision for loan losses, partly offset by increases in non-interest expense and the income tax provision. Basic and diluted earnings per share were $0.24 per share compared to $0.11 for the quarter ended September 30, 2014.

Our net interest income increased by $489,000, or 3.7%, to $13.5 million for the three months ended September 30, 2015 from $13.0 million for the three months ended September 30, 2014. The increase in net interest income resulted primarily from an increase in the average balance of interest-earning assets of $273.0 million, or 22.5%, to $1.486 billion for the three months ended September 30, 2015 from $1.213 billion for the three months ended September 30, 2014, partly offset by a decrease in the average yield on interest-earning assets of 51 basis points to 4.63% for the three months ended September 30, 2015 from 5.14% for the three months ended September 30, 2014. The decrease in average yield reflects the competitive pricing environment in our primary market area on new loans as well as the downward repricing of certain variable rate loans.

The average balance of interest-bearing liabilities increased by $248.8 million, or 24.6% to $1.260 billion for the three months ended September 30, 2015 from $1.011 billion for the three months ended September 30, 2014, while the average cost of interest-bearing liabilities increased by 16 basis points to 1.17% for the three months ended September 30, 2015 from 1.01% for the three months ended September 30, 2014. The increase in the average rate on interest-bearing liabilities was due to competitive forces in attracting new deposits and a change in the mix of funding sources and terms, including listing service certificates of deposit and brokered certificates of deposit to support strong loan growth.

Net interest margin was 3.65% for the three-month period ended September 30, 2015 compared to 4.31% for the three-month period ended September 30, 2014. The decline in net interest margin was the result of competitive pressures in attracting new loans and deposits, as evidenced by a decline in the average yield on loans and an increase in the average cost of deposits as described above.

Average net loan balances increased by 23.2%, when comparing the three-month periods ending September 30, 2015 and September 30, 2014. As a result of this loan growth, interest income on loans increased by $1.7 million, or 11.43%, to $17.0 million for the three months ended September 30, 2015 from $15.3 million for the three months ended September 30, 2014. The deployment of funds received from the sale of investment securities in the third quarter of 2014 into higher yielding loan assets contributed to the increase in net interest income.

Our total non-interest income increased by $2.7 million to $2.0 million for the three months ended September 30, 2015 from a loss of $750,000 for the three months ended September 30, 2014. The increase in our non-interest income was a result of an increase of $1.0 million in gain on sale of loans for the three months ended September 30, 2015 compared with no gain for the three months ended September 30, 2014. The three-month period ended September 30, 2014 included a $2.2 million increase in gains on the sale of investment securities held to maturity and a $4.0 million loss on the bulk sale of impaired loans, with no comparable activity in the three-month period ended September 30, 2015.

Our total non-interest expense increased by $1.8 million, or 17.8%, to $11.7 million for the three months ended September 30, 2015 from $9.9 million for the three months ended September 30, 2014 due to increases in salaries and employee benefits, occupancy expense, equipment and other non-interest expense, primarily as a result of our branch expansion.

Operations for the nine months ended September 30, 2015 compared with the nine months ended September 30, 2014

For the nine-month period ended September 30, 2015 net income was $6.0 million which is the same as for the nine-month period ended September 30, 2014. Increases in net interest income, non-interest income and a lower provision for loan losses, were offset by increases in non-interest expense and the income tax provision. Basic and diluted earnings per share were $0.64 and $0.63, respectively, per share compared to $0.64 and $0.64 for the nine-month period ended September 30, 2014.

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Net interest income increased by $2.5 million, or 6.6%, to $39.8 million for the nine months ended September 30, 2015, from $37.3 million for the nine months ended September 30, 2014. The increase in net interest income resulted primarily from an increase in the average balance of interest-earning assets of $196.0 million, or 16.2%, to $1.403 billion for the nine months ended September 30, 2015, from $1.207 billion for the nine months ended September 30, 2014, partly offset by a decrease in the average yield on interest-earning assets of 0.24% to 4.73% for the nine months ended September 30, 2015 from 4.97% for the nine months ended September 30, 2014.

The average balance of interest-bearing liabilities increased by $173.6 million, or 17.2%, to $1.183 billion for the nine months ended September 30, 2015, from $1.009 billion for the nine months ended September 30, 2014, while the average cost of interest-bearing liabilities increased by 0.11% to 1.12% for the nine months ended September 30, 2015, from 1.01% for the nine months ended September 30, 2014.

Interest income on loans receivable increased by $6.4 million, or 15.0%, to $49.3 million for the nine months ended September 30, 2015 from $42.9 million for the nine months ended September 30, 2014. The increase was primarily attributable to an increase in the average balance of loans receivable of $248.3 million, or 22.7%, to $1.342 billion for the nine months ended September 30, 2015 from $1.094 billion for the nine months ended September 30, 2014, partially offset by a decrease in the average yield on loans receivable to 4.90% for the nine months ended September 30, 2015 from 5.22% for the nine months ended September 30, 2014. The increase in the average balance of loans receivable was the result of our comprehensive loan growth strategy. The decrease in average yield reflects the competitive price environment prevalent in our primary market area on loans as well as the repricing downward of certain of our variable rate loans.

Our total non-interest income increased by $2.4 million, or 91.5%, to $5.0 million for the nine months ended September 30, 2015 from $2.6 million for the nine months ended September 30, 2014. Our non-interest income reflected an increase of $2.0 million in gain on sale of loans for the nine months ended September 30, 2015 compared with the nine months ended September 30, 2014. The nine-month period ended September 30, 2014 included a $1.2 million gain on the sale of investment securities available for sale, $2.3 million in gains on the sale of investment securities held to maturity, and a $4.0 million loss on the bulk sale of impaired loans, with no comparable activity in the nine-month period ended September 30, 2015.

Total non-interest expense increased by $4.9 million, or 17.5%, to $32.8 million for the nine months ended September 30, 2015 from $27.9 million for the nine months ended September 30, 2014 due to increases in salaries and employee benefits, occupancy expense, equipment, advertising, other real estate-owned expense and other non-interest expense, primarily as a result of branch expansion.

Amendment to Certificate of Incorporation. On July 10, 2015, the Company amended its Restated Certificate of Incorporation to revise Article V to amend certain terms related to the Series A 6% Noncumulative Perpetual Preferred Stock, the Series B 6% Noncumulative Perpetual Preferred Stock, and to create a new Series C 6% Noncumulative Perpetual Preferred Stock. This amendment set forth the number of shares to be included in such new Series C, and to fix the designation, powers, preferences, and rights of the shares of each Series and any qualifications, limitations or restrictions thereof and/or thereon.

Series C Preferred Stock. On September 29, 2015, we issued 119 shares of our Series C 6% Noncumulative Perpetual Preferred Stock in a private placement resulting in gross proceeds of $1,190,000. Previously, on July 13, 2015, we issued 235 shares of our Series C 6% Noncumulative Perpetual Preferred Stock in a private placement, resulting in gross proceeds of $2.35 million for 235 shares. These sales represent all of the issued and outstanding shares of Series C 6% Noncumulative Perpetual Preferred Stock, and represents 20.9% of the total issued and outstanding Noncumulative Perpetual Preferred Stock, which includes Series A 6% Noncumulative Perpetual Preferred Stock and Series B 6% Noncumulative Perpetual Preferred Stock. The purchase price for Series C 6% Noncumulative Perpetual Preferred Stock was $10,000 per share. We may issue and sell up to an additional 146 shares of our Series C 6% Noncumulative Perpetual Preferred Stock by December 31, 2015.

Principal Offices

Our principal executive offices are located at 104-110 Avenue C, Bayonne, New Jersey 07002, and our telephone number is (201) 823-0700. We maintain a website at www.bcbcommunitybank.com. The

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information contained on, or that can be accessed through, our website is not part of this prospectus supplement or the accompanying prospectus.

The Offering

Issuer

BCB Bancorp, Inc.

Common stock we are offering

$20 million.

Offering price per share

$.

Option to purchase additional shares

The underwriters have an option to purchase up to additional shares of our common stock. This option is exercisable by the underwriters, in whole or in part, for a period of 30 days from the date of the final prospectus supplement.

Common stock to be outstanding after this offering(1)

shares, or shares if the underwriters exercise their option to acquire additional shares in full.

Use of proceeds

We intend to use the net proceeds of this offering for general corporate purposes, including maintaining liquidity, supporting core business growth, possible early retirement of debt, future acquisitions, funding working capital needs, and maintaining our capital and liquidity ratios, and the ratios of our Bank, at acceptable levels.

NASDAQ Global Market symbol

BCBP

Risk factors

Investing in our securities involves risks. You should carefully consider the information under “Risk Factors” beginning on page S-10 and the other information included or incorporated by reference in this prospectus supplement and the accompanying prospectus.

(1)

The number of shares of our common stock to be outstanding after the offering is based on actual shares outstanding, in each case as of June 30, 2015, and does not include:

- 289,720 shares of common stock issuable upon exercise of options outstanding under our various equity incentive plans, having a weighted average exercise price of $11.18 per share; and

- 610,280 shares of common stock reserved for issuance pursuant to our various equity incentive plans.

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Summary Historical Financial Data

You should read the following summary historical financial data with our consolidated financial statements and notes appearing in our Annual Report on Form 10-K for the year ended December 31, 2014 and Quarterly Report on Form 10-Q for the quarter ended June 30, 2015, which are incorporated by reference in this prospectus supplement. The following tables set forth select consolidated financial data for us at and for each of the years in the five-year period ended December 31, 2014 and at and for the six-month periods ended June 30, 2015 and 2014. The selected results of operations data for the years ended December 31, 2014, 2013 and 2012, and the selected balance sheet data as of December 31, 2014 and 2013, have been derived from our audited financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2014, which is incorporated by reference in this prospectus supplement. The selected results of operations data for the years ended December 31, 2011 and 2010 and the summary balance sheet data dated as of December 31, 2012, 2011 and 2010 have been derived from our audited financial statements that are not included in this prospectus supplement. The information for the six months ended June 30, 2015 and 2014 is unaudited. However, in the opinion of our management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the results of operations for the unaudited periods have been made. Historical results are not necessarily indicative of future results, and the results for the six months ended June 30, 2015 are not necessarily indicative of the results that might be expected for the full year.

At and for Six Months Ended June 30,		At and for Year Ended December 31,
2015	2014	cientific founders of Aeolus, James D. Crapo, M.D., and Irwin Fridovich, Ph.D., in collaboration with colleagues at Duke University, the National Jewish Medical and Research Center and Incara, are working to develop small molecules as therapeutics that act in the same

manner as naturally occurring antioxidant enzymes. Antioxidant enzymes such as superoxide dismutase normally protect the body from harmful free radicals. Antioxidants and Disease Oxygen plays a pivotal role in supporting life by enabling energy stored in food to be converted to energy that living organisms can use. The ability of oxygen to participate in key metabolic processes derives from its highly reactive nature. This reactivity is necessary

for life, but also creates different forms of oxygen which can react harmfully with living organisms. In the body, a small amount of oxygen is converted to various free radicals, which can damage DNA, proteins and lipids. If too many free radicals are produced for the body's normal antioxidants to metabolize, the cumulative result is reduced cellular function and, ultimately, disease. Free radicals are thought to play a role in a variety of conditions

that result in damage, including, for example, organ and cell transplant rejection, stroke and damage to normal tissue from cancer radiation therapy. Incara has synthesized a group of small molecules that in laboratory experiments have multiple potent catalytic antioxidant activities, destroy free radicals and protect cells from damage initiated by free radicals. Catalytic antioxidants, unlike other antioxidants, function like enzymes and are not consumed by their

reaction with free radicals. Therefore, each catalytic antioxidant molecule can destroy many free radicals. In laboratory experiments some of these compounds have shown antioxidant activities greater than the natural antioxidant enzymes on a weight basis. The lead compounds in this series, AEOL 10113 and AEOL 10150, have shown activity in preclinical models of organ or cell transplant, stroke and protection of normal tissue from radiation damage in cancer

therapy. We also have a number of related compounds which have not undergone as much laboratory testing. Our catalytic antioxidant compounds have been tested in multiple animal models at multiple institutions but have not entered clinical trials in humans and are in an early stage of development. Animal models may not be predictive of how a compound will act in human beings. There can be no assurance that compounds from our catalytic antioxidant program

will 25 demonstrate the efficacy and safety needed to gain product approval by the FDA or foreign authorities, and even if approval is given, such products might not become commercially successful. Catalytic Antioxidants and Cell Therapy Laboratory experiments have shown that our catalytic antioxidants protect a number of cell types. In these experiments, AEOL 10112 improved the ability of liver cells to survive freezing and thawing. Related compounds, AEOL 10113 and

AEOL 10150, protected cultured neurons from toxicity due to oxygen and glucose deprivation. AEOL 10113 also protected cultured pancreatic beta cells from certain toxins. Recently, an independent researcher has shown that AEOL 10113 exerts a protective effect in an animal model of human juvenile-onset diabetes. In this model, 100% of control mice became diabetic by 13 days after the injection of T lymphocytes directed against pancreatic beta cells.

In contrast, AEOL 10113 prevented diabetes in 50% of the mice and significantly delayed the onset of diabetes in the others. We are currently exploring the ability of our catalytic antioxidants to improve the survival of pancreatic beta islet cells after transplant in animals and intend to explore in the near term whether these compounds can improve the survival and growth of liver cells after transplant in animals. If the results of these experiments are positive, which

might not happen, we intend to pursue the development of catalytic antioxidants as agents to improve the outcome of liver progenitor cell transplantation in humans. Stroke An estimated 600,000 people in the United States annually suffer strokes. In the United States, strokes kill approximately 158,000 people annually and have left more than 1,000,000 people disabled to some extent, according to the American Heart Association. The estimated direct cost of stroke is over $28

billion annually, much of which is attributable to the high expense of rehabilitating and caring for victims. Stroke is an injury to the brain caused by the blockage of blood flow. The reestablishment of blood flow after blockage can cause further damage, which is called reperfusion injury. Many scientists believe that the damage from stroke and reperfusion injury is caused, at least in part, by free radicals. In a model of stroke, in which the middle cerebral artery of a rat is blocked for

90 minutes and then unblocked, AEOL 10113 significantly reduced damaged brain tissue when introduced as late as 7.5 hours after the start of the stroke. AEOL 10150 significantly reduced damaged brain tissue in a mouse model of severe stroke in which blood flow to a portion of the brain was permanently blocked. We have chosen to develop AEOL 10150 as a potential treatment for stroke because it is easier to make and analyze and has an improved safety profile when

compared to AEOL 10113. Assuming we can enter into a corporate partnership for development of AEOL 10150 and satisfactorily complete the preclinical studies, neither of which might occur, we intend to initiate Phase 1 clinical trials in the first half of 2002. Protection of Normal Tissue in Cancer Radiation Therapy It has been recognized for many years that radiation therapy produces oxygen free radicals in the body that react with cellular components to kill

cancer cells. These free radicals also harm normal healthy tissue, limiting the dose of radiation that can be given in cancer therapy and causing toxicities such as oral mucositis and lung inflammation and fibrosis. Radiation-Induced Mucositis. Oral ulcerative mucositis is characterized by formation of painful ulcers in the mouth and is a common dose-limiting side effect of drug and radiation therapy for cancer. Approximately one third of cancer patients, or more than 400,000

patients in the United States, develop mucositis. Ulcerative mucositis leads to interruption of cancer therapy and increases the risk of infection and death, as well as the cost of care. Standard therapy for mucositis is only for pain relief and infection, and includes the application of topical pain-killers and/or systemic administration of narcotics and antibiotics. However, there is currently no approved treatment that limits the extent or duration of mucositis. The catalytic

antioxidant AEOL 10150 reduced the extent and duration of severe radiation-induced mucositis in a preclinical animal model. The compound was effective both when given topically as an oral rinse, or injected into the abdominal cavity. Radiation-Induced Lung Toxicity. The ability of radiation therapy to treat tumors involving the chest such as lung or breast cancer is significantly limited by injury to the lung caused by radiation. Lung damage leading to impaired lung

function is one of the dose limiting toxicities of chest radiation treatment, restricting the ability to deliver optimal doses of radiation to patients with lung cancer. Currently, radiation related pulmonary symptoms occur in up to 30% of patients irradiated for lung 26 cancer, breast cancer, lymphoma or thymoma. In laboratory experiments, our catalytic antioxidant AEOL 10113 significantly protected the normal lung tissue of rats against damage caused by radiation.

Antitumor Effect of Catalytic Antioxidant. A drug to protect normal cells will not be useful if it also protects tumor cells. In a model in which breast cancer cells were transplanted into rats, AEOL 10113 did not protect the tumor cells from radiation. Instead, the antitumor effect of radiation was enhanced by administration of the compound. Both AEOL 10113 and the related compound AEOL 10150 have shown some degree of antitumor activity in the absence

of radiation therapy in rat models of breast and skin cancers.

Commercialization

Because of the large numbers of patients suffering from stroke and cancer, effectively marketing a pharmaceutical for treatment of these indications requires the resources of a large sales organization. We intend to seek development, marketing or licensing arrangements for the stroke and adjunctive cancer therapy uses of our antioxidant compounds with pharmaceutical companies with an established marketing presence in the target

indications. In the area of our catalytic antioxidants use in cell therapy, we may choose to commercialize a potential product internally. If our liver progenitor cell therapy program is successful in establishing a marketing effort to transplant centers, a catalytic antioxidant for use in cell therapy might make a complementary product. To successfully commercialize our catalytic antioxidant programs, we must seek academic or corporate partners with expertise in areas outside our own or

develop this expertise internally. We might not be able to develop this technology, either internally or through collaboration.

OP2000

Our program for inflammatory bowel disease, or IBD, centers on OP2000, a polysaccharide, or carbohydrate, product derived from heparin. Heparin is a naturally occurring substance with anti-clotting and anti-inflammatory properties. Heparin, as a pharmaceutical product (including the starting material for OP2000), is derived and purified

from domestic mammals, primarily pigs. In July 1998 we obtained an exclusive 15-year license to develop OP2000 from its manufacturer, Opocrin S.p.A. of Modena, Italy. Clinical evidence of the successful treatment of IBD with heparin and the known anti-clotting effects of OP2000 provide the rationale for evaluating OP2000 in treating IBD. We have completed two Phase 1 clinical trials in normal volunteers to determine blood levels and anti-clotting

effects following once daily injections of OP2000. In January 2001, we initiated a pivotal Phase 2/3 clinical trial in patients with ulcerative colitis. In January 2001, we also closed on a collaborative transaction for the joint development of OP2000 with Elan. As part of the transaction, we transferred the rights to our license for OP2000 to Incara Development. For information on the three sequential phases of clinical trials, see "Government Regulation" below. Inflammatory

Bowel Disease Inflammatory bowel disease describes a group of chronic inflammatory disorders of the intestine of unknown cause, often causing recurrent abdominal pain, cramps, diarrhea with or without bleeding, fever and fatigue. According to the Crohn's & Colitis Foundation of America, Inc., approximately 1,000,000 people in the United States have IBD. Two forms of IBD are Crohn's disease and ulcerative colitis. Crohn's disease typically affects the

full thickness of the intestinal wall, most commonly in the lowest portion of the small intestine, but may involve any portion of the gastrointestinal tract. Ulcerative colitis results in the large intestine becoming inflamed with open sores and bleeding. Current treatments of IBD, such as steroids and other anti-inflammatory drugs, are designed to reduce inflammation and relieve symptoms. However patients frequently develop flare-ups of disease in spite of therapy, and side effects,

particularly of steroids, can be severe. In serious cases, surgery is required. Ulcerative colitis can be so debilitating that up to 20% of patients opt for removal of their colon as a cure. Heparins and IBD A large number of case reports and a recent double blind placebo-controlled clinical trial of heparin in ulcerative colitis support the idea that heparin can safely induce remission in IBD patients. A review (Korzenik, IBD 1997) of the clinical use of heparin in IBD (primarily

ulcerative colitis) found benefit in 51 out of 60 reported cases, with increased bleeding in only three cases. In a recent U.S. double blind placebo-controlled trial of heparin in 68 patients with active ulcerative colitis receiving treatment with standard therapies, 42% of patients who were given additional heparin therapy had clinical remission or improvement, compared with 20% on placebo. Clinical observations suggest that IBD may result from increased clotting activity. Investigators

have observed evidence of increased clotting in the bowel and other organs during flares of IBD. Clotting is activated and the breakdown of clots is reduced during flares. Patients with inherited clotting deficiencies, such as von Willebrand's disease and hemophilia, have a 27 much lower incidence of IBD than expected. The clinical results and other supporting studies discussed above provide a rationale for the use of an ultra-low molecular weight

heparin such as OP2000 in the treatment of flares of IBD. OP2000 is a product of the chemical cleavage of heparin, and has the comparatively low molecular weight of 2,500 daltons, compared with full-length heparin's molecular weight of about 14,000 daltons and other low molecular weight heparin's molecular weight of 4,000 to 6,000 daltons. Lower molecular weight, or smaller molecules of heparin, might prove to have advantages over heparin

itself, including better safety, efficacy and convenience. OP2000 has been shown to be a potent anti-clotting agent. Like low molecular weight heparins, and unlike heparin, routine monitoring of clotting factors during treatment should not be necessary, providing an advantage over heparin. OP2000 has a longer lifetime in the body than heparin or low molecular weight heparins and initial results indicate that OP2000 can be

given in once-daily injections under the skin. A key objective of Incara is to have OP2000 be the first heparin-related product to obtain regulatory approval to treat ulcerative colitis in the United States. We might not achieve this objective. The composition of OP2000 is covered by claims of patents issued to Opocrin in the United States and Europe. Incara Development has rights to a license for OP2000 from Opocrin for all uses worldwide, except in Japan and Korea. Clinical Development

Program
We
completed
two Phase
1 clinical
trials for
OP2000
with no
significant
unexpected
side
effects.
The most
recent was
completed
in April
2000.
These trials
looked at
single and
multiple
dose
administrations
of the drug,
and
preliminary
results
indicate
that, should
it be
successfully
commercialized,
we will be
able to give
OP2000 on
a
once-a-day
basis.
OP2000
has been
studied for
another
indication
in over 150
healthy
subjects
and
patients in
Europe
with no

significant unexpected side effects. In January 2001, Incara Development began a Phase 2/3 pivotal clinical study of OP2000 in patients with ulcerative colitis, a form of inflammatory bowel disease. The study will examine the effects of OP2000 in patients receiving standard treatment with aminosalicylates who have developed symptoms of active ulcerative colitis. The study is designed to enroll approximately 270 patients. Patients will be treated with aminosalicylates

plus OP2000 or placebo once a day for six weeks. This initial study will utilize prefilled syringes to deliver OP2000 by subcutaneous injection. The objective of treatment will be to cause complete remission or significantly improve the signs and symptoms of ulcerative colitis. If the results of the Phase 2/3 trial are positive, Incara Development plans to conduct a confirmatory Phase 3 safety and efficacy trial in ulcerative colitis. In addition, Incara

Development would plan to conduct two or three small studies to assess the effect of disease states on OP2000 blood levels and anticlotting effects. A pilot study in Crohn's disease would also be considered. Our clinical scientists will manage the trials, including all data collection and analysis activities.

Commercialization

If efficacy is demonstrated in clinical trials, Incara Development will determine the appropriate marketing arrangement for OP2000. Elan has a

first option to negotiate an agreement for commercialization of OP2000. If Incara Development and Elan are not able to reach a mutually acceptable commercialization agreement, Incara Development will be free to negotiate with third parties for commercialization of OP2000 on terms no more favorable to those offered Elan.

Collaborative and Licensing Arrangements

Incara Development, Ltd. In January 2001, we closed on a collaborative and financing transaction with Elan. As part of the transaction,

Incara and Elan formed Incara Development to develop OP2000. Incara owns 80.1% of the outstanding shares of Incara Development and Elan owns 19.9%. As part of the transaction, Elan and we entered into license agreements under which we licensed to Incara Development the OP2000 compound and Elan licensed to Incara Development drug delivery technology. Also as part of the transaction, Elan purchased shares of our common stock, shares of our Series

B non-voting convertible preferred stock and a warrant for Series B preferred stock. Elan also purchased shares of our Series C convertible exchangeable non-voting preferred stock. The Series C preferred stock is exchangeable at the option of Elan at any time for the preferred stock of Incara Development held by us which, if exchanged, would give Elan ownership of 50% of the initial amount of stock of Incara Development. After December 20, 2002, the Series C preferred stock is convertible

by Elan into shares of our Series B preferred stock. If the Series C preferred stock is outstanding as of December 21, 2006, we will exchange the Series C preferred stock and accrued dividends, at our option, for either cash or shares of our stock and warrants having a then fair market value of the amount due. The proceeds from the issuance of the Series C preferred stock were contributed by us to Incara Development. 28 Elan and we intend to fund Incara Development pro rata, based on

our respective percentage ownership of the stock of Incara Development. Subject to mutual agreement, Elan will lend us up to $4,806,000 to fund our pro rata share of development funding for Incara Development. In return, we issued a convertible promissory note that bears interest at 10% compounded semi-annually on the amount outstanding thereunder. For additional details on the Elan transaction see "Management's Discussion and Analysis of Financial Condition and Results of Operations--Overview."

Opocrin License In July 1998, we signed a 15-year agreement with Opocrin to obtain the exclusive rights to OP2000 on a worldwide basis, except for Japan and Korea. We transferred the license rights to Incara Development in January 2001. We paid $1,000,000 to Opocrin as a license fee upon execution of the agreement. Additional compensation will be payable to Opocrin by us or Incara Development upon initiation of specified clinical trials, upon filing for specified regulatory approval,

upon obtaining specified regulatory approval, and upon achieving specified aggregate annual sales. Incara Development also is to pay Opocrin royalties on net sales and is responsible for the costs of conducting clinical trials for OP2000. Incara and Opocrin have agreed to diligently pursue the negotiation and execution of a manufacturing supply agreement, under which Opocrin would manufacture OP2000 for commercial purposes. We might not reach

an agreement with Opocrin for the manufacture of OP2000.

University of North Carolina License

Through our subsidiary, Incara Cell Technologies, we have a sponsored research agreement which covers research at the University of North Carolina by scientists in the area of hepatic stem cells. This agreement grants us the first option to obtain an exclusive license to inventions resulting from the research during the term of the research agreement, or during the

one-year period following termination of the agreement. We have obtained an exclusive worldwide license from UNC to make, use and sell products using proprietary information and technology developed under this sponsored research agreement. The UNC license includes rights to five U.S. patent applications filed during 1999, 2000 and 2001, including patent applications for isolating and purifying human liver progenitor cells. We are pursuing international

patent protection, as we deem appropriate. We will make milestone payments to UNC upon the occurrence of development milestones and pay royalties on net sales. We are also obligated to pay patent filing, prosecution, maintenance and defense costs. The UNC license is terminable in the event of breach and expires when the last licensed patent expires.

Albert Einstein College of Medicine

Through Incara Cell Technologies, we have obtained exclusive worldwide

rights from Albert Einstein College of Medicine for patents resulting from research conducted on liver stem and precursor cells by Dr. Reid and other scientists, while Dr. Reid was at Einstein. The U.S. component of this patent portfolio includes five issued patents, and three pending patent applications. We also have six pending patent applications internationally . We must pay royalties to Einstein on net product sales during the term of the licenses and must pay minimum

royalties beginning in 2004. We also must pay patent prosecution, maintenance and defense costs. The Einstein licenses are terminable in the event of breach, and otherwise expire when the last licensed patent expires.

Duke Licenses

Through our subsidiary, Aeolus, we have obtained exclusive worldwide rights from Duke University to products using antioxidant technology and compounds developed by Dr. Irwin Fridovich and other scientists at Duke.

These scientists provide research support and advice in the field of free radical and antioxidant research. Further discoveries in the field of antioxidant research from these scientists' laboratories at Duke also are covered by the licenses from Duke. We must pay royalties to Duke on net product sales during the term of the Duke licenses, and must make payments upon the occurrence of development milestones. In addition, we are obligated under the Duke license to pay patent

prosecution, maintenance and defense costs. The Duke licenses are terminable in the event of breach and otherwise expire when the last licensed patent expires. National Jewish License In September 1997, we executed a Sponsored Research Agreement with National Jewish Medical and Research Center. The National Jewish Agreement grants Aeolus an option to negotiate a royalty-bearing exclusive license for technology, patents and inventions resulting from

research at National Jewish within the field of antioxidant compounds and related discoveries. We have agreed to support National Jewish's costs incurred in performance of the research. In November 2000, we obtained an exclusive worldwide license from National Jewish to develop, make, use and sell products using proprietary information and technology developed under this sponsored research agreement. We will make milestone payments to National Jewish upon the occurrence

of development milestones and pay royalties on net sales. We are also obligated to pay patent filing, prosecution, maintenance and defense costs. The National Jewish license is terminable in the event of breach and otherwise expires when the last licensed patent expires. 29 Manufacturing Our strategy is to contract with third parties for manufacturing capabilities. The bulk drug substance for OP2000 is being provided for drug development activities by the

licensor, Opocrin, on a cost-plus basis. Incara and Opocrin have agreed to diligently pursue the negotiations and execution of a manufacturing supply agreement, under which Opocrin would manufacture OP2000 for commercial purposes. The formulated drug product is being manufactured for clinical trials in prefilled syringes by a contract manufacturer. The commercial supplier for the final drug product will be selected by Incara Development and Elan

based on the final delivery system chosen for OP2000. We have selected the Center for Cell and Gene Therapy at Baylor College of Medicine, Houston, Texas, for our liver cell program as the cGMP facility to manufacture clinical trial material. Our scientists are currently working with Baylor on our process for the isolation and enrichment of liver progenitor cells. Once the process has been successfully performed and validated at Baylor, Incara will attempt to

contract with Baylor to manufacture the clinical trial material for Phase 1/2 clinical trials. The source of livers for this process has historically been, and will continue to be, livers that are not suitable for transplantation (for reasons other than serology) from traditional organ transplant donor programs. Incara has successfully established a working relationship with a number of organ procurement organizations and expects to expand and maintain these relationships. Pharm-Eco Laboratories

is developing the chemical process for the commercial manufacture of the catalytic antioxidants. Pharm-Eco currently has the capability to manufacture clinical grade material in accordance with cGMPs for clinical as well as commercial purposes; however, we have not selected the manufacturer for the final clinical material, which will depend, in part, on the dosage form and the indication.

Marketing

We intend to establish our own marketing capabilities for the

liver progenitor cell therapy program in the United States if we are successful in treating patients in clinical trials. We believe a targeted marketing effort directed toward the 120 liver transplant centers in the country is an appropriate strategy for Incara in this area. Establishing our own marketing capabilities will require substantial funds and we might not successfully establish our own marketing capabilities on a cost-effective basis or at all. Outside the United States we plan to collaborate with an

established pharmaceutical or biotechnology company for the liver progenitor cell therapy program. We are seeking to collaborate with one of the companies currently developing a liver assist device for the development of such a device that utilizes our human liver progenitor cells. Several of our potential catalytic antioxidant products are being developed for large therapeutic markets, such as stroke and cancer therapy adjunct. We believe these markets are best

approached by partnering with established biotechnology or pharmaceutical companies that have broad sales and marketing capabilities. We are pursuing collaborations of this type. The rights to market OP2000 are licensed to Incara Development. At the time that Incara Development determines it intends to commercialize OP2000, Elan will have a first option to negotiate an agreement for commercialization of OP2000. If Incara Development and Elan are not able to reach a mutually acceptable

commercialization agreement, Incara Development will be free to negotiate with third parties for commercialization of OP2000 on terms no more favorable to those offered Elan. We might not be able to enter into any marketing arrangements for any of our products on satisfactory terms.

Competition

General Competition in the pharmaceutical industry is intense and we expect it to increase. Technological developments in our fields of research and development occur at a rapid rate and we expect

competition to intensify as advances in these fields are made. We will be required to continue to devote substantial resources and efforts to research and development activities. Our most significant competitors, among others, are fully integrated pharmaceutical companies and more established biotechnology companies, which have substantially greater financial, technical, sales and marketing, and human resources than us. These companies might succeed in obtaining regulatory approval for competitive products

more rapidly than we can for our products. In addition, competitors might develop technologies and products that are cheaper, safer or more effective than those being developed by us or that would render our technology obsolete. 30 We expect that important competitive factors in our potential product markets will be the relative speed with which we and other companies can develop products, complete the clinical testing and approval processes, and supply commercial

quantities of competitive product(s) to the market. With respect to clinical testing, competition might result in a scarcity of clinical investigators and patients available to test our potential products, which could delay development. As described below, we are aware of products in research or development by our competitors that address the diseases being targeted by us. In addition to the competitors and products discussed below, there might be other

competitors of whom we are unaware with products which might be more effective or have fewer side effects than our products and those of our known competitors.

Inflammatory Bowel Disease

The two major forms of inflammatory bowel disease, ulcerative colitis and Crohn's disease, are treated by antidiarrheals, steroids, other anti-inflammatory drugs and immunosuppressants. Crohn's disease also is being treated by off-label use of metronidazole, an antibiotic that acts as an anti-

inflammatory through an unknown mechanism. Some of the drugs used to treat these diseases are available in generic form and are being marketed at a price that could be less than the price of OP2000, if it were successfully developed and approved. Low molecular weight heparins are approved for non-IBD indications and marketed by others, who might try to develop their low molecular weight heparins for IBD. We believe there are planned or ongoing trails of

low molecular weight heparins for the treatment of IBD in Europe. Remicade(R) was approved by the FDA in 1998 for use in treating moderately to severely active Crohn's disease. Remicade is an antibody to TNF alpha indicated for the reduction of the signs and symptoms of Crohn's disease in patients who have an inadequate response to conventional therapy. The drug is being marketed in the United States by Centocor, Inc. Its cost and the concern

over possible allergic reaction to the protein, however, have limited its use in this indication. We are aware of other drugs that inhibit TNF alpha that are being studied preclinically or in patients in IBD, which may have a better side effect profile.

Hepatic Diseases

We are aware of competitive efforts in academic, research and commercial institutions using human hepatic cells in treatment of liver disease. Tissue Transformation Technologies, Inc. and Diacrin, Inc. are

conducting Phase 1 clinical trials for treatment of cirrhosis using human liver cell transplants. In addition, other companies and academic laboratories are investigating the use of pig livers in transplantation as a substitute for human liver and the use of hepatocytes prepared from pig livers as a form of cell therapy. Several other companies have conducted research and development on a bioartificial liver device to treat acute liver failure that could be competitive

with our technology under development. In particular, Circe Biomedical, Inc. has conducted clinical trials with a bioartificial liver that uses pig liver cells and VitaGen Incorporated is conducting a clinical trial with a bioartificial livers that utilizes human liver cells derived from tumors. At least one company is pursuing the growth of mini-organs, including livers. StemCells, Inc., formerly Cytotherapeutics, Inc., and other companies and academic institutions

are conducting research in the area of liver and other organ stem and progenitor cells. Stem cell research in general is being conducted by a number of companies, including Geron Corporation, which has announced that it has isolated embryonic stem cells. In theory, embryonic stem cells could have the capacity to differentiate into all human systems, including the liver.

Antioxidants

Several companies have explored the therapeutic potential of antioxidant compounds in numerous

indications. Historically, most of these companies have focused on engineered versions of naturally occurring antioxidant enzymes, but with limited success, perhaps because the large size of these molecules makes delivery into the cells difficult. Antioxidant drug research continues at a rapid pace despite previous clinical setbacks. In October 1998, Metaphore Pharmaceuticals Inc. reported results from preclinical studies of a small molecule that performs

the same chemical reactions as the antioxidant enzyme superoxide dismutase, or SOD. Metaphore reported that this compound substantially reduced tissue damage due to inflammation and reperfusion in animal models. Eukarion, Inc. is also developing similar compounds, which are in preclinical development for conditions associated with damage caused by free radicals. AstraZeneca is developing a nitrone compound with free radical trapping properties for stroke.

The compound, licensed from Centaur Pharmaceuticals, Inc., is currently in Phase 2 development.

Patents and Proprietary Rights We currently license rights to all of our potential products from third parties. We generally seek patent protection in the United States and other jurisdictions for the potential products and proprietary technology licensed from these third parties. The process for preparing and prosecuting patents is lengthy, uncertain and costly. Patents might not

issue on any of the pending patent applications owned or licensed by us from third parties. Even if patents issue, the claims allowed might not be sufficiently broad to protect our technology or provide us protection against competitive products or otherwise be commercially valuable. 31 Patents issued to or licensed by us could be challenged, invalidated, infringed, circumvented or held unenforceable. Even if we successfully defend our patents for our products, the costs of defense can be

significant. Incara Development has rights to an exclusive license from Opocrin, in all countries other than Japan and Korea, for an issued patent to develop and commercialize OP2000. Incara Development also has rights to a non-exclusive license from Opocrin to practice related patents, to the extent required for our activities related to OP2000. We are aware of a recently issued patent claiming the use of fractions of heparin for the treatment of inflammatory

bowel disease. We do not believe the development of OP2000 will require the licensing of this patent. If OP2000 were to be determined to fall within the scope of this patent and if the patent's claims were found to be valid, Incara Development would have to license this patent in order to commercialize OP2000. Incara Development might not be able to license this patent at a reasonable cost which would result in Incara Development not being able to market OP2000. Uncertainty regarding the scope

or validity of this patent might deter Elan from continuing development of OP2000 or deter other companies from collaborating with Incara Development for the development and commercialization of OP2000. In the liver progenitor cell program, we have an exclusive license for five issued U.S. patents and three pending patent applications from Albert Einstein College of Medicine. Claims included in these issued patents include an isolated hepatocyte precursor capable of differentiating

into a hepatocyte and a population of genetically engineered hepatocyte precursor cells. We also have six related pending patent applications internationally. Our UNC sponsored research agreement allows us to obtain an exclusive worldwide license to make, use and sell products using proprietary information and technology developed under the UNC sponsored research agreement. Rights to five U.S. patent applications filed during 1999, 2000 and 2001 are currently

included in the UNC license, along with international applications as we deem appropriate. Pending claims on the UNC patents include those directed to human liver progenitor cell composition and process for their isolation, expansion and cryopreservation and the use of non-beating-heart donors as a source for progenitor cells. Our catalytic antioxidant small molecule technology base is described in four issued U.S. patents and six patent applications that are pending. These patents and patent

applications belong in whole or in part to Duke or National Jewish and are licensed to us. These patents and patent applications cover soluble manganic porphyrins as antioxidant molecules as well as targeted compounds obtained by coupling such antioxidant compounds to molecules that bind to specific extracellular elements. The pending U.S. applications include composition of matter claims for several series of compounds. Corresponding international patent applications

have been filed as we deem appropriate, two of which have issued. In addition to patent protection, we rely upon trade secrets, proprietary know-how and technological advances that we seek to protect in part through confidentiality agreements with our collaborative partners, employees and consultants. Our employees and consultants are required to enter into agreements providing for confidentiality and the assignment of rights to inventions made by them while in our service.

We also enter into non-disclosure agreements to protect our confidential information furnished to third parties for research and other purposes. These types of agreements can be difficult to enforce and for some types of breach there is no satisfactory remedy for unauthorized disclosures. It is possible that our trade secrets and proprietary know-how will become known or will be independently discovered by others despite our efforts. Our commercial success will also depend in part on our ability to

commercialize products without infringing patents or other proprietary rights of others or breaching the licenses granted to us. If we are not able to obtain a license to any third-party technology needed for our business at a reasonable cost, we might have to stop developing the product. As with any pharmaceutical company, our patent and other proprietary rights are uncertain. The patent rights related to our products might conflict with current or future proprietary rights of

others. For the same reasons the products of others could infringe our patent or proprietary rights. Litigation or patent interference proceedings, either of which could result in substantial cost, might be necessary to enforce any patents or other proprietary rights issued to us or to determine the scope and validity or enforceability of other parties' proprietary rights. The defense and prosecution of patent and intellectual property claims are both costly and time consuming,

even if the outcome is favorable to us. Any adverse outcome could make us pay damages to third parties, require disputed rights to be licensed from third parties, or require us to cease selling our products.

Government Regulation

Our research and development activities and the manufacturing and marketing of our future products are subject to regulation by numerous governmental agencies in the United States and in other countries. The FDA and comparable agencies in

other countries impose mandatory procedures and standards for the conduct of clinical trials and the production and marketing of products for diagnostic and human therapeutic use. Before obtaining regulatory approvals for the commercial sale of any of our products under development, we must demonstrate through preclinical studies and clinical trials that the product is safe and efficacious for use in each target indication. The results from preclinical studies and early clinical

trials might not be predictive of results that will be obtained in large-scale testing. Our clinical trials may not successfully demonstrate the safety and efficacy of any products or result in marketable products. 32 The steps required by the FDA before new drug or cell therapy products may be marketed in the United States include: . preclinical studies; . the submission to the FDA of a request for authorization to conduct clinical trials on an investigational new drug or cell

therapy, which must become effective before human clinical trials may commence; . adequate and well-controlled Phase 1, 2 and 3 human clinical trials to establish the safety and efficacy of the drug or cell therapy for its intended use; . submission to the FDA of a New Drug Application, or NDA, for a drug, or submission to the FDA of a Biological License Application, or BLA, in the case of a cell therapy; and . review and approval of the NDA or BLA by the FDA

before the product may be shipped or sold commercially. In addition to obtaining FDA approval for each product, each manufacturing and cell processing establishment must be registered with the FDA and undergo an inspection prior to the approval of an NDA or BLA. Each manufacturing facility, and its quality control and manufacturing procedures must also conform and adhere at all times to the FDA's cGMP regulations. In addition to preapproval inspections, the FDA and other government

agencies regularly inspect manufacturing facilities for compliance with these requirements. Manufacturers must expend time, money and effort in the area of production and quality control to ensure full technical compliance with these standards. Preclinical testing includes laboratory evaluation and characterization of the safety and efficacy of a drug or cell therapy and its formulation. Preclinical testing results are submitted to the FDA as a part of an Investigational New Drug Application, or IND, which must

become effective prior to commencement of human clinical trials. Clinical trials are typically conducted in three sequential phases following submission of an IND. Phase 1 represents the initial administration of the drug or cell therapy to a small group of humans, either patients or healthy volunteers, typically to test for safety (adverse effects), dosage tolerance, absorption, distribution, metabolism, excretion and clinical pharmacology, and, if possible, to gain early evidence of effectiveness. Phase 2

involves studies in a small sample of the actual intended patient population to assess the efficacy of the drug or cell therapy for a specific indication, to determine dose tolerance and the optimal dose range and to gather additional information relating to safety and potential adverse effects. Once an investigational drug or cell therapy is found to have some efficacy and an acceptable safety profile in the targeted patient population, Phase 3 studies are initiated to further establish

clinical safety and efficacy of the therapy in a broader sample of the general patient population, in order to determine the overall risk-benefit ratio of the drug or cell therapy and to provide an adequate basis for any physician labeling. During all clinical studies, we must take care to adhere to good clinical practice, or GCP, standards. The results of the research and product development, manufacturing, preclinical studies, clinical studies and related information are submitted

in an NDA or BLA to the FDA. The process of completing clinical testing and obtaining FDA approval for a new drug or cell therapy product is likely to take a number of years and require the expenditure of substantial resources. If an application is submitted, there can be no assurance that the FDA will review and approve the NDA or BLA. Even after initial FDA approval has been obtained, further studies, including post-market studies, may be required to

provide additional data on safety and will be required to gain approval for the use of a product as a treatment for clinical indications other than those for which the product was initially tested. Also, the FDA will require post-market reporting and may require surveillance programs to monitor the side effects of the drug or cell therapy. Results of post-marketing programs may limit or expand the further marketing of the products. Further, if there are any modifications

to the drug or cell therapy, including changes in indication, manufacturing process, labeling or a change in manufacturing facility, an NDA or BLA supplement may be required to be submitted to the FDA. The rate of completion of our clinical trials will be dependent upon, among other factors, the rate of patient enrollment. Patient enrollment is a function of many factors, including the size of the patient population, the nature of the trial, the availability of

alternative therapies and drugs, the proximity of patients to clinical sites and the eligibility criteria for the study. Delays in planned patient enrollment may result in increased costs and delays, which could have a material adverse effect on us. Failure to comply with applicable FDA requirements may result in a number of consequences that could materially and adversely affect us. Failure to adhere to approved trial standards and GCPs in conducting clinical

trials could cause the FDA to place a clinical hold on one or more studies which would delay research and data collection necessary for product approval. Noncompliance with GCPs could also have a negative impact on FDA's evaluation of an NDA or BLA. Failure to adhere to GMPs and other applicable requirements could result in FDA enforcement action and in civil and criminal sanctions, including but not limited to fines, seizure of product, refusal of the FDA to

approve product approval applications, withdrawal of approved applications, and prosecution. 33 Whether or not FDA approval has been obtained, approval of a product by regulatory authorities in foreign countries must be obtained prior to the commencement of marketing of the product in such countries. The requirements governing the conduct of clinical trials and product approvals vary widely from country to country, and the time required for approval

may be longer or shorter than that required for FDA approval. Although there are some procedures for unified filings for certain European countries, in general, each country at this time has its own procedures and requirements. There can be no assurance that any foreign approvals will be obtained. In addition to the regulatory framework for product approvals, we and our collaborative partners must comply with laws and regulations regarding occupational safety, laboratory

practices, the use, handling and disposition of radioactive materials, environmental protection and hazardous substance control, and other local, state, federal and foreign regulation. The impact of such regulation upon us cannot be predicted and could be material and adverse.

Employees

We had 22 employees as of May 31, 2001. None of our employees is represented by a labor union. We consider our employee relations to be good.

We are highly dependent on the

principal members of our management and scientific staff. The loss of certain key employees could have a material adverse effect on us. In addition, we believe that our future success will depend in large part upon our ability to attract and retain highly skilled scientific and managerial personnel. We face intense competition for such personnel from other companies, research and academic institutions, government entities and other organizations. We might not be

successful in hiring or retaining the personnel we require.

Properties

Incara currently leases 15,915 square feet of office and laboratory space in Research Triangle Park, North Carolina, which is leased through April 2006. The laboratory space is currently under construction and is expected to be completed in July 2001. We believe that these leased facilities are adequate to meet our current and future needs.

Legal Proceedings

We are not a party to

any material legal proceedings.

Discontinued Programs

Our historical cash expenditures prior to December 31, 1999 were significantly higher than our current cash spending rate. This lower level of expenditures has resulted from the discontinuation of the IRL and BEXTRA programs.

IRL On December 29, 1999, we completed the sale of Incara Research Laboratories, or IRL, our anti-infectives drug discovery division, to a private pharmaceutical company, for a cash payment of

$11,000,000. The transaction involved the sale of assets associated with Incara's anti-infective division, including rights under the collaboration agreement with Merck, and the assumption of related liabilities by the purchaser. Expenses for IRL were $1,339,000 and $8,245,000 for the fiscal years ended September 30, 2000 and 1999, respectively. As a result of the sale of IRL, we remain contingently liable through May 2007 on debt and lease obligations assumed by the

purchaser, including the IRL facility lease in Cranbury, New Jersey. This contingent liability was approximately $7,100,000 in May 2001 and should decline on an approximately straight-line basis to zero in May 2007.

BEXTRA

Until July 1999, our most advanced product was BEXTRA (bucindolol HCl), a beta-blocker that was being evaluated in a Phase 3 clinical trial conducted by the National Institutes of Health and the United States Department

of Veterans Affairs for use in treating congestive heart failure patients. The study was terminated in July 1999 prior to its scheduled termination date based on an interim analysis by the Data and Safety Monitoring Board that showed that treatment with bucindolol did not demonstrate a statistically significant improvement in survival in the patient population as a whole. Based on this result, we agreed to end our collaboration with BASF Pharma/Knoll AG for BEXTRA for

countries outside the United States and Japan, and we terminated the European trial of BEXTRA. The compound was being developed with Interneuron Pharmaceuticals, Inc. through a jointly owned company named CPEC LLC. BEXTRA related expenses were $6,469,000 for fiscal 1999. 34 MANAGEMENT Directors and Executive Officers Our executive officers and directors and their ages as of May 31, 2001 are as follows: Age Position ---

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Clayton I. Duncan 52 Director, President and Chief Executive Officer

David B. Sharrock 65 Director

Edgar H. Schollmaier 67 Director

Stephen M. Prescott, M.D. 53 Director

Eugene J. McDonald 68 Director

David P. Ward, M.D. 55 Executive Vice President, Research and Development

Richard W. Reichow 50 Executive Vice President and Chief Financial Officer

John P. Richert 50 Vice President, Market Development

W. Bennett Love 46 Vice President, Corporate

Planning/Communications
Clayton I. Duncan has been President, Chief Executive Officer and a director of Incara since January 1995. From 1989 until December 1993, Mr. Duncan was President and Chief Executive Officer of Sphinx Pharmaceuticals Corporation, a biopharmaceutical company which was acquired by Eli Lilly and Company in September 1994. From December 1993 until September 1994, he served as an independent consultant to Sphinx with regard to the sale of Sphinx to Lilly. From 1987

to 1989, Mr. Duncan was a General Partner of Intersouth Partners, a venture capital firm. From 1979 to 1987, he was an executive with Carolina Securities Corporation, a regional investment banking firm, serving as Executive Vice President and a director from 1984 to 1987. Mr. Duncan was founder and Chairman of the Board of CRX Medical, Inc., a medical products company that conducted research and development

in wound management, ophthalmic disorders and interventional radiology. Mr. Duncan is also a director of Aeolus Pharmaceuticals, Inc., Incara Development, Ltd., CPEC LLC, and Incara Cell Technologies, Inc., all of which are subsidiaries of Incara. Mr. Duncan received an M.B.A. from the University of North Carolina at Chapel Hill. In addition, Mr. Duncan is a director of The Forest at Duke, a continuing care retirement community, and Chairman of the Board of Directors of the

Carolina Ballet, a professional ballet company. David B. Sharrock has been a director of Incara since October 1995. Mr. Sharrock was associated with Marion Merrell Dow, Inc., a multi-national pharmaceutical company, and its predecessor companies for over 35 years until his retirement in December 1993. Most recently, since December 1989, he served as Executive Vice President, Chief Operating Officer and a director, and in 1988, he was named President

and Chief Operating Officer of Merrell Dow Pharmaceuticals Inc. Mr. Sharrock is also a director of four public companies, Interneuron Pharmaceuticals, Inc., Broadwing Inc., Praecis Pharmaceuticals, Incorporated and MGI Pharma, Inc. Edgar H. Schollmaier has been a director of Incara since May 1998. Mr. Schollmaier is Chairman of Alcon Laboratories, Inc., a wholly owned subsidiary of Nestle SA. He served as President of Alcon from 1972 to 1997 and was Chief Executive Officer for

the last 20 years of that term. He is a graduate of the University of Cincinnati and the Harvard Graduate School of Business Administration. Mr. Schollmaier is a director of two public companies, DENTSPLY International, Inc., a dental products company, and Stevens International Inc., a printing and packaging company. In addition, he is a Regent of Texas Christian University and a director of the University of Cincinnati Foundation, the Cook Children's

Hospital, Research to Prevent Blindness and the Foundation of the American Academy of Ophthalmology. Stephen M. Prescott, M.D. has been a director of Incara since April 2000. Dr. Prescott is the Executive Director of the Huntsman Cancer Institute at the University of Utah in Salt Lake City. Dr. Prescott received his M.D. degree from Baylor College of Medicine in 1973 and then completed training in Internal Medicine at the University of Utah. Dr.

Prescott subsequently undertook advanced research training in biochemistry and molecular biology at Washington University School of Medicine. He joined the faculty at the University of Utah in 1982, and is currently a Professor of Internal Medicine at the University of Utah and holds the H.A. & Edna Benning Presidential Endowed Chair in Human Molecular Biology and Genetics. From 1998 until 1999, Dr. Prescott was Director of the Program in Human Molecular Biology &

Genetics in the Eccles Institute at the University of Utah. Eugene J. McDonald was elected to the Board in March 2001. Mr. McDonald is Executive Vice President, Office of Investment Counsel at Duke University and has served at Duke University for more than two decades. Mr. McDonald founded and was the first president and CEO of Duke Management Company, the investment management affiliate of Duke University. He was Duke's Chief Financial/Administrative

Officer from 1984 to 1990, and, prior to this, served as Vice President and University Counsel. He began his career as professor of law at Georgetown Law School, and as an attorney in the corporate/business practice of Brobeck, Phleger and Harrison in San Francisco. Mr. McDonald is the lead director of the Deutsche Bank/Alex Brown Fund Family, and also serves on the boards of directors of two public companies, Red Hat, Inc. and 35 National

Commerce Bancorporation. He has also served on a number of advisory boards, including those of the New York Stock Exchange's PMAC Committee and T. Rowe Price Strategic Partners. Mr. McDonald received his undergraduate and law degrees from the University of San Francisco. David P. Ward, M.D. has been Executive Vice President, Research and Development of Incara since July 1998, and was Senior Vice President, Research & Development from March 1995 to

July 1998. Dr. Ward was Group Vice President, Medical, Regulatory Affairs and Clinical Operations of Quintiles Transnational Corporation, a contract research organization, from October 1994 to March 1995. Dr. Ward was Vice President of Clinical Development and Regulatory Affairs of Sphinx from January 1992 to September 1994. Prior to that time, Dr. Ward was employed by SmithKline Beecham, a multinational pharmaceutical company, for more than six years, serving as

a Vice President in various clinical areas. Dr. Ward received his M.D. degree from Case Western Reserve University Medical School. Richard W. Reichow has been Executive Vice President since July 1998, Secretary since October 1995, and Senior Vice President, Chief Financial Officer and Treasurer since March 1995. Mr. Reichow was employed by Sphinx as President and Chief Executive Officer from December 1993 to September

1994, as Vice President, Finance & Administration from August 1991 to September 1994, and as Chief Financial Officer and Treasurer from March 1990 to September 1994. Between September 1994 and March 1995, he was an independent financial consultant. Mr. Reichow was Vice President, Chief Financial Officer and Treasurer of CRX Medical from 1987 to 1990. Mr. Reichow is a Certified Public Accountant.

John P. Richert has been employed by Incara

since 1995, and has been Vice President, Market Development since December 1996. Mr. Richert served as Director, Market Development with Sphinx from 1991 to 1994. Mr. Richert was employed by Schering-Plough Corporation, a major pharmaceutical manufacturer, from 1981 to 1990 where he held positions of increasing responsibility in marketing. Mr. Richert received an M.B.A. in Pharmaceutical Marketing from Fairleigh-Dickinson University. W. Bennett Love has been employed by Incara

since 1995, and has been Vice President, Corporate Planning/Communications since June 1997. From 1990 to 1994, Mr. Love was employed at Sphinx as Director, Corporate Planning/ Communications. From 1983 through 1989, he was an investment banker with a regional securities firm. Mr. Love received an M.B.A. from the University of North Carolina at Chapel Hill. 36 Executive Compensation Summary Compensation The following table sets forth all compensation earned for services rendered to it in all capacities

for the fiscal years ended September 30, 2000, 1999 and 1998, by Incara's Chief Executive Officer and by the four most highly compensated executive officers who earned at least $100,000 in the respective fiscal year (collectively, the "Named Officers").

Summary Compensation Table

		Annual Compensation		Long Term Compensation Awards	
Name and Principal Position	Year	Salary	Bonus	Stock Options (Shares)	Restricted Stock All Other

(Shares)
(2)
Compensation
(1)

Clayton I.
Duncan
2000
$322,500 $
30,000 ---
--- $2,823
President
and Chief
1999
$300,000 $
84,000 ---
188,375
$2,934
Executive
Officer
1998
$295,225 $
78,652
235,877 ---
$2,791
David P.
Ward,
M.D. 2000
$252,625 $
30,844 ---
--- $3,340
Executive
Vice
President,
1999
$235,000 $
51,994 ---
120,000
$3,993
Research &
Development
1998
$221,250 $
44,520

140,000 ---
$3,657
Richard W.
Reichow
2000
$252,625 $
31,844 ---
--- $2,762
Executive
Vice
President,
1999
$235,000 $
54,637 ---
120,000
$3,044
Chief
Financial
Officer,
1998
$212,250 $
46,825
140,000 ---
$2,811
Treasurer
and
Secretary
W. Bennett
Love 2000
$131,150 $
13,344 ---
--- $1,664
Vice
President,
Corporate
1999
$122,000 $
23,028 ---
44,000
$1,608
Planning/Communications
1998
$117,333 $
17,480
54,000 ---
$1,554
John P.
Richert
2000
$131,150 $

9,531 ---
--- $1,159
Vice
President,
1999
$122,000 $
22,341 ---
49,000
$1,200
Market
Development
1998
$119,083 $
18,262
59,000 ---
$1,126

_____

(1)
Consists of
Life and
Long-term
disability
insurance
premiums
and health
club fees
reimbursed
or paid on
behalf of
the Named
Officers.
(2) As of
September
23, 1999,
the Named
Officer
purchased
the number
of shares of
restricted
stock
indicated at
par value
($0.001 per
share) and
cancelled
stock
options to
purchase
an equal

number of shares of common stock. The shares of restricted stock vest over three years from the date of grant and vesting could be accelerated pursuant to a change of control or an involuntary termination of employment. As of September 30, 2000 a total of 66,884 shares had vested for Mr. Duncan, 40,494 shares for Dr. Ward, 40,494 shares for Mr. Reichow, 12,696 shares for Mr. Love and 14,570 shares for Mr. Richert. The value of the restricted stock received by

the Named Officer, based on the closing price of Incara's stock on September 23, 1999 ($0.625), was as follows: for Mr. Duncan $117,546; for Dr. Ward $74,880; for Mr. Reichow $74,880; for Mr. Love $27,456; and for Mr. Richert $30,625. Management Incentive Plan The Compensation Committee and the Board of Directors have approved a Management Incentive Plan, or MLP, for the executive officers of Incara. The MIP provides for cash payments to the

executive officers upon the achievement of certain corporate and individual objectives. The MIP is intended to be an annual compensation program. For the calendar year ended December 31, 2000, the corporate objectives related to financing and our three research and development programs. For the calendar years ended December 31, 1999 and 1998, the corporate objectives related primarily to the development and commercialization of bucindolol and the

identification and advancement of other potential products or programs. The corporate and individual objectives for calendar 2000 have been evaluated and measured, and cash payments were made to the Named Officers in January 2001. 37 Option Grants, Exercises and Holdings and Fiscal Year-End Option Values No stock option grants were made to any of the Named Officers during the fiscal year ended September 30, 2000. The following

table sets forth certain information concerning all stock options exercised during the fiscal year ended September 30, 2000 by the Name Officers, and the number and value of unexercised options held by the Named Officers as of September 30, 2000: Aggregated Option Exercises in Last Fiscal Year and Fiscal Year End Option Values Number of Value of Securities Underlying Unexercised Shares Unexercised Options In-the-Money Options Acquired Value at September

30, 2000 at
September
30, 2000
(2)

Name on
Exercise
Realized
(1)
Exercisable
Unexerciseable
Exercisable
Unexerciseable

Clayton I.
Duncan
100,000
$232,750
151,557 - $
420,267 $ -
David P.
Ward,
M.D. - -
116,500 - $
338,448 $ -
Richard W.
Reichow
40,000 $
93,100
75,800 - $
215,737 $ -
W. Bennett
Love - -
36,000 - $
85,500 $ -
John P.
Richert - -
36,000 - $
97,500 $ -

_____

(1) Market
value of
underlying

securities on the date of exercise, minus the exercise price. (2) Value based on the difference between the fair market value of the shares of common stock at September 30, 2000 ($3.375), as quoted on the Nasdaq Stock Market, and the exercise price of the options.

Employment Agreements

In December 2000, Incara entered into a three-year employment agreement with Mr. Duncan. The agreement provides for an annual base salary of $360,000 and annual

bonuses based on the achievememt of performance milestones to be mutually agreed upon by Mr. Duncan and the Board or its Compensation Committee. The agreement with Mr. Duncan also provides that during the term of the agreement and, unless Mr. Duncan terminates his employment for cause, for a period of one year thereafter, Mr. Duncan will not compete with Incara, directly or indirectly. In the event Mr. Duncan's employment

is terminated by the Board, Other than in a change in control and without just cause, Incara shall continue to pay, in a lump sum or for a period of one year, Mr. Duncan's base salary plus a percentage of his salary equal to the average annual bonus percentage earned for the two years prior to the date of termination. Incara has entered into employment agreements that expire in April 2002 with each of Dr. Ward and Mr. Reichow. The agreements provide for

base salaries and annual bonuses based upon the achievement of performance milestones to be mutually agreed upon by the officer and the Chief Executive Officer, the Board or the Compensation Committee. Each agreement also provides that during its term and, unless the employee terminates his employment for a period of nine months thereafter, the employee will not compete with Incara, directly. In the event that the employment of Dr.

Ward or Mr. reichow is terminated by the Board, other than in a change in control and without just cause, Incara shall continue to pay, in a lump sum or for a period of nine months, Dr. Ward or Mr. Reichow, as the case may be, his base salary plus a percentage of his salary equal to the average annual bonus percentage earned for the two years prior to the date of termination. Incara has entered into employment agreements that expire in April 2002 with Mr. Love

and Mr. Richert. The agreements provide for base salary and annual bonus based upon the achievement of performance milestones to be mutually agreed upon by the officer and the Chief Executive Officer, the Board or the Compensation Committee. Each agreement also provides that during its term and, unless the officer terminates his employment for cause, for a period of six months thereafter, the officer will not compete with Incara, directly or indirectly.

In the event that the employment of the officer is terminated by the Board, other than in a change in control and without just cause, Incara shall continue to pay the officer his base salary in a lump sum or for a period of six months. In September 1999, Incara entered into individual severance agreements with Mr. Duncan, Dr. Ward, Mr. Reichow, Mr. Love and Mr. Richert. The severance agreements provide that if the officer's employment with Incara is

terminated, without just cause, subsequent to a change in control as defined in the severance agreements, such officer shall receive a severance benefit of two and one-half times his annual base salary and average bonus. 38 Compensation of Directors All directors are reimbursed for expenses incurred in connection with each board or committee meeting attended. From October 1, 1999 and through January 17, 2000, each director who was not an employee of Incara

received a fee of $2,000 per Board meeting attended in person. In addition, the 1994 Stock Option Plan provided for the grant of nonstatutory options to non-employee directors of Incara pursuant to a non-discretionary, automatic grant mechanism (the "Automatic Grant Program"). Each non-employee director of Incara ("Eligible Director") was granted a stock option to purchase 5,000 shares of Incara common stock on the date each such person first became an

Eligible Director. Each Eligible Director thereafter was granted automatically each year upon re-election (except in the year his or her initial director stock option was granted) an option to purchase 3,000 shares of Incara common stock as long as such director was a member of the Board. The exercise price of options granted under the Automatic Grant Program was the fair market value of Incara's common stock on the date of grant. Such

options became exercisable ratably over 36 months commencing one month from the date of grant and expire the earlier of 10 years after the date of grant or 90 days after termination of the director's service on the Board. After a review of director compensation programs of other companies in its industry, on January 18, 2000, the Compensation Committee and the Board adopted a new compensation program for Eligible Directors. Each Eligible Director will receive an annual

retainer of $13,000 and will receive a fee of $500 for each Board meeting attended in person. The annual retainer will be due on the date that the Eligible Director is elected or re-elected to the Board of Directors. Directors may elect to receive all or a portion of their annual retainer as an option to purchase common stock. Any remainder will be paid in cash. Any option elected will enable the director to purchase a number of shares equal to three times the number of shares that could

have been purchased with the portion of the annual retainer elected to be received as option. The exercise price per share for the option will be the fair market value of the common stock on the date of the grant. The date of grant will be the date the annual retainer is granted to the director. These options will be fully vested upon grant and will be exercisable for ten years from the date of the grant. This director compensation program was adopted on January 18, 2000,

subject to the transition policy that the date of the annual retainer and the grant date was January 18, 2000 for each Eligible Director who was a director on the date the program was adopted and the director did not receive any additional retainer at the following Annual Meeting. In addition, the Automatic Grant Program was revised to increase the initial stock option grant for new Eligible Directors from 5,000 shares to 10,000 shares and the annual

automatic stock option grant was increased from 3,000 shares to 6,000 shares. The options will become exercisable ratably over 36 months commencing one month from the date of grant and will expire 10 years after the date of grant.

Compensation Committee Interlocks and Insider Participation

During fiscal 2000, Joseph J. Ruvane, Jr., Mr. Sharrock, Mr. Schollmaier and Dr. Prescott served on the Compensation Committee. Mr. Ruvane, Mr. Sharrock, Mr.

Schollmaier and Dr. Prescott were not at any time during fiscal 2000 or at any other time an officer or employee of Incara. No executive officer of Incara serves as a member of the board of directors or compensation committee of any entity which has one or more executive officers serving as a member of the Board of Directors of Incara or the Compensation Committee. Dr. Prescott was appointed to the Compensation Committee in April 2000 and Mr.

Ruvane died in June 2000.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

On July 26, 2000, we purchased from each of Lola M. Reid and James D. Crapo, both of whom are consultants to Incara, 18,000 shares of our common stock at a per share price of $2.25, the closing price as listed on Nasdaq on July 26, 2000. Incara repurchased these shares in order to comply with Nasdaq Rule 4350, which limits the amount of our common stock we can issue

under certain circumstances without stockholder approval. The shares repurchased were issued to Drs. Reid and Crapo in the acquisitions of Incara Cell Technologies and Aeolus on March 31, 2000. On March 31, 2000, we purchased all of the minority interests of Incara Cell Technologies and Aeolus. Prior to the acquisition, we owned 78.0% of Incara Cell Technologies and 65.8% of Aeolus. Incara issued 1,220,041 shares of its common stock in exchange for the subsidiaries' minority

ownership. The acquisition has been accounted for using the purchase method of accounting. The total purchase price of $6,664,000 consisted of 1,220,041 shares of our common stock with a fair market value of $5.46 per share, based on the price of our common stock at the date of acquisition. The total purchase price was allocated to purchase of in-process research and development and immediately charged to operations because the in-process research purchased

was in preclinical stages and feasibility had not been established at the date of the acquisition and was deemed to have no alternative future use. Additionally, Incara Cell Technologies and Aeolus had no workforce or other tangible fixed assets. In January 2000, our Board of Directors authorized the repurchase of up to $2,000,000 of our common stock during the following two months through purchases on the stock market. During that period, we repurchased 104,100

shares of common stock at a cost of $331,000. 39 On July 15, 1999, we restructured our corporate relationship with Interneuron Pharmaceuticals, Inc. to reduce Interneuron's majority ownership of Incara in exchange for an increased ownership by Interneuron of CPEC, Inc. Prior to the restructuring, CPEC, Inc. was owned 80.1% by Incara and 19.9% by Interneuron. As a preliminary step in the restructuring, we acquired Interneuron's 19.9% interest in CPEC, Inc., which was then merged

into CPEC LLC, a Delaware limited liability company. We redeemed 4,229,381 of the 4,511,084 shares of our common stock owned by Interneuron, in exchange for a 65.0% ownership of CPEC LLC and cancellation of certain liabilities owed to Interneuron by Incara and CPEC, Inc. which totalled $2,421,000. We retained a 35% minority ownership interest in CPEC, which currently is inactive. In May 1998, we acquired all of the outstanding stock of Transcell

Technologies, Inc. in a merger of Transcell with and into Incara and also acquired certain related technology rights held by Interneuron in exchange for shares of our common stock with an aggregate market value of $14,200,000. In addition, we issued replacement stock options and warrants to purchase 241,705 shares and 17,783 shares, respectively, of our common stock to Transcell employees, consultants and warrant holders, with a total estimated value of $1,507,000.

Prior to the Transcell merger, Transcell and we were both majority-owned subsidiaries of Interneuron. Under the terms of the Agreement and Plan of Merger between Incara, Transcell and Interneuron dated March 2, 1998, Transcell stockholders received shares of our common stock in three installments. The first installment of 320,151 shares was issued upon closing the transaction on May 8, 1998. In exchange for certain license and technology rights held by

Interneuron, and for Interneuron's continuing guarantee of certain of Transcell's lease obligations, Incara issued to Interneuron 174,672 shares of our common stock at the closing with a value of $3,000,000 and agreed to pay Interneuron a royalty on net sales of certain products that might result from a Research Collaboration and Licensing Agreement originally entered into among Transcell, Interneuron and Merck & Co., Inc. In lieu of the second installment payment due to Interneuron, Interneuron

retained 281,703 shares of our common stock as part of the restructuring. On August 9, 1999, Incara issued 867,583 shares of our common stock, valued at approximately $1.38 per share, to the other former Transcell stockholders as payment for their second installment in the principal amount of $1,202,000. On February 8, 2000, we issued 856,861 shares of our common stock, valued at approximately $3.36 per share, to Interneuron and the other former

Transcell stockholders as payment for the third and final installment in the principal amount of $2,881,000. We refer to the former Transcell operation as Incara Research Laboratories, or IRL. In December 1999, we sold IRL to an unrelated third party. We have adopted a policy that all transactions between us and our executive officers, directors and other affiliates must be approved by a majority of the members of our Board of Directors and by a majority of the disinterested

members of the Board, and must be on terms no less favorable to us than could be obtained from unaffiliated third parties. In addition, the policy requires that any loans by us to our executive officers, directors or other affiliates be for bona fide business purposes only. 40

PRINCIPAL STOCKHOLDERS

Principal Stockholders

The following tables set forth certain information regarding the ownership of shares of our stock as of May 31, 2001 by: . each person known by

us to beneficially own more that 5% of the outstanding shares of each class of stock, . each director of Incara, . each executive officer of Incara, and . all directors and executive officers of Incara as a group.

Series B Convertible Preferred Stock As of May 31, 2001, we had 28,457 shares of Series B convertible preferred stock and warrants for 22,191 shares of Series B preferred stock outstanding. The Series B preferred stock is non-voting except for matters relating to the rights

of Series B preferred stock.

	Shares Beneficially Owned	Percentage of Class Owned
Elan International Services, Ltd.....	50,648 (1)	100.0%

102 St. James Court
Flatts, Smiths Parish
Bermuda
FL 04

(1) Includes 28,457 shares owned and 22,191 shares issuable upon exercise of warrants to purchase Series B preferred stock.

Series C Convertible Exchangeable Preferred Stock As of May 31, 2001, we had 12,015 shares of Series C convertible exchangeable

preferred stock outstanding. The Series C preferred stock is non- voting except for matters relating to the rights of Series C preferred stock.

Shares Beneficially Owned	Percentage of Class Owned
Elan International Services, Ltd.....	
12,015	100.0%

102 St. James Court
Flatts, Smiths Parish
Bermuda
FL 04 41

Common Stock As of May 31, 2001, we had 8,387,531 shares of common stock outstanding. Share ownership in each case includes

shares issuable upon exercise of options that may be exercised within 60 days after April 30, 2001 for purposes of computing the percentage of common stock owned by such person but not for purposes of computing percentage owned by any other person. Except as indicated in footnotes to this table, the persons named in this table have sole voting and investment power with respect to all shares of common stock indicated below. Beneficially Percentage Owned Owned

---

Clayton I. Duncan (1)
703,526
8.2%
79
T.W. Alexander Drive, 4401 Research Commons, Suite 200 Research Triangle Park, North Carolina 27709
David B. Sharrock (2)
69,829 *
Edgar H. Schollmaier (3)
57,774 *
Stephen M. Prescott, M.D. (3)
38,617 *
Eugene J. McDonald (3)
21,240 *
David P. Ward, M.D. (4)
258,513
3.0%
Richard W. Reichow (5)
328,309
3.9%
W. Bennett Love (6)

127,682
1.5% John
P. Richert
(7).....
127,396
1.5% Elan
International
Services,
Ltd.....
825,000
9.8% 102
St. James
Court
Flatts,
Smiths
Parish
Bermuda
FL 04 Lola
M. Reid
(8).....
555,890
6.5% 3621
Sweeten
Creek
Road
Chapel
Hill, North
Carolina
27514
James D.
Crapo
(9).....
525,951
6.2% 4650
South
Forest St.
Englewood,
Colorado
80110
Interneuron
Pharmaceuticals,
Inc.....
482,011
5.7% One
Ledgemont
Center 99
Hayden
Avenue
Lexington,
Massachusetts

02421 All directors and executive officers as a group (9 persons) (10).. 1,732,886 19.1% * Less than one percent (1) Includes 362,470 shares owned (of which, 80,994 shares are unvested shares of restricted stock) by Mr. Duncan, 152,000 shares owned by Mr. Duncan's children, and 189,056 shares issuable upon exercise of options held by Mr. Duncan. Mr. Duncan disclaims beneficial ownership of the shares held by his

children. (2) Includes 1,000 shares owned and 68,829 shares issuable upon exercise of options held by Mr. Sharrock. (3) Consists of shares issuable upon exercise of options held by the named individual. (4) Includes 117,014 shares owned (of which, 53,004 shares are unvested shares of restricted stock) and 141,499 shares issuable upon exercise of options held by Dr. Ward. (5) Includes 237,510 shares owned (of which,

53,004 shares are unvested shares of restricted stock) and 90,799 shares issuable upon exercise of options held by Mr. Reichow.

(6) Includes 84,182 shares owned (of which 20,870 shares are unvested shares of restricted stock) and 43,500 shares issuable upon exercise of options held by Mr. Love.

(7) Includes 83,896 shares owned (of which, 22,953 shares are unvested shares of restricted stock) and 43,500 shares issuable

upon exercise of options held by Mr. Richert. 42

(8) Includes 314,286 shares owned by Dr. Reid and 131,604 shares owned by Dr. Mark Furth, Dr. Reid's husband and 110,000 shares issuable upon exercise of options held by Dr. Reid. Dr. Reid disclaims beneficial ownership of the shares held by her husband.

(9) Includes 369,951 shares owned by Dr. Crapo and 156,000 shares issuable upon exercise of options

held by Dr. Crapo. (10) See footnotes (1)-(7).

DESCRIPTION OF CAPITAL STOCK

The authorized capital stock of Incara consists of 40,000,000 shares of common stock, par value $.001 per share, and 3,000,000 shares of preferred stock, par value $.01 per share.

Common Stock As of May 31, 2001, there were 8,387,531 shares of common stock outstanding, 2,066,564 shares of common stock issuable upon the exercise of outstanding stock options and 17,783 shares of

common stock issuable upon the exercise of warrants for common stock. Holders of shares of the common stock are entitled to one vote per share on all matters to be voted upon by the stockholders and are not entitled to cumulate votes for the election of directors. Subject to preferences that may be applicable to any outstanding shares of preferred stock, holders of shares of common stock are entitled to receive ratably such dividends, if any, as may be

declared from time to time by the Board of Directors out of funds legally available therefor. In the event of liquidation, dissolution or winding up of Incara, the holders of shares of common stock are entitled to share ratably in all assets remaining after payment of liabilities, subject to prior distributions rights applicable to any outstanding shares of preferred stock. Shares of common stock have no preemptive, conversion or other subscription rights, and there are

no redemption or sinking fund provisions applicable to the common stock. A subsidiary of Elan owns 825,000 shares of our common stock. Until December 20, 2004, Elan has the right to participate in any equity financing we undertake on the same terms as any third party investor in order to allow Elan to maintain its pro rata interest in Incara, based on its equity ownership on an as converted to common stock basis. This preemptive right does not apply to this or

any other public offering, the Torneaux financing transaction, equity issuances in conjunction with collaborations and other partnering arrangements with strategic investors provided the issuance is ancillary to and not a principal reason for the financing, and equity-based incentive plans for the benefit of our employees, directors and consultants. Preferred Stock We have the authority to issue up to 3,000,000 shares of preferred stock. Our Board of Directors has the

authority to issue preferred stock in one or more series and to fix the rights, preferences, privileges and restrictions, including the dividend, conversion, voting, redemption (including sinking fund provisions), and other rights, liquidation preferences, and the number of shares constituting any series and the designations of such series, without any further vote or action by our stockholders. Because the terms of the preferred stock may be fixed by our Board of Directors

without stockholder action, the preferred stock could be issued quickly with terms calculated to defeat a proposed take- over of Incara or to make the removal of management of Incara more difficult. Under certain circumstances this could have the effect of decreasing the market price of the common stock. Management of Incara is not aware of any threatened transaction to obtain control of Incara. As of May 31, 2001, we had issued and outstanding 28,457 shares of Series B preferred stock, 22,191

shares of Series B preferred stock issuable upon the exercise of warrants for Series B preferred stock and 12,015 shares of Series C preferred stock. All shares of Series B preferred stock and Series C preferred stock are owned by Elan. The Series B preferred stock is non-voting stock. Each share of Series B preferred stock is convertible into ten shares of our common stock. The Series C preferred stock also is non-voting stock. The Series C preferred stock has a face value

of $1,000 per share and bears a mandatory stock dividend of 7%, compounded annually, payable in shares of Series C preferred stock. In addition, the Series C preferred stock is exchangeable at the option of Elan at any time for all of the preferred stock we hold in Incara Development, our indirect subsidiary which is partly owned by Elan. After December 20, 2002, the Series C preferred stock also is convertible by Elan into shares of Series B preferred stock at the rate of $64.90 per share. If

the Series C preferred stock is outstanding on December 21, 2006, we will exchange it and any accrued dividends, at our option, for either cash or shares of stock and warrants having a then fair market value of the amount due. 43 Warrants As of May 31, 2001, warrants to purchase 17,783 shares of common stock were outstanding, which are exercisable at an exercise price of $13.49 per share and which expire in May 2003. As of May 31, 2001, we had also issued to Elan a warrant

that expires on December 20, 2005 to purchase up to 22,191 shares of our Series B preferred stock at an exercise price of $72.12 per share. Each warrant contains provisions for the adjustment of the exercise price under certain circumstances, including sales of stock at less than the exercise price, stock dividends, stock splits, reorganizations, reclassifications or mergers. Section 203 of the Delaware Corporation Law Section 203 of the General Corporation Law of the State of Delaware

(the "DGCL") prevents an "interested stockholder" (defined in Section 203 of the DGCL, generally, as a person owning 15% or more of a corporation's outstanding voting stock), from engaging in a "business combination" (as defined in Section 203 of the DGCL) with a publicly-held Delaware corporation for three years following the date such person became an interested stockholder, unless: . before such person became an interested stockholder, the board of directors of the corporation

approved the transaction in which the interested stockholder became an interested stockholder or approved the business combination;

. upon consummation of the transaction that resulted in the interested stockholder's becoming an interested stockholder, the interested stockholder owns at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced (excluding stock held by directors who are also officers of the

corporation and by employee stock plans that do not provide employees with the rights to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer); or . following the transaction in which such person became an interested stockholder, the business combination is approved by the board of directors of the corporation and authorized at a meeting of stockholders by the affirmative vote of the holders of two-thirds of the outstanding

voting stock of the corporation not owned by the interested stockholder. The statute could prohibit or delay a merger, takeover or other change in control of Incara and therefore could discourage attempts to acquire Incara.

Limitation of Liability

Section 145 ("Section 145") of the DGCL provides a detailed statutory framework covering indemnification of officers and directors against liabilities and expenses arising out of legal proceedings brought against them by reason of

their being or having been directors or officers. Section 145 generally provides that a director or officer of a corporation: . shall be indemnified by the corporation for all expenses of such legal proceedings when he is successful on the merits; . may be indemnified by the corporation for the expenses, judgments, fines and amounts paid in settlement of such proceedings (other than a derivative suit), even if he is not successful on the merits, if he acted in good faith and in a manner he reasonably

believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful; and . may be indemnified by the corporation for the expenses of a derivative suit (a suit by a stockholder alleging a breach by a director or officer of a duty owed to the corporation), even if he is not successful on the merits, if he acted in good faith and in a manner he reasonably believed to be in or not

opposed to the best interests of the corporation. The indemnification discussed in clauses two and three above may be made only upon a determination that indemnification is proper because the applicable standard of conduct has been met. Such a determination may be made by a majority of a quorum of disinterested directors, independent legal counsel, the stockholders or a court of competent jurisdiction. The indemnification discussed in clause three above may be made, however, if

the director or officer is adjudged liable for negligence or misconduct in the performance of his duties to the corporation, unless a corporation determines that despite such adjudication, but in view of all the circumstances, he is entitled to indemnification. 44 Article Seventh of Incara's Certificate of Incorporation provides in substance that, to the fullest extent permitted by the DGCL as it now exists or as amended, each director and officer shall be indemnified against reasonable costs and

expenses, including attorney's fees, and any liabilities which he may incur in connection with any action to which he may be made a party by reason of his being or having been a director or officer of Incara. The indemnification provided by Incara's Certificate of Incorporation is not deemed exclusive of or intended in any way to limit any other rights to which any person seeking indemnification may be entitled. Section 102(b)(7) of the DGCL permits a corporation to provide

in its Certificate of Incorporation that a director of the corporation shall not be personally liable to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability . for any breach of the director's duty of loyalty to the corporation or its stockholders, . for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, . under Section 174 of the DGCL, or .

for any transaction from which the director derived an improper personal benefit. Article Ninth of Incara's Certificate of Incorporation provides for the elimination of personal liability of a director for breach of fiduciary duty, as permitted by Section 102(b)(7) of the DGCL. We maintain liability insurance on our officers and directors against liabilities that they may incur in such capacities.

Transfer Agent and Registrar

The Transfer Agent and Registrar for our common

stock is American Stock Transfer and Trust Company.

PLAN OF DISTRIBUTION

We are offering shares of our common stock under this prospectus continuously over time. We are offering our shares directly to anyone who wants to buy them. The offering will terminate on December 31, 2001 unless terminated by us earlier due to the sale of all of the common stock offered hereby or for any other reason. In keeping with the Nasdaq qualitative listing

requirements and as approved by our stockholders, the purchase price per share of our common stock will be equal to the closing sale price as reported on Nasdaq on the day before any sale of the stock. A sale of our stock occurs when we have received a subscription agreement signed by a purchaser in the form to be provided by us. The price per share will be the closing sale price per share on the day prior to our receipt of the subscription agreement. A prospective purchaser

should contact us in advance of any intended purchase to request the form of subscription agreement. For this purpose, please contact Bennett Love, Vice President, Corporate Planning/Communications, at (919) 558-1907. A prospective purchaser must deliver a subscription agreement to us by 4:00 p.m. Eastern time on the day of sale. A prospective purchaser may contact us prior to submitting a subscription agreement to confirm the closing price on the previous day. The purchaser

must deliver to us full payment for the shares purchased either simultaneously with the delivery of the subscription agreement or within three days thereafter. We will deliver the shares to the purchaser within three business days after we have received full payment. In addition to our direct and continuous selling efforts, we have engaged Petkevich & Partners, LLC as placement agent to assist in this offering on a reasonable best efforts basis.

Petkevich & Partners has agreed with us that it will seek to identify institutional investors who wish to purchase our common stock. Petkevich & Partners, as placement agent, may engage other broker-dealer members of the NASD to participate as selected placement agents in this offering of our common stock. Petkevich & Partners is an underwriter within the meaning of the Securities Act in connection with the sale of the common stock offered hereby. We have

engaged Petkevich & Partners as placement agent on a reasonable best efforts basis and there is no minimum number of shares of our stock that must be sold in the offering. We have entered into an agency agreement with Petkevich & Partners which details, among other things, the scope of their duty to us and our payment obligations to them. Our engagement with Petkevich & Partners will terminate on the earliest of the following events: .

120 days after the date of engagement, which is September 28, 2001; . 30 days after either we or Petkevich & Partners give written notice of termination for any reason; . mutual agreement by Petkevich & Partners and us; . immediately upon notice of termination by Petkevich & Partners to us if it then reasonably believes that there has occurred any material adverse change in our consolidated condition, financial or otherwise, earnings, operations, business or

business prospects from that set forth in this prospectus; or . the sale of all of the common stock offered by this prospectus. 45 We have agreed to pay Petkevich & Partners a cash placement fee equal to 7% of the gross proceeds to us from the sale of any common stock plus a five year common stock purchase warrant for up to 80,000 shares. The number of shares underlying the warrant shall be such number that is equal to the same proportion of 80,000 that the

gross proceeds from the sale of the shares sold in this offering bears to the total offering price of $10,000,000. The exercise price of the warrant will be 125% of the price per share paid in the offering, subject to adjustment for stock splits, recapitalizations and the like. We have also given Petkevich & Partners a $30,000 non-accountable expense allowance and agreed to reimburse additional out of pocket expenses it may incur in connection with meetings with

potential investors and the review of the agency arrangements by the NASD. We have also agreed to give Petkevich & Partners, and Petkevich & Partners has agreed to give us, customary indemnification against liabilities under the Securities Act. Any variance from these placement terms will be disclosed in an amended prospectus, which we will file with the SEC as part of an amendment to the registration statement. In addition, we have been advised by the NASD that the maximum

commission or discount to be received by any NASD member or independent broker-dealer participating in this offering must not be greater than 8% of the shares sold in the offering. Petkevich & Partners, LLC was organized and registered as a broker-dealer and became a member of the NASD in December 2000. Petkevich & Partners' business is generally limited to private placements of securities for institutional or high net worth customer accounts. Petkevich & Partners is focused

on providing advisory services to companies in the healthcare and technology industries, such services include acting as a financial advisor for mergers and acquisitions and private placements. Prior to this offering, we engaged Petkevich & Partners to advise us concerning potential corporate partnering transactions relating to our progenitor cell therapy and catalytic antioxidant programs for an advisory fee of $50,000. We estimate that the

total expenses of this offering, including registration, filing and listing fees, printing fees and legal and accounting expenses, but excluding the cash placement fee and expense allowance of Petkevich & Partners, will be approximately $180,000. Neither we nor Petkevich & Partners nor any of our or their respective affiliates, or any other party involved in marketing our common stock have reserved the right, or have any obligation, to purchase any of the common stock offered

hereby. 46
SECURITIES
OFFERED
Using this
prospectus,
we are
offering to
sell shares
of our
common
stock. We
registered
these
securities
with the
SEC using
a
"continuous
offering"
registration
statement.
We must
provide an
amended
prospectus
that
describes
the specific
terms of
any sale of
our
common
stock that
differ from
the terms
set forth in
this
prospectus.
If an
amended
prospectus
is
necessary,
we must
file an
amendment
to the
registration
statement.
The

amended prospectus or a prospectus supplement may also provide new information or update the information in the prospectus.

LEGAL MATTERS

The validity of the issuance of the shares of common stock offered hereby will be passed upon for us by Wyrick Robbins Yates & Ponton LLP, Raleigh, North Carolina.

EXPERTS

The financial statements as of September 30, 2000 and 1999 and for each of the three years in the period ended September

30, 2000 included in this prospectus have been so included in reliance on the report of PricewaterhouseCoopers LLP, independent accountants, given on the authority of said firm as experts in auditing and accounting.

WHERE YOU CAN FIND MORE INFORMATION

We have filed with the Securities and Exchange Commission a registration statement on Form S-1, including exhibits, schedules and amendments, under the Securities Act with respect to the shares of common stock to be

sold in this offering. This prospectus does not contain all the information included in the registration statement. For further information about us and the shares of our common stock to be sold in this offering, please refer to this registration statement. We file annual, quarterly and special reports, proxy statements and other information with the SEC. You may read and copy our registration statement or any other document we file at the SEC's public reference rooms in

Washington, D.C., New York, New York and Chicago, Illinois. You should call the SEC at 1-800-SEC-0330 for further information on the public reference rooms. Our SEC filings are also available to the public at the SEC's web site at "http:/www.sec.gov." You may request a copy of our filings, at no cost, by writing or telephoning us at the following address: Incara Pharmaceuticals Corporation Investor Relations Post Office Box 14287 79 T.W. Alexander Drive, 4401 Research Commons, Suite 200 Research Triangle

Park, North
Carolina
27709
(919)
558-8688
You should
rely only
on the
information
or
representations
provided in
this
prospectus.
We have
authorized
no one to
provide
you with
different
information.
We are not
making an
offer of
these
securities
in any state
where the
offer is not
permitted.
You should
not assume
that the
information
in this
prospectus
is accurate
as of any
date other
than the
date on the
front of the
document.
47 INDEX
TO
CONSOLIDATED
FINANCIAL
STATEMENTS
Fiscal
Years

REPORT
OF
INDEPENDENT
ACCOUNTANTS
TO THE
BOARD
OF
DIRECTORS
AND
STOCKHOLDERS
OF
INCARA
PHARMACEUTICALS
CORPORATION

In our
opinion,
the
accompanying
consolidated
balance
sheets and
the related
consolidated
statements
of
operations,
stockholders'
equity and
cash flows
present
fairly, in
all material
respects,
the
financial
position of
Incara
Pharmaceuticals
Corporation
and its
subsidiaries
(the
"Company")
at
September
30, 2000

and 1999, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 2000, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with

auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial

statement
presentation.
We believe
that our
audits
provide a
reasonable
basis for
our
opinion. As
described
in Note M,
the
Company
has revised
its earnings
per share
calculation.
PricewaterhouseCoopers
LLP
Raleigh,
North
Carolina
November
15, 2000,
except with
regard to
Note M,
for which
the date is
July 27,
2001 F-2
INCARA
PHARMACEUTICALS
CORPORATION
CONSOLIDATED
BALANCE
SHEETS
(Dollars in
thousands,
except per
share data)
September
30,

2000 1999

ASSETS
Current

assets:
Cash and
cash
equivalents
$ 1,877 $
2,407
Marketable
securities
4,678
2,553
Accounts
receivable
197 282
Prepaids
and other
current
assets 403
237 --------

Total
current
assets
7,155
5,479
Property
and
equipment,
net 193
2,483
Other
assets - 82

-------- $
7,348 $
8,044
========
========
LIABILITIES
AND
STOCKHOLDERS'
EQUITY
Current
liabilities:
Accounts
payable $
637 $ 654
Accrued
expenses
1,807
1,933

Current portion of capital lease obligations 22 488
Current portion of notes payable 27 197 ----------
Total current liabilities 2,493 3,272
Long-term portion of capital lease obligations 43 399
Long-term portion of notes payable - 582
Stockholders' equity:
Common stock, $.001 par value per share, 40,000,000 shares authorized, 7,365,849 and 5,226,969 shares issued and outstanding at September 30, 2000 and 1999, respectively 7 5

Additional paid-in capital 88,951 81,772
Restricted stock (239) (744)
Accumulated deficit (83,907) (77,242)
Total stockholders' equity 4,812 3,791
$ 7,348 $ 8,044

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

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INCARA PHARMACEUTICALS CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)

	Fiscal Year Ended September 30,

2000 1999
1998

Revenue:
Contract
and license
fee
revenue.....
$ 100 $
2,088 $
6,121

Costs and
expenses:
Research
and
development.....
7,645
18,996
16,799
Purchase of
in-process
research
and
development.....
6,664 -
5,343
General
and
administrative.....
2,613
3,045
3,509

Total costs
and
expenses.....
16,922
22,041
25,651

Loss from

operations.....
(16,822)
(19,953)
(19,530)
Gain on
sale of
division.....
9,751 - -
Investment
income,
net.....
406 355
384

Net
loss.....
$ (6,665) $
(19,598) $
(19,146)
===
===
===
Net loss
per
common
share:
Basic.....
$ (1.21) $
(2.98) $
(2.69)
===
===
===
Diluted.....
$ (1.21) $
(2.98) $
(2.69)
===
===
===
Weighted
average
common
shares
outstanding.....
5,522
6,583
7,113

==========
==========
==========
The
accompanying
notes are
an integral
part of the
consolidated
financial
statements.
F-4
INCARA
PHARMACEUTICALS
CORPORATION
CONSOLIDATED
STATEMENTS
OF
STOCKHOLDERS'
EQUITY
(Dollars in
thousands)
Common
Stock
Additional

Number
Par Paid-in
Restricted
Deferred
Accumulated
of Shares
Value
Capital
Stock
Compensation
Deficit

----- --------

Balance at
September
30,
1997.....
6,956,545
$ 7 $
52,243 $ -
$ (296)

$(38,498)
Exercise of
common
stock
options.....
15,576 - 59
- - - Grants
of common
stock
options at
below fair
value.....
- - 1,450 -
(1,450) -
Stock-based
compensation.....
- - 464 - - -
Amortization
of deferred
compensation.....
- - - - 660 -
Proceeds
from
offerings of
Employee
Stock
Purchase
Plan.....
13,592 -
142 - - -
Contribution
to
Transcell
capital by
Interneuron.....
- - 18,698 -
- -
Common
stock
issued to
unrelated
parties in
conjunction
with
Transcell
Merger.....
303,440 -
5,343 - - -
Net loss for
the fiscal

year ended
September
30,
1998..... -
- - - -
(19,146)
--------- ----
-------- -----

Balance at
September
30,
1998.....
7,289,153
7 78,399 -
(1,086)
(57,644)
Exercise of
common
stock
options.....
21,851 - 53
- - -
Amortization
of deferred
compensation.....
- - - - 827 -
Proceeds
from
offerings of
Employee
Stock
Purchase
Plan.....
67,851 -
134 - - -
Contribution
of payables
to capital
by
Interneuron.....
- - 2,421 - -
-
Cancellation
of common
stock
returned by
Interneuron.....
(4,229,381)

(4) 4 - - -
Common
stock
issued to
unrelated
parties in
conjunction
with
Transcell
Merger.....
867,583 1
(1) - - -
Write-off
of deferred
compensation
related to
common
stock
options
cancelled.....
- - (259) -
259 -
Restricted
common
stock sold
to
employees
and
consultants....
1,209,912
1 755 (755)
- -
Stock-based
compensation
and
amortization
of
Restricted
Stock - -
266 11 - -
Net loss for
the fiscal
year ended
September
30,
1999..... -
- - - -
(19,598)
--------- ----
-------- -----

Balance at
September
30,
1999.....
5,226,969
5 81,772
(744) -
(77,242)
Exercise of
common
stock
options.....
140,000 -
50 - - -
Proceeds
from
offerings of
Employee
Stock
Purchase
Plan.....
208,744 -
122 - - -
Common
stock
issued in
conjunction
with
Transcell
Merger.....
856,861 1
(1) - - -
Common
stock
issued in
conjunction
with
Aeolus and
Renaissance
mergers.....
1,220,041
1 6,663 - -
-
Stock-based
compensation
and
amortization
of

Restricted
Stock - -
838 424 - -
Restricted
Stock
forfeited.....
(146,666) -
(81) 81 - -
Common
stock
repurchased.....
(140,100) -
(412) - - -
Net loss for
the fiscal
year ended
September
30,
2000..... -
- - - -
(6,665)
--------- ----
-------- -----

Balance at
September
30,
2000.....
7,365,849
$ 7 $
88,951
$(239) $ -
$(83,907)
==========
===
========
=====
=======
========
Total
Stockholders'
Equity

Balance at
September
30,
1997.....
$ 13,456
Exercise of

common
stock
options.....
59 Grants
of common
stock
options at
below fair
value.....
-
Stock-based
compensation.....
464
Amortization
of deferred
compensation.....
660
Proceeds
from
offerings of
Employee
Stock
Purchase
Plan.....
142
Contribution
to
Transcell
capital by
Interneuron.....
18,698
Common
stock
issued to
unrelated
parties in
conjunction
with
Transcell
Merger.....
5,343 Net
loss for the
fiscal year
ended
September
30,
1998.....
(19,146)

Balance at

September
30,
1998.....
19,676
Exercise of
common
stock
options.....
53
Amortization
of deferred
compensation.....
827
Proceeds
from
offerings of
Employee
Stock
Purchase
Plan.....
134
Contribution
of payables
to capital
by
Interneuron.....
2,421
Cancellation
of common
stock
returned by
Interneuron.....
- Common
stock
issued to
unrelated
parties in
conjunction
with
Transcell
Merger.....
- Write-off
of deferred
compensation
related to
common
stock
options
cancelled.....
- Restricted

common
stock sold
to
employees
and
consultants....
1
Stock-based
compensation
and
amortization
of
Restricted
Stock 277
Net loss for
the fiscal
year ended
September
30,
1999.....
(19,598)

Balance at
September
30,
1999.....
3,791
Exercise of
common
stock
options.....
50
Proceeds
from
offerings of
Employee
Stock
Purchase
Plan.....
122
Common
stock
issued in
conjunction
with
Transcell
Merger.....
- Common
stock
issued in

conjunction
with
Aeolus and
Renaissance
mergers.....
6,664
Stock-based
compensation
and
amortization
of
Restricted
Stock
Restricted
Stock
forfeited.....
1,262
Common
stock
repurchased.....
(412) Net
loss for the
fiscal year
ended
September
30,
2000.....
(6,665)

Balance at
September
30,
2000.....
$ 4,812
=======
The
accompanying
notes are
an integral
part of the
consolidated
financial
statements.
F-5
INCARA
PHARMACEUTICALS
CORPORATION
CONSOLIDATED
STATEMENTS
OF CASH

FLOWS
(In
thousands)
Fiscal Year
Ended
September
30,

2000 1999
1998

Cash flows
from
operating
activities:
Net
loss.....
$ (6,665) $
(19,598) $
(19,146)
Adjustments
to reconcile
net loss to
net cash
used in
operating
activities:
Depreciation
and
amortization.....
260 771
1,837
Noncash
compensation.....
1,262
1,105
1,125
Purchase of
in-process
research
and
development.....
6,664 -
5,343 Gain
on sale of
division.....
(9,751) - -
Loss on

disposal of property and equipment..... 36 - - Interest expense on notes to Interneuron..... - - 918 Change in assets and liabilities: Accounts receivable..... 85 814 31 Prepaids and other assets..... (170) (117) 120 Accounts payable and accrued expenses..... (653) (1,356) (10,054) Deferred revenue..... - - (500) --------- --------- --------- Net cash used in operating activities..... (8,932) (18,381) (20,326) --------- --------- --------- Cash flows from investing activities: Proceeds

from sale
of
division.....
11,000 - -
Proceeds
from sales
and
maturities
of
marketable
securities.....
6,468
11,406
20,400
Purchases
of
marketable
securities.....
(8,593)
(1,044)
(13,920)
Purchases
of property
and
equipment.....
(114) (278)
(1,110)

--- Net
cash
provided
by
investing
activities.....
8,761
10,084
5,370

Cash flows
from
financing
activities:
Net
proceeds
from
issuance of
stock and

warrants.....
172 187
201
Proceeds
from
capital
leases.....
38 - -
Repurchase
of common
stock.....
(412) - -
Proceeds
from notes
payable.....
2 2 460
Principal
payments
on notes
payable.....
(58) (194)
(117)
Principal
payments
on capital
lease
obligations.....
(101) (494)
(345)
Advances
from
Interneuron,
net.....
- 556 7,219

--- Net
cash
provided
by (used
by)
financing
activities.....
(359) 57
7,418

--- Net
decrease in
cash and

cash
equivalents.....
(530)
(8,240)
(7,538)
Cash and
cash
equivalents
at
beginning
of
period.....
2,407
10,647
18,185

Cash and
cash
equivalents
at end of
period.....
$ 1,877 $
2,407 $
10,647
===
===
===
Supplemental
disclosure
of
investing
and
financing
activities:
Cash
payments
of
interest.....
$ 37 $ 251
$ 222
===
===
===
Contribution
of payables
to capital
by
Interneuron.....

$ - $ 2,421
$ -
==========
==========
==========
Property
and
equipment
acquired
through
financing
arrangements.....
$ 38 $ - $
110
==========
==========
==========
The
accompanying
notes are
an integral
part of the
consolidated
financial
statements.
F-6
INCARA
PHARMACETICALS
CORPORATION
NOTES
TO
CONSOLIDATED
FINANCIAL
STATEMENTS
A.
NATURE
OF THE
BUSINESS
The
Company
conducts
discovery
and
development
programs
in three
areas: (1)
inflammatory
bowel
disease,

using an ultra-low molecular weight heparin; (2) liver disorders, using a novel form of hepatic progenitor cell therapy; and (3) novel small molecule catalytic antioxidants for disorders such as stroke and heart attack. The "Company" refers collectively to Incara Pharmaceuticals Corporation ("Incara") and its wholly owned subsidiaries, Aeolus Pharmaceuticals, Inc., a Delaware corporation ("Aeolus"), and Renaissance Cell Technologies, Inc., a Delaware corporation ("Renaissance"). At

September 30, 2000, the Company also owned a 35.0% interest in CPEC LLC, a Delaware limited liability company ("CPEC"). Until July 15, 1999, Incara was a majority-owned subsidiary of Interneuron Pharmaceuticals, Inc. ("Interneuron"). On July 15, 1999, Incara restructured its corporate relationship with Interneuron to reduce Interneuron's majority ownership of Incara in exchange for an increased ownership by Interneuron of CPEC (the "Restructuring"). Prior to the Restructuring,

CPEC was owned 80.1% by Incara and 19.9% by Interneuron. Subsequent to the Restructuring, CPEC became owned 35.0% by Incara and 65.0% by Interneuron (see Note I). Until July 1999, the Company's most advanced product was BEXTRA(R) (bucindolol HCl), a beta-blocker that was being evaluated in a Phase 3 clinical trial conducted by the National Institutes of Health and the U.S. Department of Veterans Affairs for use in treating congestive heart failure

patients. The agencies terminated the study in July 1999, prior to its scheduled termination date, because an interim data analysis indicated there was no significant survival advantage of treatment with bucindolol for the patient population as a whole. In August 1999, the Company agreed to end the collaboration (the "Knoll Collaboration") with BASF Pharma/Knoll AG ("Knoll") for BEXTRA for countries outside the United States and Japan (the "Knoll Territory"),

and terminated the European trial of BEXTRA. The Company does not expect to pursue the compound further for this or any other indication. In May 1998, Incara acquired all of the outstanding stock of Transcell Technologies, Inc. ("Transcell"), a majority-owned subsidiary of Interneuron, in a merger of Transcell with and into Incara and also acquired certain related technology rights held by Interneuron in exchange for Incara common stock,

stock options and stock warrants (the "Transcell Merger"). The purchase of Interneuron's 77.9% interest in Transcell by Incara was treated in a manner similar to a "pooling-of-interests," because it represented a transfer of stock between entities under common control, and the acquisition of the non-Interneuron ownership interest was accounted for by using the "purchase" method of accounting. All of Transcell's past results of operations have been combined with the results of

operations for the Company, and the Company's financial statements for all prior periods presented have been restated to reflect the Transcell Merger. On December 29, 1999, the Company sold the former Transcell operation, which is referred to as Incara Research Laboratories ("IRL"), to a private pharmaceutical company for $11,000,000 and the right to receive up to an additional $4,000,000 in the event a compound originating from the Research Collaboration and Licensing Agreement

(the "Merck Collaboration"), originally entered into among Transcell, Interneuron and Merck & Co., Inc. ("Merck"), reaches certain preclinical and clinical trial milestones. The Company currently does not expect to receive any additional payments from the purchaser. The transaction involved the sale of assets associated with IRL, including rights under the Merck Collaboration and the assumption of certain related liabilities by the purchaser. The Company remains contingently

liable through May 2007 on debt and lease obligations of approximately $8,328,000 assumed by the purchaser, including the IRL facility lease in Cranbury, New Jersey. On March 31, 2000, Incara purchased all of the minority interests of Renaissance and Aeolus. Prior to the acquisitions, Incara owned 78.0% of Renaissance and 65.8% of Aeolus. Incara issued 1,220,041 shares of its common stock in exchange for the subsidiaries' minority ownership. The

acquisitions have been accounted for using the purchase method of accounting. The total purchase price of $6,664,000 consisted of 1,220,041 shares of Incara's common stock with a fair value of $5.46 per share, based on the price of the Company's common stock at the date of acquisition. The total purchase price was allocated to purchased in-process research and development and immediately charged to operations because at the date of the acquisition the in-process research

purchased was in preclinical stages, feasibility had not been established and it was deemed to have no alternative future use.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: The consolidated financial statements include the accounts of Incara and its wholly owned subsidiaries. The Company uses the equity method to account for its 35.0% ownership interest in CPEC. All

significant intercompany accounts and transactions have been eliminated.

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting

period. Actual results could differ from those estimates. Cash and Cash Equivalents: The Company invests available cash in short-term bank deposits, money market funds, commercial paper and U.S. Government securities. Cash and cash equivalents include investments with maturities of three months or less at the date of purchase. The carrying value of cash and cash equivalents approximate their fair market value at September 30, 2000 and 1999

due to their short-term nature. Marketable Securities: The Company considers its investment portfolio available-for-sale. Debt and equity securities are reported at fair value, with unrealized gains and losses excluded from earnings and reported as a separate component of stockholders' equity, net of related income taxes. Premiums are amortized and discounts accreted using the interest method over the remaining terms of the related securities. Gains and

losses on the sale of securities are determined using the specific identification method. The amortized cost of marketable securities approximates their market value, yielding no unrealized holding gains or losses at September 30, 2000 and 1999. At September 30, 2000, the Company owned $4,678,000 of bank certificates of deposit due within one year. At September 30, 1999 the Company owned $2,553,000 of corporate notes due within one year.

Accounts Receivable: The accounts receivable balances at September 30, 2000 and 1999 are primarily comprised of amounts due from Interneuron for a portion of the amount payable by the Company to Knoll for bucindolol-related liabilities. Property and Equipment: Property and equipment are stated at cost. Depreciation and amortization are provided using the straight-line method based on estimated useful lives or, in the case of leasehold improvements and equipment

under capital leases, over the lesser of the estimated useful lives or the lease terms. The estimated useful lives are two years for computers and five years for equipment. No impairments of property and equipment were required to be recognized during the fiscal years ended September 30, 2000 and 1999. Subsequent to the Transcell Merger in May 1998, the Company wrote off $856,000 of property and equipment acquired from Transcell because certain items did

not meet the Company's minimum cost per item capitalization criteria. The majority of the Company's property and equipment at September 30, 1999 related to the IRL operations, which was sold in December 1999. Expenses for repairs and maintenance are charged to operations as incurred. Upon retirement or sale, the cost of the assets disposed of and the related accumulated depreciation are removed from the accounts, and any resulting gain or loss

is credited or charged to operations. Revenue Recognition: Revenue is recognized under collaboration or research and development agreements when services are performed or when contractual obligations are met. Cash received in advance of revenue recognition is recorded as deferred revenue. In December 1999, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" ("SAB 101"), which provides

guidance on the recognition, presentation and disclosure of revenue in financial statements filed with the SEC. SAB 101, as amended by SAB 101A and SAB101B, outlines the basic criteria that must be met to recognize revenue and provides guidance for disclosures related to revenue recognition policies. Adoption is required by the Company no later than the quarter ending September 30, 2001. The Company does not expect SAB 101 to have a significant impact on

the Company's revenue recognition policies.

Research and Development: Research and development costs are expensed in the period incurred. Payments related to the acquisition of in-process research and development are either capitalized or expensed based upon the stage of development of the acquired compound or technology at the date of acquisition.

Income Taxes: Deferred tax assets and liabilities are determined based on the difference between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce net deferred tax assets to the amounts expected to be realized. Net Loss Per Common Share: Basic net

loss per common share is computed using the weighted average number of shares of common stock outstanding during the period. Diluted net loss per common share is computed using the weighted average number of shares of common and dilutive potential common shares outstanding during the period. Potential common shares consist of stock options, restricted common stock, warrants and convertible preferred stock using the treasury stock method

and are excluded if their effect is antidilutive. At September 30, 2000, diluted weighted average common shares excluded incremental shares of approximately 1,876,000 related to stock options, unvested shares of restricted common stock and warrants to purchase common stock.

Accounting for Stock Based Compensation: The Company accounts for stock based compensation based on the provisions of Accounting Principles Board Opinion No. 25, "Accounting

for Stock Issued to Employees" ("APB No. 25"), which states that no compensation expense is recorded for stock options or other stock based awards to employees that are granted with an exercise price equal to or above the estimated fair value per share of the Company's common stock on the grant date. The Company has adopted the disclosure requirements of Statement of Financial Accounting Standards No. 123, "Accounting for Stock Based Compensation" ("SFAS 123"),

which requires compensation expense to be disclosed based on the fair value of the options granted at the date of the grant. Segment Reporting: The Company currently operates in only one segment. Recent Accounting Pronouncements: In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). SFAS 138 was issued

in June 2000 and provides certain amendments to SFAS 133 and must be implemented at the same time as SFAS 133. SFAS 133 and SFAS 138 establish accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives), and for hedging activities. As issued, SFAS 133 is effective for all fiscal quarters of all fiscal years beginning after June 15, 1999, with earlier application

encouraged. In May 1999, the FASB delayed the effective date of SFAS 133 for one year, to fiscal quarters of all fiscal years beginning after June 15, 2000. The Company does not currently use, nor does it intend in the future to use, derivative instruments and, therefore, does not expect that the adoption of SAFS 133 and SFAS 138 will have any impact on its financial position or results of operations.

C. PROPERTY AND EQUIPMENT

Property and

equipment
consisted
of the
following
at
September
30, 2000
and 1999
(in
thousands):
2000 1999
---- ----
Office
equipment.....
$ 428 $
735
Laboratory
equipment.....
341 1,411
Leasehold
improvements.....
58 1,774

------- 827
3,920 Less:
accumulated
depreciation
and
amortization...
(634)
(1,437)

------- $
193 $
2,483
=======
=======
The above
amounts
included
equipment
under
capital
lease
obligations
with a cost
of
$268,000
and
$930,000

at
September
30, 2000
and 1999,
respectively,
and a net
book value
of $57,000
and
$394,000
at
September
30, 2000
and 1999,
respectively.
Depreciation
expense
was
$260,000
and
$771,000
for the
fiscal years
ended
September
30, 2000
and 1999,
respectively.
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INCARA
PHARMACEUTICALS
CORPORATION
NOTES
TO
CONSOLIDATED
FINANCIAL
STATEMENTS
(Continued)
D.
ACCRUED
EXPENSES
At
September
30, 2000
and 1999,
accrued
expenses
consisted
of the
following

(in
thousands):
2000 1999
---- ----
Payroll
related
liabilities.....
$ 446 $
305
Bucindolol
development
costs.....
1,350
1,619
Other.....
11 9 ------

$1,807
$1,933
======
====== E.
COMMITMENTS
The
Company
leases
office and
laboratory
space
under non
cancelable
operating
leases.
Rent
expense
under non
cancelable
operating
leases was
$423,000,
$1,147,000
and
$1,154,000
for the
fiscal years
ended
September
30, 2000,
1999 and
1998,
respectively.

The Company also leases equipment under capital leases. At September 30, 2000, the Company's non cancelable future minimum payments under lease arrangements were as follows (in thousands):

	Operating Leases	Capital Leases
2001	$ 116	$ 28
2002	-	28
2003	-	19
Total minimum lease payments	$ 116	75
Less: amount representing interest		(10)
Present value of future minimum lease payments		$ 65

======
The Company remains contingently liable through May 2007 on debt and lease obligations of approximately $8,328,000 assumed by the purchaser of IRL, including the IRL facility lease in Cranbury, New Jersey. F. NOTES PAYABLE
Notes payable at September 30, 2000 and 1999 consisted of the following (in thousands):

2000	1999
Note payable to North Carolina Biotechnology Center, including accrued interest at 8.75%, principal	

and interest due in December 2000.. $ 27 $ 25 Note payable to minority stockholder of Renaissance, including accrued interest at 5.79% - 29 Note payable to a financial institution, including accrued interest at 13.4%.. - 297 Note payable to IRL facility landlord, including accrued interest at 11.5%.... - 428 ------- ------- Notes payable, including current maturities 27 779 Less: current maturities (27) (197) ------- ------- Long term notes payable $ - $ 582 ======= =======

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INCARA
PHARMACETICALS
CORPORATION
NOTES
TO
CONSOLIDATED
FINANCIAL
STATEMENTS(Continued)
G.
STOCKHOLDERS'
EQUITY
Preferred
Stock: The
Certificate
of
Incorporation
of Incara
authorizes
the
issuance of
up to
3,000,000
shares of
Preferred
Stock, at a
par value
of $.01 per
share. The
Board of
Directors
has the
authority to
issue
Preferred
Stock in
one or
more
series, to
fix the
designation
and
number of
shares of
each such
series, and
to
determine
or change
the

designation, relative rights, preferences, and limitations of any series of Preferred Stock, without any further vote or action by the stockholders of the Company. No shares of Preferred Stock were outstanding at September 30, 2000 and 1999. Common Stock: In May 1998, Incara issued 494,823 shares of common stock as the first installment of the Transcell Merger (see Note J). In lieu of the second installment payment due to Interneuron, Interneuron

retained 281,703 shares of Incara common stock as part of the Restructuring (see Note I). On August 9, 1999, Incara issued 867,583 shares of Incara common stock, valued at approximately $1.38 per share, to the other former Transcell stockholders as payment for their second installment of the Transcell Merger in the principal amount of $1,202,000. Incara issued the third and final installment of the purchase price of 856,861 shares of Incara common

stock, valued at approximately $3.36 per share, to the former stockholders of Transcell on February 8, 2000. The issuance of these additional shares did not impact the Company's operating results, because the value of these shares was included in the determination of the purchase price of Transcell in fiscal 1998. In January and February 2000, Incara repurchased 104,100 shares of its common stock at a cost of $331,000 through purchases on the

stock market. In July 2000, Incara purchased from each of Lola M. Reid, Ph.D. and James D. Crapo, M.D., both of whom are consultants to Incara, 18,000 shares of Incara's common stock at a per share price of $2.25, the closing price as listed on Nasdaq on July 26, 2000. The shares repurchased had been issued to Drs. Reid and Crapo in the acquisitions of Renaissance and Aeolus on March 31, 2000. Restricted Stock: As an integral component of a management and employee

retention program designed to motivate, retain and provide incentive to the Company's management, employees and key consultants, the Company's Board of Directors adopted the 1999 Equity Incentive Plan (the "1999 Plan") in September 1999. The 1999 Plan provides for the grant of restricted stock ("Restricted Stock") awards which entitle employees and consultants to receive up to an aggregate of 1,400,000 shares of common stock upon satisfaction of specified

vesting periods. During September 1999, an aggregate of 1,209,912 shares of Restricted Stock were granted to employees and key consultants of the Company (the "Participants") in consideration of services rendered by the Participants to the Company, the cancellation of options for an equal number of shares of common stock and payment of the par value of the shares. A total of 520,600 shares of Restricted Stock were unvested at September 30, 2000. These remaining

shares of Restricted Stock vest in equal quarterly installments through October 2002. The Company has incurred and will continue to incur compensation expense through the vesting period of the Restricted Stock. The value of the Restricted Stock awards of 1,209,912 shares at the date of the grant totaled $755,000, based on the trading price of the Company's common stock of $0.625 per share. The value of the Restricted Stock is amortized on a straight-line basis over

the vesting period. The Company recognized $424,000 and $11,000 of expenses related to these awards during fiscal 2000 and 1999, respectively. Employee Stock Purchase Plan: In October 1995, Incara adopted the Employee Stock Purchase Plan (the "ESPP"). In April 2000, the stockholders approved an amendment to increase the common stock reserved for issuance under the ESPP to 400,000 shares. Offerings are for one-year periods beginning

on October 1 of each year (an "Offering") and are divided into two six-month Purchase Periods (the "Purchase Periods"). Employees may contribute up to ten percent (10%) of gross wages, with certain limitations, via payroll deduction, to the ESPP. Common stock is purchased at the end of each Purchase Period with employee contributions at the lower of 85% of the closing price of Incara's common stock on the first day of an Offering or the last day of the

related Purchase Period. As of September 30, 2000, Incara had sold 319,072 shares of common stock pursuant to the ESPP and 80,928 shares were reserved for future issuances. Stock Option Plan: Under Incara's 1994 Stock Option Plan (the "1994 Plan"), incentive stock options ("ISOs") or non-qualified stock options to purchase 2,500,000 shares of Incara's common stock may be granted to employees, directors and consultants of the Company.

The exercise price of the ISOs granted under the 1994 Plan must not be less than the fair market value of the common stock as determined on the date of the grant. The options may have a term up to 10 years. Options typically vest over three to four years following the date of the grant.

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INCARA PHARMACEUTICALS CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Stock option activity under the 1994 Plan was as follows:

Weighted Average

Shares
Exercise
Price

Outstanding
at
September
30,
1997.....
1,416,710
$ 9.89
Granted.....
1,901,886
$ 9.61
Exercised.....
(15,629) $
3.77
Cancelled.....
(1,032,835)
$19.18

Outstanding
at
September
30,
1998.....
2,270,132
$ 5.47
Granted.....
95,500 $
5.66
Exercised.....
(21,851) $
2.45
Cancelled.....
(1,359,220)
$ 7.53

Outstanding
at
September
30,
1999.....
984,561 $
2.70
Granted.....
781,540 $
3.93
Exercised.....

(140,000) $
0.36
Cancelled.....
(288,941) $
5.57

Outstanding
at
September
30,
2000.....
1,337,160
$ 3.05
==========

In August 1998, Incara's Board of Directors approved a resolution whereby current employees and consultants were granted the right to amend the terms of stock options with an exercise price greater than $11.00 per share. The amended options reduced the exercise price to $8.00 per share, which was the trading value of

Incara's stock on the date of the repricing, and extended the vesting period of the stock options. The details of stock options outstanding at September 30, 2000 were as follows:

Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding at September 30, 2000	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at September 30, 2000	Weighted Average Exercise Price

Price ------
---- -----

$ 0.04
17,029 $
0.04 6.1
years - - $
0.36
283,048 $
0.36 4.4
years
283,048 $
0.36 $ 0.60
- $ 0.81
90,500 $
0.63 5.7
years
83,832 $
0.63 $ 1.00
162,809 $
1.00 4.9
years
162,809 $
1.00 $ 1.75
- $ 2.00
141,855 $
1.88 9.5
years
66,855 $
1.75 $ 2.37
- $ 5.09
106,517 $
3.38 9.4
years
17,571 $
4.39 $ 5.12
458,000 $
5.12 9.5
years
426,998 $
5.12 $ 7.12
- $ 8.00
50,026 $
7.62 7.7
years
42,497 $
7.64
$11.03 -

$20.50
27,376
$14.42 5.6
years
27,376 $
14.42

1,337,160
$ 3.05 7.4
years
1,110,986
$ 3.08
==========
==========
Under the
principles
of APB
No. 25, the
Company
does not
recognize
compensation
expense
associated
with the
grant of
stock
options to
employees
unless an
option is
granted
with an
exercise
price at
less than
fair market
value.
SFAS 123
requires the
use of
option
valuation
models to
recognize
as expense
stock
option
grants to

consultants and to provide supplemental information regarding options granted to employees after September 30, 1995. The Company's pro forma information utilizing the Black-Scholes option valuation model for the fiscal years ended September 30, 2000, 1999 and 1998 is as follows:

	2000	1999	1998
Net loss (in thousands):			
As reported.....	$6,665	$19,598	$19,146
Pro forma.....	$6,965	$20,889	$22,353
Basic and diluted net loss per share:			
As reported.....			

$1.21
$2.98
$2.69 Pro
forma.....
$1.26
$3.17
$3.14 F-12
INCARA
PHARMACEUTICALS
CORPORATION
NOTES
TO
CONSOLIDATED
FINANCIAL
STATEMENTS
(Continued)
Pro forma
information
regarding
net loss
was
determined
as if the
Company
had
accounted
for its
employee
stock
options and
shares sold
under the
ESPP
under the
fair value
method of
SFAS 123.
The fair
value of
each option
grant is
estimated
on the date
of the grant
using the
Black-Scholes
option
valuation
model with
the

following weighted-average assumptions used for grants: 2000 1999 1998 ---- ---- ---- Dividend yield..... 0% 0% 0% Expected volatility..... 133% 85% 70% Risk-free interest rate..... 6.0% - 6.3% 4.8% - 5.3% 5.3% - 5.6% Expected option life after shares are vested..... 2 years 3 years 2 years For the fiscal years ended September 30, 2000, 1999 and 1998, all stock options issued were either issued at fair market value or were replacement stock options issued

pursuant to the Transcell Merger. During fiscal 1998, Transcell granted stock options to consultants with an exercise price below fair market value on the date of the grant. Warrants: In May 1998, Incara issued replacement stock warrants to purchase 17,783 shares of Incara common stock at an exercise price of $13.49 in connection with the Transcell Merger. As of September 30, 2000, warrants to purchase 66,816 shares were outstanding, 49,033 of which are exercisable

at an exercise price of $8.25 per share until February 2001, and 17,783 of which are exercisable at an exercise price of $13.49 per share until May 2003. H. INCOME TAXES As of September 30, 2000 and 1999, the Company had federal net operating loss carryforwards of $57,359,000 and $56,375,000, respectively, and state operating loss carryforwards of $18,493,000 and $17,509,000, respectively. The use of these federal net operating loss carryforwards

might be subject to limitation under the rules regarding a change in stock ownership as determined by the Internal Revenue Code. The federal net operating losses will begin to expire in 2010. The state net operating losses will begin to expire in 2001. Significant components of the Company's deferred tax assets at September 30, 2000 and 1999 consisted of the following (in thousands):

	2000	1999
Net operating loss carryforwards.....	$ 20,448	$ 20,063
AMT		

credit carryforwards..... 37 37
Research and development credit carryforwards..... 1,195 1,195
Accrued payroll related liabilities..... 1,204 1,521
Charitable contribution carryforwards..... 637 441
Other..... 495 533

Total deferred tax assets..... 24,016 23,790
Valuation allowance for deferred assets..... (24,016) (23,790)

Net deferred tax asset..... $ - $ -
==========
==========
Due to the uncertainty surrounding the

realization of the favorable tax attributes in future tax returns, all of the deferred tax assets have been fully offset by a valuation allowance. The change in the valuation allowance is primarily a result of the net operating loss carryforwards.

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INCARA PHARMACEUTICALS CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Taxes computed at the statutory federal income tax rate of 34% are reconciled to the provision for income taxes as follows (dollars in

thousands):
2000 1999
1998 ----
---- ----
Effective
tax
rate.....
0% 0% 0%
== == ==
United
States
Federal
statutory
rate.....
$(2,266)
$(6,663)
$(6,510)
State taxes
(net of
federal
benefit).....
1 (273) 853
Change in
valuation
reserves.....
226 4,909
4,394 Gain
on sale of
subsidiary.....
- 2,371 -
Pipeline
research
and
development.....
2,273 -
1,464
Other.....
(234) (344)
(201)

Provision
for income
taxes.....
$ - $ - $ -
=======
=======
=======
I.

BUCINDOLOL TRANSACTIONS

In September 1994, Incara acquired 80.0% of the outstanding stock of CPEC. CPEC held the exclusive, worldwide license from Bristol-Myers Squibb Company to develop bucindolol for congestive heart failure and left ventricular dysfunction. In December 1995, the Company entered into a collaboration with Astra Merck Inc. ("Astra Merck") for the development of bucindolol in the United States (the "Astra Merck

Collaboration"). During the fiscal year ended September 30, 1998, the Company recognized contract revenue of $834,000 from payments made by Astra Merck to the Company, exclusive of a termination fee of $4,000,000 received in September 1998 discussed below. During the fiscal year ended September 30, 1998, Astra Merck funded $6,065,000 of the Company's research and development expenses. These additional amounts did not flow through the

Company's statements of operations, because they were offset against related expenses. Pursuant to the terms of the Astra Merck Collaboration, the Company paid Astra Merck $10,000,000 in December 1997, which had been accrued as a liability at September 30, 1997. In July 1998, Astra Merck's business was restructured to combine it with Astra AB's wholly-owned subsidiary, Astra USA Inc., in a new limited partnership in which Astra AB had

management control as the general partner. The new company, Astra Pharmaceuticals, had an expanded product line that included a beta-blocker (metoprolol succinate). Because metoprolol and bucindolol were both beta-blockers being investigated for heart failure, Astra Pharmaceuticals and the Company agreed in September 1998 to terminate the Astra Merck Collaboration. Pursuant to the Termination and Settlement Agreement, Astra Pharmaceuticals returned to the Company all rights, material

and information relating to bucindolol and paid it a termination fee in the amount of $4,000,000. This payment was immediately recognized as contract and license fee revenue because the Company had no ongoing obligations. In December 1996, the Company entered into the Knoll Collaboration with Knoll to develop bucindolol for the Knoll Territory. Knoll and the Company had agreed to share the development costs of bucindolol for the Knoll Territory. In general, Knoll was

to pay approximately 60% of certain development and marketing costs and the Company was to pay approximately 40% of such costs, subject to certain maximum dollar limitations. The Company recognized contract and license fee revenue from the Knoll Collaboration of $26,000 and $149,000 for the fiscal years ended September 30, 1999 and 1998, respectively. On July 15, 1999, Incara restructured its corporate relationship with Interneuron to reduce Interneuron's majority

ownership of Incara in exchange for an increased ownership by Interneuron of CPEC. Prior to the Restructuring, CPEC was owned 80.1% by Incara and 19.9% by Interneuron. As a preliminary step in the Restructuring, Incara acquired Interneuron's 19.9% interest in CPEC. Incara redeemed 4,229,381 of the 4,511,084 shares of Incara Common stock owned by Interneuron, in exchange for a 65.0% ownership of CPEC and cancellation of liabilities owed to Interneuron by Incara

and CPEC which totalled $2,421,000. This cancellation was treated as a contribution to capital by Interneuron to Incara. The Company's net investment in CPEC of $332,000 at September 30, 2000 is included in Prepaids and other current assets in the accompanying consolidated balance sheet. The Company's share of CPEC's net operating expenses since the date of the Restructuring are included in research and development expenses in the accompanying consolidated statements

of operations. Before the Restructuring, Incara had funded approximately 80.1% of the net worldwide expenses related to bucindolol and Interneuron funded approximately 19.9%, in proportion to their respective ownership interests in CPEC. After the Restructuring, Incara and Interneuron are responsible for funding 35.0% and 65.0%, respectively, of CPEC's expenses related to the development of bucindolol in the United States and Japan (the "CPEC Territory"). As part of the Restructuring,

Incara received an exclusive license of CPEC's rights in the Knoll Territory and is responsible for all bucindolol expenses in the Knoll Territory.

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INCARA PHARMACETICALS CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS(Continued)

On July 29, 1999, the double-blind, placebo-controlled, Phase 3 study of bucindolol known as BEST (Beta-blocker Evaluation of Survival Trial) was terminated earlier than scheduled, based on an interim analysis by the Data and Safety Monitoring Board that treatment with bucindolol

did not demonstrate a statistically significant improvement in survival in the patient population as a whole. Based on the information, the Company does not expect to pursue the compound further for this or any other indication. All estimated BEST termination costs were accrued as of September 30, 1999. On August 3, 1999, Knoll terminated the Knoll Collaboration. Knoll and Incara also terminated the Phase 3 clinical study of bucindolol being conducted in Europe, which was

known as BEAT (Bucindolol Evaluation after Acute myocardial infarction Trial). All estimated BEAT termination costs were accrued as of September 30, 1999. J. ACQUISITIONS AND DISPOSITION Renaissance Cell Technologies, Inc. and Aeolus Pharmaceuticals, Inc. On March 31, 2000, Incara purchased all of the minority interests of Renaissance and Aeolus. Prior to the acquisitions, Incara owned 78.0% of Renaissance and 65.8% of Aeolus. Incara issued 1,220,041 shares of its common

stock in exchange for the subsidiaries' minority ownership. The acquisitions have been accounted for using the purchase method of accounting. The total purchase price of $6,664,000 consisted of 1,220,041 shares of Incara's common stock with a fair value of $5.46 per share, based on the price of the Company's common stock at the date of acquisition. The total purchase price was allocated to purchased in-process research and development and immediately charged to operations

because at the date of the acquisition the in-process research purchased was in preclinical stages, feasibility had not been established and it was deemed to have no alternative future use. Additionally, Renaissance and Aeolus had no workforce or other tangible fixed assets. Renaissance and Aeolus had incurred approximately $10,000,000 in research and development costs prior to the acquisition of the minority interests by Incara. Incara expects that it will take until at least

2006 to complete development of all aspects of the research and that Renaissance and Aeolus will need to spend in excess of an additional $50,000,000 to do so. Transcell Technologies, Inc. In May 1998, Incara acquired all of the outstanding stock of Transcell in a merger of Transcell with and into Incara, and also acquired related technology rights held by Interneuron in exchange for Incara common stock with an aggregate market value of $14,200,000. In addition,

Incara issued replacement stock options and warrants to purchase 241,705 shares and 17,783 shares, respectively, of Incara common stock to Transcell employees, consultants and warrant holders, with a total estimated value of $1,507,000. Prior to the Transcell Merger, Incara and Transcell were both majority-owned subsidiaries of Interneuron. Under the terms of the Agreement and Plan of Merger between Incara, Transcell and Interneuron dated March 2, 1998, Transcell

stockholders received Incara common stock in three installments. The first installment of 320,151 shares was issued upon closing the transaction on May 8, 1998 (the "Closing"). In exchange for certain license and technology rights held by Interneuron, and for Interneuron's continuing guarantee of certain of Transcell's lease obligations, Incara issued to Interneuron 174,672 shares of Incara common stock at Closing with a value of $3,000,000 at the date of issuance and will

pay Interneuron a royalty on net sales of certain products that may result from the Merck Collaboration. In lieu of the second installment payment due to Interneuron, Interneuron retained 281,703 shares of Incara common stock as part of the Restructuring. On August 9, 1999, Incara issued 867,583 shares of Incara common stock, valued at approximately $1.38 per share, to the other former Transcell stockholders as payment for their second installment of the Transcell Merger in the

principal amount of $1,202,000. On February 8, 2000, Incara issued 856,861 shares of Incara common stock, valued at approximately $3.36 per share, to Interneuron and the other former Transcell stockholders as payment for the third and final installment. The acquisition of Interneuron's 77.9% ownership interest in Transcell by Incara was treated in a manner similar to a "pooling-of-interests", because it represented a transfer of stock between entities under

common control. The acquisition of the non-Interneuron ownership interest was accounted for using the "purchase" method of accounting. The Company incurred a charge to operations of $5,343,000 in fiscal 1998 for the purchase of the non-Interneuron interest in Transcell, because feasibility of the in-process research and development was not yet established and the technology had no alternative future use at the date of the acquisition. All of Transcell's prior

results of operations were combined with the results of operations of the Company, because Transcell's minority interest owners had no responsibility to fund their share of the losses of Transcell.

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INCARA PHARMACETICALS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS(Continued)

On December 29, 1999, the Company sold the former Transcell operation, known as IRL, to a private pharmaceutical company for $11,000,000 in cash and the right to receive up to an

additional $4,000,000 if a compound originating from the Merck Collaboration reaches preclinical and clinical trial milestones. The Company currently does not expect to receive any additional payments from the purchaser. The transaction involved the sale of assets associated with IRL, including rights under the Merck Collaboration and the assumption of related liabilities by the purchaser. The Company recognized a gain of $9,751,000 on the sale of IRL. The Company

remains contingently liable through May 2007 on debt and lease obligations of approximately $8,328,000 assumed by the purchaser, including the IRL facility lease in Cranbury, New Jersey. K. AGREEMENTS UNC License Renaissance has a sponsored research agreement (the "UNC Agreement") with the University of North Carolina at Chapel Hill ("UNC") which covers research at UNC by scientists in the area of hepatic stem cells and which grants Renaissance a first option to

obtain an exclusive license to inventions resulting from the agreement with UNC. Renaissance has agreed to reimburse UNC for certain costs incurred in connection with the research, of which $338,000 remained to be paid as of September 30, 2000. In August 1999, Renaissance obtained an exclusive worldwide license (the "UNC License") from UNC to make, use and sell products using proprietary information and technology developed under the UNC Agreement. Renaissance paid

license fees of $75,000 to UNC and will also pay milestones on certain development events and royalties on net sales. Renaissance is also obligated to pay patent filing, prosecution, maintenance and defense costs. Unless terminated earlier, the UNC License continues until the last underlying patent expires. Opocrin License In July 1998, Incara licensed a development compound ("OP2000") from Opocrin S.p.A., of Modena, Italy ("Opocrin"). Incara is investigating

the use of OP2000 as a drug for the treatment of inflammatory bowl disease. The license is worldwide except for Japan and Korea. During fiscal 1998, Incara made a $1,000,000 license fee payment to Opocrin, which was expensed by the Company because the compound was in the early clinical stage of development. Incara is responsible for conducting clinical trials for OP2000 and is required to make additional milestone payments to Opocrin upon initiation

of Phase 3 clinical trials, upon filing for regulatory approval, upon obtaining regulatory approval and upon achieving specified annual sales.

Merck Collaboration

In July 1997, Transcell and Interneuron entered into the Merck Collaboration to discover and commercialize certain novel antibacterial agents. The agreement provided for Merck to make initial payments totaling $2,500,000 which included a non-refundable commitment fee of $1,500,000 and a non-refundable option

payment of $1,000,000 plus research support during the first two years of the agreement. Based upon estimated relative value of such licenses and rights, the commitment fee and option payment was shared two-thirds by the Company and one-third by Interneuron. The Company's share of revenue in conjunction with this agreement was $100,000, $2,063,000 and $1,138,000 for the fiscal years ended September 30, 2000, 1999 and 1998, respectively,

including a $1,500,000 milestone payment received from Merck in August 1999. In conjunction with the sale of IRL, the Company has transferred its rights and obligations under the Merck Collaboration and its licenses with Princeton University to the purchaser. Duke Licenses Aeolus has obtained exclusive worldwide licenses (the "Duke Licenses") from Duke University ("Duke") to develop, make, have made, use and sell products using certain technology in the field

of free radical and antioxidant research, developed by certain scientists at Duke. Future discoveries in the field of antioxidant research from these scientists' laboratories at Duke are also covered by the Duke Licenses. The Duke Licenses require Aeolus to use its best efforts to pursue development of products using the licensed technology and compounds. These efforts are to include the manufacture or production of products for testing, development and sale. Aeolus is also obligated

to use its best efforts to have the licensed technology cleared for marketing in the United States by the U.S. Food and Drug Administration and in other countries in which Aeolus intends to sell products using the licensed technology. Aeolus will pay royalties to Duke on net product sales during the term of the Duke Licenses, and milestone payments upon certain regulatory approvals and annual sales levels. In addition, Aeolus is obligated under the Duke

Licenses to pay all or a portion of patent prosecution, maintenance and defense costs. Unless earlier terminated, the Duke Licenses continue until the expiration of the last to expire issued patent on the licensed technology.

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INCARA PHARMACETICALS CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS(Continued)

National Jewish Medical and Research Center Agreement

Aeolus has a sponsored research agreement with National Jewish Medical and

Research Center ("NJC") which grants Aeolus an option to negotiate a royalty-bearing exclusive license for certain technology, patents and inventions resulting from research by certain individuals at NJC within the field of antioxidant, nitrosylating and related areas. Aeolus has agreed to support certain of NJC's costs incurred in performance of the research, of which $75,000 remained to be paid as of September 30, 2000.

L. EQUITY FINANCING

In August 2000, Incara

entered into a definitive agreement with Torneaux Fund Ltd. ("Torneaux"), an institutional investor, for an equity financing facility covering the purchase of Incara's common stock over 15 months. Under this facility, Incara will control the amount and timing of stock sold to Torneaux, with the amount of the investment being dependent, in part, on Incara's stock price. Assuming Incara's stock price maintains a minimum threshold, the cumulative potential investment

is anticipated to exceed $3,000,000 and is capped at $18,900,000. The agreement includes the issuance of warrants to purchase an amount of common stock equal to 15% of the common stock shares purchased and is subject to a number of conditions. Incara's stockholders approved this financing transaction in October 2000. M. REVISION OF LOSS PER SHARE In July 2001, the Company determined its earnings per share calculation required revision as the Company

had included certain restricted common shares in the earnings per share calculation which shares should only be considered in calculating earnings per share during periods in which the Company had income. As a result, the basic and diluted loss per share for the fiscal year ended September 30, 2001 as reported was $1.06 and as revised was $1.21. F-17 INCARA PHARMACEUTICALS CORPORATION CONSOLIDATED BALANCE SHEETS (Dollars in thousands, except per share data) March 31,

	September 30, 2001	2000
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 4,954	$ 1,877
Marketable securities	-	4,678
Accounts receivable from Incara Development	385	-
Other accounts receivable	-	197
Prepaids and other current assets	582	403
Total current assets	5,921	7,155
Property and equipment, net	338	193
Other assets	356	-
	$ 6,615	$ 7,348
LIABILITIES		

AND STOCKHOLDERS' EQUITY
Current liabilities:
Accounts payable $ 843 $ 637
Accrued expenses 218 1,807
Accumulated losses of Incara Development in excess of investment 308 -
Current portion of capital lease obligations 23 22
Current portion of note payable - 27

Total current liabilities 1,392 2,493
Long-term portion of capital lease obligations 31 43
Stockholders' equity:
Preferred stock, $.01 par value per share, 3,000,000

shares authorized Series C convertible exchangeable preferred stock, 20,000 shares authorized; 12,015 and no shares issued and outstanding as of March 31, 2001 and September 30, 2000, respectively (liquidation value of $18,031) 1 - Series B convertible preferred stock, 600,000 shares authorized; 28,457 and no shares issued and outstanding as of March 31, 2001 and September 30, 2000, respectively 1 - Common stock, $.001 par value per share, 40,000,000 shares authorized; 8,385,171

and 7,365,849 shares issued and outstanding at March 31, 2001 and September 30, 2000, respectively | 8 | 7
Additional paid-in capital | 99,046 | 88,951
Restricted stock | (179) | (239)
Accumulated deficit | (93,685) | (83,907)
Total stockholders' equity | 5,192 | 4,812
$ 6,615 | $ 7,348

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

CONSOLIDATED
STATEMENTS
OF
OPERATIONS
(Unaudited)
(In
thousands,
except per
share data)
Six Months
Ended
March 31,

2001 2000

Revenue:
Cell
processing
revenue $ 3
$ -
Contract
revenue -
100

Total
revenue 3
100

Costs and
expenses:
Research
and
development
3,375
3,625
Purchase of
in-process
research
and
development
- 6,664
General
and
administrative
1,446
1,252

Total costs and expenses 4,821 11,541

Loss from operations (4,818) (11,441)
Gain on sale of division - 9,751
Gain on settlement of accrued liability 767 -
Equity in loss of Incara Development (5,669) -
Investment income, net 156 153

Net loss (9,564) (1,537)
Preferred stock dividend accreted (214) -

Net loss attributable to common stockholders $ (9,778) $ (1,537)
==========
==========
Net loss

per
weighted
share
attributable
to common
stockholders:
Basic and
diluted $
(1.33) $
(0.35)
==========
==========
Weighted
average
common
shares
outstanding
7,339
4,364
==========
==========
The
accompanying
notes are
an integral
part of
these
consolidated
financial
statements.
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INCARA
PHARMACEUTICALS
CORPORATION
CONSOLIDATED
STATEMENTS
OF CASH
FLOWS
(Unaudited)
(In
thousands)
Six Months
Ended
March 31,

2001 2000

Cash flows
from

operating activities: Net loss $ (9,564) $ (1,537) Adjustments to reconcile net loss available to common stockholders to net cash used in operating activities: Depreciation and amortization 55 210 Noncash compensation 63 363 Purchase of in-process research and development - 6,664 Gain on sale of division - (9,751) Equity in loss of Incara Development 5,804 - Loss on disposal of property and equipment - 35 Gain on settlement of accrued liability (767) - Change in assets and

liabilities:
Accounts receivable (382) 69
Prepaids and other current assets (179) (22)
Other assets (356) -
Accounts payable and accrued expenses (89) (1,010)

Net cash used in operating activities (5,415) (4,979)

Cash flows from investing activities:
Proceeds from sale of division - 11,000
Proceeds from sales of marketable securities 4,678 2,553
Purchases of property and equipment (200) (31)

Net cash provided by investing activities 4,478 13,522

Cash flows from financing activities: Proceeds from issuance of common stock 2,638 52 Proceeds from issuance of Series B preferred stock and warrants 1,414 - Repurchase of Incara common stock - (332) Principal payments on notes payable (27) (56) Principal payments on capital lease obligations (11) (92)

Net cash provided by (used in)

financing activities 4,014 (428)

Net increase in cash and cash equivalents 3,077 8,115 Cash and cash equivalents at beginning of period 1,877 2,407

Cash and cash equivalents at end of period $ 4,954 $ 10,522
==========
Supplemental disclosure of financing activities: Common stock issued in settlement of accrued liability $ 416 $ -
==========
Retirement of common stock in connection with settlement

of accrued liability $ 83 $ -

Series C preferred stock issued for investment in Incara Development $ 5,496 $ -

Preferred stock dividend accreted $ 214 $ -

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

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INCARA PHARMACEUTICALS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A. Basis of Presentation

The "Company" refers collectively to Incara Pharmaceuticals

Corporation, a Delaware corporation ("Incara"), its wholly owned subsidiaries, Aeolus Pharmaceuticals, Inc., a Delaware corporation, and Incara Cell Technologies, Inc., a Delaware corporation, formerly Renaissance Cell Technologies, Inc., and its equity investee, Incara Development, Ltd., a Bermuda corporation ("Incara Development"). As of March 31, 2001, Incara owned 80.1% of Incara Development. Incara is developing therapies focused on tissue protection, repair and regeneration. In particular,

the Company is focused on developing adult stem cell therapy for the treatment of liver failure. The Company is also conducting research and development of a series of catalytic antioxidant molecules and, in collaboration with Elan Corporation, plc, is conducting a Phase 2/3 clinical trial of an ultra-low molecular weight heparin for the treatment of ulcerative colitis. All significant intercompany activity has been eliminated in the preparation of the consolidated financial statements.

The unaudited consolidated financial statements have been prepared in accordance with the requirements of Form 10-Q and Rule 10-01 of Regulation S-X. Some information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to those rules and regulations. In the opinion of management, the accompanying unaudited consolidated financial statements include all adjustments (consisting

only of normal recurring adjustments) necessary to present fairly the consolidated financial position, results of operations and cash flows of the Company. The consolidated balance sheet at September 30, 2000 was derived from the Company's audited financial statements included in the Company's Annual Report on Form 10-K. The unaudited consolidated financial statements included herein should be read in conjunction with the audited consolidated financial statements

and the notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2000 and in the Company's other Securities and Exchange Commission ("SEC") filings. Results for the interim period are not necessarily indicative of the results for any other interim period or for the full fiscal year.

B. Recent Accounting Pronouncements

The Company adopted Statement of Financial Accounting Standards No. 133, as amended,

"Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"), in October 2000. SFAS 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives), and for hedging activities. The Company does not currently use nor does it intend in the future to use derivative instruments, and, therefore, the adoption of SFAS 133

did not have any impact on the Company's financial position or results of operations.

C. Net Loss Per Weighted Share Attributable to Common Stockholders

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The Company computes basic net loss per weighted share attributable to common stockholders using the weighted average number of shares of common stock outstanding during the period. Diluted net loss per weighted share attributable to common stockholders is computed using the weighted average

number of shares of common and dilutive potential common shares outstanding during the period. Potential common shares consist of stock options, restricted common stock, warrants and convertible preferred stock using the treasury stock method and are excluded if their effect is antidilutive. As of March 31, 2001, diluted weighted average common shares excludes incremental shares of approximately 4,854,000 related to stock options, restricted

common stock, convertible preferred stock, and warrants to purchase common and preferred stock. These shares are excluded due to their antidilutive effect as a result of the Company's loss from operations during the three and six months ended March 31, 2001. D. Commitments and Contingencies

---

In December 1999, Incara sold IRL, its anti-infectives division, to a private pharmaceutical company. Incara remains contingently liable through May 2007 on remaining

debt and lease obligations of approximately $7,400,000 assumed by the purchaser, including the IRL facility lease in Cranbury, New Jersey. In January 2001, Incara entered into a five-year non-cancelable operating lease for additional office and laboratory facilities, with future minimum payments under the new lease totaling $1,926,000.

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INCARA PHARMACEUTICALS CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

E. Knoll Settlement

On

December 20, 2000, Incara entered into a Settlement Agreement and Release with Knoll AG ("Knoll") to resolve a dispute regarding a payable owed by Incara to Knoll for a discontinued program. As of the settlement date, the accrued liability, net of related receivables, was $1,250,000. Incara paid Knoll $70,000 and issued to Knoll 175,000 shares of common stock (with a fair value of approximately $416,000) in exchange for a full release of all amounts owed to

Knoll. This settlement eliminated the accrued liability owed to Knoll and reduced Incara's net loss by $767,000 in the first quarter of fiscal 2001.

F. Elan Transaction

On January 22, 2001, Incara closed on a collaborative transaction with Elan Corporation, plc, an Irish company ("Elan"), Elan International Services, Ltd., a Bermuda company ("Elan International"), and Elan Pharma International Limited, an Irish company ("Elan Pharma"). As part of the transaction, Elan International

and Incara formed a Bermuda corporation, Incara Development, Ltd., to develop OP2000. Incara owns all of the common stock and 60.2% of the non-voting preferred shares of Incara Development and Elan International owns 39.8% of the non-voting preferred shares of Incara Development. Of the outstanding combined common and non-voting preferred shares of Incara Development, Incara owns 80.1% and Elan International owns 19.9%. As part of the transaction,

Elan, Elan Pharma and Incara entered into license agreements under which Incara licensed to Incara Development the OP2000 compound and Elan Pharma licensed to Incara Development proprietary drug delivery technology. As part of the transaction, Elan International also purchased 825,000 shares of Incara's common stock, 28,457 shares of Incara Series B non-voting convertible preferred stock ("Series B Stock") and a five-year warrant to purchase

22,191 shares of Series B Stock at an exercise price of $72.12 per share for an aggregate purchase price of $4,000,000. Each share of Series B Stock is convertible into ten shares of common stock. Elan International also purchased shares of Incara Series C convertible exchangeable non-voting preferred stock ("Series C Stock"). The Series C Stock has a face value of $12,015,000 and bears a mandatory stock dividend of 7%, compounded annually. The Series C Stock is exchangeable at the

option of Elan International at any time for all of the preferred stock of Incara Development held by Incara which, if exchanged, would give Elan International ownership of 50% of the initial amount of combined common and preferred stock of Incara Development. After December 20, 2002, the Series C Stock is convertible by Elan International into shares of Incara's Series B Stock at the rate of $64.90 per share. If the Series C Stock is outstanding as of December 21, 2006, Incara will

exchange the Series C Stock and accrued dividends, at its option, for either cash or shares of stock and warrants of Incara having a then fair market value of the amount due. The proceeds from the issuance of the Series C Stock were contributed by Incara to Incara Development. Consequently, the value initially recorded as Incara's investment in Incara Development is the same as the fair value of the Series C Stock issued, which was approximately $5,496,000. This value is the estimated fair market

value of Incara's common stock into which the Series C Stock could have converted, calculated as of the closing date. The technology obtained by Incara Development from Elan and Elan Pharma was expensed at inception because the feasibility of using the contributed technology in conjunction with OP2000 had not been established and Incara Development had no alternative future use for the contributed technology. Incara immediately expensed as equity in loss of Incara

Development its investment in Incara Development, reflective of Incara's pro rata interest in Incara Development. From the date of issue up to December 21, 2006, Incara will accrete the Series C Stock from its recorded value up to its face value plus the 7% dividend. Upon the later of the completion of enrollment of a Phase 2/3 clinical trial for OP2000 or December 21, 2001, Elan International will purchase $1,000,000 of Incara's Series B Stock at a per share price that will be ten times the greater of

(a) the average per share price of Incara common stock for the day prior to the purchase, or (b) a 25% premium to the average daily price per share of Incara common stock for the 60 trading day period immediately prior to the purchase. In addition, as part of the $1,000,000 payment, Incara will issue to Elan International a five-year warrant for 20% of the shares of Series B Stock purchased by Elan International. The exercise price of the Series B Stock under this warrant will be

equal to twice the per share purchase price of the Series B Stock purchased on the same date. Elan International and Incara intend to fund Incara Development pro rata, based on their respective percentage ownership of the combined outstanding common and preferred stock of Incara Development. Subject to mutual agreement, Elan Pharma will lend Incara up to $4,806,000 to fund Incara's pro rata share of development funding for Incara Development. In return, Incara

issued a convertible promissory note that bears interest at 10% compounded semi-annually on the amount outstanding thereunder. After December 20, 2002, the note is convertible at the option of Elan Pharma into shares of Series B Stock at $43.27 per share. The note will mature on December 21, 2006, when the outstanding principal plus accrued interest will be due and payable. Incara has the option to repay the note either in cash or in shares of Series B Stock and warrants

having a then fair market value of the amount due. As of March 31, 2001, Incara had not borrowed any funds pursuant to this note.

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INCARA PHARMACEUTICALS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

While Incara owns 80.1% of the outstanding stock of Incara Development, Elan and its subsidiaries have retained significant minority investor rights that are considered "participating rights" as defined in the Emerging Issues Task

Force Consensus No. 96-16. Accordingly, Incara does not consolidate the financial statements of Incara Development, but instead accounts for its investment in Incara Development under the equity method of accounting. Net losses of Incara Development will be recognized by Incara at its 80.1% interest to the extent of Incara's investments, advances and commitments to make future investments in or advances to Incara Development. Further, because Elan can exchange its investment

in Incara's Series C Stock for Incara's 30.1% preferred interest in Incara Development, Incara will only recognize 50% of any accumulated net earnings of Incara Development. During the six months ended March 31, 2001, Incara's equity in loss of Incara Development was $5,669,000, which included $5,496,000 for Incara's interest in the immediate write-off at inception of the contributed technology by Elan and Elan Pharma to Incara Development and $173,000 for net

losses. G. REVISION OF LOSS PER SHARE In July 2001, the Company determined its earnings per share calculation required revision as the Company had included certain restricted common shares in the earnings per share calculation which shares should only be considered in calculating diluted earnings per share during periods in which the Company had income. As a result, the basic and diluted loss per share for the six months ended March 31,

2001 and
2000 as
reported
was $1.26
and $0.29,
respectively,
and as
revised was
$1.33 and
$0.35,
respectively.
F-23

Part II

INFORMATION
NOT
REQUIRED
IN THE
PROSPECTUS

Item 13.
Other
Expenses
of Issuance
and
Distribution.
The
following
table sets
forth the
costs and
expenses
payable by
the
registrant
in
connection
with the
sale of
securities
being
registered.
All
accounts
are
estimates
except the
SEC
registration
fee and the

Nasdaq National Market listing fee.	
SEC Registration fee	$3,200
Nasdaq National Market listing fee	17,500
Printing and related expenses	36,000
Legal fees and expenses	30,000
Accounting fees and expenses	14,000
Blue sky fees and expenses	5,000
NASD	

filing fee
.....
1,500

Other
selling
expenses.....
70,000

Miscellaneous
and
registration
costs .....
2,800

Total
.....
$180,000

Item 14.
Indemnification
of
Directors
and
Officers.
Section
145
("Section
145") of
the
Delaware
General
Corporation
Law, as
amended,
generally
provides
that a
director or
officer of a
corporation
(i) shall be
indemnified
by the

corporation for all expense of such legal proceedings when he or she is successful on the merits, (ii) may be indemnified by the corporation for the expenses, judgments, fines and amounts paid in settlement of such proceedings (other than a derivative suit), even if he or she is not successful on the merits, if he or she acts in good faith and in a manner he or she reasonably believes to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or

proceedings, had no reasonable cause to believe his or her conduct was unlawful, and (iii) may be indemnified by the corporation for the expenses of a derivative suit (a suit by a stockholder alleging a breach by a director or officer of a duty owed to the corporation), even if he or she is not successful on the merits, if he or she acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interest of the corporation. No indemnification may be

made under clause (iii) above, however, if the director or officer is adjudged liable for negligence or misconduct in the performance of his or her duties to the corporation, unless a corporation determines that, despite such adjudication, but in view of all the circumstances, he or she is entitled to indemnification. The indemnification described in clauses (ii) and (iii) above may be made by upon a determination that indemnification is proper because the applicable standard of conduct has been met. Such a determination

may be made by a majority of a quorum of disinterested directors, independent legal counsel, the stockholders or a court of competent jurisdiction. The Company's Amended and Restated Bylaws provide in substance that, to the fullest extent permitted by Delaware law as it now exists or as amended, each director and officer shall be indemnified against reasonable costs and expenses, including attorneys' fees and any liabilities which he or she may

incur in connection with any action to which he or she may be made a party by reason or his or her being or having been a director or officer of the Registrant or any of its affiliated enterprises. The indemnification provided by the Company's Bylaws is not II-1 deemed exclusive of or intended in any way to limit any other rights to which any person seeking indemnification may be entitled. Section 102(b)(7) of the Delaware General Corporation Law, as amended, permits a

corporation to provide in its Certificate of Incorporation that a director of the corporation shall not be personally liable to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under

Section 174 of the Delaware General Corporation Law, or (iv) for any transaction from which the director derived an improper personal benefit. The Company's Amended and Restated Certificate of Incorporation provides for the elimination of personal liability of a director for breach of fiduciary duty, as permitted by Section 102(b)(7) of the Delaware General Corporation Law. Reference is made to Section 5 of the Placement Agency Agreement contained in Exhibit 1.1 hereto, indemnifying

our officers and directors against certain liabilities under the Securities Act. The Registrant maintains liability insurance insuring the Registrant's officers and directors against liabilities that they may incur in such capacities.

Item 15. Recent Sales of Unregistered Securities.

Incara issued an aggregate of 1,161,781 shares of its common stock in connection with the purchase of the minority security interests of Aeolus Pharmaceuticals, Inc. and Renaissance

Cell Technologies, Inc. on March 31, 2000. Through this purchase, Aeolus and Renaissance became wholly owned subsidiaries of Incara. Prior to March 31, 2000, Incara owned only a majority of the Aeolus and Renaissance securities. The shares were issued pursuant to an exemption from registration under Section 4(2) of the Act. As part of this transaction, Incara agreed to register these shares under the Act so the shares would be freely tradable.

Incara registered the shares under the Act by filing a registration statement with the Securities and Exchange Commission, which declared the registration statement effective in September 2000. On December 20, 2000, Incara issued 175,000 shares (the "Shares") of its common stock, par value $.001, to Knoll AG pursuant to a Settlement Agreement and Release in settlement of a dispute regarding a payable owed by Incara to Knoll for a discontinued program. The Shares

had a value of approximately $416,000. The Shares were issued pursuant to an exemption from registration under Section 4(2) of the Securities Act of 1933, as amended (the "Act"). As part of the transaction, Incara agreed to register the Shares under the Act so the Shares would be freely tradable. Incara registered the Shares under the Act by filing a registration statement with the Securities and Exchange Commission, which declared the registration statement

effective in January 2001. On January 22, 2001, Incara closed on a transaction in which, Elan purchased 825,000 shares of Incara's common stock, 28,457 shares of Incara Series B non-voting convertible preferred stock and a five-year warrant to purchase 22,191 shares of Series B preferred stock at an exercise price of $72.12 per share for an aggregate purchase price of $4,000,000. Each share of Series B preferred stock is convertible into ten shares of common stock. Elan

also purchased 12,015 shares of Incara Series C convertible exchangeable non- voting preferred stock. This Series C preferred stock has a face value of $12,015,000 and bears a mandatory stock dividend of 7%, compounded annually. The Series C preferred stock is exchangeable at the option of Elan at any time for all of the preferred stock of Incara Development, Ltd. held by Incara which, if exchanged, would give Elan ownership of 50% of the initial amount of combined common and

preferred stock of Incara Development. After December 20, 2002, the Series C preferred stock is convertible by Elan into shares of Incara's Series B preferred stock at the rate of $64.90 per share. If the Series C preferred stock is outstanding as of December 21, 2006, Incara will exchange the Series C preferred stock and accrued dividends, at its option, for either cash or shares of stock and warrants of Incara having a then fair market value of the amount due. This transaction was exempt

from registration under Section 4(2) of the Securities Act of 1933, or Regulation S. II-2 Item 16. Exhibits. The following exhibits are filed as part of this Registration Statement:

Exhibit Number	Description
1.1+	Placement Agency Agreement dated June 1, 2001, between Incara Pharmaceuticals Corporation and Petkevich & Partners, LLC
3.1	Certificate of Incorporation, as amended/(x)/
3.2	Bylaws/(a)/
3.3	Amendment to Bylaws dated September

23, 1999/(m)/
4.1 Form of Common Stock Certificate/(m)/
4.2 Form of Warrant to be issued to Torneaux Fund Ltd./(w)/
4.3 Warrant to Purchase Shares of Series B Preferred Stock issued to Elan International Services, Ltd./(t)/
5.1+ Opinion of Wyrick Robbins Yates & Ponton LLP 10.1 Form of Investors' Rights Agreement/(a)/
10.4* License Agreement between Duke University and Aeolus Pharmaceuticals, Inc., dated July 21, 1995/(a)/
10.7 Acquisition

Agreement relating to the acquisition by Intercardia, Inc. of 80% of CPEC, Inc. dated May 13, 1994, as amended/(a)/

10.9 Office Lease between Highwoods/Forsyth Limited Partnership and Intercardia, Inc., dated April 24, 1995/(a)/

10.10 Master Equipment Lease between Phoenix Leasing Incorporated and Intercardia, Inc., dated June 12, 1995, and related Sublease and Acknowledgment of Assignment to Aeolus Pharmaceuticals, Inc./(a)/

10.11* Development and Marketing Collaboration

and License Agreement between Astra Merck Inc., Intercardia, Inc. and CPEC, Inc., dated December 4, 1995/(a)/

10.12 Incara Pharmaceuticals Corporation 1995 Employee Stock Purchase Plan, as amended/(i)/

10.16 Tax Allocation Agreement between Interneuron Pharmaceuticals, Inc. and Intercardia, Inc., dated December 4, 1995/(a)/

10.19 Lease Amendment Number One, dated March 6, 1996, to Office Lease between Highwoods/Forsyth Limited Partnership and Intercardia, Inc./(b)/

10.22

Lease Amendment Number Two, dated March 14, 1997, to Office Lease between Highwoods/Forsyth Limited Partnership and Intercardia, Inc./(d)/	
10.23	Sponsored Research Agreement between The University of North Carolina at Chapel Hill and Renaissance Cell Technologies, Inc. dated September 4, 1997/(e)/
10.24*	Sponsored Research Agreement between National Jewish Medical and Research Center and Aeolus Pharmaceuticals, Inc., dated September 11, 1997/(e)/
10.27	

Assignment and Assumption and Royalty Agreement effective as of May 8, 1998 between Intercardia, Inc. and Interneuron Pharmaceuticals, Inc./(f)/

10.28* Research Collaboration and License Agreement dated effective as of June 30, 1997, as amended, by and among Interneuron Pharmaceuticals, Inc., Transcell Technologies, Inc. and Merck & Co., Inc., as assigned to Intercardia, Inc. effective May 8, 1998/(f)/

II-3 10.30 License Agreement dated April 15, 1998, effective as of June 30,

1997, between Princeton University and Interneuron Pharmaceuticals, Inc., as assigned to Intercardia, Inc. by Interneuron Pharmaceuticals, Inc. effective May 8, 1998/(f)/

10.31 Lease Agreement dated September 19, 1996, as amended, between Cedar Brook Corporate Center, L.P. and Transcell Technologies, Inc., as assigned to Intercardia, Inc. effective May 8, 1998/(f)/

10.32 Amendment 1, dated as of July 1, 1998, to Sponsored Research Agreement between National

Jewish Medical and Research Center and Aeolus Pharmaceuticals, Inc./(f)/

10.33 Termination and Settlement Agreement dated September 29, 1998, between Astra Pharmaceuticals, L.P., Intercardia, Inc. and CPEC, Inc./(g)/

10.34* License, Development, Marketing and Clinical Trials Supply Agreement between Opocrin S.p.A. and Intercardia, Inc., dated July 20, 1998/(h)/

10.35 Employment Agreement between Richard W. Reichow and Intercardia, Inc., dated November

16, 1998/(h)/ 10.36 Employment Agreement between David P. Ward and Intercardia, Inc., dated November 16, 1998/(h)/ 10.37 Employment Agreement between John P. Richert and Intercardia, Inc., dated November 16, 1998/(h)/ 10.38 Employment Agreement between W. Bennett Love and Intercardia, Inc., dated November 16, 1998/(h)/ 10.39* Development, Manufacturing, Marketing and License Agreement, effective as of December 19, 1996, among Knoll AG, CPEC, Inc. and

Intercardia, Inc./(j)/
10.40 Exchange Agreement dated July 15, 1999, between Intercardia, Inc. and Interneuron Pharmaceuticals, Inc./(k)/
10.41 Registration Rights Agreement dated July 15, 1999, between Interneuron Pharmaceuticals, Inc. and Intercardia, Inc./(k)/
10.42 Amended and Restated Limited Liability Company Agreement of CPEC LLC dated July 15, 1999, among CPEC LLC, Intercardia, Inc. and Interneuron Pharmaceuticals, Inc./(k)/
10.43 Assignment, Assumption and License

Agreement dated July 15, 1999, between CPEC LLC and Intercardia, Inc./(k)/ 10.44 Incara Pharmaceuticals Corporation 1997 Equity Incentive Plan, Form of Restricted Stock Award Agreement (7-month vesting) and Form of Restricted Stock Award Agreement (3-year vesting) /(l)/ 10.45 Amendment No. 2, dated June 22, 1999, to Sponsored Research Agreement between The University of North Carolina at Chapel Hill and Renaissance Cell Technologies,

Inc./(m)/
10.46
Amendment
2, dated
August 16,
1999, to
Sponsored
Research
Agreement
between
National
Jewish
Medical
and
Research
Center and
Aeolus
Pharmaceuticals,
Inc./(m)/
10.47 Form
of
Severance
Agreement
dated
September
23, 1999
with
Clayton I.
Duncan,
Richard W.
Reichow,
David P.
Ward, John
P. Richert
and W.
Bennett
Love/(m)/
10.48*
Asset
Purchase
Agreement
dated
December
17,
1999/(m)/
10.49*
License
Agreement
dated
August 23,

1999 between The University of North Carolina at Chapel Hill and Renaissance Cell Technologies, Inc./(o)/ 10.50* License Agreement, effective July 1996, between Albert Einstein College of Medicine of Yeshiva University and Renaissance Cell Technologies, Inc./(o)/ 10.51 Registration Rights Agreement dated August 17, 2000 between Incara Pharmaceuticals Corporation and Torneaux Fund Ltd./(q)/ II-4 10.52 Common Stock Purchase Agreement dated

August 17, 2000 between Incara Pharmaceuticals Corporation and Torneaux Fund Ltd./(p)/

10.53 Employment Agreement between Clayton I. Duncan and Incara Pharmaceuticals Corporation, dated December 11, 2000/(r)/

10.54 Amendment No. 3, dated July 6, 2000, to Sponsored Research Agreement between The University of North Carolina at Chapel Hill and Renaissance Cell Technologies, Inc./(r)/

10.55 Securities Purchase Agreement among Incara Pharmaceuticals Corporation,

Elan International Services, Ltd. and Elan Pharma International Limited dated as of December 21, 2000/(s)/

10.56* License Agreement dated November 17, 2000 between National Jewish Medical and Research Center and Aeolus Pharmaceuticals, Inc./(t)/

10.57 Office Lease between Highwoods Realty Limited Partnership and Incara Pharmaceuticals Corporation, dated January 25, 2001/(t)/

10.58* Subscription, Joint Development and Operating Agreement dated

January 19, 2001 among Elan Corporation, plc, Elan Pharma International Ltd., Elan International Services, Ltd., Incara Pharmaceuticals Corporation and Incara Development, Ltd./(t)/

10.59* License Agreement dated January 19, 2001 between Incara Pharmaceuticals Corporation and Incara Development, Ltd./(t)/

10.60* License Agreement dated January 19, 2001 between Elan Corporation, plc, Elan Pharma International Ltd. and Incara Development, Ltd. /(t)/

10.61 Convertible Promissory Note dated

December 21, 2000 issued by Incara Pharmaceuticals Corporation to Elan Pharma International Ltd./(t)/

10.62 Registration Rights Agreement dated December 21, 2000 among Incara Pharmaceuticals Corporation, Elan International Services, Ltd. and Elan Pharma International Ltd./(t)/

10.63 Incara Pharmaceuticals Corporation 1994 Stock Option Plan, as amended on March 27, 2001/(u)/

10.64 Agreement and Amendment, effective as of January 22, 2001, by and among Incara

Pharmaceuticals Corporation, Elan International Services, Ltd. and Elan Pharma International Limited/(v)/ 10.65 Second Agreement and Amendment, effective as of January 22, 2001, by and among Incara Pharmaceuticals Corporation, Elan International Services, Ltd. and Elan Pharma International Limited /(v)/ 10.66 Third Agreement and Amendment, effective as of January 22, 2001, by and among Incara Pharmaceuticals Corporation, Elan International Services, Ltd. and Elan Pharma

International Limited /(x)/

10.67+ Amendment dated May 1, 2001 to Employment Agreement between Richard W. Reichow and Intercardia, Inc., dated November 16, 1998

10.68+ Amendment dated May 1, 2001 to Employment Agreement between David P. Ward and Intercardia, Inc., dated November 16, 1998

10.69+ Amendment dated May 1, 2001 to Employment Agreement between John P. Richert and Intercardia, Inc., dated November 16, 1998

10.70+ Amendment dated May 1, 2001 to Employment Agreement between

W. Bennett Love and Intercardia, Inc., dated November 16, 1998
II-5 21.1+ List of Subsidiaries
23.1 Consent of PricewaterhouseCoopers LLP, Independent Accountants
23.2+ Consent of Wyrick Robbins Yates & Ponton LLP (included in Exhibit 5.1) 24.1+ Power of Attorney
99.1+ Form of Subscription Agreement to be used by Incara Pharmaceuticals Corporation
99.2+ Form of Subscription Agreement to be used by Petkevich & Partners, LLC * confidential treatment granted + previously filed __ (a) Incorporated

by reference to the similarly numbered Exhibit to the Company's Registration Statement on Form S-1 (File No. 333-08209). (b) Incorporated by reference to the similarly numbered Exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 1995. (d) Incorporated by reference to the similarly numbered Exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1997. (e)

Incorporated by reference to the similarly numbered Exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 1997.

(f) Incorporated by reference to the similarly numbered Exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998.

(g) Incorporated by reference to the similarly numbered Exhibit to the Company's Form 8-K Current Report filed on September 30, 1998.

(h) Incorporated by reference to the similarly numbered Exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 1998.

(i) Incorporated by reference to the similarly numbered Exhibit to the Company's Registration Statement on Form S-8 filed on March 30, 2000.

(j) Incorporated by reference to the similarly numbered Exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended

March 31, 1999. (k) Incorporated by reference to the similarly numbered Exhibit to the Company's Form 8-K Current Report filed on July 23, 1999. (l) Incorporated by reference to the similarly numbered Exhibit to the Company's Registration Statement on Form S-8 filed on January 6, 2000. (m) Incorporated by reference to the similarly numbered Exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 1999.

(n) Incorporated by reference to the similarly numbered Exhibit to the Company's Report on Form S-8 filed on March 30, 2000. (o) Incorporated by reference to the similarly numbered Exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2000. (p) Incorporated by reference to Appendix A of the Company's definitive proxy statement filed on September 7, 2000. (q) Incorporated by reference to Appendix

B of the Company's definitive proxy statement filed on September 7, 2000. (r) Incorporated by reference to the similarly numbered Exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2000. (s) Incorporated by reference to the similarly numbered Exhibit to the Company's Form 8-K Current Report filed on January 29, 2001. (t) Incorporated by reference to the similarly numbered Exhibit to the Company's

Quarterly Report on Form 10-Q for the quarter ended December 31, 2000. II-6 (u) Incorporated by reference to the similarly numbered Exhibit to the Company's Registration Statement on Form S-8 (File No. 333-58754). (v) Incorporated by reference to the similarly numbered Exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2001. (w) Incorporated by reference to the similarly numbered Exhibit to the

Company's Registration Statement on Form S-1 (File No. 333-45822).
(x) Incorporated by reference to the similarly numbered Exhibit to the Company's Form 8-K Current Report filed on June 1, 2001. Item 17. Undertakings. The undersigned registrant hereby undertakes:
(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:
(i) To include any prospectus required by section 10(a)(3) of the

Securities Act of 1933; (ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered)

and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than a 20% change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement; and (iii) To include any material information with respect to the plan of distribution

not previously disclosed in the registration statement or any material change to such information in the registration statement. (2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof; and (3) To

remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering. Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the

Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities

being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue. II-7 The undersigned Registrant hereby undertakes that: (1) For purposes of determining any liability under the Securities Act, the information omitted

from the form of prospectus filed as part of this Registration Statement in reliance upon Rule 430A and contained in a form of prospectus filed by the Registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this Registration Statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new

Registration Statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof. [The next page is the signature page] II-8 SIGNATURES Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this post-effective amendment No. 1 to the registration statement (No. 333-64868) to be signed on its behalf by the undersigned, thereunto duly authorized,

in Research Triangle Park, North Carolina, on the 30/th/ day of July, 2001.

INCARA PHARMACEUTICALS CORPORATION

By: /s/ Clayton I. Duncan

Clayton I. Duncan, Chairman, President and Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1933, as amended, this post-effective amendment No.1 to the registration statement (No. 333-64868) has been signed below by the following persons in the capacities and on the date indicated.

Signature

Title Date

----- ---- /s/
Clayton I.
Duncan

Chairman,
President,
Chief
Executive
Clayton I.
Duncan
Officer and
Director
(Principal
Executive
Officer)
July 30,
2001 /s/
Richard W.
Reichow

Executive
Vice
President,
Chief
Financial
July 30,
2001
Richard W.
Reichow
Officer and
Treasurer
(Principal
Financial
and
Accounting
Officer) *

Director
July 30,
2001
Eugene J.
McDonald
*

Director
July 30,
2001
Stephen M.

Prescott *

Director
July 30,
2001
David B.
Sharrock *
Director
July 30,
2001

Edgar H.
Schollmaier
* By: /s/
Clayton I.
Duncan

Clayton I.
Duncan
Attorney-in-Fact
II-9