FORM 10-K

Annual report pursuant to section 13 and 15(d)

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SCOLR Pharma, Inc.

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

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

For the fiscal year ended December 31, 2008

☐ **TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____.

Commission file number 001-31982

SCOLR Pharma, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**91-1689591**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification No.)**
19204 North Creek Parkway, Suite 100 Bothell, WA	**98011**
(Address of principal executive offices)	**(Zip Code)**

Registrant's telephone number, including area code: (425) 368-1050

Securities registered under Section 12(b) of the Exchange Act:	**Name of each exchange on which registered:**
Common Stock, $0.001 par value per share	**NYSE Alternext US Exchange**
(Title of each class)	

Securities registered under Section 12(g) of the Exchange Act:
Series A Junior Participating Preferred Share Purchase Rights

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company (as defined in Rule 12b-2 of the Exchange Act). Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.) Yes ☐ No ☒

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant as of June 30, 2008, was approximately $39.1 million, based upon the closing sale price on the NYSE Alternext US reported for such date. The number of shares outstanding of the registrant's common stock was 41,098,270 as of March 6, 2009.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information required by Item 5 of this report and the information required by Part III of this annual report, to the extent not set forth herein, is incorporated herein by reference from the registrant's definitive proxy statement relating to the registrant's 2009 annual meeting of stockholders.

SCOLR Pharma, Inc.
FORM 10-K

TABLE OF CONTENTS

PART I

In this document, the words "we," "our," "ours," and "us" refer only to SCOLR Pharma, Inc. and not to any other person or entity.

Item 1. Business

This report includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. When used in this report, the words "anticipate," "believe," "estimate," "may," "intend," "expect," and similar expressions identify certain of such forward-looking statements. Although we believe that our plans, intentions and expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such plans, intentions or expectations will be achieved. Actual results, performance or achievements could differ materially from historical results or those contemplated, expressed or implied by the forward-looking statements contained in this annual report. Important factors that could cause actual results to differ materially from our forward-looking statements are set forth in this annual report, including Item 1A, as well as those discussed elsewhere in this annual report and others detailed from time-to-time in our periodic reports filed with the SEC. Except as required by law, we undertake no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise.

Overview

We are a specialty pharmaceutical company that combines formulation experience and knowledge with our proprietary and patented Controlled Delivery Technology (CDT®) platforms to develop novel prescription, over-the-counter (OTC), and nutritional products. Our CDT platforms are based on multiple issued and pending patents and other intellectual property for custom designed controlled release and/or enhanced performance of active pharmaceutical ingredients and nutritional products.

Our innovative drug delivery technologies enable us to customize the formulations of tablets or capsules in order to release their active ingredients predictably over a specified timeframe of up to 24 hours. Our platforms are designed to offer a cost effective means to reduce the frequency of drug administration, improve the effectiveness of the drug treatment, ensure greater patient compliance with a treatment program, reduce side effects, and/or increase drug safety. In addition, our technology can be incorporated into oral formulations to increase the solubility characteristics of previously non-soluble and sparingly-soluble drugs without employing costly or complex nano-crystalization, micro-milling or coated particle technologies.

We have developed multiple private label controlled release nutritional products incorporating our CDT platforms that are sold by national retailers. In October 2005, we entered into a strategic alliance with a subsidiary of Perrigo Company for the manufacture, marketing, distribution, sale and use of certain dietary supplement products in the United States. We receive royalty payments based on a percentage of Perrigo's net profits derived from the sales of products covered by our agreement.

Our lead product candidate is a CDT-based controlled release formulation of ibuprofen, an analgesic typically used for the treatment of pain, fever and inflammation. We successfully completed our pivotal phase III trial to evaluate the safety and efficacy of our 12 hour CDT 600mg controlled release ibuprofen for the OTC market. There are currently no controlled release formulations of ibuprofen approved for use in North America. In addition, we submitted our first Abbreviated New Drug Application, or ANDA, for our 12-hour pseudoephedrine product on August 5, 2008. In January 2009, the U.S. Food and Drug Administration, or FDA, issued a Complete Response Letter which requested additional information in the area of Chemical, Manufacturing and Controls, all of which was identified by the FDA as "minor." Pseudoephedrine is a decongestant that is widely used to relieve sinus pressure related to allergies and the common cold. We have also conducted preliminary development of CDT-based controlled release formulations of ondansetron, rivastigmine, and risperidone, as well as an immediate release formulation of raloxifene. Potential formulations of ondansetron and raloxifene have been tested in clinical trials. Ondansetron is the active ingredient drug in Zofran®, GlaxoSmithKline's product for anti-nausea and vomiting associated with chemotherapy and radiation treatments for cancer. Raloxifene is the active ingredient in Evista®, Eli Lilly's product for osteoporosis which uses a different solubilization technology. Rivastigmine is the active ingredient in Exelon®, the Novartis drug for management of Alzheimer's disease. Risperidone is the active ingredient in Risperdal®, Janssen, L.P.'s product for the management of schizophrenia and bipolar mania.

We entered into a collaboration and license agreement with Dr. Reddy's Laboratories to pursue development and commercialization of an undisclosed oral prescription drug with significant potential for the cardiopulmonary market using our CDT technology. We are developing other products that we have not disclosed for competitive reasons, and we are evaluating additional drugs as potential development candidates for expanding our portfolio of CDT applications.

We were incorporated on October 12, 1994, in Delaware under the name Caddy Systems, Inc. From April 1995 to July 2002, we operated under the name Nutraceutix, Inc. In July 2002, we changed our name to SCOLR, Inc. and to SCOLR Pharma, Inc. in July 2004. SCOLR is an acronym for "Self-Correcting Oral Linear Release," an important feature of our lead technology.

Our principal executive offices are located at 19204 North Creek Parkway, Suite 100, Bothell, Washington 98011. Our general telephone number is (425) 368-1052. Our website is *www.scolr.com*. Information contained on our website is not part of, and is not incorporated into, this annual report. Our filings with the SEC are available without charge on our website.

Corporate Strategy

Our strategy is to develop prescription, OTC, and nutraceutical products utilizing our innovative oral drug delivery technologies. Our technologies enable us to develop custom formulations of tablets or capsules that release their active ingredients predictably over a specified timeframe of up to 24 hours. We believe that our technologies are capable of significantly improving the delivery of many prescription, OTC, and nutraceutical products.

We seek collaborative arrangements and alliances with corporate partners, licensors, and licensees to provide funding for the research, development, clinical testing, manufacturing, marketing, and commercialization of our product candidates. Controlled release drug delivery technologies such as our CDT platforms can be applied to reformulate existing drugs and extend the patent protection, thereby improving product release profiles and enhancing important revenue streams for pharmaceutical companies. Many pharmaceutical and specialty pharmaceutical companies have also successfully utilized controlled release technologies to develop product line extensions.

We expect to seek collaborations in order to advance the manufacturing, selling, and marketing of our potential products. However, based on an evaluation of each product opportunity and available funding, we may consider establishing limited manufacturing or sales and marketing capabilities to better maintain control over product development timelines and to capture more of their economic value of the opportunity. We do not currently have commercialization or manufacturing capabilities.

We spent $6.3 million on product research and development in 2008 and $7.8 million in 2007.

Commercial Relationships

An important part of our strategy is to seek collaborations and strategic partnerships to develop or market some of our products. We have entered into collaborations and currently plan to enter into additional collaborations with established third parties to manufacture and commercialize our existing and potential products. We are engaged in discussions with pharmaceutical companies regarding development of products incorporating our CDT platforms and other types of marketing, manufacturing, or distribution opportunities. Following is a summary of our recent collaborations.

Dr. Reddy's Laboratories. On October 18, 2007, we entered into a collaboration and license agreement with Dr. Reddy's Laboratories, an emerging global pharmaceutical company, to pursue the development and commercialization of an undisclosed oral prescription drug product. We have completed initial formulation work and product scale-up activities for pilot clinical trials. Under the terms of the agreement, Dr. Reddy's is responsible for the development, manufacturing and marketing of the drug product. The agreement provides us with significant participation in net profits of the potential product after recovery of development and commercialization expenses.

Perrigo Company. On October 20, 2005, we entered into a strategic alliance with a subsidiary of Perrigo Company. Perrigo is a leading global healthcare supplier and one of the world's largest manufacturers of OTC pharmaceutical and nutritional products for the store brand and contract manufacturing markets. Under the agreement, we granted a license to our CDT technology to Perrigo for the manufacture, marketing, distribution, and sale of specific dietary supplements in the United States. In addition, Perrigo may request that we develop additional dietary supplement products that use our technologies to be added to the agreement. Subject to certain exceptions described in the agreement, the license we granted to Perrigo is exclusive. We receive royalty payments based on Perrigo's net profits derived from the sales of products subject to the agreement. The first product shipments by Perrigo began in the first quarter of 2006. Perrigo introduced three additional once-daily CDT-based private label products during the fourth quarter of 2006, and a fifth product was added late in 2007.

Wyeth Consumer Healthcare. In December 2005, we entered a licensing agreement with Wyeth Consumer Healthcare, a division of Wyeth, granting exclusive worldwide rights to use our CDT platforms for the development, manufacture and commercialization of products containing ibuprofen. On March 14, 2007, we received a notice of termination from Wyeth that our agreement would be terminated (without cause) effective April 16, 2007. Since

December 2005 through the termination of the contract, we received more than $2.1 million in milestone and other payments from Wyeth.

BioCryst. On September 5, 2006, we entered into a research collaboration with BioCryst Pharmaceuticals to develop an oral formulation of peramivir, using our CDT platforms. Peramivir is a novel therapeutic being developed by BioCryst for treatment of seasonal and life threatening influenza with a focus on intravenous and intramuscular delivery. The goal of the collaboration is to develop a tablet or capsule formulation for the oral administration of peramivir that improves its oral bioavailability. While this alliance has not proceeded to the next stage, we made significant progress in developing technology which offers the potential to create oral formulations for similar antiviral compounds and other injectable drugs.

Nutraceutix. We completed the sale of our probiotics development and manufacturing activities to Nutraceutix, Inc. as of December 31, 2003. In connection with the sale, we granted Nutraceutix the right to manufacture and sell certain products utilizing our CDT technologies. Subject to the rights of Nutraceutix to continue sales of certain inventories for up to one year, the license terminated on December 31, 2007.

Our CDT Platforms

We believe that our proprietary CDT platforms have the potential to significantly improve a large number of oral prescription, OTC, and nutritional products. Our proprietary CDT technologies can be used in solid oral dosage formulations to yield tablets or capsules that release their active agents in a custom designed, controlled manner over a specified timeframe of up to 24 hours.

Oral administration is the preferred route for drug delivery due to its convenience and widely accepted use. However, many orally-administered, immediate release drug products are rapidly utilized by the body, thereby requiring more frequent administration throughout the day. Consequently, patient non-compliance can be a significant problem for many of these products. Our oral controlled release technologies can eliminate the need for multiple daily dosing by extending the release of the active drug component so that the product maintains its therapeutic usefulness over a longer period of time. In addition, lowering the peak levels of certain drugs in the blood by extending their release profile may reduce the adverse effects associated with peak levels of these drugs.

Our CDT platforms provide a robust, simple and cost effective approach to drug tablet and capsule formulation that employ a simplified manufacturing processes using conventional granulation, blending, and compression equipment in a two or three-step process. Our controlled release tablet and capsule formulations contain readily available and generally-regarded-as-safe (GRAS) excipients (i.e., non-drug ingredients such as hydrophilic polymers, amino acids, or electrolytes). These excipients are used to modulate the release rate of the drug to provide delivery profiles, including controlled release with improved linearity or zero-order kinetics, first order kinetics, delayed release and/or bimodal release.

Our CDT technologies can accommodate comparatively high volumes of an active ingredient while being adaptable to deliver these active ingredients over a wide range of release profiles and timeframes. We believe that our CDT-based tablet and capsule formulations are capable of generating the controlled release profiles required for reproducible, cost-effective, and optimized *in-vivo* delivery of drugs for up to 24 hours.

In addition, our proprietary amino-acid technologies can be incorporated into solid oral formulations to increase the solubility characteristics of previously non-soluble or sparingly-soluble compounds. Our amino acid technologies are designed to allow the successful manufacture of these drugs without employing costly micro-milling, nano-particulate, coated-particle, or other complex solubility enhancing technologies.

Our CDT platforms are based on multiple issued and pending patents and other intellectual property for the programmed release or enhanced performance of active pharmaceutical ingredients and nutritional products. In aggregate, our amino acid, salt-based, and dual polymer technologies offer a range of formulation alternatives capable of addressing some of the most challenging hurdles in oral drug delivery, including zero order kinetics, poorly soluble active ingredients, and ingredients that are difficult to tablet. We have also done preliminary work on formulations that could provide enhanced bioavailability for selected drug targets. Our issued patents are summarized below.

- *Dual Polymer Patent*—(U.S. Patent No. 6,337,091 issued 2002 and expiring in 2017). This first generation of our technology is based on hydrophilic matrices which allow for the controlled diffusion of active ingredients from the matrix through progressive swelling and erosion of the tablets. The resulting CDT tablets or capsules employ combinations of conventional tableting materials selected specifically for the active ingredient(s) and the desired release profile. Various release patterns and rates can be achieved depending upon the matrix composition, the selection and ratio of polymers, ionic substrates, and excipients.

- *Salt Patent*—(U.S. Patent No. 6,090,411 issued July 18, 2000 and expiring in 2018). This technology provides for the controlled and programmable release of the active pharmaceutical ingredient (API) with zero-order kinetics through dry blending and direct compression of a salt, a polymer, and the API. We believe that this salt-based technology

1) our technology employs a comparatively simple, two-step manufacturing process (involving no granulation), and the dry blending of a selected salt and polymer to create a dry matrix;

2) our salt patent platform is broadly applicable to dietary supplements, OTC products and prescription pharmaceuticals, and yields extremely rugged tablets;

3) the *in-vitro* dissolution results of these tablets are not affected by drug solubility, pH, tablet size or configuration, tablet hardness, or friability; and,

4) our technology uses GRAS excipients manufactured with standard pharmaceutical processing equipment thereby enabling cost-effective production.

- *Amino Acid Patents*—(U.S. Patent No. 6,517,868 issued February 11, 2003, U.S. Patent No. 6,936,275 issued August 30, 2005, and U.S. Patent 7,229,642 issued June 12, 2007). These technologies employ a controlled release matrix system based on the application of amino acids, gums and polymers which may improve drug solubility within the dosage form via hydrophobic/polar interaction. Our amino acid technologies are designed to offer simpler solutions to certain difficult formulation challenges. For example, our amino acid technologies are designed to successfully deliver poorly soluble drugs that are complex to formulate and difficult to manufacture using standard techniques and processes. The first of our amino acid patents will begin to expire in 2019.

Product Development

Our proprietary drug delivery technologies are applicable to a wide range of drugs with different physical and chemical properties, including water soluble and insoluble drugs, as well as high dose and low dose drugs. Using our CDT platforms, we can formulate drugs with precise release profiles. In selecting product candidates for development, we generally focus on the applicability of our platforms to a particular compound and benefits to patients, as well as market size, patent protection, competition and other factors.

Our CDT technologies have been used to develop several dietary supplement products that are currently manufactured and distributed by third parties. We currently receive royalties and other payments from the sale of products that incorporate our CDT technology, including combinations of glucosamine and chondroitin, calcium and other dietary products. These sales are being generated through our alliance with Perrigo, including relationships with national retailers. Our CDT glucosamine and chondroitin and calcium products are currently available nationwide.

We have also applied our CDT platforms to a portfolio of more than 20 pharmaceutical targets on a developmental demonstration basis. These target candidates include existing analgesic, cardiovascular, diabetes, anti-nausea, and pulmonary products. We have an internal development program targeting a select group of significant, existing drugs for reformulation in an effort to demonstrate the applicability and viability of our CDT platforms and for licensing to potential partners. We have engaged in development of CDT-based controlled release formulation of a number of products, including ibuprofen, pseudoephedrine, ondansetron, rivastigmine, and risperidone, as well as an immediate release formulations of raloxifene. We are currently evaluating additional drugs as potential CDT development candidates for expanding our growing portfolio of CDT applications. Although we are proceeding with development of our lead products, controlled release ibuprofen and pseudoephedrine, we are deferring significant expenditures on new projects as pending additional financing or partnership support.

The following tables summarize information regarding our current primary target candidates, clinical experience with other targets, and formulation work with other drugs and dietary supplements. These tables are qualified in their entirety by reference to the more detailed descriptions contained elsewhere in this annual report.

Current Development Targets

Product	Application	Potential Advantages	Current Global Market Estimate[(1)]	Comments
12 hr Ibuprofen	OTC Analgesic	- 1st controlled release OTC ibuprofen - 1 tablet vs. 3 every 12 hrs. - Lower cost - Patent protected	>$1 billion (Includes all ibuprofen-containing products)	Successful Pivotal Phase III completed Actual Use Study required prior to FDA submission NDA 505(B)2 planned 2010
12 hr Pseudoephedrine	OTC Decongestant	- 1/3rd size of current OTC products - Lower cost - Patent protected	>$250 million (Includes all pseudoephedrine-containing products)	ANDA submitted August 2008 Complete Response Letter received January 2009 with minor (CMC) deficiencies noted
DRL Collaboration: Undisclosed CDT-based Rx target	Cardiopulmonary	- Lower cost - Patent protected - Other non-disclosed	Undisclosed	Confidential

(1) Includes branded and generic products. Market data sources – Credit Suisse, IMS, Biopharm Insight, Verispan/VONA, IRI, SCOLR estimates.

Following are additional targets with completed clinical work pending additional financing or partnerships.

Clinical Experience

Product	Application	Comments
IR Raloxifene	Rx Osteoporosis	Two pilot pharmacokinetic trials completed
ER Ondansetron	Rx Anti-Nausea	Two pilot pharmacokinetic trials completed
ER Phenylephrine	OTC Decongestant	Initial pilot pharmacokinetic trial completed
ER Niacin	Cardiovascular	*In-vivo* performance comparable to Niaspan®

Niaspan® is a trademark of Abbott Laboratories.

Formulation Experience

Product	Application	Features
Fenofibrate (Tricor®)	Hypercholesterolemia, Hypertriglyceridemia	Novel immediate release tablet Novel solid dispersion formulation
Gabapentin (Lyrica®)	Pain Management	Novel 12 hour controlled release tablets
Tramadol (Ultram®)	Pain Management	Novel 12 and 24 hour controlled release tablets
Propranolol (Inderal LA®)	Beta-Blocker	Comparable to reference listed drug
Metoprolol (Toprol XL®)	Beta-Blocker	Comparable to reference listed drug
Diltiazem HCl (Dilacor®)	Ca channel Blocker	Comparable to reference listed drug
Nifedipine (Procardia®)	Ca channel Blocker	Comparable to reference listed drug

Verapamil (Covera-HS®)	Ca channel Blocker	Comparable to reference listed drug
Rivastigmine (Exelon®)	Alzheimer's Disease	Novel 24 hour controlled release tablets
Risperidone (Risperdal®)	Schizophrenia/Bi-Polar	Novel 24 hour controlled release tablets
Glipizide (Glucotrol® XL)	Diabetes	Comparable to reference listed drug
Metformin (Glucophage® XR)	Diabetes	Comparable to reference listed drug
Dimenhydrinate (Dramamine®)	Motion Sickness	Novel 24 hour controlled release tablets
Theophylline (Theo-Dur®)	Asthma, Bronchodilator	Novel 12 hour controlled release tablets

Tricor® is a trademark of Abbott Laboratories; Lyrica®, Procardia®, Glucotrol®, Dramamine® and Covera-HS® are trademarks of Pfizer; Ultram® and Risperdal® are trademarks of J&J; Inderal LA® is a trademark of Wyeth; Toprol® is a trademark of AstraZeneca; Dilacor® is a trademark of Watson; Exelon® is a trademark of Novartis; Glucophage® is a trademark of Bristol-Myers.

Dietary Supplements

Product	Features	Status
Glucosamine Chondroitin 500/400 (mg)	24 hour once daily tablets	- On Market
Glucosamine Chondroitin MSM 500/ 400/200 (mg)	24 hour once daily tablets	- On Market
Glucosamine Chondroitin (Sodium Free) 500/400 (mg)	12 hour controlled release tablets	- On Market
Glucosamine Sulfate 750 (mg)	12 hour controlled release tablets	- On Market
Calcium with Vitamin D 600/500 (mg/IU)	24 hour once daily tablets	- On Market
Vitamin C 500 (mg)	12 hour controlled release tablets (ascorbic acid delivered over 12 hrs)	- Available
Vitamin C 1000 (mg)	24 hour controlled release tablets (ascorbic acid delivered over 24 hrs)	- Available
Mineral Ascorbates 500 (mg)	12 hour controlled release tablets (ascorbic acid delivered over 12 hrs)	- Available
Niacin 250 (mg)	12 and 24 hour controlled release tablets	- Licensed
Caffeine 200 (mg)	10 hour controlled release tablets (for 12 hours of energy)	- Available
Guarana, Green Tea (200 mg Caffeine eq.)	10 hour controlled release tablets (for 12 hours of energy)	- Available
Novasoy®	Custom designed Pre-blends	- On Market (ADM)
Echinacea 400 (mg)	12 hour controlled release tablets	- Available
Ginkgo Biloba 120 (mg)	12 hour controlled release tablets	- Available
St. John's Wort 300 (mg)	12 hour controlled release tablets	- Available

Novasoy® is a trademark of the Archer Daniels Midland Company.

Development Status of Lead Products

Ibuprofen—We developed a controlled release formulation of ibuprofen based on our CDT platforms and continue preparations for submission of a New Drug Application, or NDA, for a 12-hour CDT-based ibuprofen product. Our pivotal Phase III clinical trial to evaluate the efficacy of our formulation achieved both primary endpoints and key secondary endpoints with no significant adverse events. The trial was a randomized, placebo controlled, double blind, parallel group study designed to evaluate the efficacy of multiple doses of ibuprofen 600 mg ER in dental pain following third molar extraction. The first primary endpoint was to demonstrate analgesic efficacy for the 8-12 hour period after the first dose as compared to placebo. The second primary endpoint measured the durability of effect of SCOLR's formulation by the proportion of subjects in the controlled release group with meaningful improvement in pain intensity from baseline at all three assessment periods of 24, 36, and 48 hours. Both primary endpoints achieved positive, statistically significant results, at the $p<0.0001$ level. While we have undertaken the preparatory work for the actual use study required prior to submission of our NDA, we do not expect to be able to complete the required study without additional funding. There are currently no controlled release formulations of ibuprofen approved for use in North America. Based on industry sources, we estimate that global sales of ibuprofen are more than $1 billion per year.

Pseudoephedrine—We filed our first ANDA submission during August 2008. Our submission was accepted by the FDA in September 2008 (after 36 business days) and we received a complete response letter in January 2009. The complete response letter issued to us requests additional information in the area of Chemical Manufacturing and Controls, all of which was identified by the FDA as "minor." The complete response letter is used to inform applicants of changes required in the application before an application can be approved, and

communicates that the drug application will not be approved in its current form. We have initiated work to provide the additional information requested by the FDA. We believe our formulation will offer attractive tablet size and cost saving opportunities when compared to similar tablets already on the market. Based on industry sources, we estimate that aggregate North American sales of products containing pseudoephedrine have been more than $1 billion per year. However, our ability to commercialize products containing pseudoephedrine may be adversely impacted by legislative and market changes relating to diversion.

Raloxifene—We completed initial pilot pharmacokinetic clinical evaluations of CDT-based immediate release raloxifene formulations. While the results of those trials supported the advancement of an additional formulation and clinical work, we suspended further work on this compound pending additional funding or partnership interest. Raloxifene is used to prevent and treat osteoporosis. Additional studies would be required to provide further insight into the capabilities of the CDT-based technology and our ability to enhance bioavailability as well as to support development of a raloxifene product. Evista® is Eli Lilly's immediate release raloxifene product for osteoporosis utilizing a complex solubilization technology. In 2007, Eli Lilly reported more than $1 billion in global sales of Evista.

Ondansetron—We completed initial pilot bioavailability testing of our refined 24-hour CDT-based ondansetron formulation. The results indicate that our amino acid formulation technology is capable of producing a once daily controlled release ondansetron tablet. We suspended further work on this compound pending additional funding or partnership interest. Ondansetron is the active ingredient in Zofran®, GlaxoSmithKline's product for anti-nausea and vomiting associated with chemotherapy and radiation treatments for cancer.

Intellectual Property

We believe that patent and trade secret protection of our CDT platforms are important to our business and that our success will depend in part on our ability to maintain existing patent protection, obtain additional patents, maintain trade secret protection, and operate without infringing the proprietary rights of others. We have rights to five U.S. patents and three federal trademark registrations. Our policy is to pursue registrations for all of the trademarks associated with our key products and technologies. Our registered trademarks include: "CDT," the CDT logo and design, and "SCOLR."

Our CDT platforms are based on multiple issued and pending patents and other intellectual property for the programmed release or enhanced performance of active pharmaceutical ingredients and nutritional products. Our intellectual property includes two U.S. patents licensed exclusively to us by Temple University and two patent rights assigned to us by Dr. Reza Fassihi, a Professor of Biopharmaceutics and Industrial Pharmacy at the Temple University School of Pharmacy. Dr. Fassihi currently serves on our board of directors and is a consultant. Dr. Fassihi is also one of the inventors of the two patents licensed to us by Temple University. We are obligated to pay annual license maintenance fees, share in some up-front payments from customers, and pay royalties based on product sales with respect to the CDT patents licensed from Temple University or assigned to us by Dr. Fassihi. In the future, we plan to file further U.S. and foreign patent applications directed to new or improved products or processes.

We attempt to protect our proprietary position by filing U.S. and foreign patent applications related to our proprietary technology inventions and improvements that are important to the development of our business. Our success will depend in part on our ability to obtain and maintain patent protection for our technologies, preserve our trade secrets, and operate without infringing the proprietary rights of others. However, the issuance of a patent is not conclusive as to its validity or as to the enforceable scope of the claims of the patent. Our competitors may challenge or circumvent any of our issued patents and the patents may not provide us proprietary protection or a commercial advantage. Furthermore, we cannot assure you that any of our future processes or products will be patentable or will not infringe upon the patents of third parties.

Competition

Our business is highly competitive and is affected by new technologies, government regulations, availability of financing, and other factors. In the drug delivery field, examples of our major competitors include, Biovail, Inc., Pacira Pharmaceutical Inc., Penwest, SkyePharma PLC, Depomed, Elan Corporation, PLC, Flamel Technologies, Inc., Impax Laboratories, Inc., Labopharm, Inc., and KV Pharmaceutical Company, as well as internal programs within many of the large pharmaceutical companies. The successful development and commercialization of major controlled-delivery prescription drugs can take five or more years and millions of dollars of research and clinical trials. These major competitors generally are better funded and equipped to fully realize the potential from new and unique patented drug delivery systems and are in possession of significantly stronger financial and research and development resources.

Manufacturing

We currently have no internal commercial scale manufacturing capabilities. Generally, either our collaborators manufacture the pharmaceutical products or we use a contract manufacturer. Accordingly, we have to rely on third party manufacturers of the pharmaceutical products we are evaluating in clinical trials. We currently have agreements with Catalent Pharma Solutions, Inc. to support our efforts. We also work with Perrigo regarding the manufacturing of dietary supplements containing our CDT technology. Our dependence on third parties for the manufacture of our potential products and clinical supplies may adversely affect our ability to deliver such products in a timely or competitive basis.

Environmental Matters

Compliance with federal, state and local requirements which have been enacted or adopted regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment have not had, nor are they anticipated to have in the future, a material effect on our capital expenditures, earnings or competitive position.

Sources and Availability of Raw Materials and Principal Suppliers

Our technology allows for the use of conventional, readily available, GRAS excipients. A wide variety of materials can be used for our controlled delivery formulation development and are available from a large number of manufacturers and distributors. The active chemical raw materials essential to our business are generally readily available from multiple sources in the United States and throughout the world. Certain raw materials used in the manufacture of our products are, however, available from limited sources and, in some cases a single source. Any curtailment in the availability of such raw materials could result in production or other delays and, in the case of products for which only one raw material supplier exists or has been approved by the FDA, could result in material loss of sales with consequent adverse effects on our business and results of operations. During 2007 and 2006, regulatory restrictions impacted our ability to obtain commercial quantities of pseudoephedrine and resulted in delays to our development program. Also, because raw material sources for pharmaceutical products must generally be identified and approved by regulatory authorities, changes in raw material suppliers may result in production delays, higher raw material costs, and loss of sales and customers. We obtain a portion of our raw materials from foreign suppliers, and our arrangements with such suppliers are subject to, among other risks, FDA approval, governmental clearances, export duties, political instability, and restrictions on the transfers of funds.

Government Regulation

Government authorities in the United States and other countries extensively regulate the research, development, manufacture, labeling, promotion, advertising, distribution, and marketing of drug products. We must receive separate regulatory approval for each of our product candidates before we or our collaborators can sell them in the United States or internationally. In the United States, the FDA regulates drug products under the Federal Food, Drug, and Cosmetic Act, or FDCA, and implements regulations and other laws. Failure to comply with applicable U.S. requirements, both before and after approval, may subject us to administrative and judicial sanctions, such as a delay in approving or refusal by the FDA to approve pending applications, warning letters, product recalls, product seizures, total or partial suspension of production or distribution, injunctions, and/or criminal prosecutions.

The approval process requires substantial time, effort and financial resources, and we cannot be sure that any approval will be granted on a timely basis, or at all. There are several kinds of new drug applications, or NDAs, that may be submitted to obtain FDA approval of our or our collaborators' drugs, including full NDAs; section 505(b)(2) NDAs; and abbreviated new drug applications, or ANDAs. A "full" NDA is an NDA in which the information required for approval, including investigations of safety and effectiveness, comes from studies conducted by or for the sponsor or for which the sponsor has obtained a right of reference. A section "505(b)(2)" NDA is an NDA in which at least some of the information required for approval comes from studies not conducted by or for the sponsor and for which the sponsor has not obtained a right of reference. An abbreviated new drug application, or ANDA, usually utilizes for proof of safety and effectiveness data demonstrating that the drug is "bioequivalent" to a drug which the FDA has previously approved.

NDAs: Approval of a full NDA by the FDA requires pre-clinical laboratory and animal tests and formulation studies; submission to the FDA of an Investigational New Drug Application for human clinical testing, which must be in effect before clinical trials can begin; and adequate and well-controlled clinical trials to establish safety and effectiveness of the product candidate for each indication for which approval is sought. To obtain approval an applicant must submit their application to the FDA; the FDA must complete a pre-approval inspection of manufacturing, analytical, and clinical research facilities to ensure that they are in compliance with cGMP, cGLP, local, state, and federal rules and regulations; and the FDA must deem the product safe and effective."

505(b)(2) NDAs: Section 505(b)(2) applications contain the full reports of investigations of safety and effectiveness as a traditional NDA, but where at least some of the information required for approval comes from studies

not conducted by or for the applicant and for which the applicant has not obtained the right to reference. To obtain approval an applicant must submit its application to the FDA; the FDA must complete a pre-approval inspection of manufacturing, analytical, and clinical research facilities to ensure that they are in compliance with cGMP, cGLP, local, state, and federal rules and regulations; and the FDA must deem the product safe and effective." Preparing a 505(b) (2) NDA is generally less costly and time-consuming than preparing a full NDA.

ANDAs: The FDA may approve an ANDA if the product is the same in important respects as an already approved drug, or if the FDA has declared the drug suitable for an ANDA submission. An ANDA contains information to show that the proposed product is identical in active ingredient, dosage form, strength, route of administration, labeling, quality, performance characteristics, and intended use to a previously approved product. To obtain approval an applicant must submit their application to the FDA; the FDA must complete a pre-approval inspection of manufacturing, analytical, and clinical research facilities to ensure that they are in compliance with cGMP, cGLP, local, state, and federal rules and regulations; and the FDA must deem the product safe and effective. Conducting bioequivalence studies is less time-consuming and costly than conducting pre-clinical and clinical studies necessary to support an NDA.

The testing and approval process requires substantial time, effort and financial resources, and each may take several years to complete. The FDA may not grant approval on a timely basis, or at all. We may encounter difficulties or unanticipated costs in our efforts to secure necessary government approvals, which could delay or preclude us from marketing our product candidates. The FDA may limit the indications for use or place other conditions on any approvals that could restrict the commercial application of our product candidates.

We use third party manufacturers to produce our product candidates in clinical and commercial quantities. Future inspections by the FDA may indentify compliance issues at the facilities of our contract manufacturers or collaborators that may disrupt production on distribution, or require substantial resources to connect. Also, new government requirements may be established that could delay or prevent regulatory approval of our product candidates under development.

Other FDA Requirements:

We and our collaborators are required to comply with a number of FDA requirements both before and after approval, regardless of the type of application submitted. For example, we are required to report certain adverse reactions and production problems, if any, to the FDA, and to comply with certain requirements concerning advertising and promotion for our products. Also, quality control and manufacturing procedures must continue to conform to cGMP after approval, and the FDA periodically inspects manufacturing facilities to assess compliance with cGMP. Accordingly, manufacturers must continue to expend time, money and effort in all areas of regulatory compliance, including production and quality control to comply with cGMP. In addition, discovery of issues such as safety problems may result in changes in labeling or restrictions on a product manufacturer or NDA holder, including removal of the product from the market. After approval, certain changes to the approved product, such as adding new indications, manufacturing changes, or additional labeling claims are subject to further FDA review and approval. In addition, the FDA may require post-approval studies.

Employees

As of December 31, 2008, we employed 17 employees, all of whom are full time. None of our employees is represented by labor unions. We believe our relationship with employees is good. On January 30, 2009, Dr. Bruce S. Mora joined us as Chief Executive Officer and President.

Executive Officers

Our executive officers are generally elected annually at the meeting of our board of directors held in conjunction with the annual meeting of stockholders. The following are our current executive officers and their ages as of March 1, 2009:

Name	Age	Office	Position Since
Bruce S. Morra	55	President and Chief Executive Officer	2009
Richard M. Levy	50	Vice President of Finance and Chief Financial Officer	2005
Alan M. Mitchel	52	Senior Vice President of Business and Legal Affairs	2005
Stephen J. Turner	38	Vice President, Chief Technical Officer	2003

The following sets forth the business experience, principal occupations and employment of each of our current executive officers.

Bruce S. Morra, Ph.D., M.B.A., was appointed our President and Chief Executive Officer in January 2009. From 2004 to 2009, Dr. Morra was a consultant to companies in the pharmaceutical, medical device, drug delivery, biotech and polymers industries. From 2003 to 2004, Dr. Morra was president of West Pharmaceutical Services' drug delivery and contract clinical research businesses. From 2002 to 2003, he was chief business officer of Progenitor Cell Therapy, LLC, a start-up company performing stem cell and other cell therapy process, device and drug contract research and manufacturing. From 1998 to 2004, Dr. Morra served as president, chief operating officer and chief financial officer of Biopore Corporation and its sister company Polygenetics, Inc. He serves on the boards of directors of InforMedix Holdings, Inc. and Unigene Laboratories, Inc. Dr. Morra earned his Ph.D. and M.S. in Polymer Science and Engineering and his M.B.A. from the University of Massachusetts, Ahmerst in 1980, after graduating magna cum laude in Chemical Engineering from Princeton University in 1976.

Richard M. Levy was appointed Chief Financial Officer and Vice President of Finance on June 8, 2006, and served as interim Chief Financial Officer and Vice President of Finance commencing December 15, 2005. Mr. Levy has experience as chief financial officer, controller, consultant and auditor. He served as the CFO for the specialty finance segment and corporate controller for Washington Mutual Bank. Mr. Levy worked for Bank of America for seven years. His experience there included serving as the senior vice president and controller of Bank of America Texas operations and also included coordinating all accounting activities and acting as chief financial officer for new acquisitions. His work at Bank of America also included international financial management experience in its international private banking and world banking divisions. His corporate financial duties included serving as director and as chief financial officer of various Bank of America subsidiaries. Mr. Levy earned his BA in business economics and accounting from the University of California, Santa Barbara and is licensed as a CPA.

Alan M. Mitchel has worked for SCOLR Pharma since January 2005 as Senior Vice President of Business and Legal Affairs and Chief Legal Officer. For more than five years prior to joining us, Mr. Mitchel practiced corporate law with private law firms in Seattle and Miami. Mr. Mitchel received an LLB from Duke University School of Law.

Stephen J. Turner has worked for SCOLR Pharma since the fall of 1999 and primarily has been responsible for the commercialization and application of our CDT platforms. In 2003, Mr. Turner was promoted to our Vice President and Chief Technical Officer. In addition to Mr. Turner's involvement in our growth and application of our technology platforms, he is named on one patent issued to SCOLR, has contributed to numerous additional patent filings, has published articles in industry related publications, and has presented his research findings at numerous academic seminars and symposia. Mr. Turner is an active member in scientific organizations including AAPS (American Association of Pharmaceutical Scientists) and the Controlled Release Society. Mr. Turner holds a BS in biology with a minor in geochemistry from Western Washington University.

Item 1A. Risk Factors

This annual report on Form 10-K contains forward looking statements that involve risks and uncertainties. Our business, operating results, financial performance, and share price may be materially adversely affected by a number of factors, including but not limited to the following risk factors, any one of which could cause actual results to vary materially from anticipated results or from those expressed in any forward-looking statements made by us in this annual report on Form 10-K or in other reports, press releases or other statements issued from time to time. Additional factors that may cause such a difference are set forth elsewhere in this annual report on Form 10-K.

We do not have sufficient cash to fund the development of our drug delivery operations. If we are unable to obtain additional financing during 2009, we will be required to curtail or cease operations.

We anticipate that, based on our current operating plan, our existing cash and cash equivalents, together with expected royalties from third parties, will be sufficient to fund our operations until late 2009. Our current operating plan reflects reductions in personnel, marketing and other expenses implemented during 2008. We are actively managing our liquidity by limiting our clinical and development expenses to our lead products and supporting our existing alliances and collaborations. We have deferred all significant expenditures on new projects as well as major expenditures for our lead products pending additional financing or partnership support. We plan to continue efforts to enter into collaboration and licensing agreements for our product candidates, including controlled release ibuprofen, that may provide additional funding for our operations. If we are unsuccessful with these efforts, we may have to curtail operations or cease operations.

We will need to raise additional capital to fund operations, conduct clinical trials, continue research and development projects, and commercialize our product candidates. The timing and amount of our need for additional financing will depend on a number of factors, including:

- the structure and timing of collaborations with strategic partners and licensees;

- our timetable and costs for the development of marketing operations and other activities related to the commercialization of our product candidates;
- the progress of our research and development programs and expansion of such programs;
- the emergence of competing technologies and other adverse market developments; and,
- the prosecution, defense and enforcement of potential patent claims and other intellectual property rights.

Additional equity or debt financing may not be available to us on acceptable terms, or at all. If we raise additional capital by issuing equity securities, substantial dilution to our existing stockholders may result which could decrease the market price of our common stock due to the sale of a large number of shares of our common stock in the market, or the perception that these sales could occur. These sales, or the perception of possible sales, could also impair our ability to raise capital in the future. In addition, the terms of any equity financing may adversely affect the rights of our existing stockholders. If we raise additional funds through strategic alliance or licensing arrangements, we may be required to relinquish rights to certain of our technologies or product candidates, or to grant licenses on terms that are unfavorable to us, which could substantially reduce the value of our business.

If we are unable to obtain sufficient additional financing, we would be unable to meet our obligations and we would be required to delay, reduce or eliminate some or all of our business operations, including the pursuit of licensing, strategic alliances and development of drug delivery programs.

We have a history of substantial operating losses and we expect to continue to incur substantial losses in the future, which may negatively impact our ability to run our business.

We have a history of operating losses and we expect to continue to incur significant losses in the future. We plan to continue the costly process of simultaneously conducting clinical trials and preclinical research for multiple product candidates. Our product development program may not lead to commercial products, either because our product candidates fail to be effective, are not attractive to the market, or because we lack the necessary financial or other resources or relationships to pursue our programs through commercialization. Our net losses are likely to continue as we advance preclinical research and clinical trials, apply for regulatory approvals, develop our product candidates, and support commercialization of our potential products.

We have funded our operations primarily through the issuance of equity securities and we may not be able to generate positive cash flow in the future. We need to seek additional funds through the issuance of equity securities or other sources of financing. If we are unable to obtain necessary additional financing, our ability to run our business will be adversely affected and we may be required to reduce the scope of our research and business activity or cease operations. These conditions raise substantial doubt about our ability to continue as a going concern. Consequently, the audit report prepared by our independent registered accounting firm relating to our financial statements for the year ended December 31, 2008 included a going concern explanatory paragraph.

Our limited experience in preparing applications for regulatory approval of our products, and our lack of experience in obtaining such approval, may increase the cost of and extend the time required for preparation of necessary applications.

Each OTC or pharmaceutical product we develop will require a separate costly and time consuming regulatory approval before we or our collaborators can manufacture and sell it in the United States or internationally. The regulatory process to obtain market approval for a new drug takes many years and requires the expenditure of substantial resources. We have had only limited experience in preparing applications and do not have experience in obtaining regulatory approvals. As a result, we believe we will rely primarily on third party contractors to help us prepare applications for regulatory approval, which means we will have less control over the timing and other aspects of the regulatory process than if we had our own expertise in this area. Our limited experience in preparing applications and obtaining regulatory approval could delay or prevent us from obtaining regulatory approval and could substantially increase the cost of applying for such approval.

We may not obtain regulatory approval for our products, which would materially impair our ability to generate revenue.

We may encounter delays or rejections during any stage of the regulatory approval process based upon the failure of clinical data to demonstrate compliance with, or upon the failure of the product to meet the FDA's requirements for safety, efficacy, quality, and/or bioequivalence; and, those requirements may become more stringent due to changes in regulatory agency policy or the adoption of new regulations. For example, after submission of a marketing application, in the form of an NDA or ANDA, the FDA may deny the application, may require additional testing or data, and/or may

require post marketing testing and surveillance to monitor the safety or efficacy of a product. In addition, the terms of approval of any marketing application, including the labeling content, may be more restrictive than we desire and could affect the marketability of products incorporating our controlled release technology.

Certain products incorporating our technology will require the filing of an NDA. A full NDA must include complete reports of preclinical, clinical, and other studies to prove adequately that the product is safe and effective, which involves among other things, full clinical testing, and as a result requires the expenditure of substantial resources. In certain cases involving controlled release versions of FDA-approved immediate release products, we may be able to rely on existing publicly available safety and efficacy data to support an NDA for controlled release products under Section 505(b)(2) of the FDCA when such data exists for an approved immediate release or controlled release version of the same active chemical ingredient. We can provide no assurance, however, that the FDA will accept a Section 505(b)(2) NDA, or that we will be able to obtain publicly available data that is useful. The Section 505(b)(2) NDA process is a highly uncertain avenue to approval because the FDA's policies on Section 505(b)(2) have not yet been fully developed. There can be no assurance that the FDA will approve an application submitted under Section 505(b)(2) in a timely manner or at all. Our inability to rely on the 505(b)(2) process would increase the cost and extend the time frame for FDA approvals.

If our clinical trials are not successful or take longer to complete than we expect, we may not be able to develop and commercialize our products.

In order to obtain regulatory approvals for the commercial sale of potential products utilizing our CDT platforms, we or our collaborators will be required to complete clinical trials in humans to demonstrate the safety and efficacy, or in certain cases, the bioequivalence, of the products. However, we or our collaborators may not be able to commence or complete these clinical trials in any specified time period, or at all, either because the appropriate regulatory agency objects or for other reasons, including:

- unexpected delays in the initiation of clinical sites;
- slower than projected enrollment of eligible patients;
- competition with other ongoing clinical trials for clinical investigators or eligible patients;
- scheduling conflicts with participating clinicians;
- limits on manufacturing capacity, including delays of clinical supplies; and,
- the failure of our products to meet required standards.

We also rely on academic institutions and clinical research organizations to conduct, supervise or monitor some or all aspects of clinical trials involving our product candidates. We have less control over the timing and other aspects of these clinical trials than if we conducted the monitoring and supervision on our own. Third parties may not perform their responsibilities for our clinical trials on our anticipated scheduled or consistent with a clinical trial protocol.

Even if we complete a clinical trial of one of our potential products, the clinical trial may not indicate that our product is safe or effective to the extent required by the FDA or other regulatory agency to approve the product. If clinical trials do not show any potential product to be safe, efficacious, or bioequivalent, or if we are required to conduct additional clinical trials or other testing of our products in development beyond those that we currently contemplate, we may be delayed in obtaining, or may not obtain, marketing approval for our products. Our product development costs may also increase if we experience delays in testing or approvals, which could allow our competitors to bring products to market before we do and would impair our ability to commercialize our products.

We face intense competition in the drug delivery business, and our failure to compete effectively would decrease our ability to generate meaningful revenues from our products.

The drug delivery business is highly competitive and is affected by new technologies, governmental regulations, health care legislation, availability of financing, litigation and other factors. Many of our competitors have longer operating histories and greater financial, research and development, marketing and other resources than we do. We are subject to competition from numerous other entities that currently operate or intend to operate in the industry. These include companies that are engaged in the development of controlled release drug delivery technologies and products as well as other manufacturers that may decide to undertake in-house development of these products. Some of our direct competitors in the drug delivery industry include Biovail, Inc., Penwest, SkyePharma PLC, Depomed, Elan, Flamel, Impax Laboratories, Inc., Labopharm, and KV Pharmaceuticals, Inc. Many of the major pharmaceutical companies also have internal drug delivery programs that may compete directly with our business.

Many of our competitors have more extensive experience than we have in conducting preclinical studies and clinical trials, obtaining regulatory approvals, and manufacturing and marketing pharmaceutical products. Many competitors also have competing products that have already received regulatory approval or are in late-stage development, and may have collaborative arrangements in our target markets with leading companies and research institutions.

Our competitors may develop or commercialize more effective, safer or more affordable products, or obtain more effective patent protection, than we are able to develop, commercialize or obtain. As a result, our competitors may commercialize products more rapidly or effectively than we do, which would adversely affect our competitive position, the likelihood that our products will achieve market acceptance, and our ability to generate meaningful revenues from our products.

If we fail to comply with extensive government regulations covering the manufacture, distribution and labeling of our products, we may have to withdraw our products from the market, close our facilities or cease our operations.

Our products, potential products, and manufacturing and research activities are subject to varying degrees of regulation by a number of government authorities in the United States (including the Drug Enforcement Agency, FDA, Federal Trade Commission, and Environmental Protection Agency) and in other countries. For example, our activities, including preclinical studies, clinical trials, manufacturing, distribution, and labeling are subject to extensive regulation by the FDA and comparable authorities outside the United States. Also, our statements and our customers' statements regarding dietary supplement products are subject to regulation by the FTC. The FTC enforces laws prohibiting unfair or deceptive trade practices, including false or misleading advertising. In recent years, the FTC has brought a number of actions challenging claims by nutraceutical companies.

Each OTC or pharmaceutical product we develop will require a separate costly and time consuming regulatory approval before we or our collaborators can manufacture and sell it in the United States or internationally. Even if regulatory approval is received, there may be limits imposed by regulators on a product's use or it may face subsequent regulatory difficulties. Approved products are subject to continuous review and the facilities that manufacture them are subject to periodic inspections. Furthermore, regulatory agencies may require additional and expensive post-approval studies. If previously unknown problems with a product candidate surface, or the manufacturing or laboratory facility is deemed non-compliant with applicable regulatory requirements, an agency may impose restrictions on that product or on us, including requiring us to withdraw the product from the market, close the facility, and/or pay substantial fines.

We also may incur significant costs in complying with environmental laws and regulations. We are subject to federal, state, local and other laws and regulations governing the use, manufacture, storage, handling, and disposal of materials and certain waste products. The risk of accidental contamination or injury from these materials cannot be completely eliminated. If an accident occurs, we could be held liable for any damages that result and these damages could exceed our resources.

Our ability to commercialize products containing pseudoephedrine may be adversely impacted by retail sales controls, legislation, and other measures designed to counter diversion and misuse of pseudoephedrine in the production of methamphetamine, an illegal drug.

We are engaged in the development of a controlled release formulation of pseudoephedrine. On March 10, 2006, Congress enacted the Patriot Act, which included the Combat Methamphetamine Epidemic Act of 2005. Among its various provisions, this national legislation placed restrictions on the purchase and sale of all products containing pseudoephedrine and imposed quotas on manufacturers relating to the sale of products containing pseudoephedrine. Many states have also imposed statutory and regulatory restrictions on the manufacture, distribution and sale of pseudoephedrine products. We believe that such quotas and restrictions resulted in delays in obtaining materials necessary for the development of our pseudoephedrine product. Our ability to commercialize products containing pseudoephedrine and the market for such products may be adversely impacted by existing or new retail sales controls, legislation and market changes relating to diversion and misuse of pseudoephedrine in the production of methamphetamine.

If we cannot establish collaborative arrangements with leading individuals, companies and research institutions, we may have to discontinue the development and commercialization of our products.

We have limited experience in conducting full scale clinical trials, preparing and submitting regulatory applications, or manufacturing and selling pharmaceutical products. In addition, we do not have sufficient resources to fund the development, regulatory approval, and commercialization of our products. We expect to seek collaborative arrangements and alliances with corporate and academic partners, licensors and licensees to assist with funding research and development, to conduct clinical testing, and to provide manufacturing, marketing, and commercialization of our

product candidates. We may rely on collaborative arrangements to obtain the regulatory approvals for our products.

For our collaboration efforts to be successful, we must identify partners whose competencies complement ours. We must also enter into collaboration agreements with them on terms that are favorable to us and integrate and coordinate their resources and capabilities with our own. We may be unsuccessful in entering into collaboration agreements with acceptable partners or negotiating favorable terms in these agreements.

If we cannot establish collaborative relationships, we will be required to find alternative sources of funding and to develop our own capabilities to manufacture, market, and sell our products. If we were not successful in finding funding and developing these capabilities, we would have to terminate the development and commercialization of our products.

If our existing or new collaborations are not successful, we will have to establish our own commercialization capabilities, which would be expensive and time consuming and could delay the commercialization of the affected product.

Some of our products are being developed and commercialized in collaboration with corporate partners. Under these collaborations, we may be dependent on our collaborators to fund some portion of development, to conduct clinical trials, to obtain regulatory approvals for, and manufacture, market and sell products using our CDT platforms.

We have very limited experience in manufacturing, marketing and selling pharmaceutical products. There can be no assurance that we will be successful in developing these capabilities.

Our existing collaborations may be subject to termination on short notice. If any of our collaborations are terminated, we may be required to devote additional resources to the product covered by the collaboration, seek a new collaborator on short notice or abandon the product. The terms of any additional collaborations or other arrangements that we establish may not be favorable to us.

Our collaborations or other arrangements may not be successful because of factors such as:

- our collaborators may have insufficient economic motivation to continue their funding, research, development, and commercialization activities;
- our collaborators may discontinue funding any particular program, which could delay or halt the development or commercialization of any product candidates arising out of the program;
- our collaborators may choose to pursue alternative technologies or products, either on their own or in collaboration with others, including our competitors;
- our collaborators may lack sufficient financial, technical or other capabilities to develop these product candidates;
- we may underestimate the length of time that it takes for our collaborators to achieve various clinical development and regulatory approval milestones; or,
- our collaborators may be unable to successfully address any regulatory or technical challenges they may encounter.

We have no manufacturing capabilities and will be dependent on third party manufacturers.

We do not have commercial scale facilities to manufacture any products we may develop in accordance with requirements prescribed by the FDA. Consequently, we have to rely on third party manufacturers of the products we are evaluating in clinical trials. If any of our product candidates receive FDA or other regulatory authority approval, we will rely on third-party contractors to perform the manufacturing steps for our products on a commercial scale. We may be unable to identify manufacturers on acceptable terms or at all because the number of potential manufacturers is limited and the FDA and other regulatory authorities, as applicable, must approve any replacement manufacturer, including us, and we or any such third party manufacturer may be unable to formulate and manufacture our drug products in the volume and of the quality required to meet our clinical and commercial needs. We will be dependent upon these third parties to supply us in a timely manner with products manufactured in compliance with current good manufacturing practices (cGMPs) or similar manufacturing standards imposed by foreign regulatory authorities where our products will be tested and/or marketed. While the FDA and other regulatory authorities maintain oversight for cGMP compliance of drug manufacturers, contract manufacturers may at times violate cGMPs. The FDA and other regulatory authorities may take action against a contract manufacturer who violates cGMPs. We currently rely on Catalent Pharma Solutions, LLC (formerly Cardinal Health PTS, LLC) for the production of a number of our product candidates. If Catalent or other third

party manufacturers are unable to provide adequate products and services to us, we could suffer a delay in our clinical trials and the development of or the submission of products for regulatory approval. In addition, we would not have the ability to commercialize products as planned and deliver products on a timely basis, and we may have higher product costs or we may be required to cease distribution or recall some or all batches of our products.

If we fail to protect and maintain the proprietary nature of our intellectual property, our business, financial condition and ability to compete would suffer.

We principally rely on patent, trademark, copyright, trade secret and contract law to establish and protect our proprietary rights. We own or have exclusive rights to several U.S. patents and patent applications and we expect to apply for additional U.S. and foreign patents in the future. The patent positions of pharmaceutical, nutraceutical, and bio-pharmaceutical firms, including ours, are uncertain and involve complex legal and factual questions for which important legal issues are largely unresolved. The coverage claimed in our patent applications can be significantly reduced before a patent is issued, and the claims allowed on any patents or trademarks we hold may not be broad enough to protect our technology. In addition, our patents or trademarks may be challenged, invalidated or circumvented, or the patents of others may impede our collaborators' ability to commercialize the technology covered by our owned or licensed patents. Moreover, any current or future issued or licensed patents, or trademarks, or existing or future trade secrets or know-how, may not afford sufficient protection against competitors with similar technologies or processes, and the possibility exists that certain of our already issued patents or trademarks may infringe upon third party patents or trademarks or be designed around by others. In addition, there is a risk that others may independently develop proprietary technologies and processes that are the same as, or substantially equivalent or superior to ours, or become available in the market at a lower price. There is a risk that we have infringed or in the future will infringe patents or trademarks owned by others, that we will need to acquire licenses under patents or trademarks belonging to others for technology potentially useful or necessary to us, and that licenses will not be available to us on acceptable terms, if at all. We cannot assure you that:

- our patents or any future patents will prevent other companies from developing similar or functionally equivalent products or from successfully challenging the validity of our patents;
- any of our future processes or products will be patentable;
- any pending or additional patents will be issued in any or all appropriate jurisdictions;
- our processes or products will not infringe upon the patents of third parties; or,
- we will have the resources to defend against charges of patent infringement by third parties or to protect our own patent rights against infringement by third parties.

We may have to litigate to enforce our patents or trademarks or to determine the scope and validity of other parties' proprietary rights. Litigation could be very costly and divert management's attention. An adverse outcome in any litigation could adversely affect our financial results and stock price.

We also rely on trade secrets and proprietary know-how, which we seek to protect by confidentiality agreements with our employees, consultants, advisors, and collaborators. There is a risk that these agreements may be breached, and that the remedies available to us may not be adequate. In addition, our trade secrets and proprietary know-how may otherwise become known to or be independently discovered by others.

Significant expenses in applying for patent protection and prosecuting our patent applications will increase our need for capital and could harm our business and financial condition.

We intend to continue our substantial efforts in applying for patent protection and prosecuting pending and future patent applications both in the United States and internationally. These efforts have historically required the expenditure of considerable time and money, and we expect that they will continue to require significant expenditures. If future changes in United States or foreign patent laws complicate or hinder our efforts to obtain patent protection, the costs associated with patent prosecution may increase significantly.

If we fail to attract and retain key executive and technical personnel we could experience a negative impact on our ability to develop and commercialize our products and our business will suffer.

The success of our operations will depend to a great extent on the collective experience, abilities and continued service of relatively few individuals. We are dependent upon the continued availability of the services of our employees, many of whom are individually key to our future success. For example, if we lose the services of Dr. Bruce S. Morra, our Chief Executive Officer and President, or our Vice President and Chief Technical Officer, Stephen J. Turner, we could experience a negative impact on our ability to develop and commercialize our CDT technology, our financial results, and

our stock price. We also rely on members of our scientific staff for product research and development. The loss of the services of key members of this staff could substantially impair our ongoing research and development and our ability to obtain additional financing. We do not carry key man life insurance on any of our personnel.

Our success also significantly depends upon our ability to attract and retain highly qualified personnel. We face intense competition for personnel in the drug delivery industry. To compete for personnel, we may need to pay higher salaries and provide other incentives than those paid and provided by more established entities. Our limited financial resources may hinder our ability to provide such salaries and incentives. Our personnel may voluntarily terminate their relationship with us at any time, and the process of locating additional personnel with the combination of skills and attributes required to carry out our strategy could be lengthy, costly, and disruptive. If we lose the services of key personnel, or fail to replace the services of key personnel who depart, we could experience a severe negative impact on our financial results and stock price.

Future laws or regulations may hinder or prohibit the production or sale of our products.

We may be subject to additional laws or regulations in the future, such as those administered by the FDA or other federal, state or foreign regulatory authorities. Laws or regulations that we consider favorable, such as the Dietary Supplement Health and Education Act, DSHEA, may be repealed. Current laws or regulations may be interpreted more stringently. We are unable to predict the nature of such future laws, regulations or interpretations, nor can we predict what effect they may have on our business. Possible effects or requirements could include the following:

- the reformulation of certain products to meet new standards;
- the recall or discontinuance of certain products unable to be reformulated;
- imposition of additional record keeping requirements;
- expanded documentation of the properties of certain products; or,
- expanded or different labeling, or scientific substantiation.

Any such requirement could have a material adverse effect on our results of operations and financial condition.

If we fail to maintain an effective system of internal controls, we may not be able to accurately report our financial results or prevent fraud.

Effective internal controls are necessary for us to provide reliable financial reports and effectively prevent fraud. If we cannot provide reliable financial reports or prevent fraud, our operating results could be harmed.

The NYSE Alternext U.S. (formerly the American Stock Exchange, or AMEX) may consider delisting our common stock.

Section 1003 of the AMEX Company Guide (Application of Policies) provides that the AMEX may cause our common stock to be delisted under certain circumstances, including in connection with our failure to maintain stockholders' equity of at least $6,000,000, or where our financial condition has become so impaired that it appears questionable, in the opinion of the AMEX, as to whether we will be able to continue operations and/or meet our obligations as they mature. In the event we are unable to increase our revenue, obtain additional financing or otherwise obtain funding for our ongoing operations, our stockholders' equity may fall below the $6,000,000 threshold, or the AMEX may determine to delist our common stock based on our financial condition. If we are delisted from the AMEX then our common stock will trade, if at all, only on the over-the-counter markets, such as the OTC Bulletin Board securities market, and then only if one or more registered broker-dealer market makers comply with quotation requirements. In addition, delisting of our common stock could further depress our stock price, substantially limit the liquidity of our common stock and materially adversely affect our ability to raise capital on terms acceptable to us, or at all. Delisting from AMEX could also have other negative results, including the potential loss of confidence by suppliers and employees, the loss of institutional investor interest and fewer business development opportunities.

A significant number of shares of our common stock are or will be eligible for sale in the open market, which could drive down the market price for our common stock and make it difficult for us to raise capital.

As of December 31, 2008, 41,130,270 shares of our common stock were outstanding, and there were 7,615,481 shares of our common stock issuable upon the exercise of outstanding options, and warrants. Our stockholders may experience substantial dilution if we raise additional funds through the sale of equity securities, and sales of a large number of shares by us or by existing stockholders could materially decrease the market price of our common stock and

make it more difficult for us to raise additional capital through the sale of equity securities. The risk of dilution and the resulting downward pressure on our stock price could also encourage stockholders to engage in short sales of our common stock. By increasing the number of shares offered for sale, material amounts of short selling could further contribute to progressive price declines in our common stock.

Our stock price is subject to significant volatility.

The market price of our common stock could fluctuate significantly. Those fluctuations could be based on various factors in addition to those otherwise described in this report, including:

- general conditions in the healthcare industry;
- general conditions in the financial markets;
- our failure or the failure of our collaborative partners, for any reason, to obtain FDA approval for any of our products or products we license;
- for those products that are ultimately approved by the FDA, the failure of the FDA to approve such products in a timely manner consistent with the FDA's historical approval process;
- our failure, or the failure of our third-party partners, to successfully commercialize products approved by the FDA;
- our failure to generate product revenues anticipated by investors;
- problems with our sole contract manufacturer;
- the exercise of our right to redeem certain outstanding warrants to purchase our common stock;
- the sale of additional debt and/or equity securities by us;
- announcements by us or others of the results of preclinical testing and clinical trials and regulatory actions, technological innovations or new commercial therapeutic products; and,
- developments or disputes concerning patent or any other proprietary rights.

Certain provisions in our charter documents and otherwise may discourage third parties from attempting to acquire control of our company, which may have an adverse effect on the price of our common stock.

Our board of directors has the authority, without obtaining stockholder approval, to issue up to 5,000,000 shares of preferred stock and to fix the rights, preferences, privileges and restrictions of such shares without any further vote or action by our stockholders. Our certificate of incorporation and bylaws also provide for special advance notice provisions for proposed business at annual meetings. In addition, Delaware and Washington law contain certain provisions that may have the effect of delaying, deferring or preventing a hostile takeover of our company. Further, we have a stockholder rights plan that is designed to cause substantial dilution to a person or group that attempts to acquire our company without approval of our board of directors, and thereby make a hostile takeover attempt prohibitively expensive for a potential acquiror. These provisions, among others, may have the effect of making it more difficult for a third party to acquire, or discouraging a third party from attempting to acquire, control of our company, even if stockholders may consider such a change in control to be in their best interests, which may cause the price of our common stock to suffer.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our corporate headquarters, including administrative offices and research and development facilities, are located approximately 20 miles northeast of Seattle, Washington at 19204 North Creek Parkway, Suite 100, Bothell, Washington 98011.

1. The property, consisting of approximately 20,468 square feet, is leased until January 31, 2016.

Item 3. Legal Proceedings

We are not a party to any material litigation.

Item 4. Submission of Matters to a Vote of Securities Holders

No matters were submitted to our stockholders during the quarter ended December 31, 2008.

PART II

Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is traded on the NYSE Alternext US Exchange under the symbol "DDD." The last sale price of our common stock as reported on the NYSE Alternext US on March 6, 2009, was $0.44 per share. The following table sets forth the range of high and low close prices for our common stock as reported on the NYSE Alternext US Exchange for each full quarterly period from January 1, 2007, through December 31, 2008.

COMMON STOCK

2008	High	Low
First Quarter	$ 1.41	$ 1.03
Second Quarter	1.30	.93
Third Quarter	1.19	.79
Fourth Quarter	1.04	.49
2007		
First Quarter	$ 4.80	$ 2.07
Second Quarter	2.82	2.21
Third Quarter	3.00	1.62
Fourth Quarter	3.89	1.17

As of March 6, 2009, we had 1,198 stockholders of record. We have not paid or declared any dividends upon our common stock since inception and do not contemplate or anticipate paying any dividends upon the common stock in the foreseeable future.

EQUITY COMPENSATION PLAN INFORMATION

Information relating to our equity compensation plans is incorporated by reference to the definitive proxy statement for our 2009 annual meeting of stockholders. Additional information regarding our equity compensation plans is provided in Note 12 to our financial statements in this annual report.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

We are a specialty pharmaceutical company. Our corporate objective is to combine our formulation experience and knowledge with our proprietary and patented Controlled Delivery Technology (CDT®) platforms to develop novel pharmaceutical, OTC, and nutritional products. Our CDT platforms are based on multiple issued and pending patents and other intellectual property for the programmed release or enhanced performance of active pharmaceutical ingredients and nutritional products. Our strategy includes a significant commitment to research and development activities in connection with our drug delivery platforms. Our results of operations going forward depend on our ability to commercialize our products and technology and generate royalties, licensing fees, development fees, milestone and similar payments.

We expect our operating losses and negative cash flow to continue as we advance preclinical research an actual use study and related work to support applications for regulatory approvals and commercialization of our product candidates. We will need to raise additional capital to fund operations, continue research and development projects, and commercialize our products. The issuance of a large number of additional equity securities could cause substantial dilution to existing stockholders and could cause a decrease in the market price for shares of our common stock, which could impair our ability to raise capital in the future through the issuance of equity securities. We may not be able to secure additional financing on favorable terms, or at all. If we are unable to obtain necessary additional financing, our business will be adversely affected and we may be required to reduce the scope of our development activities or discontinue operations.

During September 2008, we relocated our offices to Bothell, Washington and received the remaining $3.1 million of the $4.1 million payment for termination of our lease in Bellevue, Washington. We have taken other steps to reduce expenses, including reductions in personnel and marketing, and the termination of a lease for additional space in Bellevue, Washington. We are actively managing our liquidity and capital resources by deferring significant expenses on development activities pending additional financing or partnership opportunities

Critical Accounting Policies and Estimates

Our financial statements are presented in accordance with accounting principles that are generally accepted in the United States. All professional accounting standards effective as of December 31, 2008, have been taken into

consideration in preparing the financial statements. The preparation of the financial statements requires estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures. Some of those estimates are subjective and complex, and, therefore, actual results could differ from those estimates. An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made and if different estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact the financial statements. We believe the following critical accounting policies reflect our more significant estimates and assumptions used in the preparation of our financial statements.

Revenue Recognition

We generate revenue from collaborative agreements, licensing fees, and from the assignment of developed and patented technology. We must exercise judgment and use estimates to determine the amount of revenue to recognize each period. Revenue under collaborative arrangements may take the form of up-front payments, payments for milestones, reimbursement of research and development costs, and licensing payments. We recognize license revenue from intellectual technology agreements. The payments received under these research collaboration agreements are contractually not refundable even if the research effort is not successful. Performance under our collaborative agreements is measured by scientific progress, as mutually agreed upon by us and our collaborators.

Up-front Payments. Up-front payments from our research collaborations include payments for technology transfer and access rights. Non-refundable, up-front payments received in connection with collaborative research and development agreements are deferred and recognized as licensing fees on a straight-line basis over the relevant periods specified in the agreement, generally the research term. When the research term is not specified in the agreement and instead the agreement specifies the completion or attainment of a particular development goal, we make an estimate of the time required to achieve that goal considering our experience with similar projects, level of effort and the development stage of the project. We review the basis of our revenue recognition and adjust it as necessary based on the status of the project against the estimated timeline as additional information becomes available.

License Fees. Non-refundable license fees where we have completed all future obligations are recognized as revenue in the period when persuasive evidence of an agreement exists, delivery has occurred, collectability is reasonably assured and the price is fixed and determinable.

Royalty Income. Royalties from licensees are based on reported sales of licensed products and revenue is calculated based on contract terms when reported sales are reliably measurable and collectability is reasonably assured.

Research and Development Income. Revenues from milestone payments are recognized when the milestone has been achieved, as long as the achievement of the milestone was not reasonably assured at the inception of the arrangement, there was substantial effort involved in achieving the milestone, the amount of the milestone payment is reasonable in relation with the level of effort associated with the achievement of the milestone, and the payment is non-refundable. Each milestone event must have substance, and must represent the achievement of specific defined goals. Reimbursements of research and development expenses we incur in connection with collaborative agreements are recognized as revenue at the time these amounts are determined to be measurable, reliable, and collectable.

Our judgment in determining the collectability of amounts due impacts the timing of revenue recognition. Credit worthiness and collectability are assessed, and when a party is not deemed credit worthy, revenue is recognized when payment is received. We also assess whether fees are fixed or determinable prior to recognizing revenue. We must make interpretations of our customer contracts and use estimates and judgments in determining if the fees associated with a license arrangement are fixed or determinable. In applying these criteria to revenue transactions, we must exercise judgment and use estimates to determine the amount of up-front payments, license fees, research and development income, and royalty income revenue to be recognized each period.

Deferred Taxes—Valuation Allowance

We make estimates and use our judgment in determining the provision for income taxes, deferred tax assets and liabilities, and any valuation allowance recorded against net deferred tax assets. We record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. While we may consider any potential future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance, in the event we were to determine that we would be able to realize our deferred tax assets in the future in excess of our net recorded amount, an adjustment to the deferred tax asset would increase income in the period in which we made such determination. At December 31, 2008, we had recorded full valuation totaling approximately $18.0 million against our net deferred tax assets.

Results of Operations

Fiscal 2008 Compared to Fiscal 2007

Revenues

Total revenues for the year ended December 31, 2008, were $958,320, a decrease of 51%, compared to $2.0 million for the same period in 2007. This decrease is primarily due to the higher level of research and development fees and licensing revenues in 2007 relating to a license agreement terminated in March 2007.

Royalty revenue from our CDT-based product sales of dietary supplement markets decreased 19%, or $219,164 to $958,320 for the year ended December 31, 2008, compared to $1.2 million for the same period in 2007 as a result of royalties generated through our alliance with Perrigo. Royalty payments from Perrigo are based solely on Perrigo's net profits of CDT-based products which involve uncertainties and are difficult to predict. Revenues from Nutraceutix declined in 2008 as our license terminated on December 31, 2007 and Nutraceutix had limited rights to continue sales of certain inventory during 2008.

In the first quarter of 2007, we received approximately $600,000 in research and development milestone payments, and recognized previously deferred licensing fee income of approximately $173,000 associated with our agreement with Wyeth Consumer Healthcare. The December 2005 agreement with Wyeth provided for an upfront fee of $250,000 which was recorded as deferred revenue and was being amortized over the development period until the contract was terminated in March 2007, at which time the remaining balance was recorded to income.

Marketing and Selling Expenses

Marketing and selling expenses decreased 28%, or $264,021, to $672,675 for the year ended December 31, 2008, compared to $936,696 for the same period in 2007, primarily due to a decrease of $84,516 in advertising, tradeshow activities and related travel. In addition, payroll and related expenses decreased $133,129 in 2008 due to the reduction in staff early in the year and non-cash share-based compensation expense resulting from the lower fair value of stock options granted.

Research and Development Expenses

Research and development expenses decreased 19%, or $1.5 million, to $6.3 million for the year ended December 31, 2008, compared to $7.8 million for the same period in 2007. The decrease of $1.5 million was primarily due to our decision to defer development activities on certain projects pending additional funding. In addition, non-cash, share based compensation expense decreased $211,843 related to annual employee stock option grants due to the lower fair value of the stock options. These decreases were offset by an increase in outside consulting expense of $221,197 related to regulatory activities associated with our ibuprofen and pseudoephedrine projects.

General and Administrative Expenses

General and administrative expenses decreased 4%, or $198,259, to $4.4 million for the year ended December 31, 2008, compared to $4.6 million for the same period in 2007. This decrease is primarily due to a decrease in non-cash, share-based compensation expense of $158,143 related to employee stock option grants due to the lower fair value of the stock options and a lower bonus expense of $105,084. These decreases were offset by an increase in personnel expense of $64,084 for severance costs and annual increases in employee compensation.

Lease Termination

In May 2008, we entered into a lease termination and surrender agreement, under which we agreed to terminate the lease for our corporate facility for $4.1 million. Under the terms of the agreement, we received $1.0 million upon execution of the agreement and the remaining $3.1 million in September 2008, when we vacated the premises. We incurred costs of $116,867 related to relocation to our new facility and the lease buyout which were recognized in operating expense in September 2008.

Other Income (Expense), Net

Other income decreased 68%, or $453,634, to $215,593 for the year ended December 31, 2008, compared to $669,227 for the same period in 2007. This decrease was primarily due to a decrease in interest income due to lower cash balances and interest rates.

Net Loss

Net loss decreased 42%, or $4.5 million, to $6.1 million for the year ended December 31, 2008, compared to $10.6 million for the same period in 2007. This decrease was primarily due to the gain of $4.1 million from the Lease Termination and Surrender Agreement associated with our corporate facility.

Liquidity and Capital Resources

We had approximately $6.4 million in cash and cash equivalents, and $473,711 in restricted cash as of December 31, 2008. We are investing our cash and cash equivalents in government-backed securities. We have limited capital resources and operations to date have been funded primarily with the proceeds from public and private equity and debt financings, and collaborative research agreements. Based on our current operating plan, we anticipate that our existing cash and cash equivalents, together with expected royalties from third parties, will be sufficient to fund our operations until late 2009. We are pursing new partnerships as well as collaborations, and exploring other financing options that would enable us to provide additional funding for our operations. However, we cannot be assured that financing will be available.

Our business will require substantial additional investment that we have not yet secured. Our plan is to raise capital and/or to pursue partnering opportunities. Our current operating plan reflects reductions in personnel, marketing and other operating expenses implemented in 2008. We are actively managing our liquidity by limiting clinical and development expenses to our lead products and supporting our existing alliances and collaborations. We have deferred all significant expenditures on new projects pending additional financing or partnership support. Without additional funding we do not expect to be able to complete development of our current projects

We plan to continue efforts to enter into collaboration and licensing agreements for our product candidates and seek other sources of capital to provide additional funding for our operations. We cannot be assured that financing will be available on favorable terms or at all. Our failure to raise capital, including financial support from partnerships or other collaborations, in 2009 will materially adversely affect our business, financial condition and results of operations, and could force us to reduce or cease operations. These conditions raise substantial doubt about our ability to continue as a going concern. Consequently, the audit report prepared by our independent registered public accounting firm relating to our financial statements for the year ended December 31, 2008 included a going concern explanatory paragraph.

In November 2005, the Securities and Exchange Commission declared effective our registration statement that we filed using a "shelf" registration process which expired on December 1, 2008. Under this registration statement, we offered from time-to-time, one or more offerings of common stock and/or warrants to purchase common stock under this shelf registration up to an aggregate public offering price of $40 million. Registered direct offerings were completed on December 4, 2007, and April 21, 2006, for approximately $3.6 million and $10.9 million respectively.

On November 14, 2008, we filed a new shelf registration statement in the amount of $40 million. At the time the new shelf registration was filed, $21.0 million remained available for issuance under the November 2005 filing. On November 25, 2008, the Securities and Exchange Commission declared our registration statement effective. Under this registration statement, we may offer from time-to-time, one or more offerings of common stock and/or warrants to purchase common stock under this shelf registration up to an aggregate public offering price of $40 million. If additional capital is raised through the sale of equity or convertible debt securities, the issuance of such securities will result in dilution to our existing stockholders.

Cash flows from operating activities—Net cash used in operating activities for the year ended December 31, 2008, was approximately $4.7 million compared to $7.8 million for the year end December 31, 2007. Expenditures for the year ended December 31, 2008, decreased approximately $2.0 million. In addition, during the year ended December 31, 2008, operating revenues decreased approximately $1.0 million due to lower royalty income and no research and development revenue. In addition, we received a cash payment of $4.1 million related to our facility lease buyout, which was recognized as a reduction to operating expense in September 2008.

Cash flows from investing activities—Cash flows used by investing activities of $695,001 represents restricted cash of $473,711 plus payments made for patent rights during the year ended December 31, 2008. The restricted cash is collateral for the outstanding letter of credit issued as collateral for our new facility lease. Cash flows provided by investing activities of $407,088 during the year ended December 31, 2007, primarily represented the application of maturing short-term investments to fund operating activities, off-set by purchases of patent rights and equipment.

Cash flows from financing activities— Cash flows used in financing activities of $39,961 represent the cash received of $40,086 from the exercise of stock options and warrants offset by payments made on our term loan during the year ended December 31, 2008. In the year ended December 31, 2007, cash flows from financing activities primarily

represented the proceeds from the sale of common stock, a term loan to purchase a piece of equipment to be used in our research and development activities, and the exercise of stock options and warrants.

As of December 31, 2008, we had $5.8 million of working capital compared to $11.1 million as of December 31, 2007. We have accumulated net losses of approximately $64 million from our inception through December 31, 2008. We have funded our operations primarily through the issuance of equity securities, including $3.6 million and $10.9 million in net proceeds from our registered direct offerings in December 2007 and April 2006, respectively, and $14.1 million from our private placement in February 2005.

New Accounting Pronouncements

In January 2008, the Financial Accounting Standards Board (FASB) ratified a consensus opinion reached by the Emerging Issues Task Force (EITF) on EITF Issue 07-5, "Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock," to provide guidance for determining whether an equity-linked financial instrument or embedded feature is considered indexed to an entity's own stock. The consensus establishes a two-step approach as a framework for determining whether an instrument or embedded feature is indexed to an entity's own stock. The approach includes evaluating (1) the instrument's contingent exercise provisions, if any, and (2) the instrument's settlement provisions.

Entities that issue financial instruments such as warrants or options on their own shares, convertible debt, convertible preferred stock, forward contracts on their own shares, or market-based employee stock option valuation instruments will be affected by EITF Issue 07-5.

We intend to adopt EITF Issue 07-5 effective January 1, 2009, and apply its provisions to its outstanding instruments as of that date, as well as to instruments issued subsequent to that date. We do not believe there will be a material impact to its financial statements upon adoption on January 1, 2009.

In February 2008, the FASB issued FASB Staff Position No. SFAS 157-2, "Effective Date of FASB Statement No. 157", which provides a one-year deferral of the effective date of FAS No. 157 for non-financial assets and non-financial liabilities, except those that are recognized or disclosed in the financial statements at fair value at least annually. Effective June 1, 2008, we adopted the provisions of SFAS No. 157 with respect to our financial assets and liabilities recorded at fair value. We do not believe there will be a material impact on our financial statements upon adoption.

Item 8. Financial Statements and Supplementary Data

CONTENTS

Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders of SCOLR Pharma, Inc.

We have audited the accompanying balance sheets of SCOLR Pharma, Inc. (a Delaware corporation) (the "Company") as of December 31, 2008, and 2007, and the related statements of operations, stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SCOLR Pharma, Inc. as of December 31, 2008, and 2007, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2, the Company incurred a net loss of $6.1 million during the year ended December 31, 2008, and, as of that date, the Company had net working capital of $5.8 million. These factors, among others, as discussed in Note 2 to the financial statements, raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ GRANT THORNTON LLP

Seattle, Washington

March 9, 2009

SCOLR Pharma, Inc.
BALANCE SHEETS

	December 31, 2008	December 31, 2007
ASSETS		
Current Assets		
Cash and cash equivalents	$ 6,363,243	$ 11,825,371
Accounts receivable	177,253	225,900
Interest and other receivables	1,157	16
Prepaid expenses	286,539	423,213
Total current assets	6,828,192	12,474,500
Property and equipment—net	790,947	748,931
Intangible assets—net	557,639	464,023
Restricted cash	473,711	—
Total assets	$ 8,650,489	$ 13,687,454
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	$ 238,701	$ 757,420
Accrued liabilities	668,694	586,849
Current portion of term loan	87,850	80,047
Total current liabilities	995,245	1,424,316
Long-term portion of term loan	23,269	111,119
Deferred rent	310,010	—
Total liabilities	1,328,524	1,535,435
Commitments and Contingencies (Notes 6 and 10)	—	—
Stockholders' Equity		
Preferred stock, authorized 5,000,000 shares, $0.01 par value, none issued or outstanding	—	—
Common stock, authorized 100,000,000 shares, $0.001 par value, 41,130,270 and 40,991,385 issued and outstanding as of December 31, 2008 and 2007, respectively	41,130	40,991
Additional contributed capital	71,255,901	69,945,666
Accumulated deficit	(63,975,066)	(57,834,638)
Total stockholders' equity	7,321,965	12,152,019
Total liabilities and stockholders' equity	$ 8,650,489	$ 13,687,454

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

SCOLR Pharma, Inc.

STATEMENTS OF OPERATIONS

	Year Ended December 31,	
	2008	**2007**
Revenues		
Licensing fees	$ —	$ 173,077
Royalty	958,320	1,177,484
Research and development	—	621,222
Total revenues	958,320	1,971,783
Operating expenses		
Marketing and selling	672,675	936,696
Research and development	6,268,152	7,768,346
General and administrative	4,356,647	4,554,906
Facility Lease termination		
Gain from lease buyout	(4,100,000)	—
Expenses related to relocation and lease buyout	116,867	—
Total facility lease buyout	(3,983,133)	—
Total operating expenses	7,314,341	13,259,948
Loss from operations	(6,356,021)	(11,288,165)
Other income (expense)		
Interest expense	(14,482)	(15,724)
Interest income	229,837	682,010
Other	238	2,941
Total other income (expense)	215,593	669,227
Net loss	$ (6,140,428)	$ (10,618,938)
Net loss per share, basic and diluted	$ (0.15)	$ (0.28)
Shares used in calculation of basic and diluted net loss per share	41,038,797	38,348,560

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

SCOLR Pharma, Inc.
STATEMENT OF STOCKHOLDERS' EQUITY
Years Ended December 31, 2008 and 2007

	Common Stock					
	Number of Shares	Amount	Additional Contributed Capital	Accumulated Deficit	Accumulated Other Comprehensive Gain (Loss)	Total
Beginning Balance at January 1, 2007	38,048,146	$ 38,048	$ 64,472,277	$ (47,215,700)	$ 55	$ 17,294,680
Issuance of common stock in direct offering	2,781,100	2,781	3,626,425	—	—	3,629,206
Exercise of common stock options	120,333	120	137,866	—	—	137,986
Exercise of warrants	41,806	42	(42)	—	—	—
Share-based compensation issued for employee services	—	—	1,674,453	—	—	1,674,453
Share-based compensation issued for non-employee services	—	—	34,687	—	—	34,687
Unrealized loss on short-term investments	—	—	—	—	(55)	(55)
Net loss	—	—	—	(10,618,938)	—	(10,618,938)
Comprehensive loss	—	—	—	—	—	(10,618,993)
Balance at December 31, 2007	40,991,385	$ 40,991	$ 69,945,666	$ (57,834,638)	$ —	$ 12,152,019
Exercise of common stock options	126,500	127	39,959	—	—	40,086
Exercise of warrants	12,385	12	(12)	—	—	—
Share-based compensation issued for employee services	—	—	1,270,288	—	—	1,270,288
Net loss	—	—	—	(6,140,428)	—	(6,140,428)
Balance at December 31, 2008	41,130,270	$ 41,130	$ 71,255,901	$ (63,975,066)	$ —	$ 7,321,965

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

SCOLR Pharma, Inc.
STATEMENTS OF CASH FLOWS

	Year Ended December 31,	
	2008	**2007**
Cash flows from operating activities:		
Net loss	$ (6,140,428)	$ (10,618,938)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	419,854	401,643
Loss on disposal of equipment	1,091	5,700
Share-based compensation for non-employee services	—	34,687
Share-based compensation for employee services	1,270,288	1,674,453
Write-off of long-term assets	38,424	21,762
Changes in assets and liabilities:		
Accounts and other receivables	47,506	654,280
Prepaid expenses and other assets	136,674	(76,077)
Accounts payable and accrued expenses	(500,575)	330,046
Deferred revenue	—	(185,577)
Net cash used in operating activities	(4,727,166)	(7,758,021)
Cash flows from investing activities:		
Purchase of equipment and furniture	(3,933)	(353,829)
Patent and technology rights payments	(217,357)	(232,571)
Purchase of short-term investments	—	(1,323,761)
Maturities and sales of short-term investments	—	2,317,249
Restricted cash	(473,711)	—
Net cash (used in) provided by investing activities	(695,001)	407,088
Cash flows from financing activities:		
Proceeds from term loan	—	246,500
Payments on long-term obligations and capital lease obligations	(80,047)	(55,334)
Proceeds from issuance of common stock, net of issuance costs	—	3,629,206
Proceeds from exercise of common stock options and warrants	40,086	137,986
Net cash (used in) provided by financing activities	(39,961)	3,958,358
Net (decrease) in cash	(5,462,128)	(3,392,575)
Cash at beginning of period	11,825,371	15,217,946
Cash at end of period	$ 6,363,243	$ 11,825,371
Cash paid during the year for interest	$ 13,127	$ 14,128
Non-cash investing and financing activities:		
Issuances of warrants in connection with common stock offering	$ —	$ 918,457
Capital assets financed through tenant improvement allowance	$ 373,711	$ —

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

SCOLR Pharma, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2008 and 2007

Note 1—Description of Business and Summary of Significant Accounting Policies

SCOLR Pharma, Inc. (the "Company") is a specialty pharmaceutical company that develops and formulates pharmaceutical, over-the-counter, and nutritional products. The Company uses its patented Controlled Delivery Technologies (CDT®) to develop products and license technologies to pharmaceutical and nutritional product companies. Prior to 2004, the Company manufactured nutraceutical-based health and dietary supplements for the animal and human nutrition markets. The Company's transition to a focused specialty pharmaceutical business was completed with the sale of its probiotics business in 2003.

The Company has incurred net losses since 2000. As of December 31, 2008, the Company's accumulated deficit was $64 million. The Company expects its operating losses and negative cash flow to increase as it advances preclinical research and clinical trials, applies for regulatory approvals, develops its product candidates, expands its operations, and develops the infrastructure to support commercialization of its products.

The Company's business is subject to the risks and uncertainties associated with development of drug delivery systems and products. These risks include, but are not limited to, a history of net losses, technological changes, dependence on collaborations and key personnel, the successful commercialization of the Company's product candidates, compliance with government regulations, patent infringement litigation and competition from current and potential competitors, (many of which have greater resources) dependence on third party manufacturers, and a requirement for additional funding.

A summary of the Company's significant accounting policies consistently applied in the preparation of the accompanying financial statements follows.

Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents are carried at cost, which approximates market value. The Company holds cash and cash equivalents and marketable securities at several major financial institutions, which often exceed FDIC insured limits. Historically, the Company has not experienced any losses as a result of such concentration of credit risk.

Accounts Receivable

The majority of the Company's accounts receivable were due from companies that provide royalty income from the use of the Company's CDT technology. Payments are received on a quarterly basis, usually within 45 days after the end of each quarter, for royalty income receivables.

The Company determines the allowance for doubtful accounts by considering a number of factors, including the length of time trade accounts receivable are past due, the customer's previous loss history, the customer's current ability to pay its obligation, and the condition of the general economy and the industry as a whole. The Company's policy is to write off accounts receivable when they become uncollectible, and payments subsequently received on such accounts are credited to the provision for doubtful accounts.

Financial Instruments

The carrying values of financial instruments including cash and cash equivalents, accounts and notes receivable, accounts payable, and debt obligations approximate fair value.

Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization are provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives. Leasehold improvements are amortized over the lives of the respective leases or the service lives of the improvements, whichever is shorter. Leased property under capital leases is amortized over the service lives of the assets as the leases substantially transfer ownership and have bargain purchase options. The straight-line method of depreciation is followed for substantially all assets for financial reporting purposes. The estimated useful lives in

determining depreciation and amortization are as follows:

Furniture and fixtures	3-5 years
Software	3 years
Machinery and equipment	3-10 years

Intangible Assets

Intangible assets include capitalized costs, technical and product rights, patents, and trademarks. Capitalized costs principally include legal fees incurred with the application for patents and trademarks. Technical and product rights, patents, and trademarks are stated at cost and amortized to operations over their estimated useful lives or statutory lives, whichever is shorter. The Company evaluates its long lived assets for impairments whenever events or changes in circumstances indicate that the carrying amount may not be recoverable using a fair value approach.

Revenue Recognition

The Company generates revenue from collaborative agreements, licensing fees and from the assignment of developed and patented technology. Revenue under collaborative arrangements may take the form of royalty income, up-front payments, payments for milestones, reimbursement of research and development costs, and licensing payments. Payments received under collaborative research agreements are generally not refundable even if the research effort is not successful.

Revenues recognized during 2008, and 2007, include amounts earned under royalty arrangements with related and third parties under which such parties are licensed to sell products that include technology developed or licensed by the Company. Such royalty revenues are recognized when earned, as reported to the Company by its licensees, and when collectability is reasonably assured.

Revenues recognized in 2007 also include non-refundable, up-front payments received in connection with collaborative research and development agreements, which were initially deferred and then recognized as licensing fees on a straight-line basis over the relevant periods specified in the agreement, generally the research term. Non-refundable license fees are recognized as revenue once no future performance obligation exists, the price is fixed and determinable, delivery has occurred, and collectability is reasonably assured.

For revenue arrangements with multiple elements, the delivered element is considered a separate unit of accounting only when the delivered element has stand-alone value to the customer, there is objective and reliable evidence of the fair value of the undelivered items, and delivery of the undelivered items is in the control of the Company. If these conditions are met, consideration received is allocated among the separate units based on their respective fair values, and the applicable revenue recognition criteria are applied to each of the separate units. Revenues from milestone payments are recognized when the milestone has been achieved, as long as the achievement of the milestone was not reasonably assured at the inception of the arrangement, there was substantial effort involved in achieving the milestone, the amount of the milestone payment is reasonable in relation with the level of effort associated with the achievement of the milestone, and the payment is non-refundable. Each milestone event must have substance and must represent the achievement of specific defined goals.

Reimbursements of research and development expenses incurred by the Company in connection with collaborative agreements are recognized as revenue at the time these amounts are determined to be measurable and reliable.

Income Taxes

The Company accounts for income taxes under SFAS No. 109, *Accounting for Income Taxes*. Deferred tax assets and liabilities are provided for the temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities, for net operating loss carryforwards, and tax credit carryforwards. Deferred tax assets and liabilities, net operating loss carryforwards, and tax credit carryforwards are measured using enacted tax rates and laws that will apply when the assets and liabilities are expected to reverse. The Company provides a valuation allowance when necessary to reduce deferred tax assets to amounts expected to be realized.

Research and Development Costs

Research and development expenses consist of costs associated with products being developed internally as well as those products being developed under collaborative agreements with others. These expenses include related salaries and benefits, clinical trial and related clinical trial manufacturing costs, contract and other outside service fees, and facility related costs. Research and development costs are expensed as incurred. In instances where the Company enters into agreements with third parties for research, clinical trial, and related clinical trial manufacturing costs, such costs are

expensed upon the earlier of when non-refundable amounts are due or as services are performed. Amounts due to the Company under such arrangements may be either fixed fee or fee for service, and may include upfront payments, monthly payments, and payments upon the completion of milestones or receipt of deliverables or termination costs incurred in the orderly termination of services.

Advertising Costs

The policy of the Company is to expense advertising activities as incurred. Advertising expenses for the years ended December 31, 2008 and 2007 were $100,457 and $149.227, respectively.

Earnings (Loss) Per Share

Basic earnings (loss) per share is calculated based on the weighted average number of shares outstanding during the year and income available to common shareholders. Diluted earnings (loss) per share include the effect of potential common stock, except when their effect is anti-dilutive. The weighted average shares for computing basic earnings (loss) per share were 41,038,797 for the year ended December 31, 2008, and 38,348,560 for the year ended December 31, 2007. At December 31, 2008, and 2007, options, and warrants to purchase 7,615,481 and 7,301,745 shares of common stock, respectively, prior to the application of the treasury stock method, were not included in the calculation of diluted net loss per share as they were anti-dilutive.

Share-Based Compensation

Effective January 1, 2006, the Company adopted the fair value recognition provisions of FASB Statement No. 123(R), *Share-Based Payment*, ("SFAS 123(R)") using the modified-prospective-transition method. Under that transition method, compensation cost recognized for the periods ended December 31, 2008 and 2007, includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of FASB Statement No. 123, *Accounting for Stock-Based Compensation* ("SFAS 123"), and (b) compensation cost for all share-based payments granted or modified subsequent to January 1, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS 123(R).

Share-based compensation expense for performance-based options granted to non-employees is determined in accordance with SFAS 123(R) and Emerging Issues Task Force Issue No. 96-18, *Accounting for Equity Instruments that are Issued to Other than Employees for Acquiring, or in Conjunction with Selling, Goods or Services* ("EITF 96-18"), at the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measured. The fair value of options granted to non-employees is measured as of the earlier of the performance commitment date or the date at which performance is complete ("measurement date"). When it is necessary under generally accepted accounting principles to recognize cost for the transaction prior to the measurement date, the fair value of unvested options granted to non-employees is remeasured at the balance sheet date.

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Estimates are used for, but not limited to those used in revenue recognition; the determination of the allowance for doubtful accounts, depreciable lives of assets, estimates and assumptions used in the determination of fair value of stock options and warrants, and deferred tax valuation allowances. Future events and their effects cannot be determined with certainty. Accordingly, the accounting estimates require the exercise of judgment. The accounting estimates used in the preparation of the financial statements may change as new events occur, as more experience is acquired, as additional information is obtained and as the Company's operating environment changes. Actual results could differ from those estimates.

New Accounting Pronouncements

In January 2008, the Financial Accounting Standards Board (FASB) ratified a consensus opinion reached by the Emerging Issues Task Force (EITF) on EITF Issue 07-5, "Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock," to provide guidance for determining whether an equity-linked financial instrument or embedded feature is considered indexed to an entity's own stock. The consensus establishes a two-step approach as a framework for determining whether an instrument or embedded feature is indexed to an entity's own stock. The approach includes evaluating (1) the instrument's contingent exercise provisions, if any, and (2) the instrument's settlement provisions.

Entities that issue financial instruments such as warrants or options on their own shares, convertible debt, convertible preferred stock, forward contracts on their own shares, or market-based employee stock option valuation instruments will be affected by EITF Issue 07-5.

The Company intends to adopt EITF Issue 07-5 effective January 1, 2009, and apply its provisions to its outstanding instruments as of that date, as well as to instruments issued subsequent to that date. The Company does not believe there will be a material impact to its financial statements upon adoption on January 1, 2009.

In February 2008, the FASB issued FASB Staff Position No. SFAS 157-2, "Effective Date of FASB Statement No. 157", which provides a one-year deferral of the effective date of FAS No. 157 for non-financial assets and non-financial liabilities, except those that are recognized or disclosed in the financial statements at fair value at least annually. Effective June 1, 2008, the Company adopted the provisions of SFAS No. 157 with respect to the Company's financial assets and liabilities recorded at fair value. The Company does not believe there was a material impact to its financial statements upon adoption.

Note 2—Liquidity

The Company incurred a net loss of approximately $6.1 million for the year ended December 31, 2008, and used cash from operations of approximately $4.7 million. These amounts include the net lease settlement gain of $4.0 million. Cash flows of $695,001 used by investing activities during the year ended December 31, 2008, represents $473,711 in restricted cash plus $217,357 in patent and trademark related expenditures. The restricted cash is collateral for the letter of credit issued to secure the Company's obligations under the lease of the new facility. Cash flow used by financing activities of $39,961 for the year ended December 31, 2008, reflects net proceeds from the exercise of stock options and warrants during the quarter, offset by payments on the term loan.

The Company had approximately $6.4 million in cash and cash equivalents, and $473,711 in restricted cash as of December 31, 2008. The Company is investing its cash and cash equivalents in government-backed securities. These securities are considered level 1 securities in accordance with FASB 157 "Fair Value Measurements" as the securities have quoted prices in active markets.

The Company has a history of recurring losses and expects such net losses to continue as the Company proceeds with preclinical development for multiple product candidates and applies for regulatory approvals of product candidates. The Company will require substantial additional investment that it has not yet secured. The Company plans to raise capital and/or to pursue partnering opportunities. The Company's current operating plan reflects reductions in personnel, marketing and other operating expenses implemented in 2008. The Company is actively managing liquidity by limiting clinical and development expenses to its lead products and supporting existing alliances and collaborations. The Company has deferred all significant expenditures on new projects pending additional financing or partnership support. Without additional funding the Company does not expect to be able to complete development of its current projects.

The Company plans to raise additional capital to fund operations, and continue research and development projects and advance commercialization of its product candidates. The Company may raise additional capital through public or private equity financing, partnerships, debt financing, or other sources. If the Company is unable to obtain necessary additional financing, its ability to run its business will be adversely affected and it will be required to reduce the scope of its business or discontinue operations.

The Company has limited capital resources and operations to date have been funded primarily with the proceeds of public and private equity financings and collaborative research agreements. The Company anticipates that its existing capital resources, without raising additional capital, or obtaining substantial cash inflows from potential partners or products, will enable it to continue operations until late 2009, unless unforeseen events arise that negatively impact its liquidity. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Consequently, the audit report prepared by the Company's independent registered public accounting firm relating to the Company's financial statements for the year ended December 31, 2008 included a going concern explanatory paragraph.

The business will require substantial additional financing that the Company have not yet secured, but intend to pursue during 2009 through public or private securities offerings and/or partnering opportunities. Expenses are expected to be partially offset with income-generating license agreements. Further, the Company will not have sufficient resources to develop fully any new products or technologies unless the Company is able to raise substantial additional financing on acceptable terms or secure funds from new or existing partners. The Company cannot be assured that financing will be available on favorable terms or at all.

In November 2005, the Securities and Exchange Commission declared effective the Company's registration statement filed using a "shelf" registration process which expired on December 1, 2008. Under this registration

statement, the Company offered from time-to-time, one or more offerings of common stock and/or warrants to purchase common stock under this shelf registration up to an aggregate public offering price of $40 million. Registered direct offerings were completed on December 4, 2007, and April 21, 2006, for approximately $3.6 million and $10.9 million respectively.

On November 14, 2008, the Company filed a new shelf registration statement. At the time the new shelf registration was filed, $21.0 million remained available for issuance under the November 2005 registration statement. On November 25, 2008, the Securities and Exchange Commission declared the Company's registration statement effective. Under the registration statement, the Company may make, from time-to-time, one or more offerings of preferred stock, common stock, debt securities and/or warrants to purchase common or preferred stock under this shelf registration up to an aggregate public offering price of $40 million. If additional capital is raised through the sale of equity or convertible debt securities, the issuance of such securities will result in dilution to the Company's existing stockholders.

Note 3—Accounts Receivable

Accounts receivable consists of royalty receivables at December 31, 2008 and 2007. The Company did not have any write-offs or bad debt expense in 2008 and 2007. In addition, the Company did not have an allowance for doubtful accounts in 2008 or 2007 as all accounts receivable were considered collectible.

Note 4—Property and Equipment

Property and equipment consist of the following at December 31:

	2008	2007
Furniture and fixtures	$ 70,813	$ 70,813
Software	40,852	38,237
Machinery and equipment	1,546,650	1,555,854
Leasehold improvements	422,476	48,765
	2,080,791	1,713,669
Less accumulated depreciation and amortization	(1,289,844)	(964,738)
	$ 790,947	$ 748,931

For the years ended December 31, 2008, and 2007 depreciation expense totaled $334,537 and $329,710, respectively.

Note 5—Intangible Assets

Intangible assets consist of the following at December 31:

	2008	2007
Patents and trademarks	$ 1,023,363	$ 849,475
Less accumulated amortization	(465,724)	(385,452)
	$ 557,639	$ 464,023

For the years ended December 31, 2008, and 2007 amortization expense totaled $85,317, and $71,307, respectively.

The following is a schedule by years of future amortization expense for each of the next five years based on existing intangible assets as of December 31, 2008.

Year Ending December 31,	
2009	85,335
2010	75,884
2011	71,114
2012	67,322
2013	64,353
2014 and thereafter	193,631
Total	$ 557,639

The Company reviews its strategy related to patent initiatives and may decide not to pursue further research and development in certain areas, quarterly or when circumstances change as it relates to the programs. As a result,

capitalized costs associated with certain patent filings with net book values of approximately $38,000 and $22,000, were written-off in 2008, and 2007, respectively. The write-offs were recorded to research and development expense.

Note 6—Lease Obligations

In May 2008, the Company entered into a Lease Termination and Surrender Agreement, under which the Company agreed to terminate the lease for its corporate facility for consideration of $4.1 million. Under the terms of the agreement, the Company received $1.0 million upon execution of the agreement and the remaining $3.1 million in September 2008, at the time the Company vacated the premises. The $4.1 million cash settlement and $116,867 in costs that were incurred related to the lease and relocation to the new space were recognized in operating expense in September 2008.

In June 2008, the Company entered into an agreement to lease 20,468 rentable square feet at 19204 North Creek Parkway, Bothell, Washington for the Company's office and research and development facilities. The lease commenced on September 19, 2008, for a term of 88 months ending on January 31, 2016. Under the terms of the lease, the Company received four months of free rent. The Company has the option to extend the lease term for one five-year period at the fair market rate at the time of extension. The average rent under the lease term is approximately $400,000 per year, subject to annual increases of approximately 3%. The related rent expense is recognized on a straight-line basis over the term of the lease. In connection with the lease agreement, the Company provided a $564,000 irrevocable, unconditional standby letter of credit which is secured by a money market account classified in the balance sheet as a non-current asset in *restricted cash.* The standby letter of credit was reduced by $90,289 in December 2008. At December 31, 2008, the standby letter of credit and the related security totaled $473,711. The stated amount of the standby letter of credit and the related security will be reduced further over the term of the lease.

The Company conducts its operations utilizing leased office facilities and certain equipment with terms expiring through 2016. The following is a schedule of future minimum lease payments for facilities and equipment under operating leases as of December 31, 2008:

Year Ending December 31,	Operating Leases
2009	$ 340,507
2010	414,715
2011	420,477
2012	420,835
2013	426,881
2014 and thereafter	932,249
Total future minimum lease payments	$ 2,955,664

Rent expense for leased facilities and equipment was $455,176, and $433,514, for the years ended December 31, 2008, and 2007, respectively.

Note 7 — Bank Term Loan

On March 26, 2007, the Company executed a $250,000 bank term loan agreement for the purchase of equipment to be used in its research and development activities. The stated interest rate and effective interest rate of the loan are 8.25% and 9.34%, respectively. The loan matures in March 2010. Principal and interest payments are to be made in 36 equal monthly payments of $7,877 each, with a final payment due on the date of maturity. The obligations under the loan are secured by the acquired equipment.

Note 8—Income Taxes

The Company has incurred net operating losses. The Company continues to maintain a valuation allowance for the full amount of the net deferred tax asset balance, including its net operating losses as sufficient uncertainty exists regarding its ability to realize such tax assets in the future. The Company expects the amount of the net deferred tax asset balance and associated valuation allowance to increase in future periods as the Company incurs future net operating losses.

The Company's recorded provision for income taxes (zero in all years presented) differs from the amount computed by applying the statutory federal income tax rate of 34% to its net loss. The sources of the differences are as follows at December 31:

	2008	2007
Tax benefit at statutory rate	$ (2,087,746)	$ (3,610,439)
Stock based compensation	200,520	263,132
Expiring net operating loss	292,023	92,392
Other permanent differences	91,330	9,453
Increase in valuation allowance	1,503,873	3,245,462
Total provision	$ —	$ —

Deferred income tax assets and liabilities reflect the net effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets are also recorded for the future tax benefit of net operating losses and tax credit carryforwards. The Company had no deferred tax liabilities in 2008 and 2007. Significant components of the Company's deferred tax assets are as follows at December 31:

	2008	2007
Deferred Tax Assets		
Net operating loss carry forwards	$ 16,443,549	$ 15,081,261
Depreciation and amortization	148,201	274,204
Stock options	1,219,835	1,073,786
Other assets	206,881	83,710
Deferred tax assets	$ 18,018,466	$ 16,512,961
Valuation allowance	(18,018,466)	(16,512,961)
Net deferred tax asset	$ —	$ —

The Company has established a valuation allowance for the full amount of the net deferred tax asset balance as sufficient uncertainty exists regarding its ability to realize such tax assets in the future. The net increase in the valuation allowance for the years ending December 31, 2008, and 2007, was $1,503,873, and $3,245,462, respectively.

At December 31, 2008, the Company had available net operating loss carryforwards of approximately $48.4 million of which $4.1 million related to stock option deductions. Net operating loss carryforwards of $858,890, and $271,740, expired during 2008, and 2007, respectively. The remaining net operating loss carryforwards will begin expiring in 2009 and may be used to offset future federal taxable income through the year ending December 31, 2027. The use of net operating losses may be limited in any given year under Internal Revenue Code Section 382 upon the occurrence of certain events, including significant changes in ownership interests which may have occurred, or which may occur in future years.

Historically, the Company has not incurred any interest or penalties associated with tax matters and no interest or penalties were recognized during the year ended December 31, 2008. However, the Company has adopted a policy whereby amounts related to interest and penalties associated with tax matters are classified as a general and administrative expense when incurred.

Tax years that remain open for examination include 2005, 2006, 2007 and 2008. In addition, tax years from 1993 to 2004 may be subject to examination in the event that the Company utilizes the net operating losses from those years in its current or future tax returns.

Note 9—Technical Rights, Patent License and Royalty Agreements

The Company has agreements with Temple University ("Temple") providing the Company with exclusive worldwide rights for certain patents related to its Controlled Delivery Technology (CDT®), with the right to sublicense. On July 11, 2006, the Company completed an amendment to the license agreement with Temple, dated September 6, 2000, relating to the Company's rights to U.S. Patent No. 6,090,411 ("salt patent"). The amendment provides for a reduction in the amount of the royalty for sales of prescription drugs covered by the license as well as a reduction in the annual license maintenance fee payable to Temple University. Under the terms of Temple University's development policy, the inventors of the patent receive 50% of the royalty payments received by the University. In connection with the amendment to the license agreement, the Company paid $400,000 in cash to the inventors of the patent, including $200,000 to Dr. Reza Fassihi, a member of the Company's board of directors, and the inventors agreed to waive their rights to payment of future royalties received by Temple University based on sales of prescription drugs as well as the portion of the annual license maintenance fee attributable to prescription drugs. These transactions were recorded as research and development expense. Under the terms of the amended agreements with Temple, the Company is required

to make minimum annual royalty payments of $48,750.

On March 25, 2002, the Company entered into an exclusive patent license agreement with Archer Daniels Midland Company (ADM). Under the terms of the agreement, the Company granted ADM a license to manufacture, use, and sell certain nutraceutical products covered by certain patents owned or licensed by the Company. The Company amended its license agreement with ADM in August 2006 which resulted in the Company's payment to ADM of $200,000, and accrual of $250,000 associated with its obligation to pay ADM an additional $250,000. The second $250,000 payment was expensed in the third quarter of 2006 and paid in the third quarter of 2007. These transactions were recorded as research and development expense.

In August 2005, the Company entered into an amendment to the license agreement it originally granted to Nutraceutix. The amendment limited the rights previously granted to Nutraceutix to manufacture and sell certain controlled release dietary supplement products to certain designated customers of Nutraceutix, eliminated the right to use the Company's trademarks, resolved certain disputes, and eliminated the remaining minimum payments due under the original agreement. Commencing July 1, 2005, the Company began receiving royalty payments on such sales at a reduced rate and such payments are recognized as royalty revenue as they become due. During the years ended December 31, 2008, and 2007, the Company recorded revenue in the amount of $64,155 and $163,668, respectively under this agreement. Subject to the rights of Nutraceutix to continue sales of certain inventories for up to one year, the license terminated on December 31, 2007.

On October 20, 2005, the Company entered into a Manufacture, License and Distribution Agreement with Perrigo Company of South Carolina, Inc. ("Perrigo"). Under the agreement, the Company granted a license to its CDT technology to Perrigo for the manufacture, marketing, distribution, sale, and use of specific dietary supplement products in the United States. In addition, Perrigo may request that the Company develop additional dietary supplement products that use this technology to be added to the agreement. The Company receives royalties based on a percentage of Perrigo's net profits derived from the sales of licensed products under the agreement. During the years ended December 31, 2008, and 2007, the Company recorded royalty revenues earned under this agreement of $882,856, and $975,344, respectively.

During the first quarter of 2007, the Company recognized research and development income of $500,000 related to a milestone payment from Wyeth and approximately $109,000 for reimbursement of research and development costs related to the agreement. The $250,000 upfront fee was previously recorded as deferred revenue and was being amortized as licensing fee income over the development period. As a result of the termination of the agreement, the Company recognized the approximately $173,000 remaining balance of previously deferred licensing fee income during the first quarter of 2007.

On September 5, 2006, the Company entered into a research collaboration with BioCryst Pharmaceuticals ("BioCryst"), to develop an oral formulation of peramivir, a promising antiviral compound using the Company's CDT platforms. Peramivir is a novel therapeutic being developed by BioCryst for treatment of seasonal and life threatening influenza with a focus on intravenous and intramuscular delivery. The goal of the collaboration is to develop a tablet or capsule formulation for the oral administration of peramivir that improves oral bioavailability.

On October 18, 2007, the Company entered into a collaboration and license agreement with Dr. Reddy's Laboratories ("Dr. Reddy's") to pursue the development and commercialization of an undisclosed oral prescription drug product. Under the terms of the agreement, Dr. Reddy's will be responsible for the development, manufacturing, and marketing of the drug product. The Company will be responsible for the formulation and assist with the scale-up activities of the product.

Note 10—Future Commitments

The Company has certain material agreements with its manufacturing and testing vendors related to its ongoing clinical trial work associated with its drug delivery technology. Contract amounts are paid based on materials used and on a work performed basis. Generally, the Company has the right to terminate these agreements upon 30 days notice and would be responsible for services and materials and related costs incurred prior to termination. Certain leases as discussed in Note 6 related to leased office facilities have terms expiring through 2016.

Note 11—Retirement Plan

The Company has a defined contribution 401(k) retirement plan which covers all employees. The Company matches 25% of employee contributions, up to 8% of eligible compensation. The Company contributed $37,356, and $35,689, to the Plan for the years ended December 31, 2008, and 2007, respectively.

Note 12—Share-Based Compensation

The Company has granted equity incentive awards to its employees, consultants, officers, and directors under its 2004 Equity Incentive Plan (the "2004 Plan") and its 1995 Stock Option Plan (the "1995 Plan"). The 2004 Plan was approved by stockholders in June 2004, and replaced the 1995 Plan. Under the 2004 Plan, equity-based incentive awards may be granted in the form of stock options, stock appreciation rights, stock awards, performance awards, and outside director options.

The equity incentive awards granted to employees are generally granted at exercise prices equal to the market value of the Company's common stock on the date of grant, vest over three years, and expire ten years from the date of grant.

Under the terms of the 2004 Plan, non-employee directors receive automatic annual grants of stock options at exercise prices equal to the market value of the Company's common stock on the date of grant, which generally vest in equal monthly installments over one year and expire ten years from the date of grant.

The 2004 Plan initially authorized the issuance of up to 2,000,000 shares of common stock, plus 388,441 shares which were previously reserved for issuance under the 1995 Plan not subject to outstanding options. On June 8, 2006, the Company's stockholders approved a 2,000,000 share increase in the maximum aggregate number of shares that may be issued under the 2004 Equity Incentive Plan. If any award under the 2004 Plan, or any award previously issued and outstanding under the 1995 Plan, expires, lapses or otherwise terminates for any reason without having been exercised or settled in full, or if shares subject to forfeiture or repurchase are forfeited or repurchased by the Company, the shares underlying the award will again become available for issuance under the 2004 Plan. As of December 31, 2008, the Company had 630,156 shares available for future grants under both Plans.

The following tables set forth the aggregate share-based compensation expense resulting from equity incentive awards issued to the Company's employees and to non-employees for services rendered that is recorded in the Company's results of operations for the year ended December 31:

	2008	2007
Share-based compensation:		
Marketing and selling	$ 62,108	$ 130,972
Research and development	399,050	610,895
General and administrative	809,130	932,586
Share-based compensation for employees	1,270,288	1,674,453
General and administrative, non-employee services	—	34,687
Total share-based compensation expense	$ 1,270,288	$ 1,709,140

The share-based compensation expense for non-employee services reflects option grants to outside consultants. There are no future performance conditions associated with these grants and no consideration was received for the options.

The fair value of share-based awards is estimated using the Black-Scholes option pricing model with the following assumptions for the years ended December 31, 2008, and 2007. When estimating forfeitures, the Company considers the potential for voluntary and involuntary terminations.

	Black-Scholes Model Assumptions December 31,	
	2008	2007
Expected volatility	59%–74%	56%–64%
Expected dividend yield	0%	0%
Risk-free interest rate	1.87%–4.06%	3.23%–5.26%
Expected life	6 – 10 years	6 – 10 years

The Company's computation of expected volatility is based on historical realized volatility. Prior to the implementation of SFAS 123(R), the Company estimated that the expected lives of all options were equal to their contractual term. The options granted to employees meet the definition of "plain vanilla" options defined in the Securities and Exchange Commission's Staff Accounting Bulletin No. 107 ("SAB 107"). Therefore, management utilizes the shortcut method described in SAB 107 in determining the expected life of employee options. The shortcut method estimates the expected term based on the midpoint between the vesting date and the end of the contractual term. The Company's computation of expected life for non-employee director's awards and for outside consultant awards under SFAS 123(R) continues to be based on the contractual term of the award. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of the grant for issues with a term that approximates the expected life used as the assumption in the model.

A summary of the Company's stock option activity for the two years ended December 31, 2008 is as follows:

Stock Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Outstanding at December 31, 2006	3,240,665	$ 3.64		
Granted	734,167	$ 2.10		
Exercised	(120,333)	$ 1.15		
Forfeited	(227,096)	$ 4.50		
Outstanding at December 31, 2007	3,627,403	$ 3.36		
Granted	1,189,895	$ 1.09		
Exercised	(40,000)	$ 1.00		
Forfeited	(333,216)	$ 2.28		
Outstanding at December 31, 2008	4,444,082	$ 2.85	6.80	$ 14,400
Outstanding vested or expected to vest options at December 31, 2008	4,417,317	$ 2.86	6.79	$ 14,400
Options exercisable at December 31, 2008	3,443,427	$ 3.22	6.11	$ 14,400

Cash received from options exercised was $40,086 and $137,986, for the years ended December 31, 2008, and 2007, respectively. No actual tax benefit was realized for tax deductions from option exercise of the share-based payment arrangements because the Company has recorded a full valuation allowance against all deferred tax assets due to the uncertainty of realization of such assets. The Company has a policy of issuing new shares to satisfy share option exercises.

The weighted-average grant date fair value of equity options granted during the years ended December 31, 2008, and 2007, was $0.66 and $1.35, respectively. The total intrinsic value of options exercised for the years ended December 31, 2008, and 2007, was $4,800 and $223,103, respectively. The total fair value of stock options vested during the years ended December 31, 2008, and 2007, was $1,182,251, and $2,160,764, respectively.

As of December 31, 2008, there was $848,123 total unrecognized non-cash compensation cost related to non-vested options granted under the 1995 Plan and 2004 Plan. That cost is expected to be recognized over a weighted-average period of 1.68 years.

A summary of the Company's restricted stock activity for the year ended December 31, 2008 is as follows:

Restricted stock	Shares	Weighted-Average Grant date fair value
Non-vested at December 31, 2007	—	$ —
Granted	86,500	1.29
Vested	—	—
Forfeited	—	—
Non-vested at December 31, 2008	86,500	$ 1.29

The proceeds received for the restricted stock are included in the statement of stockholders' equity as proceeds from the exercise of common stock options. Common shares outstanding as of December 31, 2008, include the 86,500 restricted stock shares granted. The shares will become vested on the third anniversary of the date of grant. The total fair value of restricted stock vested during the years ended December 31, 2008, and 2007, was $0, and $0, respectively. As of December 31, 2008, there was $58,763 total unrecognized non-cash compensation cost related to non-vested restricted stock granted under the 2004 Plan. That cost is expected to be recognized over a weighted-average period of 2.12 years.

Note 13—Financing Events

Registered Direct Offering

On December 4, 2007, the Company raised approximately $4.2 million in gross proceeds through a registered direct offering of 2,781,100 shares of the Company's common stock at a purchase price of $1.50 per share. Purchasers of the Company's stock also received warrants to purchase 1,390,550 shares of common stock at an exercise price of $2.10

per share, exercisable for five years. Net proceeds of the offering were approximately $3.6 million after placement agent fees of $250,300 and other direct and incremental offering costs of approximately $283,000. ThinkEquity Partners LLC acted as placement agent for the offering. Taglich Brothers, Inc. provided financial advisory services and was paid a fee of $112,509, which was deducted from the fee paid to the placement agent. Michael N. Taglich, a member of the Company's board of directors, is the president and a principal shareholder of Taglich Brothers. In connection with the offering, the Company also issued warrants to purchase 1,390,550 shares of its common stock at $2.10 per share, exercisable for five years, and valued at $918,457 using the Black-Scholes option-pricing model. Under the terms of the warrant agreement, in the event that another offering was completed within a period of twelve months, the exercise price of the warrant would have been adjusted to be equal to the price at which the common stock would have been sold in the new offering had an offering occurred. The Black-Scholes valuation was based on the following assumptions: volatility of 64%; term of five years; risk-free interest rate of 3.28%; and 0% dividend yield.

Shelf Registration

On October 27, 2005, the Company filed a shelf registration statement on Form S-3 with the SEC, pursuant to which it may sell, from time to time, up to $40 million in common stock and/or common stock purchase warrants. The registration statement was declared effective by the SEC in November 2005 and expired on December 1, 2008. The specific terms of any future offering would be established at the time of the offering. Registered direct offerings were completed on December 4, 2007, and April 21, 2006, for approximately $3.6 million and $10.9 million respectively.

On November 14, 2008, the Company filed a new shelf registration statement in the amount of $40 million. At the time the new shelf registration was filed, $21.0 million remained available for issuance under the November 2005 filing. On November 25, 2008, the Securities and Exchange Commission declared the Company's registration statement effective.

Note 14—Warrants

During the year ended December 31, 2008, a total of 140,238 warrants were exercised, including 127,853 warrants that were surrendered to satisfy the exercise price. As a result, 12,385 shares of common stock were issued during the year ended December 31, 2008. The weighted average exercise price for the year ended December 31, 2008, was $1.10. The Company had the following warrants to purchase common stock outstanding at December 31, 2008:

Issue Date	Issued Warrants	Exercise Price	Term	Outstanding Warrants	Expiration Date
September 30, 2002	750,000	$ 0.50	10 years	750,000	September 30, 2012
February 24, 2004	1,046,773	4.75	5 years	944,849	February 23, 2009
February 8, 2005	75,000	5.00	5 years	75,000	February 7, 2010
April 21, 2006	11,000	7.50	5 years	11,000	April 20, 2011
December 4, 2007	1,390,550	2.10	5 years	1,390,550	December 3, 2012
Grand Total	3,273,323			3,171,399	

Each warrant entitles the holder to purchase one share of common stock at the exercise price.

Note 15—Major Customers and Concentration of Credit Risk

In 2008, two customers accounted for 93% and 7% of total revenue. These revenues relate to the royalty income from the sale of products using our CDT technologies. In 2007, two customers accounted for 49% and 40% of net revenues.

The Company maintains its cash balances in four financial institutions, which at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

Note 16—Related Party Transactions

The Company's CDT platforms are currently based on five patented drug delivery technologies and includes intellectual property from two U.S. patents licensed exclusively to the Company by Temple University and two U.S. patents assigned to the Company by Dr. Reza Fassihi, a Professor of Biopharmaceutics and Industrial Pharmacy at the Temple University School of Pharmacy. Dr. Fassihi currently serves on the Company's board of directors. Dr. Fassihi is also one of the inventors of the two patents licensed to the Company by Temple University.

The Company entered into two license agreements with Temple University pursuant to which the Company obtained exclusive worldwide rights to two patents issued to Temple University which listed Dr. Fassihi as one of the

inventors. Under the terms of Temple University's development policy, the inventors receive 50% of the royalty payments received by the University. On July 11, 2006, the Company amended the license agreement with Temple University relating to the salt patent. The amendment provides for a reduction in the amount of the royalty for sales of prescription drugs covered by the license as well as a reduction in the annual license maintenance fee payable to Temple University. In connection with the amendment to the license agreement, the Company paid $400,000 in cash to the inventors of the patent, including $200,000 to Dr. Fassihi, and the inventors agreed to waive their rights to payment of royalties received by Temple University based on sales of prescription drugs as well as the portion of the annual license maintenance fee attributable to prescription drugs. As a result of these arrangements, the Company estimates that Dr. Fassihi received approximately $15,000 of the fees paid to Temple for the dual polymer patent during 2007.

Dr. Fassihi also assigned the Company all of his right, title and interest in and to the technology known as "oral controlled release dosage form based on the principle of controlled hydration" on May 24, 2001. Dr. Fassihi assigned all of his right, title and interest in the technology known as "multiple compressed asymmetric composite delivery system for release-rate modulation of bioactives" to us on August 1, 2002. Dr. Fassihi received $50,000 in connection with execution of this assignment agreement and filing of the patent and the Company agreed to pay an additional fee upon issuance of the first patent. The Company is obligated to pay Dr. Fassihi a share of upfront payments from customers and royalties based on product sales with respect to the intellectual property assigned to us under each agreement.

In addition, the Company has a consulting agreement with Dr. Fassihi. This agreement was amended effective December 31, 2006, to provide for the continuance of Dr. Fassihi's consulting services. The agreement may be terminated by either party on 30 days' notice. In the years ended December 31, 2008, and 2007, Dr. Fassihi was paid $48,000 each year for consulting services. In addition, in 2006 Dr. Fassihi received a $200,000 payment associated with the amendment to the Temple University agreement (see Note 9).

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosures

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer and principal financial officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as of December 31, 2008. Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective as of December 31, 2008.

Management's Report on Internal Control Over Financial Reporting

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the fourth quarter of our fiscal year ended December 31, 2008, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Exchange Act. Our internal control over financial reporting is a process designed under the supervision of our principal executive and principal financial officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles.

As of December 31, 2008, management assessed the effectiveness of our internal control over financial reporting based on the framework established in "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on this evaluation, management has determined that our internal control over financial reporting was effective as of December 31, 2008.

Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that:

i. pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;

ii. provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and

iii. provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the consolidated financial statements.

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations, including the possibility of human error and circumvention by collusion or overriding of controls. Accordingly, even an effective internal control system may not prevent or detect material misstatements on a timely basis. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

PART III

Item 10. Directors and Executive Officers of the Registrant

The information required by this item regarding our directors, executive officers and corporate governance is incorporated by reference to the definitive proxy statement for our 2009 annual meeting of stockholders. The information required by this item regarding executive officers is set forth in Item 1 of this annual report under the caption "Executive Officers."

Item 11. Executive Compensation

The information required by this item is incorporated by reference to the definitive proxy statement for our 2009 annual meeting of stockholders.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this item is incorporated by reference to the definitive proxy statement for our 2009 annual meeting of stockholders.

Item 13. Certain Relationships and Related Transactions

The information required by this item is incorporated by reference to the definitive proxy statement for our 2009 annual meeting of stockholders.

Item 14. Principal Accountant Fees and Services

The information required by this item is incorporated by reference to the definitive proxy statement for our 2009 annual meeting of stockholders.

PART IV

Item 15. Exhibits and Financial Statement Schedules

The following exhibits are filed herewith:

Exhibit No.	Description	Filed Herewith	Incorporated by Reference			
			Form	Exhibit No.	File No.	Filing Date
4.1	Certificate of Incorporation as amended on July 31, 2004		10-QSB	3	001-31982	8/13/2004
4.2	Certificate of designation of Series A Junior Participating Preferred Stock		10-K	4.2	001-31982	3/11/2008
4.3	Bylaws, as amended		10-QSB	3	001-31982	5/17/2004
4.4	Rights Agreement, dated as of November 1, 2002, by and between SCOLR, Inc. and OTR, Inc.		10-K	4.4	001-31982	3/11/2008
4.5	Form of Common Stock Purchase Warrant dated as of February 8, 2005		8-K	4.1	001-31982	2/11/2005
4.6	Form of Warrant dated as of December 4, 2007		8-K	4.1	001-31982	11/30/2007
10.1	Form of Common Stock Purchase Warrant dated June 25, 2003		S-2	10.3	333-107906	8/13/2003
10.2	Form of Common Stock Purchase Warrant dated February 24, 2004		8-K	10.3	001-31982	2/26/2004
10.3	Warrant Agreement dated September 30, 2002		10-K	10.3	001-31982	3/11/2008
10.4	1995 Stock Option Plan, together with amendment No. 1 thereto*		10-K	10.6	001-319822	3/13/2007
10.5	Amendment No. 2 to Company 1995 Stock Option Plan*		S-8	4.2	333-40290	6/28/2000
10.6	Form of Incentive Stock Agreement*		S-2	10.8	333-107906	8/13/2003
10.7	Form of Nonqualified Stock Option Agreement*		S-2	10.9	333-107906	8/13/2003
10.8	Research and Transfer Agreement dated September 11, 1998, among Temple University, Dr. Reza Fassihi, and the Company		S-2	10.11	333-107906	8/13/2003
10.9	License agreement dated December 22, 1998, as amended, between †Temple University and the Company		S-2	10.12	333-107906	8/13/2003
10.10	License Agreement dated September 6, 2000, between Temple University and †the Company		S-2	10.13	333-107906	8/13/2003

10.11	†Master Research and Development Agreement dated May 1, 2001, between Temple University and the Company	S-2	10.14	333-107906	8/13/2003

Exhibit No.	Description	Filed Herewith	Incorporated by Reference			
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10.13	† Intellectual Property Assignment and Assumption Agreement dated May 24, 2001, between Dr. Reza Fassihi and the Company		S-2	10.16	333-107906	8/13/2003
10.14	† License Agreement dated September 1, 2001, between Temple University and the Company		S-2	10.17	333-107906	8/13/2003
10.15	† Intellectual Property Assignment and Assumption Agreement dated August 1, 2002, between Dr. Reza Fassihi and the Company		S-2	10.18	333-107906	8/13/2003
10.16	Additional Services Agreement dated August 7, 2002, between Dr. Reza Fassihi and the Company*		S-2	10.19	333-107906	8/13/2003
10.17	Form of Option Agreement under the 2004 Equity Incentive Plan*		10-QSB	10.2	001-31982	11/12/2004
10.18	Form of Outside Director Option Agreement for Annual grants to directors under the 2004 Equity Incentive Plan*		10-QSB	10.3	001-31982	11/12/2004
10.19	Form of Non Employee Director Option Agreement for stock based fee awards under the 2004 Equity Incentive Plan*		10-QSB	10.4	001-31982	11/12/2004
10.20	† Amendment No. 1 to Intellectual Property Assignment and Assumption Agreement dated July 16, 2004, between Dr. Reza Fassihi and the Company.		10-QSB	10.1	001-31982	11/12/2004
10.21	Employment Agreement dated November 12, 2004, between Daniel O. Wilds and the Company*		8-K	10.1	001-31982	11/18/2004
10.22	Employment Agreement dated January 10, 2005, between Alan M. Mitchel and the Company*		8-K	10.1	001-31982	1/11/2005
10.23	† Manufacture, License and Distribution Agreement dated October 20, 2005, between the Company and Perrigo Company of South Carolina		10-K	10.33	001-31982	3/23/2006
10.24	First Amendment to Lease, effective as of October 12, 2005		10-K	10.35	001-31982	3/23/2006
10.25	†† Amendment to License Agreement dated as of June 1, 2006, (executed July 11,		10-Q	10.1	001-31982	11/7/2006

	2006) between SCOLR Pharma, Inc. and Temple University				
10.26	Amendment to License Agreement dated as of August 10, 2006, between ††Temple University and the Company	10-Q	10.4	001-31982	11/7/2006

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10.28	Executive Employment Agreement dated April 14, 2008, between Richard M. Levy and the Company*		8-K	10.1	001-31982	4/16/2008
10.29	Executive Employment Agreement dated April 14, 2008, between Stephen J. Turner and the Company*		8-K	10.2	001-31982	4/16/2008
10.30	Standard Multi-Tenant Lease dated June 19, 2008, between Arden Realty Limited Partnership and the Company		8-K	10.1	001-31982	6/24/2008
10.31	Lease Termination and Surrender Agreement dated April 30, 2008, between Newport Corporate Center, LLC and the Company		10-Q	10.2	001-31982	8/7/2008
10.32	2004 Equity Incentive Plan, as Amended*	X				
10.33	Form of Restricted Stock Purchase Agreement under the 2004 Equity Incentive Plan*	X				
10.34	Executive Employment Agreement dated January 30, 2009, between Bruce S. Morra and the Company*	X				
23.1	Consent of Grant Thornton LLP	X				
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	X				
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	X				
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	X				
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	X				

† Confidential treatment granted as to certain portions, which portions are omitted and filed separately with the SEC.

†† Portions of such exhibit have been omitted pursuant to a request for confidential treatment filed with the SEC.
* Management contract or compensatory plan or arrangement.

SIGNATURES

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

SCOLR PHARMA, INC.

By: /s/ BRUCE S. MORRA
Bruce S. Morra
Chief Executive Officer and President
(Principal Executive Officer)

Date: March 9, 2009

Signature	Title	Date
/s/ BRUCE S. MORRA **Bruce S. Morra**	President, Chief Executive Officer and Director (Principal Executive Officer)	March 9, 2009
/s/ RICHARD M. LEVY **Richard M. Levy**	Chief Financial Officer and Vice President—Finance (Principal Financial and Accounting Officer)	March 9, 2009
/s/ RANDALL L-W. CAUDILL **Randall L-W. Caudill**	Director	March 9, 2009
/s/ REZA FASSIHI **Reza Fassihi**	Director	March 9, 2009
/s/ HERBERT L. LUCAS, JR. **Herbert L. Lucas, Jr.**	Director	March 9, 2009
/s/ JEFFREY B. REICH **Jeffrey B. Reich**	Director	March 9, 2009
/s/ MICHAEL N. TAGLICH **Michael N. Taglich**	Chairman of the Board	March 9, 2009
/s/ WAYNE L. PINES **Wayne L. Pines**	Director	March 9, 2009
/s/ GREGORY L. WEAVER **Gregory L. Weaver**	Director	March 9, 2009

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32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	X				

† Confidential treatment granted as to certain portions, which portions are omitted and filed separately with the SEC.

†† Portions of such exhibit have been omitted pursuant to a request for confidential treatment filed with the SEC.
* Management contract or compensatory plan or arrangement.

SCOLR, INC.

2004 EQUITY INCENTIVE PLAN
(As Amended May 5, 2006)

TABLE OF CONTENTS

1. Establishment, Purpose and Term of Plan.

1.1 **Establishment.** SCOLR, Inc., a Delaware corporation, hereby establishes the SCOLR, Inc. 2004 Equity Incentive Plan (the *"**Plan**"*) effective as of June 25, 2004, the date of its approval by the stockholders of the Company (the "***Effective Date***").

1.2 **Purpose.** The purpose of the Plan is to advance the interests of the Participating Company Group and its stockholders by providing an incentive to attract, retain and reward persons performing services for the Participating Company Group and by motivating such persons to contribute to the growth and profitability of the Participating Company Group. The Plan seeks to achieve this purpose by providing for Awards in the form of Options, Stock Appreciation Rights, Stock Awards, Performance Awards, Outside Director Options, and Director Fee Awards.

1.3 **Term of Plan.** The Plan shall continue in effect until the earlier of its termination by the Board or the date on which all of the shares of Stock available for issuance under the Plan have been issued and all restrictions on such shares under the terms of the Plan and the agreements evidencing Awards granted under the Plan have lapsed. However, all Incentive Stock Options shall be granted, if at all, within ten (10) years from the earlier of the date the Plan is adopted by the Board or the date the Plan is duly approved by the stockholders of the Company.

2. Definitions and Construction.

2.1 **Definitions.** Whenever used herein, the following terms shall have their respective meanings set forth below:

(a) "***Affiliate***" means (i) an entity, other than a Parent Corporation, that directly, or indirectly through one or more intermediary entities, controls the Company or (ii) an entity, other than a Subsidiary Corporation, that is controlled by the Company directly, or indirectly through one or more intermediary entities. For this purpose, the term "***control***" (including the term "***controlled by***") means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of the relevant entity, whether through the ownership of voting securities, by contract or otherwise; or shall have such other meaning assigned such term for the purposes of registration on Form S-8 under the Securities Act.

(b) "***Award***" means any Option, SAR, Stock Award, Performance Award, Outside Director Option, or Director Fee Award granted under the Plan.

(c) "***Award Agreement***" means a written agreement between the Company and a Participant setting forth the terms, conditions and restrictions of the Award granted to the Participant. An Award Agreement may be an "***Option Agreement***," an "***SAR Agreement***," a "***Stock Purchase Agreement***," a "***Stock Bonus Agreement***," a "***Performance Share Agreement***," a "***Performance Unit Agreement***," a "***Nonemployee Director Option Agreement***," or "***Stock Units Agreement***," or an "***Outside Director Option Agreement***."

(d) *"**Board**"* means the Board of Directors of the Company. If one or more Committees have been appointed by the Board to administer the Plan, *"**Board**"* also means such Committee(s).

(e) *"**Code**"* means the Internal Revenue Code of 1986, as amended, and any applicable regulations promulgated thereunder.

(f) *"**Committee**"* shall mean the Board or the Compensation Committee or other committee of the Board duly appointed to administer the Plan and having such powers as shall be specified by the Board. Unless the powers of the Committee have been specifically limited, the Committee shall have all of the powers of the Board granted herein, including, without limitation, the power to amend or terminate the Plan at any time, subject to the terms of the Plan and any applicable limitations imposed by law.

(g) *"**Company**"* means SCOLR, Inc., a Delaware corporation, or any successor corporation thereto.

(h) *"**Consultant**"* means a person engaged to provide consulting or advisory services (other than as an Employee or a Director) to a Participating Company, provided that the identity of such person, the nature of such services or the entity to which such services are provided would not preclude the Company from offering or selling securities to such person pursuant to the Plan in reliance on registration on a Form S-8 Registration Statement under the Securities Act.

(i) *"**Director**"* means a member of the Board or of the board of directors of any other Participating Company.

(j) "***Director Fee Award***" means any Nonemployee Director Option or Stock Unit granted pursuant to Section 10.

(k) *"**Disability**"* means the inability of the Optionee, in the opinion of a qualified physician acceptable to the Company, to perform the major duties of the Optionee's position with the Participating Company Group because of the sickness or injury of the Optionee.

(l) "***Dividend Equivalent***" means a credit, made at the discretion of the Committee or as otherwise provided by the Plan, to the account of a Participant in an amount equal to the cash dividends paid on one share of Stock for each share of Stock represented by an Award held by such Participant.

(m) *"**Employee**"* means any person treated as an employee (including an Officer or a Director who is also treated as an employee) in the records of a Participating Company and, with respect to any Incentive Stock Option granted to such person, who is an employee for purposes of Section 422 of the Code; provided, however, that neither service as a Director nor payment of a director's fee shall be sufficient to constitute employment for purposes of the Plan. The Company shall determine in good faith and in the exercise of its discretion whether an individual has become or has ceased to be an Employee and the effective date of such individual's employment or termination of employment, as the case may be. For purposes of an individual's rights, if any, under the Plan as of the time of the Company's determination, all such determinations by the Company shall be final, binding and conclusive, notwithstanding that the Company or any court of law or governmental agency subsequently makes a contrary determination;

(n) *"**Exchange Act**"* means the Securities Exchange Act of 1934, as amended.

(o) *"**Fair Market Value**"* means, as of any date, the value of a share of Stock or other property as determined by the Board, in its discretion, or by the Company, in its discretion, if such determination is expressly allocated to the Company herein, subject to the following:

(i) If, on such date, the Stock is listed on a national or regional securities exchange or market system, the Fair Market Value of a share of Stock shall be the closing price of a share of Stock (or the mean of the closing bid and asked prices of a share of Stock if the Stock is so quoted instead) as quoted on the American Stock Exchange or such other national or regional securities exchange or market system constituting the primary market for the Stock, as reported in The Wall Street Journal or such other source as the Company deems reliable. If the relevant date does not fall on a day on which the Stock has traded on such securities exchange or market system, the date on which the Fair Market Value shall be established shall be the last day on which the Stock was so traded prior to the relevant date, or such other appropriate day as shall be determined by the Board, in its discretion.

(ii) If, on such date, the Stock is not listed on a national or regional securities exchange or market system, the Fair Market Value of a share of Stock shall be as determined by the Board in good faith without regard to any restriction other than a restriction which, by its terms, will never lapse.

(p) *"**Incentive Stock Option**"* means an Option intended to be (as set forth in the Award Agreement) and which qualifies as an incentive stock option within the meaning of Section 422(b) of the Code.

(q) *"**Insider**"* means an Officer, Director of the Company, or other person whose transactions in Stock are subject to Section 16 of the Exchange Act.

(r) *"**Nonemployee Director**"* means a Director who is not an Employee.

(s) "***Nonemployee Director Option***" means a Director Fee Award in the form of Nonstatutory Stock Option granted pursuant to the terms and conditions of Section 10.

(t) *"**Nonstatutory Stock Option**"* means an Option not intended to be (as set forth in the Award Agreement) or which does not qualify as an Incentive Stock Option within the meaning of Section 422(b) of the Code.

(u) ***"Officer"*** means any person designated by the Board as an officer of the Company.

(v) *"**Option**"* means the right to purchase Stock at a stated price for a specified period of time granted to a Participant pursuant to the terms and conditions of the Plan, including an Outside Director Option. An Option may be either an Incentive Stock Option or a Nonstatutory Stock Option.

(w) "***Outside Director***" means a Director of the Company who is not an Employee.

(x) "***Outside Director Option***" means an Option granted to an Outside Director pursuant to Section 11 below. Outside Director Options shall be Nonstatutory Stock Options.

(y) *"**Parent Corporation**"* means any present or future "parent corporation" of the Company, as defined in Section 424(e) of the Code.

(z) "***Participant***" means any eligible person who has been granted one or more Awards.

(aa) *"**Participating Company**"* means the Company or any Parent Corporation, Subsidiary Corporation or Affiliate.

(bb) *"**Participating Company Group**"* means, at any point in time, all corporations collectively which are then Participating Companies.

(cc) "***Performance Award***" means an Award of Performance Shares or Performance Units.

(dd) "***Performance Award Formula***" means, for any Performance Award, a formula or table established by the Committee pursuant to Section 9.3 of the Plan which provides the basis for computing the value of a Performance Award at one or more threshold levels of attainment of the applicable Performance Goal(s) measured as of the end of the applicable Performance Period.

(ee) "***Performance Goal***" means a performance goal established by the Committee pursuant to Section 9.3 of the Plan.

(ff) "***Performance Period***" means a period established by the Committee pursuant to Section 9.3 of the Plan at the end of which one or more Performance Goals are to be measured.

(gg) "***Performance Share***" means a bookkeeping entry representing a right granted to a Participant pursuant to Section 9 of the Plan to receive a payment equal to the value of a Performance Share, as determined by the Committee, based on performance.

(hh) "***Performance Unit***" means a bookkeeping entry representing a right granted to a Participant pursuant to Section 9 of the Plan to receive a payment equal to the value of a Performance Unit, as determined by the Committee, based upon performance.

(ii) "***Prior Plan Option***" means any option granted pursuant to the Company's 1995 Stock Option Plan, as amended, which is outstanding on or after the Effective Date.

(jj) "***Restriction Period***" means the period established in accordance with Section 8.5 of the Plan during which shares subject to a Stock Award are subject to Vesting Conditions.

(kk) *"**Rule 16b-3**"* means Rule 16b-3 under the Exchange Act, as amended from time to time, or any successor rule or regulation.

(ll) "***SAR***" or "***Stock Appreciation Right***" means a bookkeeping entry representing, for each share of Stock subject to such SAR, a right granted to a Participant pursuant to Section 7 of the Plan to receive payment of an amount equal to the excess, if any, of the Fair Market Value of a share of Stock on the date of exercise of the SAR over the exercise price.

(mm) *"**Section 162(m)**"* means Section 162(m) of the Code.

(nn) *"**Securities Act**"* means the Securities Act of 1933, as amended.

(oo) *"**Service**"* means a Participant's employment or service with the Participating Company Group, whether in the capacity of an Employee, a Director or a Consultant. Unless otherwise determined by the Board, a Participant's Service shall not be deemed to have terminated merely because of a change in the capacity in which the Participant renders Service to the Participating Company Group or a change in the Participating Company for which the Participant renders such Service, provided that there is no interruption or termination of the Participant's Service. Furthermore, a Participant's Service with the Participating Company Group shall not be deemed to have terminated if the Participant takes any military leave, sick leave, or other bona fide leave of absence approved by the Company; provided, however, that if any such leave exceeds ninety (90) days, on the ninety-first (91st) day of such leave the Participant's Service shall be deemed to have terminated unless the Participant's right to return to Service with the Participating Company Group is guaranteed by statute or contract. Notwithstanding the foregoing, unless otherwise designated by the Company or required by law, a leave of absence shall not be treated as Service for purposes of determining vesting under the Participant's Award Agreement. A Participant's Service shall be deemed to have terminated either upon an actual termination of Service or upon the corporation for which the Participant performs Service ceasing to be a Participating Company. Subject to the foregoing, the Company, in its discretion, shall determine whether the Participant's Service has terminated and the effective date of such termination.

(pp) *"**Stock**"* means the common stock of the Company, as adjusted from time to time in accordance with Section 4.2.

(qq) "***Stock Award***" means an Award of a Stock Bonus or a Stock Purchase Right.

(rr) "***Stock Bonus***" means Stock granted to a Participant pursuant to Section 8 of the Plan.

(ss) "***Stock Purchase Right***" means a right to purchase Stock granted to a Participant pursuant to Section 8 of the Plan.

(tt) "***Stock Unit***" means a Director Fee Award in the form of a bookkeeping entry representing a right granted to a Participant pursuant to the terms and conditions of Section 10 to receive payment of one (1) share of Stock.

(uu) *"**Subsidiary Corporation**"* means any present or future "subsidiary corporation" of the Company, as defined in Section 424(f) of the Code.

(vv) *"**Ten Percent Owner**"* means a Participant who, at the time an Option is granted to the Participant, owns stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of a Participating Company (other than an Affiliate) within the meaning of Section 422(b)(6) of the Code.

(ww) "***Vesting Conditions***" mean those conditions established in accordance with Section 8.5 of the Plan prior to the satisfaction of which shares subject to a Stock Award remain subject to forfeiture or a repurchase option in favor of the Company.

2.2 **Construction.** Captions and titles contained herein are for convenience only and shall not affect the meaning or interpretation of any provision of the Plan. Except when otherwise indicated by the context, the singular shall include the plural and the plural shall include the singular. Use of the term "or" is not intended to be exclusive, unless the context clearly requires otherwise.

3. Administration.

3.1 **Administration by the Board.** The Plan shall be administered by the Board. All questions of interpretation of the Plan or of any Award shall be determined by the Board, and such determinations shall be final and binding upon all persons having an interest in the Plan or such Award.

3.2 **Authority of Officers.** Any Officer shall have the authority to act on behalf of the Company with respect to any matter, right, obligation, determination or election which is the responsibility of or which is allocated to the Company herein, provided the Officer has apparent authority with respect to such matter, right, obligation, determination or election. The Board may, in its discretion, delegate to a committee comprised of one or more Officers the authority to grant one or more Options, SARs or Stock Awards without further approval of the Board or the Committee, to any person eligible pursuant to Section 5, other than a person who, at the time of such grant, is an Insider; provided, however, that (i) such Awards shall not be granted for shares in excess of the maximum aggregate number of shares of Stock authorized for issuance pursuant to Section 4.1, (ii) the exercise price per share of each Option, SAR or Stock Purchase Right shall be equal to the Fair Market Value per share of the Stock on the effective date of grant (or, if the Stock has not traded on such date, on the last day preceding the effective date of grant on which the Stock was traded), and (iii) each such Award shall be subject to the terms and conditions of the appropriate standard form of Award Agreement approved by the Board or the Committee and shall conform to the provisions of the Plan and such other guidelines as shall be established from time to time by the Board or the Committee.

3.3 **Powers of the Board.** In addition to any other powers set forth in the Plan and subject to the provisions of the Plan, the Board shall have the full and final power and authority, in its discretion:

(a) to determine the persons to whom, and the time or times at which, Awards shall be granted and the number of shares of Stock or units to be subject to each Award;

(b) to determine the type of Award granted and to designate Options as Incentive Stock Options or Nonstatutory Stock Options;

(c) to determine the Fair Market Value of shares of Stock or other property;

(d) to determine the terms, conditions and restrictions applicable to each Award (which need not be identical) and any shares acquired pursuant thereto, including, without limitation, (i) the exercise or purchase price of shares purchased pursuant to any Award, (ii) the method of payment for shares purchased upon the exercise or purchase of shares purchased pursuant to any Award, (iii) the method for satisfaction of any tax withholding obligation arising in connection with any Award, including by the withholding or delivery of shares of Stock, (iv) the timing, terms and conditions of the exercisability or vesting of any Award or any shares acquired pursuant thereto, (v) the Performance Award Formula and Performance Goals applicable to any Award and the

extent to which such Performance Goals have been attained, (vi) the time of the expiration of any Award, (vii) the effect of the Participant's termination of Service on any of the foregoing, and (viii) all other terms, conditions and restrictions applicable to any Award or shares acquired pursuant thereto not inconsistent with the terms of the Plan;

(e) to determine whether an Award of SARs, Performance Shares or Performance Units will be settled in shares of Stock, cash, or in any combination thereof;

(f) to approve one or more forms of Award Agreement;

(g) to amend, modify, extend, cancel or renew any Award or to waive any restrictions or conditions applicable to any Award or any shares acquired pursuant thereto;

(h) to accelerate, continue, extend or defer the exercisability or the vesting of any Award or any shares acquired pursuant thereto, including with respect to the period following a Participant's termination of Service with the Participating Company Group;

(i) to prescribe, amend or rescind rules, guidelines and policies relating to the Plan, or to adopt supplements to, or alternative versions of, the Plan, including, without limitation, as the Board deems necessary or desirable to comply with the laws of, or to accommodate the tax policy or custom of, foreign jurisdictions whose citizens may be granted Awards; and

(j) to correct any defect, supply any omission or reconcile any inconsistency in the Plan or any Award Agreement and to make all other determinations and take such other actions with respect to the Plan or any Award as the Board may deem advisable to the extent not inconsistent with the provisions of the Plan or applicable law.

3.4 **Compliance with Section 162(m).** If a Participating Company is a "publicly held corporation" within the meaning of Section 162(m), the Board may establish a Committee of "outside directors" within the meaning of Section 162(m) to approve the grant of any Award which might reasonably be anticipated to result in the payment of employee remuneration that would otherwise exceed the limit on employee remuneration deductible for income tax purposes pursuant to Section 162(m).

3.5 **Administration with Respect to Insiders.** With respect to participation by Insiders in the Plan, at any time that any class of equity security of the Company is registered pursuant to Section 12 of the Exchange Act, the Plan shall be administered in compliance with the requirements, if any, of Rule 16b-3.

3.6 **Option Repricing.** Without the affirmative vote of holders of a majority of the shares of Stock cast in person or by proxy at a meeting of the stockholders of the Company at which a quorum representing a majority of all outstanding shares of Stock is present or represented by proxy, the Board shall not approve a program providing for either (a) the cancellation of outstanding Options and the grant in substitution therefore of new Options having a lower exercise price or (b) the amendment of outstanding Options to reduce the exercise price thereof. This paragraph shall not be construed to apply to (a) "issuing or assuming a stock option in a transaction to which section 424(a) applies," within the meaning of Section 424 of the Code or (b) the cancellation of Prior Plan Options and the grant in substitution therefore of new Options having a lower exercise price under this Plan.

3.7 **Indemnification.** In addition to such other rights of indemnification as they may have as members of the Board or officers or employees of the Participating Company Group, members of the Board and any officers or employees of the Participating Company Group to whom authority to act for the Board or the Company is delegated shall be indemnified by the Company against all reasonable expenses, including attorneys' fees, actually and necessarily incurred in connection with the defense of any action, suit or proceeding, or in connection with any appeal therein, to which they or any of them may be a party by reason of any action taken or failure to act under or in connection with the Plan, or any right granted hereunder, and against all amounts paid by them in settlement thereof (provided such settlement is approved by independent legal counsel selected by the Company) or paid by them in satisfaction of a judgment in any such action, suit or proceeding, except in relation to matters as to which it shall be adjudged in such action, suit or proceeding that such person is liable for gross negligence, bad faith or

intentional misconduct in duties; provided, however, that within sixty (60) days after the institution of such action, suit or proceeding, such person shall offer to the Company, in writing, the opportunity at its own expense to handle and defend the same.

4. Shares Subject to Plan.

4.1 **Maximum Number of Shares Issuable.**

General. Subject to adjustment as provided in Section 4.2, the maximum aggregate number of shares of Stock that may be issued under the Plan shall be 4,000,000 shares, plus shares which were previously reserved for issuance under the Prior Plan but not subject to outstanding options, and shares subject to outstanding options under the Prior Plan, to the extent shares of Stock are not issued pursuant to such options. If an outstanding Award for any reason expires or is terminated or canceled without having been exercised or settled in full, or if shares of Stock are acquired pursuant to an Award subject to forfeiture or repurchase are forfeited or repurchased by the Company at the Participant's purchase price, the shares of Stock allocable to the terminated portion of such Award or such forfeited or repurchased shares of Stock shall again be available for issuance under the Plan. However, except as adjusted pursuant to Section 4.2, in no event shall more than Six Million Four Hundred Seven Thousand Eight Hundred Fifty-Seven (6,407,857) shares of Stock be available for issuance pursuant to the exercise of Incentive Stock Options (the *"**ISO Share Issuance Limit**"*). Shares of Stock shall not be deemed to have been issued pursuant to the Plan (i) with respect to any portion of an Award that is settled in cash or (ii) to the extent such shares are withheld in satisfaction of tax withholding obligations pursuant to Section 15.2. Upon payment in shares of Stock pursuant to the exercise of an SAR, the number of shares available for issuance under the Plan shall be reduced only by the number of shares actually issued in such payment. If the exercise price of an Option is paid by tender to the Company, or attestation to the ownership, of shares of Stock owned by the Participant, the number of shares available for issuance under the Plan shall be reduced by the gross number of shares for which the Option is exercised.

4.2 **Adjustments for Changes in Capital Structure.** In the event of any change in the Stock through merger, consolidation, reorganization, reincorporation, recapitalization, reclassification, stock dividend, stock split, reverse stock split, split-up, split-off, spin-off, combination, exchange of shares or similar change in the capital structure of the Company or in the event of payment of a dividend or distribution to the stockholders of the Company in a form other than Stock (except normal cash dividends) that has a material effect on the Fair Market Value of shares of Stock, appropriate adjustments shall be made in the number and class of shares subject to the Plan, in the ISO Share Issuance Limit set forth in Section 4.1, in the Award Limits set forth in Section 5.4 and to any outstanding Awards, and in the exercise or purchase price per share under any outstanding Award. Notwithstanding the foregoing, any fractional share resulting from an adjustment pursuant to this Section 4.2 shall be rounded down to the nearest whole number, and in no event may the exercise or purchase price under any Award be decreased to an amount less than the par value, if any, of the stock subject to such Award. The adjustments determined by the Board pursuant to this Section 4.2 shall be final, binding and conclusive.

5. Eligibility and Award Limitations.

5.1 **Persons Eligible for Awards.** Awards may be granted only to Employees, Consultants, and Directors. For purposes of the foregoing sentence, "***Employees***," "***Consultants***" and "***Directors***" shall include prospective Employees, prospective Consultants and prospective Directors to whom Awards are granted in connection with written offers of an employment or other service relationship with the Participating Company Group; provided, however, that no Stock subject to any Award shall vest, become exercisable or be issued prior to the date on which such person commences Service. Awards are granted solely at the discretion of the Board. Eligible persons may be granted more than one (1) Award. However, eligibility in accordance with this Section shall not entitle any person to be granted an Award, or, having been granted an Award, to be granted an additional Award. A Director Fee Award and Outside Director Options may be granted only to a person who, at the time of the grant, is a Nonemployee Director. Eligible persons may be granted more than one (1) Award.

5.2 **Option Grant Restrictions.** Any person who is not an Employee on the effective date of the grant of an Option to such person may be granted only a Nonstatutory Stock Option. An Incentive Stock Option granted to a prospective Employee upon the condition that such person become an Employee shall be deemed

granted effective on the date such person commences Service with a Participating Company, with an exercise price determined as of such date in accordance with Section 6.1.

5.3 **Fair Market Value Limitation.** To the extent that options designated as Incentive Stock Options (granted under all stock option plans of the Participating Company Group, including the Plan) become exercisable by a Participant for the first time during any calendar year for stock having a Fair Market Value greater than One Hundred Thousand Dollars ($100,000), the portion of such options which exceeds such amount shall be treated as Nonstatutory Stock Options. For purposes of this Section 5.3, options designated as Incentive Stock Options shall be taken into account in the order in which they were granted, and the Fair Market Value of stock shall be determined as of the time the option with respect to such stock is granted. If the Code is amended to provide for a different limitation from that set forth in this Section 5.3, such different limitation shall be deemed incorporated herein effective as of the date and with respect to such Options as required or permitted by such amendment to the Code. If an Option is treated as an Incentive Stock Option in part and as a Nonstatutory Stock Option in part by reason of the limitation set forth in this Section 5.3, the Participant may designate which portion of such Option the Participant is exercising. In the absence of such designation, the Participant shall be deemed to have exercised the Incentive Stock Option portion of the Option first. Separate certificates representing each such portion shall be issued upon the exercise of the Option.

5.4 **Award Limits.**

(a) **Aggregate Limit on Stock Awards and Performance Awards.** Subject to adjustment as provided in Section 4.2, in no event shall more than Five Hundred Thousand (500,000) shares in the aggregate be issued under the Plan pursuant to the exercise or settlement of Stock Awards and Performance Awards.

(b) **Section 162(m) Award Limits.** The following limits shall apply to the grant of any Award if, at the time of grant, the Company is a "publicly held corporation" within the meaning of Section 162(m).

(i) **Options and SARs.** Subject to adjustment as provided in Section 4.2, no Employee shall be granted within any fiscal year of the Company one or more Options or Freestanding SARs which in the aggregate are for more than Five Hundred Thousand (500,000) shares of Stock. An Option which is canceled (or a Freestanding SAR as to which the exercise price is reduced to reflect a reduction in the Fair Market Value of the Stock) in the same fiscal year of the Company in which it was granted shall continue to be counted against such limit for such fiscal year.

(ii) **Stock Awards.** Subject to adjustment as provided in Section 4.2, no Employee shall be granted within any fiscal year of the Company one or more Stock Awards, subject to Vesting Conditions based on the attainment of Performance Goals, for more than three hundred thousand (300,000) shares of Stock.

(iii) **Performance Awards.** Subject to adjustment as provided in Section 4.2, no Employee shall be granted (A) Performance Shares which could result in such Employee receiving more than three hundred thousand (300,000) shares of Stock for each full fiscal year of the Company contained in the Performance Period for such Award, or (B) Performance Units which could result in such Employee receiving more than two million five hundred thousand dollars ($2,500,000) for each full fiscal year of the Company contained in the Performance Period for such Award. No Participant may be granted more than one Performance Award for the same Performance Period.

6. Terms and Conditions of Options.

Options shall be evidenced by Award Agreements specifying the number of shares of Stock covered thereby, in such form as the Board shall from time to time establish. No Option or purported Option shall be a valid and binding obligation of the Company unless evidenced by a fully executed Award Agreement. Award Agreements evidencing Options may incorporate all or any of the terms of the Plan by reference and shall comply with and be subject to the following terms and conditions:

6.1 **Exercise Price.** The exercise price for each Option shall be established in the discretion of the Board; provided, however, that (a) the exercise price per share for an Incentive Stock Option shall be not less than the Fair Market Value of a share of Stock on the effective date of grant of the Option and (b) no Incentive Stock Option granted to a Ten Percent Owner shall have an exercise price per share less than one hundred ten percent (110%) of the Fair Market Value of a share of Stock on the effective date of grant of the Option. Notwithstanding the foregoing, an Option (whether an Incentive Stock Option or a Nonstatutory Stock Option) may be granted with an exercise price lower than the minimum exercise price set forth above if such Option is granted pursuant to an assumption or substitution for another option in a manner qualifying under the provisions of Section 424(a) of the Code.

6.2 **Exercisability and Term of Options.** Options shall be exercisable at such time or times, or upon such event or events, and subject to such terms, conditions, performance criteria and restrictions as shall be determined by the Board and set forth in the Award Agreement evidencing such Option; provided, however, that (a) no Incentive Stock Option shall be exercisable after the expiration of ten (10) years after the effective date of grant of such Option, (b) no Incentive Stock Option granted to a Ten Percent Owner shall be exercisable after the expiration of five (5) years after the effective date of grant of such Option, and (c) no Option granted to a prospective Employee, prospective Consultant or prospective Director may become exercisable prior to the date on which such person commences Service with a Participating Company. Subject to the foregoing, unless otherwise specified by the Board in the grant of an Option, any Option granted hereunder shall terminate ten (10) years after the effective date of grant of the Option, unless earlier terminated in accordance with its provisions.

6.3 **Payment of Exercise Price.**

(a) **Forms of Consideration Authorized.** Except as otherwise provided below, payment of the exercise price for the number of shares of Stock being purchased pursuant to any Option shall be made (i) in cash, by check or cash equivalent, (ii) by tender to the Company, or attestation to the ownership, of shares of Stock owned by the Participant having a Fair Market Value not less than the exercise price, (iii) by delivery of a properly executed notice of exercise together with irrevocable instructions to a broker providing for the assignment to the Company of the proceeds of a sale or loan with respect to some or all of the shares being acquired upon the exercise of the Option (including, without limitation, through an exercise complying with the provisions of Regulation T as promulgated from time to time by the Board of Governors of the Federal Reserve System) (a *"**Cashless Exercise**"*), (iv) by such other consideration as may be approved by the Board from time to time to the extent permitted by applicable law, or (v) by any combination thereof. The Board may at any time or from time to time, by approval of or by amendment to the standard forms of Option Agreement described in Section 12, or by other means, grant Options which do not permit all of the foregoing forms of consideration to be used in payment of the exercise price or which otherwise restrict one or more forms of consideration.

(b) **Limitations on Forms of Consideration.**

(i) **Tender of Stock.** Notwithstanding the foregoing, an Option may not be exercised by tender to the Company, or attestation to the ownership, of shares of Stock to the extent such tender or attestation would constitute a violation of the provisions of any law, regulation or agreement restricting the redemption of the Company's stock. Unless otherwise provided by the Board, an Option may not be exercised by tender to the Company, or attestation to the ownership, of shares of Stock unless such shares either have been owned by the Participant for more than six (6) months (and not used for another Option exercise by attestation during such period). The Company reserves, at any and all times, the right, in the Company's sole and absolute discretion, to refuse to allow the exercise by tender to the Company, or attestation to the ownership, of shares of Stock.

(ii) **Cashless Exercise.** The Company reserves, at any and all times, the right, in the Company's sole and absolute discretion, to establish, decline to approve or terminate any program or procedures for the exercise of Options by means of a Cashless Exercise. Cashless exercise shall not be permitted if the exercise by means of a Cashless Exercise would be a violation of any law, including Sarbanes-Oxley Act of 2002, which prohibits public companies from making personal loans to any director or executive officer.

6.4 **Transferability of Options.** During the lifetime of the Participant, an Option shall be exercisable only by the Participant or the Participant's guardian or legal representative. No Option shall be assignable or transferable by the Participant, except by will or by the laws of descent and distribution. Notwithstanding the foregoing, to the extent permitted by the Board, in its discretion, and set forth in the Award Agreement evidencing such Option, an Option shall be assignable or transferable subject to the applicable limitations, if any, described in the General Instructions to Form S-8 Registration Statement under the Securities Act.

7. Terms and Conditions of Stock Appreciation Rights.

SARs shall be evidenced by Award Agreements specifying the number of shares of Stock subject to the Award, in such form as the Committee shall from time to time establish. No SAR or purported SAR shall be a valid and binding obligation of the Company unless evidenced by a fully executed Award Agreement. Award Agreements evidencing SARs may incorporate all or any of the terms of the Plan by reference and shall comply with and be subject to the following terms and conditions:

7.1 **Types of SARs Authorized.** SARs may be granted in tandem with all or any portion of a related Option (a "***Tandem SAR***") or may be granted independently of any Option (a "***Freestanding SAR***"). A Tandem SAR may be granted either concurrently with the grant of the related Option or at any time thereafter prior to the complete exercise, termination, expiration or cancellation of such related Option.

7.2 **Exercise Price.** The exercise price for each SAR shall be established in the discretion of the Committee; provided, however, that the exercise price per share subject to a Tandem SAR shall be the exercise price per share under the related Option.

7.3 **Exercisability and Term of SARs.**

(a) **Tandem SARs.** Tandem SARs shall be exercisable only at the time and to the extent, and only to the extent, that the related Option is exercisable, subject to such provisions as the Committee may specify where the Tandem SAR is granted with respect to less than the full number of shares of Stock subject to the related Option. The Committee may, in its discretion, provide in any Award Agreement evidencing a Tandem SAR that such SAR may not be exercised without the advance approval of the Company and, if such approval is not given, then the Option shall nevertheless remain exercisable in accordance with its terms. A Tandem SAR shall terminate and cease to be exercisable no later than the date on which the related Option expires or is terminated or canceled. Upon the exercise of a Tandem SAR with respect to some or all of the shares subject to such SAR, the related Option shall be canceled automatically as to the number of shares with respect to which the Tandem SAR was exercised. Upon the exercise of an Option related to a Tandem SAR as to some or all of the shares subject to such Option, the related Tandem SAR shall be canceled automatically as to the number of shares with respect to which the related Option was exercised.

(b) **Freestanding SARs.** Freestanding SARs shall be exercisable at such time or times, or upon such event or events, and subject to such terms, conditions, performance criteria and restrictions as shall be determined by the Committee and set forth in the Award Agreement evidencing such SAR; provided, however, that no Freestanding SAR shall be exercisable after the expiration of eight (8) years after the effective date of grant of such SAR.

7.4 **Exercise of SARs.** Upon the exercise (or deemed exercise pursuant to Section 7.5) of an SAR, the Participant (or the Participant's legal representative or other person who acquired the right to exercise the SAR by reason of the Participant's death) shall be entitled to receive payment of an amount for each share with respect to which the SAR is exercised equal to the excess, if any, of the Fair Market Value of a share of Stock on the date of exercise of the SAR over the exercise price. Payment of such amount shall be made in cash, shares of Stock, or any combination thereof as determined by the Committee. Unless otherwise provided in the Award Agreement evidencing such SAR, payment shall be made in a lump sum as soon as practicable following the date of exercise of the SAR. The Award Agreement evidencing any SAR may provide for deferred payment in a lump sum or in installments. When payment is to be made in shares of Stock, the number of shares to be issued shall be determined on the basis of the Fair Market Value of a share of Stock on the date of exercise of the SAR. For purposes of

Section 7, an SAR shall be deemed exercised on the date on which the Company receives notice of exercise from the Participant.

7.5 **Deemed Exercise of SARs.** If, on the date on which an SAR would otherwise terminate or expire, the SAR by its terms remains exercisable immediately prior to such termination or expiration and, if so exercised, would result in a payment to the holder of such SAR, then any portion of such SAR which has not previously been exercised shall automatically be deemed to be exercised as of such date with respect to such portion.

7.6 **Effect of Termination of Service.** An SAR shall be exercisable after a Participant's termination of Service to such extent and during such period as determined by the Committee, in its discretion, and set forth in the Award Agreement evidencing such SAR.

7.7 **Nontransferability of SARs.** SARs may not be assigned or transferred in any manner except by will or the laws of descent and distribution, and, during the lifetime of the Participant, shall be exercisable only by the Participant.

8. Terms and Conditions of Stock Awards.

Stock Awards shall be evidenced by Award Agreements specifying whether the Award is a Stock Bonus or a Stock Purchase Right and the number of shares of Stock subject to the Award, in such form as the Committee shall from time to time establish. No Stock Award or purported Stock Award shall be a valid and binding obligation of the Company unless evidenced by a fully executed Award Agreement. Award Agreements evidencing Stock Awards may incorporate all or any of the terms of the Plan by reference and shall comply with and be subject to the following terms and conditions:

8.1 **Types of Stock Awards Authorized.** Stock Awards may be in the form of either a Stock Bonus or a Stock Purchase Right. Stock Awards may be granted upon such conditions as the Committee shall determine, including, without limitation, upon the attainment of one or more Performance Goals described in Section 9.4. If either the grant of a Stock Award or the lapsing of the Restriction Period is to be contingent upon the attainment of one or more Performance Goals, the Committee shall follow procedures substantially equivalent to those set forth in Sections 9.3 through 9.5(a).

8.2 **Purchase Price.** The purchase price for shares of Stock issuable under each Stock Purchase Right shall be established by the Committee in its discretion. No monetary payment (other than applicable tax withholding) shall be required as a condition of receiving shares of Stock pursuant to a Stock Bonus, the consideration for which shall be services actually rendered to a Participating Company or for its benefit. Notwithstanding the foregoing, the Participant shall furnish consideration in the form of cash or past services rendered to a Participating Company or for its benefit having a value not less than the par value of the shares of Stock subject to such Stock Award.

8.3 **Purchase Period.** A Stock Purchase Right shall be exercisable within a period established by the Committee, which shall in no event exceed thirty (30) days from the effective date of the grant of the Stock Purchase Right; provided, however, that no Stock Purchase Right granted to a prospective Employee, prospective Director or prospective Consultant may become exercisable prior to the date on which such person commences Service.

8.4 **Payment of Purchase Price.** Except as otherwise provided below, payment of the purchase price for the number of shares of Stock being purchased pursuant to any Stock Purchase Right shall be made (i) in cash, by check, or cash equivalent, (ii) by such other consideration as may be approved by the Committee from time to time to the extent permitted by applicable law, or (iii) by any combination thereof. The Committee may at any time or from time to time grant Stock Purchase Rights which do not permit all of the foregoing forms of consideration to be used in payment of the purchase price or which otherwise restrict one or more forms of consideration. Stock Bonuses shall be issued in consideration for past services actually rendered to a Participating Company or for its benefit.

8.5 **Vesting and Restrictions on Transfer.** Shares issued pursuant to any Stock Award may or may not be made subject to vesting conditioned upon the satisfaction of such Service requirements, conditions, restrictions or performance criteria, including, without limitation, Performance Goals as described in Section 9.4 (the "***Vesting Conditions***"), as shall be established by the Committee and set forth in the Award Agreement evidencing such Award. During any period (the "***Restriction Period***") in which shares acquired pursuant to a Stock Award remain subject to Vesting Conditions, such shares may not be sold, exchanged, transferred, pledged, assigned or otherwise disposed of other than pursuant to an Ownership Change Event, as defined in Section 13.1, or as provided in Section 8.8. Upon request by the Company, each Participant shall execute any agreement evidencing such transfer restrictions prior to the receipt of shares of Stock hereunder and shall promptly present to the Company any and all certificates representing shares of Stock acquired hereunder for the placement on such certificates of appropriate legends evidencing any such transfer restrictions.

8.6 **Voting Rights; Dividends and Distributions.** Except as provided in this Section and Section 8.5, during the Restriction Period applicable to shares subject to a Stock Award, the Participant shall have all of the rights of a stockholder of the Company holding shares of Stock, including the right to vote such shares and to receive all dividends and other distributions paid with respect to such shares. However, in the event of a dividend or distribution paid in shares of Stock or any other adjustment made upon a change in the capital structure of the Company as described in Section 4.2, then any and all new, substituted or additional securities or other property (other than normal cash dividends) to which the Participant is entitled by reason of the Participant's Stock Award shall be immediately subject to the same Vesting Conditions as the shares subject to the Stock Award with respect to which such dividends or distributions were paid or adjustments were made.

8.7 **Effect of Termination of Service.** Unless otherwise provided by the Committee in the grant of a Stock Award and set forth in the Award Agreement, if a Participant's Service terminates for any reason, whether voluntary or involuntary (including the Participant's death or disability), then (i) the Company shall have the option to repurchase for the purchase price paid by the Participant any shares acquired by the Participant pursuant to a Stock Purchase Right which remain subject to Vesting Conditions as of the date of the Participant's termination of Service and (ii) the Participant shall forfeit to the Company any shares acquired by the Participant pursuant to a Stock Bonus which remain subject to Vesting Conditions as of the date of the Participant's termination of Service. The Company shall have the right to assign at any time any repurchase right it may have, whether or not such right is then exercisable, to one or more persons as may be selected by the Company.

8.8 **Nontransferability of Stock Award Rights.** Rights to acquire shares of Stock pursuant to a Stock Award may not be subject in any manner to anticipation, alienation, sale, exchange, transfer, assignment, pledge, encumbrance or garnishment by creditors of the Participant or the Participant's beneficiary, except by will or the laws of descent and distribution, and, during the lifetime of the Participant, shall be exercisable only by the Participant.

9. Terms and Conditions of Performance Awards.

Performance Awards shall be evidenced by Award Agreements in such form as the Committee shall from time to time establish. No Performance Award or purported Performance Award shall be a valid and binding obligation of the Company unless evidenced by a fully executed Award Agreement. Award Agreements evidencing Performance Awards may incorporate all or any of the terms of the Plan by reference and shall comply with and be subject to the following terms and conditions:

9.1 **Types of Performance Awards Authorized.** Performance Awards may be in the form of either Performance Shares or Performance Units. Each Award Agreement evidencing a Performance Award shall specify the number of Performance Shares or Performance Units subject thereto, the Performance Award Formula, the Performance Goal(s) and Performance Period applicable to the Award, and the other terms, conditions and restrictions of the Award.

9.2 **Initial Value of Performance Shares and Performance Units.** Unless otherwise provided by the Committee in granting a Performance Award, each Performance Share shall have an initial value equal to the Fair Market Value of one (1) share of Stock, subject to adjustment as provided in Section 4.2, on the effective date of grant of the Performance Share, and each Performance Unit shall have an initial value of one

hundred dollars ($100). The final value payable to the Participant in settlement of a Performance Award determined on the basis of the applicable Performance Award Formula will depend on the extent to which Performance Goals established by the Committee are attained within the applicable Performance Period established by the Committee.

9.3 **Establishment of Performance Period, Performance Goals and Performance Award Formula.** In granting each Performance Award, the Committee shall establish in writing the applicable Performance Period, Performance Award Formula and one or more Performance Goals which, when measured at the end of the Performance Period, shall determine on the basis of the Performance Award Formula the final value of the Performance Award to be paid to the Participant. Unless otherwise permitted in compliance with the requirements under Section 162(m) with respect to "performance-based compensation," the Committee shall establish the Performance Goal(s) and Performance Award Formula applicable to each Performance Award no later than the earlier of (a) the date ninety (90) days after the commencement of the applicable Performance Period or (b) the date on which 25% of the Performance Period has elapsed, and, in any event, at a time when the outcome of the Performance Goals remains substantially uncertain. Once established, the Performance Goals and Performance Award Formula shall not be changed during the Performance Period. The Company shall notify each Participant granted a Performance Award of the terms of such Award, including the Performance Period, Performance Goal(s) and Performance Award Formula.

9.4 **Measurement of Performance Goals.** Performance Goals shall be established by the Committee on the basis of targets to be attained ("***Performance Targets***") with respect one or more measures of business or financial performance (each, a "***Performance Measure***"), subject to the following:

(a) **Performance Measures.** Performance Measures shall have the same meanings as used in the Company's financial statements, or, if such terms are not used in the Company's financial statements, they shall have the meaning applied pursuant to generally accepted accounting principles, or as used generally in the Company's industry. Performance Measures shall be calculated with respect to the Company and each Subsidiary Corporation consolidated therewith for financial reporting purposes or such division or other business unit as may be selected by the Committee. For purposes of the Plan, the Performance Measures applicable to a Performance Award shall be calculated in accordance with generally accepted accounting principles, but prior to the accrual or payment of any Performance Award for the same Performance Period and excluding the effect (whether positive or negative) of any change in accounting standards or any extraordinary, unusual or nonrecurring item, as determined by the Committee, occurring after the establishment of the Performance Goals applicable to the Performance Award. Performance Measures may be one or more of the following, as determined by the Committee:

(i) growth in revenue;

(ii) operating margin;

(iii) total return on shares of Stock relative to the increase in an appropriate index as may be selected by the Committee;

(iv) earnings per share;

(v) return on stockholder equity;

(vi) return on net assets; and

(vii) cash flow, as indicated by book earnings before interest, taxes, depreciation and amortization.

(b) **Performance Targets.** Performance Targets may include a minimum, maximum, target level and intermediate levels of performance, with the final value of a Performance Award determined under the applicable Performance Award Formula by the level attained during the applicable Performance Period. A

Performance Target may be stated as an absolute value or as a value determined relative to a standard selected by the Committee.

9.5 **Settlement of Performance Awards.**

(a) **Determination of Final Value.** As soon as practicable following the completion of the Performance Period applicable to a Performance Award, the Committee shall certify in writing the extent to which the applicable Performance Goals have been attained and the resulting final value of the Award earned by the Participant and to be paid upon its settlement in accordance with the applicable Performance Award Formula.

(b) **Discretionary Adjustment of Award Formula.** In its discretion, the Committee may, either at the time it grants a Performance Award or at any time thereafter, provide for the positive or negative adjustment of the Performance Award Formula applicable to a Performance Award granted to any Participant who is not a "covered employee" within the meaning of Section 162(m) (a "***Covered Employee***") to reflect such Participant's individual performance in his or her position with the Company or such other factors as the Committee may determine. If permitted under a Covered Employee's Award Agreement, the Committee shall have the discretion, on the basis of such criteria as may be established by the Committee, to reduce some or all of the value of the Performance Award that would otherwise be paid to the Covered Employee upon its settlement notwithstanding the attainment of any Performance Goal and the resulting value of the Performance Award determined in accordance with the Performance Award Formula. No such reduction may result in an increase in the amount payable upon settlement of another Participant's Performance Award.

(c) **Effect of Leaves of Absence.** Unless otherwise required by law, payment of the final value, if any, of a Performance Award held by a Participant who has taken in excess of thirty (30) days of leaves of absence during a Performance Period shall be prorated on the basis of the number of days of the Participant's Service during the Performance Period during which the Participant was not on a leave of absence.

(d) **Notice to Participants.** As soon as practicable following the Committee's determination and certification in accordance with Sections 9.5(a) and (b), the Company shall notify each Participant of the determination of the Committee.

(e) **Payment in Settlement of Performance Awards.** As soon as practicable following the Committee's determination and certification in accordance with Sections 9.5(a) and (b), payment shall be made to each eligible Participant of the final value of the Participant's Performance Award. Payment of such amount shall be made in cash, shares of Stock, or a combination thereof as determined by the Committee. Unless otherwise provided in the Award Agreement evidencing a Performance Award, payment shall be made in a lump sum. An Award Agreement may provide for deferred payment in a lump sum or in installments. If any payment is to be made on a deferred basis, the Committee may, but shall not be obligated to, provide for the payment during the deferral period of Dividend Equivalents or interest.

(f) **Provisions Applicable to Payment in Shares.** If payment is to be made in shares of Stock, the number of such shares shall be determined by dividing the final value of the Performance Award by the value of a share of Stock determined by the method specified in the Award Agreement. Such methods may include, without limitation, the closing market price on a specified date (such as the settlement date) or an average of market prices over a series of trading days. Shares of Stock issued in payment of any Performance Award may be fully vested and freely transferable shares or may be shares of Stock subject to Vesting Conditions as provided in Section 8.5. Any shares subject to Vesting Conditions shall be evidenced by an appropriate Award Agreement and shall be subject to the provisions of Sections 8.5 through 8.8 above.

9.6 **Dividend Equivalents.** In its discretion, the Committee may provide in the Award Agreement evidencing any Performance Share Award that the Participant shall be entitled to receive Dividend Equivalents with respect to the payment of cash dividends on Stock having a record date prior to the date on which the Performance Shares are settled or forfeited. Dividend Equivalents may be paid currently or may be accumulated and paid to the extent that Performance Shares become nonforfeitable, as determined by the Committee. Settlement of Dividend Equivalents may be made in cash, shares of Stock, or a combination thereof as determined by the

Committee, and may be paid on the same basis as settlement of the related Performance Share as provided in Section 9.5. Dividend Equivalents shall not be paid with respect to Performance Units.

9.7 **Effect of Termination of Service.** The effect of a Participant's termination of Service on the Participant's Performance Award shall be as determined by the Committee, in its discretion, and set forth in the Award Agreement evidencing such Performance Award.

9.8 **Nontransferability of Performance Awards.** Prior to settlement in accordance with the provisions of the Plan, no Performance Award may be subject in any manner to anticipation, alienation, sale, exchange, transfer, assignment, pledge, encumbrance, or garnishment by creditors of the Participant or the Participant's beneficiary, except by will or by the laws of descent and distribution. All rights with respect to a Performance Award granted to a Participant hereunder shall be exercisable during his or her lifetime only by such Participant.

10. Director Fee Awards.

10.1 **Effective Date and Duration of this Section.** This Section 10 shall become effective on the first day (the "***Section 10 Effective Date***") of the first calendar quarter beginning after the Effective Date, provided that elections with respect to the Initial Plan Year pursuant to Section 10.2 may be made prior to the Section 10 Effective Date. This Section 10 shall continue in effect for the remainder of the calendar year commencing on the Section 10 Effective Date (the "***Initial Plan Year***") and for each subsequent calendar year commencing during the term (as provided in Section 1.3) of the Plan (a "***Plan Year***"). Notwithstanding any Participant's prior election pursuant to Section 10.2, no Director Fee Award shall be granted after termination of the Plan, and all Director Fees (as defined below) with respect to which Director Fee Awards have not been granted prior to termination of the Plan shall thereafter be paid in cash in accordance with the Company's normal Director Fee payment procedures. However, subject to compliance with applicable law as provided in Section 14, all Director Fee Awards granted prior to termination of the Plan shall continue to be governed by and may be exercised or settled in accordance with the terms of the Plan and the Award Agreement evidencing such Director Fee Award.

10.2 **Mandatory and Elective Director Fee Awards.** Each Nonemployee Director may elect to receive one or more Director Fee Awards in lieu of payment in cash of all or any portion of such Participant's annual retainer fee, meeting fees and other compensation payable with respect to such Participant's service as a Director ("***Director Fees***") for the Initial Plan Year and each subsequent Plan Year or applicable portion thereof. A Participant shall be entitled to elect one (but not both) of the following alternative forms of payment of the value of the Participant's Director Fees:

(a) **Option Payment.** A Nonemployee Director may elect to receive up to a maximum of one hundred percent (100%) of the Participant's Director Fees to be paid in the form of a Nonemployee Director Option (an "***Option Payment***") and the balance, if any, to be paid in cash in accordance with the Company's normal Director Fee payment procedures.

(b) **Stock Units Payment.** A Nonemployee Director may elect to receive up to a maximum of one hundred percent (100%) of the Participant's Director Fees to be paid in the form of Stock Units (a "***Stock Units Payment***") and the balance, if any, to be paid in cash in accordance with the Company's normal Director Fee payment procedures. In connection with an election to receive a Stock Units Payment, the Participant may elect an "***Early Settlement Date***" (as defined below) upon which the Stock Units will be settled in accordance with Section 10.6(d); provided, however, that upon termination of the Participant's Service as a Director prior to the Early Settlement Date, settlement shall be made as provided in Section 10.6(d). Any "***Early Settlement Date***" elected by the Participant shall become irrevocable as provided in Section 10.3(b) and shall be December 1 of the third Plan Year following the Plan Year of the Stock Units Payment or December 1 of any subsequent Plan Year.

10.3 **Time and Manner of Election.**

(a) **Time of Election.** Each Nonemployee Director shall make an election pursuant to Section 10.2:

(i) for the Initial Plan Year: prior to the earlier of (1) the date thirty (30) days following the Effective Date or (2) the Section 10 Effective Date;

(ii) for each subsequent Plan Year: prior to the first day of such Plan Year; and

(iii) in the case of a newly appointed or elected Nonemployee Director: on the date of such appointment or election for the remainder of the Initial Plan Year or subsequent Plan Year of appointment or election, as the case may be.

(b) **Election Irrevocable.** An election pursuant to Section 10.2 shall become irrevocable as of the commencement of the Plan Year or portion thereof to which it applies.

(c) **Failure to Timely Elect.** Any Nonemployee Director who fails to make an election in accordance with this Section for any Plan Year (or the Initial Plan Year, as the case may be) shall be deemed to have elected pursuant to Section 10.2 to receive Option Payments for zero percent (0%) of the value of such Participant's Director Fees earned during such Plan Year (or Initial Plan Year) and to receive all of such Participant's Director Fees in cash in accordance with the Company's normal Director Fee payment procedures.

(d) **Manner of Election.** Each election in accordance with this Section shall be made on a form prescribed by the Company for this purpose and filed with the Chief Financial Officer of the Company.

10.4 **Automatic Grant of Director Fee Awards.** Subject to the provisions of Sections 1.3, 4 and 5, effective as of the last day of each quarter during any Plan Year (or the Initial Plan Year, as the case may be), each Nonemployee Director shall be granted automatically and without further action of the Committee a Director Fee Award in lieu of that portion of the Director Fees earned by the Participant during such quarter and specified by the Participant's election under Section 10.2 for such Plan Year (or Initial Plan Year) and any fractional share amount carried over from the prior quarter as provided in Section 10.7 (the "***Quarterly Director Fees***"). In accordance with the Participant's election under Section 10.2 for the Plan Year (or Initial Plan Year), the Director Fee Award shall be either in the form of an Option Payment pursuant to Section 10.5 or a Stock Units Payment pursuant to Section 10.6.

10.5 **Option Payment.** Each Option Payment shall be in the form of a Nonemployee Director Option and shall be evidenced by an Award Agreement that shall specify the exercise price, the duration of the Nonemployee Director Option, the number of shares of Stock to which the Nonemployee Director Option pertains, and such other provisions as the Committee shall determine. No such Nonemployee Director Option or purported Nonemployee Director Option shall be a valid and binding obligation of the Company unless evidenced by a fully executed Award Agreement. Such Award Agreements may incorporate all or any of the terms of the Plan by reference and shall comply with and be subject to the terms and conditions of Section 6 to the extent not inconsistent with this Section and the terms and conditions set forth in Sections 10.5(a) through 10.5(d) below:

(a) **Exercise Price.** The exercise price per share for each Nonemployee Director Option shall be fifty percent (50%) of the average of the Fair Market Values of a share of Stock for the ten (10) trading days preceding the effective date of grant of the Nonemployee Director Option.

(b) **Number of Shares Subject to Nonemployee Director Option.** The number of shares of Stock subject to a Nonemployee Director Option shall be determined by the following formula (with any resulting fractional share being disregarded):

$$X = A \div (B \times 50\%)$$

where,

"X" is the number of shares subject to the Nonemployee Director Option;

"A" is the amount of Quarterly Director Fees in lieu of which the Option Payment is made; and

"B" is the average of the Fair Market Values of a share of Stock for the ten (10) trading days preceding the effective date of grant of the Nonemployee Director Option.

(c) **Exercise Period.** Each Nonemployee Director Option shall be vested and exercisable on and after the date of grant of the Nonemployee Director Option and shall terminate and cease to be exercisable on the date ten (10) years after the date of grant of the Nonemployee Director Option, unless earlier terminated pursuant to the terms of the Plan or the Award Agreement.

(d) **Effect of Termination of Service.**

(i) **Nonemployee Director Option Grant.** No Participant shall be granted a Nonemployee Director Option following the date on which such Participant's Service as a Director terminates for any reason. All of such Participant's Director Fees with respect to which Director Fee Awards have not been granted prior to the Participant's termination of Service as a Director shall be paid in cash in accordance with the Company's normal Director Fee payment procedures.

(ii) **Nonemployee Director Option Exercisability.** Subject to earlier termination as otherwise provided herein, a Nonemployee Director Option shall remain exercisable after a Participant's termination of Service at any time prior to the expiration of thirty-six (36) months after the date on which the Participant's Service terminated, but in any event no later than the Option Expiration Date.

(iii) **Extension if Exercise Prevented by Law.** Notwithstanding the foregoing, if the exercise of a Nonemployee Director Option within the applicable time period set forth in Section 10.5(d)(ii) is prevented by the provisions of Section 14 below, the Nonemployee Director Option shall remain exercisable until thirty (30) days after the date the Participant is notified by the Company that the Nonemployee Director Option is exercisable, but in any event no later than the Option Expiration Date.

(iv) **Extension if Participant Subject to Section 16(b).** Notwithstanding the foregoing, if a sale within the applicable time period set forth in Section 10.5(d)(ii) of shares acquired upon the exercise of the Nonemployee Director Option would subject the Participant to suit under Section 16(b) of the Exchange Act, the Option shall remain exercisable until the earliest to occur of (i) the tenth (10th) day following the date on which a sale of such shares by the Participant would no longer be subject to such suit, (ii) the one hundred and ninetieth (190th) day after the Participant's termination of Service, or (iii) the Option Expiration Date.

10.6 **Stock Units Payment.** Each Stock Units Payment shall be evidenced by an Award Agreement that shall specify the number of Stock Units to which such agreement pertains, the form and time of settlement of such Stock Units and such other provisions as the Committee shall determine. No such Stock Units Award or purported Stock Units Award shall be a valid and binding obligation of the Company unless evidenced by a fully executed Award Agreement. Such Award Agreements may incorporate all or any of the terms of the Plan by reference and shall comply with and be subject to the terms and conditions set forth in Sections 10.6(a) through 10.6(f) below:

(a) **Payment.** No additional cash consideration shall be required upon settlement of a Stock Units Award.

(b) **Number of Stock Units Subject to Stock Units Award.** The number of Stock Units subject to a Stock Units Award shall be determined by the following formula (with any resulting fractional Stock Unit being disregarded):

$$X = A \div B$$

where,

"X" is the number of Stock Units subject to the Stock Units Award;

"A" is the amount of Quarterly Director Fees in lieu of which the Stock Units Payment is made; and

"B" is the average of the Fair Market Values of a share of Stock for the ten (10) trading days preceding the effective date of grant of the Stock Units Award.

(c) **Voting and Dividend Equivalent Rights.** Participants shall have no voting rights with respect to shares of Stock represented by Stock Units until the date of the issuance of a certificate for such shares (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company). Prior to settlement of a Stock Units Award, such Award shall include the right to Dividend Equivalents, pursuant to which the Participant shall be credited with additional whole and/or fractional Stock Units as of the record date of any payment of cash dividends with respect to the Stock occurring prior to such settlement date. Such additional Stock Units shall be subject to the same terms and conditions and shall be settled in the same manner and at the same time as the Stock Units originally subject to the Stock Units Award. The number of such whole and/or fractional Stock Units to be credited with respect to any Stock Units Award on the record date of any cash dividend paid on the Stock shall be determined by the following formula:

$$X = (A \times B) \div C$$

where,

"X" is the number of whole and/or fractional Stock Units to be credited with respect to the Stock Units Award;

"A" is the amount of cash dividends paid on one share of Stock;

"B" is the number of whole and fractional Stock Units subject to the Stock Units Award as of the cash dividend record date; and

"C" is the Fair Market Value of a share of Stock on the cash dividend record date.

(d) **Settlement of Stock Units.** Subject to the provisions of Section 14 below, the Company shall issue to the Participant, within thirty (30) days following the earlier of (i) the Early Settlement Date elected by the Participant with respect to the Stock Units Award or (ii) the date of termination of the Participant's Service as a Director, a number of whole shares of Stock equal to the number of whole Stock Units subject to the Stock Units Award. Such shares of Stock shall not be subject to any restriction on transfer other than any such restriction as may be required pursuant to Section 14 or any applicable law, rule or regulation. On the same settlement date, the Company shall pay to the Participant cash in lieu of any fractional Stock Unit subject to the Stock Units Award in an amount equal to the Fair Market Value on the settlement date of such fractional share of Stock.

(e) **Effect of Termination of Service.** No Participant shall be granted a Stock Units Award following the date on which such Participant's Service as a Director terminates for any reason. All of such Participant's Director Fees with respect to which Director Fee Awards have not been granted prior to the Participant's termination of Service as a Director shall be paid in cash in accordance with the Company's normal Director Fee payment procedures.

(f) **Nontransferability of Stock Units.** Prior to their settlement pursuant to Section 10.6(d), no Stock Units granted to a Participant shall be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, or garnishment by creditors of the Participant or the Participant's beneficiary, except by will or by the laws of descent and distribution.

10.7 **Fractional Shares**. No fractional shares of Stock shall be issued upon the exercise of any Nonemployee Director Option or settlement of any Stock Units. Any portion of a Participant's Quarterly Director Fees subject to the Participant's election under Section 10.2 representing a fractional share amount that would otherwise be paid in the form of an Option Payment or a Stock Units Payment shall instead be carried over and combined with the Quarterly Director Fees for the following quarter of the Plan Year (or Initial Plan year, as the case may be) or the subsequent Plan Year. Any such fractional share amount remaining upon termination of a Participant's Service as a Director shall be paid to the Participant in cash, without interest.

11. Terms and Conditions of Outside Director Options.

Outside Director Options shall be evidenced by Option Agreements specifying the number of shares of Stock covered thereby, in such form as the Board shall from time to time establish. Such Option Agreements may incorporate all or any of the terms of the Plan by reference and shall comply with and be subject to the following terms and conditions:

11.1 **Automatic Grant**. Outside Director Options shall be granted automatically and without further action of the Board, as follows:

(a) ***Annual Option Grant.*** Effective on October 1st of each calendar year on or after the Effective Date, each person who is the serving as an Outside Director shall be granted an Option to purchase Thirty Thousand shares of Stock, subject to adjustment as provided in Section 4.2; provided, however, that for the first calendar year in which a person serves as an Outside Director, they shall be granted, instead of the foregoing Option grant, an Option to purchase that number of shares equal to two thousand five hundred (2,500) shares of Stock for each full month of Service before the first October 1st during such Director's tenure, subject to adjustment as provided in Section 4.2.

(b) ***Right to Decline Outside Director Option.*** Notwithstanding the foregoing, any person may elect not to receive an Outside Director Option by delivering written notice of such election to the Board no later than the day prior to the date such Outside Director Option would otherwise be granted. A person so declining an Outside Director Option shall receive no payment or other consideration in lieu of such declined Outside Director Option. A person who has declined an Outside Director Option may revoke such election by delivering written notice of such revocation to the Board no later than the day prior to the date such Outside Director Option would be granted pursuant to this Section 11.1.

11.2 **Exercise Price.** The exercise price per share of Stock subject to an Outside Director Option shall be the Fair Market Value of a share of Stock on the date the Outside Director Option is granted.

11.3 **Exercise Period.** Each Outside Director Option shall terminate and cease to be exercisable on the date five (5) years after the date of grant of the Outside Director Option unless earlier terminated pursuant to the terms of the Plan or the Option Agreement.

11.4 **Right to Exercise Outside Director Options.** Except as otherwise provided in the Plan or in the Option Agreement, each Outside Director Option shall become fully vested and exercisable, on the date such Option was granted pursuant to Section 11.1(a).

11.5 **Effect of Termination of Service on Outside Director Options**.

(a) ***Option Exercisability*.** Subject to earlier termination of the Outside Director Option as otherwise provided herein, if the Optionee's Service with the Participating Company Group terminates for any reason, including the Disability or death of the Optionee, the Outside Director Option, to the extent unexercised and

exercisable on the date on which the Optionee's Service terminated, may be exercised by the Optionee (or the Optionee's guardian, legal representative or other person who acquired the right to exercise the Outside Director Option by reason of the Optionee's death) at any time prior to the expiration of two (2) years after the date on which the Optionee's Service terminated, but in any event no later than the Option Expiration Date.

(b) ***Extension if Exercise Prevented by Law.*** Notwithstanding the foregoing, if the exercise of an Outside Director Option within the applicable time periods set forth in Section 11.5(a) is prevented by the provisions of Section 14 below, the Outside Director Option shall remain exercisable until three (3) months after the date the Optionee is notified by the Company that the Outside Director Option is exercisable, but in any event no later than the Option Expiration Date.

11.6 ***Extension if Optionee Subject to Section 16(b).*** Notwithstanding the foregoing, if a sale within the applicable time periods set forth in Section 11.5(a) of shares acquired upon the exercise of the Outside Director Option would subject the Optionee to suit under Section 16(b) of the Exchange Act, the Outside Director Option shall remain exercisable until the earliest to occur of (i) the tenth (10th) day following the date on which a sale of such shares by the Optionee would no longer be subject to such suit, (ii) the one hundred and ninetieth (190th) day after the Optionee's termination of Service, or (iii) the Option Expiration Date.

12. Standard Forms of Award Agreement.

12.1 **Award Agreements.** Each Award shall comply with and be subject to the terms and conditions set forth in the appropriate form of Award Agreement approved by the Committee and as amended from time to time. Any Award Agreement may consist of an appropriate form of Notice of Grant and a form of Agreement incorporated therein by reference, or such other form or forms as the Committee may approve from time to time.

12.2 **Authority to Vary Terms.** The Committee shall have the authority from time to time to vary the terms of any standard form of Award Agreement described in this Section 12 either in connection with the grant or amendment of an individual Award or in connection with the authorization of a new standard form or forms; provided, however, that the terms and conditions of any such new, revised or amended standard form or forms of Award Agreement are not inconsistent with the terms of the Plan.

13. Change in Control.

13.1 **Definitions.**

(a) An *"**Ownership Change Event**"* shall be deemed to have occurred if any of the following occurs with respect to the Company: (i) the direct or indirect sale or exchange in a single or series of related transactions by the stockholders of the Company of more than fifty percent (50%) of the voting stock of the Company; (ii) a merger or consolidation in which the Company is a party; (iii) the sale, exchange, or transfer of all or substantially all of the assets of the Company (other than a sale, exchange or transfer to one or more subsidiaries of the Company); or (iv) a liquidation or dissolution of the Company.

(b) A *"**Change in Control**"* shall mean an Ownership Change Event or a series of related Ownership Change Events (collectively, a *"**Transaction**"*) wherein the stockholders of the Company immediately before the Transaction do not retain immediately after the Transaction direct or indirect beneficial ownership of more than fifty percent (50%) of the total combined voting power of the outstanding voting securities of the Company or, in the case of a an Ownership Change Event described in Section 13.1(a)(iii), the corporation or other business entity to which the assets of the Company were transferred (the *"**Transferee**"*), as the case may be. For purposes of the preceding sentence, indirect beneficial ownership shall include, without limitation, an interest resulting from ownership of the voting securities of one or more corporations or other business entities which own the Company or the Transferee, as the case may be, either directly or through one or more subsidiary corporations or other business entities. The Board shall have the right to determine whether multiple sales or exchanges of the voting securities of the Company or multiple Ownership Change Events are related, and its determination shall be final, binding and conclusive.

13.2 **Effect of Change in Control on Options and SARs.** In the event of a Change in Control, the surviving, continuing, successor, or purchasing entity or other business entity or parent thereof, as the case may be (the *"Acquiror"*), may, without the consent of any Participant, either assume the Company's rights and obligations under outstanding Options and SARs or substitute for outstanding Options and SARs substantially equivalent options and SARs (as the case may be) for the Acquiror's stock. Any Options or SARs which are neither assumed or substituted for by the Acquiror in connection with the Change in Control nor exercised as of the date of the Change in Control shall terminate and cease to be outstanding effective as of the date of the Change in Control, provided, that, the Board may, in its discretion, provide in any Award Agreement that, in the event of a Change in Control, the exercisability and vesting of the outstanding Option and any shares acquired upon the exercise thereof or any SAR shall accelerate upon such circumstances and to such extent as specified in such Award Agreement. Notwithstanding the foregoing, shares acquired upon exercise of an Option prior to the Change in Control and any consideration received pursuant to the Change in Control with respect to such shares shall continue to be subject to all applicable provisions of the Option Agreement evidencing such Option except as otherwise provided in such Option Agreement. Furthermore, notwithstanding the foregoing, if the corporation the stock of which is subject to the outstanding Options immediately prior to an Ownership Change Event described in Section 13.1(a)(i) constituting a Change in Control is the surviving or continuing corporation and immediately after such Ownership Change Event less than fifty percent (50%) of the total combined voting power of its voting stock is held by another corporation or by other corporations that are members of an affiliated group within the meaning of Section 1504(a) of the Code without regard to the provisions of Section 1504(b) of the Code, the outstanding Options shall not terminate unless the Board otherwise provides in its discretion.

13.3 **Effect of Change in Control on Stock Awards.** The Committee may, in its discretion, provide in any Award Agreement evidencing a Stock Award that, in the event of a Change in Control, the lapsing of the Restriction Period applicable to the shares subject to the Stock Award held by a Participant whose Service has not terminated prior to such date shall be accelerated effective as of the date of the Change in Control to such extent as specified in such Award Agreement. Any acceleration of the lapsing of the Restriction Period that was permissible solely by reason of this Section 13.3 and the provisions of such Award Agreement shall be conditioned upon the consummation of the Change in Control.

13.4 **Effect of Change in Control on Performance Awards.** The Committee may, in its discretion, provide in any Award Agreement evidencing a Performance Award that, in the event of a Change in Control, the Performance Award held by a Participant whose Service has not terminated prior to such date shall become payable effective as of the date of the Change in Control to such extent as specified in such Award Agreement.

13.5 **Effect of Change in Control on Directors Fee Awards**. Any Directors Fees with respect to which the Company has not made either an Option Payment or a Stock Units Payment pursuant to Section 11 prior to the effective date of the Change in Control shall be paid in cash immediately prior to such effective date.

13.6 **Effect of Change in Outside Director Options**. Notwithstanding any other provision of this Plan to the contrary, in the event of a change in control, any unexercised portion of any such Option shall be immediately exercisable and vested in full as of the date ten (10) days prior to the date of the Change in Control. Any exercise of the Option that was permissible solely by reason of this Section 13.6 shall be conditioned upon the consummation of the Change in Control. The Option shall terminate and cease to be outstanding effective as of the date of the Change in Control to the extent that the Option is neither assumed or substituted for by the Acquiror in connection with the Change in Control nor exercised as of the date of the Change in Control.

14. Compliance with Securities Law.

The grant of Awards and the issuance of shares of Stock pursuant to any Award shall be subject to compliance with all applicable requirements of federal, state and foreign law with respect to such securities and the requirements of any stock exchange or market system upon which the Stock may then be listed. In addition, no Award may be exercised or shares issued pursuant to an Award unless (a) a registration statement under the Securities Act shall at the time of such exercise or issuance be in effect with respect to the shares issuable pursuant to the Award or (b) in the opinion of legal counsel to the Company, the shares issuable pursuant to the Award may be issued in accordance with the terms of an applicable exemption from the registration requirements of the

Securities Act. The inability of the Company to obtain from any regulatory body having jurisdiction the authority, if any, deemed by the Company's legal counsel to be necessary to the lawful issuance and sale of any shares hereunder shall relieve the Company of any liability in respect of the failure to issue or sell such shares as to which such requisite authority shall not have been obtained. As a condition to the issuance of any Stock, the Company may require the Participant to satisfy any qualifications that may be necessary or appropriate, to evidence compliance with any applicable law or regulation and to make any representation or warranty with respect thereto as may be requested by the Company.

15. Tax Withholding.

15.1 **Tax Withholding in General.** The Company shall have the right to deduct from any and all payments made under the Plan, or to require the Participant, through payroll withholding, cash payment or otherwise, including by means of a Cashless Exercise of an Option, to make adequate provision for, the federal, state, local and foreign taxes, if any, required by law to be withheld by the Participating Company Group with respect to an Award or the shares acquired pursuant thereto. The Company shall have no obligation to deliver shares of Stock, to release shares of Stock from an escrow established pursuant to an Award Agreement, or to make any payment in cash under the Plan until the Participating Company Group's tax withholding obligations have been satisfied by the Participant.

15.2 **Withholding in Shares.** The Company shall have the right, but not the obligation, to deduct from the shares of Stock issuable to a Participant upon the exercise or settlement of an Award, or to accept from the Participant the tender of, a number of whole shares of Stock having a Fair Market Value, as determined by the Company, equal to all or any part of the tax withholding obligations of the Participating Company Group. The Fair Market Value of any shares of Stock withheld or tendered to satisfy any such tax withholding obligations shall not exceed the amount determined by the applicable minimum statutory withholding rates.

16. Termination or Amendment of Plan.

The Board may terminate or amend the Plan at any time. However, subject to changes in applicable law, regulations or rules that would permit otherwise, without the approval of the Company's stockholders, there shall be (a) no increase in the maximum aggregate number of shares of Stock that may be issued under the Plan (except by operation of the provisions of Section 4.2), (b) no change in the class of persons eligible to receive Incentive Stock Options, and (c) no other amendment of the Plan that would require approval of the Company's stockholders under any applicable law, regulation or rule. No termination or amendment of the Plan shall affect any then outstanding Award unless expressly provided by the Board. In any event, no termination or amendment of the Plan may adversely affect any then outstanding Award without the consent of the Participant, unless such termination or amendment is required to enable an Option designated as an Incentive Stock Option to qualify as an Incentive Stock Option or is necessary to comply with any applicable law, regulation or rule.

17. Stockholder Approval.

The Plan or any increase in the maximum aggregate number of shares of Stock issuable thereunder as provided in Section 4.1 (the *"**Authorized Shares**"*) shall be approved by the stockholders of the Company within twelve (12) months of the date of adoption thereof by the Board. Options granted prior to stockholder approval of the Plan or in excess of the Authorized Shares previously approved by the stockholders shall become exercisable no earlier than the date of stockholder approval of the Plan or such increase in the Authorized Shares, as the case may be.

18. Miscellaneous Provisions.

18.1 **Repurchase Rights.** Shares issued under the Plan may be subject to one or more repurchase options, or other conditions and restrictions as determined by the Committee in its discretion at the time the Award is granted. The Company shall have the right to assign at any time any repurchase right it may have, whether or not such right is then exercisable, to one or more persons as may be selected by the Company. Upon request by the Company, each Participant shall execute any agreement evidencing such transfer restrictions prior to

the receipt of shares of Stock hereunder and shall promptly present to the Company any and all certificates representing shares of Stock acquired hereunder for the placement on such certificates of appropriate legends evidencing any such transfer restrictions.

18.2 **Rights as Employee, Director or Consultant.** No person, even though eligible pursuant to Section 5, shall have a right to be selected as a Participant, or, having been so selected, to be selected again as a Participant. Nothing in the Plan or any Award granted under the Plan shall confer on any Participant a right to remain an Employee, Director or Consultant, or interfere with or limit in any way any right of a Participating Company to terminate the Participant's Service at any time.

18.3 **Rights as a Stockholder.** A Participant shall have no rights as a stockholder with respect to any shares covered by an Award until the date of the issuance of such shares (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company). No adjustment shall be made for dividends, distributions or other rights for which the record date is prior to the date such shares are issued, except as provided in Section 4.2 or another provision of the Plan.

18.4 **Fractional Shares.** The Company shall not be required to issue fractional shares upon the exercise or settlement of any Award.

18.5 **Beneficiary Designation.** Each Participant may file with the Company a written designation of a beneficiary who is to receive any benefit under the Plan to which the Participant is entitled in the event of such Participant's death before he or she receives any or all of such benefit. Each designation will revoke all prior designations by the same Participant, shall be in a form prescribed by the Company, and will be effective only when filed by the Participant in writing with the Company during the Participant's lifetime. If a married Participant designates a beneficiary other than the Participant's spouse, the effectiveness of such designation shall be subject to the consent of the Participant's spouse. If a Participant dies without an effective designation of a beneficiary who is living at the time of the Participant's death, the Company will pay any remaining unpaid benefits to the Participant's legal representative.

18.6 **Unfunded Obligation.** Participants shall have the status of general unsecured creditors of the Company. Any amounts payable to Participants pursuant to the Plan shall be unfunded and unsecured obligations for all purposes, including, without limitation, Title I of the Employee Retirement Income Security Act of 1974. No Participating Company shall be required to segregate any monies from its general funds, or to create any trusts, or establish any special accounts with respect to such obligations. The Company shall retain at all times beneficial ownership of any investments, including trust investments, which the Company may make to fulfill its payment obligations hereunder. Any investments or the creation or maintenance of any trust or any Participant account shall not create or constitute a trust or fiduciary relationship between the Committee or any Participating Company and a Participant, or otherwise create any vested or beneficial interest in any Participant or the Participant's creditors in any assets of any Participating Company. The Participants shall have no claim against any Participating Company for any changes in the value of any assets which may be invested or reinvested by the Company with respect to the Plan.

IN WITNESS WHEREOF, the undersigned Secretary of the Company certifies that the foregoing sets forth the SCOLR, Inc. 2004 Equity Incentive Plan as duly adopted by the Board on April 14, 2004.

_____

Secretary

SCOLR PHARMA, INC.
RESTRICTED STOCK PURCHASE AGREEMENT

SCOLR Pharma, Inc. has granted to the Participant named in the *Notice of Grant of Stock Purchase Right* (the *"**Notice**"*) to which this Restricted Stock Purchase Agreement (the *"**Agreement**"*) is attached a Purchase Right consisting of a right to purchase certain shares of Common Stock upon the terms and conditions set forth in the Notice and this Agreement. The Purchase Right has been granted pursuant to and shall in all respects be subject to the terms and conditions of the SCOLR Pharma, Inc. 2004 Equity Incentive Plan (the *"**Plan**"*), as amended to the Date of Grant, the provisions of which are incorporated herein by reference. By signing the Notice, the Participant: (a) represents that the Participant has received copies of, and has read and is familiar with the terms and conditions of the Notice, the Plan and this Agreement, (b) accepts the Purchase Right subject to all of the terms and conditions of the Notice, the Plan and this Agreement, and (c) agrees to accept as binding, conclusive and final all decisions or interpretations of the Board upon any questions arising under the Notice, the Plan or this Agreement.

1. **DEFINITIONS AND CONSTRUCTION.**

1.1 **Definitions.** Unless otherwise defined herein, capitalized terms shall have the meanings assigned to such terms in the Notice or the Plan.

1.2 **Construction.** Captions and titles contained herein are for convenience only and shall not affect the meaning or interpretation of any provision of this Agreement. Except when otherwise indicated by the context, the singular shall include the plural and the plural shall include the singular. Use of the term "or" is not intended to be exclusive, unless the context clearly requires otherwise.

2. **EXERCISE OF PURCHASE RIGHT.**

2.1 **Exercise of Purchase Right.** Provided that the Participant's service to the Company or its Subsidiaries has not terminated (except as provided by Section 4), the Purchase Right shall be exercisable on and after the Date of Grant and prior to the Expiration Date in an amount not to exceed the Total Number of Shares, subject to the Company's repurchase rights set forth in Sections 5 and 6.

2.2 **Method of Exercise of Purchase Right.** Exercise of the Purchase Right shall be by written notice to the Company which must state the election to exercise the Purchase Right, the number of whole shares of Common Stock for which the Purchase Right is being exercised and such other representations and agreements as to the Participant's investment intent with respect to such shares as may be required pursuant to the provisions of this Agreement. The written notice must be signed by the Participant and must be delivered in person, by certified or registered mail, return receipt requested, by confirmed facsimile transmission, or by such other means as the Company may permit, to the Chief Financial Officer of the Company, or other authorized representative of the Company, prior to the Expiration Date, accompanied by (i) full payment of the aggregate Purchase Price for the number of shares of Stock being purchased and

(ii) an executed copy, if required herein, of the then current form of escrow agreement referenced below. The Purchase Right shall be deemed to be exercised upon receipt by the Company of such written notice, the aggregate Purchase Price, and, if required by the Company, such executed agreements.

2.3 **Payment of Purchase Price.** Payment of the aggregate Purchase Price for the number of shares of Common Stock for which the Purchase Right is being exercised shall be made in cash, by check, cash equivalent, cancellation of debt, or in the form of the Participant's past service rendered to the Company or its Subsidiaries or for its benefit having a value not less than the aggregate purchase price of the shares being acquired, or such other payment as determined by the Plan Administrator.

2.4 **Tax Withholding.** At the time the Purchase Right is exercised, in whole or in part, or at any time thereafter as requested by the Company, the Participant hereby authorizes withholding from payroll and any other amounts payable to the Participant, and otherwise agrees to make adequate provision for any sums required to satisfy the federal, state, local and foreign tax withholding obligations of the Participating Company Group, if any, which arise in connection with the shares acquired pursuant to this Agreement, including, without limitation, obligations arising upon (i) the exercise, in whole or in part, of the Purchase Right, (ii) the transfer, in whole or in part, of any shares acquired, or (ii) the lapsing of any restriction with respect to any shares acquired. The Purchase Right is not exercisable unless the tax withholding obligations of the Participating Company Group are satisfied. Accordingly, the Company shall have no obligation to deliver shares of Stock or to release shares of Stock from an escrow established pursuant to this Agreement until the tax withholding obligations of the Participating Company Group have been satisfied by the Participant.

2.5 **Certificate Registration.** The certificate for the shares of Stock purchased shall be registered in the name of the Participant, or, if applicable, in the names of the heirs of the Participant.

2.6 **Restrictions on Sale and Issuance of Shares.** The sale and issuance of shares of Stock shall be subject to compliance with all applicable requirements of federal, state or foreign law with respect to such securities. The Purchase Right may not be exercised if the issuance of shares of Stock upon exercise would constitute a violation of any applicable federal, state or foreign securities laws or other law or regulations or the requirements of any stock exchange or market system upon which the Stock may then be listed. In addition, the Purchase Right may not be exercised unless (i) a registration statement under the Securities Act shall at the time of exercise of the Purchase Right be in effect with respect to the shares issuable upon exercise of the Purchase Right or (ii) in the opinion of legal counsel to the Company, the shares issuable upon exercise of the Purchase Right may be issued in accordance with the terms of an applicable exemption from the registration requirements of the Securities Act. The inability of the Company to obtain from any regulatory body having jurisdiction the authority, if any, deemed by the Company's legal counsel to be necessary to the lawful issuance and sale of any shares subject to the Purchase Right shall relieve the Company of any liability in respect of the failure to issue or sell such shares as to which such requisite authority shall not have been obtained. As a condition to the exercise of the Purchase Right, the Company may require the Participant to satisfy any qualifications that may be necessary or appropriate, to evidence

compliance with any applicable law or regulation and to make any representation or warranty with respect thereto as may be requested by the Company.

3. **VESTING OF SHARES.**

Except as otherwise provided in the Plan, shares acquired pursuant to this Agreement shall become Vested Shares as provided in the Notice.

4. **NONTRANSFERABILITY OF PURCHASE RIGHT.**

The Purchase Right may be exercised during the lifetime of the Participant only by the Participant or the Participant's guardian or legal representative and may not be assigned or transferred in any manner except by will or by the laws of descent and distribution. Following the death of the Participant, the Purchase Right may be exercised prior to the Expiration Date by the Participant's legal representative or by any person empowered to do so under the deceased Participant's will or under the then applicable laws of descent and distribution.

5. **UNVESTED SHARE REPURCHASE OPTION.**

5.1 **Grant of Unvested Share Repurchase Option.** In the event the Participant's Service with the Participating Company Group is terminated for Cause (as defined below), or the Participant voluntarily ceases to provide Services to the Participating Company Group without Good Reason (as defined below) (other than death or disability (meaning the Participant's inability to perform the Participant's duties for any consecutive 90 day period in any one year period as a result of physical or mental impairment as determined by a physician reasonably accepted by the Company)), or, if the Participant, the Participant's legal representative, or other holder of shares acquired pursuant to this Agreement, attempts to sell, exchange, transfer, pledge, or otherwise dispose of (other than pursuant to an Ownership Change Event, as defined in Section 5.6 below) any Unvested Shares, as defined in Section 5.2 below (the *"**Unvested Shares**"*), the Company shall have the right to repurchase the Unvested Shares under the terms and subject to the conditions set forth in this Section 5 (the *"**Unvested Share Repurchase Option**"*).

5.2 **Unvested Shares Defined.** The *"**Unvested Shares**"* shall mean, on any given date, the number of shares of Stock acquired upon exercise of the Purchase Right which exceed the Vested Shares determined as of such date.

5.3 **Exercise of Unvested Share Repurchase Option.** The Company may exercise the Unvested Share Repurchase Option by written notice to the Participant within sixty (60) days after (a) termination of the Participant's Service as described in Section 5.1, or (b) the Company has received notice of the attempted disposition of Unvested Shares. If the Company fails to give notice within such sixty (60) day period, the Unvested Share Repurchase Option shall terminate unless the Company and the Participant have extended the time for the exercise of the Unvested Share Repurchase Option. The Unvested Share Repurchase Option must be exercised, if at all, for all of the Unvested Shares, except as the Company and the Participant otherwise agree.

5.4 **Payment for Shares and Return of Shares to Company.** The purchase price per share being repurchased by the Company shall be an amount equal to the Participant's original cost per share, as adjusted pursuant to Section 8 (the *"**Repurchase Price**"*). The Company shall pay the aggregate Repurchase Price to the Participant in cash within thirty (30) days after the date of the written notice to the Participant of the Company's exercise of the Unvested Share Repurchase Option. For purposes of the foregoing, cancellation of any purchase money indebtedness of the Participant to any Participating Company for the shares shall be treated as payment to the Participant in cash to the extent of the unpaid principal and any accrued interest canceled. The shares being repurchased shall be delivered to the Company by the Participant at the same time as the delivery of the Repurchase Price to the Participant.

5.5 **Assignment of Unvested Share Repurchase Option.** The Company shall have the right to assign the Unvested Share Repurchase Option at any time, whether or not such option is then exercisable, to one or more persons as may be selected by the Company.

5.6 **Ownership Change Event.** An *"**Ownership Change Event**"* shall be deemed to have occurred if any of the following occurs with respect to the Company: (i) the issuance by the Company in a single or a series of related transactions of voting securities representing more than fifty percent (50%) of the total outstanding voting securities of the Company following such issuance; (ii) the direct or indirect sale or exchange in a single or series of related transactions by the stockholders of the Company of more than fifty percent (50%) of the voting securities of the Company; (iii) a merger or consolidation in which the Company is a party, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or its parent) at least fifty percent (50%) of the total voting power represented by the voting securities of the Company or such surviving entity or its parent outstanding immediately after such merger or consolidation; (iv) the sale, exchange, or transfer of all or substantially all of the assets of the Company; or (v) a liquidation or dissolution of the Company. Upon the occurrence of an Ownership Change Event, any Unvested Shares and any and all new, substituted or additional securities or other property to which the Participant is entitled by reason of the Participant's ownership of Unvested Shares will be Vested Shares and no longer subject to the Unvested Share Repurchase Option.

5.7 **Certain Definitions**.

(a) For purposes of this Agreement, a termination for "***Cause***" occurs if the Participant is terminated for any of the following reasons: (i) theft, dishonesty, misconduct or falsification of any employment or Participating Company records; (ii) improper disclosure of a Participating Company's confidential or proprietary information; (iii) any action by the Participant which has a material detrimental effect on a Participating Company's reputation or business; (iv) the Participant's failure or inability to perform any assigned duties after written notice from the Company's Board of Directors to the Participant of, and a reasonable opportunity to cure, such failure or inability; or (v) the Participant's conviction (including any plea of guilty or no contest) for any criminal act that impairs the Participant's ability to perform the Participant's duties.

(b) For purposes of this Agreement, "***Good Reason***" means any of the following conditions, which condition(s) remain(s) in effect ten (10) days after written notice to the Company's Board of Directors from the Participant of such condition(s):

(i) a decrease in the Participant's base salary and/or a material decrease in any of the Participant's then-existing bonus plans or employee benefits;

(ii) a material, adverse change in the Participant's title, authority, responsibilities or duties, as measured against the Participant's title, authority, responsibilities or duties immediately prior to such change; or

(iii) the relocation of the Participant's work place for the Company to a location more than fifty (50) miles from the location of such work place on the Date of Grant.

6. **ESCROW**.

6.1 **Establishment of Escrow.** To ensure that shares subject to the Unvested Share Repurchase Option will be available for repurchase, the Company may require the Participant to deposit the certificate evidencing the shares which the Participant purchases upon exercise of the Purchase Right with an agent designated by the Company under the terms and conditions of an escrow agreement in the form approved by the Company. If the Company does not require such deposit as a condition of exercise of the Purchase Right, the Company reserves the right at any time to require the Participant to so deposit the certificate in escrow. Upon the occurrence of an Ownership Change Event or a change, as described in Section 7, in the character or amount of any of the outstanding stock of the corporation the stock of which is subject to the provisions of this Agreement, any and all new, substituted or additional securities or other property to which the Participant is entitled by reason of the Participant's ownership of shares of Stock acquired upon exercise of the Purchase Right that remain, following such Ownership Change Event or change described in Section 7, subject to the Unvested Share Repurchase Option shall be immediately subject to the escrow to the same extent as such shares of Stock immediately before such event. The Company shall bear the expenses of the escrow.

6.2 **Delivery of Shares to Participant.** As soon as practicable after the expiration of the Unvested Share Repurchase Option, but not more frequently than twice each calendar year, the agent shall deliver to the Participant the shares and any other property no longer subject to such restrictions.

6.3 **Notices and Payments.** In the event the shares and any other property held in escrow are subject to the Company's exercise of the Unvested Share Repurchase Option, the notices required to be given to the Participant shall be given to the escrow agent, and any payment required to be given to the Participant shall be given to the escrow agent. Within thirty (30) days after payment by the Company, the escrow agent shall deliver the shares and any other property which the Company has purchased to the Company and shall deliver the payment received from the Company to the Participant.

7. **ADJUSTMENTS FOR CHANGES IN CAPITAL STRUCTURE.**

Subject to any required action by the stockholders of the Company, in the event of any change in the Stock effected without receipt of consideration by the Company, whether through merger, consolidation, reorganization, reincorporation, recapitalization, reclassification, stock dividend, stock split, reverse stock split, split-up, split-off, spin-off, combination of shares, exchange of shares, or similar change in the capital structure of the Company, or in the event of payment of a dividend or distribution to the stockholders of the Company in a form other than Stock (excepting normal cash dividends) that has a material effect on the Fair Market Value of shares of Stock, appropriate and proportionate adjustments shall be made in the number, purchase price and class of shares of stock or other property subject to this Agreement, in order to prevent dilution or enlargement of the Participant's rights under the Agreement. For purposes of the foregoing, conversion of any convertible securities of the Company shall not be treated as "effected without receipt of consideration by the Company." Any and all new, substituted or additional securities or other property to which Participant is entitled by reason of his ownership of shares acquired pursuant to this Agreement will be immediately subject to the provisions of this Agreement on the same basis as all shares originally purchased hereunder. For purposes of Sections 5 and 6 hereof, while the total price payable to exercise the rights provided in such sections will remain the same after each such event, the price payable per share to exercise such rights will be appropriately adjusted.

8. **TAX MATTERS.**

8.1 **Election under Section 83(b) of the Code.** The Participant understands that Section 83 of the Code taxes as ordinary income the difference between the amount paid for the shares and the fair market value of the shares as of the date any restrictions on the shares lapse. In this context, "restriction" means the right of the Company to buy back the shares pursuant to the Unvested Share Repurchase Option contained in this Agreement. The Participant understands that he may elect to be taxed at the time the shares are purchased rather than when and as the Unvested Share Repurchase Option expires by filing an election under Section 83(b) of the Code with the IRS no later than thirty (30) days after the date of purchase. Even if the fair market value of the shares equals the amount paid for the shares, the election must be made to avoid adverse tax consequences in the future. The form for making this election is included as an attachment to the Notice or may be requested from the Company. The Participant understands that failure to make this filing timely will result in the recognition of ordinary income by the Participant as the Unvested Share Repurchase Option lapses on the difference between the purchase price and the fair market value of the shares at the time such restrictions lapse.

8.2 **Notice to Company.** The Participant will notify the Company in writing if the Participant files an election pursuant to Section 83(b) of the Code. The Company intends, in the event it does not receive from the Participant evidence of such filing, to claim a tax deduction for any amount which would otherwise be taxable to the Participant in the absence of such an election.

8.3 **Consultation with Tax Advisors.** The Participant understands that he or she should consult with his or her tax advisor regarding the advisability of filing with the IRS an

election under Section 83(b) of the Code. Failure to file an election under Section 83(b), if appropriate, may result in adverse tax consequences to the Participant. The Participant acknowledges that he or she has been advised to consult with a tax advisor regarding the tax consequences to the Participant of the purchase of shares hereunder. AN ELECTION UNDER SECTION 83(b) MUST BE FILED NO LATER THAN 30 DAYS AFTER THE DATE ON WHICH PARTICIPANT PURCHASES THE SHARES. THIS TIME PERIOD CANNOT BE EXTENDED. PARTICIPANT ACKNOWLEDGES THAT TIMELY FILING OF A SECTION 83(b) ELECTION IS PARTICIPANT'S SOLE RESPONSIBILITY, EVEN IF PARTICIPANT REQUESTS THE COMPANY OR ITS REPRESENTATIVE TO FILE SUCH ELECTION ON HIS OR HER BEHALF.

9. **LEGENDS.**

The Company may at any time place legends referencing the Unvested Share Repurchase Option and any applicable federal, state or foreign securities law restrictions on all certificates representing shares of stock subject to the provisions of this Agreement. The Participant shall, at the request of the Company, promptly present to the Company any and all certificates representing shares acquired pursuant to this Agreement in the possession of the Participant in order to carry out the provisions of this Section. Unless otherwise specified by the Company, legends placed on such certificates may include, but shall not be limited to, the following:

"THE SHARES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO CERTAIN RESTRICTIONS ON TRANSFER AND REPURCHASE OPTIONS IN FAVOR OF THE CORPORATION OR ITS ASSIGNEE SET FORTH IN AN AGREEMENT BETWEEN THE CORPORATION AND THE REGISTERED HOLDER, OR SUCH HOLDER'S PREDECESSOR IN INTEREST, A COPY OF WHICH IS ON FILE AT THE PRINCIPAL OFFICE OF THIS CORPORATION."

10. **RESTRICTIONS ON TRANSFER OF SHARES.**

No shares acquired upon exercise of the Purchase Right may be sold, exchanged, transferred (including, without limitation, any transfer to a nominee or agent of the Participant), assigned, pledged, hypothecated or otherwise disposed of, including by operation of law, in any manner which violates any of the provisions of this Agreement and, except pursuant to an Ownership Change Event, until the date on which such shares become Vested Shares, and any such attempted disposition shall be void. The Company shall not be required (a) to transfer on its books any shares which will have been transferred in violation of any of the provisions set forth in this Agreement or (b) to treat as owner of such shares or to accord the right to vote as such owner or to pay dividends to any transferee to whom such shares will have been so transferred.

11. **RIGHTS AS A SHAREHOLDER.**

The Participant shall have no rights as a shareholder with respect to any shares covered by the Purchase Right until the date of the issuance of a certificate for the shares for which the Purchase Right has been exercised (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company). No adjustment shall be made for dividends, distributions or other rights for which the record date is prior to the date such certificate is issued, except as provided in Section 7. Subject the provisions of this Agreement, the Participant shall exercise all rights and privileges of a shareholder of the Company with respect to shares of Stock of the Participant deposited in escrow pursuant to Section 7.

12. **RIGHTS AS AN EMPLOYEE OR CONSULTANT.**

If the Participant is an Employee, the Participant understands and acknowledges that, except as otherwise provided in a separate, written employment agreement between a Participating Company and the Participant, the Participant's employment is "at will" and is for no specified term. Nothing in this Agreement shall confer upon the Participant any right to continue in the Service of a Participating Company or interfere in any way with any right of the Participating Company Group to terminate the Participant's Service as an Employee or Consultant, as the case may be, at any time.

13. **ADMINISTRATION.**

All questions of interpretation concerning the Notice and this Agreement shall be determined by the Board. All determinations by the Board shall be final and binding upon all persons having an interest in this Agreement. Any Officer shall have the authority to act on behalf of the Company with respect to any matter, right, obligation, or election which is the responsibility of or which is allocated to the Company herein, provided the Officer has apparent authority with respect to such matter, right, obligation, or election.

14. **MISCELLANEOUS PROVISIONS.**

14.1 **Further Instruments.** The parties hereto agree to execute such further instruments and to take such further action as may reasonably be necessary to carry out the intent of this Agreement.

14.2 **Binding Effect.** This Agreement shall inure to the benefit of the successors and assigns of the Company and, subject to the restrictions on transfer set forth herein, be binding upon the Participant and the Participant's heirs, executors, administrators, successors and assigns.

14.3 **Termination or Amendment.** The Board may terminate or amend the Plan or this Agreement at any time; provided, however, that no such termination or amendment may adversely affect the Participant's rights under this Agreement without the consent of the Participant, unless such termination or amendment is necessary to comply with any applicable law or government regulation. No amendment or addition to this Agreement shall be effective unless in writing.

14.4 **Notices.** Any notice required or permitted hereunder shall be given in writing and shall be deemed effectively given (except to the extent that this Agreement provides for effectiveness only upon actual receipt of such notice) upon personal delivery or upon deposit in the United States Post Office, by registered or certified mail, with postage and fees prepaid, addressed to the other party at the address shown below that party's signature in the Notice or at such other address as such party may designate in writing from time to time to the other party.

14.5 **Integrated Agreement.** The Notice, this Agreement and the Plan constitute the entire understanding and agreement of the Participant and the Participating Company Group with respect to the subject matter contained herein or therein and supersede any prior agreements, understandings, restrictions, representations, or warranties among the Participant and the Participating Company Group with respect to such subject matter other than those as set forth or provided for herein or therein.

14.6 **Applicable Law.** The Agreement shall be governed by the laws of the State of Delaware as such laws are applied to agreements between Delaware residents entered into and to be performed entirely within the State of Delaware.

14.7 **Counterparts.** This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

SCOLR PHARMA, INC.

By: _____

Title: _____

PARTICIPANT

Date: _____

_____

Participant Address:

_____

_____

Participant: _____
Date: _____

NOTICE OF EXERCISE OF STOCK PURCHASE RIGHT

SCOLR Pharma, Inc.
3625 132nd Avenue SE, Suite 400
Bellevue, Washington 98006

Ladies and Gentlemen:

1. **Stock Purchase Right.** I was granted a right to purchase (the *"**Purchase Right**"*) shares of the common stock (the *"**Shares**"*) of SCOLR Pharma, Inc. (the *"**Company**"*) pursuant to the Company's 2004 Equity Incentive Plan (the *"**Plan**"*), my Notice of Grant of Stock Purchase Right (the *"**Notice**"*) and my Stock Purchase Agreement (the *"**Agreement**"*) as follows:

Grant Number:	_____
Date of Grant:	_____
Total Number of Shares:	_____
Purchase Price per Share:	$ _____

2. **Exercise of Purchase Right.** I hereby elect to exercise my Purchase Right for the following number of Shares:

Vested Shares:	_____
Unvested Shares:	_____
Total Shares Purchased:	_____
Total Purchase Price (Total Shares X Price per Share)	$ _____

3. **Payments.** I enclose payment in full of the total purchase price for the Shares in the following form(s), as authorized by my Agreement:

o Cash:	$ _____
o Check:	$ _____
o Credit for Services Rendered:	$ _____

4. **Tax Withholding.** I authorize payroll withholding and otherwise will make adequate provision for the federal, state, local and foreign tax withholding obligations of the Company, if any, in connection with my purchase of the Shares. I enclose payment in full of my withholding taxes, if any, as follows:

(Contact Plan Administrator for amount of tax due.)

o Cash:	$ _____
o Check:	$ _____

5. **Participant Information.**

My address is: _____

_____

My Social Security Number
is: _____

6. **Binding Effect.** I agree that the Shares are being acquired in accordance with and subject to the terms, provisions and conditions of the Agreement, including the Unvested Share Repurchase Option set forth therein, to all of which I hereby expressly assent. This Agreement shall inure to the benefit of and be binding upon my heirs, executors, administrators, successors and assigns. If required by the Company, I agree to deposit the certificate(s) evidencing the Shares, along with a blank stock assignment separate from certificate executed by me, with an escrow agent designated by the Company, to be held pursuant to the Company's standard Joint Escrow Instructions.

8. **Election Under Section 83(b) of the Code.** I understand and acknowledge that if I am exercising the Purchase Right to purchase Unvested Shares (i.e., shares that remain subject to the Company's Unvested Share Repurchase Option), that I should consult with my tax advisor regarding the advisability of filing with the Internal Revenue Service an election under Section 83(b) of the Code, which must be filed no later than thirty (30) days after the date on which I purchase the Shares. I acknowledge that I have been advised to consult with a tax advisor prior to the exercise of the Purchase Right regarding the tax consequences to me of exercising the Purchase Right. AN ELECTION UNDER SECTION 83(b) MUST BE FILED WITHIN 30 DAYS AFTER THE DATE ON WHICH I PURCHASE SHARES. THIS TIME PERIOD CANNOT BE EXTENDED. I ACKNOWLEDGE THAT TIMELY FILING OF A SECTION 83(b) ELECTION IS MY SOLE RESPONSIBILITY, EVEN IF I REQUEST THE COMPANY OR ITS REPRESENTATIVES TO FILE SUCH ELECTION ON MY BEHALF.

I understand that I am purchasing the Shares pursuant to the terms of the Plan, the Notice and my Agreement, copies of which I have received and carefully read and understand.

Very truly yours,

_____
(Signature)

Receipt of the above is hereby acknowledged.

SCOLR PHARMA, INC.

By: _____

Title: _____

Dated: _____

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (this "Agreement") is made and entered into as of January 30, 2009 (the "Effective Date"), by and between SCOLR Pharma, Inc., a Delaware corporation ("Company"), and Bruce S. Morra ("Employee").

The parties agree as follows:

1. Employment.

1.1. Title and Duties. Company hereby employs Employee as President and Chief Executive Officer, and Employee hereby accepts such employment, on the terms and conditions set forth herein. Employee shall perform such duties as are customary for the position of President and Chief Executive Officer and any additional such duties that Company's Board of Directors ("Board") may assign from time to time.

1.2. Full-time and Best Efforts. Employee will expend Employee's best efforts on behalf of Company, and will abide by all policies and decisions made by Company, as well as all applicable federal, state and local laws, regulations or ordinances. Employee will act in the best interests of Company at all times and, subject to Section 1.4 below, will devote Employee's full business time and efforts to the performance of Employee's assigned duties to Company.

1.3. Term. The employment relationship formed pursuant to this Agreement shall be effective for twelve months commencing on the Effective Date (the "Term"). The Term may be extended by mutual agreement of Employee and Company.

1.4. Outside Activities. Employee may serve in various capacities for non-profit, charitable and educational organizations from time to time. Any such non-profit work that has the potential to interfere to any degree with Employee's services to Company must be disclosed to, and approved by, the Board. Employee agrees that he will not accept any position with, be employed by, provide any paid services, or serve on any Board of Directors for a profit organization or entity other than Company without the written approval of the Board; provided, that Employee may serve as a director of companies that do not compete with Company, and will not materially detract from Employee's responsibilities hereunder as determined in the sole judgment of the Board. Company has agreed that Employee may continue to serve as a director of Unigene Laboratories, Inc., and InforMedix Holdings Inc.

2. Compensation.

2.1. Base Salary. As compensation for Employee's performance of Employee's duties hereunder, Company shall pay Employee an initial base salary ("Base Salary") of Three Hundred and Sixty Seven Thousand Five Hundred Dollars ($367,500) for the 12 month term, payable in accordance with the normal payroll practices of Company, less any amounts that Company is required by applicable federal, state or local law to withhold therefrom on account of employment, income or other taxes. Employee's Base Salary shall be reviewed annually by the Compensation Committee of the Board and may be increased (but not decreased without the consent of Employee) and such increased amount shall hereafter be his "Base Salary".

2.2. Stock Options Upon execution of this Agreement, the Company shall grant Employee options to purchase 500,000 shares of Company's Common Stock under Company's 2004 Equity Incentive Plan (“Plan”) at an exercise price equal to the Closing Price of the Company’s Common Stock on the NYSE Alternext (“Closing Price”) on January 29, 2009. Options to purchase 250,000 shares of Company’s common Stock shall be fully vested upon execution of this Agreement. Options to purchase 125,000 shares of Company’s Common Stock shall vest on June 18, 2009, provided that Employee continues to serve as Chief Executive Officer on the vesting date. The remaining options shall vest on January 18, 2010, provided that Employee continues to serve as the Chief Executive Officer on the vesting date. Notwithstanding anything to the contrary contained in the Plan, Employee shall have one year from the date of termination of employment to exercise vested stock options as of the date of termination. Otherwise the options will be subject to the terms and conditions of the Plan and standard form of stock option agreement, which Employee will be required to sign as a condition of receiving the options.

2.3. Bonuses.

a) On January 4, 2010, the Company shall issue Employee 214,285 shares of the Company’s Common Stock (subject to availability under the Plan); provided, that in the event there are not sufficient shares available for issuance under the Plan to grant the full amount of such award, Employee will be issued such lesser number of shares as is available under the Plan and the remainder shall be issued when sufficient shares are available for issuance under the Plan. The Company shall use its best efforts to make the full amount of shares to be issued to Employee under this subsection available to Employee on the date due.

b) Employee shall be eligible to receive a performance-based cash bonus at the end of 2009 in a targeted amount of up to 50% of Base Salary (as adjusted from time to time) based on the achievement of certain objectives approved by the Board of Directors in its sole discretion with the opportunity to receive a bonus of 100% of Base Salary if target goals are exceeded and Employee

remains employed on the last day of the performance period. If Employee is terminated earlier by Company without Cause (as defined below), Employee shall be entitled to a pro-rated bonus to the date of termination (as calculated in 6.2). The bonus shall be based on the criteria established by the Board of Directors as described below applied on a basis consistent with the determination of bonus payments for other executive employees. The terms and amount of such bonus shall be determined by the Compensation Committee of the Board in its sole discretion, based on performance factors and objectives that are established no later than ninety (90) days after the first day of the fiscal year. Any such bonus that becomes payable shall be made within 75 days after the end of the calendar year, with the actual payment timing during such period within Company's sole discretion.

3. Benefits.

3.1. Health, Other Welfare and Fringe Benefits. Employee will be eligible for all customary and usual health, other welfare and fringe benefits generally available to employees of Company, subject to the terms and conditions of Company's plan documents. Company reserves the right to change or eliminate its health, other welfare and fringe benefit programs on a prospective basis, at any time, effective upon notice to Employee. In addition, Employee will also receive $500 per month for automobile allowance. Company's health, other welfare and fringe benefits, along with the automobile allowance, shall be collectively referred to as the "Other Benefits".

3.2. Vacation and Personal Days. Employee will be entitled to accrue vacation of four (4) weeks per year in accordance with Company's vacation policy and one (1) week per year for personal days, for Employees other business . Vacation and personal days may be carried over from year to year and any accrued but unused vacation will be paid to Employee as additional compensation at the time of Employee's termination of employment. Employee will be responsible for written reporting of vacation time on a timely basis.

3.3. Relocation and Temporary Living Expenses. Company will reimburse Employee up to a maximum amount of thirty thousand dollars ($30,000) for actual living expenses in the Bothell area, reasonable expenses related to moving his family and possessions to the Bothell area from both Utah and New Jersey, trips for Employee and his spouse to assist with relocation, and replacement of furniture and other household items that Employee decides not to move to the Bothell area. Payment shall be made upon receipt of documentation for actual expenses.

3.4. Fees. Company shall pay reasonable professional fees incurred by Employee, and an appropriate gross up for applicable federal income taxes, to negotiate and prepare this Agreement in an amount not to exceed Ten Thousand Dollars ($10,000).

4. Business Expenses. Company will reimburse Employee for all reasonable out-of-pocket expenses incurred in the performance of Employee's duties on behalf of Company in accordance with Company's policies.

5. Director. As long as Employee is serving as the Chief Executive Officer and President of Company, the Board of Directors agrees to nominate Employee for election by the stockholders to serve as a director of Company.

6. Termination of Employee's Employment.

6.1. Termination for Cause by Company, Disability or Death. Company may terminate Employee's employment immediately at any time for Cause. For purposes of this Agreement, "Cause" is defined as (a) Employee's indictment for, or conviction (or plea of nolo contendere) of fraud, embezzlement, misappropriation, or any felony or any misdemeanor involving an act of moral turpitude; (b) acts or omissions constituting gross negligence, recklessness or willful misconduct on the part of Employee with respect to Employee's obligations to Company or otherwise relating to the business of Company; (c) Employee's material breach of this Agreement, Company's Code of Conduct or Company's Confidentiality and Non-Compete Agreement, following written notice and a 30-day opportunity to cure, or (d) any similar or related act or failure to act which is materially injurious to Company., following written notice and a 30 day opportunity to cure. In the event that Employee's employment is terminated in for Cause, or if Employee's employment is terminated because of Employee's death or Employee's inability to perform the essential functions of the position, with or without reasonable accommodation, due to a mental or physical disability, where such inability continues for a period or periods aggregating ninety (90) calendar days in any 12-month period, Employee shall be entitled to receive only the Base Salary then in effect, prorated to the date of termination and any of the Other Benefits (including without limitation any applicable disability insurance) and expense reimbursements to which Employee is entitled under Sections 3 and 4 above and otherwise by virtue of his prior employment by Company or as required by law (collectively, the "Standard Entitlements"). All other Company obligations to Employee pursuant to this Agreement will become automatically terminated and completely extinguished. Employee will not be entitled to receive the Severance Package described in Section 6.2 or 6.4 below or any part thereof.

6.2. Termination Without Cause by Company/Severance. Company may terminate Employee's employment under this Agreement without Cause at any time upon written notice to Employee. In the event of such termination, whether during or at the end of the Term, Employee will receive the Standard Entitlements plus a prorated portion (based on the percentage of the year actually employed by the Company) of the bonus for the year of termination; provided that such bonus will be a minimum of 25% and maximum of 75% of the Base Salary. The remainder of the bonus, if any, will be paid based on the average percentage of bonus awards (as a ratio to target) for the Company's other executive officers. The

minimum 25% bonus will be paid to Employee at the same time as the Standard Entitlements and any additional bonus shall be paid to Employee at the time bonus payments are made to Company's other executive employees. Employee will also receive a "Severance Package" consisting of (a) a lump sum cash payment equal to twelve (12) months of Employee's Base Salary in effect and bonus (as calculated above) on the date of termination, and (b) for a period of twelve (12) months following the date of termination, continued medical coverage at Company's expense pursuant to COBRA at existing levels as of the date of termination, and Other Benefits to the extent the applicable plans provide continuation coverage to non-employees. Notwithstanding the foregoing sentence, in the event this Agreement is extended beyond the initial Term, the Severance Package payable to Employee will be increased to sixteen (16) months of Base Salary and bonus (as calculated above), and continuation of medical and Other Benefits at Company's expense for sixteen (16) months. Company shall provide Employee with at least thirty days notice if it determines not to extend this Agreement. The payment of the Severance Package is payable in a lump sum on the 45tth day following Employee's termination date and is contingent upon Employee's satisfaction of the Severance Conditions described below. All other Company obligations to Employee pursuant to this Agreement will be automatically terminated and completely extinguished.

Voluntary Resignation by Employee With Good Reason. Employee will be deemed to have resigned for "Good Reason" if Employee resigns within ninety (90) days after any of the following have occurred, without Employee's written consent, and after the expiration of the notice and cure periods described in this paragraph above: (a) Company reduces the level of Employee's responsibilities or changes Employee's duties so that Employee's duties are no longer consistent with the position of a Chief Executive Officer; (b) Company reduces Employee's Base Salary; (c) Company relocates Employee's principal place of work to a location more than fifty (50) miles from its current location in Bothell, WA; or (d) Company fails to assign the terms of this Agreement to any successors contemplated in Section 13.1. Notwithstanding the foregoing, Employee's resignation as a result of any of the foregoing conditions shall be considered a Voluntary Resignation by Employee Without Good Reason (as described in
6.3. Section 6.4) unless Employee shall have provided written notification to Company of the condition(s) allegedly constituting Good Reason and Company shall have failed to correct such condition(s) within ten (10) days after Company's receipt of such notice.

In the event that Employee voluntarily resigns with Good Reason, Employee will receive the Standard Entitlements plus a prorated portion of the bonus for the year of termination, (as calculated in 6.2, Termination Without Cause by Company/ Severance) and a "Severance Package" consisting of (a) a lump sum cash payment equal to twelve (12) months of Employee's Base Salary in effect and bonus (as calculated above) on the date of termination, and (b) for a period of twelve (12) months following the date of termination, continued medical coverage at Company's expense pursuant to COBRA at existing levels as of the

date of termination, and Other Benefits to the extent the applicable plans provide continuation coverage to non-employees. Notwithstanding the foregoing sentence, in the event Company determines to extend this Agreement beyond the initial Term, the Severance Package payable to Employee will be increased to sixteen (16) months of Base Salary and bonus (as calculated above), and continuation of medical and Other Benefits at Company's expense for sixteen (16) months.

6.4. Voluntary Resignation by Employee Without Good Reason. Employee may voluntarily resign Employee's position with Company for any reason or no reason on sixty (60) days' advance written notice to Company. In the event of Employee's resignation under such circumstances, Employee will be entitled to receive the Standard Entitlements, including salary and benefits for the sixty (60) day notice period, but no other salary or benefits for the remaining months of the current Term, if any. Company may, in its sole discretion, elect to waive all or any part of such notice period provided that Employee will be entitled to receive payment of salary and Standard Entitlements for the full sixty (60) day period. All other Company obligations to Employee pursuant to this Agreement will become automatically terminated and completely extinguished. In addition, Employee will not be entitled to receive the Severance Package described in subsection 6.2 or 6.4 herein.

6.5. Voluntary Resignation by Employee for Good Reason Following a Change of Control. In the event that in connection with or within three (3) months prior to a 409A Change of Control (as defined below) or twelve (12) months following a Change of Control (as defined below) Employee resigns for Good Reason (as defined above in 6.3), following thirty (30) days' advance written notice to Company and Company's failure to cure the condition(s) giving rise to Good Reason within thirty (30) days following such notice, provided that Company may, in its sole discretion, elect to waive all or any part of such notice period, Employee will be entitled to receive the Standard Entitlements and the Change of Control Severance Package described below, contingent on the satisfaction of the Severance Conditions. As long as Employee provides the required notice, Employee will be paid the Standard Entitlements for the duration of the required notice period, even if Company elects to relieve Employee of Employee's duties at an earlier time. All other Company obligations to Employee pursuant to this Agreement other than the Change of Control Severance Package will become automatically terminated and completely extinguished.

For purposes of this Agreement, the "Change of Control Severance Package" shall include the following:

a) a payment equal to sixteen (16) months of Employee's Base Salary and bonus in effect on the date of termination (bonus calculated as set forth in Section 6.2,), less required deductions, payable in a lump sum on the 45th day following Employee's termination date;

b) payment of the premiums required to continue Employee's group health care coverage pursuant to COBRA for a period of sixteen (16) months following the date of termination, provided Employee elects to continue and remains eligible for such benefits and does not become eligible for health coverage through another employer during this period, and payment for continuation of the Other Benefits for sixteen (16) months; and

c) 100% acceleration of vesting, as of the termination date, of all of the then-unvested equity awards under this agreement and any employee benefit plan of Company held by Employee at the time of such termination.

6.6. Change of Control.

a) 280G/Limitation of Payments and Benefits. If, due to the benefits provided under this Agreement, Employee is subject to any excise tax due to characterization of any amounts payable under such sections as excess parachute payments pursuant to Section 4999 of the Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder (collectively, the "Code"), the amounts payable under such sections will be restructured (to the least extent possible) in order to avoid any "excess parachute payment" under Section 280G(b)(1) of the Code.

b) A "Change in Control" is defined as any one of the following occurrences:

i. any "person" (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934 (the "Exchange Act")), other than a trustee or other fiduciary holding securities of Company under an employee benefit plan of Company, becomes the "beneficial owner" (as defined in Rule 13d-3 promulgated under the Exchange Act), directly or indirectly, of the securities of Company representing more than 50% of (A) the outstanding shares of common stock of Company or (B) the combined voting power of Company's then-outstanding securities;

ii. the sale or disposition of all or substantially all of Company's assets (or any transaction having similar effect is consummated);

iii. Company is party to a merger or consolidation that results in the holders of voting securities of Company outstanding immediately prior thereto failing to continue to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than 50% of the combined voting power of the voting securities of Company or such surviving entity outstanding immediately after such merger or consolidation; or

iv. the dissolution or liquidation of Company.

c) A "409A Change of Control" is defined as a Change of Control that also constitutes a "Change of Control event" within the meaning of Section 409A.

6.7. Conditions to Receive and Payment of Severance Package. A Severance Package pursuant to Sections 6.2 and 6.4, as applicable, will be paid provided Employee satisfies all of the following conditions (the "Severance Conditions"):

a) Employee executes, at the time of Employee's termination of employment and within the same taxable year, or, if later, before the expiration of any applicable statutory revocation period, a full general release, releasing all claims, known or unknown, Employee may have against Company, its employees, officers, directors, agents and other affiliates, arising out of or any way related to Employee's employment or termination of employment with Company.

b) Employee complies with all surviving provisions of this Agreement.

6.8. Section 409A Compliance. The parties intend for this Agreement either to satisfy the requirements of Section 409A or to be exempt from the application of Section 409A, and this Agreement shall be construed and interpreted accordingly. If Company or Employee reasonably determines that any provision of this Agreement either fails to satisfy the requirements of Section 409A or is not exempt from the application of Section 409A, then the parties hereby agree to amend or to clarify this Agreement in a timely manner so that this Agreement either satisfies the requirements of Section 409A or is exempt from the application of Section 409A.

a) Notwithstanding any provision in this Agreement to the contrary, in the event Employee is a "specified employee" as defined in Section 409A, any amounts payable under this Agreement that are subject to the requirements of Section 409A and to the special rule regarding payments to "specified employees" under Section 409A(a)(2)(B) of the Code shall not be paid to Employee during such period, but shall instead be accumulated and paid to Employee (or, in the event of Employee's death, to Employee's estate) in a lump sum on the first business day after the earlier of the date that is six months following Employee's separation from service or Employee's death, with Company to additionally pay interest at a reasonable rate on such delayed payments for the period from the payment due date (determined without regard to this paragraph) until the actual payment date, and any remaining payments due under this Agreement shall be paid as otherwise provided herein.

b) No amounts shall be transferred with respect to this Agreement in a manner that could result in income inclusion pursuant to Section 409A(b)(3) of the Code.

c) To the extent that any payments due under this Agreement are conditioned on Employee's termination of employment or similar event and also subject to

the requirements of Section 409A, such payments shall be made only if such termination of employment or similar event constitutes a "separation from service" within the meaning of Section 409A.

d) To the extent that any reimbursement of any expense or in-kind benefits provided under this Agreement are deemed to constitute taxable compensation to Employee, such amounts shall be reimbursed or provided no later than December 31 of the year following the year in which the expense was incurred. The amount of any such expenses reimbursed or in-kind benefits provided in one year shall not affect the expenses or in-kind benefits eligible for reimbursement or payment in any subsequent year, and Employee's right to such reimbursement or payment of any such expenses will not be subject to liquidation or exchange for any other benefit.

e) Company hereby informs Employee that the federal, state, local and/or foreign tax consequences (including without limitation those tax consequences implicated by Section 409A) of this Agreement are complex and subject to change. Employee hereby acknowledges that Company has advised Employee that Employee should consult with Employee's own personal tax or financial advisor in connection with this Agreement and its tax consequences. Employee understands and agrees that Company has no obligation and no responsibility to provide Employee with any tax or other legal advice in connection with this Agreement. Employee agrees that Employee shall bear sole and exclusive responsibility for any and all adverse federal, state, local and/or foreign tax consequences (including without limitation those tax consequences implicated by Section 409A) of this Agreement, and fully indemnifies and holds Company harmless therefor, except to the extent any such tax consequences relate to Company's violation of this Agreement, negligence or willful misconduct.

6.9. Taxes and Withholdings. Company may withhold from any amounts payable under this Agreement, including any benefits or severance pay, such federal, state, local or international taxes as may be required to be withheld pursuant to applicable law or regulations.

7. No Conflict of Interest. During the term of Employee's employment with Company, Employee will not either directly or indirectly, whether as a owner, director, officer, manager, consultant, agent or employee, work for a competitor, which is defined as any company that is developing formulations for extended release oral delivery of small molecules via routes that would directly compete with SCOLR, but excluding, for example, companies engaged in delivery of peptides or proteins, such as Unigene Laboratories, Inc. ("Restricted Business"). However Employee may continue to serve in the positions identified in Section 1.4.

8. Proprietary Information. Employee agrees to sign, and abide by Company's Confidentiality and Non-Compete Agreement, which is provided with this Agreement and incorporated herein by reference.

9. Post-Termination Non-Competition.

9.1. Consideration For Promise To Refrain From Competing. Employee agrees that Employee's services are special and unique, that Company's disclosure of confidential, proprietary information and specialized training and knowledge to Employee, and that Employee's compensation and benefits and severance, as applicable, are partly in consideration of and conditioned upon Employee not competing with Company. Employee acknowledges that such consideration for Employee's services under this Agreement is adequate consideration for Employee's promises contained within this Section 9.

9.2. Promise To Refrain From Competing. In exchange for the consideration described in subsection 9.1 above, Employee agrees that for the period of six (6) months following the date Employee ceases to be employed as Chief Executive Officer of the Company, Employee will not either directly or indirectly, whether as a owner, director, officer, manager, consultant, agent or employee work for a Restricted Business. For purposes of this Section 9, the term "Company" shall mean and include Company, any subsidiary or affiliate of Company, any successor to the business of Company (by merger, consolidation, sale of assets or stock or otherwise) and any other corporation or entity of which Employee may serve as a director, officer or employee at the request of Company or any successor of Company.

9.3. Reasonableness of Restrictions. Employee represents and agrees that the restrictions on competition, as to time, geographic area, and scope of activity, required by this Section 9 are reasonable, do not impose a greater restraint than is necessary to protect the goodwill and business interests of Company, and are not unduly burdensome to Employee. Employee expressly acknowledges that Company competes on a nationwide basis and that the geographical scope of these limitations is reasonable and necessary for the protection of Company's trade secrets and other confidential and proprietary information.

9.4. Reformation if Necessary. In the event a court of competent jurisdiction determines that the geographic area, duration, or scope of activity of any restriction under this Section 9 and its subsections is unenforceable, the restrictions under this Section and its subsections shall not be terminated but shall be reformed and modified to the extent required to render them valid and enforceable.

10. Non-Solicitation. Employee agrees that during the term of this Agreement and for a period of six (6) months after the termination of this Agreement, Employee will not, either directly or indirectly, separately or in association with others, interfere with, impair, disrupt or damage Company's business by soliciting, encouraging or recruiting any of Company's employees or causing others to solicit or encourage or recruit any of Company's employees to discontinue their employment with Company.

11. Right To Injunction/Costs Of Enforcement. Employee acknowledges that Company will suffer immediate and irreparable harm that will not be compensable by damages alone in the event Employee repudiates or breaches Section 7, 8, 9 or 10 or threatens or attempts to do so. In the event of any such breach or any threatened or attempted breach, Employee agrees that Company, in addition to and not in limitation of any other rights, remedies or damages available to it at law or in equity, shall be entitled to obtain temporary, preliminary and permanent injunctions to prevent or restrain any such breach, and Company shall not be required to post a bond as a condition for the granting of such relief.

12. Agreement to Arbitrate. To the fullest extent permitted by law, Employee and Company agree to arbitrate any controversy, claim or dispute between them arising out of or in any way related to this Agreement, the employment relationship between Company and Employee and any disputes upon termination of employment. Claims for workers' compensation, unemployment insurance benefits and Company's right to obtain injunctive relief pursuant to Section 11 above are excluded. The arbitration will be conducted in Seattle, Washington by a single neutral arbitrator and in accordance with the then current rules for resolution of employment disputes of the American Arbitration Association ("AAA"). The parties are entitled to representation by an attorney or other representative of their choosing. The arbitrator shall have the power to enter any award that could be entered by a judge of the trial court of the State of Washington, and only such power, and shall follow the law. In the event the arbitrator does not follow the law, the arbitrator will have exceeded the scope of his or her authority and the parties may, at their option, file a motion to vacate the award in court. The parties agree to abide by and perform any award rendered by the arbitrator. Judgment on the award may be entered in any court having jurisdiction thereof. Each party initially shall bear one half the cost of the arbitration filing and hearing fees, and the cost of the arbitrator. The arbitrator shall have discretion to award to the prevailing party its arbitration costs and hearing fees. The parties acknowledge that standard statute of limitations will apply and arbitration shall constitute an “action” for purposes of the statutes of limitation.

13. General Provisions.

13.1. Assignment. The rights and obligations of Company under this Agreement shall inure to the benefit of, and be binding upon, the successors and assigns of Company. Employee shall not be entitled to assign any of Employee's rights or obligations under this Agreement.

13.2. Waiver. Either party's failure to enforce any provision of this Agreement shall not in any way be construed as a waiver of any such provision, or prevent that party thereafter from enforcing each and every other provision of this Agreement.

13.3. Severability. In the event any provision of this Agreement is found to be unenforceable by an arbitrator or court of competent jurisdiction, such provision shall be deemed modified to the extent necessary to allow enforceability of the

provision as so limited, it being intended that the parties shall receive the benefit contemplated herein to the fullest extent permitted by law. If a deemed modification is not satisfactory in the judgment of such arbitrator or court, the unenforceable provision shall be deemed deleted, and the validity and enforceability of the remaining provisions shall not be affected thereby.

13.4. Interpretation; Construction. The headings set forth in this Agreement are for convenience only and shall not be used in interpreting this Agreement. Legal counsel representing Company has drafted this Agreement and Employee has been represented by independent counsel. Therefore, the normal rule of construction to the effect that any ambiguities are to be resolved against the drafting party shall not be employed in the interpretation of this Agreement.

13.5. Governing Law. This Agreement will be governed by and construed in accordance with the laws of the United States and the State of Washington. Each party consents to the jurisdiction and venue of the state or federal courts in Seattle, Washington, if applicable, in any action, suit, or proceeding arising out of or relating to this Agreement.

13.6. Notices. Any notice required or permitted by this Agreement shall be in writing and shall be delivered as follows with notice deemed given as indicated: (a) by personal delivery when delivered personally; (b) by overnight courier upon written verification of receipt; (c) by telecopy or facsimile transmission upon acknowledgment of receipt of electronic transmission; or (d) by five (5) days following deposit in the U.S. Mail, certified or registered mail, postage prepaid and return receipt requested. Notice shall be sent to the addresses set forth below, or such other address as either party may specify in writing.

IF TO COMPANY, TO:

SCOLR Pharma, Inc.
19204 North Creek Pkwy, Ste 100
Bothell, WA 98011

IF TO EMPLOYEE, TO:

Bruce S. Morra
51 Spring House Lane
Basking Ridge, NJ 07920
With copy via email to brucemorra@gmail.com

13.7. Survival. Sections 7 ("No Conflict of Interest"), 8 ("Confidentiality and Proprietary Information"), 9 ("Post-Termination Non-Competition"), 10 ("Nonsolicitation"), 13 ("General Provisions") and 14 ("Entire Agreement") of this Agreement shall survive Employee's employment by Company.

14. Entire Agreement. This Agreement, including Employee's Confidentiality and Non-Compete Agreement incorporated herein by reference and the Plan and related option documents described in Subsection 2.3, constitutes the entire agreement between the parties relating to this subject matter and supersedes all prior or simultaneous

representations, discussions, negotiations, and agreements, whether written or oral. This Agreement may be amended or modified only with the written consent of Employee and the Board. No oral waiver, amendment or modification will be effective under any circumstances whatsoever.

THE PARTIES TO THIS AGREEMENT HAVE READ THIS AGREEMENT, AND FULLY UNDERSTAND EACH AND EVERY PROVISION. WHEREFORE, THE PARTIES HAVE EXECUTED AND MADE THIS AGREEMENT EFFECTIVE AS OF THE DATE SET FORTH ABOVE.

"Company" SCOLR Pharma, Inc.

By

/s/ Michael N. Taglich

_____

Michael N. Taglich, Chairman of the Board

"Employee"

/s/ Bruce S. Morra

_____

Bruce S. Morra

Exhibit 23.1

Consent of Grant Thornton LLP, Independent Registered Public Accounting Firm

We have issued our report dated March 9, 2009, with respect to the financial statements included in the Annual Report of SCOLR Pharma, Inc. on Form 10-K for the year ended December 31, 2008. We hereby consent to the incorporation by reference of said report in the Registration Statements of SCOLR Pharma, Inc. on Form S-3 (File Nos. 333-155369, 333-129275, 333-123316 and 333-113949), on Form S-2 (File No. 333-107906) and on Form S-8 (File No. 333-116922, File No. 333-40290, File No. 333-79343).

/s/ GRANT THORNTON LLP

Seattle, Washington
March 9, 2009

EXHIBIT 31.1

CERTIFICATION PURSUANT TO
SECTION 302(a) OF THE SARBANES-OXLEY ACT OF 2002

I, Bruce S. Morra, certify that:

1. I have reviewed this annual report on Form 10-K of SCOLR Pharma, Inc.;

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

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

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

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

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ BRUCE S. MORRA

Bruce S. Morra
President and Chief Executive Officer
SCOLR Pharma, Inc.

Date: March 9, 2009

EXHIBIT 31.2

CERTIFICATION PURSUANT TO
SECTION 302(a) OF THE SARBANES-OXLEY ACT OF 2002

I, Richard M. Levy, certify that:

1. I have reviewed this annual report on Form 10-K of SCOLR Pharma, Inc.:

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

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

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

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

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ RICHARD M. LEVY

Richard M. Levy
Chief Financial Officer and
Vice President—Finance
SCOLR Pharma, Inc.

Date: March 9, 2009

EXHIBIT 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of SCOLR Pharma, Inc. (the "Company") on Form 10-K for the period ended December 31, 2008, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Bruce S. Morra, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ BRUCE S. MORRA

Bruce S. Morra
President and Chief Executive Officer
SCOLR Pharma, Inc.

Date: March 9, 2009

EXHIBIT 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of SCOLR Pharma, Inc. (the "Company") on Form 10-K for the period ended December 31, 2008, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Richard M. Levy, Chief Financial Officer and Vice President—Finance of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ RICHARD M. LEVY

Richard M. Levy
Chief Financial Officer and
Vice President—Finance
SCOLR Pharma, Inc.

Date: March 9, 2009